

30 April 2024

India | Equity Research | Q4FY24 results review

PNB Housing Finance

NBFCs

Retail strategy shaping up well with highest YoY retail AUM growth in last 5 years

PNB Housing Finance's (PNBHF) strategy to build a scalable and sustainable retail mortgage business has been showing signs of success as reflected in 10% YoY growth in retail business during Q4FY24 - highest in past 5 years. With new management's focus on widening the target market and expanding yields, it has been investing in building up its affordable and emerging mortgage market while continuing to scale up its prime mortgage business in a calibrated manner. The same was evident from its affordable housing book reaching 11x to INR 17.9bn in last one year, contributing ~12% of overall disbursements. Notably, the company has been able to do so whilst consistently improving its asset quality, with GNPA reaching 1.5% in Q4FY24 (3.8% in Q4FY23). With focus on sustainably growing the retail book with high yielding segments (17% growth for FY25E), the management plans to sustain RoA of >2.0%, whilst maintaining NIM and credit cost (ex-write-backs) at 3.5% and 0.3% on a steady-state basis. Maintain **BUY** with an unchanged target price of INR 1,010, valuing the stock at 1.5x PBV Sep'25E BVPS.

Strong Q4 with PAT growing at 30% QoQ

PNBHF's Q4FY24 result was marked by its highest YoY growth of retail AUM (97% of AUM) in the last 5 years, which grew at 10% YoY, in line with the management guidance. Notably, reported NIM expanded 16bps QoQ, led by robust NII growth 6% QoQ. Nevertheless, the competitive pressure on yields is likely to persist going ahead. However, the strategic initiatives taken by the management like entering affordable housing, shifting to prime segment from super prime and entering emerging market in Apr'24 (35-40bps higher yields than prime segment), coupled with its consistent efforts to reduce its cost borrowings through higher diversification and the recent credit rating upgrade to AA+ may support spreads going ahead. The management has given a long-term NIM guidance of 3.5%.

Credit cost decreased sharply by 35bps to 0.04% in Q4FY24, supported by the company's persistent efforts to recover its written-off pool, as it recovered INR 0.5bn in Q4. The same was further supported by consistent moderation in GNPA's which further declined to 1.5% vs 1.73% QoQ.

Robust business momentum with improving asset quality and better operating leverage as cost to income declined 24% vs 25% QoQ, led to a sharp 30% rise in PAT with RoAUM expanding by 50bps to 2.5% in Q4FY24.

Financial summary

Y/E March	FY23A	FY24A	FY25E	FY26E
Net Interest Income (NII)	23,006	24,811	28,485	32,856
PAT (INR mn)	10,460	15,080	16,912	19,311
EPS (INR)	61.9	58.1	65.1	74.4
% Chg YoY	24.9	(6.3)	12.1	14.2
P/E (x)	13.0	13.8	12.3	10.8
P/BV (x)	1.2	1.4	1.3	1.1
Gross Stage - 3 (%)	3.9	1.5	1.8	1.8
RoAA (%)	1.5	2.2	2.2	2.2
RoAE (%)	10.0	11.6	10.7	11.0

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Market Data

Market Cap (INR)	208bn
Market Cap (USD)	2,499mn
Bloomberg Code	PNBHOU5I IN
Reuters Code	PNBH NS
52-week Range (INR)	914 /446
Free Float (%)	39.0
ADTV-3M (mn) (USD)	7.4

Price Performance (%)	3m	6m	12m
Absolute	1.4	8.9	80.0
Relative to Sensex	(2.4)	(8.1)	57.8

Earnings Revisions (%)	FY25E	FY26E
Revenue	3	1
EPS	2	-

Previous Reports

25-01-2024: [Q3FY24 results review](#)

24-10-2023: [Q2FY24 results review](#)

Widening target market and focusing on yield expansion

PNBHF's growth trajectory continued to pace up with focus towards retail segment, with retail disbursements (forming 99% of overall disbursements) growing at 35% QoQ. Post management change, the company had redefined its strategy to drive incremental growth through granular retail loans. As a result, within retail loans, the company had shifted its focus towards prime segment vs super prime segment previously. Additionally, it also started focusing on small ticket affordable housing segment. In line with its strategy, the company has been able to grow its retail segment at 10% YoY, which was the highest in the last 5 years.

Notably, affordable housing segment reached 11x to INR 17.9bn in last one year, forming 12% of overall disbursements and the management plans to take it up to 18% in FY25. The company also entered into emerging market segment, carrying the disbursement yield of 11-12% (35-50bps higher than prime segment), in Apr'24. PNBHF's increased focus on high-yielding segment is also reflective in its branch expansion, as the company added 100 branches since Dec'23 with 60 branches towards affordable housing and 20 towards emerging market segment. Going forward, the management plans to grow its 40-45% incremental business through these two segments.

In FY25E, the company is looking at 17% growth in its retail loan book.

On corporate front, PNBHF is down-selling and deleveraging its corporate book as reflected in wholesale portfolio falling to INR 20.5bn by Mar'24 from INR 49bn in Sep'22. The management highlighted its plans to selectively grow its corporate book towards relatively low ticket size of INR 1.5bn-INR 2bn to selected developers and will start growing this book in H2FY25.

Credit cost guidance (excluding write-backs) at 30bps

The management has successfully delivered on asset quality as GNPA's have seen consistent improvement over the last couple of quarters, with the same reaching 1.5% in Q4FY24 vs 3.8% in Q4FY23. Of this, retail book, which constituted 97% of overall book, saw GNPA improvement to 1.45% in Mar'24 vs 1.67% in Dec'23, which was supported by a combination of cleaning balance sheet through write-offs and robust collection efficiency (retail collection of 99.4% for FY24). In FY24, the company aggressively resorted to SARFAESI and auctions and sold 268 properties with no principle loss through auction (90 properties in FY23).

On corporate front, after seeing a sharp decline post the resolution in Q2FY24 and high write-offs, GNPA levels stood at 3.31% in Mar'24 vs 24.99% in Jun'23.

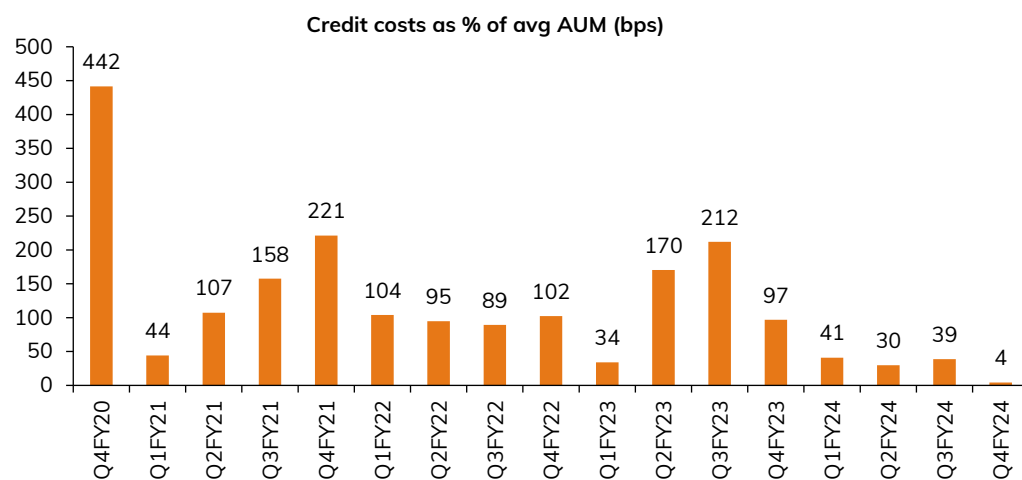
Notably, the company has also been consistently recovering some of its written-off pool with INR 1.0bn being recovered in FY24, of which INR 0.5bn was recovered in Q4FY24 itself. Given the sustained portfolio quality and regular write-backs, credit cost for the company dropped by 35bps QoQ to 0.04% in Q4FY24. The management has guided for credit cost of 30bps for FY25. However, the said guidance does not take into consideration the write-backs, accounting for which, the credit cost could be lower.

Key risks: Credit cost settling higher than the guided range of 30bps and lower than the guided loan growth in FY25.

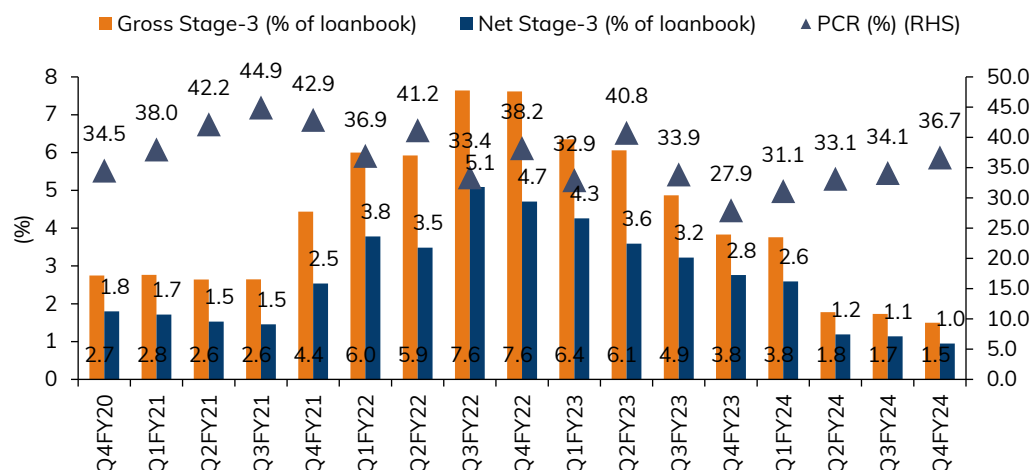
Exhibit 1: Q4FY24 result review

	Q4FY23	Q3FY24	Q4FY24	% YoY	% QoQ
Income statement (INR mn)					
Interest income	15,892	16,795	16,929	6.5	0.8
Net gain on fair value changes	114	17	90	(21.3)	420.2
Interest expenses	10,081	10,866	10,697	6.1	(1.6)
Net interest income	5,926	5,946	6,322	6.7	6.3
Other Income	371	748	1,121	202.5	49.9
Total Income (net of interest expenses)	6,297	6,694	7,443	18.2	11.2
Employee expenses	782	806	906	15.8	12.5
Depreciation and amortization	126	131	142	12.3	8.7
Fees and Commission expenses	41	44	20	(52.5)	(55.5)
Other operating expenses	518	720	711	37.1	(1.2)
Total Operating Expense	1,468	1,700	1,778	21.1	4.6
Pre-provisioning profit (PPoP)	4,828	4,994	5,665	17.3	13.4
Provisions and write offs	1,403	591	66	(95.3)	(88.8)
PBT	3,425	4,403	5,598	63.5	27.1
Tax expenses	632	1,019	1,206	90.7	18.4
PAT	2,793	3,385	4,393	57.3	29.8
EPS (INR)	16.5	13.0	16.9	2.4	29.7
Key ratios					
AUM (INR mn)	Q3FY23	Q2FY24	Q3FY24	% YoY	% QoQ
-Retail (INR mn)	6,66,170	6,85,490	7,12,430	6.9	3.9
-Corporate (INR mn)	6,28,150	6,63,410	6,91,910	10.2	4.3
Disbursements (INR mn)	38,020	22,080	20,520	-46.0	-7.1
-Retail (INR mn)	44,950	41,430	55,740	24.0	34.5
-Corporate (INR mn)	44,650	41,100	55,410	24.1	34.8
Yield on average loan-book (%) [calculated]	300	330	330	10.0	0.0
Borrowing costs (%) [calculated]	11.0	11.0	10.7	-27 bps	-31 bps
Spreads (%)	7.6	8.1	7.9	31 bps	-23 bps
NIM (%)	3.4	2.9	2.8	-58 bps	-8 bps
Op cost as % of avg AUM	3.58	3.5	3.6	3 bps	11 bps
Cost to income (%)	0.9	1.0	1.0	13 bps	1 bps
GNPL (% of on-book loans)	23.3	25.4	23.9	57 bps	-151 bps
NNPL (% of on-book loans)	3.83	1.73	1.50	-233 bps	-23 bps
Provision coverage ratio (%)	2.76	1.14	0.95	-181 bps	-19 bps
Credit cost as a % of avg AUM [annualized]	27.9	34.1	36.7	872 bps	256 bps
RoAAuM (%)	0.97	0.39	0.04	-93 bps	-35 bps
	1.7	2.0	2.5	82 bps	52 bps

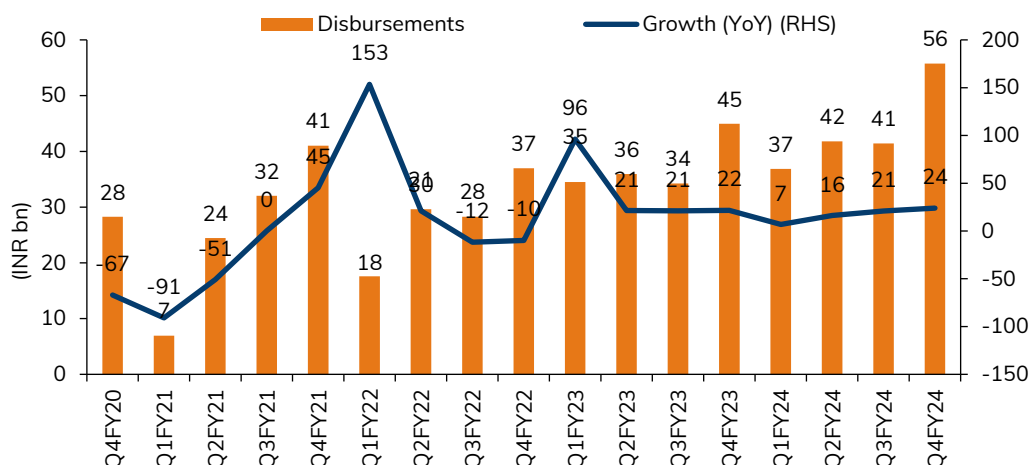
Source: Company data, I-Sec research

Exhibit 2: Credit cost dropped to 0.04% in Q4FY24 supported by INR 0.5bn of write-backs; FY25 guidance of 0.3% (excluding write-backs)

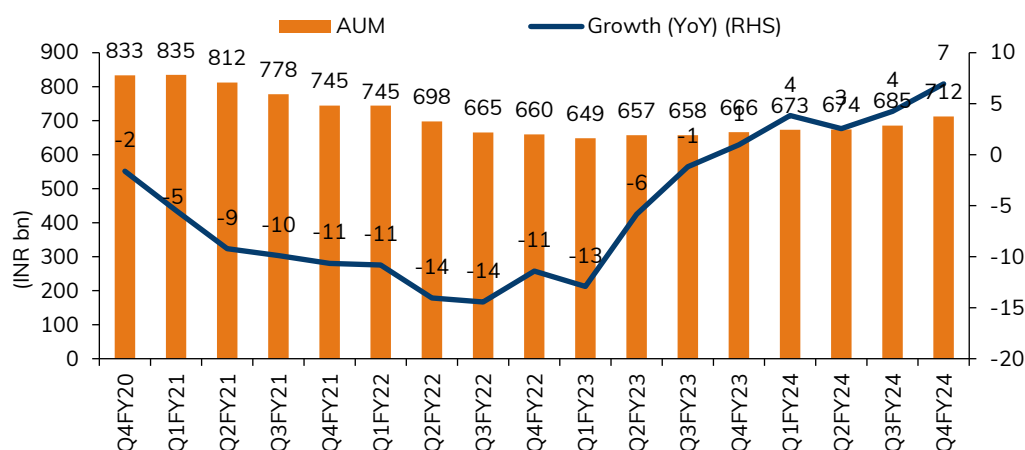
Source: Company data, I-Sec research

Exhibit 3: Gross stage 3 assets further moderated to 1.5%

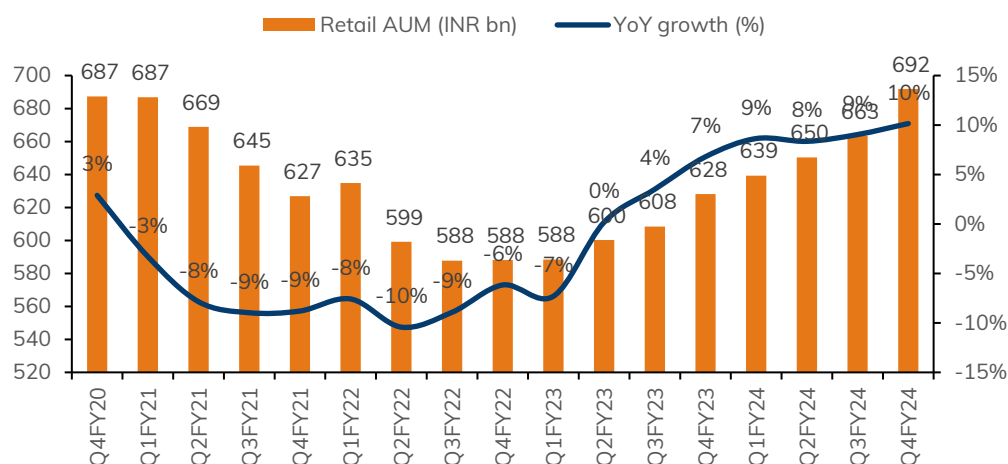
Source: Company data, I-Sec research

Exhibit 4: Disbursal growth at 24% YoY driven by retail segment

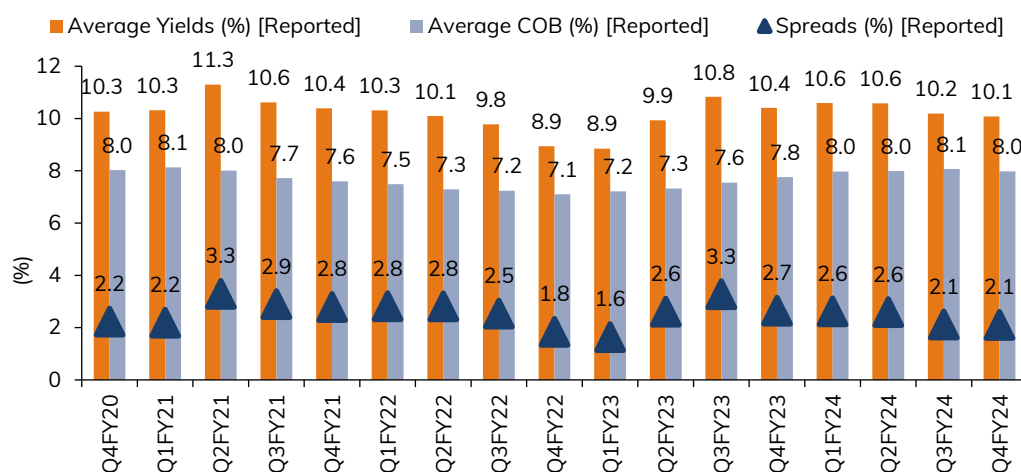
Source: Company data, I-Sec research

Exhibit 5: AUM growth at 7% YoY

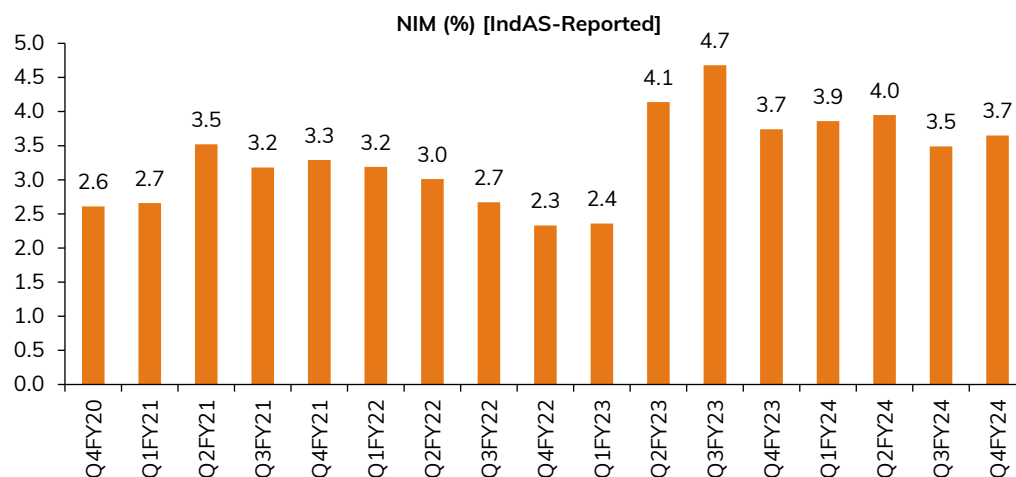
Source: Company data, I-Sec research

Exhibit 6: Retail AUM grew at 10% YoY – highest in last 5 years


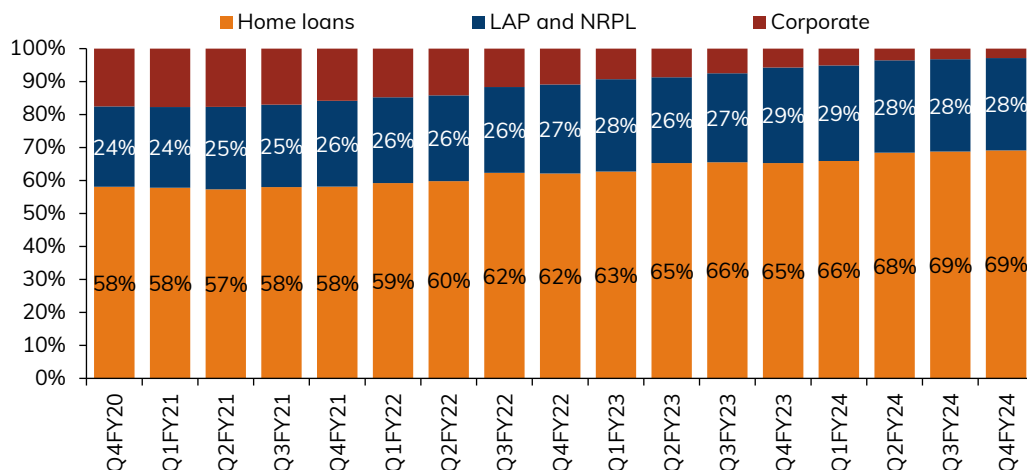
Source: Company data, I-Sec research

Exhibit 7: Repricing and run-off in high-yielding corporate book led to spread contraction


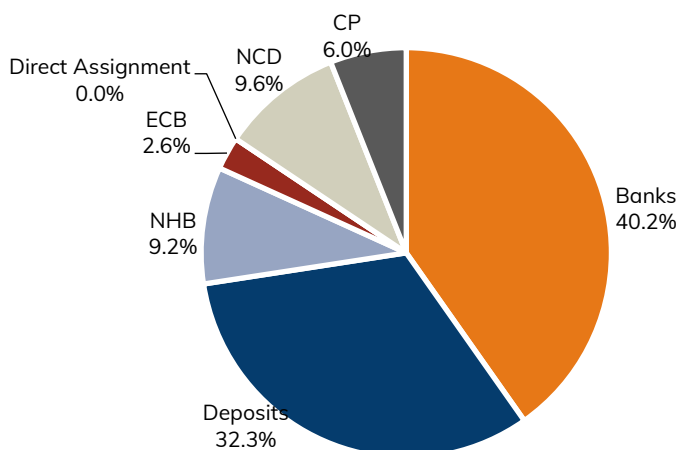
Source: Company data, I-Sec research

Exhibit 8: NIM expanded supported by sustained business momentum


Source: Company data, I-Sec research

Exhibit 9: Secured products, e.g. HL and LAP, are gaining traction

Source: Company data, I-Sec research

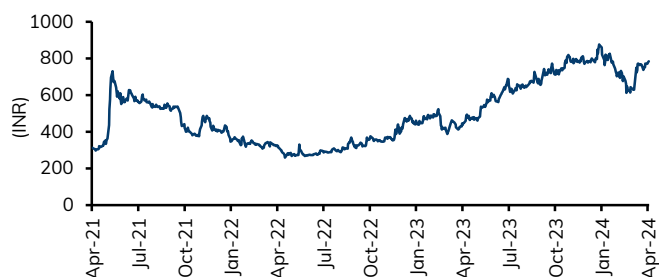
Exhibit 10: Well-diversified borrowing mix

Source: Company data, I-Sec research

Exhibit 11: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	28.1	28.1	28.1
Institutional investors	32.5	32.6	31.9
MFs and other	4.0	4.3	3.4
Banks/ FIs	0.0	0.0	0.0
Insurance Cos.	1.2	0.8	0.7
FII's	27.4	27.5	27.8
Others	39.3	39.3	40.0

Source: Bloomberg, I-Sec research

Exhibit 12: Price chart

Source: Bloomberg, I-Sec research

Financial summary

Exhibit 13: Profit and loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Interest Income	61,991	67,422	74,502	84,548
Net gain on fair value changes	341	350	364	398
Interest Expenses	(38,985)	(42,611)	(46,017)	(51,692)
Net Interest Income (NII)	23,006	24,811	28,485	32,856
Other Income	3,306	3,149	3,214	3,904
Total Income (net of interest expenses)	26,311	27,960	31,699	36,761
Employee benefit expenses	(2,660)	(3,373)	(3,778)	(4,345)
Depreciation and amortization	(514)	(512)	(563)	(603)
Fee and commission expenses	(115)	(123)	(199)	(347)
Other operating expenses	(2,024)	(2,701)	(2,822)	(3,254)
Total Operating Expense	(5,313)	(6,710)	(7,362)	(8,548)
Pre Provisioning Profits (PPoP)	20,998	21,250	24,337	28,213
Provisions and write offs	(7,389)	(1,711)	(2,425)	(3,192)
Profit before tax (PBT)	13,609	19,539	21,912	25,020
Total tax expenses	(3,149)	(4,459)	(5,000)	(5,710)
Profit after tax (PAT)	10,460	15,080	16,912	19,311

Source Company data, I-Sec research

Exhibit 14: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Share capital	1,689	2,597	2,597	2,597
Reserves & surplus	1,07,837	1,47,147	1,64,059	1,83,369
Shareholders' funds	1,09,526	1,49,744	1,66,656	1,85,967
Borrowings	5,36,650	5,50,570	6,14,428	7,04,237
Provisions & Other Liabilities	22,117	23,537	21,882	30,150
Deferred tax liabilities (net)	-	-	-	-
Current Liabilities and short-term provisions	445	197	207	218
Total Liabilities and Stakeholder's Equity	6,68,737	7,24,049	8,03,173	9,20,572
Cash and balance with RBI	52,238	33,633	45,000	45,000
Fixed assets	1,459	1,459	1,561	1,670
Loans	5,78,398	6,41,082	7,07,379	8,22,904
Investments	31,963	43,460	45,633	47,915
Deferred tax assets (net)	1,457	1,277	1,405	1,545
Current Assets including cash and bank	-	-	-	-
Other Assets	3,223	3,138	2,196	1,537
Total Assets	6,68,737	7,24,049	8,03,173	9,20,572

Source Company data, I-Sec research

Exhibit 15: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
AUM and Disbursements (INR mn)				
AUM	6,66,170	7,12,430	8,13,079	9,45,867
On-book Loans	5,78,398	6,41,082	7,07,379	8,22,904
Off-book Loans	87,772	71,348	1,05,700	1,22,963
Disbursements	1,49,660	1,75,830	2,19,638	2,67,881
Sanctions	-	-	-	-
Repayments	1,40,152	1,13,146	1,53,341	1,52,355
Growth (%):				
Total AUM (%)	1.0	6.9	14.1	16.3
Disbursements (%)	(33.1)	(17.5)	(24.9)	(22.0)
Sanctions (%)	-	-	-	-
Repayments (%)	(15.6)	(19.3)	35.5	(0.6)
Loan book (on balance sheet) (%)	1.7	10.8	10.3	16.3
Total Assets (%)	(6.3)	8.3	10.9	14.6
Net Interest Income (NII) (%)	30.9	7.8	14.8	15.3
Non-interest income (%)	10.9	(5.6)	1.8	23.0
Total Income (net of interest expenses) (%)	23.2	6.3	13.4	16.0
Operating Expenses (%)	11.6	26.3	9.7	16.1
Employee Cost (%)	22.8	26.8	12.0	15.0
Non-Employee Cost (%)	3.9	33.5	4.5	15.3
Pre provisioning operating profits (PPoP) (%)	26.5	1.2	14.5	15.9
Provisions (%)	28.2	(76.8)	41.7	31.6
PBT (%)	25.5	43.6	12.1	14.2
PAT (%)	25.0	44.2	12.1	14.2
EPS (%)	24.9	(6.3)	12.1	14.2
Yields, interest costs and spreads (%)				
NIM on loan assets (%)	4.0	4.1	4.2	4.3
NIM on IEA (%)	3.2	3.4	3.6	3.6
NIM on AUM (%)	3.5	3.6	3.7	3.7
Yield on loan assets (%)	10.8	11.1	11.1	11.1
Yield on IEA (%)	8.7	9.2	9.3	9.1
Yield on AUM (%)	9.4	9.8	9.8	9.6
Cost of borrowings (%)	7.3	7.8	7.9	7.8
Interest Spreads (%)	3.5	3.2	3.2	3.2
Operating efficiencies				
Non interest income as % of total income	35.2	35.2	36.7	37.1
Cost to income ratio	20.2	24.0	23.2	23.3
Op.costs/avg assets (%)	0.8	1.0	1.0	1.0
Op.costs/avg AUM (%)	0.8	1.0	1.0	1.0
No of branches (x)	189	300	300	300
Salaries as % of non-interest costs (%)	50.1	50.3	51.3	50.8
Capital Structure				
Average gearing ratio (x)	4.9	3.7	3.7	3.8
Leverage (x)	6.1	4.8	4.8	5.0
CAR (%)	24.4	29.3	36.6	35.6
Tier 1 CAR (%)	22.4	27.9	34.1	33.1
Tier 2 CAR (%)	2.0	1.4	2.5	2.5
RWA (estimate) - INR mn	4,03,925	4,35,440	4,88,237	5,61,721
RWA as a % of loan assets	69.8	67.9	69.0	68.3

Source Company data, I-Sec research

	FY23A	FY24A	FY25E	FY26E
Asset quality and provisioning				
GNPA (%)	3.9	1.5	1.8	1.8
NNPA (%)	3.2	1.0	1.2	1.2
GNPA (INR mn)	22,700	9,840	12,733	14,812
NNPA (INR mn)	18,298	6,548	8,276	9,628
Coverage ratio (%)	19.4	33.5	35.0	35.0
Credit Costs as a % of avg AUM (bps)	111	25	32	36
Credit Costs as a % of avg on book loans (bps)	129	28	36	42
Return ratios				
RoAA (%)	1.5	2.2	2.2	2.2
RoAE (%)	10.0	11.6	10.7	11.0
ROAAUM (%)	1.6	2.2	2.2	2.2
Dividend Payout ratio (%)	-	-	0.8	0.7
Valuation Ratios				
No of shares	169	260	260	260
No of shares (fully diluted)	169	260	260	260
ESOP Outstanding	-	-	-	-
EPS (INR)	61.9	58.1	65.1	74.4
EPS fully diluted (INR)	61.9	58.1	65.1	74.4
Price to Earnings (x)	13.0	13.8	12.3	10.8
Price to Earnings (fully diluted) (x)	13.0	13.8	12.3	10.8
Book Value (fully diluted)	649	577	642	716
Adjusted book value	568	558	618	689
Price to Book	1.2	1.4	1.3	1.1
Price to Adjusted Book	1.4	1.4	1.3	1.2
DPS (INR)	-	-	0.5	0.5
Dividend yield (%)	-	-	0.1	0.1

Source Company data, I-Sec research

Exhibit 16: Key metrics

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
DuPont Analysis				
Average Assets (INR mn)	6,91,330	6,96,393	7,63,611	8,61,872
Average Loans (INR mn)	5,73,644	6,09,740	6,74,230	7,65,141
Average Equity (INR mn)	1,04,121	1,29,635	1,58,200	1,76,311
Interest earned (%)	9.0	9.7	9.8	9.8
Net gain on fair value changes (%)	0.0	0.1	0.0	0.0
Interest expended (%)	5.6	6.1	6.0	6.0
Gross Interest Spread (%)	3.3	3.6	3.7	3.8
Credit cost (%)	1.1	0.2	0.3	0.4
Net Interest Spread (%)	2.3	3.3	3.4	3.4
Operating cost (%)	0.8	0.9	0.9	1.0
Lending spread (%)	1.5	2.4	2.5	2.5
Non interest income (%)	0.4	0.4	0.4	0.4
Operating Spread (%)	1.9	2.8	2.8	2.9
Tax rate (%)	23.1	22.8	22.8	22.8
ROAA (%)	1.5	2.2	2.2	2.2
Effective leverage (AA/ AE)	6.6	5.4	4.8	4.9
RoAE (%)	10.0	11.6	10.7	11.0

Source Company data, I-Sec research

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