Ghar Ki Baat

Ref: PNBHFL/SE/EQ/FY25/67
Date: July 29, 2024

The BSE Limited
Listing Department,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400001
Scrip Code: 540173

The National Stock Exchange of India Limited
Listing Department
"Exchange Plaza"
Bandra Kurla Complex,
Bandra (E), Mumbai – 400051
Symbol: PNBHOUSING

Dear Sir(s),

Sub: Transcript of Earnings Conference Call held on July 25, 2024
Ref: Our letter PNBHFL/SE/EQ/FY25/61 dated July 25, 2024

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time, please find attached the transcript in respect to the earnings call held on July 25, 2024 on Un-Audited Financial Results (Standalone and Consolidated) of the Company for the quarter ended June 30, 2024.

A copy of the same is also placed on the website of the Company www.pnbhousing.com

Kindly take the above intimation and documents on record.

Thanking You,

Yours faithfully,
For **PNB Housing Finance Limited**

Veena G Kamath

Digitally signed by Veena G Kamath
DN: c=IN, o=Personal, title=5077, pseudonym=9942b68a0dbb49ed816371284803a991, 2.5.4.20=de1d04e9ae2e3c0a5ed6d3694a05e25d1532e54e55595f42c6f52618dc9e0f42, postalCode=560076, st=Karnataka, serialNumber=bff4f73415298782ef1da67ec5594b8adcaf5208942a7d4a1e694fbb1f73c48f, cn=Veena G Kamath
Date: 2024.07.29 15:48:48 +05'30'

Veena G Kamath
Company Secretary

Enclosed: As above.

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CIN: L65922DL1988PLC033856

"PNB Housing Finance Limited Q1 FY25 Earnings Conference Call"

July 25, 2024

MANAGEMENT: **MR. GIRISH KOUSGI - MD & CEO**
MS. DEEPIKA GUPTA PADHI - HEAD (IR AND TREASURY)
MR. VINAY GUPTA – CFO
MR. DILIP VAITHEESWARAN - CHIEF SALES OFFICER (PRIME & EMERGING BUSINESS)
MR. ANUJAI SAXENA -BUSINESS HEAD FOR AFFORDABLE BUSINESS
MR. JATUL ANAND - CHIEF CREDIT & COLLECTIONS HEAD (PRIME & EMERGING BUSINESS)
MR. ANUBHAV RAJPUT - CHIEF TECHNOLOGY OFFICER

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY2024-25 Earnings Conference Call of PNB Housing Finance Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing the "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Deepika Gupta Padhi, Head of Investor Relations and Treasury. Thank you, and over to you, ma'am.

Deepika Gupta Padhi: Thank you, Steve. Good evening and welcome everyone. We are here to discuss the PNB Housing Finance Q1 FY '25 Performance, which you must have seen in the presentation and press release shared with the Indian Stock Exchanges and is also available on our website.

With me, we have the entire Management Team across vertical, led by Mr. Girish Kousgi – our MD and CEO. We begin this call with the performance update by the team, followed by an interactive Q&A session.

Please note this call may contain forward-looking statements, which exemplify our judgment and future expectations concerning the development of our business. These forward-looking statements involve risks and uncertainties that may cause actual development and result to defer materially from our expectations. PNB Housing Finance undertakes no obligation to publicly revise any forward-looking statements to reflect future events or circumstances. A detailed disclaimer is on Slide 38 of the Investor Presentation.

With that, I will now hand over to Mr. Girish Kousgi. Over to you, sir.

Girish Kousgi: Good evening to all the investors. We had a very good Quarter 1 FY '25.

Just to talk about some of the key performance metrics:

On disbursements, retail disbursements grew by 19% Y-o-Y in Quarter 1. We disbursed retail loans of Rs. 4,363 crores. 33% of retail disbursements are made in Emerging and Affordable segment. Our guidance in Emerging and Affordable this year on disbursements are 40% to 42%. So, we have covered 33% in Quarter 1. So, this will increase that we will be able to reach our guidance of about 40% to 42% of incremental disbursements which would come in from Emerging and Affordable.

Our total disbursements grew by 19.3%, retail disbursements by 19%, and within retail in line with our strategy, we wanted to grow our Affordable and Emerging much faster than Prime. This is more by design. On a Y-o-Y, Affordable business grew by 157% on disbursement, Emerging grew by 18% and Prime by 8%.

Talking about the book:

We achieved double-digit growth of 14.4% Y-o-Y in retail loan asset. Now the book is 65,157 crores. This is the retail book as of 30th June. So, if you look at last year, last June, our book growth was 11.5%. We are at 14.4%. Our guidance on book growth is 17%. So, we will be able to reach 17% by this year end.

The total loan assets stood at 66,986 crores. We have made significant progress in retail book with 97.3% of our book being retail now as compared to 87% in March 2022. Within the retail segment, in order to balance between growth and profitability, we are moving down the Affordability pyramid with increased focus on Emerging markets and Affordable segment.

We started new vertical, mainly Affordable and Emerging markets. Affordable was started last last year, and Emerging markets we started this year. We have set Affordable segment in Jan 2023, and in 18 months' time, we are able to achieve book of 2,000 crores and the book stands at 2,361 crores as of June 2024. This vertical has contributed 13% of retail disbursements in Quarter 1.

We started Emerging market segment with dedicated branches. We have 50 branches in Emerging. So, this was started this year in this quarter. This segment focuses on high yielding customer base with average ticket size of 25 lakhs. Yield on incremental disbursements in Quarter 1 FY '25 generated by this emerging market segment was 25 bps higher than the Prime segment.

We are pan-India present with strong network of 303 branches across 20 states as on 30th June 2024. With this large presence, we are ready to capitalize the opportunity available both in Affordable and Emerging segments, predominantly focusing on tier 2 and tier 3 cities. We plan to add 40 to 50 branches annually, looking to grow at 17% of retail loan assets in FY '25 and onwards with higher growth in Affordable and Emerging segments.

On asset quality:

We witnessed remarkable improvement in the asset quality. Our gross NPA reduced by 241 bps Y-o-Y to 1.35% as on 30th June '24. We continue to work towards achieving 1% NPA by this year end. Our overall collections remain strong and in Quarter 1, we have had considerable recoveries from written- off accounts contributing to reversal in grade cost to minus 7 bps.

During the quarter in corporate book, we resolved one NPA account and one written-off account. The written-off account was sold to ARC. During the quarter, we recovered around 80 crores from total written-off pool, both corporate and retail. We expect to continue recovery from written-off pools every quarter. The company has a written-off pool of around 1,250 crores in corporate and 500 crores in retail.

On the borrowing mix:

The cost of borrowing has reduced 6 bps, sequentially, to 7.92% in Quarter 1. Our ability to borrow from debt market at competitive rates, coupled with improved pricing from bank aided in cost reduction, the incremental cost of borrowing for the quarter is at 7.75%, compared to 7.93% in quarter 4 FY '24.

Deposits grew by 7% Y-o-Y with 88% as public deposits.

CRISIL upgraded the rating to AA+ from AA, outlook stable. With this, company is rated AA+ from all the four rating agencies.

In Quarter 1, PAT stood at 433 crores, registering a growth of 25% Y-o-Y, maintained net interest margin of 3.65% during the quarter. We had guided a threshold of 3.5% NIM. So, we will be able to maintain that.

Our effort across parameters, either in improving profitability or return on assets improved to 2.38% in Quarter 1 from 2.47% in Quarter 1 of FY '24. Return on equity was at 11.4%.

Couple of days back, government presented with Union Budget, the expansion of PMAY scheme to 3 crore houses in urban and rural areas in a significant step towards Housing for All mission. With our expanding network of 303 branches including 160 for Affordable and 50 for Emerging markets segment, we are well-positioned to cater to this segment. Under the CLSS scheme, up-to-date, the company has sanctioned to over 65,000 customers with a sanctioned amount of 13,000 crores.

So, even though in the budget, a high-level disclosure was made, we are expecting scheme details in next 3 to 4 weeks' time and based on the interactions what we have had with the Ministry of Finance and NHB, we expect the scheme is going to be really beneficial to companies focusing on Emerging markets and Affordable.

So, it will be a huge plus for companies focusing on these two segments, and we are geared up. So, all our branches, all 303 branches will be geared up to do PMAY scheme, which is to be announced by Ministry of Housing Affairs in the next few weeks' time. So, it's a huge opportunity.

So, typically what happens is that we do not know the color of the scheme, but I think broadly it's going to benefit the end customer either by way of a lump sum amount in terms of subsidy amount or it could be some kind of interest, which we do not know. It is our assumption. It is going to be big and beneficial.

And like last couple of term the scheme was announced, there is going to be a lending cap with a certain margin. We expect the margin to increase this time which would create companies where the margin was lower than this. For example, today we are talking about NIM of 3.65%. The expected PMAY scheme, the margin could be better than this in the sense it is going to help PNB Housing. All the 303 branches are going to focus on PMAY scheme, and it is going to help the margin going forward.

Deepika Gupta Padhi: Would like to now request Vinay to talk about our Financial Performance.

Vinay Gupta: Hi, good evening, everyone. Thank you for joining us today.

I am pleased to present the Financial Highlights for Q1 FY '24-'25:

As MD sir mentioned, our PAT has grown 25% year-on-year and remained flattish quarter-on-quarter to 433 crores in Q1 FY '25.

Net interest income has grown 3% quarter-on-quarter to 651 crores in Q1. Our yield for the quarter was 10.03% versus 10.08% in the previous quarter. The marginal drops were due to few re-pricing and run-off of high-yielding book.

At the same time, cost of borrowing has improved from 7.98% in previous quarter to 7.92%. Further post rating upgrade, our incremental cost of borrowing at the end of Q1 has come down to 7.75% versus 7.93% in Q4 FY '24.

NIM during Q1 was stable at 3.65%. We might face NIM pressure in the short term, but however, with the higher mix of business emerging and affordable, we should see NIM improvement after few quarters. Gross margin including fees and other income has grown by 11% year-on-year to 4.03% versus 3.91% in Q1 FY '24.

Operating expenses in Q1 have grown 27% year-on-year to 190 crores. This is largely due to branch expansion done in Roshni and emerging verticals during Q4 where we have added 100 branches. This will help in profitable growth going forward. Our OPEX also includes our impact of annual performance appraisals done for FY '24.

Credit cost remains benign. It was minus 7 bps due to release in Q1. We have fully resolved one corporate NPA account through settlement during the quarter. Further, we have recovered INR 80 crores from written-off pool during Q1. This has helped in controlling credit cost for the quarter, and we expect the recoveries to continue in the subsequent quarters as well.

ROA, which was 2.07 for Q1, is now at 2.38% for Q1 FY '25. ROE is 11.4%. Our capital adequacy at the end of Q1 is 29.5%, with tier 1 at 28.4%. Thank you.

Deepika Gupta Padhi: With this, now I would like to invite and request Dilip to talk about the performance of our Retail Prime and Emerging business.

Dilip Vaitheeswaran: Thank you, Deepika. Good evening, everybody. The business that I am going to be speaking about is our retail prime business, which now stands bifurcated into Prime and Emerging markets.

On this side of the business, our loan book registered a growth of 11%, and our disbursements registered a growth of 10% Y-o-Y. In line with our organizational imperative, the margin-accretive business, which is Emerging market, grew at a faster pace. The loan book in the Emerging markets grew at 18%. The disbursements in the Emerging markets also grew at 18%. On the Prime markets, the loan book grew by 10%, the disbursements grew by 8%.

We now have 50 branches which stand categorized as the emerging markets. They contributed to 22% of the disbursements in the first quarter of FY '25. This will actually go up to 30+ percent by the end of the year.

In the Emerging market, just to give you a deeper color of this business, this portfolio now stands at almost 12,000 crores, about 11,970 crores as of June end. It forms 18 plus percent of our retail loan assets. By the end of the year, we are hopeful that this will be anywhere between 22% to 25%.

In this side of the business, our ticket size is actually lesser than what we see on the Prime markets. It's in the range of 24 to 25 lakhs. The origination LTVs are at 66% in case of home loans. The sourcing here is largely done through in-house channels. Almost two-thirds of the sourcing in these markets is done by our in-house channels. The balance is done through third-party or DSA.

On incremental yields in the quarter, overall, our yields increased by about 8 basis points on a quarter-on-quarter basis. Again, the lift in yields were higher in the emerging markets where it was to the range of 12 bps. In case of Prime markets, it was in the range of 7 bps.

We opened about 33 new branches in Q4 of last financial year. We are happy to share that almost all of them are now starting contributing to disbursements. In fact, in the first quarter, they contributed to 6% of the overall disbursements. And since they have just started, we expect this percentage to be much higher in the quarters to come.

So, to summarize, the two imperatives for this business, which is growth and margin-accretive growth, we are happy with the progress being made on both of them. On account of the investments in our footprint expansion and technology, growth will go up in the quarters to come. On account of the margin-accretive business is growing at a faster pace, the margins also will go up in this business. Thank you.

Deepika Gupta Padhi: We will request Anujai to talk about our Roshni Affordable business.

Anujai Saxena: Good evening, everyone. Continuing our promising growth story on the affordable housing business side, I am happy to announce that we have become profitable on a standalone basis in our affordable housing business.

And continuing to the growth story, we crossed Rs. 2,000 crores of loan book in May '24. The loan book stands at upwards of Rs. 2,300 crores at the end of Q1, which is 5x growth from same time last year and 32% up from quarter 4 of last financial year. Disbursements grew by 157% on year-on-year basis and we disbursed close to Rs. 600 crores of loan in the last quarter.

Overall, on the yield side again, there is a positive trend that we are witnessing. Continuing our focus on the informal income side, we have developed our expertise on the underwriting side of managing the informal income customer profile and it is resulting into higher yields for our business.

Our self-employed sourcing has also been consistently increasing. Till last quarter, it was about 37% of our sourcing, now it is upwards of 41% of our sourcing.

One of the important initiatives that we undertook in the last quarter was implementation of a new loan origination platform, which is a Salesforce-based platform which has been introduced in our affordable housing business. Like both of the other things, we have done a good job in execution of this project and 135 out of 160 branches are now live on the affordable housing side on the new loan origination platform and in the coming months, coming the couple of months, we will be stabilizing the new system and we are likely to start getting the productivity benefit through the win-to-win digitization of the customer application lifecycle process.

Going forward, one important point that I would want to share is out of the 160 branches that we have in our Roshni business, 60 branches were opened in the last quarter of last financial year. I am happy to share that we have operationalized these branches in the last quarter. And now, these branches that we have opened in tier 3 and tier 4 locations have started contributing more towards our business volume and this will also start translating into higher yields that we expect from this business in the coming months. Thank you.

Deepika Gupta Padhi: Would request Jatul to talk about credit and collections, please?

Jatul Anand: Good evening, everyone. On the credit front, during the Quarter 1 of '25, the total retained logins were 36,151 and sanctions were 24,589 applications, thereby registering a growth of 33% on logins and 26% on the sanction count vis-à-vis Quarter 1 of the previous year.

Decentralized underwriting approach has been adopted by the company with underwriters being positioned at branches for better business support and control perspective. More than 80% of the loan applications during the quarter had a CIBIL score of 700 and above.

On collections front, FY '25 kicked off with continuous growth focus and momentum of three key aspects: legal actions or measures to resolve delinquency and reduction in NPA, greater success in property positions and subsequent auctions, and recoveries from technically written-off pool. This thereby allowed us to have an upbeat performance in Quarter 1 defeating the cyclical, industry trends and some amount of operational delays caused due to general elections, vocation of courts in June.

To provide detail on this, our ongoing rigor on legal collections saw successfully positioned over 165 properties in the first quarter. In terms of disposal of repossessed properties, we successfully sold off 98 properties in the quarter through auction channel, recovering complete principal outstanding in these accounts without incurring any loss. The totall count is more than one third of the total successful auctions done in the previous financial year.

Another positive development was the quarterly recovery from the technically written-off pool. Close to 28 crores in retail was collected from the technically written-off pool, which is more than 40% of our total recoveries in the last financial year. So, the company is poised to recover from the technically written-off pool quarter-on-quarter.

The organization will continue its multi-pronged strategy to bring in further reduction in NPAs in coming quarters, adopting all rounded approach and reduction in delinquency. Thank you.

Deepika Gupta Padhi: Request Anubhav to talk about our tech transformation, please.

Anubhav Rajput: Thank you, Deepika. Good evening, everyone. PNB Housing Finance initiated a massive technology transformation program over a year back. At this time today, I am happy to share that most of the initiatives as part of the transformation have been initiated and completed. I would like to cover some of these in brief.

Firstly, we have launched a new cloud-based CRM platform, Salesforce Platform, which has been leveraged for acquisition as well as improving the customer service capabilities. A lot of automation has been made into this platform, and almost 18% of service requests are being addressed through a self-service mechanism.

Using this platform, our inbound productivity has also seen an upgrade of almost 5% to 10% on a regular basis, despite growing volumes. This platform is tightly coupled to the predictive manner, which helps to improve the customer outcome capabilities and reduce leakages to a large extent.

Secondly, we have revamped our website and converted an internal engagement channel for customers with massive personalization capabilities, and it also provides better access and experience on mobile, which accounts for almost 75% of our user traffic. The new website provides seamless access to our products and services, which has yielded to an increase of lead generation by almost 50% in an organic manner.

Thirdly, we have launched a digital collection platform, which provides on-the-go availability of customer data, loan details, payment capabilities, and interaction details to our entire sales collection team, and that is yielding to improvement of collection efficiency on a large scale.

We have also implemented a new cloud-based LOS system on Salesforce as a platform, with the launch of this platform, which is currently underway and shall be completed by end of Q4, beginning of Q3, in the current financial year. But whatever branches have been launched on the new platform, we have seen improvement in loan and TAT processing times, as well as enabling better performance and tracking capability for our customers. Through the digitization of LOS processes, we have seen a reduction in the physical documents that are handled and significant reduction of the manual data entry that is required to be done.

Lastly, we have also introduced chatbots, which are intelligent enough to act as a kind of a customer service. We are calling it ARIA. These are introduced on a new website, as well as on WhatsApp. And we have seen a significant usage of these channels by the customers for customer service capabilities in a service in a self-service manner.

Deepika Gupta Padhi: Thank you. So, with these updates, Steve, I would request to open up for the Q&A please.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Renish from ICICI Bank. Please go ahead.

Renish: Sir, just two questions from my side. One on the spread or maybe NIM as well, right. So, incremental cost of borrowing is lower than the blended cost of borrowing. You know, we are growing let's say incrementally faster in the high lending segments. So, despite that, you know, why we see NIM or let's say NIM will be under pressure in near term?

Girish Kousgi: So, the reason is, we have couple of reasons. One is the corporate book is degrowing. So, we will very shortly start corporate business. So, hopefully next three to four months' time, we will start corporate business. So, I think now the team is ready. We are ready with the blueprint. Very shortly we will start.

So, why? You know, there is contraction in the yield because of the corporate book rundown. I think that will get solved in next three to four months' time because we start doing fresh corporate business, number one.

Number two, we have a large prime book. So, certain amount of BT, even though we have set up a retention team, the BT as a percentage has come down drastically over last 1, 1.5 years time. So, there is some BT out where that would impact us on the book and eventually on the income.

Third, there is also repricing. So, on one side, there is yield contraction because of corporate book going down, BT out and foreclosure and repricing. On the other hand, we are moving towards high yielding segments. In quarter one, typically, we saw most of the disbursements were a spill off from quarter four sanctions, which were at a lower rate and which is why in quarter one, we don't see spike in yield.

But if you see the current trend, I think there is an improving trend both in affordable and emerging on the yield side, incremental yield is going up. So, you will see quarter two, the yields are going to be slightly higher. As a policy, you know, we had guided margin of 3.5% and we stick to that. I think we will have maybe 3.5 to 3.65 for next two to three quarters' time and then the NIM will start inching up.

Renish: No, sir, but again, if we look at the corporate book, as on June 24th, that book, you know, hardly anything. So, I don't think so there should be any drag because of the corporate book on the yield side. Maybe you are right that incrementally because of the BT out pressure on the prime segment, the repricing to retain the customers would be lower. Is that the fair understanding?

Vinay Gupta: It is combination of all the three which I mentioned. One is corporate book de-growth, second is BT out, third is repricing and foreclosure. All as a combination, I think there is a contraction of yield to a certain extent. And on the other side, we are moving segments and trying to increase the yield, but that is on an incremental basis. So, in about two quarters' time, I think we will reach to a point where there won't be any contraction of yield and it will start moving up. And that's when we will see the margin inching up.

Renish: And my next question is to Girish actually. So, sir, you know, given we are present in almost all the customer segments, whether it is Prime, Affordable, and if the PMAY scheme has to move things faster at the ground, as and when the fine print comes, do you foresee upside risks to our growth guidance of 17% in retail book?

Girish Kousgi: Actually, PMAY is going to help us on bettering our growth rate.

Renish: So, would you like to revise our guidance of 17% now or maybe you would want to do it in Q2?

Girish Kousgi: We would not want to revise for the simple reason if we had to grow at the same yield, we could have definitely done far better than 17%. Since we have a dual task, one is to grow, because last year with so many challenges, we grew at 14.1% on retail. And this year, we have said we are going to grow at 17% on book.

So, this PMAY, we are ready to see how the scheme will get rolled out. And we believe that it will open up huge potential, not only on the Affordable side, even on Emerging and Prime because if you have to go by the last couple of times the scheme parameters, I think a lot of customers would qualify, even on the Prime and Emerging side.

So, we feel opportunity of all the branches catering to this particular segment, whereas affordable focus purely on affordable and which would also consider part of PMAY, but otherwise on the Emerging and the Prime side, largely income-based, we will have an opportunity. So, as we would not want to revise the guidance at this point in time, but we are very sure and confident of reaching 17% book growth what we have guided for.

Renish: Got it. And so just lastly, you did mention about this the margin improvement on the NHB borrowing side. So, could you please elaborate a bit on that?

Girish Kousgi: So, if you look at the scheme which was there till about March 2022. The funding which comes from NHB, especially for Affordable segment, which is under the CLSS subsidy, so there that funding would come at a lower cost. So, one, it will help us in the borrowing cost and number two, there is a lending gap. So, the discussion was to increase that lending gap. So, that would definitely help us to improve our margins.

Renish: It was 5.5%, right sir, last time?

Girish Kousgi: No, I think that rate kept on changing over a period of time, but however the margin was fixed at about 3.5%. I think this time there are some talks, I think this is purely our assumption and expectation. We feel that this 3.5% could go up, maybe to 4% or 4.5%, which is going to help us on all the three segments, meet Roshni, Emerging and Prime, because our margin on the Emerging and Prime is less than 4% or 4.5%. So, any incremental business we do from this PMAY scheme will lead to incremental margin.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: First of all, I mean congratulations on a good quarter. So, first thing I wanted to understand is, I mean, this Fair Practices Code for Lenders charging of interest in the circular that came out from RBI on 29th April. How have we handled this circular? Basically, this circular talked about recognizing interest income only after a DD or Cheque was handed over to the customer. So, I mean, the disbursements and the loan advances that we are showing today and the recognition of interest income. Is there any component of interest income reversal in our interest income that you have reported?

Girish Kousgi: So, we are fully complied No, I think there were a couple of other reasons. One was, I think there were elections during quarter one and also heat wave. I think despite the regulation what you mentioned, despite election, quarter and heat wave we were able to show growth of 19% on disbursements and book growth of 14.4%. I think, else we would have probably been 2%-3% higher.

Abhijit Tibrewal: I think my question was around, I mean, recognition of interest income after that 29th April circular, which talked about recognizing interest income only after a Cheque or a DD was handed over to a customer.

Girish Kousgi: We had a very strong process even in the past. So, the alignment required was very less for us. The gap was very less for us to cover. So, in terms of interest it was hardly about Rs. 4 crores –Rs. 4.5 crores.

Abhijit Tibrewal: Got it. The second thing was on OPEX when Vinay sir was giving his opening remarks, he spoke about OPEX also including the impact of annual performance appraisals which were done for FY 2024. So, I mean, was this just in the nature of increments that happened or also the variable payouts? Just trying to understand how the quarterly run rate is going to be now for the next couple of quarters.

Vinay Gupta: Yes, Abhijit, this was largely the annual increments. Variable payouts in any case is provisioned. So, there is no such impact on that.

Abhijit Tibrewal: Got it. So, basically now, I mean, is this the new kind of a steady state that we can keep building on for OPEX?

Vinay Gupta: That's right. This is our new steady state number.

Abhijit Tibrewal: And Vinay sir just one related question. I mean, while you covered liabilities in a greater detail, just trying to understand after this credit rating upgrade, I mean, how are conversations progressing? I mean, incremental cost of borrowing is already down to 7.75, How are you looking at cost of borrowing trending going ahead?

Vinay Gupta: In digits in this quarter itself we have seen the improvement. It has gone down by around 6 basis points and the incremental cost of borrowing has come down to 7.75% while the environment is still volatile, it will still move slightly. But some more benefit is expected to come in the few quarters. And once the PMAY is announced, as sir mentioned, there could be further benefits which can come on account of PMAY.

Abhijit Tibrewal: Got it. But this PMAY is going to help us more on the growth side as well as on the spread or margin side because we are expecting the spread cap, which was earlier 3.5% to be increased when the details of the scheme come out.

Girish Kousgi: It is going to help us on three counts, one is on the cost of borrowing, second on the growth, third on the margin.

Abhijit Tibrewal: Girish, last question for you. I mean, obviously, this quarter there was benefit from recoveries on the corporate side. During the opening remarks, I also heard that out of the total recoveries of Rs. 80 crores from the written-off pool almost around Rs. 23 crores were recovered from retail, if I heard you right. Just trying to understand, going forward while you spoke about a pool of both corporate and retail written-off pool how are you looking at basically credit cost trending? They are expected to remain benign for the next couple of quarters at least?

Girish Kousgi: I think, yes, credit cost will be muted. Just to give you some numbers, for quarter one, retail recovery was Rs. 28 crores and corporate was Rs. 53 crores, total Rs. 81 crores. And quarter one being cyclical, I think the write back amount was quite low. I think this number will only improve in the quarters to come both on retail and corporate.

Abhijit Tibrewal: And sir, later during the call, if you could just explain this corporate account that you have resolved using customer settlement, what was the nature of that? And what was the outstanding and how much have we recovered?

Girish Kousgi: So, we had sold to ARC, so it was cash and SR. We recovered the cash portion in quarter one and the rest would be, the SRs will be redeemed in this year, so this is on this particular account. And on the retail, I think it is quite regular in nature, so we will keep recovering. And we had one NPA in corporate, I think that is now resolved, now on corporate NPA is zero.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Phillip Capital. Please go ahead.

Shubhranshu Mishra: Girish, two questions. The first one is around the PMAY Scheme. My fair understanding is that the scheme has to be implemented at scale as far as self-construction then it can be implemented. However, if the builders have to recover their inventory it will take a longer period of time because that supply itself has come off. I just wanted your thoughts on that, how long will a developer take to recover their inventory for Affordable housing? And when do we get that benefit in terms of certification of disbursements at scale? Well, I understand for self-construction houses this could have immediate benefit. The second is around the ARC sale, how much of provision are we carrying on the SRs right now on the ARC sales? Thanks.

Vinay Gupta: So, on the ARC sale, the one that we have done during the quarter, it's 100% provided. And for the other one, we are carrying around 70%.

Girish Kousgi: On the PMAY, I think we are yet to get the details, it is still not announced. But we feel that it's going to be big one. And if you look at the composition of products under PMAY, in terms of whether it is self-construction, whether it is self-construction with the plot purchase and construction, depending on the nature of product, I think the opportunity is going to be huge. I think once we get the scheme details, we will be able to rework on that and if need be then we will be ready to take that opportunity forward.

Shubhranshu Mishra: So, will we change our disbursement growth guidance once we get the final print?

Girish Kousgi: No, we will not be able to comment on it. As of now we have stuck to 17% good growth guidance. And if there is any need during the year, we may look at revising it. But at this point in time, 17% is where we stand.

Shubhranshu Mishra: 17% is the book growth guidance, what is the disbursement?

Girish Kousgi: Book growth, yes. Retail book growth is 17%.

Shubhranshu Mishra: And what is the disbursement growth guidance for retail?

Girish Kousgi: That will be about 25% plus.

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

Viral Shah: Thank you and congrats on good set of numbers. Actually, I have few questions. Girish, if you can help me understand. So, first of all, in your Affordable book, what is the share of disbursements that are done for either a purchase or a construction to the borrower versus what is the business transfer?

Girish Kousgi: Sorry, could you please repeat the question?

Viral Shah: In the Affordable segment, the disbursements that you do, what would be the share of the BT-ins that you would have got?

Girish Kousgi: Yes, I think, on the BT-in would be close to 20% and BT-out is negligible.

Viral Shah: Next is on the Affordable side, I remember in the analyst meet also you had mentioned that incrementally we are looking at a different customer mix and product mix which is going to ensure that the yields are going to go up by 100 basis points immediately from next year. So, from when should we see that? Because I see that the disbursement yields are flat QoQ.

Girish Kousgi: I mentioned that it has already started. The only thing is in Q1 most of the disbursements were from the sanctions which happened in Q4. So, you will see a very marginal spike in quarter one. It has already started. So, you will see yields improving on incremental disbursements quarter-on-quarter.

Viral Shah: Okay. So, we should see that at least on reported first decimal numbers from next quarter only?

Girish Kousgi: This is on incremental. Let's say from now onwards till this year end, so this year whatever to originate that would carry a yield of 12.6% on Affordable.

Viral Shah: Got it. And if I have to basically look a bit deeper in your cost of funds reduction of 6 basis points in this quarter, what further room do we have in terms of reduction given that, again what was the share of the mixed change in this quarter? Because there was some increase in the CPs as well. So, is this entire reduction just because of the credit rating update or there is some more benefit yet to come through because of that?

Girish Kousgi: See, it is a combination of various things. So, one is you mentioned CP, definitely yes, CP is one instrument and second is the cost of deposit, for us it is coming down. While we are growing our deposit book our cost of deposit is coming down. Number three, we are renegotiating with all the bankers on the existing lines and all the new lines we are able to get slightly at a better rate. I think it is combination of all these things is resulting in slight reduction in the cost of borrowing, both incrementally and on book.

Viral Shah: Okay. And lastly in terms of the recovery pipeline last time around you had mentioned that on an average around Rs. 50 crores every quarter for six quarters to eight quarters so that gave us a pool of say around Rs. 300 crores to Rs. 400 odd crores. Now that we have had Rs. 80 crores of recovery in this quarter, do you see the overall pool increasing? Or the remainder of the recovery pool, how will it look like for next few quarters?

Girish Kousgi: On the retail book, we had told approximately about Rs. 170 crores to Rs. 180 crores we will be able to recover this year. So, if you look at quarter one, the amount was Rs. 28 crores. I think in next three quarters we will be able to cover up another maybe Rs. 150 crores to Rs. 160 crores. On the corporate, whatever books we have that is Rs. 1,250 crores that will span out in next three years.

Viral Shah: Sorry next?

Girish Kousgi: Three years.

Viral Shah: Okay, next three years. And lastly, if we just go back to the NIMs piece in the near-term Vinay mentioned there may be some moderation. What is the like extent of it that we are talking about? Is it just 5 basis points - 6 basis points or is it going to be more like 10-odd basis points?

Girish Kousgi: I think it will be in line, so we have guided 3.5%. So, 3.5% is the threshold and with this mix change and with reduction in cost of funds. And obviously, we will be able to maintain this for next two quarters to three quarters, there could be a few ups and downs, few bps. After that it will start inching up.

Moderator: Thank you. The next question is from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Thanks for the opportunity and congrats on a good quarter. Just wanted to understand on the Affordable bit, so we have hit 160 branches right now, what is the plan there? Or do you think that we have expanded like meaningfully in last one year, so you would want to take it slow at this point in time?

Girish Kousgi: So, we have 160 branches on the Affordable side, this year we will open 40 more branches. By this year end we will have 200 branches on the Affordable side. And this will be the plan for the next few years. So, we will keep opening about 40 to 50 branches every year at least for the next three years.

Sameer Bhise: Sure. And any specific states or it remains equally split between North, West, South?

Girish Kousgi: I think we are a national player so we would be focusing on predominantly three zones, South, West and North. We are scarcely present in East, more on the Prime side. So, our expansion would be in South, North and West. Largely our branch expansion is going to be on Affordable and emerging side.

Sameer Bhise: And just quickly on the Stage-3 ECL change sequential, what could be the reason?

Vinay Gupta: So, on Stage-3 ECL, one is since we have resolved corporate, so that has completely gone nil. And on the retail side there is a marginal drop, it was around 35%, it is now 32.5%. This is on account of certain one-offs that we have taken on the retail side and these were vintage accounts, which got resolved or we have taken a one-off where we had higher provision,. that got released and the new which got added, the requirement is on the lower side. So, hence, it is more of a mix change which is happening there.

Moderator: Thank you. The next question is from the line Omkar, an Individual Investor. Please go ahead.

Omkar: My question is with respect to the branch itself. Now you said that we will be adding 40 more branches in the current year and approximately 40 to 50 over the next three years to four years. So, can you please help me understand what will be the metrics with respect to the branch? How much time will the branch take to become a profitable branch? And what are the number of employees per branch and etc. with respect to understand how the branch will grow as it seasons?

Girish Kousgi: So, the plan is to open 50 branches. So, this year we will open 50 and every year we will open 50 for next three years, that is the plan. So, this year 50, next year 50 and next to next year 50, that is the plan of branch expansion. In terms of breakeven on the Affordable and Emerging, both sides, it will take average about 9 to 10 months' time to breakeven.

Omkar: Okay, 9 to 10 months. And with respect to the technology transformation that you've mentioned in the opening comments and also in the PPT, there is a mention of the reduction in TAT. So, what was the TAT earlier and what is it now? Can that be quantified?

Anubhav Rajput: On loan processing TAT, if you are talking specifically to LOF, our loan processing TAT is reduced by about 16% to 17%. And on the CRM side, the customer service request is seeing reduction in TAT because they will reduce self-service capabilities, almost 18% of requests by the customers are getting self-service without being assigned to any agent. That is improving the TAT on an overall basis.

Omkar: Can we quantify the TAT in number of days, so like how much time does it take from log-in to sanction or disbursement with respect to days of file that has been reduced?

Jatul Anand: See, wing-to-wing right from reference log-in to sanction and including salaried and self-employed, this is around three working days. So, we have seen this coming down to close to four working days to gradually we are reducing it to three. And wherein salaried is decisioned in the second day itself.

Omkar: And with respect to the cost to income and the Opex-to-AUM, as you are saying that we are going to be so aggressive on the branch expansion, Affordable Housing space as of what I have seen the Opex ratios are very high. So, how do we manage to overcome that and that would not make a drag on the profitability? Could you please share some light on that?

Vinay Gupta: See, actually on the Opex side, most of the investments related to 160-odd branches now and 300 overall that we have for the business, investments are already done, so it's both up fronted. So, whatever you see now would be a run rate. Rest would be in the BAU core that we would be adding. And it will be only the direct cost that we would be investing, which is mostly in terms of sales and underwriting people. Rest everything would be the shared infra. And plus, the economies of scale will kick in from other businesses, which will help in absorbing. So, we are pretty much confident that 1% kind of Opex we should be able to maintain.

Omkar: Finally, with respect to the credit underwriting, since our overall portfolio mix is more tilted towards the salaried people and Affordable in the Tier-III, Tier-IV and beyond, will be more self-employed. So, how are we changing our underwriting practices and what will be the way that we make sure that the asset quality remains stable? Can you please share that?

Girish Kousgi: So, I think the underwriting model for Prime and Emerging is similar. It is very little different between Prime and Emerging; I think broadly it is similar. When it comes to Affordable, it is totally different. So, we have a different vertical for these three businesses. We have a different vertical for Prime, different vertical for Emerging, different vertical for Affordable. Now, on the Affordable side, largely we are going to focus on both the income and assessment-based product, it will be 50-50 almost, 50% is going to be assessment, both on salaried and self-employed. And therefore, there the underwriting model what is required is very different. So, we have a different structure, different team, different head to drive this piece vis-a-vis compared to Prime and Emerging.

On the Prime and Emerging, it is more rule based and largely the focus is on income side. On the Affordable it is 50-50 and therefore, it is more of assessment model. So, on the salaried side when we say informal it is cash salary. On the self-employed side when we say informal it is basically LIP and certain programs where the income is not there. So, there, we have developed models, we have developed various templates. For example, we have close to 35 templates depending on the sector, depending on the nature of business, all these are templatized, all these are automated. And this would support us in terms of standardization of the assessment.

Having said that on the Affordable side, it is more of touch and see, so every branch we have a credit manager. Say credit manager meets the customer, does the personal discussion, assesses the income and then we use those templates to standardize our decisioning process. So, it is very different, on the Prime and Emerging it is different, it is more driven by rule based algo. On the Affordable side it is a mix of both personal touch, personal discussion and use of templates.

Omkar: Just one last bit, I wanted to understand what would be the ROA guidance for the next 2 years to 3 years?

Vinay Gupta: ROA guidance we are not giving on an annual basis, what we have laid out in our investor day is that we are working towards a range of 2.4% to 2.6% in next three years. So, we are committed to deliver that.

Omkar: 2.2% to 2.3%, did I get it right?

Vinay Gupta: 2.4% to 2.6%.

Omkar: 2.4% to 2.6%.

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

Viral Shah: One last question is, so in this quarter you have had Rs. 80 crores of recovery and then there was around Rs. 45 crores of reversal of provisions on the corporate loans. And with an overall net write back of Rs. 12 crores, it means that the adjusted or ex of the recoveries, the credit cost would have been Rs. 113 crores, would that be a right understanding?

Vinay Gupta: Viral, but that also includes some one-off that we have taken on the retail side. So, it is not our core credit cost that also had certain one-off that we have taken.

Viral Shah: Okay. And when you mention one-off as in a charge to the P&L, right?

Vinay Gupta: Yes, right, charge to the P&L.

Viral Shah: Got it. Yes, that makes sense, because otherwise the implied credit costs were a bit higher.

Vinay Gupta: Yes, right.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for their closing comments.

Deepika Gupta Padhi: Thank you everyone for joining us on the call. If you have any questions unanswered, please feel free to get in touch with Investor Relations. The transcript of this call will be uploaded on our website as well as the audio of the call. Thank you.

Moderator: On behalf of PNB Housing Finance Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.