



Directors' Report to the Members

Your Directors have the pleasure in presenting the 26th Annual Report together with the Audited Accounts of the Company for the year ended March 31st, 2014.

The Company celebrated its Silver Jubilee on November 11th, 2013. During this year, the Company crossed many new landmarks.

- The Company's loan book has crossed ₹ 10,000 crores to reach ₹ 10,591 crores and registered a growth rate of 60%.
- The Company's Deposits crossed ₹ 1,700 crores, to reach ₹ 1,712 crores and registered a growth rate of 63%.
- The Company's profit after tax has crossed ₹ 100 crores to reach ₹ 127.44 crores and registered a growth rate of 39%.
- The Company's loan disbursements for FY 2013-14 crossed ₹ 5,000 crores to reach ₹ 5,500 crores and registered a growth rate of 49%.
- Credit rating improved; for deposits to FAAA and for NCDs to AA+ by rating agencies.
- The Company introduced many new products such as 3, 5 and 10 years fixed rate of interest products matching with fixed rate borrowing tenure.
- The Company introduced many new programs for salaried and self-employed customers.
- The Company entered elite group of top five housing finance companies in India.

The Company continued to strive for operational excellence and followed first time right approach. The Company's performance was recognized and was awarded for change management and excellent growth.

AWARDS AND RECOGNITION

The Company has undergone business process re-engineering (BPR) which was started in July 2010. Over the last four years, the Company has completely transformed its business, policies, systems and processes in line with the best in the industry.

The Company has completed the change journey without interrupting business even for a single day. In less than 4 years, the Company has successfully completed major portions of BPR, while the business kept on growing at above industry average growth rate.

In the last 4 years, yearly fresh sanctions have increased more than 6 times, loan book has grown 4 times and deposits have grown 5 times. The Company has successfully managed its loan portfolio and brought down both delinquencies and non-performing assets (NPAs) over the years.

Among the group of few such successful companies, company's organization change story was awarded in the category of "Special Commendation Award" by Best Change Intervention from Asia Study 2013-organizations that have successfully designed, executed and managed change.

The Company was also recognized for rapid growth and was awarded the Fastest Growing HFC by Franchisee India.

The Company was acknowledged by HUDCO for 'Significant Contribution to Housing for the year 2013-14'. The Change Management Story got published in 'Switch' amongst other large companies.

1. LOANS PERFORMANCE

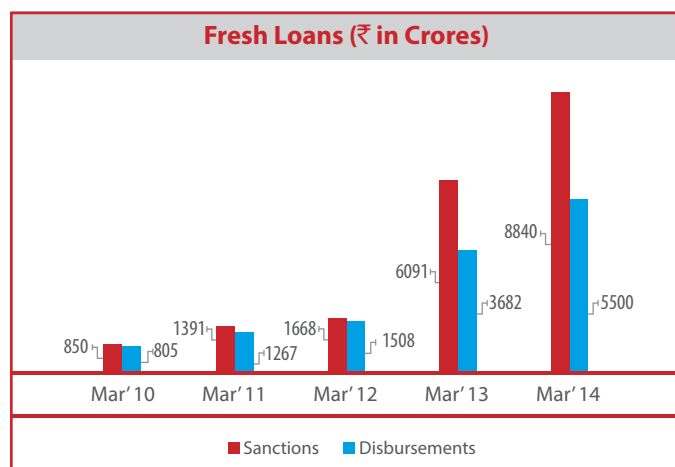
1.1 During the year, the Company has sanctioned loans to over 13,000 customers amounting to ₹ 8,840 crores as compared to 10,976 customers amounting to ₹ 6,091 crores in the previous year, recording a growth of 45%.

During the year, the Company has disbursed loans of ₹ 5,500 crores as compared to ₹ 3,682 crores in the previous year, recording a growth of 49%.

Out of total disbursements, ₹ 3,698 crores loans were disbursed for housing and ₹ 1,802 crores were disbursed for non-housing purposes. Cumulative sanctions and disbursements as at March 31st, 2014 were ₹ 23,457 crores and ₹ 16,776 crores respectively.

The Company has achieved widespread presence in major geographies of the country. The geographical mix of retail portfolio is 52% in North, 26% in West and 22% in South.

Out of total loan sanctioned during the year, loans of ₹ 142 crores are eligible under Golden Jubilee Rural Housing Scheme of Government of India, in respect to 513 units.



1.2 Loans outstanding

Total loans outstanding as at March 31st, 2014 were ₹ 10,591 crores, recording a growth of 60% over last year. Loan outstanding comprises ₹ 7,484 crores for housing and ₹ 3,108 crores for non-housing loans. The average loan

outstanding per individual customer as on March 31st, 2014 was ₹ 23 lacs. During the year under review, an amount of ₹ 1,529 crores was received by way of scheduled re-payment and pre-payment of loan amount.

1.3 Asset Quality

The Company continues to maintain high quality of loan assets. In a challenging year, total delinquencies (one day past due) were brought down to 1.10%, which is amongst the lowest in the industry.

The gross and net non-performing assets were 0.32% and 0.16% respectively. In absolute amount, gross non-performing assets as on March 31st, 2014 were ₹ 33.72 crores down from ₹ 37.09 crores and net non-performing assets (after provision as per NHB Directions) were ₹ 16.40 crores down from ₹ 23.40 crores, from the previous year.

In case of persistent default, the Company has taken re-possession of properties under Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI).

2. FINANCIAL PERFORMANCE

	(₹ in Lacs)	
	March 2014	March 2013
Profit/Loss before tax	17,574.24	12,604.48
Less: Provision for Tax		
-Current year	5,000.00	3,455.00
-Earlier years	65.00	-
-Deferred tax	-235.01	-1.66
Profit/Loss After Tax	12,744.25	9,151.14
Add: Balance brought forward from the previous year	1,220.71	1,170.06
	13,964.96	10,321.21
Appropriation of Profits		
Transfer to Special Reserve (including u/s 29C of NHB Act, 1987)	2,555.00	1,900.00
Transfer to General Reserve	8,500.00	6,000.00
Proposed Dividend	1,503.87	1,026.11
Dividend Distribution Tax	255.58	174.39
Balance carried to Balance Sheet	1,150.51	1,220.71
	13,964.96	10,321.21



2.1 Income

During the year, the Company has earned total income of ₹ 1,115.87 crores as compared to ₹ 661.44 crores in previous year, recording a growth of 69%. Out of total income, interest income on loans was ₹ 1,001.16 crores, a growth of 65%, investment income was ₹ 75.79 crores, a growth of 110% and other income was ₹ 38.92 crores, a growth of 87%.

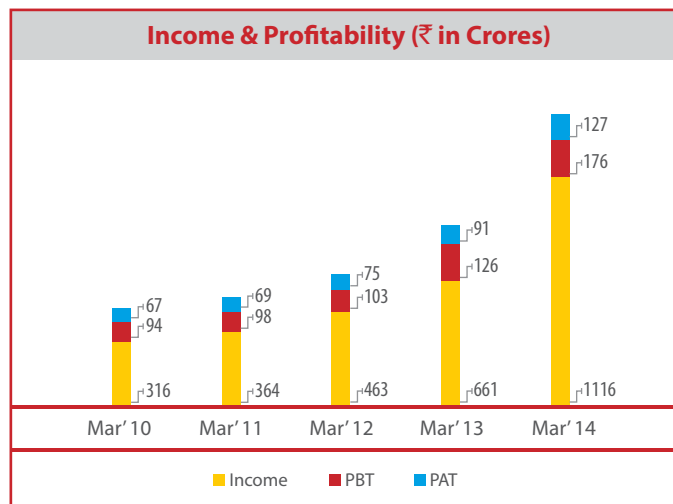
2.2 Expenditure

Total expenditure during the year was ₹ 909.70 crores as compared to ₹ 522.93 crores in previous year, a growth of 74%. Out of total expenditure, interest expenditure was ₹ 801.15 crores (₹ 462.27 crores) and operating expenditure was ₹ 108.55 crores (₹ 60.65 crores).

2.3 Provisions and write off

During the year, the Company has written off bad loans of ₹ 7.99 crores and transferred a sum of ₹ 22.44 crores towards provision for non-performing and standard loans as per NHB Directions, 2010.

As on March 31st, 2014, total provision for standard loans was ₹ 46.78 crores and for non-performing loans was ₹ 17.31 crores. The Company has total provision of ₹ 64.09 crores as against gross non-performing loans of ₹ 33.72 crores.



3. DIVIDEND

Your Directors are pleased to recommend an enhanced dividend of 30% on equity shares, as against 25% dividend paid in the last year. Total dividend including dividend distribution tax is ₹ 17.60 crores on enhanced equity capital.

4. INCREASE IN AUTHORIZED SHARE CAPITAL

In terms of shareholders' approval obtained in the last annual general meeting, the authorized share capital of the Company has increased to 15 crores equity shares of ₹ 10 each aggregating to ₹ 150 crores.

5. RIGHTS ISSUE OF EQUITY SHARES

In order to meet Tier-I capital requirement of the Company, the Board of Directors on August 8th, 2013 has approved rights issue of 7,69,23,000 equity shares of ₹ 10 each at a premium of ₹ 120 per equity share aggregating to ₹ 1,000 crores.

The Board has called application money of ₹ 4 per share along with proportionate premium of ₹ 48 per share on October 28th, 2013. The Board will call remaining amount as per business needs of the Company.

5.1 Allotment of shares

Pursuant to the rights offer made on October 28th, 2013, the Board has allotted 3,92,30,700 equity shares to Punjab National Bank on March 29th, 2014. The other shareholder, Destimoney Enterprises Private Limited has subscribed to 3,76,92,300 equity shares on July 18th, 2014. The Board had extended last date for subscription to July 20th, 2014.

6. RESOURCES

Rate of interest during 2nd and 3rd quarter of last year moved northwards after liquidity tightening measures of RBI. During these testing times, the Company successfully managed liquidity and did not resort to high cost borrowings.

During the year, the Company raised ₹ 4,804 crores of fresh resources from banks, HUDCO, NCDs, Deposits and refinance from NHB. In addition, the Company also raised and paid back commercial papers worth ₹ 600 crores.

6.1 Non-Convertible Debentures (NCDs)

The Company raised ₹ 1,500 crores of secured NCDs through private placement in three series as under:

- Series XV of ₹ 600 crores with 10 years maturity, issued on May 16th, 2013 at 8.58% p. a.
- Series XVI of ₹ 300 crores with 3.50 years maturity, issued on January 20th, 2014 at 9.59% p. a.
- Series XVII-A of ₹ 300 crores with 5 years maturity, issued on January 31st, 2014 at 9.53% p. a.
- Series XVII-B of ₹ 300 crores with 10 years maturity, issued on January 31st, 2014 at 9.48% p. a.

The Company also redeemed on maturity, secured NCDs Series VIII of ₹ 150 crores on September 30th, 2013, which were at 10.79% p. a.

The outstanding secured borrowings as on March 31st, 2014 from NCDs were ₹ 3,150 crores as against ₹ 1,800 crores in the previous year.

6.2 Subordinated debt

The Company did not raise any subordinate debt during the year. Based upon balance maturity term, the book value of subordinated debt is considered at ₹ 240 crores to be eligible as Tier II capital under the guidelines issued by National Housing Bank.

All NCDs issued by the Company are listed on wholesale debt segment of National Stock Exchange.

6.3 Bank borrowings

During the year, the Company has raised term loans of ₹ 1,950 crores from commercial banks for onward lending operations. In addition, the Company has also raised term loan of ₹ 284 crores from HUDCO.

6.4 NHB Refinance

During the year, the Company has availed refinance of ₹ 408 crores under various schemes of NHB.

6.5 Deposits

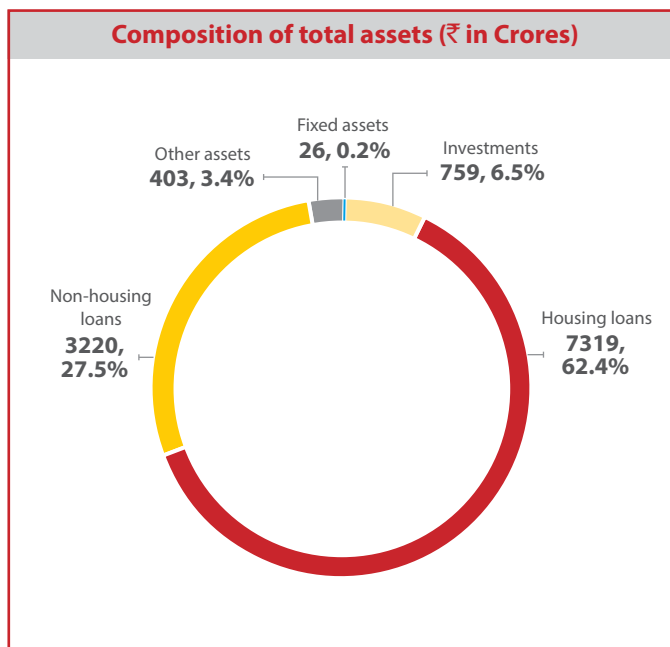
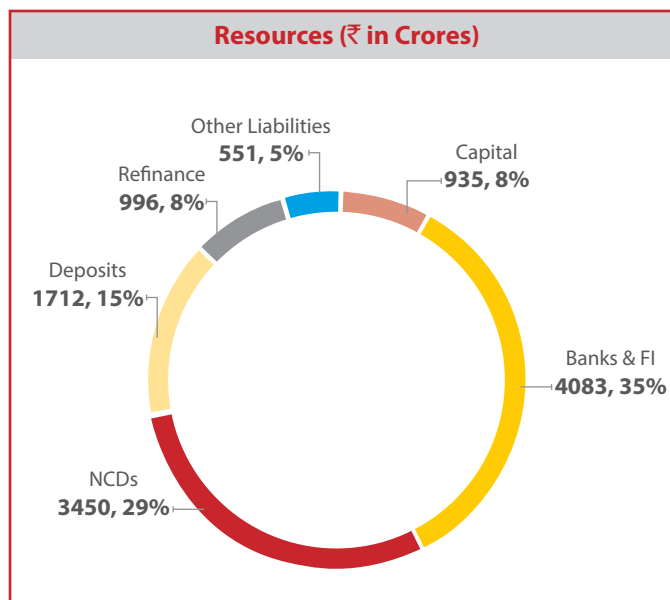
During the year, the Company has raised incremental deposits of ₹ 661 crores, a growth of 69% over last year. Total outstanding deposits (including unclaimed deposits) as at March 31st, 2014 were ₹ 1,712 crores.

6.6 Unclaimed Deposits

Out of the deposits, which became due for repayment up to March 31st, 2014, deposits of ₹ 12.11 crores, including interest accrued and due relating to 1,852 depositors had not been claimed or renewed.

Since then, deposits of ₹ 2.76 crores relating to 477 depositors have been repaid or renewed. Other depositors have been intimated regarding the maturity of their deposits with request to either renew or claim the deposits.

During the year, the Company has transferred an amount of ₹ 6.53 lacs to investor education and protection fund (IEPF) established by the Central Government under section 205 C of the Companies Act, 1956. In terms of the said section, no claim would lie against the Company after transfer to IEPF.



7. CREDIT RATING

During the year, CRISIL has upgraded credit rating of fixed deposit program to FAAA/stable, which means highest safety. CRISIL has also upgraded credit rating of NCDs program to CRISIL AA+/stable, which means very high safety. CARE has confirmed rating of NCDs program at CARE AA+. ICRA has rated fresh issuance of NCDs of ₹ 900 crores at ICRA AA+ stable outlook which reconfirm very high safety. CRISIL has reaffirmed rating on commercial paper program at CRISIL A1+, which is highest rating.



8. CAPITAL ADEQUACY RATIO

The net owned funds of the Company as on March 31st, 2014 were ₹ 920 crores. Adjusted value of subordinate debts and other components of Tier II capital were ₹ 267 crores. The capital adequacy ratio (CRAR) was 13.39% (comprising Tier I capital of 10.38% and Tier II capital of 3.01%). NHB has prescribed minimum CRAR of 12% of total risk weighted assets.

9. REGULATORY COMPLIANCE

The Company has been complying with the guidelines and directions issued by the NHB on asset classification, accounting standards, income recognition, provisioning, capital adequacy, concentration of credit/ investments, credit rating etc. as amended from time to time.

9.1 NHB has advised housing finance companies to ensure that lending practices adopted by them are simple, non-discriminatory, transparent and fair. NHB has also prescribed that pre-payment charges are not to be levied in case of housing loans on floating rates of interest being pre-closed. The Company has complied with these directions from the date of its issuance.

9.2 The know your customer (KYC) guidelines, Fair Practise Code and anti money laundering (AML) standards as notified by the NHB are available on the Company's website. The Company has also adopted the model code of conduct for Direct Selling Agents and Guidelines for Recovery Agents as stipulated by NHB.

9.3 During the year, NHB reduced the provisioning requirements in respect of standard loans for commercial real estate-residential housing (CRE-RH) from 1% to 0.75%. The risk weight on CRE-RH was lowered from 100% to 75%. NHB has also re-adjusted risk weight on individual housing loans based upon loan amount and loan-to-value ratio. These measures have positive impact on capital to risk assets ratios.

10. OPENING OF NEW BRANCHES

During the year, the Company has opened a branch office in Coimbatore in the state of Tamil Nadu. The Company has expanded its operations and now operates through a network of 32 branches. The Company has three zonal hubs; North (at NOIDA), West (at Mumbai) and South (at Bengaluru). Zonal Hubs are supported by three regional hubs at Jaipur, Indore and Chandigarh.

During the current financial year, the Company plans to open six new branches (two in Bengaluru, one each at Chennai, South Delhi, Thane and Pune). The Company also plans to start three regional hubs at Chennai, South Delhi and Pune to ramp-up business from cluster of locations in close vicinity.

11. HUMAN RESOURCES

11.1 Keeping in line with the Company's core value of 'People First', HR processes and initiatives were aligned for building a superior human capital and keeping the workforce across levels engaged and motivated.

11.2 Employee's functional knowledge and skill development was at the centre of learning interventions undertaken in FY 2013-14. Customized training programs based on detailed training need analysis (TNA) were conducted across functions with focus on enabling employees to enhance functional competency and enable them to perform to their optimum potential.

11.3 In order to meet business requirement, fresh hiring were made across functions. As on March 31st, 2014, the Company had a total of 469 full time employees on its rolls.

11.4 In terms of provisions of section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, no employee of the Company whether employed for the full financial year or for a part of the year, was in receipt of remuneration equal to or exceeding the remuneration as prescribed under the said provisions.

12. DIRECTORS' RESPONSIBILITY STATEMENT

In terms of the provisions of section 217 (2AA) of the Companies Act, 1956 the Board of Directors Report that:

- i. In preparation of annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures, if any.
- ii. The directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as on March 31st, 2014 and the profit and loss account for the year ended March 31st, 2014.
- iii. That the Company had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of Companies Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv. That the Company had prepared the accounts on a going concern basis.

13. CORPORATE GOVERNANCE

13.1 The Company has been complying with the standards of corporate governance required under the Companies Act.

The Board discharges the duties and responsibilities as required under the applicable statute(s) including the Companies Act.

13.2 The Company has a Board of Directors, which has a formal schedule of matters reserved for its consideration and decision, apart from legally required matters. The Audit Committee comprises four directors including two independent directors. It reviews financial statements besides other matters as required under the Companies Act.

In addition, there are four Operational Matters Committees such as Appointments Committee, Credit Committee, Business Process Committee and Marketing Committee of the Board.

During the year, the Board of the Company had met six times and the Audit Committee met four times. The other Operational Matters Committees have met as per business requirements of the Company.

13.3 As required under the provisions of section 178 (1) of the new Companies Act, 2013, the Company will constitute Nomination and Remuneration Committee of Directors. The Committee shall discharge functions as laid down under the new Companies Act.

14. CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Board has constituted a committee of four directors; CSR Committee. The Committee will formulate CSR policy under section 135 of the new Companies Act, 2013 and also CSR procedures for the Company.

15. BUSINESS OUTLOOK

15.1 The year gone by was a challenging year for the economy. The country recorded below 5% growth in gross domestic product (GDP) for the second year in a row. After recording its lowest growth of 4.4% in first quarter, the growth rate gradually moved to 4.7%. Despite measures taken by the Union Government to revive the economy, the growth in 4th quarter failed to see revival in industry and services. The slow growth rate has also impacted domestic savings and investments.

15.2 The rupee witnessed a historic low of ₹ 68.88 per USD. The RBI announced liquidity tightening measures in July 2013 to contain depreciating rupee, which resulted into tight liquidity and rising rate of interest for both short and long-term debt.

15.3 Despite slowdown in overall growth rate, the housing sector recorded an impressive growth of around 18%-19% which is consistent over the years. The demand for housing is coming due to burgeoning middle class and development of tier II and tier III cities.

Property prices across India were stable throughout the year, which means lower real cost after accounting for inflation.

15.4 The country has recently elected a new government at the Centre, which has got a clear mandate and majority on its own. It is expected that the new government will expedite infrastructure and housing growth because these sectors are engines for generating employment and for revival of many inter linked industries.

16. BOARD OF DIRECTORS

16.1 Re-appointment of Directors

In accordance with the provisions of section 149 of the new Companies Act, 2013, Shri S K Jain, Shri P K Gupta and Shri Tejinder Singh Laschar are being recommended for re-appointment as independent directors for a maximum tenure of five years. The Company has received declaration from all the independent directors that they meet the criteria as laid down under section 149(6) of the new Companies Act, 2013. Your directors recommend re-appointment of these directors in the forthcoming Annual General Meeting.

Shri Vivek Vig is due to retire by rotation in the forthcoming Annual General Meeting of the Company. Your directors recommend his re-appointment in the forthcoming Annual General Meeting.

16.2 Resignation of Shri Rakesh Sethi

Shri Rakesh Sethi, Executive Director, PNB resigned from the Board after being elevated as Chairman and Managing Director of Allahabad Bank on March 12th, 2014. Your directors wish to place on record significant contribution made by him as member of the Board and as Chairman of Appointment Committee and Business Process Committee of the Board.

16.3 Appointment of Dr. Ram S. Sangapure on the Board

The Board has appointed Dr. Ram S. Sangapure, who is Executive Director, Punjab National Bank, as director of the Company in place of Shri Rakesh Sethi. Your directors recommend his appointment in the forthcoming AGM.

17. STATUTORY AUDITORS

During the year, the Comptroller and Auditor General of India has appointed Messrs B R Maheshwari & Co having registration no. 001035 N as statutory auditors for the financial year ended March 31st, 2014. The report of statutory auditors on annual accounts is enclosed along with Directors' Report.



18. REVIEW OF ACCOUNTS BY C & AG

The annual accounts for the year ended March 31st, 2014 were reviewed by Comptroller and Auditor General of India (C & A G). The C & A G has not made any comment on accounts for the FY 2013-14.

19. COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988.

There is no information to disclose under the head 'Conservation of Energy and Technology Absorption' given in the above rules since the Company is engaged in providing housing loans. There were no foreign exchange earnings and expenditure during the year.

20. THE COMPANIES ACT, 2013

The Ministry of Corporate Affairs (MCA) has notified various sections and rules made under the Companies Act, 2013. The effective date of coming into force of all the notified sections and rules is April 1st, 2014. In terms of clarification issued by MCA on April 4th, 2014 the Company has prepared this balance sheet, statement of profit and loss, the schedules and notes attached thereto and the Directors' Report in accordance with the relevant provisions of the Companies Act, 1956.

21. ACKNOWLEDGEMENTS

21.1 The Board of Directors thank the valued customers, shareholders, business partners and well-wishers for their wholehearted support.

21.2 The Board acknowledge with gratitude the advice, guidance and support of Government of India, Reserve Bank of India, National Housing Bank and other statutory bodies/departments.

21.3 The Directors place on record their appreciation and gratitude to all the Bankers of the Company, Depositors and Debenture holders for their continued confidence and contribution to the growth of the Company.

21.4 Finally, the Directors express their appreciation for the dedication and commitment with which the employees of the Company at all levels have worked during the period.

For and on behalf of the Board

(K R Kamath)
Chairman

Dated: August 8th, 2014
Place: New Delhi