

# PNB Housing Finance Ltd

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Issue Opens: 25<sup>th</sup> Oct 2016    Issue Closes: 27<sup>th</sup> Oct 2016    Price Band: Rs.750-775

## Issue Details

Face Value:	10
Public Issue	~3.9 cr Shares
Price Band :	Rs.750-775
Issue Size	~Rs 3000 cr
Issue Type:	100% Book building
Post Issue Market Cap:	Rs 12,837Cr

## Shareholding Pattern

%	Pre IPO	Post IPO
Promoters	51%	37-39%
Others	49%	63-61%

Source: www.bseindia.com, RHP

Share Reservation	% of Issue
QIB~	50
NII	15
Retail	35

## Company Management

Ms.Usha Ananthasubramanian	Chairman
Mr. Sanjay Gupta	Managing Director

## Issue Manager

BRLMs	Kotak Mahindra capital, JM Financial, Morgan Stanley India, J.P Morgan
Registrar	Linktime India Pvt Limited

## Company Overview

PNB Housing Finance (PNBHF) is India's 5<sup>th</sup> largest as well as fastest growing housing finance company (HFC) in terms of loan book size. Its loan portfolio has grown at a CAGR of ~61.8% (3.3x the industry growth) from ~Rs 3,900 cr in FY12 to ~Rs 27,170 cr in FY16. Housing & non housing loans constitute ~70% & ~30% respectively of its loan book. Retail home loans account for ~87% of the housing loans, while construction finance to developers constitutes the rest. Non-housing loans includes loan against property, premises loans, lease rental discounting & corporate loans, which accounts for ~61%, ~13%, ~15% & ~11% respectively. It has healthy asset quality as its GNPA & NNPA ratio as of FY16 stands at 0.22% & 0.14% respectively, which are lowest in the industry. Its capital adequacy ratio for FY16 stands at ~12.7%. It also has the 2<sup>nd</sup> largest public deposit base among HFCs only after HDFC.

## Objective of the issue

Company intends to utilize the net proceeds from the IPO to augment its capital base in order to meet there future capital requirements. This fund raising will enhance its current capital adequacy ratio of 12.68%. As per the regulatory requirement, the HFC's Tier i & II capital put together should not be less than 12%. Besides, part of the raised capital would also be utilised for expansion of distribution network.

## Our view

PNBHF's loan book has grown at ~61.8% CAGR over FY12-FY16. However, we expect the growth momentum to continue but at moderate pace. Going ahead, its scalable operating model, superior asset quality, lower borrowing cost and operating leverage benefit over medium term will aid to improve its RoA. At the upper end of the issue price band, i.e. Rs.775, the stock is available at a pre-issue P/BV multiple of 4.6x and post-issue P/BVx of 2.5x on FY16 book value. We believe the valuation demanded by the company is justified given the strong growth prospects. **We recommend a 'SUBSCRIBE' to the issue.**

## Financial Summary

Rs Cr.	FY14	FY15	FY16
Net interest income	254	406	684
Total operating income	319	516	839
Pre- provision profit	213	341	600
Net profit	130	194	328
P/E (x)	39.3	41.5	30.0
P/BV (x)	5.5	5.1	4.6
ROE (%)	16.7	15.4	17.6
ROA (%)	1.4	1.3	1.3

Analyst-Saurabh Rathi  
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October 21, 2016

## Key Positives

### Superior asset quality despite strong loan book growth

The company has grown its loan book at a CAGR of ~61.8% over FY12-FY16. Ability of PNBHF to improve its asset quality on a growing loan book is commendable. Its GNPA ratio for FY16 at 0.22% is lowest in the industry. Branch expansion and strong brand recognition led to improvement in loan book. Besides, its focus on the salary class (~40% of loan book) and expansion into new regions also supported its loan book growth. It also has 7,110 channel partners who help it in marketing and distribution products across the country. Strong distribution network with deep penetration in key Indian urban centers will maintain its loan book growth momentum. The urban region housing market is ~50% penetrated, which provides ample growth opportunity for players like PNBHF (~90% urban exposure) to expand its loan book.

### Cost-effective funding sources supported NIM's

PNBHF's average cost of borrowing has decreased yoy to 8.67% in FY16 from 9.30% in FY14. Its NIM's over the similar period have improved by 5 bps to 2.98% in FY16. PNBHF has lowered its borrowing cost with the help of its ability to mobilise capital from various sources. Sourcing funds from debt market & public deposits (~55% & ~27% of borrowings) provided it the competitive edge over peers. There is further scope to raise its deposits to the extent of 1.23 times of its net owned funds (NOF). Going ahead company prefers to reduce its exposure of costly term loans to keep its borrowing cost low.

## Key Risks

### Fall in property prices may impact asset quality

Its LAP (loan against property) product accounts for ~18% of its total loan book. The demand for LAP is also highly correlated to property prices and any slowdown in the real estate market may also impact demand for LAP. Further any significant fall in property prices may negatively impact its asset quality.

### Slowdown in real estate may restrain loan growth

The company's loan portfolio grew tremendously over FY12-FY16. However, any significant slowdown in real estate sector and increasing competitive intensity could hamper its loan growth. This incident could impact its revenues and profits.

## Recommendation Parameters for Fundamental Reports:

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