

23 October 2023

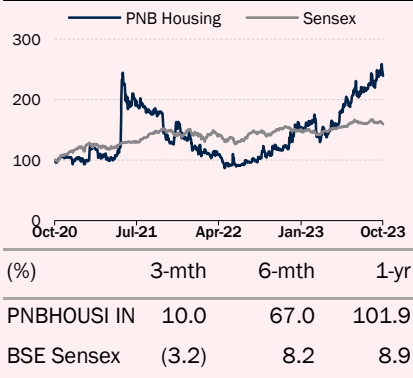
BSE Sensex: 64572

Sector: NBFC

Stock data

CMP (Rs)	715
Mkt Cap (Rs bn/USD m)	185.6 / 2,231
Target Price (Rs)	845
Change in TP (%)	4
Potential from CMP (%)	18
Earnings change (%)	
FY24E	↔
FY25E	↔
Bloomberg code	PNBHOU SI IN
1-yr high/low (Rs)	785/341
6-mth avg. daily volumes (m)	0.8
6-mth avg. daily traded value	
(Rsm/USDm)	454.2/5.5
Shares outstanding (m)	259.6
Free float (%)	71.9
Promoter holding (%)	28.2

Price performance – relative & absolute



Outside expectations – Write-offs in Retail came unexpectedly but got consumed against the expected write-back and thereby not impacting current estimates (write-back would have been an additional tailwind to estimate). Important to mention that the write-offs were from sticky ageing NPA and not Stage 2/ Stage 1. Actual hit on P&L so far in 1H by way of credit cost has been lower than the guidance and if RoAs were to stay above ~2% as guided, it could well stay below the guidance for the full year as well. Hence, we feel that though the quantum of write-offs and that too from retail was slightly higher and seemed negative at first sight, detailed evaluation reveals no harm.

Gist - Earnings have been strong basis steady CoFs resulting in healthy margins and lower hit of credit cost on P&L keeping the RoA above ~2%. Retail disbursements continue to inch-up with increasing share of affordable/salaried and will accelerate now in 2H with limited drag of corporate book which now accounts for low single digit share in the overall book with negligible stress left.

Significant improvement in stress assets – Overall Stage 3 came down by 198bps sequentially and now stands at ~1.78%. While reduction in corporate NPA was known, there has been ~74bps of reduction in Retail Stage 3 to ~1.74% (almost entirely from write-offs). Expected write-back of ~Rs2bn from the large corporate account got consumed by write-offs, which by our calculation stood at Rs3.34bn for the quarter (As per management they took the write-offs only because excess profit buffer was available and retail NPA levels were relatively still high, now that it stands reduced and with healthy profitability run-rate it makes a stronger case for a rating upgrade). Stage 2 was largely steady at ~3.24%. Overall stress down by 206bps to ~5% now. Management Guides for 60bps of credit cost for FY24 and 40bps thereafter in following years.

Valuation and our take – The stock currently trades at ~1x on Sep25e book. They have started clocking ~2% RoAs and with negligible stress left in corporate book we expect them to sustain the same going ahead, but with a low leverage RoEs could stay muted around ~11-12% over FY24-FY26. Thus, we now assign a target multiple of ~1.2x on Sep25e book, fetching a revised TP of Rs845 (pegging it to expected RoE levels). This results in a ~18% upside over next 12 months in our base case. We will evaluate and revisit our estimates and target multiple as the guided performance unveils going ahead.

Key valuation metrics

Year to 31 March	FY22	FY23	FY24E	FY25E	FY26E
NII (Rs. bn)	17.5	23.0	26.1	30.9	37.3
PPOP (Rs. bn)	16.6	20.5	22.1	25.9	31.1
PAT (Rs. bn)	8.4	10.5	14.9	18.0	21.7
EPS (Rs.)	32	40	57	69	84
BVPS (Rs.)	380	424	582	651	741
P/B (x)	1.9	1.7	1.2	1.1	1.0
P/E (x)	22.2	17.8	12.5	10.3	8.6
RoA (%)	1.2	1.7	2.1	2.2	2.3
RoE (%)	8.9	10.8	11.4	11.3	12.0

Source: Company, DAM Capital Research

Steady NIMs and low credit cost hit resulting in sustained healthy profitability – Margins improve further by 9bps as CoFs remains flat, going ahead too, expect it to remain steady. Albeit with some inch-up in NHB share and potential rating upgrade could result in some moderation in CoFs. Opex is expected to remain sticky for some more time as investments on branch expansion continues. During Q2 FY23, there was a one-off of INR 160 crore on assigned loans due to benchmark rate resets, excluding one-off net interest income grew by 35% YoY. While they maintain the guidance of ~2.5% spread and ~3.5% NIMs, we expect NIMs to hold up ~4% levels.

Retail traction inching up, corporate continues to shrink – Disbursements of ~Rs41.8bn (slightly lower than our expectation of Rs42-43bn) resulted in improved growth in retail but with the run-down on corporate overall AUM was sequentially flat. Management guides for acceleration in disbursements in coming quarters and is confident of delivering ~17-18% growth in retail book for FY24. Corporate book now stands reduced to less than ~4% of the total book and hence from FY25, the drag on overall AUM growth would be much lower. We estimate an overall loan growth of ~10% in FY24 and ~17-18% over FY25-FY26.

PNB 2Q FY24 Call Key Notes

□ Business

- Plans to re-start construction finance with average ticket size of Rs1.5-2bn at select locations. Intend to keep the share at ~10% max, which also shall be gradual.
- Less than 1crore share continues to inch-up now at ~88%.
- Increasing share in the south market. Company is also focused on increasing share of salaried customers. Within salaried, focus is more on the affordable housing and hence don't see any yield compression.
- Sourcing Mix: DSA is 40% and Inhouse is 60%
- Plan to increase leverage to 6 - 6.5x in next two to three years – narrative for ROE.
- Targeting 17-18% retail loan growth and ~22-23% on retail disbursement.
- Endeavor to keep improving ROAs steady above ~2% going ahead.
- During Q2 FY23, there was a one-off of INR 160 crore on assigned loans due to benchmark rate resets, excluding one-off net interest income grew by 35% YoY.

□ Asset Quality

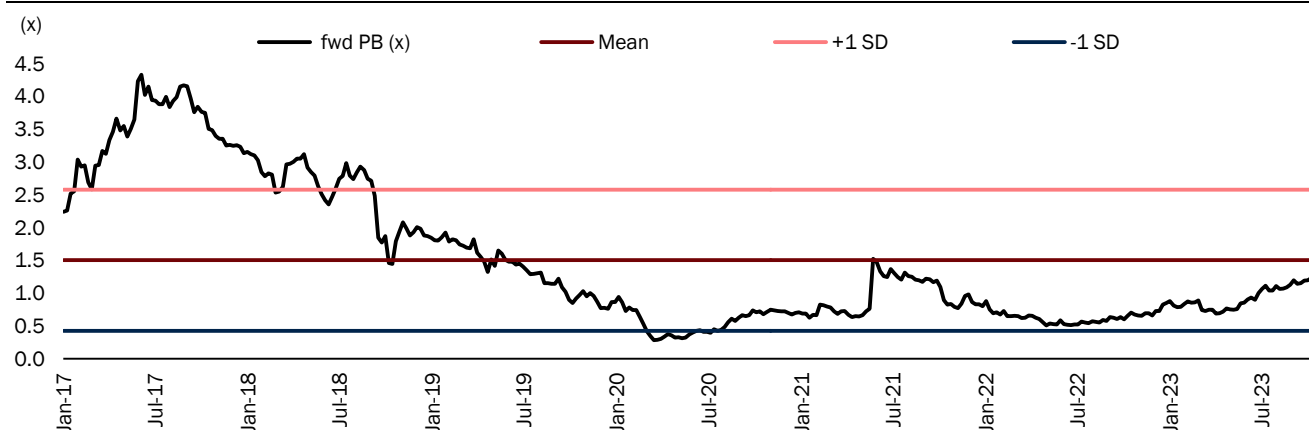
- Envisage bringing down NPAs comparable to other best in class HFCs.
- Overall drawdown rate at 16-18% (earlier it used to 22-24%). Intend to maintain this range for run-offs. BT outs range for the past few quarters ~7-8% (earlier it was 9-10%)
- Tenor for Restructured portfolio is on par with other retail loans. As of now, nothing is pending in the restructured book – EMIs have fallen due for all such cases.

□ Margins

- Incremental COFs ~7.9%
- CoFs are flat since most of the MCLR rate hike have been already taken. CoFs to remain at the current levels / improve if the mix changes.
- Guided spread of 2.5% and NIM of 3.5% (No change)
- Guided credit cost of 60bps for FY24 and 40bps going ahead. (No change)
- Opex to be in the range of 80-90bps

Valuation

Exhibit 1: PB Chart



Source: Company, DAM Capital Research

Exhibit 2: Financial Highlights

(Rs mn)	2QFY23	2QFY24	%YoY	1QFY24	%QoQ
Interest Earned	15,975	17,029	6.6%	16,669	2.2%
Interest Expended	9,639	10,573	9.7%	10,475	0.9%
NII	6,337	6,456	1.9%	6,194	4.2%
Other Income	859	765	-10.9%	408	87.7%
Total Net Income	7,196	7,221	0.4%	6,602	9.4%
Staff Expenses	684	855	25.0%	807	5.9%
Other Operating exp	675	847	25.5%	723	17.2%
Operating Profit	5,837	5,519	-5.4%	5,072	8.8%
Provisions	2,432	448	-81.6%	606	-26.0%
Provision for Tax	778	1,241	59.5%	994	24.9%
Adjusted Profit	2,626	3,830	45.8%	3,473	10.3%
Other Highlights	2QFY23	2QFY24	%YoY	1QFY24	%QoQ
AUM and Disbursement					
Disbursements (Rs mn)	35,950	41,800	16.3%	36,860	13.4%
AUM (Rs mn)	657,300	674,150	2.6%	673,400	0.1%
Loan (Rs mn)	578,320	608,520	5.2%	603,950	0.8%
_Retail Loans	521,240	584,710	12.2%	569,780	2.6%
Margins					
Yields (%)	10.7	10.6	-12bps	10.6	-1bps
Cost of Funds (%)	7.3	8.0	67bps	8.0	2bps
NIMs - Reported (%)	4.1	4.0	-19bps	3.9	9bps
NIMs - Calculated (%)	4.4	4.3	-10bps	4.2	11bps
Asset Quality					
Stage 3 (%)	6.06	1.78	-428bps	3.76	-198bps
Net Stage 3 (%)	3.59	1.19	-240bps	2.59	-140bps
Stage 3 PCR (%)	40.7	34.0	-673bps	32.0	193bps
Stage 2 (%)	3.27	3.24	-3bps	3.32	-8bps
Net Stage 2 (%)	2.93	2.80	-13bps	2.89	-10bps
Stage 2 PCR (%)	10.50	13.65	315bps	12.92	73bps
Overall stress (%)	9.33	5.02	-431bps	7.08	-206bps
Stage 1 PCR (%)	1.03	0.97	-6bps	0.89	8bps

Source: Company, DAM Capital Research

Exhibit 3: Stress Levels

Stress Table %	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Stage 3	6.4	5.9	7.6	8.1	6.3	6.1	4.9	3.8	3.8	1.8
Stage 2	6.4	6.2	4.8	3.4	3.7	3.3	3.6	3.4	3.3	3.2
Total Stress	12.4	12.2	12.5	11.5	10	9.3	8.4	7.2	7.1	5.0
Restructured Book	2.9	4.1	4.4	4.3	4.1	3.7	3.5	3.3	3.1	-

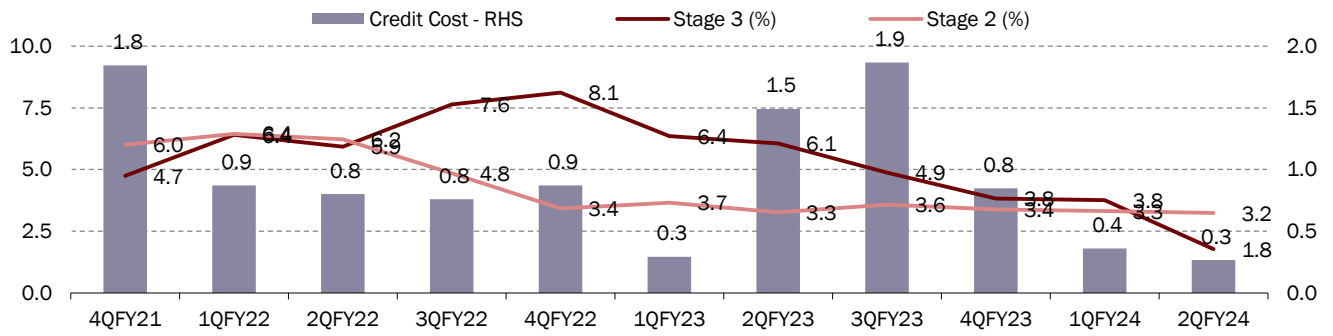
Source: Company, DAM Capital Research

Exhibit 4: Key Trends and Ratios

Particulars	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Customer Segment											
Salaried (%)	45	45	46	48	49	51	52	53	55	58	58
Corporates (%)	16	15	14	12	11	9	10	8	6	6	4
Non-salaried (%)	39	40	40	40	40	40	38	38	39	36	38
Loan Book											
Loan book (Rs bn)	623	604	603	578	579	573	578	580	593	604	609
YoY (%)	(7.9)	(11.1)	(9.9)	(10.5)	(7.1)	(5.2)	(4.2)	0.4	2.4	5.4	5.2
QoQ(%)	(3.6)	(2.9)	(0.2)	(4.2)	0.1	(1.0)	1.0	0.3	2.1	1.9	0.8
Loan Mix (%)											
Housing Loans (Incl Top up)	58	59	60	62	61	63	64	65	67	67	69
LAP	22	22	22	22	23	24	22	22	23	23	27
Commercial Loans	4	4	4	4	4	4	4	5	5	5	4
Corporate Loans	16	15	14	12	11	9	10	8	6	6	4
Disbursements											
Disbursement (Rs bn)	41.0	17.6	29.6	28.3	37.0	34.5	36.0	34.3	45.0	36.9	41.8
YoY (%)	45.2	153.5	21.1	(11.7)	(9.9)	96.2	21.4	21.1	21.6	6.8	16.3
QoQ(%)	28.1	(57.1)	68.3	(4.5)	30.8	(6.7)	4.2	(4.7)	31.2	(18.0)	13.4
Asset Quality (Rs mn)											
Gross Stage 3	27,623	39,310	38,030	47,360	47,060	36,390	35,020	28,240	22,700	22,700	10,860
Net Stage 3	15,133	21,840	19,670	31,600	29,310	16,230	20,770	18,350	16,170	15,430	7,170
Gross stage 3 (%)	4.7	6.4	5.9	7.6	8.1	6.4	6.1	4.9	3.8	3.8	1.8
Net Stage 3 (%)	2.4	4.1	3.3	4.9	5.1	4.3	3.6	3.2	2.8	2.6	1.2
Coverage Ratio (%)	45.2	44.4	48.3	33.3	37.7	55.4	40.7	35.0	28.8	32.0	34.0
Borrowings mix (%)											
Term loan	22.2	22.4	25.3	23.9	27.4	27.9	37.1	38.9	42.2	42	40.2
NHB	10.9	11.3	9.6	8.9	7.5	6.7	7.2	6.3	5.7	5.7	4.8
Deposits	23.7	24.6	26.3	28.1	28.6	29.8	34.1	34.1	32.1	32.1	31.4
Bonds (Incl CPs, ECB & NCDs)	26.4	25.3	22.9	23.8	22	21.5	21.6	20.8	20	20.1	23.6
Direct Assignments	16.9	16.3	15.9	15.3	14.5	14.1	0	0	0	0	0
Spread Analysis											
Yield on loans (%)	10.4	10.3	10.1	9.8	8.9	8.6	10.7	11.4	10.4	10.6	10.6
Cost of Funds (%)	7.6	7.5	7.3	7.2	7.1	7.2	7.3	7.6	7.8	8.0	8.0
Spreads (%)	2.8	2.8	2.8	2.5	1.8	1.4	3.4	3.8	2.7	2.6	2.6
Net Interest Margins (%)	3.3	3.2	3.0	2.7	2.3	2.4	4.1	4.7	3.7	3.9	4.0

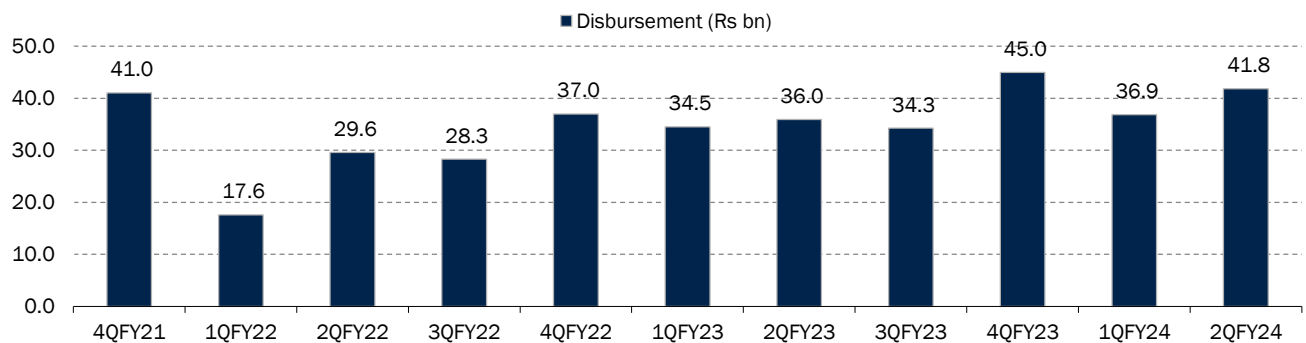
Source: Company, DAM Capital Research

Exhibit 5: Asset quality



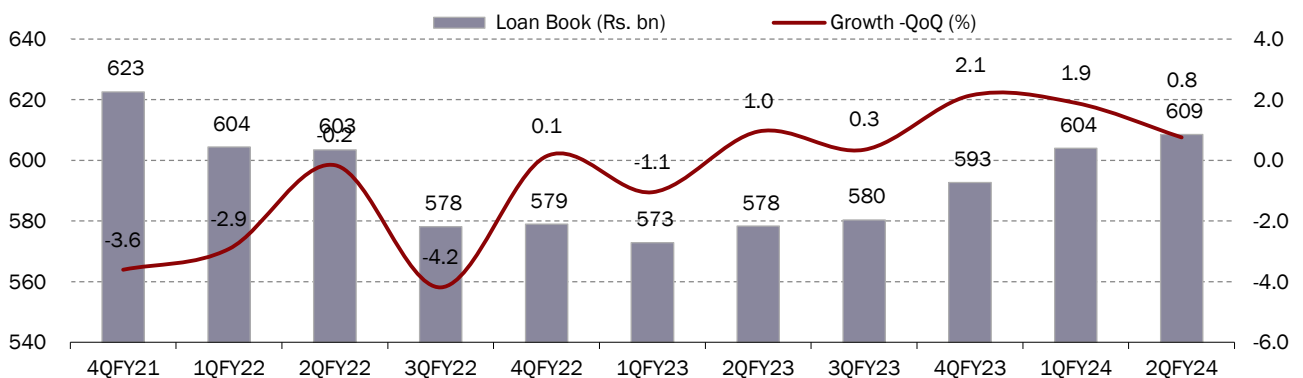
Source: Company, DAM Capital Research

Exhibit 6: Disbursements



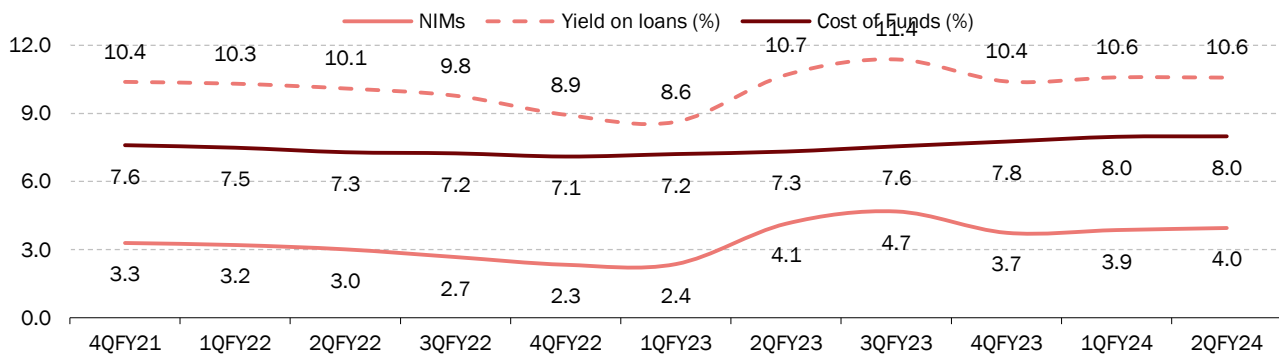
Source: Company, DAM Capital Research

Exhibit 7: Loan growth



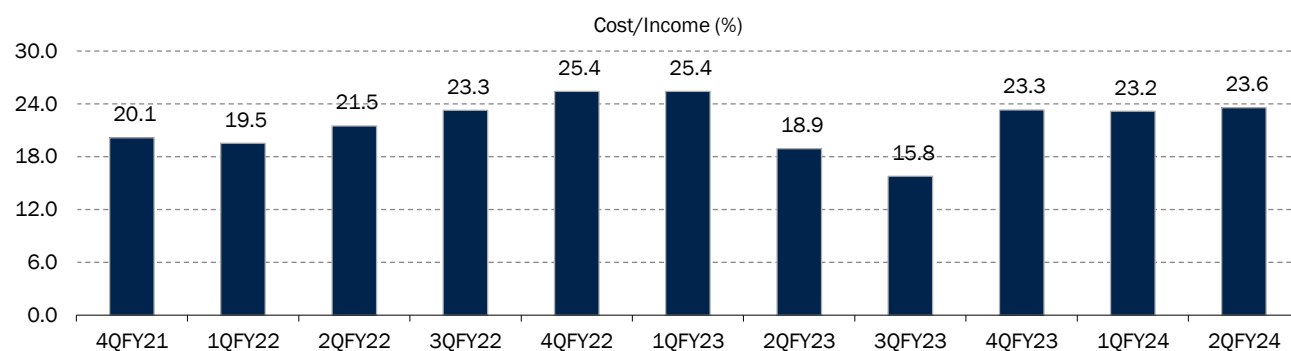
Source: Company, DAM Capital Research

Exhibit 8: Margins



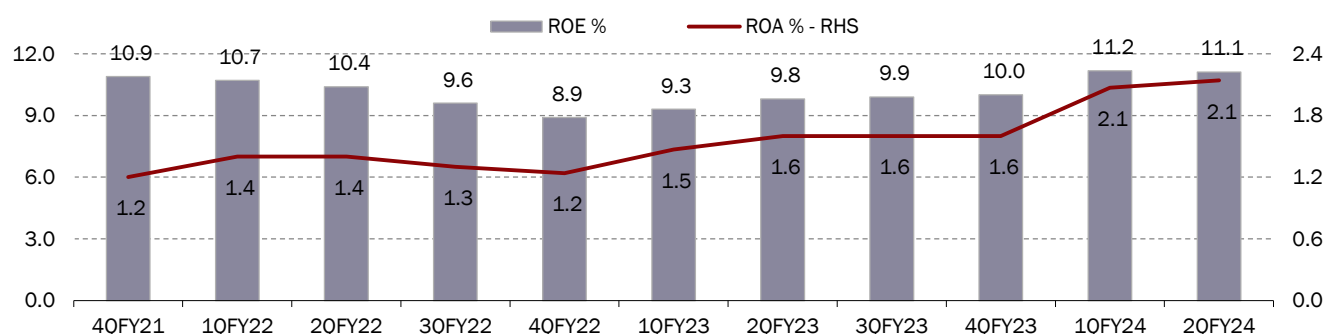
Source: Company, DAM Capital Research

Exhibit 9: C\I Ratio



Source: Company, DAM Capital Research

Exhibit 10: Return Ratios



Source: Company, DAM Capital Research

Exhibit 11: Income Statement

Year ended 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	58,187	61,956	70,963	80,263	94,475
Interest Expended	40,645	38,985	44,877	49,379	57,132
Net Interest Income	17,542	22,970	26,086	30,884	37,343
Growth %	(15.9)	30.9	13.6	18.4	20.9
Other operating income	3,773	3,318	3,611	3,972	4,369
Other Income	48	23	26	28	31
Total net income	21,363	26,311	29,722	34,884	41,743
Growth %	(15.3)	23.2	13.0	17.4	19.7
Operating expenses	4,226	5,275	7,019	8,326	9,890
- Staff Expenses	2,166	2,660	3,488	4,185	5,022
- Other Expenses	2,060	2,616	3,531	4,141	4,867
Depreciation	534	514	592	680	782
Pre-Provision Profit	16,603	20,522	22,112	25,878	31,071
Provisions & Contingencies	5,764	6,913	3,000	2,750	3,250
Profit before tax	10,840	13,609	19,112	23,128	27,821
Provision for tax	2,475	3,149	4,205	5,088	6,121
Adjusted Net profit	8,365	10,460	14,907	18,040	21,701
Growth %	(10.0)	25.0	42.5	21.0	20.3

Source: Company, DAM Capital Research

Exhibit 12: Balance Sheet

Year ended 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Capital	2,597	2,597	2,597	2,597	2,597
Reserves & Surplus	96,119	107,541	148,463	166,503	189,777
Networth	98,716	110,138	151,060	169,100	192,374
Borrowings	530,050	536,214	585,708	680,422	784,489
Current Liabilities & Provisions	28,530	22,386	3,637	18,995	48,431
Total Liabilities	657,296	668,737	740,405	868,517	1,025,295
Advances	553,359	578,398	633,481	744,982	881,664
Investments	34,827	31,963	39,954	49,942	62,428
Fixed assets	1,324	1,324	1,385	1,458	1,538
Deferred tax asset	3,989	1,457	4,296	4,296	4,296
Current Assets, Loans and advances	63,797	55,596	61,290	67,838	75,369
Total Assets	657,296	668,737	740,405	868,517	1,025,295

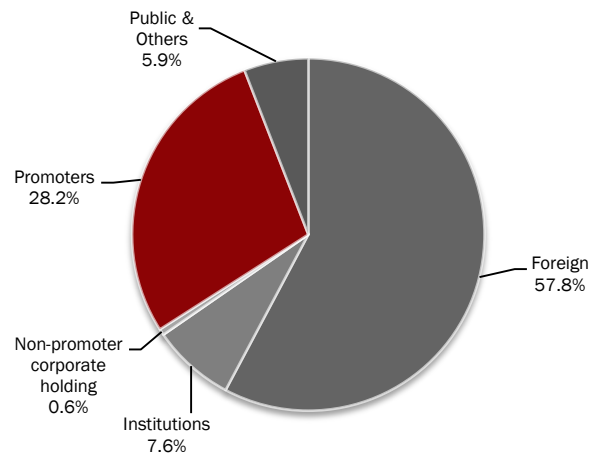
Source: Company, DAM Capital Research

Exhibit 13: Key Valuation Metrics

Key ratios	FY22	FY23	FY24E	FY25E	FY26E
Per share values (Rs)					
EPS	32	40	57	69	84
BV	380	424	582	651	741
ABV	301	380	562	625	707
DPS	0	0	0	0	0
Valuation ratios (x)					
P/E	22.2	17.8	12.5	10.3	8.6
P/BV	1.9	1.7	1.2	1.1	1.0
P/ABV	2.4	1.9	1.3	1.1	1.0
Div Yield (%)	0.0	0.0	0.0	0.0	0.0
Spread Analysis (%)					
Yield on Advances	10.4	10.4	10.7	11.1	11.0
Cost of funds	7.2	7.3	8.0	7.8	7.8
Net Interest Margin	2.7	3.9	4.2	4.4	4.5
Profitability Ratios (%)					
RoAA	1.2	1.7	2.1	2.2	2.3
RoAE	8.9	10.8	11.4	11.3	12.0
Asset quality ratios (%)					
GNPA	8.2	3.9	1.8	2.0	2.2
NNPA	5.3	2.8	1.2	1.3	1.4
Provision Coverage	37.7	28.8	35.0	35.0	35.0
Solvency ratios (%)					
Tier I	20.7	22.4	25.5	23.7	22.3
CRAR	23.4	24.4	29.7	28.0	25.8
Total Assets/Equity	7.3	6.3	5.4	5.0	5.2
Efficiency ratios (%)					
Cost/Income	22.3	22.0	25.6	25.8	25.6

Source: Company, DAM Capital Research

Exhibit 14: Shareholding Pattern



Source: Company, DAM Capital Research (As at Jun-23)

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