



## Management Discussion & Analysis

### GLOBAL ECONOMY: STILL SUBMISSIVE

The global macroeconomic landscape is currently chartering a rough and uncertain terrain characterized by weak growth of world output. The weak growth across continents has been exacerbated by the declining prices of commodities, turbulent financial markets like those in emerging economies like China, and volatile currency exchange rates. In such uncertain times, global investors are averse to taking risks, which in turn, put the emerging markets under considerable stress.

Although the US economy has shown signs of revival, a non-aligned move by powerful world economies to spur up their domestic economies as a primary objective is leading to many undesired spill over effect. That has impacted global trade. Growth in advanced economies is projected to rise by 0.2% in 2016 to 2.1%, and hold steady in 2017.

Growth in emerging markets and developing economies is projected to increase from 4% in 2015 -the lowest since the 2008-09 financial crisis- to 4.3% in 2016 and 4.7% in 2017. International trade, especially commodities, slowed down considerably primarily because of economic slowdown in BRICS countries except India, and PIGS (Portugal, Italy, Greece and Spain), adversely impacting exports from China.

Global growth, estimated at 3.1% in 2015, is projected to reach 3.4% in 2016 and 3.6% in 2017. Rise in global activity is likely to remain gradual especially in emerging markets and developing economies.

### INDIAN ECONOMY: PUTTING UP A BRAVE FRONT

Despite the uncertain international scenario, India's growth story has largely remained positive on the strength of domestic consumption. Our nation's economic growth in 2015-16 was robust and steady. Its macro-economic parameters like inflation, fiscal deficit and current account balance exhibited distinct signs of improvement. Inflation in wholesale prices has been negative for some time and the all-important consumer prices inflation has declined. Industrial production too is gaining strength.

India is poised to grow at approximately 8% to 8.60% in the year ahead with the current account deficit at a level of 1.3% and fiscal deficit at 3.9%. The Consumer Price Index (CPI) has been contained at 4.9% and policy rates are reasonable at 6.75%.

However, meaningful economic reforms are necessary to ensure there is no let-down in the current momentum. There are concerns over the fate of the GST bill, shortfalls in disinvestment programmes and slow progress in subsidy rationalisation. Corporate and bank balance sheets remain stressed affecting the prospects of reviving private investments. Dampened sentiments are adding shades of grey to positive projections even though the Country's true potential is yet to be unleashed.

With the world's largest economies setting their own divergent monetary policies, it remains to be seen if India can chart out an independent monetary policy in FY2015-16 since capital and asset prices are dependent on core financial centres. The rupee, like most other currencies in the world, has depreciated vis-à-vis the US dollar, although less so in magnitude. At the same time, it has appreciated against a number of other major currencies.

Looking forward, India is projected to continue growing at a robust pace despite the effect of China's economic re-balancing and weakness in global manufacturing.

### INTEREST RATE SCENARIO

The year gone by, displayed significant dynamism in terms of interest rate. The policy rates were revised thrice leading to a reduction of 75 bps during the year. In a span of 16 months, the interest rate has lowered by 150 bps which is one of the most aggressive reductions seen in the recent past.

The current levels are likely to continue or reduce marginally in FY2016-17 on the back of macros such as low inflation, comfortable fiscal and current account deficit, relatively stable currency, and structural reforms in government expenses. Although the outlook can change adversely in case of unfavourable monsoon or strong external shocks like Federal Reserve increasing the rates etc.

In terms of liquidity, the FY2015-16 did not have any major volatility. Liquidity conditions were benign most of the time owing to availability of ample credit and slow corporate offtake. Money, bond and credit markets stayed largely insulated from global spill overs, while foreign exchange and equity markets did experience bouts of volatility.

For the year ahead, global and domestic factors are expected to condition movements in financial markets, though the latter are expected to be more dominating. Fiscal outlook of state and central government, market concerns relating to asset quality of banks and corporate balance sheets, corporate credit offtake, currency stability and financial savings by investors will have a prominent influence on liquidity condition. China's economic stability, US economic growth and Federal Reserve's stance on interest rates, commodities prices stability and subsequently emerging economies growth and Europe sovereign debt situation will also have an impact on the liquidity condition.

### INDIA'S HOUSING FINANCE SECTOR POISED TO GROW

The real estate market appears to be gearing up for revival. Strong fundamentals of the Indian economy are creating a favourable environment for the mortgage sector. Housing finance market in India is estimated to grow at a rate of 20% to 22% over FY2015-22, with mortgage penetration up to 16% of the GDP and a market size of ₹ 31,50,000 crores to ₹ 34,00,000 crores portfolio outstanding by FY2021-22.

The housing sector is being influenced by both positive and negative indicators. The future of the sector will depend on which of these factors become dominant in the times ahead.

### POSITIVE INDICATORS

#### MARKET SIZE

With India's population growing steadily, there will be need for more homes. The current urban housing shortage is estimated to be of about 22 million, indicating that the market opportunity is large and growing.

#### RISING FAMILY INCOMES

There has been an appreciable rise in income levels

of families in India due to various factors like increase in salaries, both women and youth becoming earning members and the growth in self-employment. This has made home loans more affordable.

### GOVERNMENT INITIATIVES

To address shortage of homes, the Indian government has initiated the 'Housing for all by 2022' mission, through which it seeks to expand credit flow and increase home ownership. Another bold initiative by the current Government is the 'Smart Cities Mission' which has created a significant stir in urban development. Both these projects will provide fresh impetus to the housing sector.

#### Housing for All by 2022 Mission: Affordable Housing

This mission is aimed for urban areas and incorporates the following components:

- a) Encouraging private developers to participate in building homes for the underprivileged through SRA projects;
- b) Promotion of affordable housing for weaker section through credit linked subsidy;
- c) Affordable housing in partnership with public & private sectors; and
- d) Subsidy for beneficiary-led individual house construction or enhancement.

#### Smart Cities Mission: Urban development turning a new leaf

The Central Government has planned to spend ₹ 98,000 crores under two new urban missions "The Smart City Project" and "Atal Mission for Rejuvenation and Urban Transformation (AMRUT)".

The smart cities mission focuses on area-based development to accommodate the growing urban population, improve quality of life, create employment and enhance incomes for all, especially the poor and the disadvantaged. These changes will certainly translate in to a huge demand for housing and housing finance. The government has already shortlisted 109 cities for the project.



Schemes like the 'Jawaharlal Nehru National Urban Renewal Mission', 'Rural Housing Fund', 'Golden Jubilee Rural Housing Refinance Scheme' and 'Special Refinance for Urban Poor Scheme' will prove a boon for millions who have found housing and housing finance out of reach. The tax benefits extended to home loan borrowers will encourage salaried and self-employed individuals to opt for home loans.

IMPROVING SENTIMENTS

The slowdown in the real estate market has given hope to the lower and middle income groups that their budgets would once again be able to accommodate purchase/construction of homes of their own. Investors with a long-term outlook are considering the current lull in the market as an opportunity to build assets. The resilient players may strengthen the markets with fresh infusion of funds and new projects. Developers are focused on affordable housing through budget homes, townships, etc. These projects will present a sizeable business opportunity to housing finance companies.

The real estate bill has been a welcome relief for consumers facing agonising delays and defaults in residential projects. Under the watchful eye of the regulatory body, the construction sector is expected to gain transparency, clarity and velocity which will not only ensure steady and organised growth but will also boost the subdued sentiment in the Indian real estate market.

THREATS

Despite the positive indicators, it may not be smooth-sailing for the sector as certain aspects threaten to delay the revival. For instance, India's current resilience may be affected if there is a prolonged slowdown in the global economy. This could negatively impact the incomes of individuals. Another factor that may prompt home aspirants to put off their decision to purchase properties is the hope that real estate prices would downward correct in the near future.

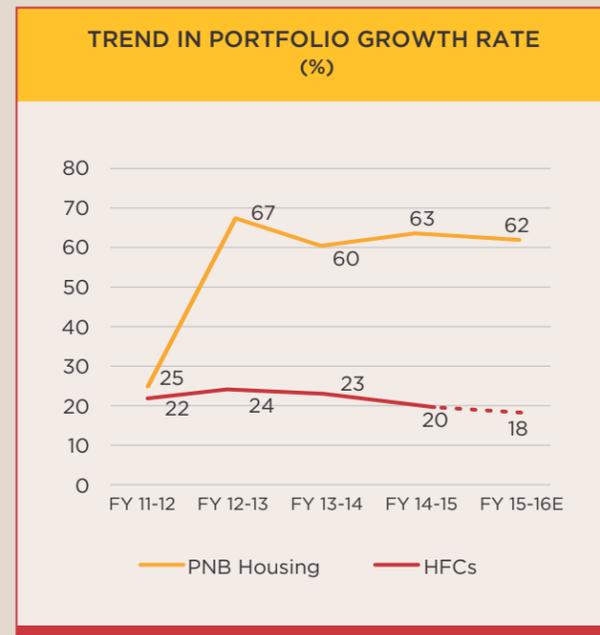
This year, several parts of the Country are facing drought or drought-like conditions which has put many development projects on the back-burner. Housing sector in these regions is likely to be affected negatively as people will be reluctant to reside in such locations.

Finance companies are fighting their own battles due a stiff competition from peers, loan takeovers, price wars and shrinking of margins that can adversely impact the growth of the entire sector.

PNB HOUSING: SUSTAINING GROWTH

The Company has established itself amongst the top five HFCs, as per IMAcS Report, with strong fundamentals, a scalable business model and a dynamic team determined to capitalise on the huge potential of the market.

Continuing its remarkable growth rate which is higher than the industry average, the Company attained the status of one of the leading housing finance player with its total loan portfolio crossing ₹ 27,177 crores this year. It has recorded a 5-year CAGR of 62% in loan portfolio which is higher than the industry average of 18%.



The growth in business volume has been aptly complemented by low NPA figures and reflects the quality of assets acquired by the Company.

The parameter, which PNB Housing prides itself most, is the growth rate of its customer base. The Company is determined to be recognised as customer's premier choice in the housing finance domain.

STRENGTHENING BUSINESS AND MARKET REACH

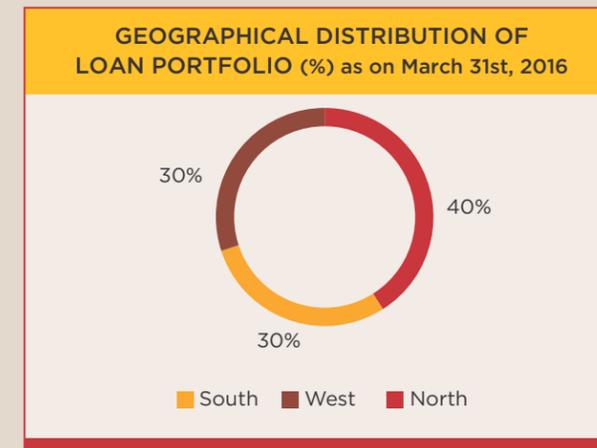
PNB Housing's business strategy centres around the ideology that customer centricity is the key to ascertain business longevity. The Company believes in prospering on a sustainable and profitable business model instead of chasing market share by resorting to price cuts, discounts etc.

Over the years, the Company has acquired the acumen to underwrite prudent risk exposures while ensuring that the quality of assets remains intact. This ascertains that scalability is backed by sustainability.

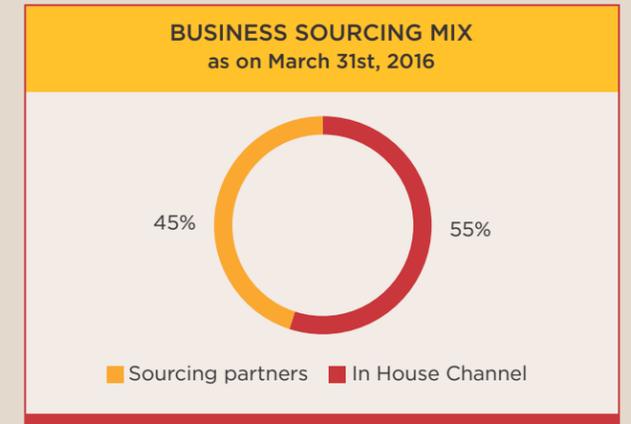
The expansion strategy of the Company is focussed towards building an evenly distributed geographical network backed by its scalable operating model. The Company is strengthening its presence by expanding in selective geographies. It is also penetrating deeper into the markets it is operating in.

In FY2015-16, 9 branches were operationalized at Vishakapatnam, Faridabad, Bhiwadi, Nasik, Surat, Vadodara, Vijaywada, Thrissur and Hyderabad. As on March 31st, 2016, PNB Housing has thrived on a network of 47 branches and 16 processing hubs.

It is also targeting exposure in cities selected under the 'Smart Cities' mission. These locations promise tremendous opportunities for urban development, leading to increase in demand for housing and housing finance.



The expansion is being capitalised upon by the Company's business sourcing network which comprises of over 5,000 members across different locations in India, including in-house sales

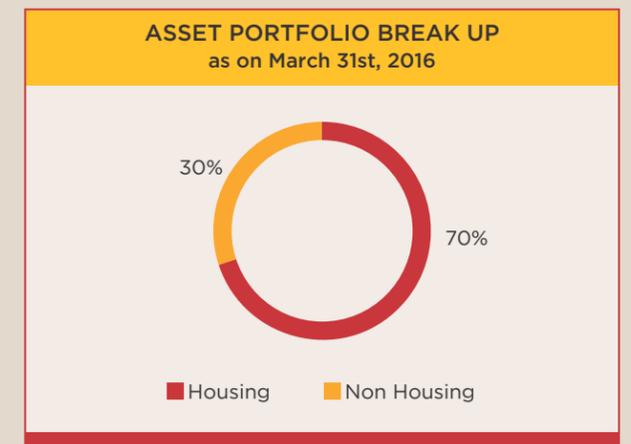


personnel, sourcing partners, deposit brokers etc. who render doorstep services to the customers.

The Company has established a healthy mix in its business sourcing with higher contributions being made by its in-house channels. The direct sales team (DST) of the Company is being reinforced in a bid to increase business self-sufficiency.

ASSET PORTFOLIO MIX

PNB Housing has a well-balanced basket of products which caters to a wide range of customer preferences. It includes loans for purchase of home, self-construction, home extension and residential plots. Non-housing loans include loan against property (LAP), loan for purchase of non-residential premises (NRP) and lease rental discounting (LRD). The Company also offers loans to real estate developers for construction of residential projects. It has introduced various mark-to-market products and programs to expand its product portfolio.





### BRANDING AND MARKETING: ENHANCING CUSTOMER CONNECT



**Brand Vision**  
Building a stronger nation by empowering citizens with a home of their own



**Brand Delivery**  
Easy accessibility, efficient delivery, faster TAT, customized products, proactive communication, consistence experience



**Brand Promise**  
Fulfil the dreams of owning a home with a convenient & hassle free home loan



**Brand Positioning**  
Trust & convenience

Brand Strategy of PNB Housing

#### ENHANCED BRAND VISIBILITY

FY2015-16 was a landmark year for the Company, wherein it took a giant step towards changing its brand perception among the masses. Consequent to the inferences of a study conducted by market research company, Neilson, PNB Housing launched a nationwide brand campaign through adroit utilization of TV, radio, internet, outdoor and print media. The intent was to establish brand recognition amongst the masses in terms of service delivery and to reposition the Company as a new-age customer centric housing finance provider.

#### BRAND CAMPAIGN - 'DOOR TO YOUR DREAM HOME OPENS EASIER WITH US'

Mother Nature has no provision for rented homes, no matter what the species is. Yet we humans have moved away from this natural law by living in rented indoors. With PNB Housing, one can fulfill the dream of owning a home in an easy and hassle-free manner.

Woven around this central idea, the brand campaign 2015-16 brought to the target audience a visual extravaganza of exotic birds and animals in their unique dwelling spaces. It drew a parallel between animals and human beings.

'Service' was chosen as a theme for the campaign to reinforce the fact that besides trust and solidity, the Company offers quality services in line with the expectations of new age customers.

The rationale behind considering animals as central characters was to break away from the clutter and to emerge as a distinct brand in the financial services segment. Usually, in home loan advertisements, one sees staid campaigns based on the routine and expected lines of family members (humans) bonding together and 'living happily ever after' in their homes. Instead of following the trend, the Company's promotions presented visual hooks by depicting animals with human emotions.

# DOOR TO YOUR DREAM HOME OPENS EASIER WITH US. HOME LOANS FROM PNB HOUSING



Painstaking efforts were taken to design and install giant bird nests in malls, airports and other prominent locations. The impressive, almost real-looking nests, combined with neatly designed billboards spun a visual treat for kids and adults alike.

Besides the above campaign, the marketing team has carried out various below the line activities. It has been gaining the mindshare of potential customers by participating in trade exhibitions, maintaining brand visibility at project development sites, sending direct mailers etc.

Exploring the limitless potential of online media, PNB Housing floated advertisements on popular



Innovative OOH advertising earned appreciation from all corners.

web pages and engaged in social media interactions. Search engine marketing, e-mail marketing and tie-ups with online business partners yielded considerable rise in loan enquiries. Improvements in the website have made it more user-friendly and compatible with various mobile communication devices.

In order to effectuate prompt responses, all business enquiries are directed to a dedicated Contact Centre. This unit focusses on creating a lasting 'first impression' by ensuring that the customer expectations are met with dexterity. The automated lead management process allows end-to-end intelligent tracking of leads and monitors the performance of advertising campaigns.



### CLOSER TO CUSTOMER VIA TECHNOLOGY

The Company observes 'customer centricity' as a fundamental component of its business strategy. The relationships with clients has exemplified the ease and convenience of partnering with PNB Housing in pursuit of home ownership. The Company provides easy accessible options to its customers using which, they can avail account related services during the life cycle of loans and deposits.

In FY2015-16, the Company upgraded its customer interface with installation of customer-friendly modules in the Enterprise System Solution. These include the customer relationship management system (CRMS) and the customer portal (CP).

### CUSTOMER RELATIONSHIP MANAGEMENT SYSTEM

The CRMS is an effective addition to PNB Housing's customer service initiatives as it provides prompt handling of customer service requests and complaints. It has pre-defined, in-built workflows with turnaround time for all stages of processing which helps in improving service quality and employee productivity.

### CUSTOMER PORTAL

With the launch of the customer portal, the Company has moved onto a new level of customer centricity wherein it provides single window online view to customers. This digital platform provides customers an easy access to their account-related information such as IT certificates, EMI payment schedules etc at a click of a button. A host of other services can be availed by placing requests on the portal which is linked to the CRMS. These requests are instantaneously directed to the respective branches for swift action. Customers can also track the status of their requests on real-time basis.

### CUSTOMER SERVICE FEEDBACK

Customer preferences are dynamic in nature. To live up to expectations, a service provider must remain abreast with the changing market environment. This year the Company availed services of a renowned agency to conduct a market survey and the inferences drawn from the study were highly beneficial in understanding the end users' perception of PNB Housing and in identifying areas of improvement.

### RISK MANAGEMENT: ADDRESSING UNCERTAINTIES

PNB Housing assumes various kinds of risks in its business and support activities, in pursuit of attainment of its strategic objectives. The Company recognises that sound risk management contributes to its long-term financial stability. Prudent risk management will contribute to sustainable and profitable growth through informed business decision by facilitating a consistent assessment, measurement, quantification and management of material risks. Besides, pro-active risk management assists in improved decision making and optimisation of resource allocation.

The Company has a well-defined risk management structure which includes periodic reviews and close monitoring to enable business sustainability. The structure lays the procedure for risk assessment and mitigation. It focuses on proactively managing uncertainties and volatilities to protect the interest of the Company.

Broad risks perceived by the organization are as follows:

### LIQUIDITY AND INTEREST RATE RISK

Liquidity and Interest Rate risk i.e. monitoring of the maturity profile of assets and liabilities by asset liability management committee (ALCO) - a strategic decision making body constituted by the Board, to mitigate the risks arising from cash flow mismatches. ALCO comprises of the Managing Director and other senior functionaries.

### OPERATIONAL RISK

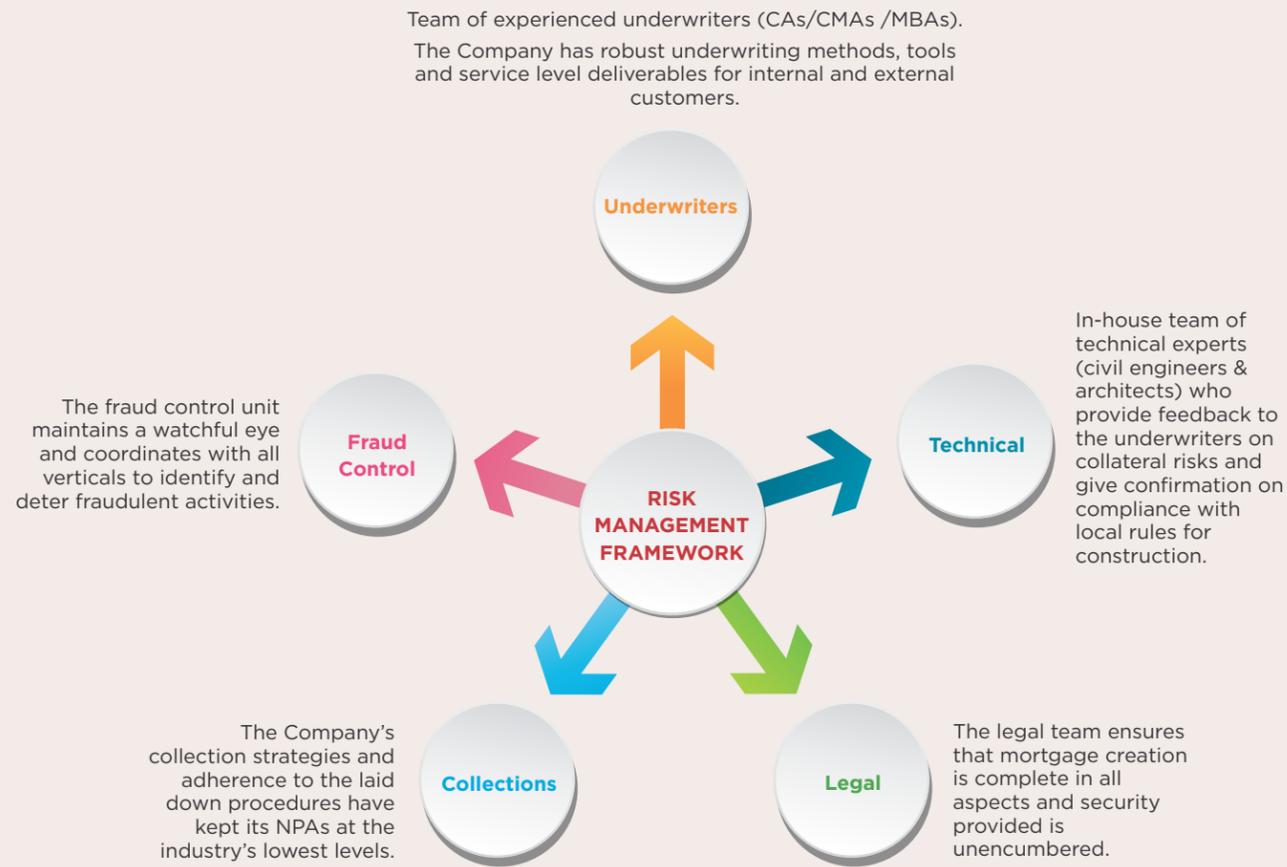
Operational risk is caused by insufficient or failed internal processes, systems, people, or from external events. The Company has implemented Enterprise System Solution to bring in efficiency and ensure that compliance with the provisions of all applicable laws are in place. The Company is using information technology extensively in its operations. The processes and controls are reviewed periodically on predefined dates. PNB Housing has a mechanism of testing the controls at regular intervals for their design and operating effectiveness to ascertain the reliability and authenticity of financial information.

### CREDIT RISK MANAGEMENT

Credit risk refers to the inability or unwillingness of the customer to meet the financial obligations to the Company as per the stipulated time frame. The overall objective of credit risk management is to facilitate the Company to take appropriate risks in attainment of its business objectives within accepted level of risk tolerance.

In retail loan portfolio, the Company follows "maker-checker" concept for all the steps of loan processing. Post origination, the credit underwriting process is completely in-house through specialized HUBs located across cities/states.

**RETAIL CREDIT RISK FRAMEWORK:**



**TARGET OPERATING MODEL**

The Company's target operating model (TOM) as part of the business process re-engineering programme, christened as "Project Kshitij", structured its operations into a scalable operating model comprising of 47 branches, 16 processing hubs, 3 zonal offices and CSO. These are further supported by centralized operations (COPS) and central processing center (CPC). The Company's TOM enables both scalability and governance. The branches act as the primary point of sale and service while the processing hubs and zonal offices provide support function. CSO provides centralized support to the entire network and helps them act with precision. The hubs are manned by subject matter experts in underwriting, technical services, legal services, fraud control and recovery services. The framework offers significant resilience to

everyday challenges of the sector. These hubs and offices are scalable installations and are fully capacitated to add more branches for future growth. The Company has delegated loan sanctioning authorities to its underwriters based on their qualification, industry experience and overall vintage with the Company. The Company has broad level audit framework which undertakes assessment at various stages of loan life cycle.

**RECOVERIES**

The Company's collection philosophy is to 'cure' and not just to 'collect'. Along with rigorous implementation of collection efforts and best possible use of legal channels of recovery, the Company has maintained its expectations of lowest NPAs among leading HFCs, as per IMAcs Report. Structured early warning system, regular reviews

and prompt actions have helped in minimizing defaults and maximizing collections. The SARFAESI Act of 2002 has been very effective in improving the efficiency of the recovery unit. Appropriate legal actions and co-ordination with judiciary have resolved most of the default cases.

A special cadre has been created to steer the NPAs control process. This experienced team maintains stringent qualitative checks and plays a pivotal role in restricting the Company's NPAs to the lowest among leading HFCs in the sector, as per the IMAcs Report.

The Company observes fair standards while dealing with delinquent customers. Legal recourse is sought during such proceedings. PNB Housing ensures that its interaction with the customers remains professional, transparent and respectful.

**PORTFOLIO PERFORMANCE**

The portfolio performance in the past five years is marked by a high portfolio growth year on year and continuous reduction in NPAs to the lowest in the sector. The Company has ensured this stupendous portfolio performance by multi-pronged strategy comprising right selection of customers, optimum

product mix, scalable target operating model, underwriting through subject matter experts, mark to market policies and programs, empowerment of employees to make timely decisions, continuous training and feedback, strategy of curing and not only collecting etc. All this has been aided by advanced information technology and robust processes.

In retail finance lending arena, the Company has devised standardized processes and follows four eye principle in loan decisioning involving specialists from underwriting, technical, fraud control and legal. The complete chain of loan origination to servicing is being executed on a common technology platform.

In wholesale finance lending arena, the Company follows centralized decisioning approach where all decisions are undertaken at the central support office. For appraisal of large exposures, the Company undertakes various types of analysis like project analysis, financial appraisal, detailed legal review, customer feedback, background check, credit rating etc.

As a continuous process, the Company evaluates its portfolio on various single and cross sectional





variables. The portfolio management methodologies are designed with an objective of early identification of problematic loans using techniques such as bouncing analysis, product analysis, vintage analysis etc.

INVESTMENTS

The Board of Directors has approved Company's Investment Policy and has set out limits for investments. The authority to invest funds has been delegated to the Managing Director who is assisted by two senior executives. The investment function is carried out to maintain sufficient liquidity, to ensure carrying out of day-to-day operations of the Company smoothly and invest the surplus funds generated out of borrowings and operations in various securities with an objective to maximize return on liquid funds, with reasonable risk and expense.

Considering the time lag between raising of resources and its deployment, the surplus funds are generally parked with liquid fund schemes of mutual funds and PSU/Corporate Bonds. During the year, the Company has parked/redeemed ₹ 12,129 crores (Previous year ₹ 12,091 crores) with liquid fund schemes of mutual funds and earned ₹ 14.21 crores (Previous year ₹ 19.89 crores) as surplus from cash management schemes of mutual funds.

During the year, the Company has also made short-term investments of ₹ 4,386 crores (Previous year ₹ 4,187.80 crores) in PSU/Corporate Bonds and sold PSU/Corporate Bonds of ₹ 4,944 crores (Previous year ₹ 3,348.02 crores). The Company has earned interest of ₹ 34.01 crores (Previous year ₹ 44.74 crores) and profit on sale of investment of ₹ 10.00 crores (Previous year ₹ 15.68 crores) on these bonds.

As per NHB Directions, HFCs are required to maintain Statutory Liquid Ratio (SLR) in respect of deposits raised. Currently, the SLR requirement is 12.50% of the deposits. During the year, the Company has made fresh investments in SLR securities of ₹ 597.471 crores (Previous year ₹ 251.32 crores) and securities amounting to ₹ 121.21 crores (Previous year ₹ 25.00 crores) were redeemed on maturity. As at March 31st, 2016 the Company has invested ₹ 891.57 crores (Previous year ₹ 465.34 crores) in approved securities comprising

government securities, government guaranteed bonds, NHB bonds and deposits with scheduled banks, which is higher than the limits prescribed by the NHB.

FUNDING SOURCES

FY2015-16 was a transformational year for economy, as it shed concerns of high current account deficit, policy uncertainty and elevated inflation. The Indian economy started showing signs of revival in growth, the CPI fell from 5.5% in March, 2015 to 4.83% in March, 2016. The improvement in economic indicators also reflected in the softening of the interest rates and the 10 Year G-Sec yield has declined from 7.74% as on March 31st, 2015 to 7.46% as on March 31st, 2016. Similar impact was also witnessed on other fixed income securities and yields calibrated.

The Company has been raising funds for its lending activities from banks by way of term loans, from the NHB by way of refinance, by private placement of non-convertible debentures (NCDs), by issuance of commercial paper and mobilisation of deposits from the retail market.

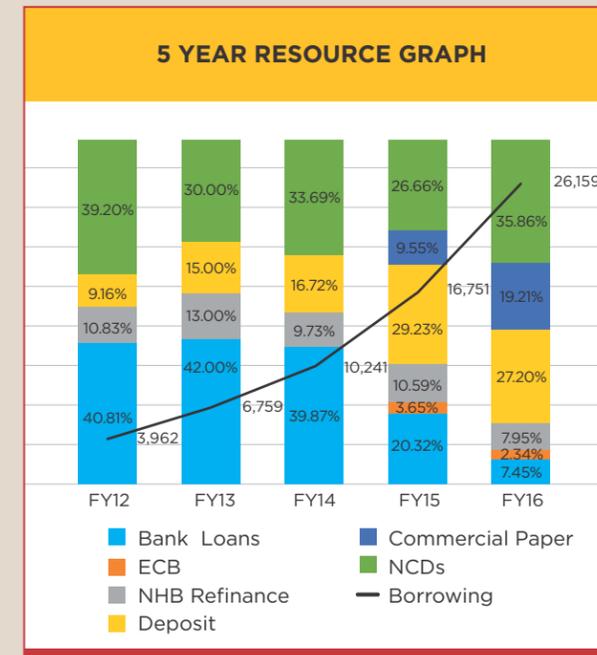
The Company has managed to contain its borrowing costs through prudent asset-liability management. Some of these measures were; the diversification of funding sources, tenure optimization, structured interest rates and prudent borrowing timing. The Company has diversified its funding sources with an objective to reduce borrowing cost, earn an adequate net interest margin and improve liquidity. As of March 31st, 2016, the Company's funding sources comprised 7.45% (Previous year 20.32%) from banks and financial institutions, 7.95% (Previous year 10.59%) from the NHB re-financing, 27.20% (Previous year 29.23%) from deposits, 35.86% from NCDs (Previous year 26.66%), 2.34% (Previous year 3.65%) from ECB and 19.21% (Previous year 9.55%) from commercial papers.

The borrowings that are maturing within twelve months from the end of the year, constitute 36% (Previous year 32%) of the total borrowings of ₹ 26,159 crores (Previous year ₹ 16,752 crores). The outstanding borrowings at fixed interest rates were ₹ 14,143 crores (Previous year ₹ 7,558 crores), which was 54% (Previous year 45%) of the total outstanding borrowings.

The average cost of total borrowings during the year was 8.67% per annum (Previous year 9.26%).

SUBORDINATED DEBT

During the year, the Company raised ₹ 210 crores (Previous year ₹ 200 crores) of long-term unsecured redeemable non-convertible subordinated debentures. The debt is subordinated to present and future senior indebtedness of the Company. It is rated "Ind AAA" and "CARE AAA", indicating high safety with regard to timely payment of interest and principal, with stable outlook. The outstanding subordinated debt as at March 31st, 2016 were ₹ 610 crores (Previous year ₹ 400 crores). Based on the balance term to maturity as at March 31st, 2016, ₹ 610 crores of the book value of subordinated debt is considered as Tier II capital under the guidelines issued by the NHB for the purpose of computation of CRAR.



GREEN BONDS

The Company raised ₹ 500 crores (Previous year ₹ Nil crores) through the issuance of "green bonds" to IDBI Trusteeship Services Limited (as trustee for the International Finance Corporation). The funds raised through the green bonds will be deployed for funding residential projects based on recognised green building standards.

FIXED DEPOSITS

During the year, the Company received net incremental deposits of ₹ 2,219 crores (Previous

year ₹ 3,185 crores). The outstanding deposits have increased from ₹ 4,987 crores at the beginning of the year to ₹ 7,116 crores by the end of the year, registering a growth of 45% (Previous year 186%). The outstanding balance of deposits now constitute 27% (Previous year 29%) of the total outstanding borrowings as at March 31st, 2016.

PNB Housing's Deposit Programme is rated "FAAA" by CRISIL. This rating indicates highest safety as regards repayment of principal and interest.

PNB Housing has been offering brokerage to its deposit referral associates. The brokerage structure is linked to the term of deposits mobilised. PNB Housing has been amortising the brokerage paid over the tenure of deposits mobilised.

TERM LOANS FROM BANKS, INSTITUTIONS AND REFINANCE FROM NHB

The Company has borrowed funds for both long and short-term maturities from the banking sector at competitive rates. This year fresh loans procured from banks were nil (Previous year ₹ 1,611 crores) while loans repaid amounted to ₹ 1,456 crores (Previous year ₹ 2,289 crores). Term loans from banks are secured by a negative lien on all assets of the Company excluding specific immovable property mortgaged in favour of the Debenture Trustees for issuance of NCDs and the Statutory Liquid Assets having floating charge in favour of the Public Deposit Trustees against Public Deposits. The outstanding balance of bank loans was ₹ 1,948 crores (Previous year ₹ 3,404 crores) as at March 31st, 2016.

During the year, the Company has availed refinance of ₹ 900 crores (Previous year ₹ 1,010 crores) from the NHB. The outstanding refinance from the NHB as at March 31st, 2016 of ₹ 2,079 crores (Previous year ₹ 1,774 crores) and is secured by hypothecation of specific loans/books debts against which refinance has been availed.

SECURED NON-CONVERTIBLE DEBENTURE (NCD)

During the year under review, the Company has raised ₹ 5,015 crores (Previous year ₹ 900 crores) through secured non-convertible debentures via private placement. The Company's NCD issues have been listed on the wholesale debt market segment of the NSE. The NCDs are secured by mortgage of a specific immovable property and by hypothecation of book debts to the extent of 1.10 to 1.25 times of



outstanding amount. Company's NCDs are rated "CARE AAA", "CRISIL AA+/Negative" and "ICRA AA+/Stable" indicating high safety with regard to timely payment of interest and principal. The outstanding balance of secured NCDs as at March 31st, 2016 was ₹ 9,380 crores (Previous year ₹ 3,965 crores).

COMMERCIAL PAPER

Company uses commercial paper as a source of funding its working capital needs and to bridge financing till such time longer term securities are placed. During the year, the Company has raised ₹ 15,825 crores (Previous year ₹ 3,975 crores) via issuance of commercial paper and repaid ₹ 12,400 crores (Previous year ₹ 2,375 crores). Company's short-term borrowings including commercial paper are rated "CARE A1+". These ratings indicate highest safety regarding timely re-payment. The outstanding balance of commercial paper as at March 31st, 2016 was ₹ 5,025 crores (Previous year ₹ 1,600 crores).

OVERDRAFT FACILITIES

The Company has added new OD/CC lines, with total lines now available of ₹ 1,200 crores (Previous year ₹ 500 crores), which is equivalent to one month disbursement. These OD lines are at MCLR (marginal cost of funds/based lending rate) of the respective banks. These lines of credit act as backstop facility for CP issuance and also help in treasury operations of the Company.

ASSET LIABILITY MANAGEMENT

The ALM policy of the Company lays down the mechanism for assessment of various types of risks and alteration in the asset-liability portfolio to mitigate such risks. The asset liability management committee (ALCO) monitors asset-liability mismatches to ensure that there are no imbalances or excessive concentrations on either side of the Balance Sheet.

PROVISION FOR STANDARD ASSETS, NPAs AND CONTINGENCIES

As per the prudential norms prescribed by the NHB for Standard Loan Assets, HFCs are required to carry a provision of 0.40% on individual home loans, 1% on individual non-residential property loans, 0.75% on developer loans for residential projects

and 1.25% on developer loans for commercial projects.

During the year, Company has made/reversed a provision of ₹ (1.13) crores (Previous year ₹ 5.46 crores) for non-performing assets (NPA). As on March 31st, 2016 the Company is carrying a provision of ₹ 21.68 crores (Previous year ₹ 22.81 crores) towards non-performing assets of ₹ 59.81 crores (Previous year ₹ 34.14 crores).

During the year, a further provision of ₹ 76.96 crores (Previous year ₹ 31.22 crores) has been made on standard assets. As on March 31st, 2016 the Company is carrying a provision of ₹ 154.96 crores (Previous year ₹ 78.00 crores) on standard assets, which is 0.48% (Previous year 0.46%) of standard assets of ₹ 27,141 crores (Previous year ₹ 78 crores provision on standard assets of ₹ 16,785 crores).

As on March 31st, 2016, the Company is carrying total provisions for non-performing assets and standard assets of ₹ 176.64 crores (Previous year ₹ 100.81 crores) as against gross non-performing assets of ₹ 59.81 crores (Previous year ₹ 34.14 crores). Accordingly, the provision coverage ratio is at 296% (Previous Year 295%).

During the year, a further provision of ₹ 2.71 crores (Previous year ₹ 40.28 crores) has been made on for diminution in the value of stock property acquired. As on March 31st, 2016 the value of acquired property against which such provision is made is ₹ 87.62 crores (Previous year ₹ 35.95 crores).

OVERVIEW OF PNB HOUSING PERFORMANCE IN FY2015-16

BUSINESS HIGHLIGHTS

- The Loan Portfolio outstanding stood at ₹ 27,177 crores; a 62% rise over FY2014-15.
The Loan approvals in FY2015-16 were at ₹ 23,011 crores, growing by 53% over FY2014-15. The Company has disbursed loans amounting to ₹ 14,456 crores, growing by 53% over the last year.

FINANCIAL HIGHLIGHTS

During the year, the Company has earned a profit before tax of ₹ 503.09 crores and the profit after tax of ₹ 326.47 crores.

- Profit before tax grew by 70% as against 68% in the previous year.

- Profit after tax grew by 66% as against 54% in the previous year.
Current year income tax provision (including provision for deferred tax) amounted to ₹ 176.61 crores as compared to ₹ 99.66 crores in the previous year. The effective income tax rate for the year is 35.11% as against 33.70% in the previous year.
Return on average net worth for the year was 17.11% as against 16.09% in the previous year.
Ratio of net interest margin to average assets was 2.98% for the current year as against 2.94% in the previous year.
Cost to income ratio was 25.21% as against 30.94% in the previous year.
The Earnings Per Share (Basic) for the current year was ₹ 27.48 as against ₹ 24.41 for the previous year.

SPREAD ON LOANS

The average yield on loan assets during the year was 10.80% per annum as compared to 11.37% per annum in the previous year. The average all-inclusive cost of borrowings was 8.67% per annum as compared to 9.26% per annum in the previous year. The spread on loans over the cost of borrowings for the year was 2.13% per annum as against 2.11% per annum in the previous year.

CAPITAL ADEQUACY RATIO

As per the regulatory norms, the minimum requirement for the capital to risk asset ratio (CRAR) is 12% and for and minimum Tier I capital, it is 6% on the risk weighted assets.

Company's capital adequacy ratio as at March 31st, 2016 was 12.70%. The capital adequacy on account of Tier I capital was 9.04% and the capital adequacy on account of the Tier II capital was 3.66%.

NHB GUIDELINES AND PRUDENTIAL NORMS

The Company is in compliance with all applicable norms and guidelines of the regulatory body, the National Housing Bank (NHB), which includes accounting standards, prudential norms for asset classification, income recognition, provisioning, capital adequacy, concentration of credit, credit rating, 'know your customer' (KYC), fair practices code and grievance redressal mechanism, recovery

of dues, channel partners, real estate and capital market exposures.

INTERNAL AUDIT

The Company has put in place a strong system of internal control to commensurate with its growth and nature of operations. It has developed internal controls to provide high degree of assurance regarding effectiveness and efficiency of operations, adequacy of safeguards for assets, reliability of financial controls and compliance with applicable laws and regulations. The Company conducts risk-based internal audit of all its branches, hubs and central support office on a quarterly basis. Internal audit teams are supported by external chartered accountant firms while conducting transaction audits of its operations. The Company has a system to bring important observations of audit reports to the notice of the audit committee of the board. In order to ensure quality, audit reports are discussed with zonal functionaries to convey message at ground level. This has ensured improvement in overall quality of business.

HUMAN RESOURCES: UPHOLDING 'PEOPLE FIRST' CULTURE

The Company believes that the quality and dynamism of its human capital has enabled it to significantly enhance customer experience and stakeholder's value. In order to sustain its growth and emerge as the most admired housing finance company, PNB Housing works relentlessly towards being customer-focused, performance-driven and ready for the future. The talent management strategy of the Company strives to deliver its unique talent promise of 'building holistic business leaders'.





The Company is guided by an integrated management approach to facilitate talent identification, transparent performance management, individual growth and team development. Human resource development practices in the Company are guided by the principles of relevance, consistency and fairness based on the premise that 'what' is done is as critical as 'how' it is done. Taken together, these initiatives and processes have made a significant



impact on attracting talent, retaining it and ensuring commitment.

The human capital of the Company has been developed through meticulous accumulation of knowledge, skills, abilities, experience, intelligence, judgment, and wisdom. This wealth of talent is further augmented through structured training programmes to ensure that the team is contemporary and abreast with the ever-changing dynamics of the sector.

The Company's employee orientation is marked by its endeavour to build a progressive work environment which provides fair growth opportunities to every member of the team. The Company believes in enhancing performance-driven culture through formal reward and recognition (R&R) schemes and various other employee engagement activities to bring about cross functional synergy and alignment with organisational goals.

Employees at PNB Housing are the flag-bearers who ensure that the Company stands true on its brand promise. The Company is steered by a team that is motivated, competent, passionate and capable of building a high-performance organisation.

**TECHNOLOGY: AUGMENTING BUSINESS OUTCOME**

Technological advancement at PNB Housing during FY2015-16 was underscored by the successful installation of enterprise system solution (ESS) and its seamless integration with all activities of the organization. The ESS has enabled business automation eradicating manual efforts and improved operational efficiency across all functions leading to enhanced customer service standards.

The ESS is ornate with various modules designed to make the overall business framework more secure, scalable and supportive to sustainable business



growth. The customer portal module provides customers with a single-window online view of their relationship with the Company. Similarly, the asset liability management system, anti-money laundering system and human resource management system improves efficiencies and robustness in the processes whereas customer service system augments the service delivery standards.

Being custodians of a large customer data, it is imperative that the information shared is secure throughout the life cycle of a relationship. Through its network architecture, the Company ensures data security, integrity, availability and scalability. In the last year, the desired recovery point objective (RPO) of 30 minutes and recovery time objective (RTO) of 2 hours were successfully achieved.

The robust and secured backbone of IT infrastructure ensures reliable communication channels between branches and hubs all across the Country. The team has blended years of housing finance business experience with contemporary knowledge of IT to develop customised technology solutions, making the organization tech savvy, customer friendly and proactive in communicating its value proposition to the target market segment.

**OPERATIONAL FRAMEWORK: BUILDING ROBUSTNESS**

The dynamics of housing finance business demands that the HFCs have a sturdy operations framework. For a fast growing Company like PNB Housing, it becomes all the more vital that its ambitious growth plans are juxtaposed with prudent control measures. The pressure exposes it to various financial and operational risks. Given these risks, the Company has evolved to achieve optimum efficiencies by way of centralised control over certain important activities.

PNB Housing's operations have three main verticals - branch operations, the COPS and CPC. Centralization of activities such as deposit processing, file storage, etc. have allowed the Company to adhere to standard operating procedures thereby bringing in higher accuracy and eliminating wastages. Centralization of EMI banking has helped in timely collection of funds, better fund management, stronger control and early alarms to the collection department in a pro-active manner. Moreover, as all bulk customer correspondence is in

house and is devoid of any third party interference, the delivery standards and ethos are adequately maintained. With centralized operations, there has been a sharp increase in productivity and it has enabled the Company to follow a flexible delivery model along with achieving economies of scale.

This structure has facilitated the hubs and branches to focus on customer service and sales, as most of the back-end operations are now centralised and supported by the new enterprise system solution.

**STRENGTHENING INFRASTRUCTURE**

The Company believes that good infrastructure plays an important role in creating a productive work environment. The Company ensures that its brick and mortar infrastructure gives a pleasant experience to the customers and also remains ergonomically efficient for its staff members. Our offices are elegant, functional, secure and located in convenient areas. Employees are consulted for their inputs while determining work spaces, storage facilities, interiors, communication etc. Brand guidelines are followed to ensure that all premises have a reasonable degree of uniformity and brand visibility.

During FY2015-16, incremental work area of 35,465 sq.ft. was added, which has increased total work space from 1,54,780 sq.ft. to 1,90,245 sq.ft, an increase of 23% over the previous year.

**CORPORATE SOCIAL RESPONSIBILITY: REACHING OUT**

Growing together and responsibly is the motto of PNB Housing. The CSR policy of the Company aims





to create social and environmental value, while supporting Company's business objectives and enhancing relationships with key stakeholders and customers.

**PNB HOUSING DAY-CARE CENTRE**

The Company collaborated with Mobile Creches and various real estate developers to offer day-care services to children of construction workers on various construction sites, chiefly education, hygiene and nutrition. The effort ensures holistic development of children and enables workers, especially women, to focus on their jobs. Through these centres the Company has been able to impact lives of over 500 children across the Country.

**KUSHAL - SKILLS PROGRAMME**

CREDAI and Rustomjee Skill Cluster have been partnered by the Company to conduct on-the-job skill training programme for construction workers. The training led to improved productivity, reduction in wastage of material and improvement in the quality of work. The programme also included soft-skill trainings, health and sanitation awareness, work-safety aspects etc. Bank accounts were opened for the beneficiaries under the Pradhan Mantri Jan DhanYojna and Aadhar Cards were also issued.



**EDUCATION**

The Company has adopted Rainbow Montessori School, Delhi, which caters primarily to children coming from underprivileged families. With over 300 students and 30 staff members the school runs



in two shifts and teaches from nursery to class 5. The project ensures that once students pass out from class 5, they continue their education in government and private schools. Persistent follow-ups are done to ensure that there are minimal drop outs.

**CONTRIBUTION TO 'HOUSING FOR ALL' MISSION**

The Company's CSR Policy has prioritized poverty alleviation as one of its goals to be addressed through its CSR initiatives. It has collaborated with Habitat for Humanity and Indian Chamber of Commerce for capacity-building workshops to foster multi-stakeholder dialogues, address the housing shortfall and take home loans to the bottom of the pyramid.

**RESPONSE TO NATURAL DISASTERS**

Natural calamities are a bane and PNB Housing emphathises with the victims of such disasters. During the year, the Company extended its support to relief operations for people affected by Nepal Earthquake and Chennai floods.

**THE FUTURE OUTLOOK**

PNB Housing is proud to be engaged in a sector that symbolises national progress and offers an opportunity to make a contribution in the Country's development by fulfilling housing dreams of its citizens.

Guided by values, ethics and work culture, the Company continues to build upon the ambitious blue prints it has sketched for the future. Backed by sound capital inflow, settling down of the ESS & TOM and full capacity utilization of existing branches and hubs, it is establishing notable

presence in Tier II & III cities with special attention to smart cities in the making.

The business model of the Company is robust and elastic which is capable of catering to the widening business network. This expansion is in consonance with the Company's manifesto to participate in mass housing segment. Not only is it building presence in relevant locations, it is launching products such as 'Unnati loans' that are suited for home aspirants belonging to the informal income groups.

The Company has built enough capabilities and capacity in construction finance. It is reaching out to real estate developers to strengthen the supply side of the Indian housing sector. The Company continues to delight its customers with easy and hassle free home loan products.

The Company shall nourish stronger business relations with associates and partners and real estate developers. Efforts shall be made to increase contribution by in-house channels thus improving self-sufficiency in business sourcing. Infrastructure, human capital and technology shall be reinforced to improve service standards and performance.

PNB Housing will make efforts to improve the socio-economic landscape in the regions of its operations by generating employment and fulfilling its CSR commitments.

**DISCLAIMER**

PNB Housing Finance Limited is proposing, subject to applicable statutory and regulatory requirements, receipt of requisite approvals, market conditions and other considerations, to make an initial public offer of its equity shares ("Equity Shares") and has filed the Draft Red Herring Prospectus ("DRHP") with the Securities and Exchange Board of India ("SEBI"). The DRHP is/will be available on the websites of SEBI, BSE, NSE at HYPERLINK "<http://www.sebi.gov.in>" [www.sebi.gov.in](http://www.sebi.gov.in), HYPERLINK "<http://www.bseindia.com>" [www.bseindia.com](http://www.bseindia.com), HYPERLINK "<http://www.nseindia.com>" [www.nseindia.com](http://www.nseindia.com), respectively and the GCBRLMs at HYPERLINK "<http://www.investmentbank.kotak.com>" [www.investmentbank.kotak.com](http://www.investmentbank.kotak.com), HYPERLINK "<http://www.dspml.com>" [www.dspml.com](http://www.dspml.com), HYPERLINK "<http://www.jmfl.com>" [www.jmfl.com](http://www.jmfl.com),

HYPERLINK "<http://www.jpmpi.com>" [www.jpmpi.com](http://www.jpmpi.com) and HYPERLINK "<http://www.morganstanley.com/aboutus/global-offices/india>" [www.morganstanley.com/aboutus/global-offices/india](http://www.morganstanley.com/aboutus/global-offices/india). Potential investors should note that investment in equity shares involves a high degree of risk and for details relating to the same, refer to the Red Herring Prospectus which may be filed with the Registrar of Companies in future, including the section titled "Risk Factors".

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**DATA SOURCES**

- The industry data, wherever mentioned in the annual report has been sourced from various published reports:
- Official website of Finance Department, Mizoram; [www.mizofin.nic.in](http://www.mizofin.nic.in)
- Official website of Reserve Bank of India; [www.rbi.org.in](http://www.rbi.org.in)
- Official website of International Monetary Fund; [www.imf.org](http://www.imf.org)
- Bain and Company Report; <http://www.consultancy.uk/news/11987/bain-real-estate-demand-in-india-to-grow-9-yearly-by-2020>
- CRISIL reports
- ICRA reports