PNB Housing Finance Ltd — Jan 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** PNBHFL has successfully pivoted from a legacy "cleanup" story to a high-velocity, high-yield retail franchise, with the "Roshni" (Affordable) and Emerging Markets segments now providing the primary growth and margin alpha.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	Retail growth at 17.5% (vs 17% guide); PAT growth 43% YoY.	□
Earnings Quality	High (Core driven)	NII growth of 17% YoY; negative credit cost driven by high-quality written-off recoveries (□53 Cr).	□
Guidance Confidence	Strong	Reaffirmed □1 Lakh Cr retail book target by FY27; Affordable on track for □5,000 Cr by Mar-25.	□
Management Credibility	Strong	Achieved highest retail growth in 22 quarters; delivered on yield expansion across all three verticals.	□
Business Quality Signal	Improving	Substitutional growth strategy (moving from Prime to EM/ Affordable) is successfully defending NIMs (3.7%).	□
Key Q&A Exchange	Q#1 - Strategy	Mgmt confirmed 4%+ NIM target for FY27 via mix shift, suggesting structural profitability expansion.	□
The Street's Primary Anxiety	Growth Sustainability	Concerns over industry slowdown and self-employed stress; Mgmt cited robust demand and 0.03% NPA in new book.	□
Capital Cycle Stage	Expansion	Actively opening 50 branches in Q4 to reach 355 locations; aggressive yield harvesting in Tier 2/3.	□
Margin / Return Ratio Trajectory	Improving	ROA rose to 2.51% (vs 2.54% in Q2 — marginally stable but high); NIMs up 2bps QoQ.	□
Pricing Power	Expanding	Incremental Affordable yields hit 12.14% (up from 11.60% YoY); Emerging Markets yielding 41bps premium.	□
FCF Conversion & Quality	Strong	Continued recovery from □1,700 Cr total written-off pool (□181 Cr in 9M FY25) provides massive P&L buffer.	□
Competitive Moat Signals	Widening	Rating upgrades (CRISIL AA+) and NHB sanctions (□5,000 Cr) provide a structural cost advantage (7.83%).	□
Balance Sheet Strength	Strong	CRAR at 28.8%; Corporate NPA remains NIL; legacy Stage-2 corporate account resolving.	□
Working Capital Efficiency	Improving	Core LMS upgrade completed; 26% of salaried cases now STP (Straight Through Processed).	□
Mgmt Guidance Track Record	Reliable	Consistent delivery on retailization and asset quality reduction targets over 9 quarters.	□
Key Vulnerability / Red Flag	State-level hurdles	Procedural/weather delays in 5 states (KA, MH, AP, TS, MP) temporarily capped Q3 disbursement potential.	□
Management Tone	Confident	Extremely upbeat on "Roshni" doubling in 9 months and upcoming PMAY 2.0 tailwinds.	□

Key Takeaways (Positives & Negatives): * **Positives:** The business has fundamentally transformed; retail growth (17.5%) is now outstripping the 17% guidance for the first time in years. The "Roshni" segment has reached □3,838 Cr (doubled in 9 months) and is the primary driver of the 12.14% incremental yield. Asset quality is pristine with a negative credit cost of 19 bps due to persistent recoveries from the written-off pool (□53 Cr in Q3). * **Negatives:** Prime segment growth remains relatively sluggish (11%) compared to high-yield segments due to competitive pricing from banks and balance transfer (BT-out) pressure (5.5-6% of book). Operating expenses grew 22% YoY as the company absorbs the cost of massive branch expansion. * **Street Concern:** Analysts are watching the spike in Stage-2 assets (up ~□450 Cr). Management clarified this is a single legacy corporate account that has been in SMA for 2 years but has repaid □200 Cr of principal; it is expected to revert to Stage-1 in Q4. * **Watchpoint:** The re-entry into Corporate (Construction Finance) under "Corporate 2.0" begins in Q4. While management promises strict ticket caps (□200 Cr) and Tier-A developer focus, any slippage here will quickly erode the hard-won "cleanup" premium.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures primary source.

Metric	Current Qtr (Q3FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII (□Cr)	696	17.0%	5.3%	↑	Driven by 17.5% retail loan book growth and higher yield mix.
NIM (AUM basis %)	3.70%	-	+2 bps	↑	Improved from 3.68% (Q2) due to lower cost of funds and yield mix.
Cost of Funds %	7.83%	-24 bps	-1 bps	↑	Stabilizing post-rating upgrade benefits; incremental cost at 7.82%.
Loans Growth (% YoY)	17.5%	(Retail)	4.0%	↑	Highest retail growth in 22 quarters; crossed □70,000 Cr.
Deposits Growth (% YoY)	-	-	-	→	Deposits stable at □17,646 Cr (as of Sep-24 latest).
GNPA %	1.19%	-54 bps	-5 bps	↑	Overall Retail GNPA reduced to 1.19%; Corporate NPA at NIL.
NNPA %	0.81%	-33 bps	-3 bps	↑	Improved from 0.84% QoQ due to focused early bucket collection.
Slippage Ratio %	-	-	-	→	Not explicitly stated; but 96% resolution in SMA-II.
Credit Cost (%)	-0.19%	-53 bps	+5 bps	↓	Negative due to □53 Cr recovery from written-off pool.
Collection Efficiency %	99.5%	+30 bps	-40 bps	↓	Slight dip from 99.9% (Q2) due to state-level disruptions (weather/elections).
Capital Adequacy %	28.8%	-	-33 bps	↓	Strong buffer; Tier 1 at 28.0%.
PAT (□Cr)	483	43.0%	2.8%	↑	Record profit driven by retail scale and provisioning reversals.
Fee Income Growth %	21.0%	-	-	↑	Strong growth in insurance commissions (up 30%).

2B. SEGMENT BREAKDOWN

Segment	Disbursement (□ Cr)	YoY Growth	Yield (%)	Trend	vs Co Avg	Key Development
Prime	3,355	15.0%	9.39%*	→	Lower	Yields up 5bps QoQ; ATS □35L.
Emerging Markets	1,105	39.0%	9.80%*	↑	Higher	41bps higher incremental yield vs Prime; ATS □25L.
Affordable	920	127.0%	12.14%*	↑	Highest	Book reached □3,838 Cr; ATS □16L; informal income mix at 34%.
Corporate	0	N/A	N/A	→	N/A	Re-starting in Q4; focusing on tickets <□200 Cr.

**Incremental Yields*

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Retail Book	□1 Lakh Cr by FY27	Needs ~13% CAGR over next 2 years; currently delivering 17.5%.	Over-delivered (17% guide vs 17.5% actual).	Low
Guidance	NIM	4.0% - 4.1% (by FY27)	Requires 30-40bps expansion; mix shift to EM/Affordable (currently 38% of disb.) makes this feasible.	Improved sequentially for 2 quarters.	Low
Guidance	Affordable Book	□5,000 Cr by Mar-25	Needs □1,162 Cr growth in Q4; current run-rate is □900-1000 Cr/qtr. Feasible.	Doubled book in 9 months.	Low
Strategy	Corporate 2.0	Start disbursements in Q4	Selective sanctions expected in Mar-25.	Delayed from H2 plan to Q4.	Moderate
Guidance	Branch Network	355 locations by Mar-25	Need to open 50 branches in Q4.	Added 61 Affordable branches in 9M.	Low
Guidance	Credit Cost	0.25% (Long term)	Currently negative due to recoveries; normalized cost expected to rise as book matures.	Consistently beat via recoveries.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Ashwini Agarwal, Demeter	3-Year Vision	Strategy	"Where do you see NIMs, credit costs, and leverage going in the next 2-3 years?"	Management guided for NIMs >4%, credit costs at 0.25%, and leverage at 5.5-6x by FY27. This suggests a significant re-rating potential as ROEs move into the mid-teens.	None	4.5	Clear and quantified
2	4.5	Sanket Chheda, DAM Capital	Asset Quality	Financials	"There was a little bit increase in Stage-2 of about ₹450 crores. What was that account?"	Mgmt identified this as a single legacy corporate account in SMA for 2 years that has already repaid ₹200 Cr of principal. The expected resolution in Q4 removes a major "hidden NPA" fear.	None	4.0	Directional with evidence
3	4.0	Renish, ICICI	Opex	Financials	"Other OPEX has been growing at 15-20%... where do you see the cost to income ratio settling?"	CFO clarified that the spike was seasonal/ marketing-related and will normalize; guided for a steady-state 1.0-1.1% Opex-to-ATA. This protects the ROA trajectory despite aggressive branch expansion.	None	4.0	Clear and quantified
4	4.0	Viral Shah, IIFL	Corporate Re-entry	Strategy	"Any updates on the corporate	CEO confirmed Mr. Rana (ex-	None	4.0	Specific timeline given

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					vertical since we did not see any disbursements in this quarter?"	ICICI) has joined and sanctions/ disbursements will finally commence in Q4. This marks the end of the 3-year "Retail-only" defensive stance.			
5	3.5	Abhijit, Motilal Oswal	Rate Sensitivity	Financials	"How will a 50bps repo rate cut impact NIMs?"	Mgmt indicated 70% of liabilities are floating, and every 25bps cut reduces borrowing costs by 10bps immediately. This confirms the company is well-protected against the upcoming rate cycle.	None	4.0	Directional with evidence
6	4.5	Kunal Shah, Citi	Segment Profitability	Financials	"Are we already at break-even in Affordable and Emerging segments?"	Mgmt confirmed Affordable is already profitable and will reach steady-state ROA within one more year. This validates the unit economics of the high-touch "Roshni" model.	None	4.0	Clear and quantified
7	3.0	Anusha Raheja, Dalal & Broacha	Product Mix	Business Overview	"Do you have any unsecured personal loans?"	Mgmt gave a categorical "No", stating they only do secured	None	5.0	Specific, quantified

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						mortgage products. This decouples PNBHFL from the current systemic anxiety around unsecured credit.			

PATTERN FLAGS & SENTIMENT Analyst questions converged on two primary themes: **Asset Quality Nuances** (the Stage-2 corporate spike) and the **Execution of the Mix Shift**. There was a palpable shift from "recovering from the past" to "scaling for the future." Management was highly defensive yet transparent about the Stage-2 corporate account, emphasizing principal repayment rather than just "hoping" for resolution.

Analyst Sentiment Verdict: Analysts appeared impressed by the retail momentum (17.5% growth) but remain laser-focused on the Stage-2 corporate account as a litmus test for legacy resolution. The "Corporate 2.0" re-entry was met with cautious curiosity. Overall, management's credibility has strengthened as they have proven the "Roshni" business is not just a pilot but a scalable profit engine.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Corporate Re-entry | Restart in H2 FY25 | No disbursements in Q3 | Delayed by 1 quarter; now expected in Q4. | Low; reflects conservative underwriting. | | Opex Efficiency | 1.0% Opex-to-ATA | Seasonal spikes in Q3 | Opex is lumpy due to festive marketing and branch operationalization. | Low; revenue growth is compensating. |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q2 FY25)	This Quarter (Q3 FY25)	Direction
Retail Book Growth	16.2% YoY	17.5% YoY	↑
Affordable (Roshni) Book	□2,959 Cr	□3,838 Cr	↑
NIMs	3.68%	3.70%	↑
Incremental Yield (Affordable)	11.95%	12.14%	↑
Corporate Re-entry	Planning / Hiring	Implementation (Q4 start)	↑
GNPA	1.24%	1.19%	↑
Opex to ATA	1.06%	1.10% (est)	↓
Stage-2 Assets	Stable	Spike (due to 1 Corp account)	↓

- **Investment Note:** The thesis has evolved. PNBHFL is no longer a "turnaround" play; it is now a "compounding" play. The fact that high-yield segments (Affordable/EM) now account for 38% of disbursements (vs 29% YoY) ensures NIM protection even if Prime rates remain competitive. The negative credit cost (reversals) is a significant cash tailwind that the market is likely under-appreciating for the next 4-6 quarters.