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Chairman's Message

On behalf of the Board of Directors, it is my privilege to present the Annual Report and the consolidated financial statements of the Company for the year ended 31st March, 2017.

The financial year 2016-17, has become a landmark year in the journey of PNB Housing with the public listing of the equity shares on the National Stock Exchange and the Bombay Stock Exchange. Our initial public offering (IPO) was the 2nd largest in India during the FY2016-17. The IPO turned out to be one of most awaited investment opportunities for the national and international investors, who gave an overwhelming response to the IPO. Since listing, the share price has been trading on a smart premium over the offer price. I take this opportunity to express my gratitude to the investor community for their whole-hearted support.

Your Company has once again, delivered strong results despite volatile external environment. The Company has developed strong internal systems and processes to withstand market volatility. Your Company continues to be amongst the fastest growing HFCs in the Country, while maintaining a high asset quality. This is reflected by low levels of NPAs, amongst the best in the industry.

The seed for strong growth requires development of organizational capability. The Company has continued to make meaningful investments in people, processes and technology. These are long term investments for the future.

The Company is now a matured organization with strong belief in corporate governance and compliances. As we grow, we have strengthened corporate governance and risk management framework. We want to be recognized as a dependable Company striving for growth with a strong governance model.

The Company now stands on a strong foundation having the available potential resources. Our endeavor is to capitalize upon this potential to enable sustainability of our business, growth for all the stakeholders and upliftment of the society at large.

Although, our fundamentals are healthy, yet we cannot ignore the uncertainty prevailing in the external environment. Therefore, without being overly cautious in our approach, the Company's management team is closely tracking and proactively managing changes in the environment that may impact our business. The Board of Directors has great confidence in the Company's prospects. We are geared up to seize growth opportunities, despite new challenges that may lie ahead.

We see the global economic activity to pick up with the long-awaited cyclical recovery in investment, manufacturing and trade with slight to moderate rise in global demand and optimism in the financial markets.





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India, is today a good reference model for developing countries to face the external pressures. The Indian economy continues to perform encouragingly with the GDP growth of around 7% in the last fiscal. The retail as well as wholesale inflation are on a declining trend as a causatum to demonetization. With new initiatives, we expect the credit offtake improving.

The Country has taken a historical reform in the form of GST, which is a significant initiative of the Government. It is the most significant tax reform post-independence and will surely lead to significant surge in growth, which is a very positive signal for the housing finance industry.

India continues to be significantly short in both urban and rural housing. Housing requires better affordability and the Government has positively worked in making housing more affordable to a common man. The Government has redefined the middle income family and low income family under the “Pradhan Mantri Awas Yojana” and “Housing for all”. This is a direct step aimed at improving affordability, which is a major hindrance for a large section of the population as on date. The government is also working on integrating transport, infrastructure and housing, which are essential to improve living conditions in the urban centers.

The Real estate developers have started deploying their resources towards affordable housing, and are calibrating their business strategies accordingly. This shift towards affordable housing will be a boost to the government initiatives, especially in the suburban centers, tier II and tier III cities.

Another healthy development is better availability of funds in the real estate sector, especially by the Private Equity (PE) investors. The REIT and InvITs will also provide the sector an effective access to financial resources for long term requirements.

An important reform undertaken during the year was the passage of Real Estate (Regulation and Development) Act. This new enactment is aimed at ensuring accountability of the developer towards timely delivery and transparency. The effective implementation of RERA by states will lead to healthy development and confidence in home purchases.

PNB Housing has entered the new financial year with full confidence and a positive outlook. The Company will further expand into new geographies. At the same time, we will continue to fulfill our responsibility towards the society through our CSR initiatives and are hopeful that the impact of our initiatives will prove to be highly effective in development of our Nation.

As I conclude, I extend my gratitude to the outgoing Chairperson Smt. Usha Ananthasubramanian, from whom I had taken charge, for having guided the Company towards growth and public listing of Company's equity stock.



I am happy to emphasize that PNB Housing is being steered by an energetic management team, headed by Mr. Sanjaya Gupta. The team has transformed the brand image of PNB Housing, to that of a contemporary, convenient and trustworthy housing finance solution provider.



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I thank the Directors on the Board for their valuable guidance, which is ensuring that the organization never loses sight of its vision, values and the broader purpose it is meant to serve.

I also take this opportunity to thank the National Housing Bank for invigorating the housing finance ecosystem in the Country.

I extend my gratitude to The Reserve Bank of India which tends to the needs of the sector with encouraging interventions, making it more lucrative for the customers.

Lastly, let me assure you that the best is yet to come for the sector and for your Company. Together let us ignite hope, encourage dreams and eventually make them a reality.

Yours Sincerely,



Sunil Mehta
Chairman



Managing Director's Address



It is this common belief that binds the team together at PNB Housing as a motivated and committed unit, striving to fulfill the housing dreams of people from all walks of life.

Any developing country's growth is determined by the scale and extent of development of its weakest economic class. By this yardstick, India has a long journey ahead, before we call ourselves a developed Nation.

As a housing solution provider, PNB Housing has a major role to play in ensuring that the National Mission of 'Housing for All' becomes a reality. We believe that as long as there is even a single family that does not have access to a home, our Company's true purpose of existence will not be achieved. It is this common belief that binds the team together at PNB Housing as a motivated and committed unit, striving to fulfill the housing dreams of people from all walks of life.

On this note, I present to you the 29th Annual Report 2016-17 of PNB Housing Finance Limited.

Once again, the year's performance has been impressive, as evident in the strong top and bottom line growth. I would like to extend my congratulations to the entire team for the huge effort put in on all fronts to deliver this result despite a very challenging external environment.

We had started the financial year with a subdued global economy. Events like BREXIT, the US Presidential elections and troubles in the Middle East all contributed to large scale uncertainties speculation, and generally a dull sentiment.

Our growth tapered somewhat, as a fall out of the historic initiative of demonetization. However, the impact was short lived and within a short span the economy has again picked up pace and we are confident that India is 'transforming' into a tax compliant and corruption free economy.



Sanjaya Gupta
Managing Director



Real estate prices thankfully remained stable, despite speculation that the sector would implode into a deep price correction as a consequence of the liquidity crunch. The Country is moving towards a 'cashless' economy, and this trend has had a favorable impact on our sector. The organized credit market has been impacted favorably, because the reduced liquidity is taking off the cash component in real estate transactions. Also, interest rates have eased making home loan more affordable for the buyers.

I take this opportunity to welcome certain initiatives announced by the Government of India, in the Indian Union Budget 2017-18. The launch of these initiatives are indicative of the fact that our Country is determined to pursue an agenda of 'socio-economic reform'.

Initiatives that relate to affordable housing, such as 'Housing for All' and 'Pradhan Mantri Awaas Yojana', are expected to act as catalysts to the National agenda of making homes available and affordable for every Indian citizen.

Furthermore, initiatives like RERA and GST will have a direct favorable impact on the real estate sector. Both these initiatives will benefit the supply as well as the demand side of the housing equation.

FY 2016-17

The financial year 2016-17, was termed by us, as the year of 'Shakti' (strength), for it has rendered us new strengths to create lasting value for our customers, shareholders as well as our employees.

Our IPO was extremely well received in the capital market, and its success was truly empowering. After the approval period that lasted almost an year, the IPO was finally launched on November 7, 2016. The IPO approval however got delayed and this delay threw up unexpected challenges. The marginal gearing of NOF reached alarming levels, making day to day business operations critical. Our dedicated team however, pursued the IPO approvals vigorously, while also ensuring that day to day operations do not get impacted. The retail deposit franchise supported us, and funded a lion's share of the debt requirement. We were also successful in securitizing a loan book portfolio of INR 3,377 crores during this period to manage liquidity.

The IPO was very well received in both, the domestic and international markets. It was gratifying to note that besides the speculative environment due to demonetization, the stock price of PNB Housing remained buoyant and was traded significantly above its issue price. The enthusiastic response to the IPO strengthened our belief that we are successfully moving on the right path of responsible growth and compliance.

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In terms of performance indicators, our loan portfolio saw a robust growth of 42% compared to the overall sector growth of around 16% making us one of the fastest growing housing finance companies in the Country. The loan portfolio has crossed INR 38,531 crores. On the other hand, our gross NPAs were contained at 0.22%, which is one of the finest in the sector.

To maintain the net interest margins of your Company, we follow a prudent borrowing strategy which optimizes the cost of debt significantly and allows fair pricing of loan products. Our treasury operations have also grown significantly and are less vulnerable to short term debt market cycles. We have sourced business at portfolio yield of 10.66% and non fund based income of 0.90% which has helped us in encapsulating our gross margins. Our ROE, at the end of the year, has averaged to 14.92% while our cost to income ratio has been contained at 22.43%. The net profits for the year reached an all-time high of INR 524 crores, marking a rise of around 60% over the previous year.

Deposits comprised of 28% of our borrowing making them the second largest contributor after bonds. We closed the year with deposits surpassing INR 9,987 crores, representing a growth of 40% over the last year. Your Company continues to be the second largest HFC in terms of deposit outstanding.

The above performance was delivered despite a general gloom in the real estate sector that followed demonetization. During these times, the robustness of our Organization was put to test. The team displayed immense resilience, cohesiveness and high morale while steering the Company through the challenging period.

Our Organization has been shaped with an optimum blend of people, processes and technology that contribute to our Target Operating Model (TOM). The team put up a brave front while standing together and sailed through the storm with an inspiring high morale. Our stronghold rests on the three pillars of our values based work culture, namely 'people first', 'customer centricity' and 'ethical standards'. These attributes helped us in retaining our valuable human assets during this testing time.

At PNB Housing, we are determined to be a "preferred employer" for talented career seekers. It is our conscious effort to ensure that the Organisation's growth and development of our people stay in harmony. Our HR processes are aligned to keep our employees engaged and motivated with minimal attrition. This year your Company was accredited as a 'Great Place to Work', in a survey conducted by Great Place to Work® Institute. This recognition is a testimony to the faith that our employees have in the work culture of the Company.

To support the human effort, PNB Housing is equipped with 'state of the art' digital interventions across its operations. Much of our technological advancements have been developed indigenously based on decades of experience. The new Enterprise System



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Solution (ESS), has led to greater accuracy and efficiency in back end operations, enabling the team to focus on the customer and service delivery. With ESS in place, we have set new standards for delighting customers and ease of doing business with our business associates.

The PNB Housing customer mobile app, which is aligned to our customer portal takes the home loan experience to a next level by bridging the gap between the Company and techno-savvy consumers.

While our ambitions are high they are constantly challenged by risks inherent to the dynamics of housing finance sector. We address these risks successfully with an efficient risk management framework. The recent gloom pushed us to be on our toes to mitigate the expected perils arising due to defaults. I must highlight that our recovery team, backed by robust processes, was able to handle the recoveries seamlessly.

The Target Operating Model of the Company, woven into a well aligned hub and spoke network, has helped us bring economies of scale and standardization in our operational activities. I am pleased to also report that our 'Central Operations' is now certified ISO 9001:2015 for effective quality management.

This year we stepped forward to neutralize the dullness prevailing across the sector with a first of its kind event, the 'Ghar Utsav' – a Delhi NCR property exposition which was organized in collaboration with various leading real estate developers. The agenda was to initiate a wave of positive change. This initiative was a resounding success and went a long way in cementing our relationship with the developer fraternity as well as potential customers. The strategic timing of this event and its response will help us carry forward the positive vibe in FY2017-18 where we aspire to bring similar propositions in other geographies too.

PNB Housing is committed to working for the cause of a prosperous society. This year we laid down the blue print of our CSR initiatives which revolve around construction workers whom we consider as our primary stakeholders. In line with our efforts towards providing them with a better standard of life, PNB Housing joined hands with various NGOs to provide workers' children education, nutrition and hygiene. Another initiative undertaken, relates to skill upgradation of construction workers, men and women alike. We are proud to say that more than 4,000 workers have been trained up to FY2016-17.

Your Company has also invested its resources in that one important area of caring for the environment. We are conscious that our homes and the comforts therein, are being acquired at the cost of ecological balance, and consequently it is our greatest responsibility to ensure that the ecological balance is maintained to the best extent possible. PNB Housing has stood up to support green energy efficient residential buildings, with the objective of



In FY2017-18, geographical expansion will be our engine for growth. In the year ahead our ambition is to add 23 new branches, 17 outreach locations and 3 fully capacitated credit decision hubs, thus creating additional service touch points for our customers.



helping reduce greenhouse emissions, curbing pollution and establishing a culture of green housing construction in India.

As I wrap up the narration of our FY2016-17 journey, I am delighted to share that all of our achievements and initiatives undertaken, have been appreciated and commended by various industry stalwarts and prestigious accredited fora. During the year, we were recognized for our business as well as social endeavors. We were lauded for the 'connect' that we have established with our customers through the brand interventions both in domestic as well as international waters.

Going Forward: for housing finance sector

It is our evaluation that the macro-economic trends prevailing in our Country are leading to a conducive environment for the housing industry. The current challenges faced by real estate sector are transient, and also serve as an ocean of opportunities.

A bouquet of initiatives announced by the Government are most certainly going to benefit the housing sector directly and indirectly. The 'Pradhan Mantri Awaas Yojana', is likely to push mortgage penetration levels and this key nationwide initiative will be instrumental in fulfilling the government's vision of Housing for All by 2022.

Perhaps the most significant initiative with far reaching implications for the real estate sector, is the enactment of RERA. With this, potential buyers can now look forward to faster turnaround of under construction projects and a more pronounced project discipline and accountability on part of real estate developers – all of which will act as an important catalyst in bringing about the long awaited momentum. We are already seeing a surge in sale of ready to move in units. We can also hope for growth in inflows of FDI at project level.

Lowering of interest rate, interest rate subsidy and tax exemptions shall incentivize aspiring home owners to opt for purchase rather than rented homes.

Taxation has since long been complicated in India. The consensus to implement Goods and Services Tax (GST) is indeed a significant development with the potential to augment domestic trade and GDP growth. The impact of GST on real estate sector is still being speculated by experts but we anticipate that in the long run the benefits will outweigh any short term inconveniences.

The Road ahead for the Company

It is imperative that we maintain our 'fitness' in order to surf the rising waves of opportunities. By building a stronger team and absorbing new technologies in our processes, we are adding robustness to our profile.

In FY2017-18, geographical expansion will be our engine for



Special focus will be to further promote 'Unnati' which is our flagship product for mass housing, the 'right' solution for millions of home aspirants in the mass housing segment.



growth. In the year ahead, our ambition is to add 23 new branches, 17 outreach locations and 3 fully capacitated credit decision hubs, thus creating additional service touch points for our customers.

However, extension of our branch network will be a cautious one, to ensure efficient service delivery. We do not believe in chasing market share wherein we could expose ourselves to issues like credit risk, and poor quality portfolio. We prefer to compete with ourselves on a quarter to quarter and year to year basis.

High volume growth of the business and geographical expansion, is often coupled with increase in cost to income ratio (CIR). We have been cognizant of this phenomenon and have laid down stringent benchmarks to keep the costs in control.

As per regulations, we maintain adequate provision for contingencies in our business operations. This year, we are carrying forward a contingency reserve of INR 39.45 crores. INR 15 crores has been appropriated in the financial year 2016-17 reflecting our conservative approach. We have processes in place to simulate future trends which prepare us to cover any eventuality in the future on the loan portfolio.

Also, with optimal utilization of resources, our planned expansion will help us achieve economies of scale, and we are confident of reporting OPEX TO ATA and CIR that are among the best in the sector, before the next round of capital raise.

PNB Housing will continue to walk the extra mile in making home loan experience a convenient and delightful one for its customers. This will be ensured through further digital advancements.

Special focus will be to further promote 'Unnati' which is our flagship product for mass housing, the 'right' solution for millions of home aspirants in the mass housing segment.

Finally, compliance and good governance has always been the bedrock of this transformation journey. We will continue to follow good practices in the right earnest and better these whenever and wherever required.

Our erstwhile Chairperson, Ms. Usha Ananthasubramanian, under whose patronage the Initial Public Offering was successfully expedited, demitted her office as the Managing Director of Punjab National Bank - hence her tenure as our Chairperson of the Board of Directors came to an end. On behalf of the entire PNB Housing family, I convey my heartfelt gratitude to her for the support and high quality professional guidance. We sincerely wish her a very happy and successful endeavor in her new assignment.

The Board of Directors, headed by our newly appointed Chairman, Mr. Sunil Mehta, will lead the development of the Company along with the Independent Directors. We wish our new Chairman and Directors a very satisfying experience on the Board of this new



My note would be incomplete without my expression of due gratitude to our customers who have trusted us and chosen us as partners in their housing finance and fixed deposit needs.



age Housing Finance Company and look forward to their profound guidance and support for our onward growth journey.

I would like to express my gratitude to The National Housing Bank (NHB), our lenders, our rating agencies, our solicitors and our business partners who continue to play a key role in our evolution and we are indebted to them for their valuable support.

I also thank the statutory and internal auditors for ensuring that our operations remain compliant with the set standards.

I further extend my humble gratitude to the various regulatory authorities including RBI, SEBI, Registrar of Companies, the stock exchanges and the depositories for extending their support.

My note would be incomplete without my expression of due gratitude to our customers who have trusted us and chosen us as partners in their housing finance and fixed deposit needs.

Last but not the least, I feel proud in acknowledging the contribution of every single member of team PNB Housing, for having faith in the Company and delivering the 'PNB Housing-brand promise' to the customers.

Thanking You

Sanjaya Gupta
Managing Director