PNB Housing Finance

Operator: Ladies and gentlemen, good day and welcome to PNB Housing Finance Ltd. Q2 and H1 FY25 earnings call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing star, then zero, on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chaitanya Yadav, National Head - Corporate Planning and Investor Relations. Thank you, and over to you, sir.

Chaitanya Yadav - National Head - Corporate Planning and Investor Relations: Thank you, Ikra. Good evening and welcome, everyone. We are here to discuss PNB Housing Finance Ltd. Q2 and H1 FY25 results. You must have seen our business and financial numbers in the presentation and the press release shared with the Indian stock exchanges, which are also available on our website. With me, we have our management team led by Mr. Girish Kousgi, Managing Director and CEO of the company. We will begin this call with the performance update by the management team, followed by an interactive Q&A session.

Please note that this call may contain forward-looking statements which exemplify our judgment and future expectations concerning the development of the business. These forward-looking statements involve risks and uncertainties that may cause actual developments and results to differ materially from our expectations. PNB Housing Finance Ltd. undertakes no obligation to publicly revise any forward-looking statement to reflect future events or circumstances. A detailed disclaimer is on slide number 45 of the investor presentation.

With this, I will hand over the call to our MD and CEO, Mr. Girish Kousgi. Over to you, sir.

Girish Kousgi - MD & CEO: Thank you, Chaitanya. Good evening, everyone, and welcome to PNB Housing Finance Ltd. Q2 and H1 FY25 earnings call. Thank you for taking the time to join us today.

We are delighted to share that CRISIL has upgraded our credit rating to AAA with a stable outlook. With this upgrade, we are now AAA by all four leading domestic rating agencies: CRISIL, ICRA, CARE Ratings, and India Ratings. This achievement reflects the strength of our balance sheet, prudent risk management, strong asset quality, and the consistency of our operating performance.

Before discussing our operational performance for the quarter, let me begin by sharing some perspective on the industry environment and the key trends shaping the housing finance sector. The recent status quo on the repo rate by the RBI and clear policy guidance reinforce confidence in the housing finance sector's medium-term prospects. While broader macroeconomic developments may influence growth trends periodically, the sector continues to benefit from strong structural drivers, including urbanization, improving infrastructure, rising incomes, favorable demographics, and increasing homeownership aspirations. These factors continue to support resilient housing demand and healthy growth.

Industry prospects also remain encouraging. ICRA expects affordable housing finance companies to deliver AUM growth of 19% to 21% in FY25, supported by robust demand, expanding distribution reach, and the significant opportunity presented by India's underpenetrated housing finance market.

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Coming to PNB Housing Finance Ltd., Q2 FY25 was a landmark quarter for the company. Some of the key highlights for the quarter are as follows:

Overall disbursements grew 28% YoY to 5,341 crore. This includes a pool buyout of 246 crore. Retail disbursements reached an all-time high of 5,095 crore, registering a growth of 22% YoY. The loan book grew by 15% YoY, in line with our guidance, led by strong disbursements. GNPA improved to 1.24% versus 1.35% in Q1 FY25. Spread improved to 2.25% as compared to 2.23% in Q1 FY25. ROA and ROE stood at 2.45% and 12.33%, respectively.

At the segment level, the affordable business witnessed a strong revival following the strategic initiatives undertaken over the past few quarters, with disbursement growth of 40% YoY to 649 crore. The emerging market business delivered another strong quarter, with disbursements growing 26% YoY to 1,080 crore. Our prime business continued its steady momentum, with disbursements reaching 3,366 crore, up 14% YoY. Corporate disbursements stood at {? 107 crore ?} for Q2 FY25 versus {? nil ?} in Q1 FY25.

This translated into an overall loan book of 67,970 crore as on September 30, 2024, representing growth of 15% YoY. Our retail loan portfolio also grew by 15% YoY to 65,992 crore. Within the retail portfolio, the affordable and emerging market segments continued to be our key growth engines, representing YoY book growth of 62% and 22%, respectively, and together contributing 36% of the overall retail portfolio. We remain on track to increase this contribution to 40% by the end of FY25.

Let me also update you all on our four strategic initiatives that we highlighted during the Q1 earnings call. We disbursed 107 crore under emerging developer finance in H1 FY25, and 241 crore of affordable business from selected prime and emerging branches. As announced in Q1 FY25, we launched our micro-housing business during Q2 FY25 and have already disbursed 71 crore under this initiative. Additionally, we completed a pool buyout of 246 crore during H1 FY25, further supporting growth in our earning assets. These initiatives are expected to accelerate the scale-up of our loan book while enhancing portfolio yield and maintaining portfolio quality.

Under PMAY, we undertook an extensive awareness campaign through PMAY Yatra across key markets in Gujarat, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, and Uttar Pradesh. These initiatives have helped thousands of families better understand the benefits of the scheme and navigate their homeownership journey with greater ease. We further strengthened our affordable housing outreach through the inauguration of India's first PMAY nodal branches in Siliguri and Kanpur. To date, we have facilitated benefits for over 8,000 PMAY Urban 2.0 beneficiaries, with another 1,200 applications submitted to CNA for approval. Going forward, we intend to scale the impact of this initiative through our extensive network of more than 300 branches across India.

Our corporate loan book stood at 1,978 crore as on September 30, 2024. During the quarter, we successfully completed a Voice AI POC for bucket X calling, with very promising results. We also completed POCs for an AI-powered policy and knowledge assistant as well as intelligent document processing, where AI helps in the classification, summarization, cross-validation, and extraction or population of data. Apart from core business functions, we also successfully completed an agentic AI POC for employee hiring. The next couple of quarters will now be focused on translating these successful POCs into production deployment and redefining our customer journey by leveraging GenAI and agentic AI across various functions. On the traditional AI front, we continue to strengthen

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our robust machine learning ecosystem. We have developed an end-to-end collection solution suite, right from the early warning system to signal generation, bounce prediction, settlement prediction, and prioritization. The solution suite covers the entire collection lifecycle.

As far as geographical presence is concerned, our distribution network stood at 304 branches across India as on September 30, 2024, which include 160 affordable branches, which we call Roshni, 56 emerging market branches, and 88 prime branches. The extensive reach gives us a strong foothold in Tier 2 and Tier 3 markets, where we continue to witness significant growth opportunities and strong customer demand.

Asset quality continued to strengthen during the quarter, with GNPA improving to 1.24% as compared to 1.35% during Q1 FY25. During Q2 FY25, we recovered 75 crore from the written-off pool, resulting in a negative credit cost of 19 bps. Our retail written-off pool has now reduced to approximately 320 crore, reflecting sustained progress in recoveries and portfolio cleanup efforts.

Coming to margins, our spread increased by 2 bps sequentially to 2.25%. Excluding the one-off, spread would be 2.23%. NIM improved by 4 bps sequentially to 3.68%. Excluding the one-off, NIM would be flat sequentially at around 3.65%. Our portfolio yield improved to 10.05% in Q2 from 10.04% in Q1 FY25. The cost of borrowing also improved by 5 bps to 7.80% in Q2 FY25, and the incremental cost of borrowing also improved by 7 bps to 7.74%.

On the profitability front, profit after tax for the quarter grew by 23% YoY to 470 crore, translating into an ROA of 2.45% and ROE of 12.33%. Our capital position remains strong, with a capital adequacy ratio of 29.13% and a Tier 1 capital ratio of 28.06% as of September 30, 2024.

As we look ahead, we remain confident in the opportunities before us. [trails off]

Girish Kousgi – MD & CEO: Our strategy remains focused on driving profitable growth, increasing the share of high-yield retail segments, strengthening portfolio quality, leveraging technology to improve productivity and customer experience, and building a resilient and scalable franchise. With a strong balance sheet, improving operating efficiencies, accelerating digital transformation, and disciplined risk management, we believe PNB Housing Finance Ltd. is well positioned to deliver sustainable growth and create long-term value for all its stakeholders.

Before I conclude, I would like to extend my heartfelt wishes to all our stakeholders for a joyous and prosperous Diwali. Now I will hand over the call to our CFO to discuss the financial performance in greater detail before we open the floor for questions. Thank you so much.

Vinay – CFO: Thank you, sir. With that overview, let me now take you through the key financial highlights for the quarter.

Led by strong loan book growth during the quarter, our net interest income grew 15% year-on-year, and gross margin increased 16% year-on-year.

Our portfolio yields continued to improve and are now at 9.74% in Q2, an increase of 26 basis points sequentially. Incremental yields have also improved by 18 basis points to 9.64%.

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The cost of borrowing improved sequentially by 5 basis points to 7.31%, while the incremental cost of borrowing improved by 15 basis points to 7.26%.

Better liquidity in July, incremental borrowing through NHB, and high on-time recovery helped lower the cost of borrowing in Q2.

As a result, our spread expanded to 2.43% and NIM improved to 3.67% during the quarter.

The reported yields, spread, and NIM include a one-time recovery of charges on the prepayment of one legacy corporate account. Adjusting for this one-off item, yield, spread, and NIM would have stood at 9.56%, 2.24%, and 3.49%, respectively.

With higher incremental yield versus book yield and a rising interest rate scenario, we feel that spread and NIM should further improve from here.

Following the recent 25 bps policy rate hike, we anticipate a modest increase in our borrowing cost. To offset this impact, we are also evaluating an increase in our retail lending rates by 10-15 basis points and corporate lending rates by 15-20 basis points. This will be effective from November 1.

As a result, we expect the overall impact on NIMs to remain broadly neutral to positive.

Operating expenses increased by 20% year-on-year to 260 crores in Q2 from 217 crores in Q2 of FY26, largely in line with the growth in business volumes and driven primarily by investments in manpower additions within the affordable vertical. Despite the scale-up in investments, our opex-to-ATA ratio remains well contained at 1.03% during the quarter.

Reflecting strong business momentum and disciplined cost management, our PPOP, or pre-provision operating profit, grew 16% year-on-year to 749 crores.

Moving to asset quality, our gross NPA improved further to 0.91% as of Q2 FY27, reflecting the continued strength of our underwriting and collection processes. The company continues to deliver healthy recovery from the written-off pool, recovering 75 crores during the quarter. Consequently, we reported a negative credit cost of 19 basis points during the quarter.

Profit after tax for the quarter grew 66% year-on-year to 617 crores. ROA stood at 2.53% and ROE at 12.33%.

Reflecting the strength of our balance sheet, the capital adequacy ratio remains strong at 27.03%, including a Tier 1 capital ratio of 26.62%.

Our net worth stood at 20,250 crores, while the book value per share increased to 776 rupees.

As we move forward, we remain focused on disciplined execution of our strategic priorities, underpinned by strong fundamentals and differentiated strengths of our franchise. With a strong capital base, healthy asset quality, and improving profitability, we are confident in our ability to deliver sustainable growth and long-term value creation.

With that, I conclude my remarks. Thank you for your continuous support, and now I hand it back to Girish.

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Girish Kousgi – MD & CEO: Thank you, Vinay. Now we can open the floor for the Q&A.

Operator: Thank you very much, sir. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal – Motilal Oswal: Good evening, everyone, and thank you for taking my question. Sir, firstly, I wanted to understand two clarifications on what you have reported in this quarter. First, if you could explain the one-off charges that you have spoken about, which you have collected from this legacy corporate account. What exactly is it? What is the nature of the charges that you have collected? And how does it get accounted for in the interest income?

The second thing is that in this quarter, sir, you have also spoken about the portfolio buyouts that you have done over H1. What is the intent behind doing that? And in which product segments—basically home loan, LAP, or the different segments that you have, prime, emerging, and affordable—are you evaluating these portfolio buyouts?

Girish Kousgi – MD & CEO: I will take question number two first, and then Vinay will take question number one. I hope it is okay, Abhijit.

Basically, the portfolio buyout is a combination of home loans and LAP. It is not that we have purchased only one portion of the mortgage. It is a combination of both.

Vinay, do you want to answer first?

You also wanted to ask why we did that. Basically, it is a part of our annual plan. We took a budget of almost 2,000 crore of portfolio buyouts in our budget this year. We have completed close to 986 crore of buyouts by H1, and this was as per our plan.

Vinay – CFO: On the charges, Abhijit, this is related to one legacy corporate account that we had. There were certain overdue charges and overdue interest, which were collected at the time of closure. We account for it only on a receipt basis. Hence, as we have received it now, it is accounted for during Q2. This is more like a one-off, as the account is now fully closed.

Abhijit Tibrewal – Motilal Oswal: Got it. Thanks for that clarification. Sir, the other question that I had is that, as you rightly mentioned in your opening remarks, with this rising interest rate cycle, the expectation is that the NIM should remain stable on an improving trajectory. If you could just help us understand the sensitivity of the cost of borrowings and perhaps margins to a 50-basis-point rise in repo rates?

Vinay – CFO: Sure. First of all, leaving the interest rate scenario aside, overall, if you see, our incremental yield is now better than the book yield. That will definitely support a better yield at the book level also going forward. Our incremental yield is now 9.64% versus a book yield of around 9.54%. It is definitely going to further support the yield trajectory.

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Secondly, from an interest rate perspective, with a 25 bps change, we expect around a 9–10 basis point increase in our cost of borrowings. Accordingly, we are also contemplating increasing our portfolio rate by 10–15 basis points. Immediately, an increase of 8–10 basis points can increase to 12–15 basis points by the end of Q4. This is the sensitivity from the current 25 bps hike that we saw. For 50 bps, it will become between 15 and 20 basis points.

Abhijit Tibrewal – Motilal Oswal: So 50 [crosstalk] Got it.

Vinay – CFO: A 50 bps increase translates to a 25 basis point, or 20 basis point, increase.

Abhijit Tibrewal – Motilal Oswal: Okay, so 50 basis points will translate into how much did you say?

Vinay – CFO: A 20 basis point impact.

Abhijit Tibrewal – Motilal Oswal: A 20 basis point increase in the cost of borrowings, and likewise you said yields will continue to improve, given that incremental yields are better than the book yields.

Vinay – CFO: Exactly.

Abhijit Tibrewal – Motilal Oswal: Got it, sir. This is useful. And the last question is for the MD. Sir, when we look at this quarter, disbursements have obviously been very strong. I am assuming there was some spillover effect, given that effective April, we realigned how we make disbursements and how we book them in the AUM and loan book. Do you think whatever momentum is typically better in the second half of the fiscal year is what we are seeing, or is it what we have started hearing now? Interest rates are going up, and droughts—are they having any impact on demand today, or do you think demand continues to remain strong and we may continue building on the momentum in terms of disbursements in the coming quarters?

Girish Kousgi – MD & CEO: Honestly, I think this 25 bps repo increase has not resulted in any change in terms of momentum in the market because the market has easily absorbed it, which is reflected in the overall industry. If you see the logins, sanctions, and disbursals, I think we have not seen any impact of that as of now.

The momentum is still there. When there was a downturn, it went up to 1.25% repo down, and these rates at which we are operating as of now are not a new phenomenon, I would say, because this is how the cycle works. There was a longer period during which the rates were not increased. Now the scenario has changed, but we have not seen any impact as of now from this 25 bps repo increase.

The momentum is there.

Abhijit Tibrewal – Motilal Oswal: Got it, sir. That is useful. Thank you so much. We will come back in the question queue, but I wish you and your team the very best.

Girish Kousgi – MD & CEO: Thank you.

Operator: Thank you. Ladies and gentlemen, in order to ensure that the management will be able to address questions from all the participants in the conference, kindly limit your questions to two per participant. Should you have a follow-up question, please rejoin the queue.

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The next question is from the line of Renish from ICICI Securities. Please go ahead.

Renish – ICICI Securities: Hi, sir. Congratulations on a good set of numbers. Sir, just two things. First, on the affordable housing yield movement, in the commentary we have said that, given the incremental business is coming from prime and emerging branches, I just wanted to understand the strategy here. If yields are diluting, is it a fair strategy to expand the branch network or perhaps open more branches to do affordable business from prime and emerging branches?

Girish Kousgi – MD & CEO: Renish, thank you so much, first of all. As a part of our strategy, we have enabled our prime and emerging markets, and largely these are markets such as metropolitan areas and state capitals where you get this business. There is definitely some competition compared to Tier 3 and Tier 4 markets, but in spite of that, our strategy will remain focused on opening more branches in Tier 3 and Tier 4 cities only.

Overall, if you see, the yield impact is only 10–12 bps, not much. If I look at the Roshni vertical on a standalone basis, the yield is flat, so there is no reduction or drop in the yield. For example, if you operate in the Delhi periphery, you will definitely get a better customer, but you may have some compromise in pricing because of the property value and other factors. There are good properties, and sometimes the customer is also very good, but the property is affordable. In that way, it is a minor trade-off, I would say.

Overall, the strategy remains to do more affordable business in the Roshni vertical, which is our [cut off]

Renish – ICICI Securities: Affordable vertical. Got it. And then, just related to that, internally, when you assess the P&L, for example, on a cohort basis, are customers sourced through prime and emerging more profitable than cross-lead because, given that you are using the existing infrastructure, the cost of customer acquisition will be lower in prime and emerging branches than in cross-lead branches? Hence, we can afford to lose a few basis points, I believe. Is that the fair understanding?

Management: I think you are absolutely right. For example, in September, my prime and emerging markets contributed more than 100 crore of business to affordable. Now imagine that my infrastructure was already in place: 100 crore of business at affordable rates, without adding any infrastructure cost, is a winning situation for me. I think this strategy has worked really well, and I am very confident that this will improve further.

Renish – ICICI Securities: Got it. So, just the last thing on the growth side: we are already at 19%, and going ahead, as you rightly mentioned, the underlying momentum seems to suggest good traction. Are we closing this year with 20% growth or more? Or perhaps, when we enter FY28, what is the growth target in your mind, sir?

Management: I think the growth guidance that we gave was 18% to 20%. We would always be very happy to grow at the level we have delivered now. Currently, we are maintaining the guidance, but I am pretty sure that, as we are currently at 19%, it should improve.

Renish – ICICI Securities: And FY28, sir, would you like to comment on anything?

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Management: Sorry?

Renish – ICICI Securities: FY28.

Management: For FY28, next year, I think we are working on the strategy for FY28. We will start working on Q3, but the idea is not to degrow.

Renish – ICICI Securities: Got it. This is very helpful, sir. Thank you, and best of luck, sir.

Management: Thank you.

Operator: Thank you. The next question is from the line of Viral Shah from IIFL Capital. Please go ahead.

Viral Shah – IIFL Capital: Hi. Thanks for the opportunity, and congratulations on a good set of numbers. I have two questions. First, it has been almost 20 days since the policy announcement came through. You also mentioned that you have taken some pricing action, which will be effective from November 1. Over the last 20 days, what is the market and competitive environment that you have observed? Are people able to price in or at least pass through this incremental 25 bps increase in rates, whether it is 25 or 20 bps, on an incremental acquisition basis? What are you seeing, and are you confident that this pricing will sustain? When we look at the rack rates that many of the banks have, those have definitely moved up by 25 basis points.

Management: Viral, we are also keeping a very close watch on how the competition is playing in the market. Currently, with the increase of 25 bps in the repo rate, I think most housing finance companies have increased their pricing by 15–20 bps. Some have increased it by 15 bps and some by 20 bps, depending on their cost of funds, because there is a methodology that everybody has submitted to the regulator explaining how they compute their overall pricing, how they pass it on to the customer, and how it costs them.

Everybody uses that methodology. Every company has a different type of borrowing on its book. Some have borrowings linked to the repo rate, while others have a combination. Coming to the incremental question, some have a mix of MCLR and repo, and a company like ours also has fixed deposits and NHB refinance. With an increase of 25 bps in the repo rate, the pass-on would be in the range of 15–20 bps. I think that will happen. What is your next question, Viral?

Viral Shah – IIFL Capital: The second question is on the credit cost for this quarter. If I adjust for the 75 crores of recovery that you mentioned, it is currently standing at around 11 basis points. Is this a run rate that we should expect sometime next year once the recoveries stop coming through and we see a more normalized credit cost? What should that be?

Management: That is right, Viral. It should be in that range, around 10–12 basis points.

Viral Shah – IIFL Capital: Okay, and that would be more stable according to you?

Management: Yes, post-normalization.

Viral Shah – IIFL Capital: Got it. Can I ask two more follow-up or clarificatory questions?

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Management: Yes, please.

Viral Shah – IIFL Capital: When you mentioned that for a 50 bps rate hike you would see around 15-20 basis points—actually, sorry, a 20 basis point increase in the cost of funds—what would be the pass-through on the lending rate side in that scenario?

Management: We will pass on whatever impact we see on our cost of borrowing. If we see a 20-30 basis point increase in the cost of borrowing, it will be passed on to the portfolio.

Viral Shah – IIFL Capital: Got it. That is very clear. The other follow-up is on the insurance commission side. Have you assessed the potential? Do you have offsets, and what is the thought process there? What is the expectation?

Management: I think this is a very hot and pressing question nowadays, Viral. Every company is working on its model, I would say. If I talk about us, we are exploring opportunities, perhaps more opportunities to source more business from the market, and we may have an opportunity for a pool sale, including DA, to obtain some front income. That is one aspect.

We will also see improvement in processing fees, so some portion can be offset by that. My belief, Viral, is that if this is implemented as it is in the industry, the premium will go down substantially, perhaps by 30-40% for the consumer. One opportunity is that your ability to do more business in that segment will increase, because when the premium is low, you can sell more products, including combo products, to the consumer.

In that way, your premium will improve, and because the premium will be reduced, you will have more opportunities to cover more customers. This is still at the discussion stage. The final outcome still has to come, and we will see how it shapes up, because preliminary discussions were taking place.

Honestly speaking, we have started working on how much we can compensate through various opportunities even if it is implemented as it is. These may include some cost-control mechanisms, an increase in fees, as I said, some DA, and a greater focus on higher-yield products. I think that is how it will help.

Viral Shah – IIFL Capital: Got it. Thanks. That is very clear. Thank you so much, and all the very best.

Management: Thank you, Viral.

Operator: Thank you. The next question is from the line of Chintan Shah from Citigroup. Please go ahead.

Kunal Shah – Citigroup: Hi. This is Kunal Shah.

Management: Hi.

Kunal Shah – Citigroup: Focusing on the overall NIM trajectory, I want to understand the position on the outstanding portfolio and on an incremental basis. There are not many levers. In fact, we are increasing the proportion of non-housing loans, which is inching up every quarter. In addition, we have this credit-rating benefit, which will flow through. Even in terms of the rate pass-on, given that

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it is a repo-linked rate, everything generally gets passed on, although some of it may be offset by competition. Overall, in terms of NIMs, does this clearly suggest that there should be a good level of improvement from around 3.5%, or not really?

Management: There will definitely be a positive impact on spread as well as on NIM, but NIM will also have an offsetting impact from leverage. Our leverage is also continuously increasing. It will offset some of the impact, but yes, there will be a positive rub-off on both spread and NIM.

Kunal Shah – Citigroup: On spread, it should definitely be there, perhaps considering the mix and the credit upgrade. Should we not see an improvement from the current level of 2.24%, adjusting for this one-off, in a rising interest rate environment?

Management: Definitely. That is what I am saying: spread should definitely improve. However, on the credit-rating side, that will take some time; it will not come immediately. We have started working on it, but if you see the gap between us and other AAA-rated companies, it is not large. For example, Tata is at 7.3, and we are also at 7.3. There is not too much of a gap, but we will try to work on repricing some of the existing old borrowings, and obviously the new borrowings will come at better rates.

In fact, we have already started negotiating with our bankers on old borrowings after receiving all four {? CRA ?} ratings, which are AAA. Next year, I think we should get some real, measurable benefit.

Kunal Shah – Citigroup: Got it. In terms of this non-housing proportion, today it is almost 35%, last quarter it was 33%. On an incremental disbursement basis, what would this proportion be between individual housing and non-housing loans, both in the overall mix and within prime?

Management: It is in the range of 42-43% in prime if I am talking about non-housing.

Management: 52.

Management: Overall, I think housing is around 52% and the remaining is non-housing.

Management: Overall.

Management: Overall, yes.

Kunal Shah – Citigroup: Okay. So, almost 48% of incremental disbursements are happening on the non-housing side.

Management: Because we have enough cushion in terms of the PBC norm, we will ensure that our Principal Business Criteria norms remain within reach.

Kunal Shah – Citigroup: Okay, and how long can this continue?

Management: Kunal, we are now very close—

Kunal Shah – Citigroup: In terms of the PBC criteria, yes.

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Management: We will maintain that, and I think that is why there is also a DA sell-down and buyout strategy, which we will start implementing. We are also exploring an opportunity in this quarter for a pool sell-down.

Kunal Shah – Citigroup: Okay, got it. So, on the non-housing side, you might sell down the pools?

Management: Non-housing. Correct, absolutely.

Kunal Shah – Citigroup: Got it. That helps. Thanks for answering the questions.

Operator: Thank you. Ladies and gentlemen, a reminder to all participants: kindly limit your questions to two per participant. Thank you. The next question is from the line of Gaurav Khandelwal from JP Morgan. Please go ahead.

Gaurav Khandelwal – JP Morgan: Good evening. Thanks for taking my questions. My first question is more on the business side. Your AUM market share as well as disbursement mix has increased quite a bit for Delhi NCR. Can I know which geography this is? Is this Noida or some other part of NCR?

Management: It is not specifically any one geography. Being a company headquartered in Delhi, we have had a very large presence in this market for a long time. Our distribution and the number of branches are much higher, whether in Gurgaon, Delhi NCR, Ghaziabad, or Noida. Our presence in Delhi NCR is very strong because the head office of the organization started in Delhi and is still in Delhi. That is how we have a very strong footprint in this market.

It is not specifically Noida. Perhaps your question is whether there is any contribution from the builder market in Noida. The answer is that the amount of builder contribution is very insignificant. If it comes at all, it is for an independent house purchase, resale, balance transfer, or construction.

Gaurav Khandelwal – JP Morgan: Got it, sir. Thanks. My other question is whether you can share details on your prime disbursements and how much the mix is between salaried and se- [cut off]

Gaurav Khandelwal – JP Morgan: Self-employed, because we had this data in the last quarter. If you can share that color for this quarter in terms of disbursement?

Management: In prime, self-employed is almost 60% and salaried is around 41%—40% and 60%.

Gaurav Khandelwal – JP Morgan: 40-60, okay.

Management: In Q2.

Gaurav Khandelwal – JP Morgan: Got it. Thanks for that. In terms of your fee income, it was almost 130 crores this quarter. Can I ask what is driving this underlying strength?

Management: Yes, Vinay.

Vinay – CFO: For Q2, it was driven by disbursements. As our disbursements went up by around 50%, excluding DA, there was strong growth in fee income as well.

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Gaurav Khandelwal – JP Morgan: All right. Within the different cohorts—prime, emerging, and affordable—which part of the business generates the highest fee income on disbursement?

Vinay – CFO: The highest [laughs] [hesitates]

Management: In terms of the overall value, prime and emerging have a large volume. As a percentage, the fee could be lower, but if you talk about the overall value, it would be high. In emerging, which is Roshni, the fee percentage would be high, but since the volume is almost 12-13% of my overall monthly business, in absolute terms the value could be low, although the percentage would certainly be high.

Gaurav Khandelwal – JP Morgan: Got it. Thanks. My final question is on the 24-month vintage for 30-plus delinquency, which has increased from almost 0.2% to 0.4% quarter-on-quarter. Can we know what is happening there?

Vinay – CFO: [pause] Is it 24-month, 30-plus overall?

Management: Yes.

Gaurav Khandelwal – JP Morgan: I think this is on slide 23 of your deck.

Management: Just a second. First of all, let me tell you that, if you see how we are controlling our overall delinquency and how we are working on it, our overall bounce percentage at the national level is very much under control. Since the book is gradually maturing, if you see, 30-plus has increased from 24 to 0.40, 0.40—

Vinay – CFO: —not a significant jump. While 90-plus remains stable, this is also between 25 and 40 basis points. We will further deep-dive and see if there is anything to [trails off]

Management: Even if you see the bounce percentage, it has also improved.

Gaurav Khandelwal – JP Morgan: Got it, perfect. Thank you very much. This is very clear. Thank you, and good luck.

Operator: Thank you. The next question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh – Emkay Global: Hi, good evening. Thanks for the opportunity. I have two questions. First, if I look at your asset mix in affordable, we have nearly 35%, or one-third, in non-housing or LAP. How comfortable are you in terms of asset quality trends in affordable LAP? Also, in the affordable segment, your yields have come down in the previous quarter. What is driving that yield compression?

The second question is, in the wake of competitive dynamics, if public sector banks continue to offer aggressive rates in new prime home loans, what would you prefer? Would you still compete with them, or would you sacrifice growth for profitability? Thank you.

Management: Let me address your first question regarding the ratio between home loans and LAP in affordable. One thing that happened in the past due to regulation, particularly in the affordable

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segment and in smaller markets, is that if, in a self-construction case, the construction stage is more than 60% and the customer comes to you for a loan, you have to book it as a construction loan, but you have to book the balance amount as LAP, which is a non-home loan.

That is why the ratio is changing. It is actually a home loan, but the regulation says that, beyond 60%—earlier, even if the construction stage was 90% or the house was constructed within six months of construction, you would have booked it as a home loan. That scenario has changed now. That is why, in most companies, you will gradually see the ratio looking different, although the actual situation is different.

The second question is about yield, which I addressed in my first response. We enabled our prime and emerging branches to source affordable business. These branches largely operate in metropolitan areas and state capitals. Those are price-sensitive markets. However, overall, if you see it on a standalone basis, the yield of the affordable vertical is still the same. That is why the overall yield is looking slightly 10-12 bps lower.

The third question is about the availability of funds from nationalized banks and how to compete in the market. Honestly speaking, we do not want to compete much where nationalized banks are present, because they are more focused on salaried customers, particularly prime salaried customers. That is why we have purposefully enabled our team and structured it in a way that gives them expertise in self-employed business and an experienced underwriting team. We maintain a balance between self-employed and salaried customers, as well as between loans against property and home loans, so that our overall margins and yields are maintained.

Avinash Singh – Emkay Global: Got it. Thank you.

Operator: Thank you. The next question is from the line of Dhaval M Gada from Aditya Birla AMC. Please go ahead.

Dhaval M Gada – Aditya Birla AMC: Hello, sir. Am I audible?

Management: Yes, Dhaval. You are audible.

Dhaval M Gada – Aditya Birla AMC: Thanks for taking the question. Good set of numbers. Sir, I have a couple of questions. How do you look at a sustainable disbursement rate, perhaps three to four quarters down the line? How does that translate into AUM growth?

Second, a lot of people have already asked this, but how do you look at margins, given that our asset mix is improving more toward high-yielding affordable and emerging loans? What should be the sustainable margins? We have also seen rating upgrades, and the rate cycle is also now a little better for us. How do you look at both these factors?

Management: The first question is how do you—

Dhaval M Gada – Aditya Birla AMC: The sustainable disbursement trend.

Management: Yes, I am answering that. First of all, if you see, in general, Q3 and Q4 are better months than Q2 because these are the festive months when business starts taking shape, and this

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trend has continued for many years. Whatever we delivered in Q2 is a new benchmark for us, I would say, and we have to grow from there. That is one point.

As I said, the 25 bps repo hike also has not had much impact on sourcing. In fact, I checked with many competitors this morning about how logins were being placed and how disbursements were progressing. Everyone was very confident that there was no problem with volumes. This suggests that business is available and people are doing it.

There is also a sequence of festivals taking place, and the demand for money continues. Once there is growth, it will ultimately translate into AUM as well.

You rightly said that, to maintain the margin, we have certain levers. As I said, we will focus more on high-NIM products, with a focus on emerging and affordable. That is why the major investment we have made this year has been toward affordable, whether in terms of branches or people. The investment is concentrated there.

As I said, the sell-down of the portfolio will also be one of the tools we use for this. A portion of construction finance will also help. While we have not done much construction finance and have a book of around 700 crore, we have said that this year we are aiming to build a book of 3,000 crore. I think that will also help us improve because construction finance is again a high-NIM business for us.

Overall, we are confident. The rating upgrade is definitely going to help in terms of our cost of borrowing. This was pending for a long period, but now we have received it. It may translate in a phased manner and may not happen immediately. However, by virtue of this rating, we have started negotiating with many bankers, and I think we have also done some good deals in that regard.

Dhaval M Gada – Aditya Birla AMC: My last question: will the DA income in the current quarter be a consistent trend for us? Is this one of the ways in which you can improve ROAs and ROEs in the coming years?

Management: [pause] It will depend on how we assess the requirement, which depends on the—

Vinay – CFO: Dhaval, there is no DA sell-down. We have only done a DA pool buyout.

Management: He is asking about the future, correct? Are you asking about the future or about what has happened so far, Dhaval?

Dhaval M Gada – Aditya Birla AMC: I am asking about the future, in the way that other affordable housing companies are doing it. And—

Management: Yes.

Dhaval M Gada – Aditya Birla AMC: I am trying to understand how you can expand ROAs over the next 2 years and thereby also improve ROEs. You have the growth momentum now, and margins are also on an improving trend, or sustainable numbers are around 3.5%. How do you look at improving ROAs and ROEs?

Management: Yes, Vinay.

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Vinay – CFO: That is right, Dhaval. This is going to be one of our sustainable strategies. Now that we have achieved our stated guidance on book growth, we will have some room and a buffer to do DA sell-downs. We will start evaluating that from Q3 and will start doing some of the deals, which will help in terms of overall NIM as well as the ROA tree. It will be part of the strategy going forward.

Dhaval M Gada – Aditya Birla AMC: Sure, sir. Thank you.

Operator: Thank you. The next question is from the line of Mayank Solanki from RSBN Ventures. Please go ahead.

Mayank Solanki – RSBN Ventures: Thank you, management, for taking my question. My first question is about the retail written-off pool of around 320 crores that you mentioned. Is there any other corporate written-off pool as of September?

Vinay – CFO: Yes, we have a corporate pool of around 650 crores, which essentially comprises two accounts that we have declared as fraud and are now pursuing for recovery.

Mayank Solanki – RSBN Ventures: Okay. My second question is about other expenses. They have increased significantly sequentially on the other-expense side. Is there any reason for this?

Vinay – CFO: There has been an increase of around 10%. It has not increased too much. However, it also included a one-time payment of GST on prior years' royalty to PNB, which was paid this time after the AGM approval. It is more like a one-off.

Mayank Solanki – RSBN Ventures: Can you quantify the amount of the GST and the royalty that you paid?

Vinay – CFO: Around 7 crores.

Mayank Solanki – RSBN Ventures: Including both of them?

Vinay – CFO: No. Basically, only the tax component was reimbursed. The other part was in any case being paid as royalty to them on a quarterly basis.

Mayank Solanki – RSBN Ventures: Thank you. That is all from my side, and all the best for the future.

Vinay – CFO: Thank you.

Operator: Thank you. The next question is from the line of Vikas from Blue Sky Fintech. Please go ahead.

Vikas – Blue Sky Fintech: Hello, am I audible?

Management: Yes, Vikas.

Vikas – Blue Sky Fintech: I wanted to ask about ROA. We had guided for a 2.4 range, and if I look at the quarterly basis, we are now at 2.53% in Q2, while on a half-year basis we are at 2.44%. We are already ahead of our guidance, and we have the festive season coming up as well as rate hikes. How are we looking at our guidance? Is there any upgrade, or are we maintaining it?

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Vinay – CFO: No, we are maintaining it. This time, as we said, there is also a one-off in overall interest income, which has led to a higher ROA. The normalized ROA is 2.4%, which is in line with [cut off]

Management: {? two one ?}. We are therefore broadly maintaining what we have guided.

Vikas – Blue Sky Fintech: Thank you. That is all from my side, sir.

Operator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference back to the management for closing comments.

Management: Thank you, everyone, for joining us on the call. If you have any questions [pause] Thank you, everyone, for joining us on the call. If you have any questions that remain unanswered, please feel free to get in touch with Investor Relations. The transcript of this call will be uploaded on our website at www.pnbhousing.com. Thank you.

Operator: Thank you very much, sir. On behalf of PNB Housing Finance Ltd., that concludes this conference. Thank you all for joining us today, and you may now disconnect your lines.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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