PNB Housing Finance Ltd — Jul 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat **One-line:** PNBHFL has successfully transitioned into a pure-play retail engine with a clean balance sheet (Corporate NPA now zero) and a rapidly scaling affordable housing vertical that is already profitable.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Beat	Retail book growth (14.4%) is tracking toward 17% guidance; GNPA (1.35%) beat internal glide paths.	□
Earnings Quality	Moderate	PAT growth (25% YoY) supported by □80 Cr recovery from written-off pool; core NIMs stable at 3.65%.	□
Guidance Confidence	Strong	Reaffirmed 17% retail book growth and 3.5% NIM threshold; 1% GNPA target by year-end looks achievable.	□
Management Credibility	Strong	Delivered on the promise to exit Corporate NPAs and scale "Roshni" (Affordable) to □2,300 Cr+ in 18 months.	□
Business Quality Signal	Improving	Pivot to high-yield Emerging/Affordable segments (33% of disbursements) is offsetting Prime segment pricing pressure.	□
Key Q&A Exchange	Q2 + BT-outs	Mgmt admitted Prime segment yields face pressure from Balance Transfers (BT-out) but are countered by the retention team.	□
The Street's Primary Anxiety	NIM Compression	Fear that Prime segment competition will crush spreads; Mgmt responded by flagging the shift to 40-42% high-yield mix.	□
Capital Cycle Stage	Harvesting / Expansion	Harvesting asset quality improvements; Investing in branch network (50 new/year).	□
Margin / Return Ratio Trajectory	Improving	ROA improved to 2.38% (vs 2.20% FY24); NIMs expected to bottom at 3.5% before high-yield mix kicks in.	□
Pricing Power	Stable	Prime pricing power is weak (commodity), but Affordable/Emerging segments offer 25-100 bps yield premiums.	□
FCF Conversion & Quality	Strong	Recoveries from written-off pool (□80 Cr) providing high-quality cash inflows.	□
Competitive Moat Signals	Stable	Pan-India 303-branch network and "AA+" rating from all agencies provide a robust liability/distribution moat.	□
Balance Sheet Strength	Strong	CRAR at 29.5%; Tier I at 28.4%; Rating upgraded to CRISIL AA+ (Stable) in Q1.	□
Working Capital Efficiency	Improving	TAT reduced to 3-4 days via tech transformation; 99.6% digital EMI collection.	□
Mgmt Guidance Track Record	Reliable	Consistent delivery on retailization and asset quality cleanup over the last 6 quarters.	□
Key Vulnerability / Red Flag	Prime Competition	Reliance on high-yield pivot to sustain NIMs; any slowdown in "Roshni" execution would expose Prime yield decay.	□
Management Tone	Confident	Tone was decisively upbeat on asset quality and the upcoming PMAY scheme tailwinds.	□

Key Takeaways (Positives & Negatives): * **Positives:** The business has achieved a critical milestone by reducing Corporate GNPA to zero and recovering □80 Cr from written-off pools. The "Roshni" (Affordable) vertical

is now profitable and scaling at 157% YoY disbursement growth. Funding costs are falling (Incremental COB at 7.75%) following the CRISIL rating upgrade to AA+. * **Negatives:** Prime segment growth is tepid (8% YoY disbursement) due to intense competition and Balance Transfer (BT-out) pressure. Operating expenses rose 27% YoY due to front-ended branch expansion and appraisal cycles, though Opex/ATA remains manageable at 1.05%. * **Street Concern:** Analysts are focused on the NIM floor. Management has drawn a line at 3.5%, expecting the shift toward 40-42% Emerging/Affordable disbursement mix to provide the necessary yield cushion. * **Watchpoint:** The re-entry into Corporate lending (Construction Finance) in 3-4 months. After years of cleaning the book, the market will scrutinize the underwriting standards for the "New Corporate" book.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII (□Cr)	651	3.6%	3.0%	↑	Driven by retail volume growth offsetting marginal yield compression.
NIM (AUM basis %)	3.65%	-21 bps	→	→	Guided 3.5% as threshold; stable QoQ despite Prime segment pressure.
Cost of Funds %	7.92%	-5 bps	-6 bps	↑	Incremental COB down to 7.75% post-AA+ rating upgrade.
Loans Growth (% YoY)	14.4%	(Retail)	(PPT)	↑	Retail book at □65,157 Cr; total loan asset at □66,986 Cr.
GNPA %	1.35%	-241 bps	-15 bps	↑	Corporate NPA now NIL; Retail GNPA stable.
NNPA %	0.92%	-167 bps	-3 bps	↑	Strong PCR and cleanup of vintage accounts.
Credit Cost (%)	-0.07%	-43 bps	-11 bps	↑	Negative credit cost due to □80 Cr recovery from written-off pool.
Collection Efficiency %	99%	(Retail)	(PPT)	→	Retail collections remain robust; 165 properties repossessed.
Capital Adequacy %	29.50%	+130 bps	+24 bps	↑	Strengthened by internal accruals; Tier I at 28.4%.
PAT (□Cr)	432.8	24.6%	-1.5%	↑	YoY growth led by credit cost reversal and retail scale.
Fee Income Growth %	189%	(Calc)	-26%	↑	□81.2 Cr vs □28.1 Cr YoY; strong processing fee traction.
ROA (%)	2.38%	+31 bps	+18 bps	↑	Targeted 2.4% - 2.6% range over next 3 years.

2B. SEGMENT BREAKDOWN

Segment	Disbursement (□ Cr)	YoY Growth	Yield (%)	Trend	vs Co Avg	Key Development
Prime	2,932	8%	9.4%	↓	Lower	Faced BT-out pressure; focus on retention.
Emerging	831	18%	11.0%+	↑	Higher	ATS of □25 Lakhs; yield 25bps higher than Prime.
Affordable	600	157%	12.6%*	↑	Highest	Book crossed □2,361 Cr; segment is now profitable.
Corporate	0	-100%	N/A	→	N/A	Current book is runoff (□1,829 Cr); re-entry in 3-4 months.

**Incremental yield projected by management for FY25.*

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate	Historical Delivery	Risk Flag
Guidance	Retail Book Growth	17% for FY25	Needs ~18% YoY growth in remaining 3 quarters.	Track record of 11% to 14.4% acceleration.	Low
Guidance	NIM	3.50% (Threshold)	Must maintain spreads despite BT-out pressure in Prime.	Maintained 3.65% in Q1.	Moderate
Guidance	Asset Quality	1.0% GNPA by March 2025	Reduction of ~35 bps in 3 quarters.	GNPA dropped from 3.76% to 1.35% in 1 year.	Low
Strategy	Segment Mix	40-42% Affordable/ Emerging in Disb.	Currently at 33%; needs ~45% run-rate in Q2-Q4.	Rapidly scaled from 0 to 33% in 18 months.	Moderate
Strategy	Branch Network	50 new branches/year	50 branches scheduled for remainder of FY25.	Successfully added 100 branches in Q4 FY24.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.5	Renish / ICICI Bank	NIM Pressure	Financials	Why would NIM be under pressure if COB is falling and high-yield mix is rising?	Management attributed pressure to Corporate runoff, Prime segment BT-outs, and Q1 disbursements being from lower-rate Q4 sanctions. This implies a temporary yield-cost mismatch that should normalize as 12.6% yield Affordable loans hit the book, providing a re-rating trigger.	None	4.0	Clear and quantified
2	4.0	Renish / ICICI Bank	Growth Upside	Management Outlook	Does the PMAY expansion provide an upside risk to the 17% growth guidance?	Management is confident but conservative, choosing not to revise 17% yet despite the massive PMAY opportunity across all 303 branches. This suggests potential for a guidance beat in H2 FY25 once scheme details are clarified.	None	3.5	Directional/ Evidentiary
3	4.5	Abhijit Tibrewal / Motilal Oswal	Interest Recognition	Financials	How did the RBI circular on charging interest (April 29) affect Q1 financials?	The company was already largely aligned with the "DD handover" rule, resulting in a negligible interest impact of only ₹4-4.5 Cr. This	None	5.0	Specific and verified

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						confirms the robustness of internal processes and reduces fears of regulatory accounting shocks.			
4	3.5	Abhijit Tibrewal / Motilal Oswal	OPEX Run-rate	Financials	Is the Q1 OPEX spike due to increments a new "steady state" run-rate?	CFO confirmed Q1 OPEX reflects annual increments and branch front-loading, and this level represents the new baseline. Investors should model 1.05% OPEX/ ATA as the core operating floor for the growth phase.	None	4.0	Clear and quantified
5	4.0	Shubhranshu Mishra / Phillip Capital	Corporate Cleanup	Financials	What is the status of the ARC sale and provisions on Security Receipts (SR)?	Management stated the SRs from the latest Corporate sale are 100% provided for, while older ones are 70% provided. This aggressive provisioning minimizes future P&L shocks from the legacy corporate book.	None	4.5	Specific and verified
6	4.0	Viral Shah / IIFL	Yield Trajectory	Financials	Why are reported Affordable yields flat QoQ if mix is changing?	Management clarified that Q1 yields reflect old sanctions; incremental Affordable	None	4.0	Clear and quantified

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						originations will carry a 12.6% yield moving forward. This points to a margin expansion story starting Q3 FY25 as the old pipeline flushes out.			
7	3.0	Sameer Bhise / JM Financial	Stage 3 ECL	Financials	What caused the sequential drop in Stage 3 provision coverage?	The drop from 37.4% to 32.5% was due to the resolution of highly-provided vintage accounts and the addition of newer NPAs requiring lower initial provisions. This mix change is a natural outcome of a cleaning loan book.	None	3.5	Directional/ Evidentiary
8	3.0	Omkar / Individual Investor	Branch Breakeven	Capex and Allocation	What are the economics of the 50 new branches being added annually?	Branches break even in 9-10 months, with a decentralized underwriting approach where credit managers sit at the branch level. Fast breakevens suggest that the 1.05% Opex-to-ATA will improve as scale kicks in.	None	4.0	Clear and quantified

PATTERN FLAGS & SENTIMENT

The analyst community was primarily concerned with **NIM durability** in a rising-competition environment, especially in the Prime segment. Multiple questions were asked about the "NIM floor" and the "Yield-Cost lag." Management's posture was confident but cautious, repeatedly pointing to the 12.6% incremental yields in the Affordable segment as the ultimate margin defense. The friction regarding the "one-off" recovery benefit (□80 Cr) was resolved by the CFO's transparency on the adjusted credit cost.

Analyst Sentiment Verdict: Analysts were generally convinced by the asset quality cleanup (Corporate GNPA at zero is a major milestone) but remain skeptical about Prime segment growth. The friction point remains the re-entry into Corporate lending; while management is bullish, the street is in "wait-and-see" mode. Overall, credibility has improved as the MD/CEO delivered on the asset quality glide path.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Affordable Yields	Projected high yields	Q1 reported yields were flat QoQ	Gap due to "sanction-to-disbursal" lag from Q4.	Low (if Q2 shows improvement)
Credit Cost	Muted	Implied core credit cost (ex-recovery) was higher than reported	□113 Cr implied vs -□12 Cr reported.	Moderate (recovery pool is finite)

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5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare. (Baseline established for Q1 FY25).