



Usha Ananthasubramanian
Chairperson, PNB Housing Finance Limited

CHAIRPERSON'S MESSAGE

“Growth is gratifying, especially when it is organic, sustainable and focussed on quality. PNB Housing has stood up as an outperformer.”

Dear Stakeholders,

It gives me immense pleasure to present the 28th Annual Report of PNB Housing Finance Limited (PNB Housing). The year marked yet another period of fine performance delivered by the Company.

It is gratifying to note that the year gone by has many milestones for the Company. The Company not only attained the status of the 5th largest housing finance company but also became 2nd largest deposit taking HFC. Amongst the fraternity of HFCs, the Company is now regarded as

a 'Large HFC' which is an achievement itself for the Company.

The growth in loan book is satisfying given the competition. The Company's NPAs are amongst the lowest in the industry. Over the years, the Company has built a strong base where its human capital is the core asset, its processes and delivery model is seamless and the Company has built a strong resource base. The Company now has all the ingredients to continue this momentum in the coming times. What the

Company needs is growth capital and the plans are now in place for infusion of the same.

India is a large economy and its growth is reflected by the performance of all the sectors. Despite weak global factors, the Indian Economy has been resilient and has been able to maintain its stature as one of the fastest growing economies in the world. The Country's GDP has grown by 7.6 per cent (at constant market prices) in 2015-16, which is fairly favourable in comparison to that of the previous three years. This stability has been augmented with fiscal prudence, lower inflation, lower current account deficit and robust foreign exchange reserves.

For an economy of our size, the 'housing and real estate sector' always play a key role. Over the years, the sector has grown consistently and has contributed both directly and indirectly to the growth of the economy. The country has a large base of middle class and lower middle class population. This section of the population require homes which are 'affordable'. Building such dwelling units for the masses require joint efforts of the government and the real estate developer community.

The government has initiated various schemes to make housing more affordable. The Government has launched the Pradhan Mantri Awas Yojna (PMAY) - "Housing for all by 2022". Under the scheme the interest is subsidised at 6.5% for 15 years for an amount up to ₹ 6 lacs. The Government in association with the National Housing Bank has been promoting other schemes to make housing finance more affordable for a common citizen.

Today our big cities are choked due to immense population pressure. It is difficult to provide affordable housing in the existing big cities. The Government has initiated the concept of 'Smart Cities

Mission'. Under the programme, the Government will develop 100 cities all over the country making them citizen friendly and sustainable. In the first round of this stage, 20 top cities were chosen for financing during 2015-16. These satellite towns of larger cities will be a major step in not only decongesting the large cities but will open new opportunities for housing and infrastructure development on a large scale.

Another step taken by the Government is The Real Estate (Regulation and Development) Act, 2016. There was long pending need for such a regulation in India. It promises to improve transparency, customer-centricity and adherence to processes by developers. It will add velocity to construction activity (and deliveries) which will create a win-win situation for the developers as well as the buyers. It also augurs well for housing finance companies as transparency improves inflow of funds both by local as well as foreign investors.

Housing has a long gestation period and requires huge investment in providing various related amenities. It is heartening to see that Investments have already started trickling into the Indian markets. Private Equity (PE) funds and Non-Banking Financial Companies (NBFCs) are increasingly investing in real estate projects.

Improvements in the sentiments for the residential sector are visible. This indicates well for housing finance companies. The Developers have now increased their focus on project completion, which is a welcome move from the customers' point of view. The commercial office space market is showing renewed optimism especially in terms of leasing volumes and rental appreciation, which are pre-cursor to employment generation hence, a green shoot for residential purchase.



Interest rates are one of the key factors in an economy. During the year gone by the interest rates had continued to see downward trend. Both the Government and the Reserve Bank of India had worked in tandem to ensure that interest rates continue to move southward. There were timely intervention by the Reserve Bank of India in bringing down repo and reverse repo rates, which reflected in lower G-Sec rates and deposit rates. The benefit of lower interest rates was ultimately passed on to the customers. This had a positive impact on the real estate sentiments.

In the long run, rate of interest plays a significant role in buying a house property. It is hoped that there is still room for some softening of interest rates as liquidity conditions are good, so far the monsoon has been favourable and inflation both wholesale and retail is under control. It is expected that this will further improve demand for housing.

I express my admiration for management team of PNB Housing, ably led by Mr. Sanjaya Gupta, which is steering the company with unparalleled skill and zeal. The team has truly established a business framework which is profitable, sustainable and scalable. I also extend my gratitude to the directors whose guidance continues to be of highest value to us.

PNB Housing has maintained a healthy portfolio in terms of revenues as well as returns. Its success is a result of the high service standards maintained by the team for which I extend my heartiest congratulations. The Company is determined to earn the trust of customers and to enhance their home loan experience through a host of conveniences.

It was an honour to take charge as Chairperson from my illustrious

predecessors whose contribution in the success of the Company is inspirational. During the year Mr. Gauri Shankar, Ms. Kalpana Gupta and Mr. P.K. Gupta have exited the Board of Directors. These directors have contributed to the success of the Company. In their place, Mr. R. Chandrasekaran, Prof (Dr) Gourav Vallabh and Mr. Nilesh S Vikamsey have joined us as members of the Board. The new directors on the Board bring with them a very rich experience from diverse fields. On behalf of the Company, I extend a warm welcome to them.

Over the years, the National Housing Bank (NHB), has played a key role in the development of housing sector in the country. Under its watchful eyes, the housing sector has been seeing a healthy growth, with transparency. It has been a pioneer to various housing finance schemes which have been channelized and executed through the NHB including 'Pradhan Mantri Awaas Yojana'. On behalf of PNB Housing I express my gratitude to the regulator.

I must commend the efforts made by Reserve Bank of India to initiate a virtuous cycle of consumption and growth which has resulted in lowering of interest rates/cost of funds and stabilising of inflation. The rising confidence will soon encourage the consumers to step into the housing market.

The new year has started on a positive note and I wish the Company and its management all the very best.

Yours Sincerely

Usha Ananthasubramanian
Chairperson, PNB Housing Finance Limited



Sanjaya Gupta
Managing Director

MANAGING DIRECTOR'S MESSAGE

“ Every time we disburse a home loan, our Country steps nearer to the day, when all its citizens would have homes of their own. We pride in belonging to the Indian mortgage sector and we are committed to play our part in fulfilling housing dreams for millions across the Country. ”

Dear Stakeholders,

Inspiration takes us half way... the actions that follow, guide us to the top. This tenet is a beacon that motivates team members of your Company, to strive for the highest level of excellence.

At PNB Housing, success is not just about improving the top and bottom lines; rather it is about serving a bigger purpose. We are engaged in a sector that contributes to

the development of our Nation. Every time we disburse a home loan, our Country steps nearer to the day, when all its citizens would have homes of their own. We pride in belonging to the Indian mortgage sector and are committed to play our part in fulfilling housing dreams for millions across the Country.

As custodians of the trust that our customers, stakeholders and associates



have reposed in the Company, we are enthused to walk the extra mile in meeting their expectations. The fact, that PNB Housing is maintaining its position as one of the fastest growing housing finance providers in the country, gives us the confidence that we are headed in the right direction.

It gives me pleasure to share with you the highlights of the year gone by, and how we perceive the way forward for the sector and for ourselves.

High notes struck in FY2015-16

The year began in the midst of a subdued external environment. Even though India has a strong long term outlook, the global pressure did have its impact on the Country's business sentiment, corporate profitability, sectorial growth & asset quality. Yet, we remained unperturbed by the testing times. Our business plan stood well against challenges and I am happy to report, that this year, your Company has delivered one of its best performances ever.

The charts are speaking for themselves. Your Company has bettered its figures significantly and the fundamentals have become appreciably stronger. We have been able to supersede several performance benchmarks set by the industry leaders. While the overall growth in Indian housing finance sector was about 18% in FY2015-16, our loan portfolio grew by over 62%. On the other hand, our gross NPAs were contained at 0.22%, which is one of the lowest in the sector. We have now earned a place in the elite group of India's large HFCs, with our loan portfolio crossing ₹ 27,000 crores and deposits surpassing ₹ 7,000 crores.

Your company's net interest margins have bounced back to earlier levels. This is a

result of the prudent borrowing strategy adopted by us which has lowered the cost of debt significantly. Our treasury operations have grown significantly and are now less vulnerable to short term debt market cycles. Adding to this, our ability to source business at portfolio yield of 11.17% and fee of 0.56% has enabled us to protect our gross margins. Hence, our ROE, at the end of the year, measured an impressive 17.08% and our cost to income ratio came down to 25.21%. Our net profits for the year reached an all-time high of ₹ 326 crores, marking a rise of around 66% over the previous year.

I would like to make special mention of the growth in our deposits. 27% of our borrowing mix is self-generated through these deposits, making it the 2nd largest contributor after bonds. We closed the year with a deposit book of more than ₹ 7,116 crores, 45% more than that of last year. Your Company continues to be the second largest HFC in terms of deposit outstanding.

The above score card was possible because of the combined efforts put in by our team in making PNB Housing a healthy and progressive business enterprise. We are strengthened by our values based work culture which is defined by 'people-first', 'customer centricity' and 'ethical standards'. Together these values constitute the character of the Company, and give us the courage to stand tall against all odds.

At the operations front, the financial year 2015-16 marked the successful completion of our business process re-engineering exercise. We are now primed to move onto the next orbit with nimble processes and improved scalability. Our expansion plans are apropos to our belief in maximising productivity of existing capacities rather

than spreading thinly into new markets. This approach has been a key factor in giving us the ability to acquire higher market share and build better customer-connect in the geographies we operate.

This year, we implemented the final leg of our target operating model, a single platform enterprise system solution running horizontally across all functions. We also launched new online interfaces for our customers and business associates, which have redefined 'ease of doing business with PNB Housing' and enabled us to render better customer experience. The integration of superior technology has resulted in faster turnaround time for our processes as it has trimmed redundancy to a bare minimum.

While digital advancements make our working more agile, we ensure that the human touch in our services, an attribute that your Company is known for, remains uncompromised. Every team member of PNB Housing is committed to uphold the brand promise of the Company and to deliver the highest level of customer satisfaction.

We care for our team members just as much as we want them to care for the customers. While we attract one of the best talent available in the industry, we also facilitate growth opportunities for our existing team members. This orientation is augmented by meticulously constructed training modules that make our team capable of meeting the ever changing needs of the sector. The Company believes in enhancing performance driven culture through formal reward and recognition schemes and various other employee engagement activities.

You will be happy to know that this year, we launched our first ever nationwide

brand campaign. The promotional exercise was intended to transform the brand perception of PNB Housing in terms of service delivery and to re-position it as a new age customer centric housing finance company.

Even as we continue to pursue ambitious targets, we remain conscious of the fact that our sector is exposed to multiple risks. To confront them we have woven together a resilient risk management framework, the effectiveness of which can be judged from the fact that in a scenario where bad debts are plaguing the entire sector, we have maintained the quality of our assets and have kept NPAs at very low levels.

Your Company is a socially responsible organisation. From the CSR perspective, we have an emotional inclination towards the families of construction workers. It is ironic that these workers, who build homes for us, remain deprived of a decent living themselves. PNB Housing has joined hands with various NGOs to provide children of construction workers, with access to education, nutrition and hygiene. This year we could touch lives of hundreds of families through our CSR initiatives.

During the year, we issued Green Bonds and we believe, this will further give a fillip to our intent to develop a committed green lending practice in the sector for a sustained growth of green home loan portfolio. This will foster a change in housing sector's approach towards climate change, environment protection and healthier living. As this fund will be exclusively used to support investments in green energy efficient residential buildings, it will help reduce greenhouse emissions, curb pollution and establish an ecosystem for green housing construction in India.

To sum up, I can state that the year 2015-16



has built for us a platform, upon which we are set to take the next leap forward.

The road ahead: for housing finance sector

I feel that the current stability in the Indian economy will stay conducive for a positive outlook of the sector. The only thing out of place, as of now, is the public sentiment, which if improved, will bring back vigour in the market.

In the present scenario, real estate is experiencing a dip in transaction velocity as the buyers in the luxury segment and investors are maintaining their distance from the market. The section which comprises of end users is fairly active even today. In my view, this is the right time for customers to fulfil their housing dreams. The unsold inventory is prompting real estate developers to re-orient themselves in favour of the customers, which is a very positive sign for the sector.

I place a lot of trust on the reforms taking place in the country, as they are doing a fairly good job in improving the sentiments of the home buyers. Missions like 'Smart Cities', 'Housing for all' etc. promise to bring back positivity within the country as well as with the investor community. Industrial progress through projects like 'Make in India' will lead to increase in demand for commercial spaces. New employment would pave way for migrations, which would subsequently translate into need for new homes. The real estate bill would be an instrument that will benefit both the developers and the customers as it will improve transparency and augment delivery and customer service standards.

I see a major positive impact to be created by REIT and InvITs. These investment vehicles, introduced in India in 2014, are

attracting private investment in real estate and infrastructure development sectors thus releasing the burden on banks and financial institutions. It is admirable that the real estate sector in India is drifting away from traditional borrowing methods and is raising funds through structured finance, private equity and public offering. This change will be very helpful in mitigating the financial risks associated with construction sector.

Yet, there are other matters that demand immediate attention. The rising number of collateral frauds in the sector are becoming a serious challenge. As a result, lending institutions are being forced to implement additional control measures which increase the underwriting expenses. If the government is able to devise mechanisms to eliminate irregularities, the cost of the loans will come down which will benefit not only the financial institutions but also the end users.

The Road Ahead: for the Company

Going forward, your Company is set to capitalise on its new found strengths. Our performance per branch and per employee in terms of loan disbursements, loan portfolio and revenues have grown in the current fiscal. With strong capital inflow, settling down of enterprise system solution and TOM, and enhanced capabilities of our branches and hubs, it is time for us to invest in expansion. We are firming up our presence in tier II and tier III cities as these markets have become promising considering the government's initiatives and the rise in demand of affordable housing.

In a face off against the current slowdown, we shall remain unruffled, as challenging environment inspires us to perform differently, to up the sentiment of the sector, while being conservative and

cautious. We shall take challenges in our stride and keep marching ahead.

Before I conclude this note, I wish to express my sincere thanks to our customers, for trusting PNB Housing to be their preferred solution provider for home finance and fixed deposit products. I express gratitude to our regulator, the National Housing Bank (NHB), our lenders, our rating agencies, our lawyers and our business partners for their valuable support. The Board of Directors, headed by our Chairperson Smt. Usha Ananthasubramanian, continues to lead the development of the Company along with the Independent Directors who have played a pivotal role in bringing about very

high standards of corporate governance. We thank CAG, statutory and internal auditors who have kept a keen vigil on all aspects of our operations while maintaining a pragmatic view on business growth. I also take this opportunity to thank the entire team of PNB Housing, who have galvanised the Company with their tenacity, self-belief, collaborative team spirit and swift manoeuvres.

Looking forward to your continued support,

Sanjaya Gupta
Managing Director