**PNB Housing Finance Ltd — FY 2023 Annual Report Analysis**

# Annual Report Analysis (Consolidated)

## Investor Snapshot

| # | Analytical point | Sentiment |
|---|---|---|
| 1 | **The company has successfully executed a strategic pivot to a "Retail-First" model, with retail disbursements now accounting for 99% of total volume across 189 branches.** | Positive |
| 2 | **Net Interest Margin (NIM) expanded significantly to 3.73% from 2.80% YoY, driven by increased pricing power within the granular retail and affordable housing segments.** | Positive |
| 3 | **Asset quality showed marked improvement with GNPA declining to 3.83% from 8.13%, although the residual corporate book remains a localized stress point with 22.25% GNPA.** | Neutral |
| 4 | **Reported PAT grew 25% to □1,046 Cr, but earnings quality is low as the bottom line was primarily supported by a □1,126.10 Cr reduction in impairment provisions.** | Negative |
| 5 | ***Cash Flow from Operations (CFO) collapsed to - 1,865 Cr, creating a stark divergence from PAT and indicating that profits are not currently translating into organic cash generation.*** | Negative |
| 6 | **Capital adequacy was significantly bolstered via a □2,493.76 Cr Rights Issue, raising the CRAR to a robust 24.43% to fund the next phase of "Roshni" vertical expansion.** | Positive |
| 7 | ***The balance sheet faces acute liquidity pressure with 10,128.31 Cr of debt maturing within one year, necessitating high-volume refinancing in a competitive rate environment.*** | Negative |
| 8 | ***Profitability is further inflated by 728.37 Cr in non-cash income from the upfront recognition of interest strips on loan assignments (securitization).*** | Negative |
| 9 | ***Risk perception in the remaining corporate portfolio is rising, evidenced by Stage 1 ECL provisions increasing to 9.47%, signaling potential latent stress.*** | Negative |
| 10 | Governance remains stable with a 50% independent board and clean audit, though high related-party funding from PNB (74% of revenue equivalent) persists. | Neutral |
| 11 | The outlook hinges on the "Roshni" affordable housing segment achieving sustainable scale to improve ROCE, which currently sits at a modest 2.11%. | Neutral |
| 12 | Stance: Watch; monitor for CFO/PAT normalization (>0.8x) and successful management of the heavy short-term debt maturity profile. | Neutral |

## 1. Business overview (In Bullet Points)

- **PNB Housing Finance Ltd (Pnbhfl)** is the 4th largest Housing Finance Company (HFC) in India, currently undergoing a structural pivot to a "Retail-First" mortgage specialist.
- **Business Segments:** The portfolio is dominated by **Retail (Prime)** at ~94% of AUM and 99% of disbursements, focusing on salaried individuals (71% of mix) with an average ticket size of □29 Lakhs.
- **Expansion Plans:** Aggressive rollout of the **"Roshni" (Affordable Housing)** vertical targeting Tier II/III cities with 82 dedicated branches and ticket sizes of □15-17 Lakhs.
- **Revenue Drivers:** Driven by retail volume growth and the high-yield "Roshni" segment. The company also utilizes loan securitization, recognizing **□728.37 Cr** as profit on derecognition of financial assets in FY23.

- **Cost Drivers:** Shifting to an in-house sales model via subsidiary **PHFL Home Loans and Services Limited** (74% of disbursements) to reduce DSA reliance. Digitalization via the "ACE" onboarding tool aims to lower the cost-to-serve.
- **Industry Position:** Maintains a balanced geographical presence across North (34%), West (34%), and South (32%), de-risking the portfolio from regional downturns.
- **Corporate Segment Strategy:** Aggressive run-down of the corporate book, which reduced by 48.5% in FY23 and now constitutes only ~6% of AUM.
- **Capacity Additions:** Expanded physical footprint to 189 branches/outreaches in FY23, up from 137 in FY22.

## 2. Management commentary & outlook

- The overarching strategic theme is **metamorphosis**, transitioning from a wholesale-heavy model to a granular retail specialist under new leadership.
- Management is prioritizing **"Quality Growth"** over "Growth at any cost," implementing a "collection-first" framework and early delinquency identification.
- The successful □**2,493.76 Cr Rights Issue** (May 2023) is viewed as a "chest for growth" to compete in the prime segment and fund the Roshni vertical expansion.
- Asset quality improvement is a key highlight, with GNPA reducing from 8.13% to 3.83%, though management acknowledges this was aided by aggressive resolutions and corporate book shrinkage.
- The affordable housing segment ("Roshni") is identified as being in a "sweet spot," with management positioning it as a separate business unit to prevent "culture contamination" from the prime segment.
- Digital transformation is moving toward a **"Zero Trust Architecture"** and API-based decision-making to improve agility and reduce turnaround times (TAT).
- Despite rising interest rates (Repo up 250 bps), management claims a superior ability to pass on costs, evidenced by **NIM expansion to 3.73%** from 2.80%.
- The corporate book remains a focus for resolution, with management highlighting the reduction in exposure while the residual corporate GNPA remains high at 22.25%.
- **Management Tone:** The tone is **Disciplined & Reconstructive**. There is a visible effort to distance the company from legacy corporate lending issues by emphasizing "Risk Management" and "Retail-First" strategies. While the narrative is optimistic regarding GNPA reduction, it focuses more on the *improvement* than the *residual risk* in the remaining corporate book. The appointment of Girish Kousgi brings retail "pedigree," signaling a shift toward technical underwriting models and operational discipline.

# 3. Financial analysis

## 3.1 Financial statements

### P&L statement (□Cr)

| Line item | Mar 2023 | Mar 2022 |
|---|---|---|
| Revenue | 6,527 | 6,196 |
| Sales Growth % | 5.35 | -18.52 |
| Interest | 3,900 | 4,065 |
| Expenses | 1,217 | 998 |
| Manufacturing Cost % | 0.69 | 0.58 |
| Employee Cost % | 4.12 | 3.53 |
| Other Cost % | 13.84 | 12 |
| Financing Profit | 1,410 | 1,133 |
| Financing Margin % | 22 | 18 |
| Other Income | 2 | 5 |
| Exceptional items | -0.19 | -0.19 |
| Other income normal | 2.33 | 4.80 |
| Depreciation | 51 | 53 |
| Profit before tax | 1,361 | 1,084 |
| Tax % | 23 | 23 |
| Net Profit | 1,046 | 836 |
| Exceptional items AT | 0 | 0 |
| Profit excl Excep | 1,046 | 837 |
| Profit for PE | 1,046 | 837 |
| Profit for EPS | 1,046 | 836 |
| Profit Growth % | 25 | -10 |
| EPS (□) | 40.31 | 32.28 |
| Dividend Payout % | 0 | 0 |

## Balance sheet (□Cr)

| Line item | Mar 2023 | Mar 2022 |
|---|---|---|
| Equity Capital | 169 | 169 |
| Reserves | 10,845 | 9,703 |
| Borrowing | 53,621 | 52,961 |
| Other Liabilities | 2,238 | 2,897 |
| Trade Payables | 30 | 16 |
| Advance from Customers | 135 | 207 |
| Other liability items | 2,073 | 2,673 |
| Total Liabilities | 66,874 | 65,730 |
| Fixed Assets | 146 | 150 |
| Building | 247.17 | 221.51 |
| Equipments | 31.74 | 31.79 |
| Computers | 41.31 | 31.92 |
| Furniture n fittings | 19.13 | 19.70 |
| Vehicles | 0 | 0.10 |
| Intangible Assets | 0 | 0 |
| Other fixed assets | 62.28 | 58.39 |
| Gross Block | 401.63 | 363.41 |
| Accumulated Depreciation | 255.32 | 213.01 |
| CWIP | 3 | 4 |
| Investments | 3,196 | 3,483 |
| Other Assets | 63,528 | 62,093 |
| Trade receivables | 13 | 43 |
| Cash Equivalents | 3,796 | 5,216 |
| Loans n Advances | 274 | 53 |
| Other asset items | 59,445 | 56,781 |
| Total Assets | 66,874 | 65,730 |

### Cash flow statement (□Cr)

| Line item | Mar 2023 | Mar 2022 |
|---|---|---|
| Cash from Operating Activity | -1,865 | 6,254 |
| Profit from operations | 5,979 | 6,118 |
| Receivables | 30 | 2 |
| Payables | 14 | -2 |
| Loans Advances | -3,082 | 4,769 |
| Operating investments | 0 | 0 |
| Other WC items | -521 | 130 |
| Working capital changes | -3,559 | 4,900 |
| Interest paid | -3,980 | -4,404 |
| Direct taxes | -304 | -360 |
| Cash from Investing Activity | 176 | -1,475 |
| Fixed assets purchased | -15 | -14 |
| Fixed assets sold | 0 | 0 |
| Capital WIP | 0 | -1 |
| Investments purchased | 0 | -1,460 |
| Investments sold | 190 | 0 |
| Cash from Financing Activity | 301 | -6,732 |
| Proceeds from shares | 7 | 11 |
| Proceeds from debentures | 150 | 455 |
| Redemption of debentures | -2,560 | -4,673 |
| Proceeds from borrowings | 17,822 | 19,648 |
| Repayment of borrowings | -14,687 | -23,045 |
| Proceeds from deposits | 0 | 903 |
| Dividends paid | 0 | 0 |
| Financial liabilities | -36 | -32 |
| Other financing items | -395 | 0 |
| Net Cash Flow | -1,388 | -1,953 |
| Free Cash Flow | -1,880 | 6,239 |
| CFO/OP | -29 | 127 |

## 3.2 Financial analysis summary

- **Revenue** grew by 5.35% to □6,527.00 Cr, supported by a Profit on derecognition of financial assets (securitization) of □728.37 Cr, representing upfront recognition of interest strips on assigned loans totaling □7,344.70 Cr.

- **Net Profit** surged 25% to ₹1,046.00 Cr, primarily driven by a massive reduction in Impairment loss allowance from ₹2,558.94 Cr to ₹1,432.84 Cr, following a significant write-off of ₹1,689.51 Cr and the sale of stressed assets to ARCs.
- **Financing Margin %** improved from 18.00% to 22.00%, as the company optimized its cost structure despite Employee Cost % rising to 4.12% due to active ESOP tranches valued via the Black-Scholes model.
- **CFO** collapsed to -₹1,865.00 Cr from ₹6,254.00 Cr in the prior year, largely due to a -₹3,082.00 Cr outflow in Loans Advances as the company pivoted back to growth, contrasting with the previous year's portfolio contraction.
- **Total Debt** (Borrowings) stood at ₹53,621.00 Cr, with a notable shift toward Term Loans from Banks which increased 34.7% to ₹18,029.00 Cr, while Debt Securities (NCDs) were reduced to ₹3,994.09 Cr.
- The **Balance Sheet** faces liquidity pressure as ₹10,128.31 Cr of bank loans mature within one year, further complicated by a Book Overdraft of ₹1,117.57 Cr representing unpresented checks against a Cash Equivalents balance of ₹3,796.00 Cr.
- **Asset Quality** improved on paper with Stage 3 Loans (Gross NPA) dropping to ₹2,270.07 Cr from ₹4,704.90 Cr, though this was aided by transferring ₹271.70 Cr of stressed loans to ARCs and the aforementioned ₹1,689.51 Cr write-off.
- **ROE** improved to 9.50% from 8.47%, while ROCE remains low at 2.11%, reflecting the high leverage inherent in the HFC model where Debt / Equity is 4.87x.
- **Capex** remained minimal at ₹15.00 Cr, primarily directed toward Computers and Building additions, with Depreciation of ₹51.00 Cr reflecting accelerated 3-5 year cycles for technology assets.
- **Other Assets** include a significant non-cash component of ₹728.37 Cr in Receivables on assignment, representing future interest-only strips that inflate Net Profit without immediate CFO realization.
- **Other Liabilities** are impacted by a large Book Overdraft of ₹1,117.57 Cr, indicating that while cash balances appear high, a significant portion is committed to issued checks.
- **Other Expenses** are influenced by a doubling of GST Input Credit to ₹31.54 Cr, suggesting higher procurement or service costs that haven't been fully offset.
- **Net Worth** (Reserves) increased to ₹10,845.00 Cr entirely through retained earnings as Dividend Payout % remained at 0.00%, signaling a focus on capital conservation.
- **Finance Cost** (Interest) of ₹3,900.00 Cr resulted in a thin Interest Coverage of 1.35x, highlighting sensitivity to interest rate volatility and the cost of hedging ₹5,508.53 Cr in External Commercial Borrowings.
- **Overall Synthesis:** PNB Housing Finance has successfully executed a balance sheet "clean-up" through aggressive write-offs and asset sales, leading to a 25% jump in **Net Profit**, yet the transition back to growth has resulted in deeply negative CFO and high refinancing requirements for its shifting Total Debt profile.

### 3.3 Contingent liabilities & commitments

- **Bank Guarantees:** A specific bank guarantee of ₹**25.00 Cr** was issued for the company's Rights Issue, backed by a pledged fixed deposit.
- **Litigation/Tax Disputes:** The company follows a policy of not recognizing contingent liabilities on the balance sheet but disclosing them unless the probability of outflow is remote.
- **Capital Commitments:** Minimal physical capex (₹15 Cr) suggests low outstanding capital commitments for fixed assets.
- **SEBI Settlement:** The company paid a settlement amount of ₹**0.73 Cr** to SEBI related to a failed ₹4,000 Cr preferential issue.

## 3.9 Earnings quality & forensic checks

| # | Check | Impact | Status | Notes detail |
|---|---|---|---|---|
| 1 | PAT vs CFO trend | Profit ↑ — earnings overstate cash; ₹1,046 Cr PAT vs ₹1,865 Cr CFO outflow from lending. | — | CFO impacted by ₹3,082 Cr loan growth and ₹3,980 Cr interest paid. |
| 2 | Receivables & channel-stuffing signal | Neutral — receivables are negligible at 0.2% of revenue; no channel stuffing risk. | — | Note 5.1: 100% of receivables are undisputed and aged < 6 months. |
| 3 | Revenue timing (unbilled/advances) | Revenue ↑ — upfront recognition of future interest strips on loan assignments inflates current income. | — | Note 2.3(c): Upfront recognition of entire interest spread on assigned loans (IO Strip). |
| 4 | Revenue from related parties % | Neutral — revenue is primarily from external retail/corporate borrowers, not related parties. | — | Note 18.2: RPTs are primarily borrowing-related, not revenue-generating sales. |
| 5 | Inventory vs revenue growth | Neutral — inventory is not a material line item for a housing finance company. | — | Financial services sector; no physical inventory held. |
| 6 | Inventory valuation method change | Neutral — no inventory held; accounting policies focus on loan staging and EIR. | — | Note 2: Accounting policies confirm focus on financial instruments and ECL. |
| 7 | Exceptional items in operating profit | Neutral — exceptional items are immaterial at less than 0.02% of PBT. | — | P&L: Exceptional items are negligible and do not distort operating profit. |
| 8 | Depreciation rate vs useful life policy | Profit ↓ — conservative accelerated depreciation on tech assets reduces reported earnings slightly. | — | Note 2.5: Accelerated depreciation (3-5 years) for networking equipment and mobile phones. |
| 9 | Provision reversals boosting PAT | Profit ↑ — massive provision release of ₹1,126 Cr significantly boosts reported net profit. | — | Note 6.2: Profit driven by ₹1,689 Cr write-offs and sale of stressed assets. |
| 10 | Tax rate consistency | Neutral — effective tax rate is consistent with statutory norms and cash outflows. | — | P&L: Tax % remains stable YoY; Cash tax aligns with PBT of ₹1,361 Cr. |
| 11 | CWIP age and stalling projects | Neutral — CWIP is negligible at 0.004% of total assets; no stalling risk. | — | Balance Sheet: CWIP reduced from ₹4 Cr to ₹3 Cr YoY. |
| 12 | Deferred tax asset recognition | Profit ↓ — DTA reduction of ₹217 Cr reflects utilization of past tax shields. | — | Note 2.14(b): DTA reduction driven by utilization of impairment allowances through write-offs. |
| 13 | RPT quantum and trend | Neutral — promoter funding provides liquidity; transactions are secured and at arm's length. | — | Note 18.2: Loans from PNB are secured by 1.10x asset cover on book debts. |
| 14 | Dividend paid vs FCF adequacy | Neutral — no dividends paid; negative FCF driven by loan book growth and repayments. | — | Cash Flow: Negative FCF is typical for growing HFCs during lending cycles. |
| 15 | Aggressive Write-offs | Profit ↑ — massive write-offs clean the balance sheet but mask historical credit costs. | — | Note 6.2: Write-offs represent 2.8% of opening gross loan book. |
| 16 | Corporate Asset Quality Risk | Neutral — remaining corporate book shows higher risk profile despite lower volume. | — | Page 292: Corporate Stage 1 ECL increased from 6.50% to 9.47% YoY. |
| 17 | Liquidity/Refinancing Pressure | Neutral — high short-term debt maturity requires constant market access. | — | Page 306: Significant bank loan maturities within 12 months. |

## 4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion Type:** Unqualified. * **Key Audit Matters (KAMs):** * **Expected Credit Loss (ECL) Allowance:** Identified as high-risk due to the complexity of multinomial logistic regression and Pluto-Tasche models. Management uses "Management Overlays" and forward-looking macro-economic scenarios (GDP, Housing Price Index), which introduces significant subjectivity. * **Information Technology Systems:** Focus on the reliability of the core banking system and automated data processing for financial reporting. * **Auditor Fees:** Total fees of □1.82 Cr (Audit: □1.08 Cr; Rights Issue: □0.65 Cr; Subsidiary: □0.09 Cr). The □0.65 Cr for Rights Issue services represents 60% of the base audit fee.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | :--- | :--- | :--- | :--- | :--- | | Punjab National Bank | Promoter | Borrowings (Term Loans) | 4,636.68 | High funding dependency | | Punjab National Bank | Promoter | Deposits | 114.06 | Standard liquidity support | | Punjab National Bank | Promoter | Amount Payable (Assignment) | 79.29 | Settlement risk on securitization | | Punjab National Bank | Promoter | Interest Payable | 2.23 | Accrued cost of promoter debt |

- **% of Revenue:** 74.05% (Borrowings/Revenue ratio). While these are balance sheet items, the liability structure is heavily reliant on the promoter.
- **Trend:** Increasing; promoter borrowings rose from □4,325.89 Cr to □4,636.68 Cr.
- **Security:** Loans from PNB are secured by an exclusive charge on standard book debts with a 1.10x asset cover.

C. Shareholding * **Promoter (PNB):** 32.52% (Slightly diluted from 32.57% due to ESOPs). * **Pledged Shares:** 0%.

D. Board Composition + KMP Compensation * **Total Directors:** 12 (50% Independent). * **Women Directors:** 1 (Ms. Gita Nayyar). * **KMP Compensation:** * **Hardayal Prasad (Past MD):** □1.25 Cr (Tranche 1 of □2.50 Cr ex-gratia payment). * **Girish Kousgi (MD & CEO):** Remuneration ratio to median employee pay is 25.6:1. * **Sanjay Jain (CS):** □0.14 Cr (10% YoY growth). * **Family Relations:** None disclosed among KMPs or Board.

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | Signal | | :--- | :--- | :--- | :--- | | Dividends | 0.00 | 0.00 | — | | Capex | 15.00 | 14.00 | — | | Net Debt Change | 660.00 | -634.00 | — | | Rights Issue | 2,493.76 | 0.00 | — |

**Capex analytical notes:** * **CFO Coverage of Capex:** N/M (CFO is negative). Capex is funded by financing activities. * **Nature of Capex:** Primarily maintenance and technology-led (ACE onboarding tool, ALGO credit engine) to drive operational efficiency. * **Capex Deployment Efficiency: The □15.00 Cr capex is minimal compared to the □66,874.00 Cr asset base**, indicating an asset-light digital expansion strategy. * **Key Takeaways:** Focus is on digital infrastructure to reduce TAT, which is value-accretive for retail scalability.

H. Risks * **Credit Risk (ECL):** Subjectivity in ECL modeling and management overlays. 1% change in "Adverse" scenario weightage can swing PAT materially. (Severity: High) * **Refinancing Risk: □10,128.31 Cr of bank loans mature within 1 year**, creating potential liquidity pressure. (Severity: High) * **Asset Quality:** Corporate Stage 3 loans at 22.25%. High capital erosion risk if recoveries from ARCs fail. (Severity: High) * **Regulatory Risk:** Classification as NBFC-UL (Upper Layer) increases compliance costs and tighter capital norms. (Severity: Medium)

## 5. Scorecard & verdict

### Part a: scorecard

| Dimension | Rating (1–5) | Delta | Key evidence | One-line rationale |
|---|---|---|---|---|
| Business quality | 4 | → | 99% Retail disbursements; 189 branches | Strong pivot to granular retail and affordable housing segments. |
| Financial health | 3 | ↑ | D/E 4.87x; CRAR 24.43% | Improved capital adequacy via Rights Issue, but high refinancing needs. |
| Earnings quality | 2 | ↓ | CFO -□1,865 Cr; □1,126 Cr provision release | Profits driven by provision reversals and non-cash securitization gains. |
| Management & governance | 4 | ↑ | 50% Independent Board; Clean Audit | New leadership bringing retail pedigree and disciplined risk focus. |
| Capital allocation & earnings visibility | 3 | → | ROCE 2.11%; Rights Issue for growth | Capital raised for expansion, but returns currently below cost of capital. |

**Business positives (for this company this year)** * **Retail Pivot:** Successfully shifted to 99% retail disbursements, reducing concentration in risky wholesale lending. * **Capital Infusion:** Completed **□2,493.76 Cr Rights Issue**, significantly boosting CRAR to 24.43%. * **Margin Expansion:** NIM improved to 3.73% from 2.80%, driven by better pricing power in the retail segment. * **Asset Quality Improvement:** GNPA reduced sharply to 3.83% from 8.13% YoY. * **Geographic Diversification:** Balanced presence across North (34%), West (34%), and South (32%).

**Business negatives / concerns (for this company this year)** * **Cash Flow Divergence: CFO of -□1,865 Cr** vs PAT of □1,046 Cr indicates poor earnings-to-cash conversion. * **Provision-Driven Profits:** Net Profit growth was largely fueled by a **□1,126.10 Cr reduction in impairment allowances**. * **Refinancing Risk: □10,128.31 Cr of debt** matures within one year, creating high liquidity pressure. * **Residual Corporate Risk:** Corporate GNPA remains high at **22.25%**, with Stage 1 ECL for the remaining book rising to 9.47%. * **Non-Cash Income: □728.37 Cr** of profit comes from upfront recognition of interest strips on loan assignments.

**Overall scorecard summary** PNB Housing Finance is in a state of aggressive "reconstructive growth," having successfully cleaned its balance sheet through massive write-offs and a pivot to retail lending. While financial strength has improved via a significant capital raise, earnings quality remains weak as profits are currently driven by provision reversals and non-cash securitization gains rather than organic cash flow. The governance posture is stable with new leadership, but the business remains on a "Watch" trajectory until the high refinancing requirements are managed and the "Roshni" vertical demonstrates sustainable, cash-accretive growth.

## Part b: governance check matrix

| # | Check | Status |
|---|---|---|
| 1 | Audit opinion clean? | — |
| 2 | Promoter pledge = 0? | — |
| 3 | KMP pay < 5% of PAT? | — |
| 4 | RPT quantum < 5% of revenue? | — |
| 5 | Board > 50% independent? | — |
| 6 | At least 1 woman director? | — |
| 7 | No statutory dues outstanding? | — |
| 8 | No fraud reported? | — |
| 9 | Audit trail enabled? | — |
| 10 | Frequent Auditor change | — |

Final line: "Total: 9/10 — Governance Rating: 4"

## Part c: investor verdict

Thesis: A high-beta turnaround play transitioning from a troubled wholesale lender to a granular retail mortgage specialist backed by a strong capital infusion.

## Overall stance: Watch

Rationale: While the balance sheet clean-up is largely complete, the divergence between PAT and CFO, coupled with high refinancing needs, requires monitoring of execution in the competitive affordable housing space. Re-evaluate when: CFO/PAT ratio exceeds 0.8x for two consecutive quarters. BULL CASE: Rapid scale-up of the "Roshni" vertical leads to NIMs > 4% and ROE > 12% as operating leverage kicks in. BEAR CASE: Fresh slippages in the residual corporate book or aggressive competition in retail leads to margin compression and credit cost spikes. Key monitorable: Corporate Stage 1 ECL %: 9.47% → Watch for further increases.