MANAGEMENT DISCUSSION AND ANALYSIS

PNB Housing Finance is fourth largest housing finance company in India by AUM as on 31st March 2022, offering a wide range of financing products and solutions and helping Indians fulfil their aspirations.

INDIAN ECONOMY OVERCOMES PANDEMIC JITTERS

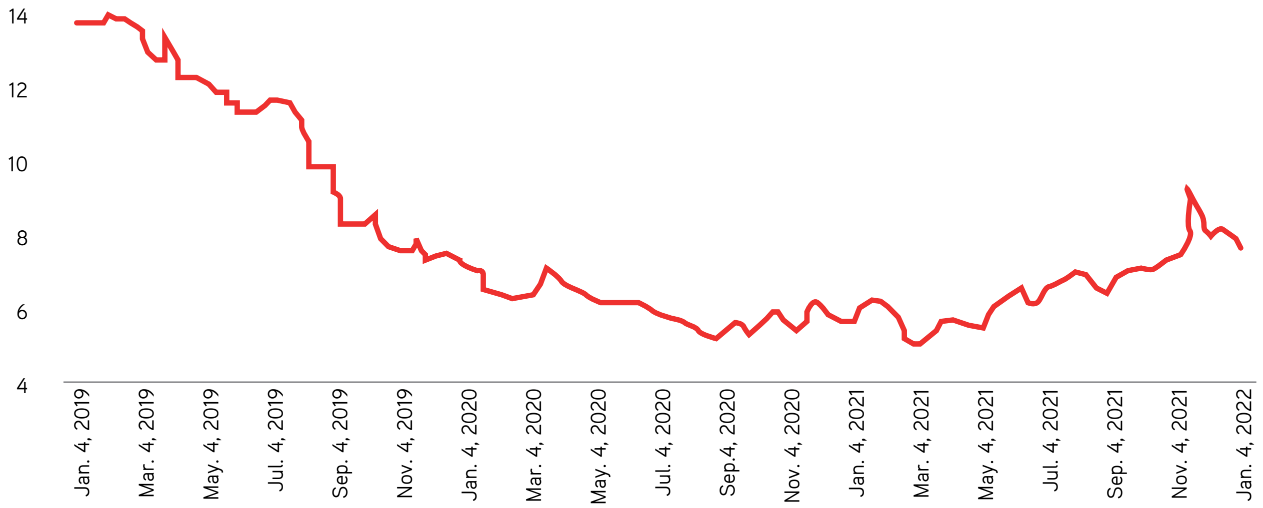
The Indian economy staged a solid rebound from the pandemic-induced disruptions. However, the second wave, which was more intense and severe than the first, overwhelmed the country's healthcare infrastructure and prompted the re-imposition of lockdowns, albeit localised. The government, overcoming initial jitters, focused rightly on accelerating the vaccination drive to leave behind the scars of the pandemic.

The re-opening and subsequent normalisation of economic activities brought the recovery trajectory on track in the second quarter, with several sectors showing a steady glide path to pre-pandemic levels. Rising inflation in the second half due to supply side challenges viz. elevated commodity, crude and food prices, logistics challenges however, kept the RBI on tenterhooks. Although the apex bank refrained from raising policy rates through FY22, its statements turned increasingly hawkish, signalling that inflation and growth have exchanged places in its priority hierarchy in the last Monetary Policy Committee meeting of FY22. That said, various indicators including GST collection, e-way bill generation, foreign trade indicated that the Indian economy was on track to exit the financial year with high-single-digit growth (Economic Survey 2022), after contracting by 6.9% in FY21.

Meanwhile, in line with the economic activities, credit growth picked up in FY22 with retail loans showing the sharpest uptick.

Credit growth has gained much-needed momentum in FY22

Bank credit to the commercial sector (%, YoY)



Source: CMIE

Deloitte Insights I deloitte.com/insights

India expected to be the fastest growing major economy in FY23 backed by recovery in demand, significant capital spending by the government and increasing capex commitment from the private sector backed by the PLI scheme. However, high crude prices and elevated inflation poses risks to the forecast on the downside. S&P estimates that the country will witness a GDP growth of 7.8% in FY23.

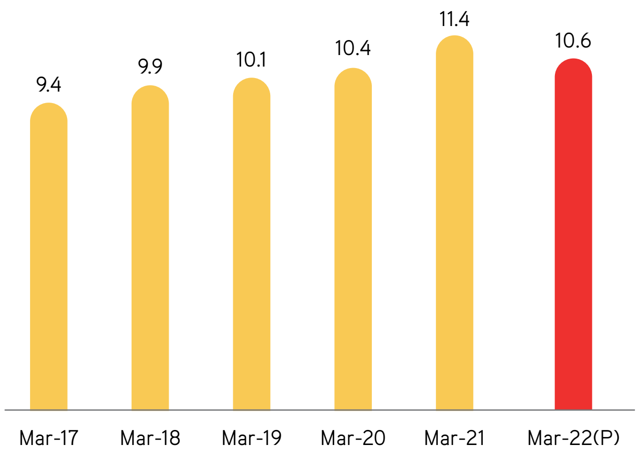
HOUSING FINANCE SECTOR INDUSTRY INSIGHT

Optimistic sectoral outlook

As per CRISIL, the housing finance segment was estimated at ₹24,524 billion in fiscal 2022. Of this, housing loans at non-banking finance companies (NBFCs), including housing finance companies (HFCs), accounted for ₹8,631 billion, up 13% year-on-year. Given the buoyancy in the economy as well as the real estate the housing finance sector is poised for healthy growth.

After a prolonged period of stagnancy, the real estate sector is moving towards demand upcycle. This can be attributed to an increase in income levels, increased affordability, stable property prices and larger housing space requirements owing to remote working norms, among others. As per CRISIL, considering the demand prospects, the on-book portfolio of the HFCs/NBFCs is expected to grow by 13-15% in FY23. Further, the government's continuous push towards the affordable housing segment is expected to continue driving the mortgage sector. As per CRISIL Research, affordable HFCs are expected to grow at 15-17% in FY23. Affordable housing is anticipated to remain upbeat given the massive under-penetration, favourable demographics, government's thrust on housing and a favourable regulatory/ tax environment.

Mortgage penetration rate trend (%)



Housing Credit as proportion of GDP (%)
Source: ICRA Mortgage Report-March 2022

The second wave disrupted business operations including collections. Asset quality started improving from the second quarter with the improved collection efficiencies.

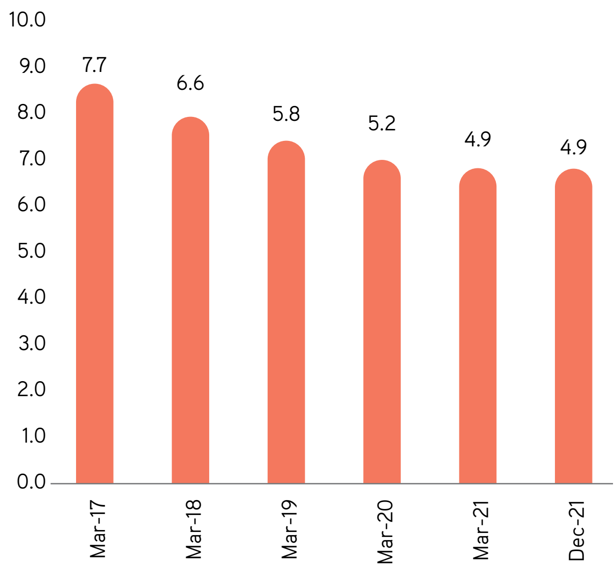
The RBI on 12th November 2021, introduced a stricter asset quality reporting norms for all lenders, bringing housing financiers and non-banking financial companies (NBFCs) at par with commercial banks. According to the new guidelines, any NPA account will be upgraded to "Standard" only when the entire arrears pertaining to principal and interest are paid by the borrower, thus shifting the focus from roll back to normalisation.

Further, the regulator also clarified that the classification of borrower accounts as NPA shall also be done as part of the day-end process for the relevant date.

The amended guidelines have resulted in a spike in the GNPA numbers at the end of Q3 FY22. However, with organisations adapting to the change and revising their collection strategies in line with the new guidelines, the GNPA numbers are expected to normalise eventually.

The industry has registered moderate improvement in the aggregate on-balance sheet gearing. It stood at a comfortable 4.9x as on 31st December 2021. The reported capital adequacy remained good with the overall capital to risk weighted assets ratio (CRAR) at 23.7% as on 31st December 2021 reflecting improvement from 22.8% as on 31st March 2021. This was backed by the relatively low risk weights for HLs and commercial real estate (CRE) loans for residential projects and the relatively low growth in the loan book.

HFCs' gearing has further improved (x)



Source: ICRA Mortgage Report-March 2022

PNB HOUSING FINANCE: ADVANCING WITH DETERMINATION

After the pandemic-hit FY21 started normalising, the recovery in the sector was further impacted by the second wave of the COVID-19. PNB Housing Finance was no different as business recovery was severely impacted during the first quarter of the financial year under review. However, we took a multi-pronged approach to steer through this challenging period and make the business future-ready.

At PNB Housing Finance, we are focusing on a three-pronged strategy to strengthen our business fundamentals and accelerate growth in the future. Continued progress on our strategic priorities will keep us agile and relevant while helping generate sustainable value for our stakeholders. The Company along with its strategy, mentioned key monitorables, on which we measure performance.

By the end of FY22, the Company is able to attain sustainable performance in few monitorables viz. sanctioning in over 80% loans within stipulated turn around time, significant reduction in the cost of borrowing, maintaining healthy retail mix with granular book, reduction in the corporate book.

Strengthening Our Core

	Progress FY22	KPIs
MANAGEMENT • Strengthen leadership team • Augment risk and data analytics team • Focus on upgrading skillset	• On-boarded senior talents across various functions • Introduced incentive plan to retain talent • Internal promotions across functions	**9 hires & 4 promotions** In the senior and mid senior positions
CAPITAL POSITION • Improve capital and gearing • Build significant provision • Raise capital across different modes	• Maintained adequate provisions • Improved gearing • Improved Capital to Risk Asset Ratio	**4.42%** Total provision to total assets **134 bps** Improvement in gearing **467 bps** Improvement in Capital to Risk Asset Ratio
RISK MANAGEMENT • Leverage advance analytics and new-age technologies • Automate credit appraisal journey with human touch • Strengthen EWS to improve collection efficiencies • Remedial management group to focus on resolution of corporate book	• Sanctioning in over 80% loans within stipulated turn around time • Our retail collection efficiency improved to 98% in FY22 vs 97% in FY21 • Resolved 12 Corporate accounts with outstanding of ₹339 crore	**83%** Share of loans sanctioned within stipulated TAT **97.9%** Collection efficiency

Drive Efficiency

	Progress FY22	KPIs
COST MANAGEMENT • Rationalise operating model with enhanced focus on profitability • Optimise cost and productivity • Improve accountability across organisation • Product and segment level monitoring	• Significantly reduced cost of borrowing • Process improvement focus to optimise operating cost • Final stages of implementing key initiatives identified as a part of transformation project	**5.8%** Incremental cost of borrowings **20.2%** Cost-to-income ratio
DIGITAL DRIVE • Accelerate digital transformation across the value chain • Increase use of AI, ML, RPAs to augment business, underwriting and enhance efficiencies • Advanced analytics for portfolio management, risk and collection	• Increased focus on digital sourcing which is at 47% in FY22 as compared to 19% in FY21 • Ace integration and 2.0 was made live • Completed Business Rule Management Engine system integration; Phase 1 is expected to go live by Q1 FY23 • Standardisation of data platform and advanced analytics powered sourcing models under development	**47%** Digital sourcing

Accelerate Growth

	Progress FY22	KPIs
RETAIL FOCUSED LENDING • Leverage expertise in mass housing and merchant category • Increase fee income through cross-sell, upsell and co-lending	• Maintaining healthy retail-mix • Increased logins to aid business growth	**19.1%** Y-o-y growth in retail log-ins **89%** AUM is retail book
GROW AFFORDABLE HOUSING 'UNNATI' • Building higher yielding Unnati portfolio • Focus on average ticket size of ~₹ 15 lakh • Strengthen distribution network with increased presence in tier II and III cities	• Created separate vertical and open lean branch infrastructure • Identified and operationalised new locations for Unnati focused network growth	**24** New locations opened for Unnati-specific branches **₹ 3,108 CRORE** Unnati AUM, 5% growth over FY21

During the year, we sanctioned 57,360 loan applications, reflecting a 14% increase over the previous year. We disbursed loans amounting to ₹11,246 crore, an increase of 8% over the previous year. Overall AUM was at ₹65,977 crore (as per IndAS), declined 11%; loan assets moderated by 8% to ₹57,895 crore (as per IndAS). On principal outstanding including principle overdue basis, loan asset was at ₹56,889 crore registered a decline of 9% on account of lower disbursements during the year. The incremental cost of fund during the year stood at 5.8%, reflecting 96 bps decline over FY21.

Over the past few years, we are working consistently to strengthen our balance sheet. During the year, we have further reduced our gearing to make the balance sheet leaner while improving our CRAR substantially. Our increased focus on the retail segment with lower-risk weight and reduction in the corporate loans helped us achieve this.

As on 31st March 2022, our cash and cash equivalents stood at ₹6,260 crore compared to ₹6,969 crore in the previous year; deposits grew 5% YoY to reach ₹17,649 crore. During the year, we sourced around 73,372 deposit applications amounting to total of ₹7,233 crore.

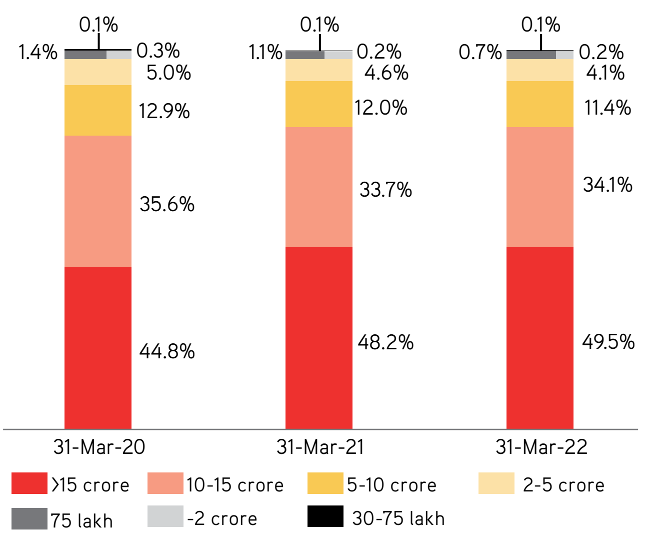
RETAIL LOANS

Individual housing loans

Owing to our increased focus on the retail segment with additional focus on the affordable housing segment, we achieved an average ticket size (ATS) of ₹28 lakh in 2021-22 for individual housing loans. Salaried customers accounted for 70% of the individual housing loans, while self-employed contributed 30%. Our conservative approach towards underwriting and disbursement led to the LTV for individual housing loan at 72% as on 31st March 2022.

To support the Government scheme of "Housing for All" through PMAY-CLSS scheme, we have made aggregated disbursement of ~ ₹14,448 crore under 67,258 loan accounts in the category of EWS/LIG and MIG I/MIG II till 31st March 2022.

ATS of individual housing loan

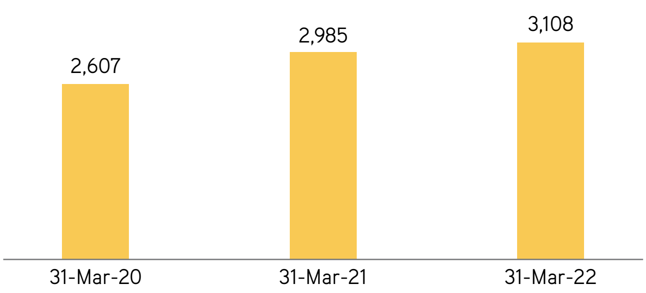


Unnati loans

The affordable housing segment remains a key focus area for the company and is serviced through the product Unnati. We have created a dedicated business vertical for Unnati, which saw disbursement increasing 5% during the year with an AUM of ₹3,108 crore at the end of FY22 against ₹2,985 crore in FY21. During FY22, we opened 24 Unnati dedicated branches in FY22 and going ahead, we intend to strengthen the network further to drive growth in affordable housing segment.

Given that it is a high-yielding category, we are focused on developing a differentiated strategy that will help us penetrate the market more effectively and improve our overall profitability. We have identified the key markets for deeper penetration. In addition, we have created a dedicated team to build the product.

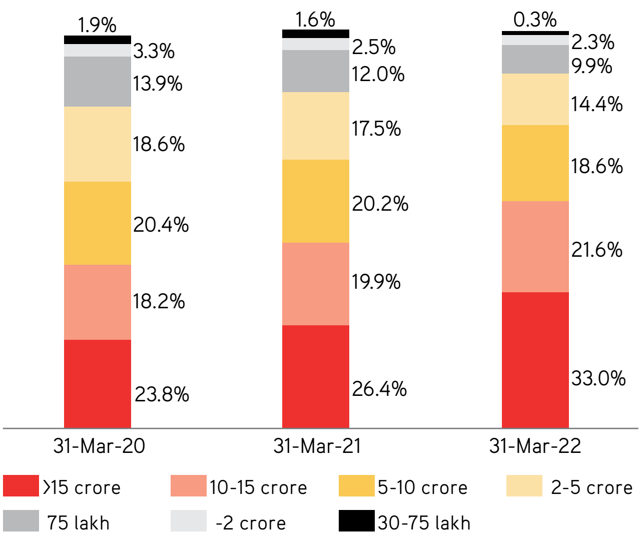
Unnati loan book (₹ in crore)



Retail loan against property

During the year, the Company disbursed ₹2,233 crore under this segment, forming 20% of the total in disbursements. The ATS is at ₹36 lakh, as on 31st March 2022. The weighted average LTV was maintained below 50%. The self-employed segment accounts for 77% of the retail LAP book.

ATS of retail loan against property



Retail non-residential premises loan (NRPL)

Retail NRPL contributes 4% to the asset under management. These loans are given for the construction of the commercial property. The ATS for retail NRPL is ₹39 lakh.

CORPORATE LOANS

Construction finance loan

The construction finance book comprises 9% of the AUM, as on 31st March 2022. The ATS on a unique corporate house basis is ₹208 crore. The construction finance book is spread across 43 developers, with top seven markets contributing 88% of the AUM. As per the laid out strategy to reduce corporate book, the construction finance book have reduced by 32% to ₹5,912 crore over the last one year.

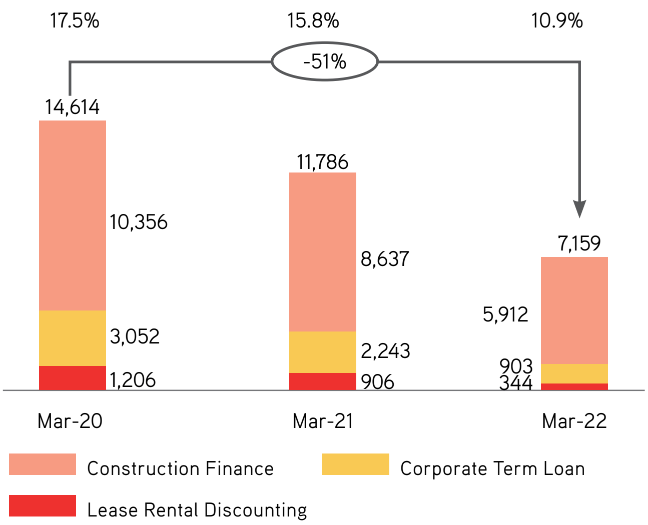
Corporate term loan

Corporate term loan book comprises loans given to developers either for construction of commercial units or as a term loan secured against a mortgage, comprised 1.4% of the AUM, as on 31st March 2022. The ATS on a unique corporate house basis is ₹98 crore. The corporate term loan book is spread across 17 developers, with top seven markets contributing to 85% of the AUM. Over the last one year, corporate term book is reduced by 60% to ₹903 crore as on 31st March 2022 from ₹2,243 crore as on 31st March 2021.

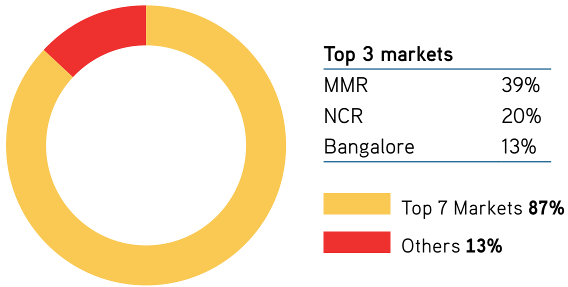
Lease rental discounting

The lease rental discounting portfolio of the Company includes loans given to the developers against the rental receipts derived from lease contracts with their corporate tenants. The share of this book in the total AUM stood at 0.52% as on 31st March 2022 with an ATS of ₹69 crore. The lease rental discounting book is spread across 5 developers, with a presence in seven large cities. 100% of the lease rental discounting book is backed by leased-out commercial office buildings with multiple tenants.

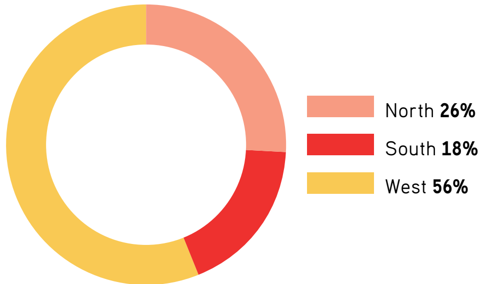
Corporate loans (₹ in crore) (% of Total AUM)



City Concentration



Geographical Distribution

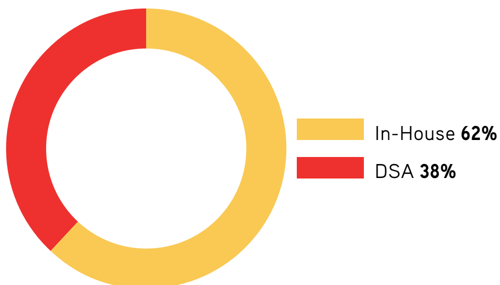


DIVERSE DISTRIBUTION CHANNEL AND GEOGRAPHY MIX

We source business from two channels – our own team and through the DSAs (Direct Selling Agent). The work-from-home scenario owing to the pandemic saw a slowdown in sourcing through the DSA channel. We intensified our focus on internal team to source new business. Besides, we empowered the team with various tools to drive sourcing. On the other hand, to grow the DSA channel, we introduced several promotional schemes to drive business from the channel.

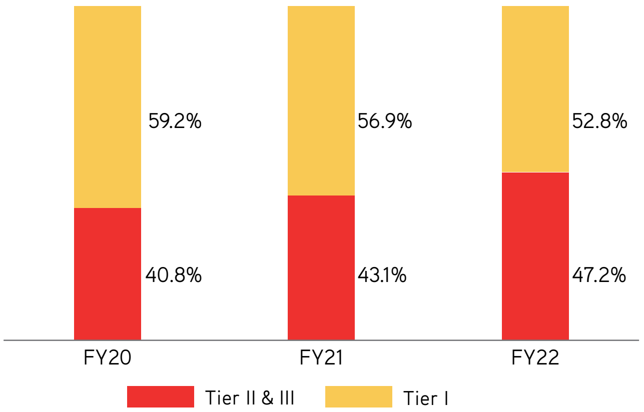
Western India remains our largest market, followed by Northern and Southern markets. We are witnessing increasing opportunities coming from the Tier II and III cities. This is reflected in the increasing contribution of these geographies in our business. We are further focusing on these cities to drive our Unnati Business and open dedicated branches that serves the Unnati product segment. We are serving our customers through 99 branches in 67 unique cities and 38 Outreach centres.

Disbursement origination



AUM geographical breakup

Focus on Tier II and III for retail



Leveraging the Digital Channel through ACE platform

The ACE platform, launched in FY21, has witnessed a phenomenal growth in onboarding of new customers. More than 45,000 of customers have been onboarded through this platform since its inception. We won "Business Transformation Award 2021" by Mint (TECHCiRCLE) for ACE technology platform. We are further working to strengthen the platform and make it more efficient and user-friendly.

45,000+
ACE logins since inception

47%
Client onboarded through the ACE platform in FY22

PHFL HOME LOANS & SERVICES LIMITED (PHFL)

Our wholly-owned subsidiary, PHFL is engaged in the sales and distribution for PNB Housing Finance. It has helped in reducing dependence on external sources for acquiring new businesses. It contributed to over 62% (disbursement) of our total retail asset business during the year under review. We have also been providing adequate processing support to ease the delivery process for customers.

BLUEPRINT FOR TRANSFORMATION

We embarked on a transformation journey with the help of an external consultation in 2021. The exercise has helped us deep dive into our existing capabilities and suggest ways to create a stronger PNB Housing Finance of tomorrow.

Driving business growth

PNB Housing Finance is a prime segment lender and has been offering home loan and other mortgage products to prime segment customers viz Salaried and Self Employed. The focus has been on increasing the business on one hand while repositioning it on the other. As a progressive step forward, we have identified Unnati as one of the key drivers to address the growing business segment, we scanned the entire landscape and identified the high-potential geographies. The inference was 14 states holds the highest potential. We identified the micro markets within these states and created dedicated operational and sales teams with right pricing proposition through dedicated branches for the Unnati segment. We did a detailed analysis of our affordable housing policies, and revamped keeping in mind the geographies and customer segment.

Enhancing Underwriting and Collections

We regularly review our credit monitoring and control procedures, to ensure that they are efficient and effective however we seek to further strengthen the credit underwriting processes. The Company to enhance its digital footprints in underwriting and is in process of implementing straight through processing for the salaried segment through a rule based engine and enhancing core capabilities for the self-employed segment.

A blueprint has been created for collections using field force and technology to drive efficiency.

We are leveraging analytics to evaluate early warning signs to determine the customer bounce pool. Our focus on collection efficiencies will also continue to improve our resolution rates through various initiatives such as

a. Early referring out by the tele-calling team for Bucket-X resolutions.

b. Implementation of VaR model to prioritise and strategise collections.

c. Multiple representations to roll-back and normalise the pool.

d. Closure of chronic and critical NPAs.

Operating cost optimisation

In order to optimise costs, we have successfully renegotiated the branch leases with all landlords, resulting in some cost savings. In addition, we have also explored strategies to optimise distribution by consolidating branches and are running a sales force effectiveness programme to drive efficiency in the system.

Digital transformation

Digitalisation cuts through all the business aspects of the organisation and we have enhanced our digital journey as it impacts the experience both on the customer facing side of things as well as the internal experience. Our digital landscape is to enhance customer service, analytics driven decisioning and execution across the value chain.

RELENTLESS SUPPORT TO OUR CUSTOMERS

Customer service remains a key pillar for across our on-boarding, engagement and retention activities. We provide multi-channel touchpoints to engage with our customers including branches, contact centres, email and customer portal, among others. Our digitalisation drives led 70% of our customers moving to digital mode during the year under review.

TALISMA, our ERP-integrated customer relationship management module helping us benchmark the turnaround time and enabling us to maintain the service delivery within the promised turnaround time.

Engaging with our customers

With more customers preferring contactless interactions, there has been a substantial increase in customers connecting through calls. We simplified the IVR call menu, expanded the service offering covering the option of self-service. The system identified the caller phone number, helping reduce layers of verifications. Besides, the self-service menus were made binary, helping the callers to get desired outputs faster. During the year, we have included support of six languages in the IVR menu to help a wider base of customers to access the tele portal. We have also introduced call back option to reduce customer long wait time. As a result, we have achieved zero missed calls during the year.

- We are enhancing the capabilities of our chatbot to undertake more complex requests/queries.
- More than 40,000 customers have been able to avail the benefits of the PMAY CLSS subsidy scheme through our integrated end-to-end digitised procedures.
- We introduced video KYC for an end-to-end digital, paperless and zero-contact customer onboarding process. It also helped us in controlling customer drop off rate besides reducing turnaround time for the process as well providing a touchless transaction option for the customers. The multi-lingual KYC is operable from a branch level, making it much more accessible to a larger part of the Indian market.
- We have provided the critical documents like our Fair Practice Code among others in vernacular languages for customer convenience and ease.
- We introduced COVID restructuring 2.0 to give relief to the customers who were facing tough times due to pandemic related disruptions.
- The government came out with guidelines for Emergency Credit Line whereby emergency loans given to MSME customers will be covered by 100% credit guarantee from NCGTC. PNB Housing Finance also got registered with NCGTC to enable availability of aforesaid credit facility for its customers. Under GECL 1, Individual /Non individual Customers who have availed a Non-Housing Loan (LAP) for business purpose and had MSME registration were eligible. Under GECL 2, the scheme was applicable to all loans sanctioned under GECL and in this connection, the duration was extended till 30th September or till a total amount of ₹3 lacs is sanctioned under the scheme. Till 31st March 2022, ₹498 crore was disbursed under ECLGS.
- In line with the directives of Supreme Court and the guidelines issued by RBI, refund of interest on interest charged to customer's account during the moratorium period was completed. Almost 9,000 customers were given the benefit. The execution including customer communication was done in a seamless automated manner.

We are training our people for multi-tasking to serve the increasing number of customers. Further, we will skill our frontline staff to reduce the transaction time in our branches.

CENTRALISED OPERATIONS

We have created Central Operations that helps in implementing industry-best practices in operational activities. Our centralised operation is ISO-certified. The team is divided into two business units: Central Processing Centre (CPC) and Centralised Operations (COPS).

Central Processing Centre (CPC)

The CPCs of the company are in Mumbai, Bengaluru and Noida. The CPC is the custodian of our customer documents - loan files, deposit applications, repayment pouches and business partner applications, among others.

The CPC handles nearly 1.73 lakh service requests, including loan closure and refund claims, every month, within defined timelines. As a prudent lender, the original loan documents of the customers are scanned and stored in the cloud before sending for a safe custody.

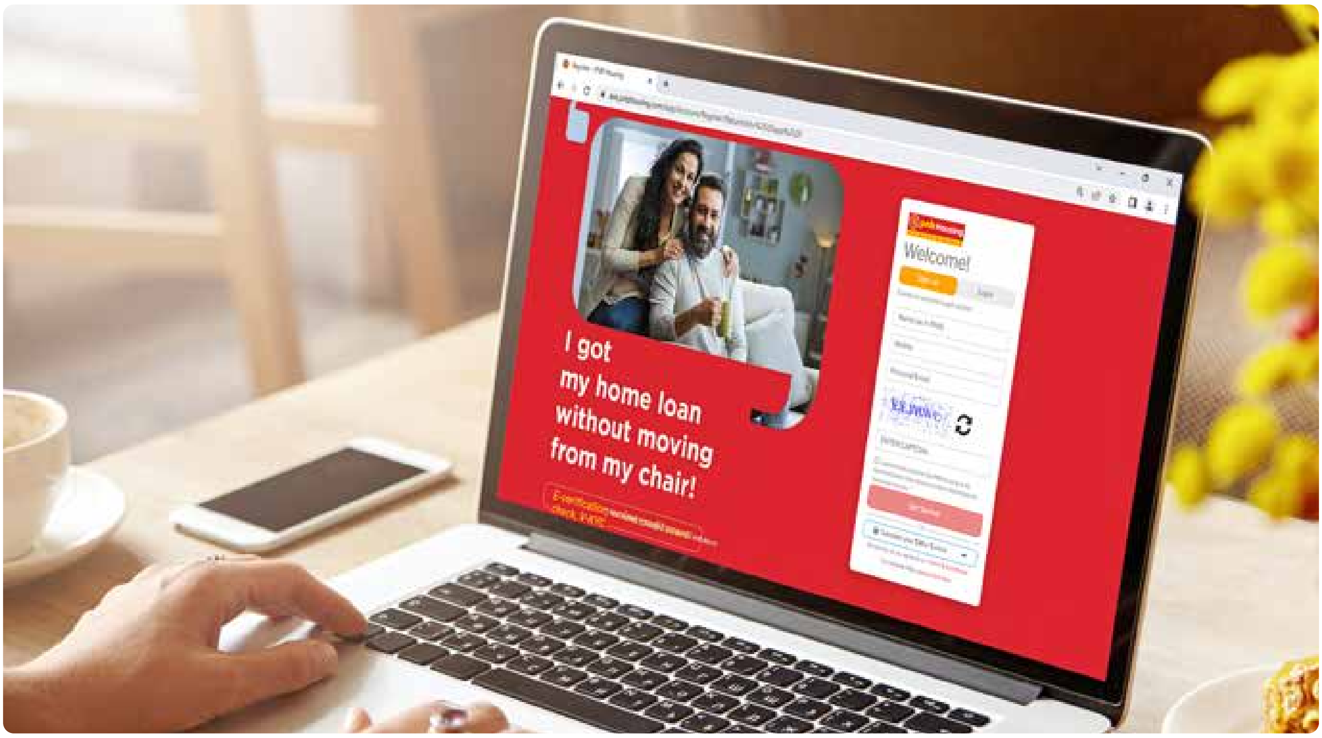
During the year, we embarked on customer record digitisation drive and processed 96,649 documents. The process of digitisation of customer records is completed and now 100% of the 2.5 lakh customers are available on the cloud and can be accessed from every branch of the company on real time basis. This helps in faster service to the onboarded customer, risk mitigation from loss or transit damage of the original documents.

Centralised Operations (COPS)

The COPS team is engaged in the processing of deposits insurance reconciliation, pay-out processing, customer correspondence and channel partner empanelment. COPS helps in providing a paperless environment, wherein deposits are processed through images, and payments to depositors are made electronically, among other improvements. During the year, we have mobilised fixed deposits from more than 73,000 customers with an average TAT of t+1 days from cheque clearance to issuance of FD receipt.

Significant strides made in technology

Technology is the front runner of PNB Housing's business & digital transformation journey. From ensuring frictionless business to providing a digital thrust for business acceleration the company is leveraging several new age digital tools, platforms and fintech integrations to support the company's digital and mobile first strategy for its customers. As PNB Housing continuously strives to make its customer's experience seamless through digital interventions, the company has also implemented state-of-the-art modern



technology and security solutions. To further, strengthen its focus on building a modern enterprise technology platform the existing landscape is being rapidly modernised to manage the scale and agility requirements of growing business volume. To manage information security risks the company has implemented Information Security Management System in line with industry leading certification of ISO 27001:2013. Further, the cyber security posture of the organisation is strengthened by implementation of various cyber security control, tools and policies.

Key initiatives undertaken during the year includes the followings:

- The customer onboarding workflow of ACE platform was completely revamped with multiple fintech integrations which has helped in digitising the entire loan origination to documentation to disbursement process. Further, the company is working on straight-through processing for home loans for the salaried customers, a first of its kind in the country.
- To provide ease of payment for our borrowers, the company introduced online payment facility which aims to enhance customer convenience and augments our collection efficiency.
- The company has implemented Robotic Process Automation (RPA) to enhance efficiency and reduce manual intervention for regulatory reporting. RPA is being further extended to various processes for enhancing internal efficiencies.
- The company has entered into strategic co-lending partnerships for housing loans with nationalised banks and the core lending systems have been modified to cater the specific needs of such arrangements with our co-lending partners.
- Automated Data Flow to National Housing Bank has been implemented and the pilot project has appreciated by the regulator.
- Implementation of Prudential norms on Income Recognition, Asset Classification as per RBI has issued the notification on 12^{th} November 2021. The core system has been updated for classification/asset categorisation of loan accounts as SMA or NPA at the day end process. Loan accounts classified as NPA to be upgraded as standard only if the entire arrears are paid (interest and principal) by the borrower and Standard accounts being categorised in various buckets SMA1, SMA2 & SMA3.
- To provide customer with a superlative experience the company is completely revamping its customer portal with a brand new and refreshing design and user-friendly web & mobile application. This portal will further get integrated with our onboarding portal to provide a seamless experience to our customers.
- The company has implemented modern database platform for enhanced performance, security and ease of management, providing us with deeper analytics for performance of our database.
- The company has strengthened its entire perimeter and endpoint security with solutions like latest next-generation firewalls, cloud-based web application firewall, public key infrastructure (PKI), modern XDR platform, User Behavioral Analytics, Data Leakage Prevention system etc. which will help us in ensuring that our systems & endpoints are protected across all channels.
- PNB Housing has embarked on its journey for future readiness in terms of technology, features & functionalities, architecture & roadmap & vision. As a part of this exercise emerging technology like AI/ML/Blockchain, support for open API ecosystem, low/no code solution, cloud platforms etc. are being evaluated to augment the company's quality of service & customer satisfaction index.

Financial performance

Consolidated performance indicators (as per Ind-AS)

(₹ in crore)	FY 2021-22	FY 2020-21	Variance
Net interest income	1,868.92	2,322.91	-20%
Fee and Commission income (net of Fees and Commission expense)	251.43	169.62	48%
Other Income	4.80	20.16	-
Gross income	2,125.15	2,512.69	-15%
Operating expenditure	464.83	443.77	5%
Operating Profit	1,660.32	2,068.93	-20%
Impairment of Financial instruments & Write offs	576.36	861.90	-
Profit before tax	1,083.96	1,207.03	-10%
Profit after tax	836.48	929.90	-10%
Other Comprehensive Income (net of taxes)	97.3	-20.69	-
Total Comprehensive Income	933.78	909.21	3%
Basic Earnings per share (₹)	49.64	55.29	-

Key financial ratios

(%)	FY 2021-22	FY 2020-21	Variance
Average yield	9.42%	10.68%	-126 bps
Average cost of borrowing	7.30%	7.91%	-61 bps
Spread	2.12%	2.77%	-65 bps
NIM	2.80%	3.16%	-36 bps
Cost-to-income	20.24%	15.09%	515 bps
Return on asset	1.24%	1.23%	1 bps
Return on equity	8.92%	10.91%	-199 bps
Total provision/total asset ratio	4.42%	4.02%	40 bps
Gearing (x)	5.37	6.72	-
Book value per share	585.51	530.19	10%
CRAR	23.40%	18.73%	467 bps
Tier I capital	20.73%	15.53%	-
Tier II capital	2.67%	3.20%	-
Risk-weighted asset (₹ in crore)	40,604.00	47,068.00	-14%

GROWING OUR UNDERWRITING CAPABILITIES

During the year under review, the company, amidst volatile economic environment, could maintain the business momentum and processing efficiencies with the well-established internal ecosystem and processes coming to our aid.

To successfully navigate and to hold on to the unique preposition of higher share of self-employed segment and increased focus on low ticket high yield business in tier II/III cities, the company continues to adopt a guarded approach towards on-boarding and appraisal of loans, without diluting the underwriting standards. The relentless effort of our dedicated teams have resulted in fulfilling 80% of the loan requests in less than 4 working days.

We look forward to stay persistent during these challenging times and complement incremental business with a careful risk mitigation approach at the portfolio level.

In addition to the existing digital tools, the company has undertaken various initiatives for automation of underwriting and to be able to serve better to the needs of increasing business volumes such as implementation of CAM automation, which was launched during the financial year, Business Rule Management Engine, advanced analytics to automate the credit appraisal journey in salaried customers and enhance core capabilities for self-employed customers are some of the projects which are under process.

Key tools used for credit appraisal

Work E-mail Validation
- Employment verification without personal visit
- Validation of employer e-mail domain
- Timestamp and GPS coordinates at the time of form filing for address match

Bank Statement Analysis
- Analytics tool which provides a crisp analysis of bank statement
- Enables in reducing turnaround time and improving productivity

Fraud Detection
- Pool of fraudulent borrowers reported by 100+ financial institutions
- Aids in improving efficiency

KYC Verification
- Established KYC tools to detect alternate credit history and fraud cross cases
- Efficient FCU Sampling

Automated CAM
- Fetching income documents directly from the Income Tax portal
- Automatic eligibility calculation based on financial statements
- RTR mapping based on Bureau report
- Analysis of banking behaviour

CORPORATE UNDERWRITING

In line with our strategy, we continued to reduce our corporate exposure and sanctioned no new loan during the year. Our corporate book has reduced to 11% of AUM as on 31st March 2022 from 16% of AUM as on 31st March 2021, achieving the target set by the company. We have a dedicated team of relationship managers in key markets, experienced credit underwriters and qualified operations personnel, along with specialised legal and technical experts looking after the corporate customers. We have a Remedial Management Group (RMG) to accelerate corporate resolution.

KEY HIGHLIGHTS

- The weighted average security coverage of the book is over 2.2x as on 31-Mar-22
- Stage 3 provision coverage ratio is 49% with overall provision coverage is 22% of corporate book
- Down sell / accelerated prepayment of ₹2,664 crore in FY22
- Top 20 developers book reduced by 22% to ₹6,377 crore (POS+MI) on 31st March 2022

Strengthening recoveries to improve asset quality

The focus of the organisation was to neutralise the negative impact created by series of lockdown which, to a great extent, the company was able to achieve with relentless efforts of the team. However, another challenge was put forward by the 12th November circular of RBI. Though, the twin concepts of daily NPA reporting and once NPA always NPA has resulted in substantial increase in reported NPA numbers in Q3 FY22, the dedicated approach on streamlining and re-engineering of the recovery processes aided in curtailing the NPA numbers in Q4 FY22.

97.9%

Retail collection efficiency achieved in FY22 with Q4 efficiency being at 99.5%

The company is leveraging digital and analytics tools to drive collection efficiency and recoveries. During the year, multiple projects have been commenced to reduce bounce rate and forward flows including "value-at-risk" and "pre-delinquency-analysis" models. Besides, initiatives concentrating on the resolution of NPA accounts by leveraging digital interventions, data analytics, enhanced contact strategies and legal measures were undertaken. We have also introduced digital payment platforms to help in collections.

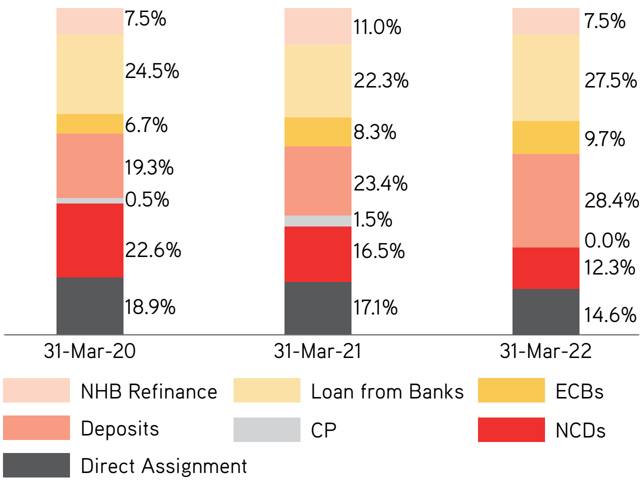
The Corporate book registered increase in Gross NPA during the year. However, with the Remedial Management group in place, we resolved 7 accounts worth ₹235 crore through SWAMIH fund, NCLT etc. during the year.

CREDIT LOSS PROVISIONS

Considering the continued challenges posed by the pandemic and following the new norms as specified by the RBI for the housing finance companies, as on 31st March 2022, as per IndAS, company is having total provision of ₹2,559 crore which is 4.42% of total assets as compared to 4.02% as on 31st March 2021. The provision coverage ratio for Stage 3 is 38% as on 31st March 2022.

DIVERSIFIED FUNDING MIX

We have been able to maintain a healthy funding mix comprising debt market instruments (non-convertible debentures (NCDs) forming 12.3%, of the funding mix as on 31st March 2022), deposits (28.4%), bank borrowings (27.5%), National Housing Bank refinance (7.5%), external commercial borrowings (9.7%) and direct assignments (14.6%). The overall cost of borrowing for the year stood at 7.30% against 7.91% in FY21. This was made possible through the incremental funding at lower rates and replacement of high-cost borrowings with low-cost borrowings. We have ~70% of the total resource as floating, providing us opportunities for replacement and repricing. Besides, we have achieved a liquidity coverage ratio of 144% at the end of FY2022 against the mandated requirement of 50%.



	FY20	FY21	FY22
Borrowings	67,735	59,392	53,005
Total Resource	83,510	71,606	62,093

as per IndAS (₹ in crore)

STRENGTHENING OUR BALANCE SHEET

Our retail focus business strategy along with the reduction of the corporate book during the year has further helped us in deleveraging our balance sheet and reduce the load of high-risk weight assets on our capital. The gearing as on 31st March 2022 stood at 5.37x against 6.72x reported as on 31st March 2021. The improved CRAR stood at 23.40% as on 31st March 2022 against 18.73% reported as on 31st March 2021.

5.4 X

Gearing as on 31st March 2022

MANAGING LIQUIDITY AND ASSET-LIABILITY MISMATCH

To fund our growth, we raised resources through long-term bank borrowings, refinance facility from NHB, NCDs and deposits. We have avoided raising funds through CPs, which helped minimise any asset-liability mismatch. We received ₹1,490 crore under Special Refinance Facility-2021 from NHB funding during the year under review. During the year, we maintained liquidity to cover deficit for at least four months. As on 31st March 2022, we maintained surplus liquidity of around ₹6,260 crore and had additional sanctioned but undrawn lines of around ₹1,820 crore. During the year, we focussed on negotiation for interest rate reduction and/or prepayment of high-cost loans to the tune of ~₹4,300 crore. Continued negotiations with the lenders during the year helped us reduce the borrowing cost.

DEPOSIT MOBILISATION

The deposits business continued to witness strong momentum. We have emerged as the third largest deposit book holder HFC in the country. Our attractive returns have seen secure long-term public deposits. We also provide loan against deposits, at a rate more competitive than the personal loans segment. During the year, we sourced deposits with a cumulative value of ₹7,233 crore against ₹7,289 crore sourced in FY21.

NCDs

We mobilised ₹455 crore through the issuance of secured, rated and listed NCDs. The NCD issuance sharply fell compared to the previous year due to high yields prevailing in debt capital market for AA rated entities in comparison to interest rates on bank term loans. Hence, as a strategy, we focused on raising funds mostly through bank term loans. The share of NCDs in the total resources is at 12.3% as on 31st March 2022 decreased from 16.5% as on 31st March 2021.

As on 12th April 2022, the NCD credit rating outlook by ICRA revised upward to 'Stable' from Negative.

BANK BORROWINGS

Bank borrowings remained the key source in our funding mix during the year. During the year, we mobilised ₹9,075 crore as long-term loans from both private sector and public sector banks. Further, company has ~₹4,450 crore of sanctioned working capital limit by various banks to address temporary cashflow mismatch. As on 31st March 2022, total outstanding bank loans stood at ₹17,053 crore (27.5% of total resources).

EXTERNAL COMMERCIAL BORROWINGS (ECB)

The Company has not availed any ECB during the year due to higher hedging cost and consequently higher all-in cost vis-à-vis INR denominated Term Loan due to surplus liquidity prevailing in the banking system. It is expected that onshore rates shall continue to be more favourable as compared to fully hedged ECB due to high domestic liquidity maintained by RBI.

SECURITISATION

Our outstanding retail portfolio sold under direct assignment route stood at ₹9,088 crore as on 31st March 2022 against ₹12,214 crore as on 31st March 2021. On account of adequate liquidity maintained on Balance Sheet, healthy CRAR and good mix of home loans to non-home loans assets maintained in the overall asset portfolio, the Company has not undertaken any sale of portfolio under direct assignment route.

REFINANCING FROM THE NHB

During the year, the Company has availed ₹1,490 crore under sanction received from the NHB; under Special Refinance Facility-Scheme 2021. The facility was for door-to-door maturity of 1 year and the outstanding amount under this facility stood at ₹372.50 crore as on 31st March 2022.

COMMERCIAL PAPERS

During the year, the Company has not issued any fresh CPs and the outstanding balance is Nil, as the focus of the Company is to have more long term liabilities for a healthy Asset Liability Management.

MANAGING UNCERTAINTIES

The management of risk is a critical underpinning to the execution of our strategy. The material risks and uncertainties the Company faces across its business and portfolios are key areas of management focus. At PNB Housing Finance, we have formulated a robust risk management process. Our risk management framework has been implemented across the functions and aiding us in effectively managing and mitigating the risks associated with our business. Our risk management measures broadly include risk assessment, risk appetite framework, risk planning, risk culture, internal controls and robust governance.

The Board's Risk Management Committee reviews the effectiveness of the risk management framework and helps in undertaking corrective actions. The principal business risks associated with the business are credit risk, liquidity risk, reputation risk and technology risk.

Risks and their definition

CREDIT RISK The risk of loss to the Company from the failure of customers or counterparties to fully honour their obligations to the Company, including the whole and timely payment of principal, interest, and other receivables.	**Mitigation strategy** • A strong framework in place for identifying, assessing, measuring, monitoring, controlling and reporting credit risks in a timely and efficient manner • Observe early warning signs of delinquency and ensuring proactive measures to maintain asset quality • Fixing up the responsibility of business units for effective credit risk governance • Customise risk measurement approaches for various portfolio segments/sub-segments • Consistently review KRIs of concentration; and delinquency • Continuous review and alignment of underwriting policies and processes with dynamics of business environment at micro levels
MARKET RISK The risk of loss arising from potential adverse changes in the value of the assets and liabilities from fluctuation in market variables including, but not limited to, interest rates, foreign exchange, credit spreads, implied volatilities and asset correlations	**Mitigation strategy** • The Company holds liquidity mostly in the form of short term FDs and short duration mutual funds like Overnight Funds, Liquid Funds and Money Market funds. From November 2021 onwards, the Company also hold liquidity in the form of central Government securities to comply with Liquidity Coverage Ratio (LCR) stipulation applicable to housing finance companies. The Company continuously monitor and review the interest rate scenario and has therefore invested in G-Sec of shorter duration to avoid MTM loss in view of rising interest rate scenario going forward
REPUTATION RISK The risk that an action, transaction, event, decision, or business relationship will reduce trust on our brand	**Mitigation strategy** • Continuous engagement with all stakeholders • Dedicated team to promptly address customer complaints • Mechanism of recording, reporting and resolving the issues in a time bound manner

LIQUIDITY RISK The risk that the Company is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets	**Mitigation strategy** • Holding optimum levels of liquidity to manage business requirements and maturing debt obligations. Obtain longer maturity debt to manage the asset-liability mismatch • Projected cashflow planning in discussion with business to have adequate flow of funds • Having in place 'liquidity contingency plan' to take care of any adverse liquidity position • Maintaining relationship with various debt providers and managing reputation. • Diversified and sustainable funding mix • Strong market feedback mechanism in the ALCO committee to discuss and implement policy tools
TECHNOLOGY RISK The risk that comes from lack of up-to-date systems, system failure and continuously changing cyber threat landscape	**Mitigation strategy** • Continuously upgrading and investing in technology and security • Constantly monitoring systems for uptime and health • Creation of disaster recovery sites for seamless operations • Aligning our practices to industry leading standards • Reviewing and monitoring data and systems for security

CONTINUOUS ENGAGE WITH MARKET PARTICIPANTS

We believe that stakeholder engagement is extremely important for understanding their need and expectations. We have well-designed investor outreach programme to regularly interact with investor community. It includes periodic investor updates, investor conferences, conference calls, meetings, non-deal roadshows among others across geographies. We have a dedicated investor relations (IR) team, regularly interacts with the investor fraternity.

During the year, the IR team met more than 200 funds and research houses. We participated in 13 virtual conferences including group meetings.

The quarterly, half yearly and annual results were intimated to the stock exchanges and emailed to the market participants, along with the press release and a detailed investor presentation. We ensure conducting the earnings call post results on the same day, where the management spent time to first give an update on the business and financials, followed by answering the queries of market participants. The investor pack is regularly updated with additional information basis internal and external scenario, interaction with market participants and their feedback. We have also placed a two-pager factsheet on the website under investor relations section to give a quick glimpse about us.

ROBUST INTERNAL CONTROL SYSTEM

Business growth demands that internal audit performs stringent checks to track any deviation. The internal audit function applies a systematic, disciplined approach to evaluate the effectiveness of the controls and risk management process across the Company. We have processes for internal audit in place, whereby disbursement and docket audit, while getting shifted from CPC to branches, are audited by external legal firms and their findings are shared monthly while the audit reports are issued quarterly. This year, portal filings were carried out online, in line with the guidance from the regulators. The key issues identified during the audit were apprised to the ACB on a quarterly basis.

The hubs and branch audits are conducted at various intervals by the in-house audit teams. For auditing the functions such as accounts, deposits, general administration, IT, HR, customer service and so on, the auditors visit the branches twice a year. Transaction audit of the branches are completed as per the given scope and in time. Functions at the CSO, namely, treasury, finance and accounts, general administration and HR are audited by an external auditor at quarterly intervals. The functions like corporate finance, compliance, CSR, COPS and CPC, central recovery and IT are audited by in-house internal auditors at specified intervals.

CAUTIONARY STATEMENTS

In this Annual Report, certain statements are forward looking, including and without limitation statements within the meaning of applicable laws and regulations, relating to the implementation, strategic initiatives and other information on our business, business development and commercial performance. While these forward-looking statements exemplify our judgment and future expectations concerning the development of our business, a number of risks and uncertainties and other important factors viz. economic conditions affecting demand and supply, government regulations, natural calamities and so on, may cause actual development and results to differ materially from our expectations. PNB Housing Finance undertakes no obligation to publicly revise any forward-looking statements to reflect future events or circumstances.