

# Viewpoint

## Fast-growing player, in an expanding segment

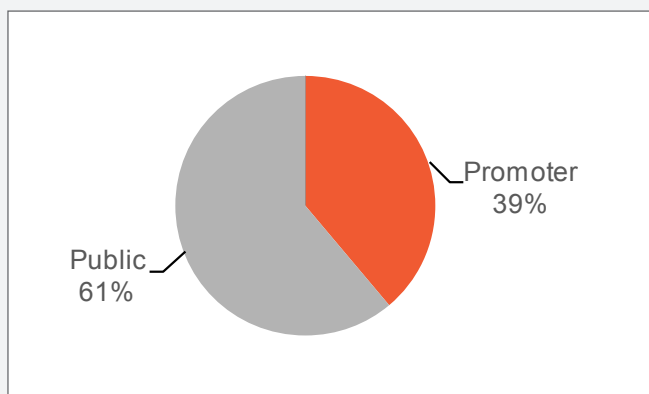
### PNB Housing Finance

View: Positive | CMP: Rs1,375

#### Company details

Market cap:	Rs22,905 cr
52-week high/low:	Rs1,715/799
NSE volume: (No of shares)	2.0 lakh
BSE code:	540173
NSE code:	PNBHOUSING
Sharekhan code:	PNBHOUSING
Free float: (No of shares)	3.71 cr

#### Shareholding pattern



#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	-5.1	-10.0	15.4	68.4
Relative to Sensex	-8.3	-15.6	3.2	28.9

#### Key points

- ♦ **Good work of the changed management showing now:** PNB Housing Finance (PNBHF) had seen a new management taking charge in 2011. Since then, there has been a significant improvement in the overall performance of PNBHF. PNBHF is one of the fastest-growing housing finance companies (HFCs) and is one of the top five HFC players (by size) in India (as of H1FY2018). Assets under management (AUM) of PNBHF is growing at a five-year CAGR of 59.8% and PAT is growing at a 46.5% CAGR, indicating the quality of growth. As of Q2FY2018, the loan book of PNBHF stands at Rs.48,749 crore, already YTD growth of 26.5%. Robust loan book growth corresponds well with strong growth in the housing finance industry in India, but more importantly, it indicates profitable market share gain. PNBHF has over 25 years of operational experience in the Indian housing finance industry.
- ♦ **Access to diversified and cost-effective funding sources:** By virtue of having a state-owned bank as a promoter, PNBHF has comfortable access to cheaper cost funds. PNBHF has met its funding requirements through a diverse set of sources, such as term loans from banks, non-convertible debentures (NCDs) and deposits, among others, including refinancing from NHB. As of September 2017, the funding mix included NCDs (45.8%), commercial papers (15.2%), deposits (23.1%), ECBs (3.3%), bank term loans (7.1%) and NHB refinance (5.7%). PNBHF also entered into a securitisation transaction in FY2017 for Rs.500 crore and has securitized book of Rs.2,961 crore as of March 2017, which also served as an additional source of liquidity for it. Diversification of sources of funding in recent periods has contributed to an overall reduction in average cost of borrowings in recent fiscal periods and has allowed to maintain sufficient interest margins and achieve liquidity goals, as well as maintain funding stability.
- ♦ **Valuation:** PNBHF is available at P/BV of 3.2x FY2019E book value at the current market price, which is attractive in our view, considering its strong growth prospects, access to 6,940 branches of PNB, strong banking channel strength and a well-diversified funding profile. We are Positive on the stock with 18% to 20% upside potential.

- ♦ **Strong distribution network with deep penetration of key Indian urban centres:** Geographical reach of the business covers the northern, western and southern regions of India. As of Q2FY2018, PNBHF had 73 branches that were supported by 18 processing hubs, three co-located zonal offices and CSO in New Delhi. The strategy of PNBHF is selective expansion, typically targeting geographies where urbanisation, income and demand for housing and housing projects are growing. As of Q2FY2018, the loan book breakup indicates a well-distributed portfolio with 34.6% of loan portfolio originating in North Indian states, whereas 36.8% and 28.6% of loan portfolio originating in western and southern Indian states, respectively. Across different locations in India, loans and deposits are sourced through marketing and distribution network, which comprise over 11,000 channel partners.
- ♦ **Advantage of a scalable operating model, technology infrastructure adds to competitive turnaround time:** We believe the current operating model of PNBHF is quite scalable. Usually loan processing hubs are a key constraint for expansion. However, in case of PNBHF, processing hubs are designed and are capable to support additional branches, which will not only enable PNBHF to deepen penetration of key geographies in which it is

currently active by opening new branches but also maintain its business competitiveness with tight turnaround time (TAT). Hence, leveraging the investment made in existing processing hubs, PNBHF should be able to expand with lower incremental costs and, hence, drive profitability. Notably, technology innovations, such as centralisation of payments and banking, have enabled timely collection of funds, better fund management, stronger control and early alerts to collections department in the event of an overdue payment. A streamlined operational structure has resulted in improved TAT for processing a loan application until loan sanction. On normalised basis, the response or TAT of housing loans to salaried customers was three days and housing loans to self-employed customers had TAT of seven days.

### Key risks

- ♦ The Indian housing finance industry is a highly competitive industry. Increased competition from banks may lead to a relative decline in average yields and spreads going forward.
- ♦ Post the lock-in expiry in mid-November, Parent Punjab National Bank (PNB, 38.8% shares) and Carlyle Group (37% of the shares) are allowed to sell their stake (19% for PNB, entire stake for Carlyle). An event of a large-scale market selling may put pressure on the stock's performance.

### Valuation

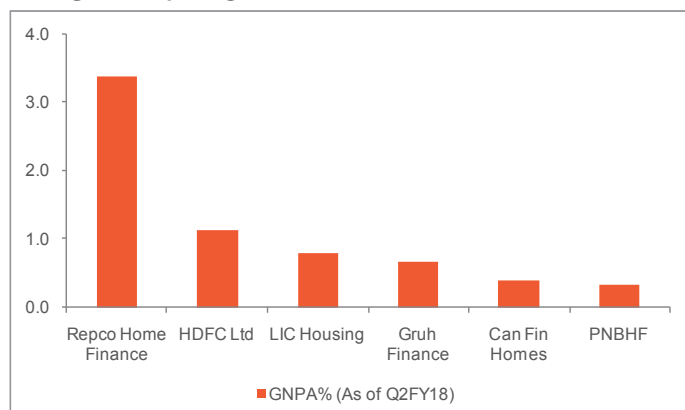
Particulars	Rs cr					
	Mar-15	Mar-16	Mar-17	Mar-18E	Mar-19E	Mar-20E
Net Interest Income	406.0	685.9	996.4	1,405.4	1,927.6	2,668.0
Growth (%)	59.6	68.9	45.3	41.1	37.2	38.4
Pre-Provisioning Profit	331.6	583.8	901.5	1,288.8	1,788.1	2,584.7
Growth (%)	64.6	76.1	54.4	43.0	38.7	44.5
PAT	194.1	326.5	523.7	746.7	1,033.0	1,496.5
Growth (%)	49.6	68.2	60.4	42.6	38.3	44.9
EPS	18.22	25.07	31.62	45.08	62.37	90.35
BVPS	152.03	169.08	336.71	373.68	424.82	498.91
P/E (x)	75.5	54.8	43.5	30.5	22.0	15.2
P/BV (x)	9.0	8.1	4.1	3.7	3.2	2.8

## Peer comparison

	PNB Housing Finance			HDFC Ltd			LIC Housing Finance			Can Fin Homes			Gruh Finance			Repco Home Finance		
	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
CMP	1375	1375	1375	1710	1710	1710	597	597	597	455	455	455	501	501	501	628	628	628
BVPS	337	374	425	250	285	323	219	257	301	81	109	138	31	35	44	182	210	249
PBV	4.1	3.7	3.2	6.9	6.0	5.3	2.7	2.3	2.0	5.6	4.2	3.3	16.4	14.2	11.5	3.5	3.0	2.5
RoE %	9.4	12.1	14.7	18.8	18.1	17.9	19.1	19.3	19.6	24.0	23.5	22.7	30.4	29.8	29.6	17.4	17.0	17.3
RoA %	1.2	1.3	1.3	2.4	2.3	2.2	1.7	1.7	1.8	1.9	2.0	2.0	2.4	2.4	2.4	2.2	2.2	2.2

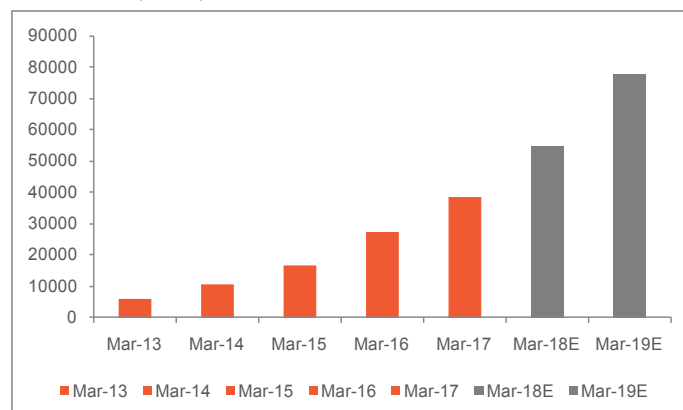
Source: Sharekhan Research, Bloomberg Estimate

## Strong asset quality



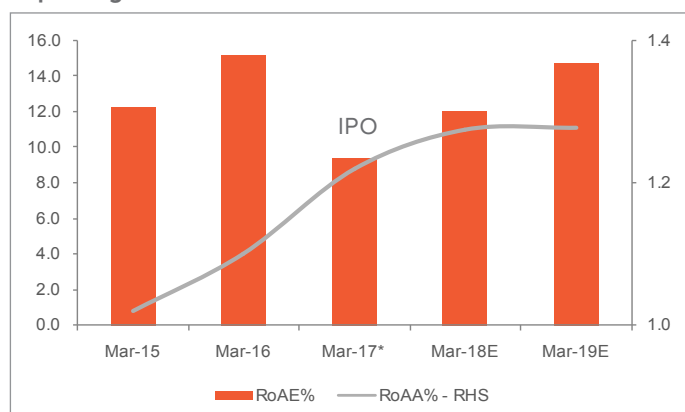
Source: Company, Sharekhan Research

## Loan book (Rs cr)



Source: Company, Sharekhan Research

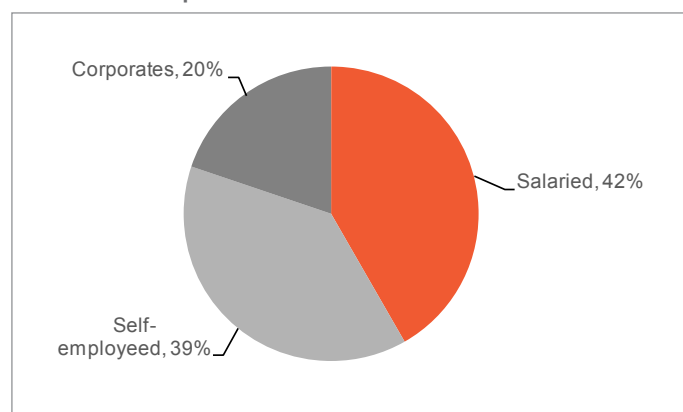
## Improving return ratios



\* Capital raised via IPO

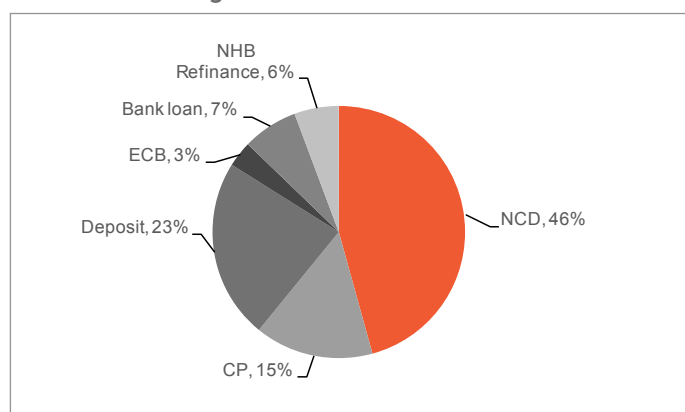
Source: Company, Sharekhan Research

## Balanced loan portfolio



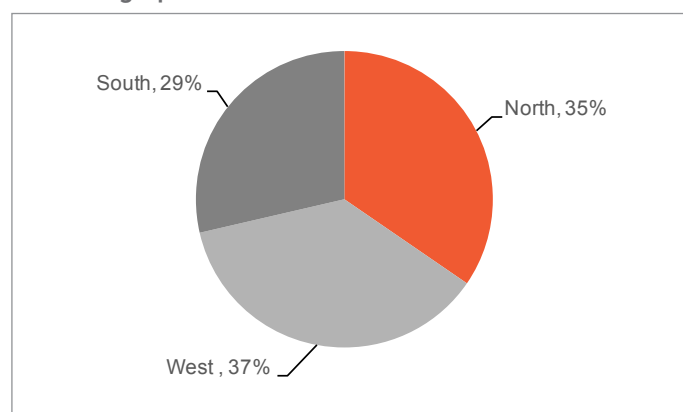
Source: Company, Sharekhan Research

## Diversified funding mix



Source: Company, Sharekhan Research

## AUM Geographical Distribution



Source: Company, Sharekhan Research

## Industry Scenario

In India, the housing industry is recognised as having an important impact on the country's development, civic life and human capital formation. India's economic growth, coupled with favourable structural factors, such as under-penetration of the mortgage market, the large gap between housing demand and supply, improved affordability as a result of tax incentives, encouraging regulatory environment and positive demographic trends, are expected to fuel continued growth in the housing finance market.

## About the company

PNBHF is a subsidiary of PNB (38.8% stake). It is the fifth largest HFC in India by loan portfolio as of September 30, 2017. The loan portfolio grew at a CAGR of 55.3% from Rs.6,621 crore as of March

31, 2013, to Rs.38,531 crore as of March 31, 2017. As of September 2017, the loan portfolio had further increased to Rs.48,749 crore.

PNBHF targets self-employed customers in urban areas and has created a niche for itself, while it has also increased its presence by expanding its branch count. Management has taken various initiatives, including developing technology for efficient operations management, improvement in credit underwriting process and creating hub-spoke model.

Offerings of PNBHF include housing loans for purchase of residential plots, non-housing loans in the form of loans against property (LAP) to property-owning customers through mortgages; and corporate term loans (CTL), which are general purpose loans to developers and/or corporates for purposes of ongoing projects or business needs.

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by BNP PARIBAS

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; For any queries or grievances kindly email  
igc@sharekhan.com or contact: myaccount@sharekhan.com

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