

26 July 2024

India | Equity Research | Q1FY25 results review

PNB Housing Finance

NBFCs

Retailisation journey is progressing well; spreads help even in challenging times

PNB Housing Finance's (PNBHF) revamped business strategy of 'Retailization' with a focus on scaling retail mortgage business (prime + emerging + affordable) is progressing well as reflected in 3% QoQ growth in retail loans (despite seasonality) with share of affordable and emerging market segments accounting for 33% of retail disbursement during Q1FY25. Notably, NIM sustaining at 3.65% (higher than the guided range of 3.5%) driven by 8bps reduction in cost of funds (in an extremely challenging environment) is a key positive. Incremental cost of funds at 7.75% vs 7.93% in Q4FY25 and 25bps higher disbursement yields in emerging + affordable as compared to prime reinforce our view of PNBHF sustaining RoA of >2% in FY25. Strong traction in affordable housing continued with AUM touching ~INR 23bn and also turning profitable at vertical level during Q1. We believe the implementation of new origination platform by Salesforce in affordable housing (135 branches are live of total 160 branches) would help in sustaining growth momentum going forward. Maintain **BUY** with an unchanged TP of INR 1,010, valuing the stock at 1.5x PBV Sep'25E BVPS.

Sustained spread, higher recovery from written-off accounts boosts PAT during Q1FY25

PNBHF's Q1FY25 PAT remained flat QoQ at INR4.3bn despite 30% QoQ fall in other income (due to seasonally lower disbursements) and >20% QoQ increase in staff cost (impact of yearly increment for FY24). Provision write-back of INR120mn and 3% QoQ NII growth restricted further dent in the earnings. As a result, it sustained >2% RoA and RoE at 11% during Q1FY25.

Growth momentum sustained as reflected in highest YoY growth at 14% in retail AUM (97% of AUM) in the last 18 quarters. Within Retail segment, emerging market (up 2% QoQ) and affordable housing (32% QoQ) remained the key growth driver while it continues to calibrate growth in Prime segment (up 2% QoQ) given its focus on scaling high-yielding segments.

Reported NIM came in at 3.65% (Flat QoQ) aided by 8bps reduction in cost of funds and, with recent credit rating upgrade, the same is likely to remain flat or improve further. The strategic initiatives taken by the management like shifting to prime segment from super prime and entering emerging market in Apr'24 (35-40bps higher yields than prime segment) and entering affordable housing may support longevity of spreads in the longer run. The management has given a long-term NIM guidance of >3.5%.

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	17,460	19,712
EPS (INR)	61.9	58.1	67.2	75.9
% Chg YoY	24.9	(6.3)	15.8	12.9
P/E (x)	12.6	13.5	11.6	10.3
P/BV (x)	1.2	1.4	1.2	1.1
Gross Stage - 3 (%)	3.9	1.5	1.8	1.8
RoAA (%)	1.5	2.2	2.3	2.3
RoAE (%)	10.0	11.6	11.0	11.1

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Market Data

Market Cap (INR)	203bn
Market Cap (USD)	2,423mn
Bloomberg Code	PNBHOU5I IN
Reuters Code	PNBH NS
52-week Range (INR)	914 /598
Free Float (%)	39.0
ADTV-3M (mn) (USD)	18.9

Price Performance (%)	3m	6m	12m
Absolute	(0.3)	(4.8)	14.1
Relative to Sensex	(7.9)	(18.0)	(6.5)

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

Previous Reports

24-05-2024: [Company Update](#)

30-04-2024: [Q4FY24 results review](#)

Emerging + affordable sustained momentum; cumulatively accounts for 22% of retail loan asset

PNBHF's growth trajectory continued to pace up with focus towards retail segment, with retail disbursements (forming 99% of overall disbursements) growing at 19% YoY / down sequentially due to seasonality. 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 started focusing on small ticket affordable housing segment. In line with its strategy, the company has been able to grow its retail segment at 14% YoY during Q1FY25, which was the highest in the last 5 years. It expects to deliver 17% YoY growth in retail segment during FY25.

Notably, affordable housing segment reached AUM of INR 23bn, forming 13% of overall disbursements and the management plans to take it up to 18% in FY25. The company also entered emerging market segment, carrying the disbursement yield of 11-12% (25-50bps 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, management plans to grow its 40-45% incremental business through these two segments.

On corporate front, PNBHF is down-selling and deleveraging its corporate book as reflected in wholesale portfolio falling to INR 18.3bn by Jun'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.

Revival in growth with steady improvement in asset quality reflects superior execution; net credit cost may remain below guidance of 30bps in FY25

The management has successfully delivered on asset quality, even while reviving retail loan growth, as GNPA's have seen consistent improvement over the last five quarters, with the same reaching 1.35% in Q1FY25 vs 3.8% in Q1FY24. Of this, retail book, which constituted 97% of overall book, saw GNPA improvement to 1.39% in Jun'24 vs 2.5% in Jun'23, which was supported by a combination of cleaning balance sheet through write-offs and robust collection efficiency (retail collection of 99 in Q1FY25).

Corporate NPL now stands nil with resolution of 1 NPA account and 1 written-off account during Q1FY25.

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. The momentum continued as it recovered further INR 0.8bn in Q1FY25, and the same resulted in provision write-back of INR 120mn. Total written-off stands at INR 10bn in corporate book and INR 5bn in retail loans, and hence, management expects recovery from this pool to continue going forward. Hence, we believe credit cost for full year FY25E is likely to remain lower than the guidance of 30bps.

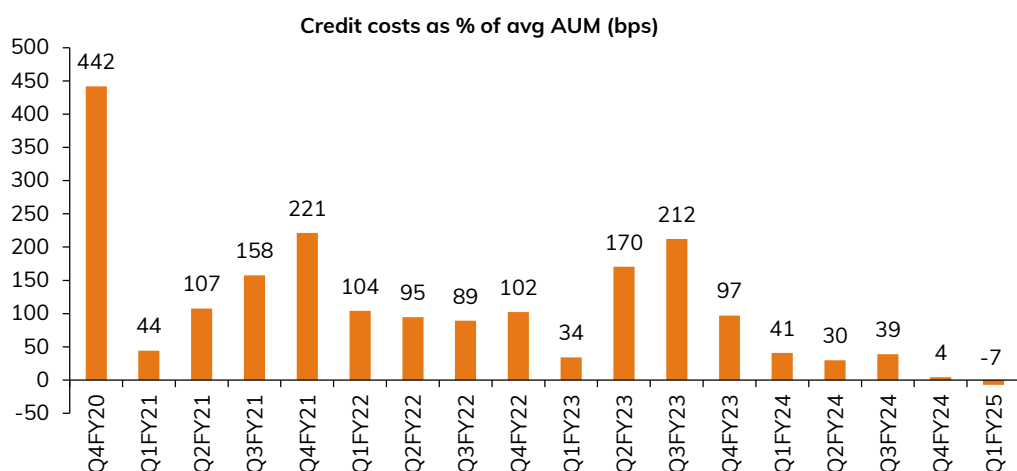
Key risks: Credit cost settling higher than the guidance of 30bps and lower than the guided loan growth in FY25.

Exhibit 1: Q1FY25 result review

	Q1FY24	Q4FY24	Q1FY25	% YoY	% QoQ
Income statement (INR mn)					
Interest income	16,669	16,929	17,391	4.3	2.7
Net gain on fair value changes	92	90	88	(3.8)	(1.8)
Interest expenses	10,475	10,697	10,969	4.7	2.5
Net interest income	6,286	6,322	6,510	3.6	3.0
Other Income	316	1,121	842	166.4	(24.9)
Total Income (net of interest expenses)	6,602	7,443	7,352	11.4	(1.2)
Employee expenses	807	906	1,092	35.4	20.5
Depreciation and amortization	126	142	134	5.7	(5.9)
Fees and Commission expenses	35	20	30	(13.5)	53.1
Other operating expenses	562	711	674	19.8	(5.2)
Total Operating Expense	1,530	1,778	1,929	26.1	8.5
Pre-provisioning profit (PPoP)	5,072	5,665	5,422	6.9	(4.3)
Provisions and write offs	606	66	-120	(119.8)	(280.1)
PBT	4,467	5,598	5,542	24.1	(1.0)
Tax expenses	994	1,206	1,214	22.2	0.7
PAT	3,473	4,393	4,328	24.6	(1.5)
EPS (INR)	13.6	16.9	16.7	22.1	(1.5)

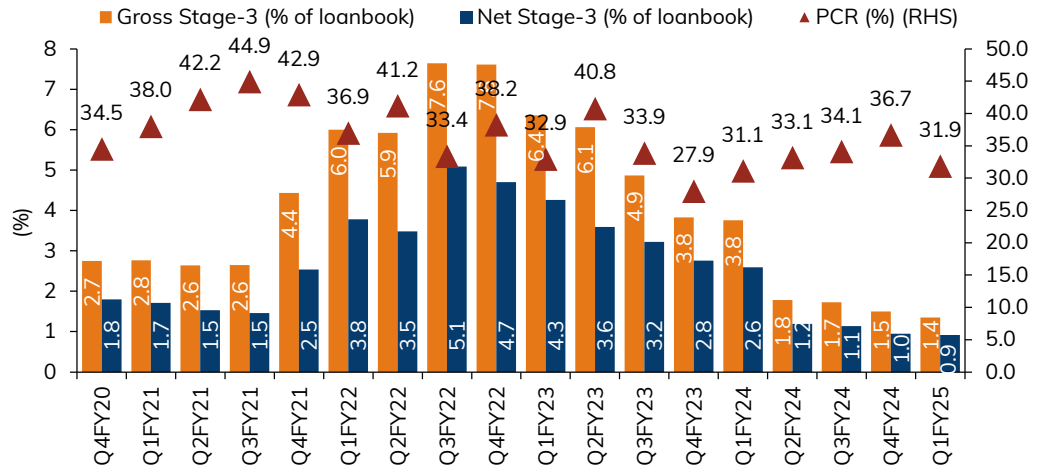
Key ratios					
AUM (INR mn)	6,73,400	7,12,430	7,25,400	7.7	1.8
-Retail (INR mn)	6,39,240	6,91,910	7,07,110	10.6	2.2
-Corporate (INR mn)	34,160	20,520	18,290	-46.5	-10.9
Disbursements (INR mn)	36,860	55,740	43,980	19.3	-21.1
-Retail (INR mn)	36,670	55,410	43,630	19.0	-21.3
-Corporate (INR mn)	190	330	340	78.9	3.0
Yield on average loan-book (%) [calculated]	11.3	10.7	10.6	-67 bps	-10 bps
Borrowing costs (%) [calculated]	7.9	7.9	7.9	4 bps	0 bps
Spreads (%)	3.4	2.8	2.7	-71 bps	-11 bps
NIM (%)	3.75	3.6	3.6	-14 bps	0 bps
Op cost as % of avg AUM	0.9	1.0	1.1	15 bps	5 bps
Cost to income (%)	23.2	23.9	26.2	307 bps	235 bps
GNPL (% of on-book loans)	3.76	1.50	1.35	-241 bps	-15 bps
NNPL (% of on-book loans)	2.59	0.95	0.92	-167 bps	-3 bps
Provision coverage ratio (%)	31.1	36.7	31.9	73 bps	-482 bps
Credit cost as a % of avg AUM [annualised]	0.41	0.04	-0.07	-49 bps	-12 bps
RoAAuM (%)	2.1	2.5	2.4	33 bps	-11 bps

Source: Company data, I-Sec research

Exhibit 2: Credit cost in negative supported by INR 0.8bn of write-backs


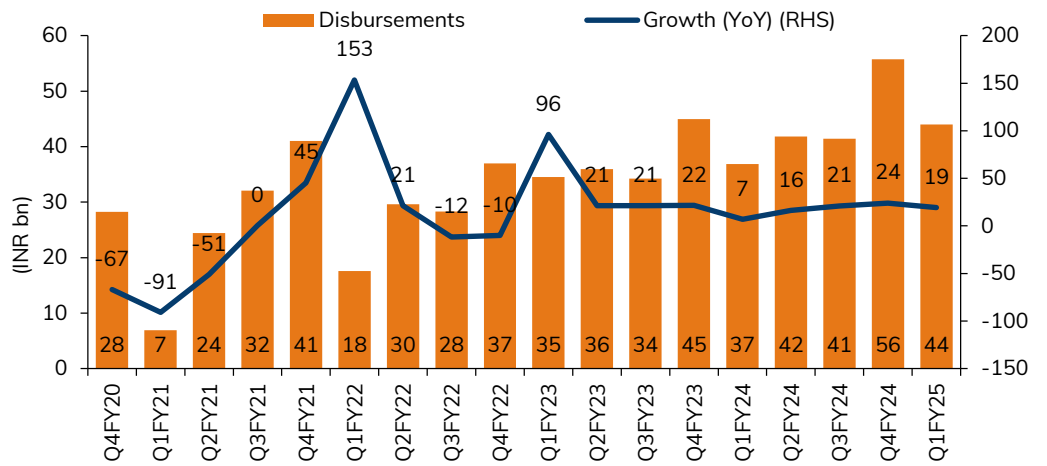
Source: Company data, I-Sec research

Exhibit 3: Gross stage 3 assets further moderated to 1.4%



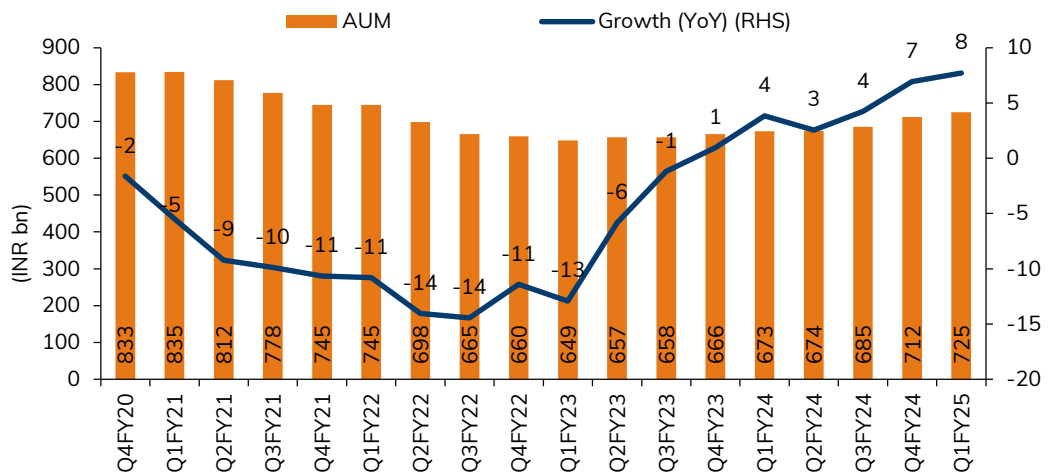
Source: Company data, I-Sec research

Exhibit 4: Disbursal growth at 19% YoY driven by retail segment



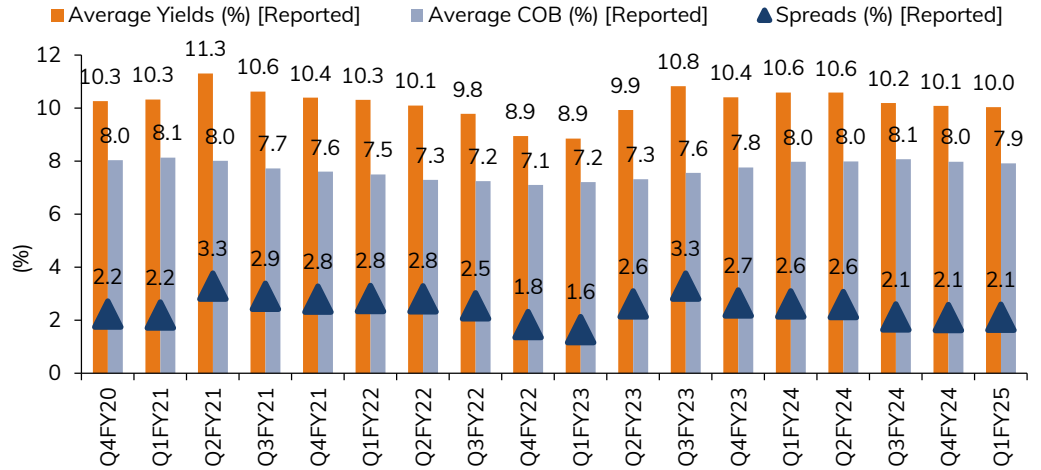
Source: Company data, I-Sec research

Exhibit 5: AUM growth at 8% YoY as wholesale continues to drag overall growth



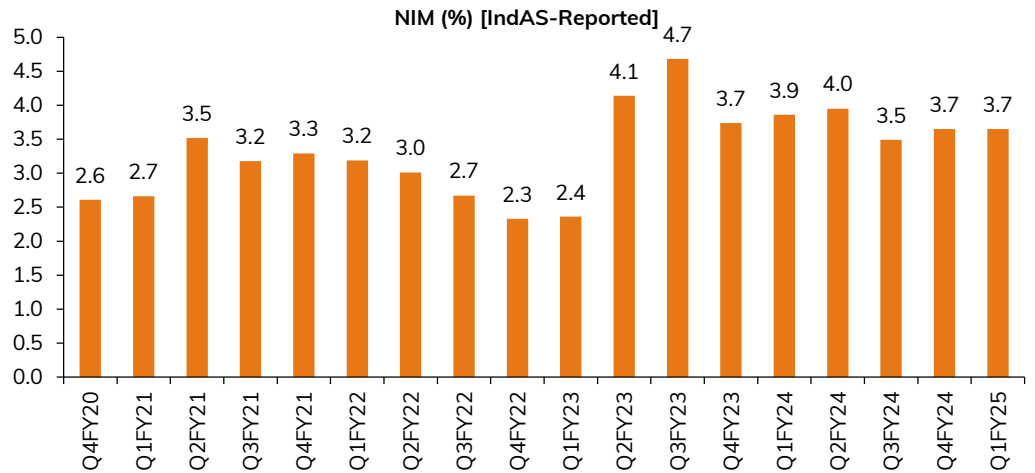
Source: Company data, I-Sec research

Exhibit 6: Decline in cost of borrowing QoQ aided stable spreads



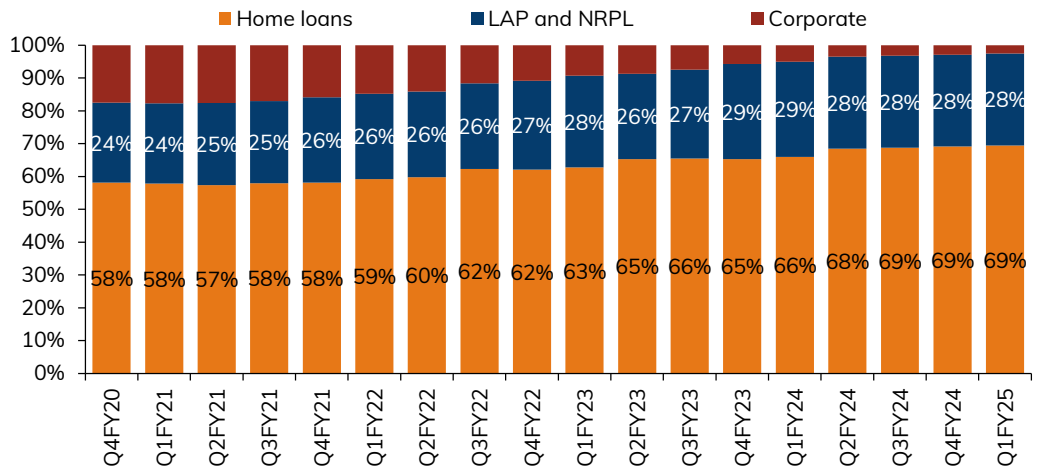
Source: Company data, I-Sec research

Exhibit 7: NIM stable, supported by lower cost of funds



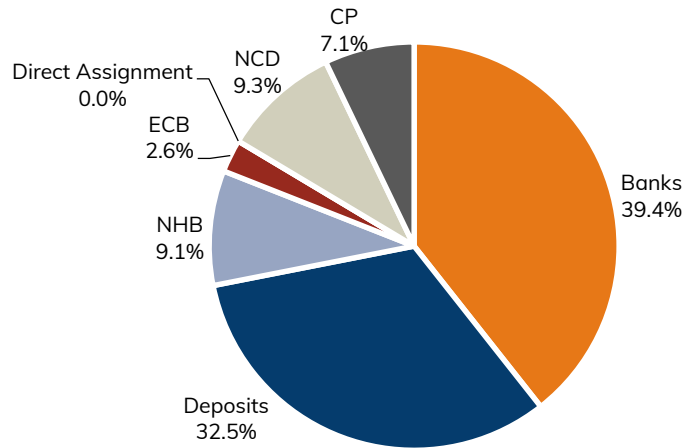
Source: Company data, I-Sec research

Exhibit 8: Secured products, e.g. HL and LAP, are gaining traction



Source: Company data, I-Sec research

Exhibit 9: Well-diversified borrowing mix



Source: Company data, I-Sec research

Exhibit 10: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	28.1	28.1	28.1
Institutional investors	32.6	31.9	28.9
MFs and other	4.3	3.4	5.9
Banks/ FIs	0.0	0.0	3.2
Insurance Cos.	0.8	0.7	1.9
FII	27.5	27.8	17.9
Others	39.3	40.0	43.0

Source: Bloomberg, I-Sec research

Exhibit 11: Price chart



Source: Bloomberg, I-Sec research

Financial summary

Exhibit 12: 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)	(1,715)	(2,672)
Profit before tax (PBT)	13,609	19,539	22,622	25,540
Total tax expenses	(3,149)	(4,459)	(5,162)	(5,828)
Profit after tax (PAT)	10,460	15,080	17,460	19,712

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Share capital	1,689	2,597	2,597	2,597
Reserves & surplus	107,837	147,147	164,607	184,319
Shareholders' funds	109,526	149,744	167,204	186,916
Borrowings	536,650	550,570	614,428	704,237
Provisions & Other Liabilities	22,117	23,537	21,334	29,201
Deferred tax liabilities (net)	-	-	-	-
Current Liabilities and short-term provisions	445	197	207	218
Total Liabilities and Stakeholder's Equity	668,737	724,049	803,173	920,572
Cash and balance with RBI	52,238	33,633	45,000	45,000
Fixed assets	1,459	1,459	1,561	1,670
Loans	578,398	641,082	707,379	822,904
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	668,737	724,049	803,173	920,572

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
AUM and Disbursements (INR mn)				
AUM	666,170	712,430	813,079	945,867
On-book Loans	578,398	641,082	707,379	822,904
Off-book Loans	87,772	71,348	105,700	122,963
Disbursements	149,660	175,830	219,638	267,881
Sanctions	-	-	-	-
Repayments	140,152	113,146	153,341	152,355
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)	0.2	55.8
PBT (%)	25.5	43.6	15.8	12.9
PAT (%)	25.0	44.2	15.8	12.9
EPS (%)	24.9	(6.3)	15.8	12.9
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	4.9
CAR (%)	24.4	29.3	36.7	35.8
Tier 1 CAR (%)	22.4	27.9	34.2	33.3
Tier 2 CAR (%)	2.0	1.4	2.5	2.5
RWA (estimate) - INR mn	403,925	435,440	488,237	561,721
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	8,658	10,072
Coverage ratio (%)	19.4	33.5	32.0	32.0
Credit Costs as a % of avg AUM (bps)	111	25	22	30
Credit Costs as a % of avg on book loans (bps)	129	28	25	35
Return ratios				
RoAA (%)	1.5	2.2	2.3	2.3
RoAE (%)	10.0	11.6	11.0	11.1
ROAAUM (%)	1.6	2.2	2.3	2.2
Dividend Payout ratio (%)	-	-	0.7	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	67.2	75.9
EPS fully diluted (INR)	61.9	58.1	67.2	75.9
Price to Earnings (x)	12.6	13.5	11.6	10.3
Price to Earnings (fully diluted) (x)	12.6	13.5	11.6	10.3
Book Value (fully diluted)	649	577	644	720
Adjusted book value	568	558	619	691
Price to Book	1.2	1.4	1.2	1.1
Price to Adjusted Book	1.4	1.4	1.3	1.1
DPS (INR)	-	-	0.5	0.5
Dividend yield (%)	-	-	0.1	0.1

Source Company data, I-Sec research

Exhibit 15: Key metrics

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
DuPont Analysis				
Average Assets (INR mn)	691,330	696,393	763,611	861,872
Average Loans (INR mn)	573,644	609,740	674,230	765,141
Average Equity (INR mn)	104,121	129,635	158,474	177,060
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	0.2	0.3
Net Interest Spread (%)	2.3	3.3	3.5	3.5
Operating cost (%)	0.8	0.9	0.9	1.0
Lending spread (%)	1.5	2.4	2.6	2.6
Non interest income (%)	0.4	0.4	0.4	0.4
Operating Spread (%)	1.9	2.8	2.9	3.0
Tax rate (%)	23.1	22.8	22.8	22.8
ROAA (%)	1.5	2.2	2.3	2.3
Effective leverage (AA/ AE)	6.6	5.4	4.8	4.9
RoAE (%)	10.0	11.6	11.0	11.1

Source Company data, I-Sec research

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