

## PNB Housing Finance Ltd — Oct 2024 Quarterly Analysis

### 1. VERDICT & BUSINESS QUALITY SNAPSHOT

**Result: Beat One-line:** PNBHFL has transitioned from a "cleanup" story to a "high-yield growth" engine, punctuated by Corporate NPAs hitting zero and the successful scale-up of its high-margin Affordable and Emerging segments.

| Dimension                        | This Quarter           | Signal / Evidence                                                                                                                 | Sentiment |
|----------------------------------|------------------------|-----------------------------------------------------------------------------------------------------------------------------------|-----------|
| Beat/Miss vs Guidance            | Beat                   | Retail growth at 16.2% (vs 17% guide); GNPA at 1.24% beat the 1.35% Q1 level.                                                     | ☐         |
| Earnings Quality                 | High                   | PAT growth (22.6% YoY) driven by NIM stability and retail scale; ₹48 Cr recovery from written-off pool is a recurring cash bonus. | ☐         |
| Guidance Confidence              | Strong                 | Reaffirmed 17% retail growth and 3.5% NIM floor; Affordable vertical on track for ₹5,000 Cr FY25 target.                          | ☐         |
| Management Credibility           | Strong                 | Achieved zero Corporate NPA milestone; successfully front-ended branch expansion now yielding 10% of Prime/EM volume.             | ☐         |
| Business Quality Signal          | Improving              | Pivot to high-yield segments (31% of disbursements) is successfully countering pricing pressure in the Prime commodity segment.   | ☐         |
| Key Q&A Exchange                 | Q22 + Sanction lag     | Management admitted a process-related drop in Affordable sanction-to-disbursement (56%) but expects a Q3 rebound.                 | ☐         |
| The Street's Primary Anxiety     | Corporate Re-entry     | Fear of legacy mistakes in Corporate lending; Mgmt responded with tight ₹200 Cr ticket caps and Tier A/B developer focus.         | ☐         |
| Capital Cycle Stage              | Harvesting / Expansion | Harvesting asset quality; expanding high-yield retail footprint (50 new branches planned).                                        | ☐         |
| Margin / Return Ratio Trajectory | Improving              | ROA rose to 2.54% (vs 2.38% Q1); NIMs stable at 3.68% as CoB benefits from rating upgrades.                                       | ☐         |
| Pricing Power                    | Stable                 | Prime pricing is competitive, but EM and Affordable segments are achieving 45bps and 260bps premiums respectively.                | ☐         |
| FCF Conversion & Quality         | Strong                 | Continued recoveries from ₹1,750 Cr written-off pool provide high-quality P&L support for 4-6 quarters.                           | ☐         |
| Competitive Moat Signals         | Widening               | Leverage of PNB parentage and AA+ rating provides a structural 7.84% CoB advantage over mid-sized HFCs.                           | ☐         |
| Balance Sheet Strength           | Strong                 | CRAR at 29.13%; Corporate book runoff to ₹1,531 Cr (2% of book) eliminates legacy concentration risk.                             | ☐         |
| Working Capital Efficiency       | Improving              | Tech stack (Salesforce/CRM) now handling 41,373 logins; 25% of salaried cases are Straight Through Processed (STP).               | ☐         |
| Mgmt Guidance Track Record       | Reliable               | Consistent delivery on retailization and GNPA reduction glide paths over 8 quarters.                                              | ☐         |
| Key Vulnerability / Red Flag     | BT-out Pressure        | Prime segment yields are stable only through aggressive retention; any repo rate cuts will test the NIM floor.                    | ☐         |
| Management Tone                  | Confident              | Decisively upbeat on the "Roshni" milestone and the upcoming PMAY tailwinds.                                                      | ☐         |

**Key Takeaways (Positives & Negatives):** \* **Positives:** The business has fundamentally de-risked; Corporate NPAs are now non-existent, and the retail engine is firing across all three tiers (Prime, EM, Roshni). The "Roshni" (Affordable) vertical crossed ₹3,000 Cr in 22 months, becoming a material profitability driver with 11.95% incremental yields. Funding costs are optimized (7.84%) post-rating upgrades, allowing the company to compete in Prime while harvesting fat spreads in Tier 2/3 markets. \* **Negatives:** Prime segment disbursements grew at 22.5% but the book only grew 10.7% due to continued Balance Transfers (BT-outs) and competition from banks. Operating expenses remain elevated as the company digests the 100-branch addition from Q4 FY24. \* **Street Concern:** Analysts are hyper-focused on the "New Corporate" strategy. Management clarified this will be restricted to Construction Finance with a 10% cap on the total book, focusing on lower ticket sizes (₹200 Cr) and premium developers to avoid legacy pitfalls. \* **Watchpoint:** The execution of the re-launched PMAY Interest Subsidy Scheme in H2 FY25, which could provide a volume kicker to the already fast-growing Affordable segment.

## 2. BUSINESS PERFORMANCE

### 2A. KEY METRICS

DATA SOURCE: PPT figures used as primary.

| Metric                  | Current Qtr | YoY Change | QoQ Change | Trend | Mgmt Commentary                                                    |
|-------------------------|-------------|------------|------------|-------|--------------------------------------------------------------------|
| NII (₹Cr)               | 661         | 1.2%       | 1.5%       | ↑     | Retail NII grew 12.5% YoY; overall muted by Corporate book runoff. |
| NIM (AUM basis %)       | 3.68%       | -27 bps    | +3 bps     | ↑     | Improved QoQ due to lower CoB; guided 3.5% as long-term floor.     |
| Cost of Funds %         | 7.84%       | -15 bps    | -8 bps     | ↑     | Benefit of CRISIL AA+ upgrade; shift toward Debt Capital Markets.  |
| Loans Growth (% YoY)    | 16.2%       | (Retail)   | 4.3%       | ↑     | Retail book reached ₹67,970 Cr; total book at ₹69,501 Cr.          |
| GNPA %                  | 1.24%       | -54 bps    | -11 bps    | ↑     | Corporate NPA is NIL; Retail GNPA at 1.27% (improved from 1.39%).  |
| NNPA %                  | 0.84%       | -35 bps    | -10 bps    | ↑     | Strong PCR and resolutions; SMA-II resolution at 97%.              |
| Credit Cost (%)         | -0.24%      | -50 bps    | -17 bps    | ↑     | Negative due to ₹48 Cr recovery from written-off pool.             |
| Collection Efficiency % | 99.9%       | +40 bps    | +90 bps    | ↑     | High efficiency across buckets; 95% Bucket X resolution.           |
| Capital Adequacy %      | 29.13%      | -137 bps   | -37 bps    | ↓     | Strong Tier-1 at 28.1%; lower YoY due to growth/dividends.         |
| PAT (₹Cr)               | 470         | 22.6%      | 8.6%       | ↑     | Driven by retail scale and credit cost reversals.                  |
| Fee Income Growth %     | 51.4%       | (PPT)      | 10.3%      | ↑     | Strong processing fee traction from 28% disbursement growth.       |
| ROA (%)                 | 2.54%       | +34 bps    | +16 bps    | ↑     | Tracking toward the upper end of the 2.4%-2.5% guidance.           |

### 2B. SEGMENT BREAKDOWN

| Segment    | Disbursement (₹ Cr) | YoY Growth | Yield (%) | Trend | vs Co Avg | Key Development                                               |
|------------|---------------------|------------|-----------|-------|-----------|---------------------------------------------------------------|
| Prime      | 3,676               | 22.5%      | 9.34%*    | ↓     | Lower     | ATS ₹35L; focus shifting to "Mass Affluent" from Super Prime. |
| Emerging   | 1,035               | 31.1%      | 9.79%*    | ↑     | Higher    | ATS ₹25L; 45bps yield premium over Prime.                     |
| Affordable | 630                 | 68.5%      | 11.95%*   | ↑     | Highest   | ATS ₹16L; book crossed ₹3,000 Cr in Oct-24.                   |
| Corporate  | 0                   | N/A        | N/A       | →     | N/A       | Re-entering CF business in H2 FY25 with ₹200 Cr ticket size.  |

\*Incremental Yields

### 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% growth in H2 to hit target.                  | Delivered 16.2% this quarter (up from 14.4% in Q1).        | Low       |
| Guidance  | NIM                | 3.5% (Threshold)          | Stable; currently at 3.68%.                             | Consistently maintained above 3.5% threshold.              | Low       |
| Guidance  | Asset Quality      | GNPA < 1.0% by Mar-25     | Need to reduce ~24 bps in two quarters.                 | Dropped from 1.78% to 1.24% in 12 months.                  | Low       |
| Guidance  | Affordable Book    | ₹5,000 Cr by Mar-25       | Needs ~₹1,000 Cr net addition in H2.                    | Already reached ₹3,000 Cr in Oct-24; trajectory is strong. | Low       |
| Strategy  | Corporate Re-entry | Restart CF in H2 FY25     | Select Tier-1 cities; <10% of total book.               | First time re-entering after 3 years of cleanup.           | Moderate  |
| Strategy  | Branch Network     | 50 new branches in FY25   | On track; 100 branches added in Q4FY24 now operational. | Demonstrated ability to scale footprint rapidly.           | Low       |
| Strategy  | Yield Mix          | Affordable to reach 13%   | Moving up from 11.95% currently.                        | Incremental yields rose from 11.58% to 11.95% QoQ.         | Low       |

## 4. ANALYST Q&A

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| Q# | Relevance | Analyst / Firm                  | Theme Cluster   | Category   | Underlying Concern                                                                                                                                                         | Management Response & Investment Implication                                                                                                                                                                                                           | Evaded / Not Addressed | Credibility | Verdict                   |
|----|-----------|---------------------------------|-----------------|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------|---------------------------|
| 1  | 4.5       | Abhijit Tibrewal, Motilal Oswal | Yield Drivers   | Financials | "What proportion of this increase in incremental yields... has come from our product mix change and what percentage has come from an increase in yields... in home loans?" | Management attributed yield expansion to a combination of geography, product mix (NHL), and shifting down the income pyramid in Prime. This suggests the company is successfully finding mispriced pockets in the market to sustain margins.           | None                   | 4.0         | Directional with evidence |
| 2  | 4.0       | Renish, ICICI                   | Credit Cost     | Financials | "What's the steady-state credit cost one should assume for PNB Housing going ahead?"                                                                                       | Management guided for a medium-term credit cost of 30-40 bps based on the evolving mix of Prime (18 bps), EM (24 bps), and Affordable (50 bps). This provides a clear valuation floor for earnings modeling despite the shift to higher-risk segments. | None                   | 4.5         | Specific and verified     |
| 3  | 4.0       | Renish, ICICI                   | Borrowing Costs | Financials | "Ideally, incremental cost of fund should have come down, right? I mean, post rating                                                                                       | CFO explained the marginal rise in incremental cost was due to borrowing mix changes                                                                                                                                                                   | None                   | 4.0         | Directional with evidence |

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|----|-----------|---------------------------|--------------------|------------|-----------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------|-----------------------|
|    |           |                           |                    |            | upgrade. So, what am I missing here?"                                                         | (short-term vs long-term) and the timing of rating benefits playing out. Investors should expect a downward trajectory in H2 as debt capital market participation increases.                                                                                                                 |                        |             |                       |
| 4  | 4.5       | Nilesh Jethani, BOI MF    | Corporate Re-entry | Strategy   | "How different is this [Corporate] going to be versus the earlier avatar PNB used to Fund?"   | CEO stated the new Corporate strategy focuses on ticket sizes of ₹200 Cr (vs ₹400 Cr legacy), Construction Finance only, and a strict cap of 10% of the total portfolio. This "Corporate 2.0" approach targets lower-risk developers, which should prevent the lumpy NPA shocks of the past. | None                   | 4.5         | Specific and verified |
| 5  | 3.5       | Harshit Toshniwal, Premji | Affordable Yields  | Financials | "Do you think that this [12%] is a good enough yield to charge for that customer segment that | Management confirmed the plan to push Affordable yields to 13% + by next year, focusing on low and                                                                                                                                                                                           | None                   | 4.0         | Clear and quantified  |

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|----|-----------|----------------------------|---------------------|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------|-----------------------|
|    |           |                            |                     |                   | can cover our OPEX and possible sustainable cyclical credit cost?"                                                                                                       | medium-risk sub-segments. This indicates a focus on risk-adjusted returns rather than just chasing high-yield, high-risk volume.                                                                                                    |                        |             |                       |
| 6  | 4.0       | Omkar Shinde               | Sanction Conversion | Business Overview | "Why is there such a big drop in the sanction to disbursement [in Affordable] and are we going to see some spillover effect...?"                                         | Management blamed a temporary process change in July for the 56% conversion rate but noted September was back to normal levels (>70%). This implies a strong disbursement "spillover" boost is likely in Q3 FY25.                   | None                   | 4.5         | Specific and verified |
| 7  | 3.5       | Nikhil Agarwal, VT Capital | NIM Improvement     | Financials        | "Since... incremental cost of funds is going to be at the current level... then NIM should ideally start improving right now... can you please give more light on this?" | CEO clarified that the lag is due to repricing/ retention switches and the runoff of Prime loans, with the mix benefit of high-yield segments kicking in after 2-3 quarters. This suggests NIM expansion is a FY26 story, with FY25 | None                   | 4.0         | Clear and quantified  |

| Q# | Relevance | Analyst / Firm | Theme Cluster | Category | Underlying Concern | Management Response & Investment Implication | Evaded / Not Addressed | Credibility | Verdict |
|----|-----------|----------------|---------------|----------|--------------------|----------------------------------------------|------------------------|-------------|---------|
|    |           |                |               |          |                    | being about stabilization.                   |                        |             |         |

## PATTERN FLAGS & SENTIMENT

Analysts were primarily concerned with the **sustainability of yields in the Prime segment** and the **risk management of the new Corporate vertical**. The recurring questions on "how Prime yields are rising" signaled skepticism, which management countered by highlighting the move away from ultra-HNI customers toward mid-market outskirts. The second major theme was the **Affordable segment's operational efficiency**, specifically the drop in sanction conversions and the headcount required to drive growth.

**Analyst Sentiment Verdict:** The overall mood was positive but watchful. Analysts were impressed by the "Zero Corporate NPA" and the rapid Roshni scale-up, but remain cautious about the re-entry into Construction Finance. The credibility of the MD/CEO has reached a high point as legacy cleanup is officially over, shifting the focus to whether he can maintain risk discipline during this new growth phase.

## GUIDANCE GAPS REVEALED IN Q&A

| Topic                 | What Mgmt Claimed | What Q&A Revealed                  | Gap / Walk-back                                                             | Risk to Thesis                                         |
|-----------------------|-------------------|------------------------------------|-----------------------------------------------------------------------------|--------------------------------------------------------|
| Affordable Conversion | Strong throughput | Conversion dropped to 56% in Q2    | Process "hiccup" in July temporarily slowed velocity.                       | Low; recovery seen in Sep.                             |
| NIM Timing            | Improving mix     | NIM expansion is 2-3 quarters away | The "dragging effect" of Prime repricing is currently offsetting mix gains. | Moderate; requires perfect execution in EM/Affordable. |

## 5. WHAT CHANGED vs PRIOR QUARTER

| What Changed                 | Prior Quarter (Q1 FY25)     | This Quarter (Q2 FY25)                               | Direction |
|------------------------------|-----------------------------|------------------------------------------------------|-----------|
| Corporate Asset Quality      | 2.86% GNPA                  | <b>NIL (0%) GNPA</b>                                 | ↑         |
| Affordable Book Size         | ₹2,959 Cr                   | ₹2,959 Cr (Sep-end) / >₹3,000 Cr (Oct)               | ↑         |
| Return on Assets (ROA)       | 2.38%                       | 2.54%                                                | ↑         |
| Retail Disbursement Growth   | 23.3% YoY                   | 28.2% YoY                                            | ↑         |
| Corporate Re-entry Status    | Planning phase              | <b>Launch in H2 FY25</b> (with specific ticket caps) | ↑         |
| Cost of Borrowing (CoB)      | 7.92%                       | 7.84%                                                | ↑         |
| Incremental Affordable Yield | 11.58%                      | 11.95%                                               | ↑         |
| Recovery Pool Gains          | ₹28 Cr (Retail written-off) | ₹48 Cr (Retail written-off)                          | ↑         |

*Note: The "Zero Corporate NPA" is the single most significant thesis-strengthening event this quarter, effectively closing the chapter on the company's legacy asset quality issues.*