

PNB Housing Finance Ltd — Jul 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** PNBHFL is successfully navigating a declining rate environment by aggressively pivoting its mix toward high-yield Affordable and Emerging markets, maintaining 18% retail growth while extracting significant value from its legacy written-off pool.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	Retail growth (18.1%) at the top end of guidance; PAT up 23% YoY.	☐
Earnings Quality	High (Core driven)	NII growth (17% YoY) outpaced loan growth; negative credit cost remains a structural buffer.	☐
Guidance Confidence	Strong	NIM guidance raised to 3.7% (from 3.65%); Affordable book target of ₹9,500 Cr maintained.	☐
Management Credibility	Strong	Successfully reclassifying branches to capture yield without blowing out credit costs.	☐
Business Quality Signal	Improving	High-yield segments (Affordable + EM) now 37% of retail book vs 26% in Q4.	☐
Key Q&A Exchange	Q#1 - ROA Levers	Mgmt plans to lift NIMs to 4.1% by FY27 to offset normalization of credit costs.	☐
The Street's Primary Anxiety	NIM Compression	Fear of rate cuts hitting Prime yields; Mgmt countered with high-yield mix shift.	☐
Capital Cycle Stage	Harvesting & Expansion	Rapid branch scale-up (356 total) while maintaining Tier-1 capital >28%.	☐
Margin / Return Ratio Trajectory	Improving	ROA rose to 2.57% (annualized) vs 2.55% in FY25.	☐
Pricing Power	Stable	Defended yields in EM/Affordable; passed 10bps cut vs 8bps benefit to customers.	☐
FCF Conversion & Quality	Strong	₹1,100 Cr remaining in write-off pool provides ~5-6 quarters of P&L support.	☐
Competitive Moat Signals	Widening	PMAY 2.0 structure (5-year subsidy lock-in) structurally improves customer retention.	☐
Balance Sheet Strength	Strong	CRAR at 29.7%; Corporate book Nil NPA for 4 consecutive quarters.	☐
Working Capital Efficiency	Improving	23% of salaried cases are now STP (Straight Through Processed).	☐
Mgmt Guidance Track Record	Reliable	Consistently hitting retail growth and asset quality targets.	☐
Key Vulnerability / Red Flag	Seasoning Risk	Affordable DPD 30+ rising (0.91% vs 0.59% YoY) as the book matures.	☐
Management Tone	Confident	Bullish on margin-accretive segments and recovery momentum.	☐

Sentiment Verdict: □Positive **Key Takeaways (Positives & Negatives):** * **Positives:** The business model has shifted from "cleanup" to "compounding." Retail growth of 18.1% is superior to larger HFC peers, driven by the Roshni (Affordable) segment which grew 143% YoY. Asset quality is at a multi-year high (GNPA 1.06%), and the negative credit cost (-27 bps) is backed by a disciplined recovery of ₹57 Cr this quarter from a ₹1,100 Cr write-off pool. NIMs are proving resilient (3.74%) as the company intentionally slows the Prime book (1% growth) to focus on Emerging Markets (32% growth). * **Negatives:** Operating leverage is yet to fully kick in as Opex grew 12% to fund branch expansions. There is a visible, though controlled, rise in early-stage delinquencies in the Affordable segment (DPD 30+ at 0.91%) as that book seasons. * **Street Concern:** Analysts are focused on ROA sustainability once write-off recoveries dry up in FY27. Management's response is a structural transition to a 4% + NIM by increasing the share of high-yield segments to 50%+, which would insulate returns against a normalized 25 bps credit cost. * **Watchpoint:** Execution of the ₹9,500 Cr Affordable book target by Mar-26. This requires a net addition of ~₹1,250 Cr per quarter, a significant step-up from the current ₹765 Cr run-rate.

2. BUSINESS PERFORMANCE

2A. KEY METRICS (Consolidated)

DATA SOURCE: PPT figures used as primary source.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	17.0%	-	4.0%	↑	Driven by retail growth and mix shift to Affordable/ EM.
NIM (AUM basis %)	3.74%	+9 bps	-1 bps	→	Stable; guidance upped to 3.7% for FY26 despite rate cuts.
Cost of Funds %	7.76%	-	-8 bps	↑	Repricing of repo-linked loans aided sequential drop.
Loans Growth (% YoY)	18.1%	(Retail)	1.3%	↑	Intentional slowdown in Prime to protect margins.
GNPA %	1.06%	-29 bps	-2 bps	↑	Improvement driven by retail recoveries and resolution.
NNPA %	0.69%	-13 bps	-	→	Maintained record low levels with strong coverage.
Credit Cost (%)	-0.27%	-	-	↑	Negative due to ₹57 Cr recoveries from written-off pool.
Collection Efficiency %	99.2%	+10 bps	-60 bps	→	Seasonal dip in Q1; overall remains robust.
Capital Adequacy %	29.70%	-	+32 bps	↑	Massive growth buffer; Tier 1 at 28.96%.
PAT (₹Cr)	534	23.0%	-3.0%	↑	YoY growth remains strong; QoQ dip due to base effect.
Fee Income Growth %	4.0%	-	-30.0%	↓	Seasonal drop in logins vs Q4 exit.

2B. SEGMENT BREAKDOWN

Segment	Disbursement (₹ Cr)	YoY Growth	Incremental Yield	Trend	vs Co Avg	Key Development
Prime	2,479	1.0%	9.26%	→	Lower	Sacrificed growth (1%) to avoid margin pressure.
Emerging Mkts	1,736	32.0%	9.61%	↑	Higher	20 branches moved from Prime to EM to boost yield.
Affordable	765	30.0%	12.10%	↑	Highest	Incremental yields rose to 12.1% (vs 11.6% YoY).
Corporate	0	N/A	N/A	→	N/A	No new NPAs for 1 year; recoveries of ₹17 Cr in Q1.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Retail Growth	15% - 18% for FY26	Feasible; Q1 delivered 18.1% YoY.	Delivered	Low
Guidance	Affordable Book	₹9,500 Cr by Mar-26	High Risk; Needs ₹1,252 Cr net growth/qtr vs ₹765 Cr actual.	Delivered (Met ₹5k Cr)	Moderate
Guidance	NIMs	~3.7% (FY26)	Feasible; currently at 3.74% with mix-shift tailwinds.	Improved (Upped from 3.6%)	Low
Guidance	ROA	~2.5% - 2.6%	Feasible; Q1 annualized at 2.57%.	Delivered	Low
Strategy	Branch Network	40-50 new branches p.a.	Feasible; consistent with prior expansion pace.	Delivered	Low
Strategy	Asset Quality	NPA < 1.0%	Feasible; current 1.06% on downward trajectory.	Delivered	Low
Strategy	NIM (Long-term)	4.0% - 4.1% by FY27	Requires EM/Affordable to reach 50% of book.	On Track	Moderate

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	Renish, ICICI	ROA Sustainability	Financials	"What are the levers do you see which can offset the impact of credit cost normalization going ahead [after recovery income stops]?"	Management expects to expand NIMs from 3.74% to 4.1% by FY27 through mix shift and yield improvements in the Loan Against Property (LAP) vertical. This creates a 35-40 bps buffer that structurally covers the eventual transition to a 25 bps credit cost.	None	4.5	Clear quantification
2	4.5	Renish, ICICI	Asset Quality	Business Overview	"The sequential increase in gross NPA quarter-by-quarter [in Affordable], is there anything else which is sort of driving this?"	Management clarified that the rise is due to the natural seasoning of a book that is now 2.5 years old, noting that bounce rates (11.1%) remain significantly below the industry average. Investors should expect Affordable NPAs to peak at 1.1% without impacting the consolidated 1% target.	None	4.0	Direct with evidence
3	4.0	Suraj Das, Sundaram	Yield Realization	Financials	"Despite favorable movements towards higher yielding portfolio, it is not getting reflected in the yield part... what	Management argued that yield stability during a 100 bps repo cut cycle is actually an outperformance and shifted focus to the	Specific timing of yield spike	3.0	Vague consistency

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					would be the inflection point?"	3.7% NIM guidance as the primary controllable metric. Inflection in consolidated yields will be visible as EM/Affordable cross the 40% book threshold.			
4	4.0	Abhishek Jain, Alfaccurate	Prime Growth	Business Overview	"What is your target for the disbursement growth in the Prime segment for FY '26?"	Management plans to cap Prime book growth at 8-9% (single digits) to prioritize margins, treating Prime as a "balancing number" to achieve the overall 15-18% retail growth. This confirms a strategic shift toward profitability over top-line Prime dominance.	None	4.5	Specific timelines given
5	4.5	Abhijit, Motilal Oswal	BT-In/Out	Business Overview	"In our Affordable business... what was the proportion of BT-ins?"	Management revealed that BT-ins account for 12% of Affordable disbursements while BT-outs are negligible due to the newness of the book. This suggests 88% of growth is organic, higher quality demand rather than pricing-based poaching.	None	5.0	Specific quantification
6	4.5	Viral Shah, IIFL	Branch Recast	Strategy	"Does our say target mix for FY	Management confirmed that	Exact new % target	3.5	

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					'27... of 40% also correspondingly rise to 50% [due to the 20-branch reclassification]?"	the 40% target for high-yield segments will likely be raised toward 50% as more Prime branches are converted to EM models. This implies an accelerated ROA re-rating trajectory as the higher-margin book grows faster than previously modeled.			Direct with evidence
7	4.0	Vatsal Nagelia, Individual	PMAY 2.0	Management Commentary	"Are you seeing going forward that the system level growth in Affordable housing will slow down [due to PMAY changes]?"	Management highlighted that PMAY 2.0 is superior for lenders because the 5-year installment structure acts as a lock-in, preventing balance transfers and incentivizing non-delinquency. This provides a structural tailwind for book retention and asset quality.	None	4.5	Clear quantification
8	3.5	Omkar Shinde, Ascendancy	Credit Rating	Financials	"What is our status on [credit rating improvement]?"	Management expects a rating upgrade from AA+ to AAA in the next 4-5 quarters following the mandatory cooling period. An upgrade would provide an immediate 10-15 bps	Precise agency timeline	3.0	Vague consistency

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						tailwind to borrowing costs.			

PATTERN FLAGS & SENTIMENT

Analysts were primarily concerned with the **sustainability of ROA (2.5%+)** once the recovery from the written-off pool (₹1,100 Cr) slows down. Management was highly confident, pointing to a multi-year NIM expansion plan (to 4.1%) driven by a segment mix shift as the permanent replacement for one-off recovery income. There was also a notable recurring interest in the **Prime vs. Emerging branch strategy**, with analysts correctly identifying that the reclassification of 20 branches is a "stealth" margin expansion lever.

Analyst Sentiment Verdict: The tone was decidedly positive. Analysts have moved past the "legacy asset quality" concerns of 2023-24 and are now modeling the **growth alpha** of the Roshni/EM segments. Management's decision to sacrifice Prime volume for margin stability was well-received. The greatest unresolved risk is the steepening of the Affordable disbursement curve required to hit the Mar-26 target of ₹9,500 Cr.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Q4 FY25)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Affordable Yield	Target 12.65% for FY26	Q1 Yield at 12.1%	Requires a 55 bps yield expansion in the next 3 quarters.	Moderate; depends on Tier 3/4 mix.
Prime Growth	Normal growth	Single-digit (8-9%) growth	Intentional de-prioritization of the Prime book to protect NIM.	Low; positive for margins.
High-Yield Mix	40% by FY27	Likely 50% by FY27	Reclassification of branches accelerated the mix-shift timeline.	Low; positive for ROA.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q4 FY25)	This Quarter (Q1 FY26)	Direction
Retail GNPA	1.08%	1.06%	↑ Improving
NIM Guidance	3.6% - 3.65%	~3.7%	↑ Improving
Affordable Book	₹5,070 Cr	₹5,744 Cr	↑ Improving
Branch Strategy	356 Static Locations	20 Branches moved Prime → EM	↑ Improving (Yield)
Affordable DPD 30+	0.59%	0.91%	↓ Deteriorating
Cost of Borrowing	7.84%	7.76%	↑ Improving
Prime Growth	Moderate	Single-digit (1% disb)	↓ Deteriorating (Volume)

Investor Note: This quarter confirms that PNBHFL is no longer a "turnaround" play but a "segment-shift" play. The intentional slowing of the Prime segment (only 1% disbursement growth) is a signal of high capital discipline—management is refusing to chase low-margin volume in a declining rate cycle. The thesis is now tethered to the "Roshni" segment's ability to maintain its 12%+ yield as it scales toward the ₹9,500 Cr mark. The negative credit cost remains a powerful P&L tailwind for at least 4-6 more quarters, providing a safe window for the

company to complete its transition to a higher-NIM entity. Any stock price volatility related to Prime-sector competition should be ignored in favor of the 32%+ growth in high-yield Emerging Markets.