

Rating	
CMP	Rs 1396
Target Price	Rs 1624
Recommendation	Accumulate

Stock Info

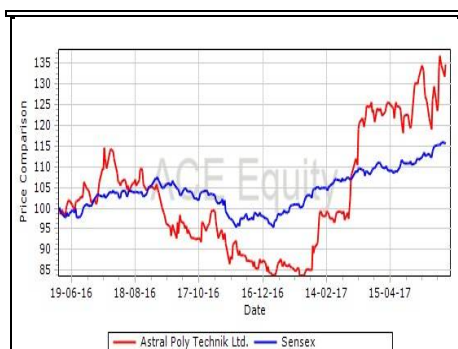
BSE Group	B
BSE Code	540173
NSE Symbol	PNBHOUSING
Bloomberg	PNBHOUSI IN
Reuters	-
BSE Sensex	31,190
NSE Nifty	9,637

Market Info

Market Capital	Rs 23,651 cr
Equity Capital	Rs 126.92 cr
Avg. Trading Vol.	8,39,760
52 Wk High/ Low	1461/775
Face Value	Rs 10

Shareholding Pattern (%)	(Mar'17)
Promoters	39.0
FII's	15.3
DII's	4.1
Public	41.6
Total	100

Price Chart:



Company Profile

PNB Housing Finance Limited (PNB Housing) is a registered housing finance company with the National Housing Bank (NHB). It was incorporated under the Companies Act, 1956, and commenced operations on 11Nov'88. It provides housing loans to individuals and corporate bodies for construction, purchase, and repair of houses. It also provides loans for commercial space, loan against property and loan for purchase of residential plots. PNB Housing is a subsidiary of Punjab National Bank (PNB), which holds 39.08% of share capital in the company. In Dec'09, it entered into a strategic financial partnership with Destimoney Enterprises Private Limited (DEPL). In Feb'15, DEPL's majority shareholder Destimoney Enterprises Limited sold its entire shareholding to Quality Investments Holdings, which is owned by the Carlyle Group. PNB Housing is the fifth-largest housing finance company (HFC) in India by portfolio size. The HFC's loan portfolio reported a CAGR of 58% to INR 415bn as of 31Mar'17 from INR 39.7bn, as of 31Mar'12. Retail home loans constituted 59% of the total loan portfolio, while construction finance constituted 11.4% of the portfolio. The non-housing loan portfolio stood at 29.3%. PNBHF has 63 branches, supported by 18 processing hubs, three co-located zonal offices and a CSO in New Delhi. About 36% of the lender's loan portfolio originated in states in the northern region, whereas about 30% of its loan portfolio is originated in states from the southern region and 34% from the western region.

Investment Positives

• Fifth-largest and fastest-growing HFC in India

With over 25 years of experience in Indian Housing Finance Industry. PNBHF is the fifth largest HFC in India by AUM (with its AUM of INR 415bn, as on 31st March'17). It is the fastest growing HFC (AUM CAGR of 60% over FY12-17) and has gained significant market share in the past five years.

• Experienced management team with diverse exposure in financial services

The past few years have seen significant induction of BFSI executives from the private sector into top level management positions at the company. CEO Sanjaya Gupta (ex-HDFC) and business head Shaji Varghese (ex-IndusInd bank) were hired in early 2010, given their expertise in housing and retail finance. Gupta's tenure extends until FY2020, which is positive for PNB Housing Finance.



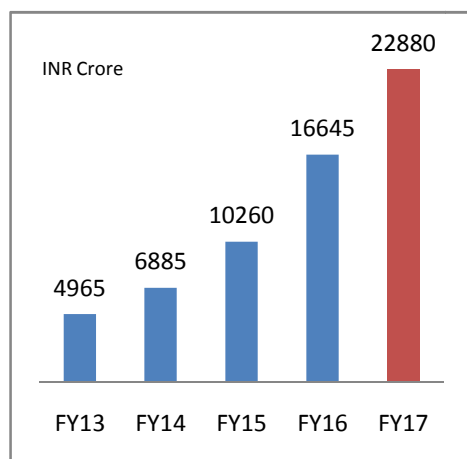
- **Diversified loan portfolio with focus on self-employed and salaried customers**

The company has diversified portfolio consisting of: (i) retail housing loan products (59.4% of AUM) for the purchase, construction, extension or improvement of residential house properties. (ii) Construction finance loan (11.4% of AUM). (iii) Loans against property (17.5% of AUM). (iv) Other Loan products (11.7% of AUM). Its customer base consists of salaried people (41%), Self-employed customers (41%) and corporate comprising (18%) of the total loan portfolio, as on 31st Mar'17.

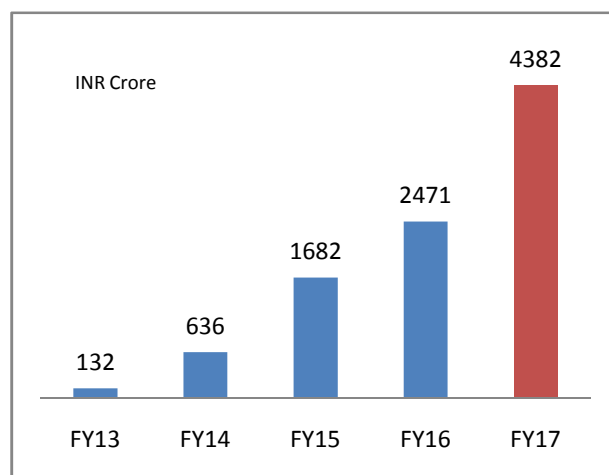
Housing Loan Asset Distribution

Housing Loan – 70.7%

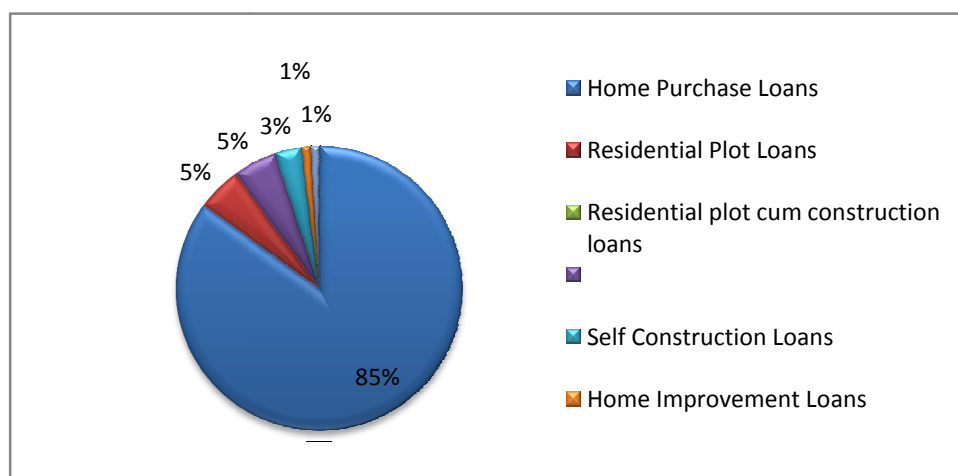
Individual Housing Loan – 59.4%



Construction Finance Loans - 11.4%



ATS INR 31.5 Lakhs as on 31st March, 2017

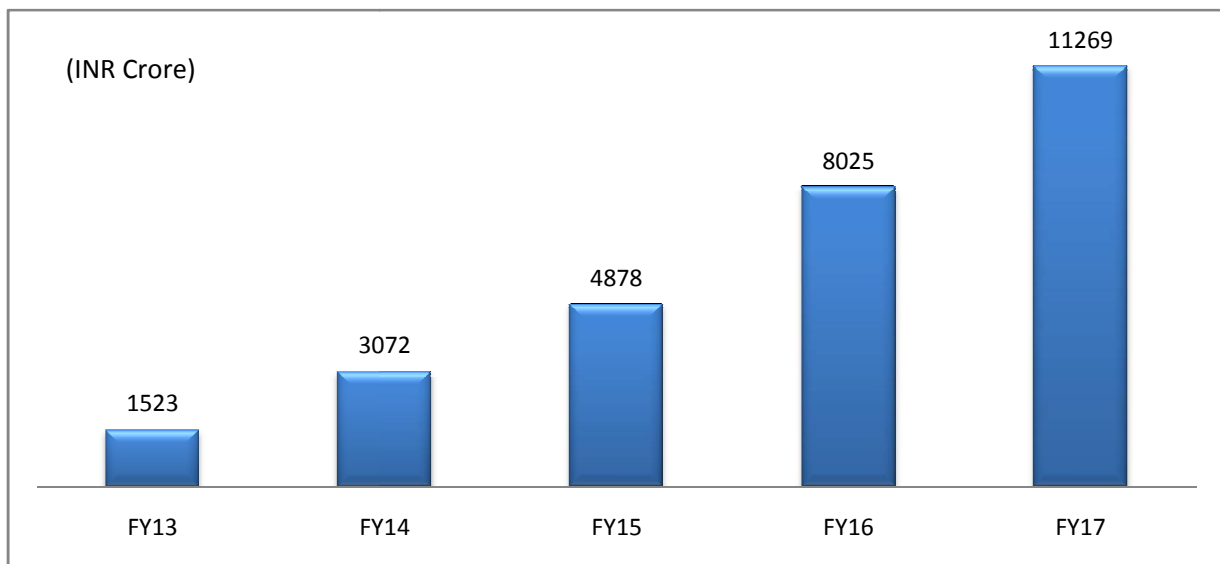


(ATS = Average tick Size)

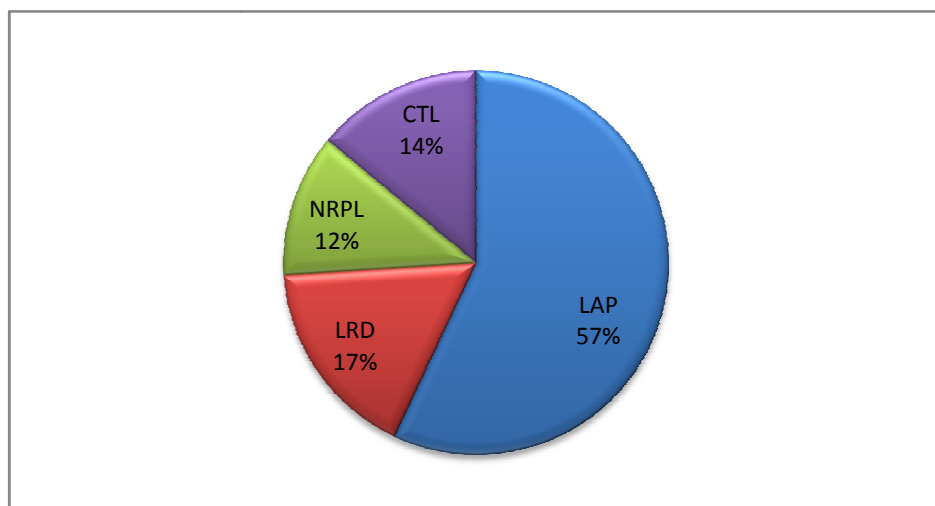


Non-Housing Loan Asset Distribution

Non-Housing Loan – 29.2%



ATS INR 75.5 Lakhs as on 31st March, 2017

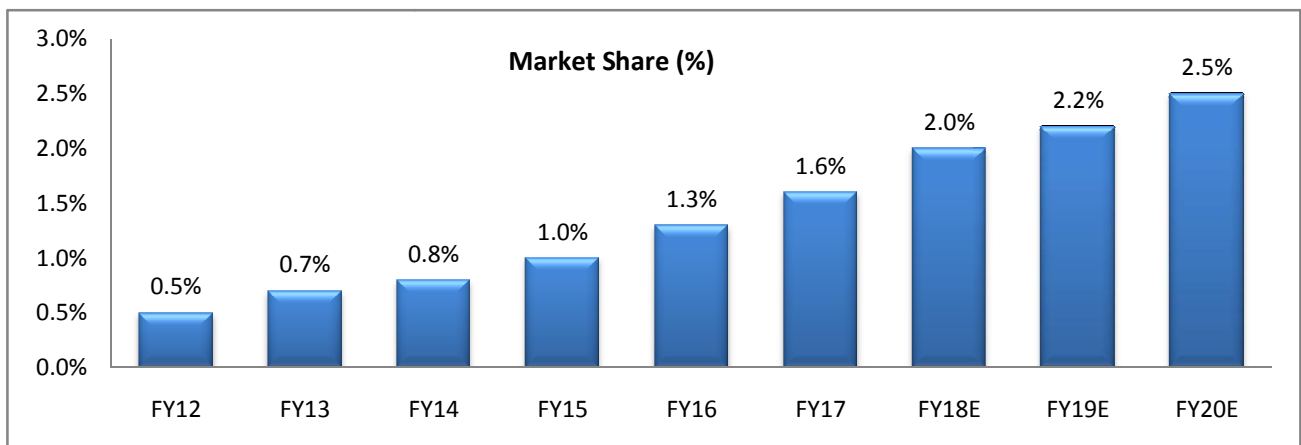




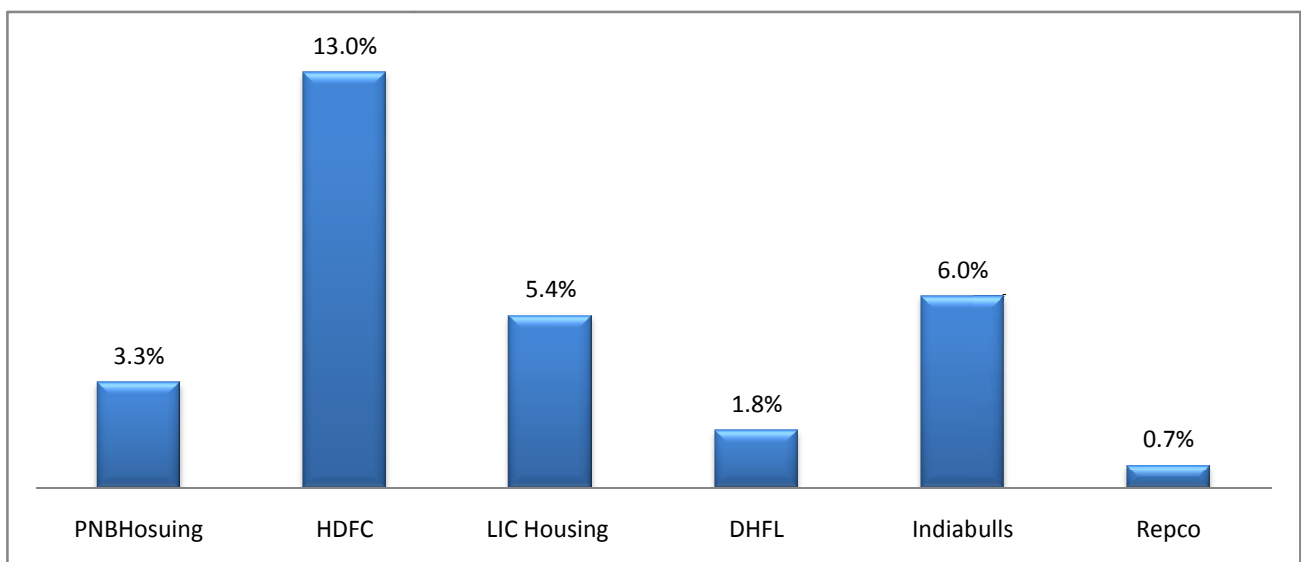
- **Expect market share gains to continue**

In the past five years, PNBHF's distribution network has increased from 31 branches in FY12 to 63 Branches in 39 cities as of FY17 while its market share has improved from 0.5% in FY12 to 1.6% in FY17. Its distribution is still underpenetrated, and PNBHF is currently expanding its presence in Tier II and Tier III cities in the southern and western regions of India. We expect market share gains to continue in going forward.

PNBHF: Trend in Market Share – Retail Housing



Incremental Market Share as on 31st Mar'17





- **PNBHF enjoys one of the lowest funding costs benefiting branding support from its parent**

PNBHF enjoys one of the lowest funding costs (8.55% as of FY17) in the industry due to the AA+ rating (for its debt instrument) and AAA rating (for its deposits) benefiting from the strategic capital and branding support from its parent. PNBHF is competitive Vs leading HFCs (HDFC/LICHF) which helps to compete more effectively and offers attractive rates on residential mortgages.

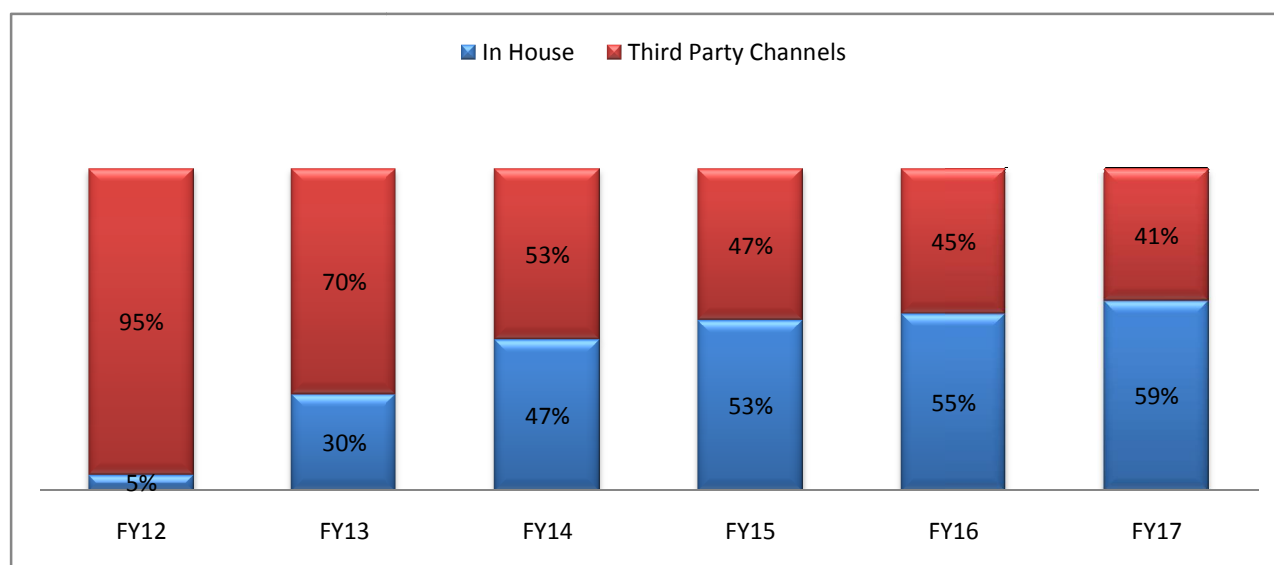
- **Scalable model with expandable distribution network**

As part of 'Project Kshitij', PNBHF restructured its operations and built strong scalable systems. The key aspect was migration to a single platform with centralised processing of many functions with a hub and spoke model at the branches. As of 31Mar'17, PNBHF has 63 branches (as of 31 Mar 17) in 39 cities across the northern, western and southern regions of India; it is supported by 18 processing hubs, including three zonal offices in Noida, Mumbai and Bangalore, which supervise operations in the northern, western and southern regions.

The processing hub is responsible for credit approval, credit evaluation and credit portfolio management. The company has credit appraisal teams of experienced personnel at its processing hubs who implement its credit approval policies and conduct a credit check and verification procedure on each customer, ensuring consistent underwriting standards in an effort to minimise losses. The company also has qualified subject matter experts in several areas, particularly in underwriting, legal, technical valuation fraud control and collections. Each processing hub currently services three branches on average, but is designed to support additional branches, making it scalable.

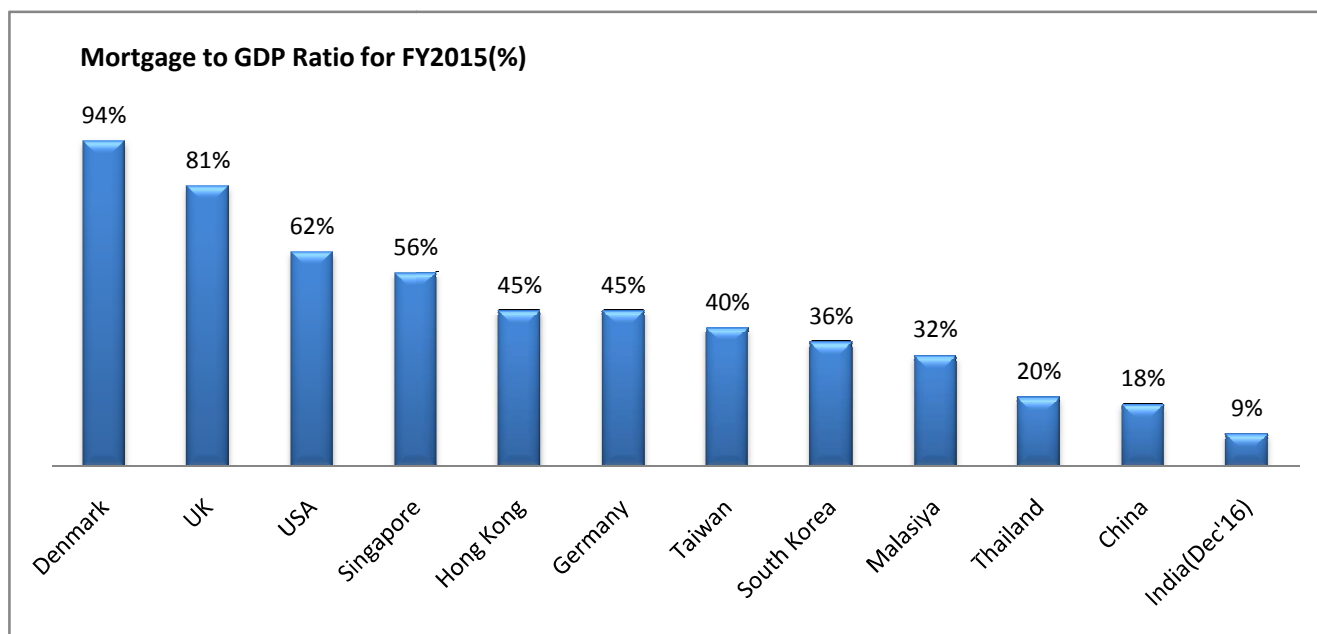
CSO supervises the company's operations nationally, including branches, zonal offices and processing hubs. It also includes the key persons who oversee various business functions, including business development, products and marketing, underwriting, collections, corporate planning, treasury and accounting, centralised operations, facilities management, human resources, information technology and corporate social responsibility.

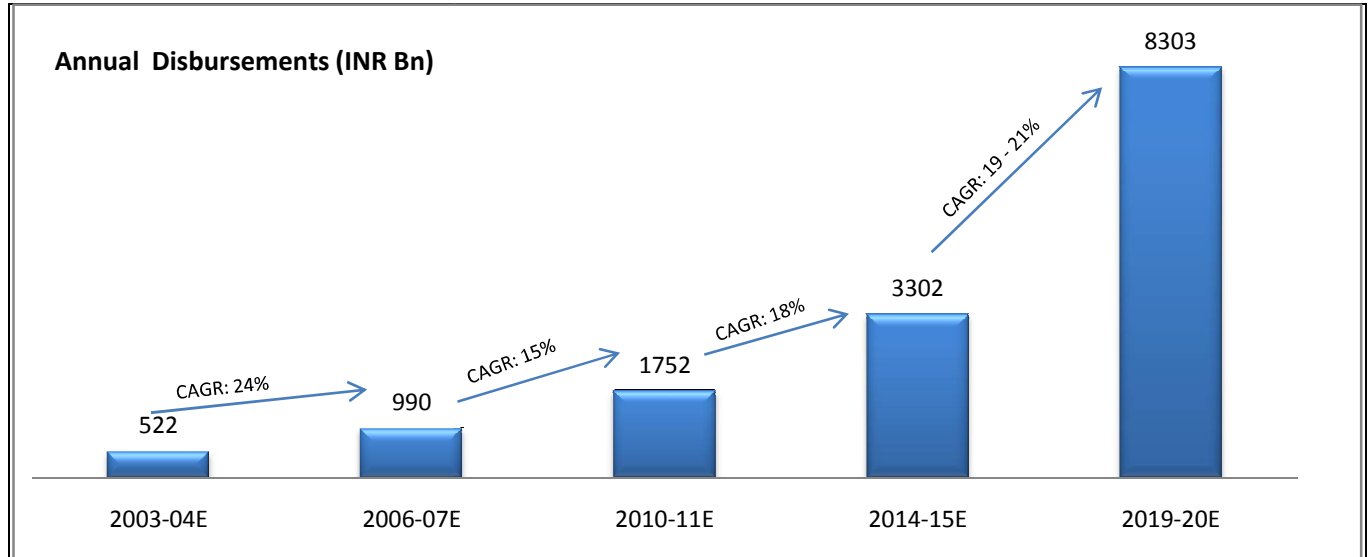
PNBHF: Loan origination through DSAs and in House Channels



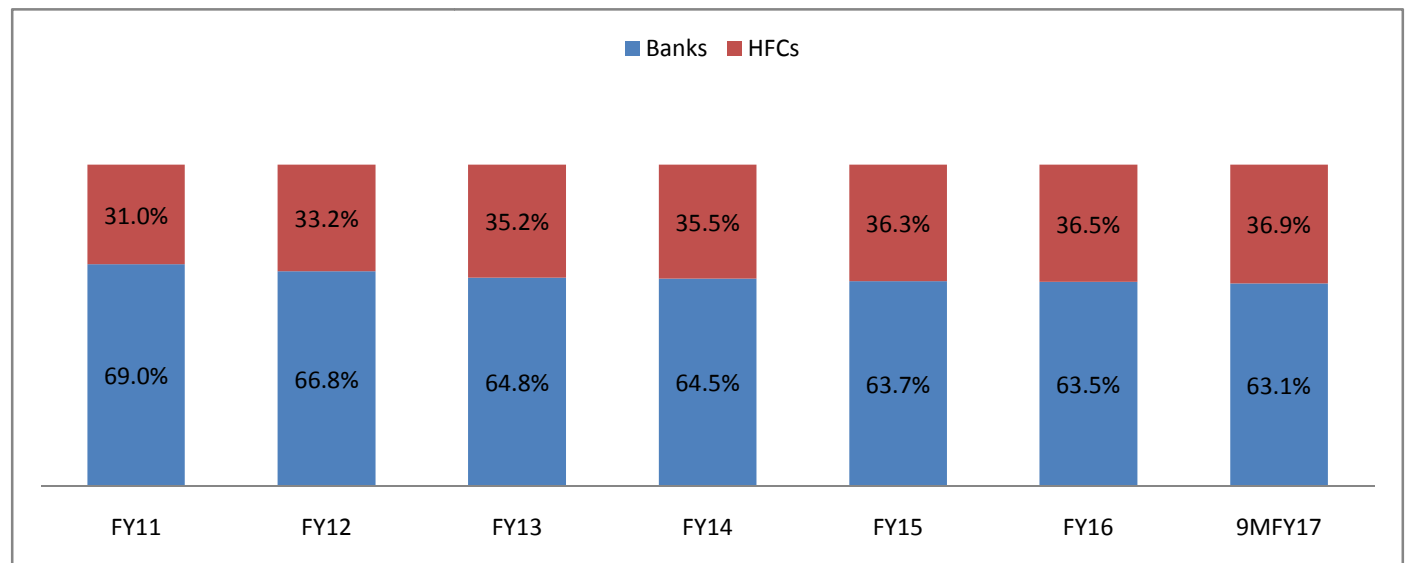
**Industry Overview:****HFC: Structural bet**

Housing for all is set to catalyze this space as it is focused on the needs of +90% of Indian population including Economic Weaker Section, Large Income group and medium income group via bridging the funding (Pradhan Mantri Awas Yojana (PMAY) - Credit Linked Subsidy Scheme – 3.5% Interest savings) Housing finance continues to operate in structural market, with a CAGR of 16% over FY12-16 Vs system's Credit CAGR of 11% and growth over FY17-22E expects to grow about 20-22%. As per CREDAI report, near term requirement of 110mn units, implying 50% of population needs a house could leg of growth to be much sharper. In India, 90% demand lying in the low-ticket affordable housing segment and expectation of correction in house prices, growth will be more volume driven. India Mortgage Market is significantly Under-penetrated which stood at 9.4% Vs 81% & 18% in UK and China respectively.

Indian Mortgage Market is significantly Under-penetrated

**Ramp-up Opportunity for Mortgage Market in India****Gaining Market Share in Expanding Home Loan Portfolio**

Housing finance is a well catered segment by both banks and housing finance NBFC. Banks have highest market share which stood at 62% of the INR 13 trn markets. NBFC's have been increasing their market share for last five to six years. A few mid-size HFC, such as Can Fin Homes, Gruh Finance and PNB Housing Finance have outperformed the industry growth.

Increasing HFCs Share in steadily Expanding Home Loan Portfolio



INR 3tn PMAY opportunity

The Indian Government has initiated the 'Housing for all by 2022' mission, through which it seeks to expand credit flow and increase home ownership. Another bold initiative by the government is the 'smart cities Mission' which has created significant stir in Urban development. Both these projects will provide boost to housing sector.

Housing for All by 2022 Mission: Affordable Housing

The Mission is aimed for urban areas and incorporate the following components:

- a) Encouraging private developers to participate in building homes for the underprivileged through SRA projects;
- b) Promotion of affordable housing for weaker section through credit linked subsidy;
- c) Affordable housing in partnership with public & private sectors,
- d) Subsidy for beneficiary –led individual house construction or enhancement.

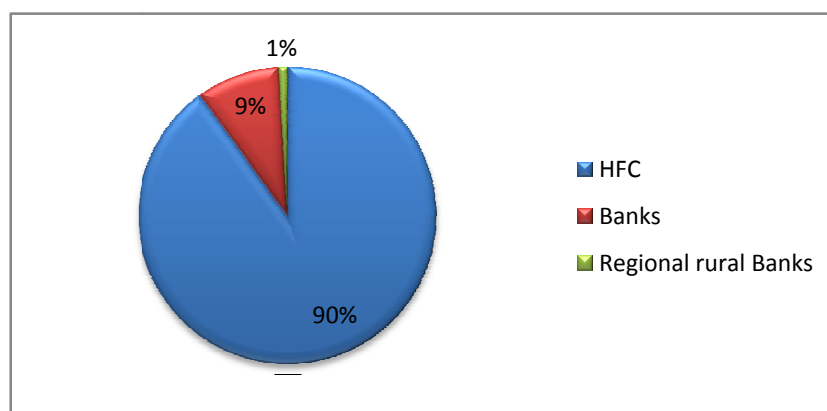
Smart Cities Mission: Urban development turning story

The Central Government has planned to spend Rs98, 000 crores under two new urban missions **“The Smart City Project”** and **“Atal Mission for Rejuvenation and Urban Transformation (AMRUT)”**.

The Smart Cities mission focuses on area-based development to accommodate the growing urban population, improve quality of life, and create employment and enhance incomes for all, especially the poor and the disadvantaged. These changes will certainly translate in to a huge demand for housing and housing finance. The Government has already shortlisted 109 cities for the project.

The < INR 100mn category (generally first time home buyers) accounts for 70%+ of inventory; lower interest rates and benefits under PMAY as the key drivers improving affordability. We see PMAY as an opportunity for mid-size HFC to maintain their outperformance over large HFC. HFC have been the front runner in the scheme to date like and are likely to gain market share, given expertise in assessing the customer base.

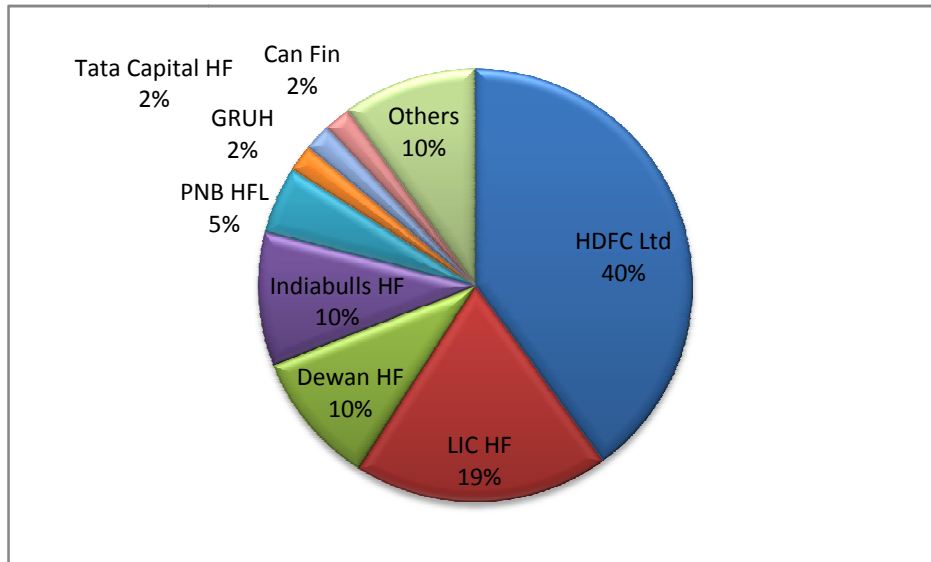
HFC with a 90% Market share under PMAY



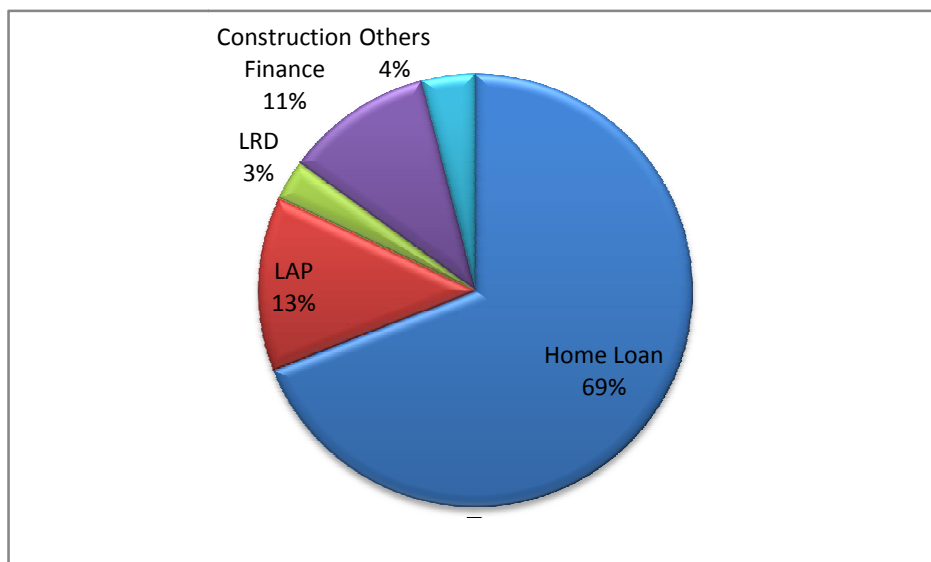


Sustainable growth of HFCs

Total Loan of all HFCs: INR7,233 Bn as on 31st Dec,2016



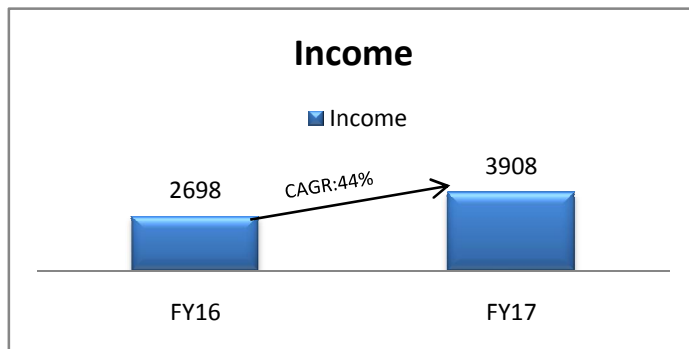
Portfolio Composition of All HFCs as on 31st Dec'2016



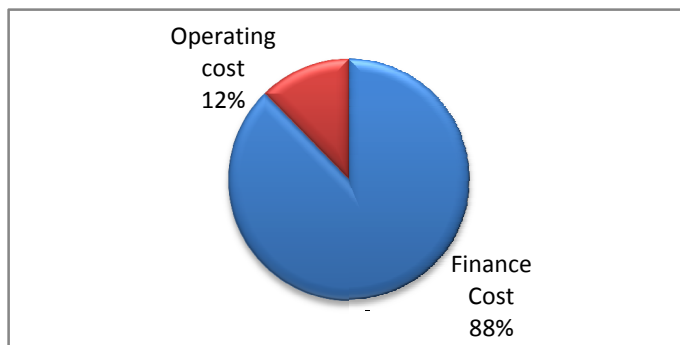
(LRD = Lease Rental Discounting)

**Financial Performance:****Income from Operation:**

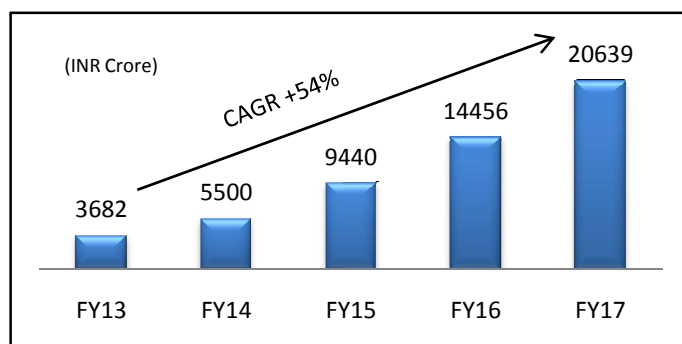
During the year FY17, Company's revenue from operations was at Rs3908cr Vs Rs2698cr in FY16, recording growth of 44%. It has been the fastest growing HFC with an AUM CAGR of 60% over FY12-16 Vs 16% for peers.

**Expenses:**

Total expenses (except provisions and write offs) during the year FY17 stood at Rs2541cr as compared to Rs1442cr in FY16. Out of total expenses for the year, Interest expenditure stood at Rs2644cr in FY17 Vs Rs1860cr in FY16 and operating expenditure stood at Rs357cr in FY17 Vs Rs252cr in FY16.

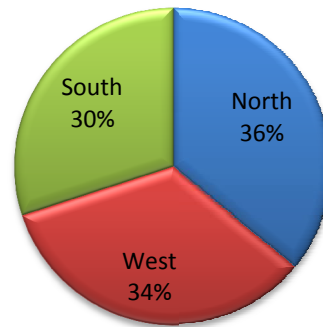
**Loans Performance:**

The Company has disbursed loans worth of Rs20,639cr in which 70% constituted by housing loan and 30% constituted by Non-housing Loans. During the year out of the total individual home loan disbursement, around 20% was in the less than 25 lakhs segment which can be termed as affordable housing segment.

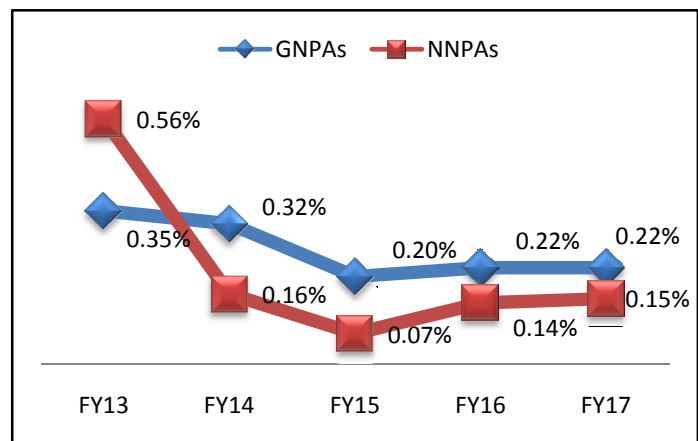
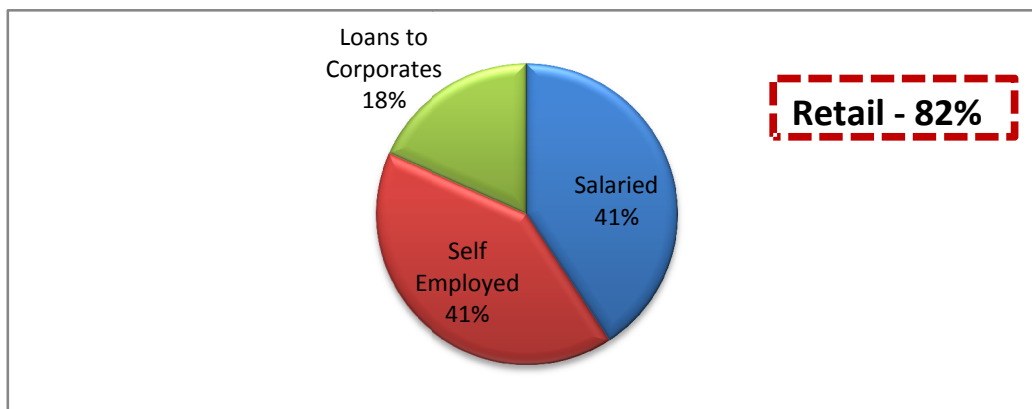


**Geographical expansion leads to growth:**

Company has increased branch network in Tier2 and Tier3 cities which help to grow loan portfolio. During the year, Company has added 16 new branches which presence in 39 unique cities. The Company has 3 Zonal Offices at NOIDA, Mumbai and Bengaluru for Northern, Western and Southern regions respectively, which are co-located with three processing hubs. Each of the zonal offices are supported by regional hubs; 7 in North, 5 in West and 6 in South.

AUM – Geographical Distribution**Recoveries and non-performing loans:**

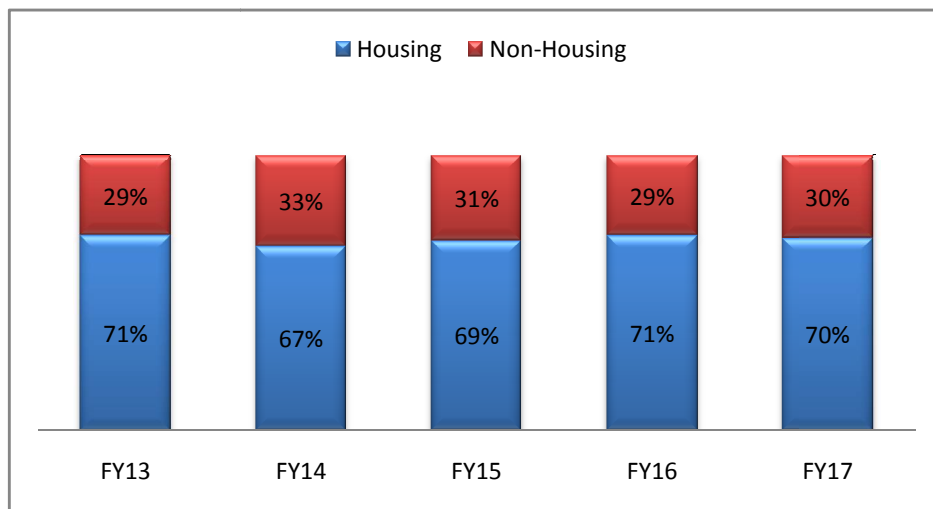
PNBHFL's gross NPA as a percentage of loan assets is one of the lowest in the industry has maintained at 0.22%. The gross NPA on AUM were at 0.21% as on FY17. The net NPA on the loan assets stood at 0.15% in FY17 Vs 0.14% in FY16. In Wholesale book, the gross NPAs are zero. So the NPA was arising on the retail book volumes.

**Customer Segment Portfolio:****Loan Book Composition (%)**

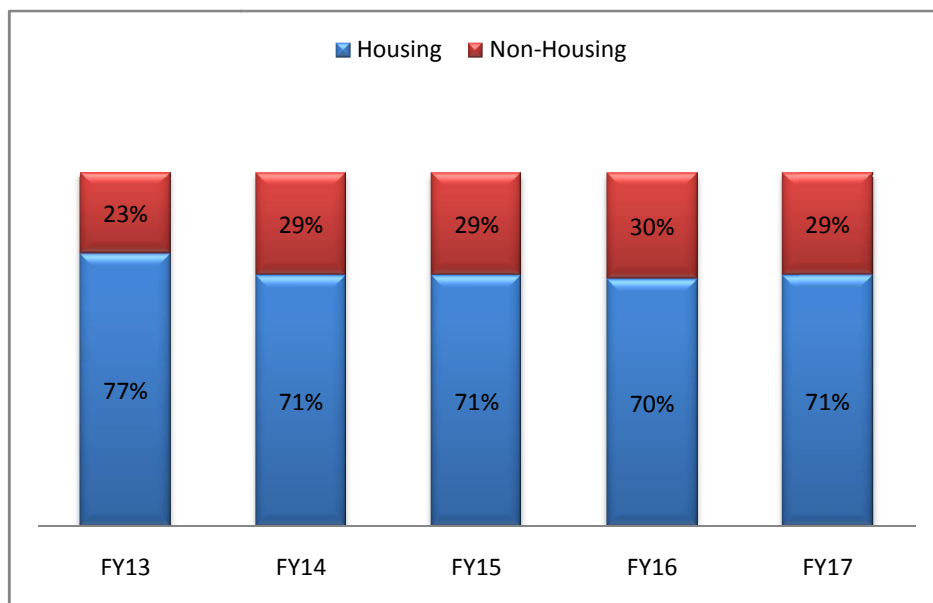


PNBHFL Portfolio Mix

Share of Housing Loans
(% Annual Disbursements)



Wide Product Offering
(% of Loan Assets)



**Key risks:**

a) Volatility in interest rates: Being a wholesale funded institution, any sustained liquidity shock could impact PNBHF's spreads adversely and affect its profitability.

b) Pressure on margins due to increased competition: Increasing competition could exert pressure on the company's yields and margins.

c) Dilution in PNB stake could prevent PNBHF from using the 'PNB' brand: PNBHF is using the 'PNB' brand of its promoter Punjab National Bank. PNB may prevent it from using the brand, if its shareholding in PNBHF falls below 30%.

d) Regulatory risk: Any changes in the regulatory framework affecting HFCs, including provisioning norms for NPAs, capital adequacy requirements, and the calculation of risk weighted assets.

Valuation:

We have valued PNBHF at 4.0(x) its FY19E adj. book value and have arrived fair value of Rs 1,624 per share. At CMP of Rs1, 360, the stock trading at P/ABV(x) of 3.4x its FY19E adjusted book value of Rs337 per share. We have **Accumulate** rating on stock.

Scenario Analysis			
Sensitivity to growth	Base case	Bear Case	Bull case
Growth	40%	30%	50%
BVPS	406	403	409
Target P/B Multiple	4.0	3.5	4.5
Target	1624	1410.5	1840.5
Upside	16.3%	1.0%	31.8%

Particulars (In Cr)	FY16	FY17	FY18E	FY19E
Revenue from operations	2697	3908	5666	8216
Expenses				
Finance cost	1860	2644	3853	5644
Employee Benefit expenses	75	101	170	246
Office operating expenses	56		0	0
Other expenses	105	237	340	493
Depreciation expense	15	19	0	0
Provision for doubtful debt & Contingencies	79	103	170	246
bad debts written off/Business loss	3		0	0
Total Expenses	2194	3104	4533	6630
Profit before tax	503	804	1133	1586
Total Tax expenses	177	280	399	558
Profit After Tax	326	524	734	1028
EPS	26	37	52	73

**Arihant Research Desk**

E. research@arihantcapital.com
T. 022-42254800

Head Office

#1011, Solitaire Corporate park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road,
Chakala, Andheri (E).
Mumbai - 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

Research Analyst Registration No.

INH000002764

Contact

SMS: 'Arihant' to 56677

Websitewww.arihantcapital.com**Email Id**research@arihantcapital.com**Disclaimer:**

This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

ARIHANT Capital Markets Ltd.

www.arihantcapital.com