



**Mr. Sunil Mehta**  
Chairman

## CHAIRMAN'S MESSAGE

Dear Stakeholders

On behalf of Board of Directors, I present the 30th Annual Report and the consolidated financial statements of PNB Housing Finance Limited for the year ended March 31, 2018. It gives me immense pleasure that the Company is now in the elite list of large housing finance companies in terms of loan assets and deposits. The Company has traversed this journey in a short span of six years, post undertaking a Business Process Re-engineering Project.

The driving force behind this journey has been a single minded thought of bringing people and processes together, achieving operational excellence, use of right technology in the delivery model and foremost, our customers and stakeholders. We are one of significant contributors to the millions of home buyers, bringing them closer to their dream of owning a home. It is indeed our modest endeavour towards adding to the nation's wealth.

The Company has once again delivered a stellar performance under all the parameters and has positioned itself amongst the top players of the sector. The Company has been delivering, what it had promised at the time of IPO. This is possible because PNB Housing is built on strong fundamentals, fuelled by ambition and held together by values and ethics. Our growth is steady, inclusive and an outcome of concentrated efforts by our team members to achieve a larger purpose - that of creating a healthy eco system for mortgage industry such that it benefits the society at large.

Indian economy has remained resilient in the last financial year in somewhat turbulent times.

The government implemented tough structural reforms in the tax structure in the form of GST. The GST was implemented barely six months after demonetization. The consistent performance of the economy with a GDP growth of over 6.5%, despite many negative predictions proves that our economy is now matured. Experts anticipate the GDP will be 7.4% in 2018-19 and remain steady at 7.8% in 2019-20 and 2020-21, suggesting that our present repute of being the world's fastest growing economy shall persist even in the times ahead.

Indian Economy continues to move towards the path of macro-economic stability, as evidenced by the improving inflation and fiscal deficit, while being a more compliant economy. The global economy has also performed significantly better than the last fiscal. Almost all the major regions of the world are witnessing an economic growth. This acceleration is welcomed backed by rebound in investment and trade, but it is still subject to substantial risks owing to financial stress and rising geopolitical tensions.

One of the big concerns as of now is the rising crude oil prices. India is one of the largest consumers of crude oil with high dependence on imports. The recent rise is likely to fuel inflation and rise in interest rates. The INR has started depreciating against USD making imports dearer. At present, the situation is not alarming but if the situation does not improve by second quarter, then it might have adverse spiralling effect.

India has stable macro-economic indicators post structural reforms undertaken over the years. The liberal FDI policy has resulted in high foreign capital inflows and has provided the needed impetus to make India a favoured investment destination. There was a 17% surge in FDI inflows in the April-September FY2017-18 period, which was mostly driven by an open FDI regime and improving business scenario in the country.

The success of recent issues in primary market is a precursor of an increase in private investment.

The overall business sentiment has picked up in the last quarter of FY 18 post GST implementation. The Real estate sector, which was till now surrounded by multiple tax regimes, should benefit by a single tax structure. RERA a critical reform for the real estate has also started shaping up with almost all the states implementing it. RERA is gradually infusing transparency and confidence among home buyers. Some of the markets are witnessing better demand and sales growth, which is expected to expand in the current fiscal.

In the last 3 years, the government has announced major programmes to retrofit and develop urban infrastructure, such as 'Smart Cities', 'Housing for all', etc. As India moves towards an urbanised society, these programmes are expected to transform India's urban infrastructure landscape. The Smart Cities mission has witnessed the successful completion of 147 projects, while others are being developed at an appreciable pace. A total of 2,313 projects worth approx. USD14.89 billion are at various stages of select smart cities.

The investor sentiment towards India has improved. Moody's investor services has raised India's sovereign rating for the first time in 14 years. India has jumped 30 places in World Bank's Doing Business Report, 2018 to achieve the 100th rank. India is currently positioned at number 40 in the 2017 Global Competitiveness ranking.

Country's macroeconomic fundamentals are strong with a clear and definitive fiscal structure. India is on a much better footing than other emerging economies. The country's long-term growth potential stands undisputed backed by host of recent reforms undertaken, which have laid down a strong and firm foundation for the economy.

PNB Housing , with its strong and stable structure is poised to take advantage of current situation and deliver strong growth over the years. It has robust systems and processes backed by very good asset quality. We are constantly evolving our products and services to remain contemporary while catering to a niche market which is not only large in volume but also healthy from asset quality perspective. With our business strategy, we are confident that we will continue to deliver value for our stakeholders.

Before I conclude, I extend a warm welcome to the new members, Mr Ashwani Kumar Gupta, Mrs Shubhalakshmi Panse and Mr Jayant Dang on the Board of Directors. They bring with them rich experience to guide the Company forward. The erstwhile members of the Board, Mr Devijit Singh and Dr Ram S Sangapure have resigned during the year. I take this opportunity to place on record my sincere

thanks and appreciation for the contribution made by the outgoing Directors.

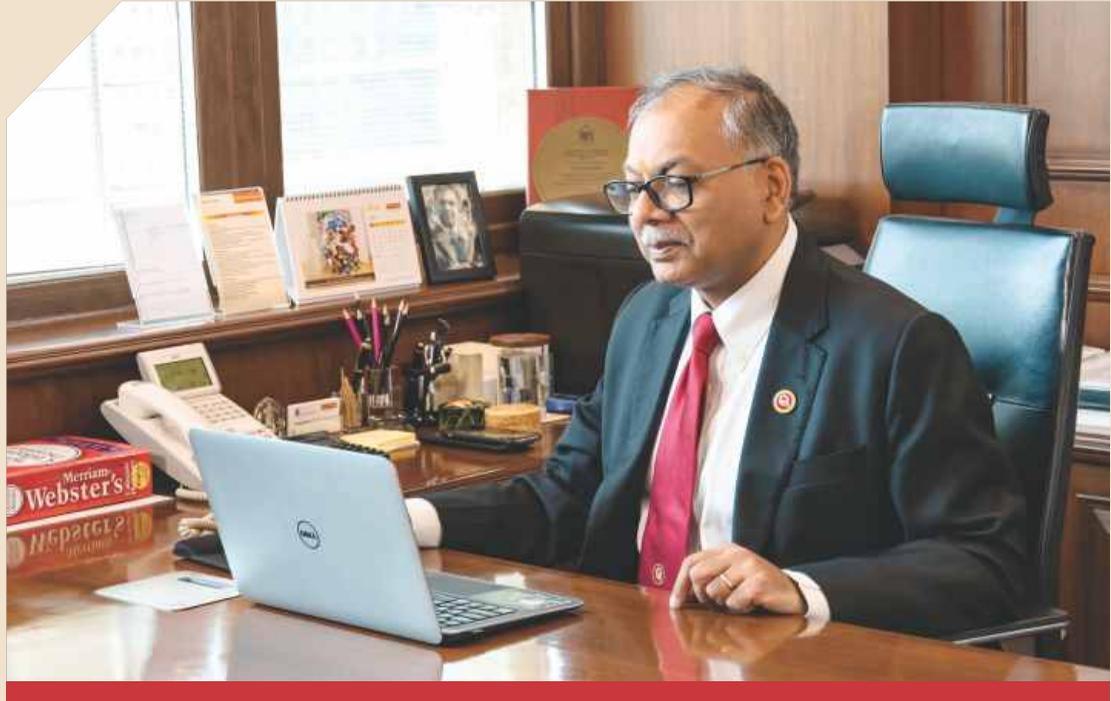
I also wish to thank our Regulator – the National Housing Bank, for being a continuous source of support and guidance to us, throughout the year.

I would like to put forth my deepest appreciation for the proficient and vibrant members of PNB Housing family steered by an energetic management team and ably guided by Mr. Sanjaya Gupta. My trust in them is undaunted and I am confident that they will continue to deliver highest level of customer satisfaction, much to the delight of the nation and growth of the economy.

Yours sincerely



**Sunil Mehta**  
Chairman



**Sanjaya Gupta**  
Managing Director

## **MANAGING DIRECTOR'S MESSAGE**

Dear Stakeholders,

Taking challenges in your stride and trying till you succeed are the two key attributes that the school of sports teaches us. As Michael Jordan once said, "Never say never because limits, like fears, are often just an illusion." Sport has a capacity to transcend barriers and to energize people. Goals are set high and there are no limits to the ambitions of achievement. However, these goals cannot be achieved alone. Partnership and cooperation are vital. Teamwork is what empowerment is all about and integrity is the most central value. Perhaps, the most precious value that sports can promote is to reinforce the importance of happiness and human fulfilment. This is what sportspersons do. This is what inspires us. This is what PNB Housing has inculcated in its initiatives towards fulfilling the housing dreams of our fellow citizens.

On this note, I present to you with great delight, PNB Housing's 30th Annual Report, inspired by the world of sports.

### **The Global Economy inspires confidence; the Indian Economy appears sanguine**

On the global stage, generally speaking, the economy was progressive and relatively buoyant. It has moved at a pace, perhaps the strongest since 2011. Resurgent investment spending in advanced economies and an end to fixed investment contractions in commodity export were important contributors to the pickup in global growth. Global trade recovered

strongly in 2017 and the upsurge was more pronounced in emerging markets and developed economies. There was about half a percentage point pick up in 2017 across these economies. Growth in India and China was supported by resurgent net exports and strong domestic consumption.

For the Indian economy, FY2017-18 was the year of contrasts, propelled by major reforms and minor disruptions inherited from the initiatives of FY2016-17. The policy environment was pillared by RERA and GST. The new tax regime and inertia of demonetization triggered some amount of uncertainty. The enactment of the National Bankruptcy Law acted as another significant reform. Although, the corporate debt overhang and associated banking sector credit quality concerns exerted a drag on investment in the country.

The Union Budget 2018 garnered a tranquil response but it gave sectors like agriculture, infrastructure and affordable housing a lot to cheer for. I would take this opportunity to welcome certain initiatives announced during the Budget. These indicate our determination to pursue an agenda of social and economic reform.

The real estate sector has been on a consolidation stage and further revamp of the sector will infuse transparency, adding momentum to transaction velocity. Affordability has been the new mantra for real estate developers and this has driven volumes with policy support as the trigger. Other tailwinds for the sector were demographic changes, nuclearization of families, increasing remunerations and higher disposable incomes.

The country fared well as compared to the other emerging economies. The Indian economy put up a brave front and moved up to the 100th rank in World Bank's Doing Business 2018 Report. The environment is charged positively with the hope that over the long term, measures taken by the Government will change the face of Indian

economy, bring tax compliance, augment fiscal prudence, lower current account deficit and build robust foreign exchange reserves.

IMF predicts growth in India to increase from 6.7% in 2017 to 7.4% in 2018 and 7.8% in 2019, backed by strong private consumption as well as fading transitory effects of the currency exchange initiative and implementation of the national goods and services tax.

### **A tryst with our own benchmarks during FY2017-18**

Let me begin by congratulating all stakeholders as your Company turned 30 on November 11, 2017. It was gratifying to have served the nation for these long years. Besides, this has also inculcated a sense of greater responsibility in us to conduct ourselves maturely, while continuing to spread smiles to home aspirants.

The performance of financial year 2017-18 was once again robust. We crossed the threshold of ₹ 50,000 crores of portfolio on books, repositioning PNB Housing as a 'Large' housing finance company. The loan outstanding on March 31, 2018 closed at a staggering growth rate of 48% y-o-y at ₹ 57,014 crores.

The top line and bottom line of your Company continued to be impressive. Withstanding the testing time, we remained as one of the fastest growing housing finance companies and the 5th largest by loan book size. Our deposit book size continued to be the 2nd largest among the deposit taking HFCs.

You would also be pleased to know that your Company's AUM has grown by 9 folds in the last five years, crossing over ₹ 62,252 crores as on March 31, 2018. Loan disbursements at ₹ 33,195 crores have shown an impressive growth of 61%. Our gross NPAs, which were contained at 0.33%, is a testimony of high quality of the

loan portfolio. Controlled NPA also signifies our robust and predictable business acquisition, underwriting, service delivery, dependable monitoring processes and an effective portfolio monitoring mechanism.

The net profit for the financial year was at ₹ 829 crores, marking a rise of around 58% over the previous year.

Our experience has enabled us to take calculated risks to maintain the net interest margins of your Company. Our prudent borrowing strategy helped optimise the cost of debt significantly and offer loan products at a fair price. In fact, the cost of funds was further fine-tuned to be among the lowest in the sector.

The latter half of the fiscal witnessed headwinds in the rate of interest despite slowdown in credit growth. Irrational lowering of interest rates have shown signs of unhealthy competition. On the other side, the external environment has been accentuated for PNB Housing, with the latest developments at the promoter's end. Your Company has remained committed to its DNA of calibrated aggression, good governance and proven fundamentals to grow sensibly and uncompromisingly, well cushioned by a matured and tenacious treasury. As a result, leading credit rating agencies have maintained their rating outlook on PNB Housing, indicating arrival of an inflection point, to decouple the promoter from PNB Housing.

Our average portfolio yield was 10.07%. Our gross margin net of cost of acquisition (COA) is 3.45%. Our return on equity (ROE) for the fiscal was 14.00% while the cost to income ratio further reduced by 300 bps to 19.54% from 22.43% in FY2016-17. The average cost of borrowing was 7.71% as on March 31, 2018. Your Company, for the first time, raised funds through zero coupon bonds (ZCB). The significant reduction in operating expense was possible through our continuous effort of

measuring our spend very closely and reaping benefit of economies of scale as we grow in volume.

Deposits continued to be one of the most critical products for the Company, as it lends the efficiency to create our own raw material. It is also a manifestation of the trust that the public at large reposed on the Company. During FY2017-18, we closed the deposits book with ₹ 11,586 crores, making it the 2nd largest contributor of funds after non-convertible debentures.

Your Company's business has been thriving on a well-defined, scalable target operating model (TOM). The hub and spoke based TOM has helped us extend our arms and legs throughout the periphery of the country at optimum costs and induce standardization of operations. Judicious blend of people, processes and technology has laid the foundation of our evolution over the last six years.

Expansion remained our engine of growth for FY2017-18. Geographically, we deepened our presence at carefully selected locations. Our reach has extended to 47 cities with 84 branches, 21 hubs and 3 zonal offices. The expansion has been prudent and each of our units is contributing homogeneously to the overall health of the Organisation.

Through our wholesale finance business, we have built a phenomenal client base within the real estate community. In fact, to capture the wholesale business efficiently, we have established a centre at Mumbai that supports business opportunities in the western territory.

While we catapulted into large HFC domain, prudence in underwriting and loan appraising capability remained a key benchmark for the Company. Our highly proficient teams from legal, technical services and fraud control unit are the backbone of our adept risk management processes and differentiates us from the others.

Corporate governance remained a matter of utmost priority. On the road to excel, we did not sidestep any of our core values. We have been ethical, transparent and prudent in all our transactions. Along with the various board committees, we have also formulated a Risk Management Committee (RMC) in the last financial year. The RMC, under the guidance of our board members, will give direction to the executive committee on assessment of the Company's risk appetite and implementation of risk management framework.

Several electronic and digital avenues were inducted which will augment efficiencies and strengthen our risk management team. Physical processes were replaced with digital means to reduce the turnaround time. This transition 'Phygital' completed its first phase of integration with the enterprise system solution (ESS).

We have worked diligently to create a responsive, industry focused, customer centric squad that enhances organizational vitality. We have continued reinforcing the key thrust areas – being the employer of choice, building an inclusive culture and a strong talent pipeline. We hand hold our employees to build business acumen, create future leaders and reward them for their dexterity. We are now a proud family of 1,290 members.

We are equally committed towards the well-being of our employees. In our aspiration to create a stress free work culture, we formed an in-house group of sports and fitness enthusiasts. The year gone by saw many sporting events across geographies in which the employees participated with full fervour. Through these recreational initiatives, we aimed to reinforce members of the family to start their journey towards attaining physical and mental strength.

In FY2017-18, we launched our wholly owned subsidiary, PHFL, which is in the process of on-boarding the deserving

contract employees into the PNB Housing family. This is a small effort from our side to give them better ownership and open new vistas to future prospects. The subsidiary is now operational with about 2000 people on its rolls.

To gauge the effectiveness of our HR interventions and the perceptions carried in the minds of our employees, we participated in the Great Place To Work Survey. I am pleased to share that your Company has been rated exceedingly high by the employees on trust indexes.

ISO certified central operations are the backend engine of the organization. The gamut of activities placed under central operating centre and central processing centre reduced manual efforts and helped in achieving economies of scale. The centres are efficiently equipped with both men and machine, significantly bringing TAT down, enhance productivity and accuracy. Integration of digitized security documents with ESS and installation of intelligent mass mailing solution were few among such initiatives that helped us come closer to the customers' desires.

We brought smart technologies to the forefront of the value chain. This helped in pronouncing ease of doing business for customers, defining 'customer convenience' in a new fashion. Initiatives like mobile application, digitization of security documents and launch of a completely new human resource management system were a few highlights of our IT journey in the last fiscal.

Over the years, we have enriched our understanding of customers' preferences, especially that of the generation next. The assimilation gathered from customers' feedbacks, market survey by third parties and personal discussions have continuously helped us refine our service delivery model. The relentless thrust to handhold customers through the lifecycle of the loan has brought us closer to them as well as earn references for the

prospective ones. I am proud to announce that all the four interfaces of our customer service operations – inbound and outbound contact centres, customer service operations for loans and deposits and central operations & central processing centres are now ISO 9001:2015 certified.

Although we endeavour to serve our customers with ease through tailor-made technology solutions, we are mindful of the fact that the warmth of a human touch can have no parallel. We have upscaled the Company's facilities to stimulate delightful conversations while taking them through our product offerings.

The branding interventions just brought us one step closer to our customers, putting PNB Housing in one amongst the 'top of the mind recall' bucket when considering home loan options. The financial year was encouraging when it comes to awards and recognitions. Your Company received quite a few accreditations and national level awards that left us not only beaming with pride but also instilled a sense of responsibility upon our shoulders.

In our own humble manner through our CSR interventions, we have sincerely tried to bring smiles on the faces of the not so fortunate citizens of our country. The construction worker community remained a key stakeholder in our social endeavours. The goal being primarily to bring down the economic and social disparity that prevails. As we care for them, we care for their families, especially their children. We joined hands with NGOs to provide education, nutrition and hygiene to these less privileged children. Your Company has diversified a fair bit and now, is taking small steps towards conservation of environment, public healthcare, education system, etcetera.

All this could not have been achieved but for the committed involvement of our team across all levels. Along with our in-house

team members, we owe our progress to the contribution made by our business partners and associates.

### **Real Estate stands at one end of a narrow bridge**

The real estate sector has been in doldrums, which has led to a speculative environment for developers as well as buyers. We, as a housing finance provider, believe that this is a transitory phase and the other side of the bridge holds abundant opportunities. The key is to identify market needs and offer products which cater to these requirements.

Housing for all mission remains a priority on the Government's agenda and one can expect further thrust in the affordable housing segment. The slowdown has in a way helped accumulation of disposable income that will encourage families to opt for homes of their own, especially due to the affordability factor.

The Pradhan Mantri Awaas Yojana has already picked up pace and has benefitted thousands of home buyers. RERA may not have entirely turned the tables but the mood to deliver is gradually setting with the long thread of compliances.

Development funds have started to trickle in and FDI inflows seem to be regaining interest in Indian real estate projects.

The effect of GST on real estate is yet to be determined. For now, the major change is observed in reduction of unaccounted transactions, which has improved the collection of taxes to a significant extent. The growth of government treasury would enable urbanisation, which will create new employment and need for more homes.

### **Housing finance sector is anxious to participate in nation building**

Home loan is finding its way up in the preferred list of availing finance for buying a home. The interest rates are still in single digits, even after showing of an uptick. Tax

benefits have bettered and the option of fore closure gives the buyer a complete control over the loan cycle.

The broadening of eligibility criteria seems to open avenues even for the urban middle class. It is no more an affordable housing, but rather mass housing, as it absorbs the segment where most of the demography lies. Housing finance companies are innovating like never before to extend a hand in nation building in its own way. Yet, we have a long way to go. The government policy triggers are further infusing confidence to this vision. Nevertheless, we certainly envision a day when each of our fellow citizens will wake up in his or her own home.

#### **PNB Housing: Stepping up for the road ahead**

Being large is not just a recognition or a stature. It is a responsibility that has been bestowed upon us, to spread smiles among home aspirants and be committed for ensuring a healthy growth of the ecosystem that we are a part of. We are now positioned amongst the leading players in the industry and this is an opportune moment to step up and be future ready.

Strategic expansion and optimizing capital expenditure will be the bedrock of all our endeavours in the next fiscal. We are cognizant of the fact that competitors of our size are boasting of a much wider network with presence at each mile. There is an indispensable need to augment our network and reach out to our customers much more closely. Hence, we shall open 24 new offices and 4 hubs to serve the eastern, southern and western geographies. Our additional capacities will help us maintain the future growth momentum while we march ahead in our journey.

In the current scenario, mass housing offers a plethora of opportunities well supported by incentives and tax breaks.

We have ensured our presence within the target group and are gradually penetrating cities which can yield desirable results.

Balance transfer remains a key concern for the housing finance companies and to retain the portfolio, service delivery model across the sector has to be continuously flushed with new interventions. After creating an omni channel for customer service, we will further bring innovations to serve our customers better in a seamless fashion. Total quality management (TQM) framework is one such initiative that will augment our productivity.

Amalgamation of physical processes with digital 'Phygital' will be another such initiative that will help in minimizing errors, improve accuracy and bring faster TAT for loan processing.

We are constantly re-defining business as usual processes to ensure optimal costs with minimal wastage of human efforts. Our COPS and CPC will continue to be powered with technological advancements to attain better efficiency in serving our customers and partners. Our newly inaugurated COPS in Mumbai will open doors to a plethora of opportunities lying in the wholesale business in the western region. We will be setting up third CPC to cater to the southern region and increase our efficiency in e-correspondence.

HFC universe is becoming increasingly crowded and so is the demand for talent. Our endeavours to build a niche cadre is constantly challenged due to this phenomenon. Hence, we are relentlessly innovating new methodologies to enhance value addition in the employment with the Company, which young well informed minds recognise as a unique proposition to build a better meaningful careers.

Our treasury is geared up with well-diversified borrowings including masala bonds, which is an addition to meet the funds requirements in FY2018-19. We are confident that optimal utilization of

resources and control on costs will yield the desired profitability ratios in the mid to long term.

Your Company is a socially responsible organisation and is committed to render its duties towards society. Saksham, our CSR footprint is expanding geographically, reaching out to people from various walks of life. We will continue our efforts in this direction in an earnest manner to ensure building a holistic environment for the construction workers and their families.

Good governance has always remained the core of your Company's philosophy and we will continue creating value for the society at large while ensuring fairness and transparency towards the stakeholders.

Before I conclude this message, I express my sincere gratitude to our customers, for choosing PNB Housing as a partner for home loans and retail deposit products. I thank our regulator, the National Housing Bank (NHB), our lenders, our rating agencies and our business partners whose continuous trust makes us who we are today.

I would further extend humble regards to RBI, SEBI and the stock exchanges for rendering their support.

The Board of Directors has continued its relentless guidance and support to the development of the Company. The Independent Directors have played a pivotal role in bringing about high standards of corporate governance, especially with the enactment of the Companies Act of 2013. We sincerely thank them for their continued guidance and support.

We thank our statutory and internal auditors who have kept a keen vigil on all aspects of our operations while maintaining a pragmatic view on business growth.

At last, I cannot bring down the curtains without giving a big applause to every single member of the magic team of PNB Housing and their families, who have worked relentlessly, reposed faith in the Company's progress and have walked shoulder to shoulder in delivering such a fine performance during the financial year 2017-18.

Thanking You



**Sanjaya Gupta**  
Managing Director