PNB Housing Finance (PNBHOUSI)

NBFC | NBIE Investor Conference Update

BUY

CMP: Rs1,106 | Target Price (TP): Rs1,300 | Upside: 18%

June 30, 2025

Margins to improve aided by change in business mix

Key Points

- We hosted the management of PNB Housing Finance represented by Mr. Girish Kousgi, MD & CEO, in order to gain better insights into the company's business model.
- Based on queries by institutional investors following were the key takeaways: (1) Retail loan growth guidance for FY26 maintained at 18%. (2) The company plans to take the share of EM and affordable housing segments from the current 24% to 40% by FY27. (3) 70% of PNBHF's borrowings are on a floating rate. 40% of bank borrowings are linked to repo and balance are linked to 1-month or 3-month MCLR. (4) NIMs to remain rangebound at 3.6-3.65% in FY26 and improve to 4% or above in FY27, aided by favorable change in the business mix. (5) Credit costs to continue to be negative in FY26 and average at 25bps annually thereafter from FY27. (6) RoA guidance for FY27 at 2.5-2.6%.
- We have valued PNBHF at 1.6x its Mar-27E ABV (as against 1.5x Mar-27E ABV earlier) thus deriving a target price of Rs1,300 (as against Rs1,225 earlier). Our target multiple is at a 66.2% premium to the past 5-year average P/ABV of 1x that captures a loan earnings CAGR of 15.8%/18.1% over FY25-FY27E, which will lead to RoA/RoE of 2.6%/13.3% in FY27E. We remain positive on PNBHF due to its improved growth prospects, with expansion in EM and affordable segments, along with improving return ratios due to NIMs expansion ahead and benign credit costs. We maintain a 'BUY' rating on PNBHF.

Increased focus on affordable housing and EM verticals: PNBHF is shifting focus towards affordable housing and emerging market (EM) segments, while slowing down disbursements in the prime segment due to rising competition. The company will also engage in some business on the corporate side this year. In affordable housing, the company is focusing on metro cities, tier 2, tier 3, and tier 4 cities. The strategy here is to get volumes from top cities and target better yields and margins in tier 3 and tier 4 cities. Affordable housing and EM together form 24% of the loan book, which the company plans to scale up to 40% of the loan book by FY27. In terms of disbursements, the share of EM and affordable housing is already 40%.

FY26 retail loan growth guidance maintained at 18%: FY26 outlook remains strong with retail loan book expected to grow 18%. Affordable housing demand remains robust with no visible slowdown across segments. LAP and housing disbursements are healthy. In FY25, the company launched a dedicated LAP vertical across the top-10 cities to improve yield. Its existing teams will continue to handle existing LAP business within each of the 3 housing finance verticals.

Margin outlook and profitability: PNBHF has guided for NIMs to be at 3.6-3.65% in FY26. In FY27, the NIM is expected to exceed 4% because of the following reasons: (1) Rise in share of EM and affordable housing and decline in share of prime home loans. (2) Some pickup in corporate book. (3) Growth in LAP vertical. (4) Cost of borrowings declining because of reduction in interest rates and a possible rating upgrade. RoA guidance for FY27 is at 2.5-2.6%, which will be supported by better yields and lower opex. RoA split by segments: prime home loans (2%), EM (2.5%), affordable housing (3%), and LAP (2.2-2.5%). The leverage is expected to be 5x. Credit cost for FY27 is expected to be 25bps.

Est Change	No change
TP Change	Upwards
Rating Change	No change

Company Data and Valuation Summary

Reuters	PNBH.BO
Bloomberg	PNBHOUSI IN
Market Cap (Rsbn / US$bn)	288.0 / 3.3
52 Wk H / L (Rs)	1,202 / 741
ADTV-3M (mn) (Rs / US$)	1,968.4 / 23.1
Stock performance (%) 1M/6M/1yr	6.4 / 30.1 / 41.0
Nifty 50 performance (%) 1M/6M/1yr	3.3 / 8.7 / 6.8

Shareholding	2QFY25	3QFY25	4QFY25
Promoters	28.1	28.1	28.1
DIIs	22.2	26.9	29.9
FIIs	20.4	24.3	21.5
Others	29.3	20.7	20.6
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY24	FY25	FY26E	FY27E
NII	24,438	26,887	31,315	40,295
% growth	*7.5*	*10.0*	*16.5*	*28.7*
NIM %	*3.6*	*3.5*	3.6	*4.0*
C/I Ratio %	*22.4*	*24.8*	21.5	19.0
Operating Profit	21,427	23,373	28,809	37,624
% growth	*4.1*	*9.1*	*23.3*	*30.6*
Adjusted PAT	15,274	19,490	22,069	27,167
% growth	*44.6*	*27.6*	*13.2*	*23.1*
ABVPS (Rs)	551	628	707	808
P/ABV	2.0	1.8	1.6	1.4
RoA (%)	*2.2*	*2.5*	2.5	2.6
Leverage (x)	5.4	4.9	5.0	5.0
RoE (%)	*11.8*	*12.3*	12.3	13.3

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Key Links - 4QFY25Presentation | Result

4QFY25 Result Update

NIBIE Conference Update – June 6, 2025

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Affordable housing credit cost is expected to stabilize at 50bps after seasoning of the loan book. The credit cost in EM vertical will be 21-22bps and in prime home loans it will be 17-18bps.

Affordable housing business: This vertical was launched 2.5 years ago. It has now scaled up to 200 branches, primarily across metro, tier 2, tier 3, and tier 4 cities. For this business the company follows a high touch, decentralized branch model. There are separate verticals for sales, credit, operations, and collections. Each branch has a dedicated underwriter and sales officer. In terms of hierarchy, the underwriter reports to the regional credit manager, regional credit manager reports to the zonal credit manager and the zonal credit manager to the national credit manager. Underwriters personally meet informal salaried or self-employed borrowers to assess credit risk. Underwriting is based on scorecard, with multiple templates depending on customer profile, location, type of business the customer is in, and the risk level. In terms of risk segmentation, the company targets 20% high risk, 60% medium risk, and 20% low risk loans. The yield on affordable housing will be 12.6% in FY26 and 13% in FY27. 68% of the originations happen through direct channels and the balance via DSAs and on-boarded connectors. Affordable housing AUM is targeted to grow from Rs50.7bn in FY25 to Rs95bn in FY26. BT-in in the affordable segment is at 20%, which is higher than the industry average of 14-15%. It is expected to decline to 15% in the next 12-15 months.

Efficiency gains besides increase in margin expected to support RoA improvement: The opex ratios in the affordable segment are expected to reduce as the business scales up. Investments are already made in distribution. On an enterprise level, opex-to-average total assets ratio is expected to remain stable at 100-110bps. Efficiency gains on the cost side, besides NIM improvement is expected to support RoA improvement.

Funding and cost of borrowing: 70% of PNBHF's borrowings are on a floating rate. 40% of the bank borrowings are linked to repo and balance are linked to 1-month or 3-month MCLR. Rate cuts will favorably aid borrowings cost, which the company will pass on to borrowers. The borrowing mix will remain similar. To some extent, the borrowings of NHB will go up. There will be some shift from bank term loans to NHB, as a result of which, the cost of funds will improve. The average residual maturity of borrowings is 3 years and ~33% of the borrowing book matures in FY26, which will require refinancing. The company expects another rating upgrade in the next 12-15 months, which will further aid borrowing costs. On the asset side, the loans are linked to internal benchmark (PNB Housing HFR) or repo/MCLR. There is a lag of 3-4 months in external rate transmission.

NHB refinance latest regulation update: In an order to home financiers, the NHB has said that it would now provide refinance only for loans where less than half the construction is complete during the first disbursement. This rule specifically applies to loans taken for construction on plots or for building homes on self-owned land. According to PNBHF, these new norms will allow early-stage construction funding. This is a positive, as customers will approach banks at an early stage for refinancing instead of going to moneylenders at initial stages of financing the construction and then approaching the bank at a later stage to avail refinance for construction. With this new regulation, customers will approach the banks at an earlier stage to avail financing for construction, so it will be positive for loan growth and not disrupt it. In case of PNBHF the share of refinanced properties is only 1-1.5%, so the impact will not be much.

Risk management and credit infrastructure: The company lays strong emphasis on early warning systems, especially in high-risk affordable segments. Affordable business is run via independent verticals, ensuring tighter control and oversight. Property visits, branch-level customer touchpoints, and layered verification processes help maintain pristine asset quality. Average experience of the underwriter in affordable housing is 5 years.

Regulatory and external environment: The PMAY 2.0 scheme is gaining momentum, which is expected to drive affordable housing demand. In Karnataka, the E-Khata issue, which had impacted growth earlier, has now been 80% resolved. The Hyderabad portfolio, which was a drag in FY24 due to the HYDRA issue, has normalized in FY25. The company has moderated its growth in Hyderabad and will continue to grow at a similar rate in the future.

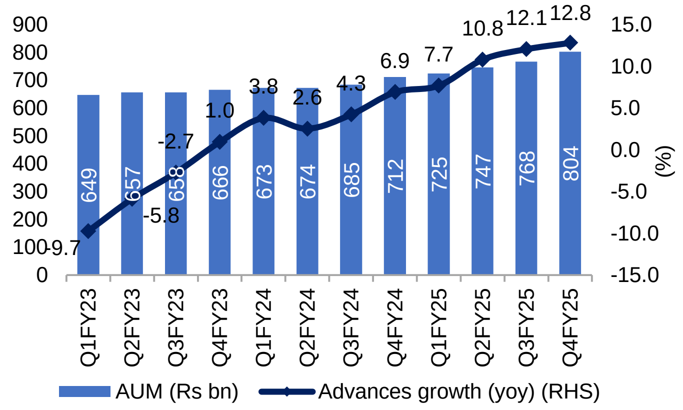
Competitive landscape: The company has exited super prime segment due to intense competition. It is also witnessing competition in the prime segment especially from large banks. EM and affordable segments remain relatively insulated from the competitive pressure, allowing better pricing and customer stickiness.

Exhibit 1: Change in our estimates

	Revised Estimate		Earlier Estimate		*% Revision*	
	FY26E	FY27E	FY26E	FY27E	*FY26E*	*FY27E*
Net Interest Income (Rsmn)	31,315	40,295	31,315	39,044	*0.0*	*3.2*
NIM (%)	*3.6*	*4.0*	*3.6*	*3.8*	*0 bps*	*12 bps*
Operating Profit (Rsmn)	28,809	37,624	28,809	37,159	*0.0*	*1.3*
Profit after tax (Rsmn)	22,069	27,167	22,069	26,810	*0.0*	*1.3*
Loan book (Rsbn)	870	888	870	888	*0.0*	*0.0*

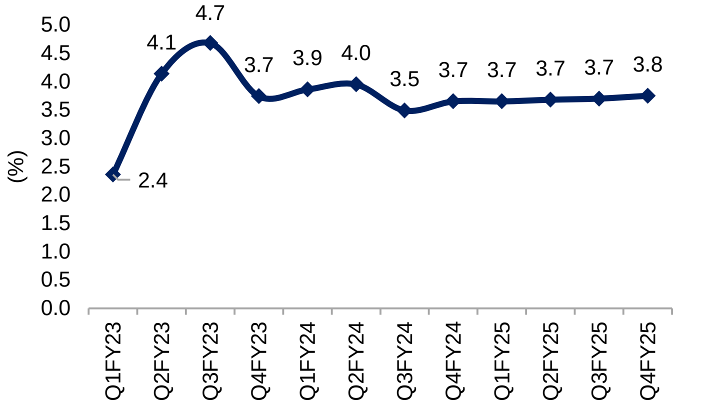
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: AUM and advances growth



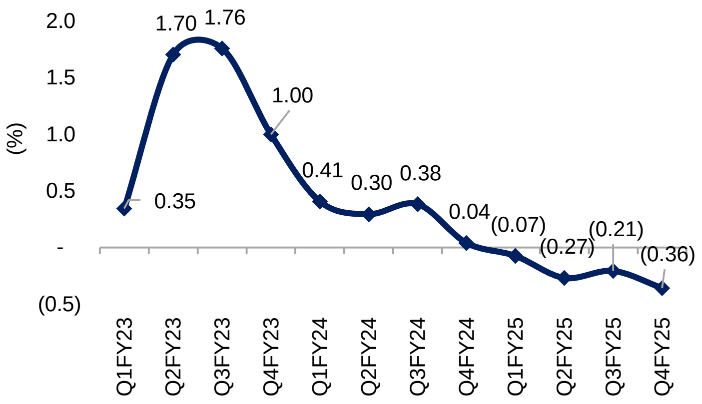
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: NIM (reported)



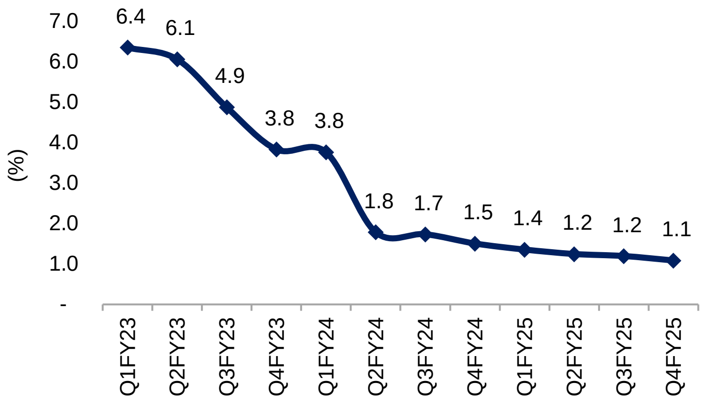
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Credit cost (calculated, annualized)



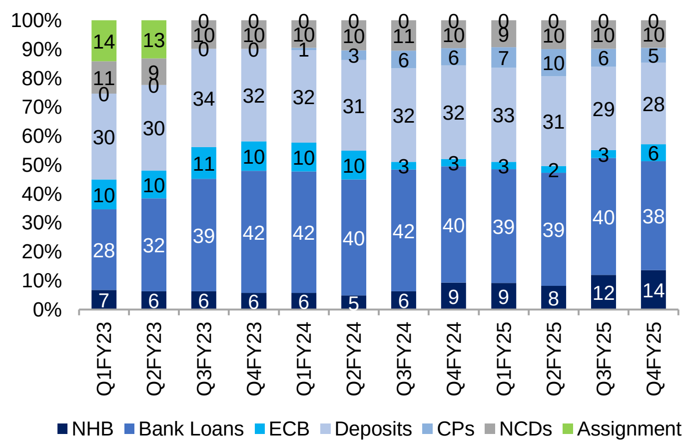
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: GNPA



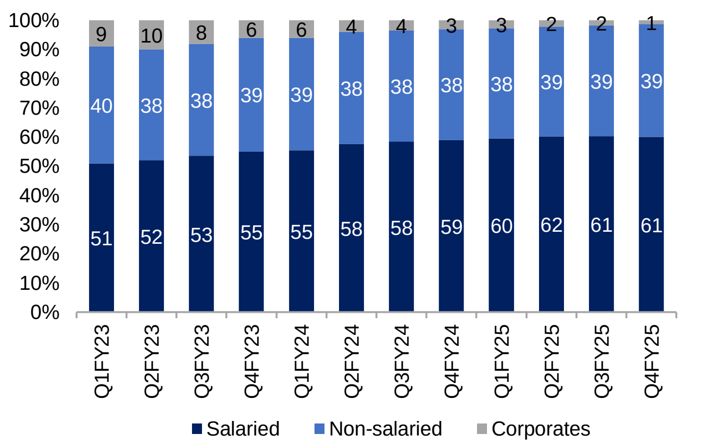
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Borrowing profile



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Advances mix



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Financial summary

Y/E March (Rsmn)	FY23	FY24	FY25	FY26E	FY27E
Net Interest Income	22,733	24,438	26,887	31,315	40,295
Pre-Provisioning Operating Profit	20,581	21,427	23,373	28,809	37,624
PAT	10,563	15,274	19,490	22,069	27,167
EPS (Rs)	62.6	58.8	75.0	84.9	104.5
BV (Rs)	648.6	574.9	647.6	732.5	837.0
P/E (x)	17.7	18.8	14.8	13.0	10.6
P/BV (x)	1.7	1.9	1.7	1.5	1.3
Gross NPA (%)	*3.9*	*1.5*	*1.1*	*1.2*	*1.3*
Net NPA (%)	*2.8*	*1.0*	*0.7*	*0.7*	*0.7*
ROA (%)	*1.6*	*2.2*	*2.5*	*2.5*	*2.6*
ROE (%)	*10.2*	*11.8*	*12.3*	*12.3*	*13.3*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: One-year forward P/ABV

Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 10: Income statement

Y/E March (Rsmn)	FY23	FY24	FY25	FY26E	FY27E
Interest Income	61,729	67,062	72,412	83,088	99,373
Interest expense	38,996	42,624	45,526	51,773	59,078
Net interest income	**22,733**	**24,438**	**26,887**	**31,315**	**40,295**
Non-interest income	3,195	3,177	4,200	5,362	6,141
Net Revenue	**25,928**	**27,616**	**31,087**	**36,677**	**46,436**
Operating Expense	5,348	6,189	7,714	7,868	8,812
-Employee Exp	2,143	2,641	3,294	3,360	3,763
-Other Exp	3,204	3,547	4,420	4,508	5,049
Operating profit	**20,581**	**21,427**	**23,373**	**28,809**	**37,624**
Provisions	6,912	1,710	-1,586	-229	2,341
PBT	**13,668**	**19,717**	**24,959**	**29,038**	35,282
Taxes	3,105	4,443	5,469	6,969	8,115
PAT	**10,563**	**15,274**	**19,490**	**22,069**	**27,167**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Balance sheet

Y/E March (Rsmn)	FY23	FY24	FY25	FY26E	FY27E
Share capital	1,689	2,597	2,599	2,599	2,599
Reserves & surplus	1,07,837	1,46,727	1,65,738	1,87,807	2,14,974
Networth	**1,09,526**	**1,49,324**	**1,68,337**	**1,90,406**	**2,17,573**
Borrowings	5,36,211	5,50,165	6,23,100	7,25,282	8,32,767
Other liability & provisions	22,313	24,223	33,528	38,088	46,297
Total liabilities	**6,68,050**	**7,23,712**	**8,24,965**	**9,53,776**	**10,96,637**
Fixed Assets	1,454	2,114	2,191	2,279	2,372
Investments	31,880	43,453	33,808	37,308	41,172
Loans	5,79,085	6,42,048	7,47,676	8,70,287	10,03,334
Cash	36,926	24,986	34,653	36,994	42,572
Other assets	18,704	11,112	6,638	6,908	7,188
Total assets	**6,68,050**	**7,23,712**	**8,24,965**	**9,53,776**	**10,96,637**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Key ratios

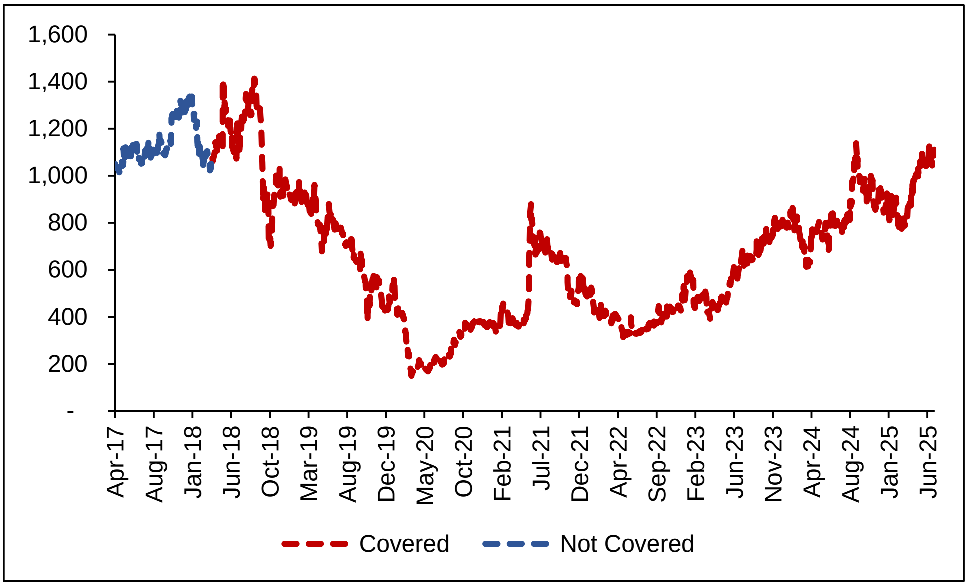
Y/E March	FY23	FY24	FY25	FY26E	FY27E
Growth (%)					
NII Growth YoY	31.6	7.5	10.0	16.5	28.7
Operating Profit	25.6	4.1	9.1	23.3	30.6
Profit After Tax	28.5	44.6	27.6	13.2	23.1
Business (%)					
Advance Growth	4.6	10.9	16.5	16.4	15.3
Borrowing Growth	1.2	2.6	13.3	16.4	14.8
Spreads (%)					
Yield on loans	10.3	10.3	9.9	9.8	10.2
Cost of Borrowings	7.5	7.5	7.4	7.3	7.2
Spread	2.8	2.8	2.5	2.5	3.0
NIMs	4.0	3.6	3.5	3.6	4.0
Operational Efficiency (%)					
Cost to Income	20.6	22.4	24.8	21.5	19.0
Cost to AUM	0.9	1.0	1.1	1.0	0.9
CRAR (%)					
Tier I	22.4	27.9	28.4	22.0	20.8
Tier II	2.0	1.4	1.0	1.0	1.0
Total	24.4	29.3	29.4	23.0	21.8
Asset Quality (%)					
Gross NPA	3.9	1.5	1.1	1.2	1.3
Net NPA	2.8	1.0	0.7	0.7	0.7
Specific Provision Coverage	35.0	36.7	36.1	34.1	34.1
Credit Cost	1.2	0.3	-0.23	0.0	0.2
Return Ratio (%)					
ROE	10.2	11.8	12.3	12.3	13.3
ROA	1.6	2.2	2.5	2.5	2.6
Per Share (x)					
EPS	63	59	75	85	105
BV	649	575	648	733	837
ABV	553	551	628	707	808
Valuation (x)					
P/E	17.7	18.8	14.8	13.0	10.6
P/BV	1.7	1.9	1.7	1.5	1.3
P/ABV	2.0	2.0	1.8	1.6	1.4

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Buy	1,139	1,410
4 May 2018	Buy	1,414	1,634
10 August 2018	Buy	1,305	1,673
9 October 2018	Buy	890	1,312
6 November 2018	Buy	880	1,272
25 January 2019	Buy	925	1,267
8 April 2019	Buy	934	1,140
6 May 2019	Buy	695	931
10 May 2019	Buy	698	934
8 July 2019	Buy	783	956
31 July 2019	Buy	716	960
7 October 2019	Buy	575	739
25 October 2019	Buy	447	576
8 January 2020	Buy	469	625
24 January 2020	Buy	542	624
27 March 2020	Buy	156	186
9 April 2020	Buy	165	186
16 June 2020	Accumulate	213	204
9 July 2020	Accumulate	217	211
24 July 2020	Accumulate	210	212
23 September 2020	Accumulate	315	306
7 October 2020	Accumulate	350	330
30 October 2020	Accumulate	345	332
26 November 2020	Sell	371	347
08 January 2021	Accumulate	377	364
28 January 2021	Accumulate	353	352
21 February 2021	Accumulate	447	453
28 April 2021	Accumulate	376	423
31 May 2021	Accumulate	526	570
5 August 2021	Accumulate	718	690
26 September 2021	Accumulate	656	724
17 October 2021	Sell	640	514
2 November 2021	Sell	512	470
21 January 2022	Sell	487	441
21 February 2022	Accumulate	401	462
29 April 2022	Sell	391	362
29 July 2022	Sell	352	328
19 September 2022	Sell	412	377
28 October 2022	Accumulate	451	475
25 January 2023	Buy	556	650
22 March 2023	Buy	501	619
19 May 2023	Buy	481	564
25 July 2023	Buy	690	795
23 October 2023	Buy	718	835
25 January 2024	Accumulate	857	890
30 April 2024	Buy	801	980
25 July 2024	Buy	781	950
25 October 2024	Buy	933	1,100
22 January 2025	Buy	898	1,100
29 April 2025	Buy	987	1,204
06 June 2025	Buy	1,064	1,225
30 June 2025	Buy	1,106	1,300

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

HOLD -5% to 14%

SELL < -5%

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