

PNB Housing Finance Limited

All set to grow

PNB Housing Finance (PNBH) has been one of the fastest growing Housing Finance Company and is currently the 5th largest player in India. Strong Brand name of PNB & efficient management has helped in growing the business much ahead of industry. With 49% stake being held by Pvt Equity Major Carlyle group, PNBH is all set to scale up its operations.

Strong management with fresh capital should help maintaining the growth: Mr. Sanjay Gupta was appointed as the MD of PNBH in 2010. Having worked with MNCs like AIG, ABN Amro Bank & HDFC Ltd, he along with the newly hired professionals from pvt sector has been the key behind the growth. PNBH has delivered a phenomenal ~61% CAGR in loan book over FY12-16, which has resulted in 43% CAGR in PAT growth. The IPO proceeds will enable the company maintaining the growth momentum albeit with a lower rate.

Higher LTV/ ticket size & multiple products offerings have helped the growth: PNBH's average ticket size at ₹32 lakh is highest among the HFCs (HDFC ₹22 lakh, LICH ₹21 lakh). It also offers higher LTV of 66% vs 47%-LIC, 53%-DHFL, 65%-HDFC. Higher ticket size backed by high LTV also seems to have backed the growth. PNBH has a well diversified portfolio (Home loans-61%, LAP-18%, Builder Loans 13% & others 12%). The management intends to maintain similar portfolio concentration going ahead.

Best in class asset quality despite aggressive growth: Despite aggressive loan growth, PNBH has managed strong asset quality, with GNPA's/NNPA's at 0.22%/0.14%, respectively (one of the best in industry) & better than large pvt players. However, the company has expanded its loan book in the last few years and hence the book is not seasoned, so the possibility of rise in NPA's can be seen in the coming years. Nevertheless, we believe PNBH will be able to control its credit cost and have NPA's at par with other Pvt Sector players.

Access to low cost funds and reduction in cost should be RoE accretive: PNBH has access to funds at a competitive rate, due to strong parentage & management (PNB & Carlyle group). Loans from banks now account for just 6% vs 34% in FY12, while NCD+CP form 59% vs 43% of the total borrowings. The cost/income of 30% for PNBH is higher than others (LICH 15%, DHFL 30%). Higher share of business from DSA and recent brand building initiatives have resulted in the increase in cost. Ability to reduce cost and access to low cost funds going ahead should be RoE accretive.

Outlook Valuation: PNBH has delivered RoE of 17.6% on the pre issue net worth. While the IPO will result in RoE compression, this will give the much required fund for growth. At the upper price band, the issue is offered at 4.6x its FY16 BV. However at the post issue BV of ₹311, it is offered at 2.5x. PNBH is all geared up for its next leg of growth and has the potential to become a significant player in the Indian mortgage business. Looking at the quality of management, which can drive the growth, we recommend a **SUBSCRIBE** to the issue.

Key Financials

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016
NII	173	254	406	684
% chg	33.7	47.3	59.6	68.4
Net profit	93	130	194	328
% chg	19.9	39.7	49.6	68.8
NIM (%)	2.8	2.7	2.5	2.5
Book Value (₹)	123.6	142.2	152.0	169.0
P/ABV (x)	6.3	5.5	5.1	4.6
RoA (%)	1.5	1.4	1.3	1.3
RoE (%)	18.2	16.7	15.4	17.6

Source: Company, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

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Issue Open: October 25, 2016
 Issue Close: October 27, 2016

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹126.9cr

Fresh Issue*: 3.9 cr Shares amounting to ₹3000crs

Offer for sale: -cr Shares amounting to -

Post Eq. Paid up Capital: ₹165.63crs

Market Lot: 19 Shares

Fresh Issue (amount): ₹3000cr

Price Band: ₹750-775

Post-issue implied mkt. cap ₹12837cr*

*Note: *Upper price band*

Book Building

QIBs	50%
Non-Institutional	15%
Retail	35%

Pre Issue Shareholding Pattern(%)

Promoter & Promoter group	51.0
Other	49.0

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Company background

PNB Housing Finance (PNBH) has been one of the fastest growing Housing Finance Company in the last few years and is currently the 5th largest HFC in India. Strong Brand name of PNB & management skill set of Pvt Sector has helped in growing the business much ahead of industry. With 49% stake being held by Pvt Equity Major Carlyle group, PNBH is all set to scale up its operations.

Key Management Personnel

Ms. Usha Ananthasubramanian (Chairperson): She holds a bachelor's degree in science and a master's degree in statistics from the University of Madras and a master's degree in arts from the University of Mumbai. She has significant experience in the fields of banking and financial services. She has been the Managing Director and Chief Executive Officer of Punjab National Bank since August 14, 2015

Mr. Sanjaya Gupta (MD): He has significant experience in the mortgage industry in both retail and corporate assets. Prior to joining PNB Housing Finance he worked with AIG United Guaranty as the country head and Chief Executive Officer of the prospective mortgage guaranty business in India. He also worked with ABN Amro Bank N.V. as the National Product Head, Mortgages- Consumer Banking and with ABN AMRO Central Enterprise Services Private Limited as the VP, Mortgages. Prior to that he worked with HDFC Limited.

Issue details

The company is raising ₹3000cr through fresh issue of equity shares in the price band of ₹750-775. The fresh issue will constitute 23.37% of the post-issue paid-up equity share capital of the company assuming the issue is subscribed at the upper end of the price band.

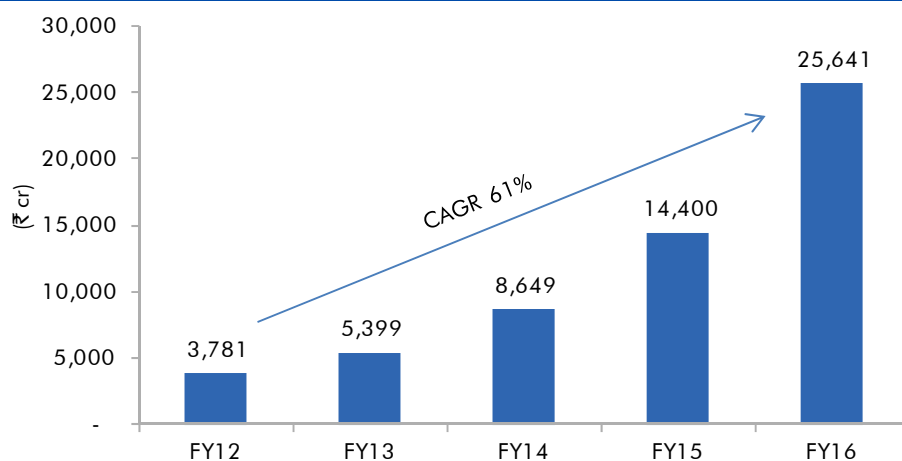
Objects of the offer

- To augment the bank's tier-I capital base to meet its future capital requirements due to expected growth of the company's assets.
- The listing will also enhance the visibility and brand name of the company among existing and potential customers.

Investment rationale

Strong management with fresh capital should help maintaining the growth: Mr. Sanjay Gupta was appointed as the MD of PNBH in 2010. Having worked with MNCs like AIG, ABN Amro Bank & HDFC Ltd, he along with the newly hired professionals from pvt sector has been the key behind the growth. PNBH has delivered a phenomenal ~61% CAGR in loan book over FY12-16, which has resulted in 43% CAGR in PAT growth. The IPO proceeds will enable the company maintaining the growth momentum albeit with a lower rate.

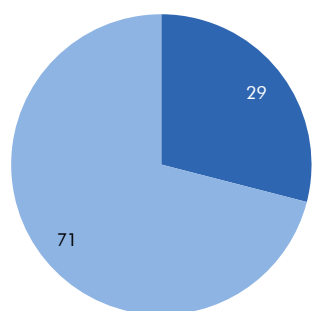
Exhibit 1: Strong growth in loan book



Source: RHP, Angel Research

PNBH's retail loan share is lower than peers, but growth from both retail as well non retail remains strong: Housing loan constitutes ~70% of the loan book, while non housing loans constitute the balance of the portfolio. The non housing loans normally generates higher yield; hence, we believe over the long run, PNB Housing will be able to scale up its yield and in turn return ratios. PNBH has a well diversified portfolio where in home loans form -61%, LAP-18%, and builder loans 13% of the total book. The company also offers loans for non residential premises and lease discounting rental loans, which together forms ~12% of the portfolio. The management intends to maintain similar portfolio concentration going ahead.

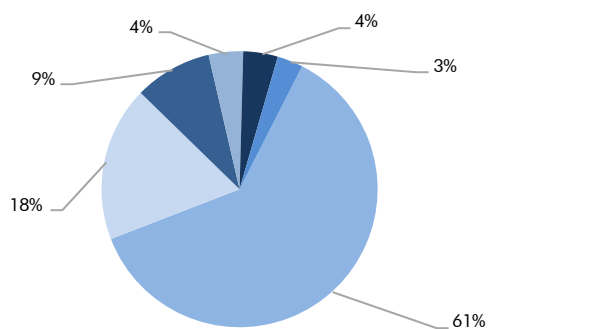
Exhibit 2: Loan mix – Housing – Non-housing



■ Non Housing Loans ■ Housing Loans

Source: RHP, Angel Research

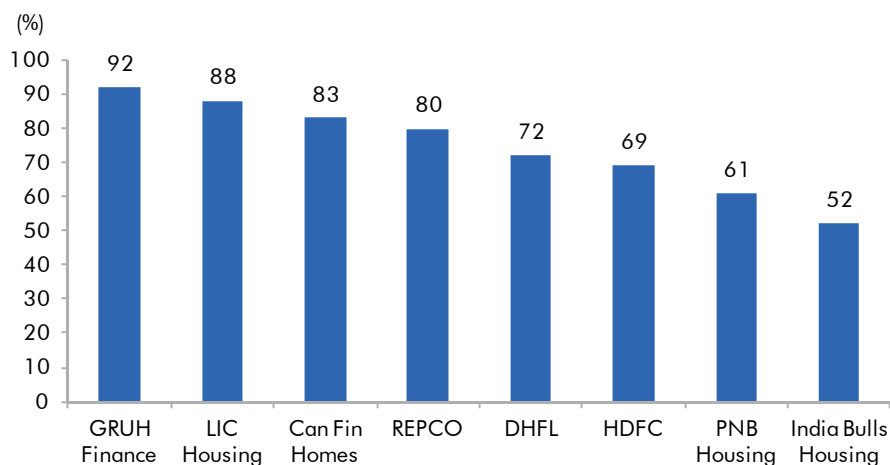
Exhibit 3: Portfolio distribution



■ Home Loans ■ LAP ■ Construction Finance ■ NRP Loans ■ LRD ■ Corp Loans

Source: RHP, Angel Research

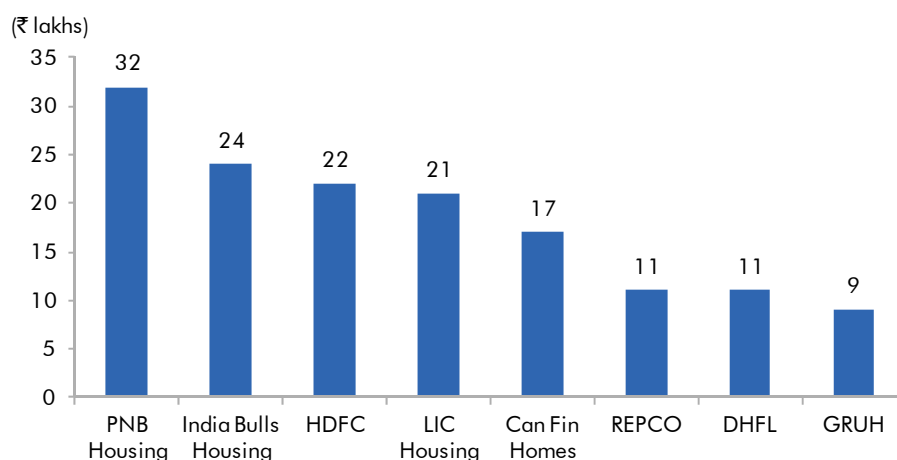
Exhibit 4: Comparative Retail Loan Mix



Source: RHP, Angel Research

Higher average ticket size, together with higher LTV have also contributed to growth: PNBH’s average ticket size at ₹32 lakh is highest among the listed Housing Finance Companies (HDFC ₹22 lakh, LIC ₹21 lakh, DHFL ₹11 lakh). It also offers higher LTV of 66% vs 47%-LIC, 53%-DHFL, 65%-HDFC. Higher ticket size backed by high LTV also seems to have backed the growth.

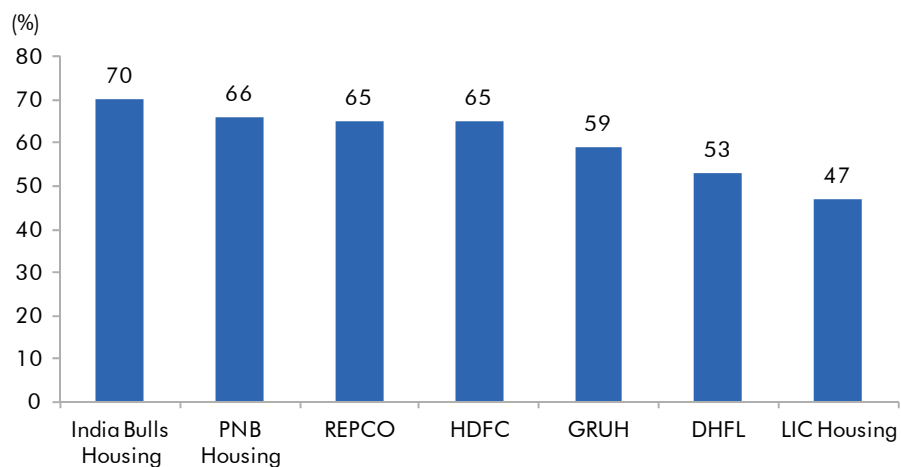
Exhibit 5: Comparative Average Ticket Size



Source: RHP, Angel Research

While the blended LTV of PNBH looks high, the LTV differs according to the loan types like in a retail housing loan for a salaried person would be ~69% and for a self-employed person would be ~60%. While the LTV in case of non housing loans for both the segments would be ~45-46%. PNBH’s relatively high LTV as well as high ticket size is also partly due to the fact that it has been so far largely present in the urban areas. Whereas some of the mid and large players have much wider network, where the ticket size can be low.

Exhibit 6: Average LTV of HFCs in India

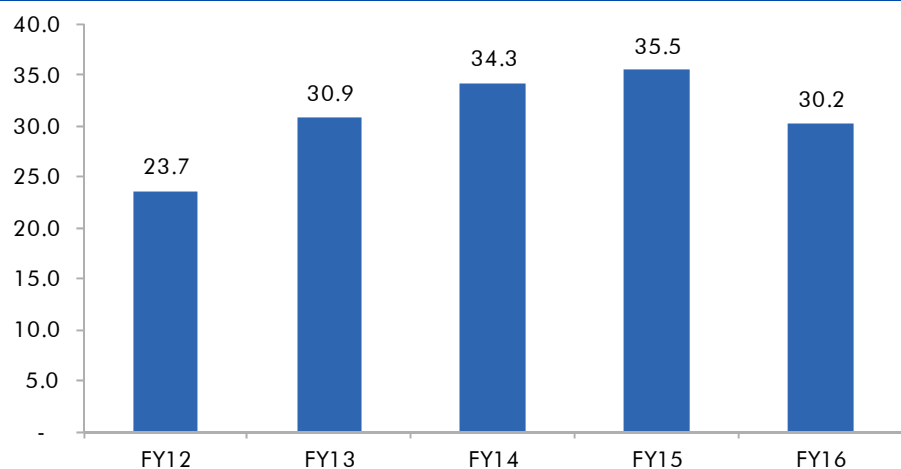


Source: RHP, Angel Research

Enough scope for a decline in cost/income ratio: The operating cost of PNBH is relatively higher and remains one of the highest among the HFCs. Higher share of business sourced from other channels like DSA and brand building cost has led to the higher cost structure. However, we believe there is enough scope in the cost to come down. We have seen this happening in case of mid-sized housing finance companies in the recent years.

Business sourcing from direct sales agents still forms a large part of the total book, ~45%. Though it has come down from 53%, ability to generate higher business from own sources could reduce the overall operating expenses. Further, over the last few years, the company has undertaken several steps to improve the brand visibility. The cost/income of 30% for PNBH is higher than others (LICH 15%, DHFL 30%). Hence, we expect going ahead there would be enough scope for cost rationalization.

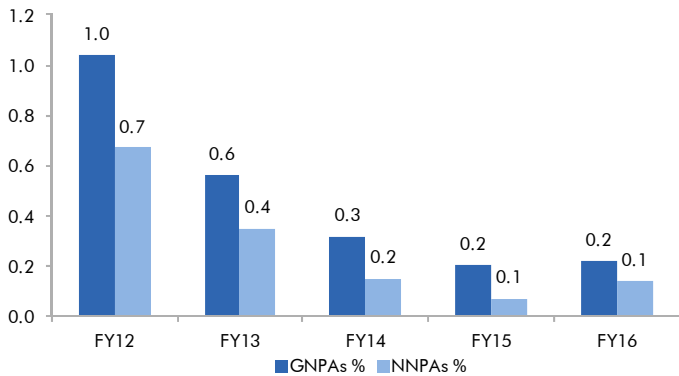
Exhibit 7: Cost/Income Ratio (%) likely to come down



Source: RHP, Angel Research

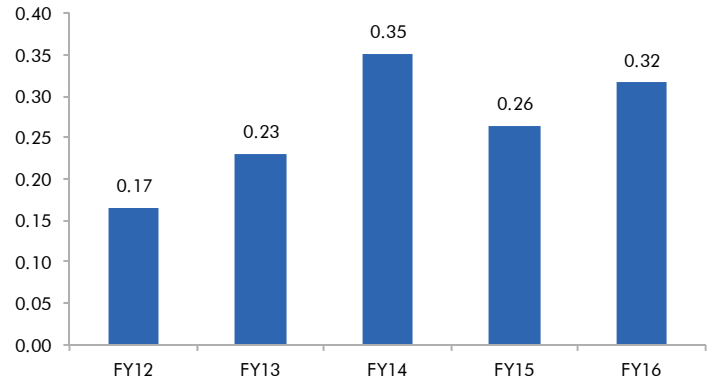
Best in class asset quality despite aggressive growth: Despite aggressive loan growth, PNBH has managed strong asset quality, with GNPA/NNPAs at 0.22%/0.14%, respectively (one of the best in industry) & better than large pvt players. However, the company has expanded its loan book in the last few years and hence the book is not seasoned, so the possibility of rise in NPAs can be seen in the coming years. Nevertheless, we believe PNBH will be able to control its credit cost and have NPAs at par with other pvt sector players.

Exhibit 8: GNPA and NNPA trend



Source: RHP, Angel Research

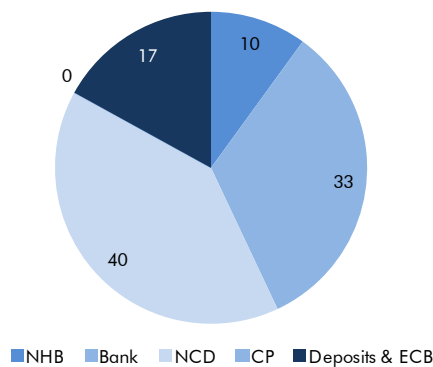
Exhibit 9: Credit Cost (%)



Source: RHP, Angel Research

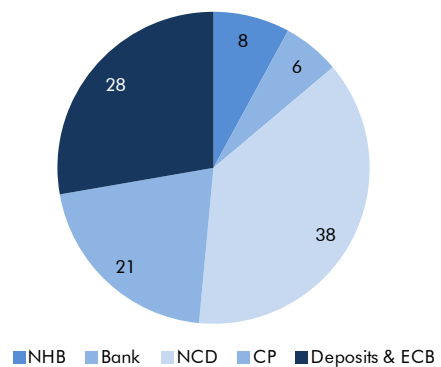
Strong parentage & management bandwidth with stable credit rating has allowed access to low cost funds: PNBH is able to raise funds from the money markets at a competitive rate, largely due to strong parentage (PNB & Carlyle group). Over the last 4 years, PNBH has reduced its dependence on bank funding substantially and has been able to raise funds via NCD, CP as well as public deposits. Bank funding in total funds has been reduced to 6% by FY16 from a high of 34% in FY12. PNBH is the 2nd largest deposit taking HFC in India.

Exhibit 10: Sources of Funding FY2014



Source: RHP, Angel Research

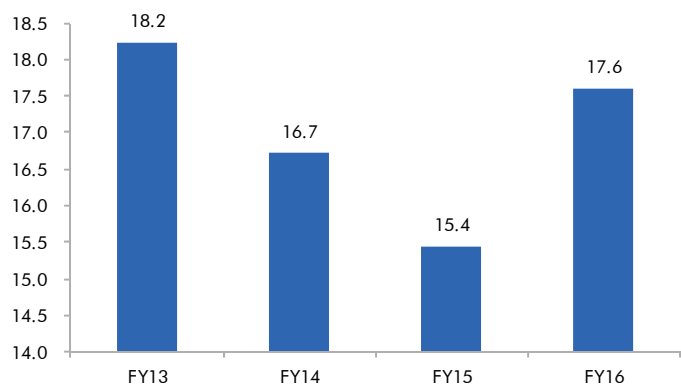
Exhibit 11: Sources of Funding FY2016



Source: RHP, Angel Research

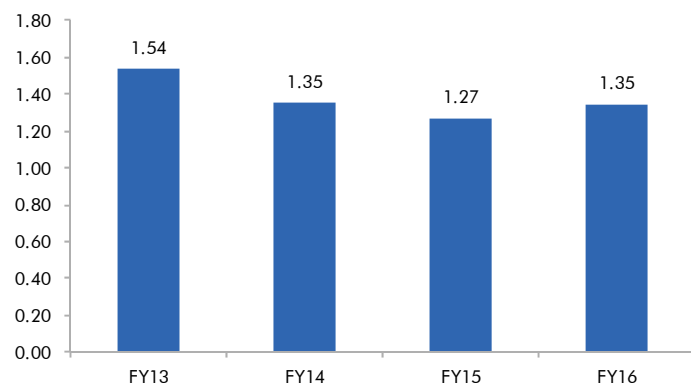
Scope for improvement in ROE & ROA profile: PNBH has delivered RoE of 17.6% on the pre issue net worth. While the IPO will result in RoE compression, this will give the much required fund for growth. Though PNBH has product offerings across various segments and the RoE & RoA is little lower than some of the large HFCs. However, we believe as the business scales up the operating cost structure would also get reduced.

Exhibit 12: ROE



Source: RHP, Angel Research

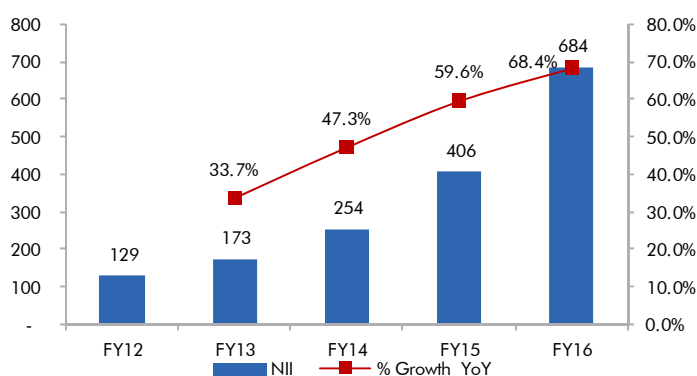
Exhibit 13: ROA



Source: RHP, Angel Research

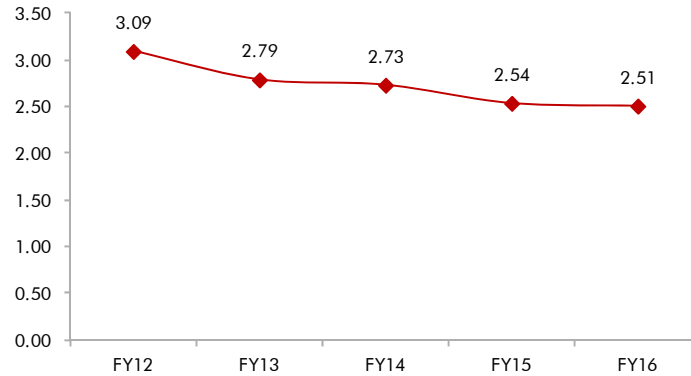
NIM likely to see improvement post fund raising: While NIM remains moderately lower than large HFCs, higher operating cost has resulted in RoE being lower. However, we believe the unique blend of portfolio will enable PNB housing to optimize its RoE in the long run. Post dilution, we expect RoE to drop to ~14.5% by FY18. However, we believe it will be able to bounce back to its existing RoE levels post that.

Exhibit 14: NII trend



Source: RHP, Angel Research

Exhibit 15: NIM trend

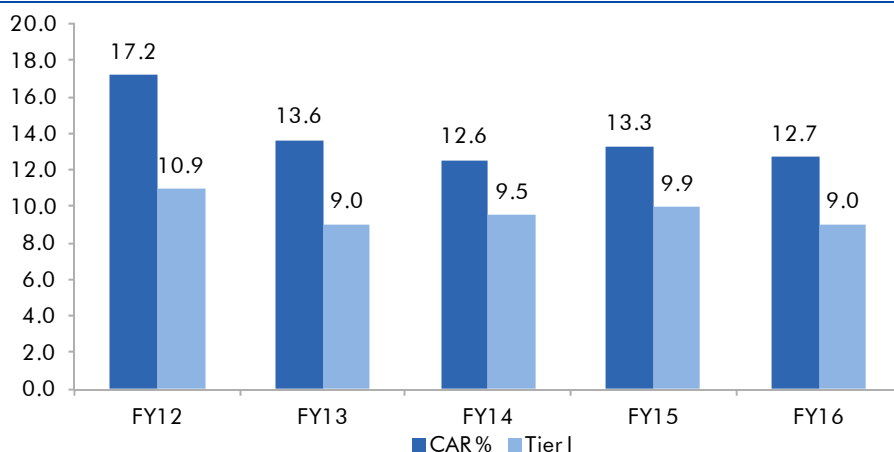


Source: RHP, Angel Research

IPO will enable improved Capital Adequacy

PNBH's capital adequacy at the end of 1QFY2017 stood at 13.04% and looking at the high growth, which the company has been delivering, capital raising was a must. We believe the current fund raising via the IPO should meet the company's capital requirement in the near term.

Exhibit 16: Capital adequacy

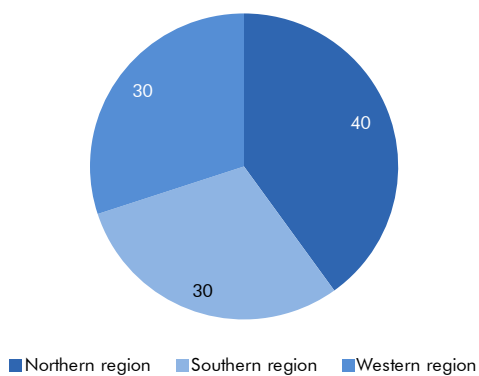


Source: RHP, Angel Research

Well diversified geographical and customer mix

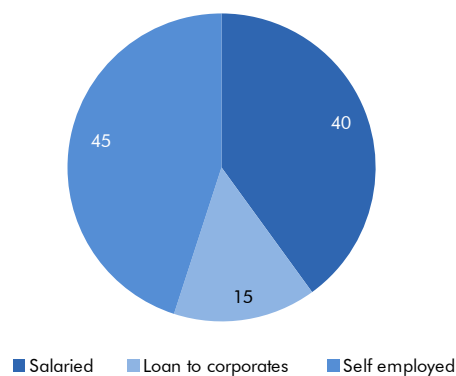
PNBH has a high presence in the northern part of India. However, off late the company has also expanded into other geographies. North accounted for 40% of the outstanding loans, while west and south accounted for 30% each of the loan book in India. Based on customer profile again the loan book seems well balanced with 45% of the outstanding loans to self employed persons. While salaried customers accounted for ~40% of the loans, the balance 15% loan was towards corporate.

Exhibit 17: Geographical Mix of Loan (%)



Source: RHP, Angel Research

Exhibit 18: Loan mix by customer



Source: RHP, Angel Research

Outlook & Valuation: PNBH has delivered RoE of 17.6% on the pre issue net worth. While the IPO will result in RoE compression, this will give the much required fund for growth. At the upper price band, the issue is offered at 4.6x its FY16 BV. However at the post issue BV of ₹311, it is offered at 2.5x. PNBH is all geared up for its next leg of growth and has the potential to become a significant player in the Indian mortgage business. Looking at the quality of management, which can drive the growth, we recommend a **SUBSCRIBE** to the issue.

Comparative tables

Exhibit 19: Comparative Performance Balance sheet

	Loan Book	Retail	Others	GNPAs %	CAR%	Cost/Income
LIC Housing	125,173	88	12	0.45	17.0	14.7
DHFL	62,295	72	28	0.93	16.7	30.1
India Bulls Housing	67,800	77	23	0.84	20.5	14.3
PNB Housing	25,641	61	39	0.22	12.7	30.2
Can Fin Homes	10,643	99	1	0.19	20.7	18.7
REPCO	7,691	80	20	1.20	20.8	19.3
GRUH Finance	11,115	92	8	0.30	17.8	18.0

Source: RHP, Company, Angel Research

Exhibit 20: Comparative – Asset Quality & Capital Adequacy

	4 year CAGR					BV (FY18E Consensus)	P/ BV*	CMP
	NII	Loan	PAT	NIM %	RoE %			
LIC Housing	20.6	18.7	16.0	2.5	19.6	252.8	2.4	600
DHFL	30.3	25.1	27.5	3.0	15.1	217.2	1.5	332
India Bulls Housing	26.2	25.3	74.0	4.7	27.0	312.2	2.8	879
PNB Housing**	51.7	61.4	43.4	2.9	17.6	386.5	2.0	775
Can Fin Homes	37.7	41.2	37.4	3.2	17.9	480.7	3.8	1830
REPCO	31.0	28.6	25.8	4.4	16.4	213.2	3.7	790
GRUH Finance	24.4	28.6	19.3	4.2	31.5	35.1	9.7	339

Source: RHP, Company, Angel Research; Note: CMP as of October 21, 2016; * Bloomberg Consensus; ** Angel Estimates; CAGR FY2012-16

Income statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16
Nil	173	254	406	684
- YoY Growth (%)	33.7	47.3	59.6	68.4
Other Income	32	64	110	155
- YoY Growth (%)	81.0	103.2	70.1	41.9
Operating Income	204	319	516	839
- YoY Growth (%)	39.4	56.0	61.8	62.8
Operating Expenses	63	109	183	254
- YoY Growth (%)	81.9	73.1	67.4	38.7
Pre - Provision Profit	141	209	333	585
- YoY Growth (%)	26.2	48.3	58.8	76.0
Prov. & Cont.	12	30	38	81
- YoY Growth (%)	98.7	144.1	25.2	112.9
Profit Before Tax	129	179	294	504
- YoY Growth (%)	21.9	39.0	64.5	71.3
Prov. for Taxation	36	49	100	177
- as a % of PBT	27.9	27.5	34.1	35.0
PAT	93	130	194	328
- YoY Growth (%)	19.9	39.7	49.6	68.8

Balance sheet

Y/E March (₹ cr)	FY13	FY14	FY15	FY16
Share Capital	50	66	104	127
Reserve & Surplus	568	868	1,475	2,018
NetWorth	618	934	1,579	2,144
Borrowings	5,535	8,396	14,552	24,095
- YoY Growth (%)	98.2	51.7	73.3	65.6
Provisions & Others	65	106	197	337
Other Liabilities	1,437	2,103	2,707	3,096
Total Liabilities	7,655	11,540	19,035	29,672
Cash and Bal With RBI	128	138	293	249
Investments	777	645	1,586	1,622
Advances	5,399	8,649	14,400	25,641
- Growth (%)	42.8	60.2	66.5	78.1
Fixed Assets	18	29	58	62
Deferred Tax Assets	14	15	-	-
Other Assets	1,319	2,062	2,698	2,099
Total Assets	7,655	11,540	19,035	29,672

Ratio analysis

Y/E March	FY13	FY14	FY15	FY16
Profitability ratios (%)				
NIMs	2.8	2.7	2.5	2.5
RoA	1.5	1.4	1.3	1.3
RoE	18.2	16.7	15.4	17.6
Asset Quality (%)				
Gross NPAs	0.6	0.3	0.2	0.2
Net NPAs	0.4	0.2	0.1	0.1
Per Share Data (₹)				
EPS	18.6	19.7	18.7	25.8
BV	123.6	142.2	152.0	169.0
Valuation Ratios				
PER (x)	41.7	39.3	41.5	30.0
P/BVPS (x)	6.3	5.5	5.1	4.6
DuPont Analysis				
Net Interest Income	10.5	11.0	10.9	10.4
Non Interest Income	7.6	8.4	8.3	7.6
Total Revenues	2.9	2.6	2.7	2.8
Operating Cost	1.0	1.1	1.2	1.0
PPP	2.3	2.2	2.2	2.4
Total Provisions	0.2	0.3	0.2	0.3
PreTax Profit	2.1	1.9	1.9	2.1
Tax	0.6	0.5	0.7	0.7
ROA	1.5	1.4	1.3	1.3
Leverage	11.9	12.4	12.2	13.1
RoE (%)	18.2	16.7	15.4	17.6

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