MANAGEMENT DISCUSSION AND ANALYSIS

PNB Housing Finance is one of India's largest housing finance companies that also accepts deposits. We focus on providing a wide range of mortgage products to our customers and help them fulfil their dreams of owning a home.

INDIAN ECONOMY REMAINED RESILIENT DESPITE GLOBAL HEADWINDS

India's growth remains resilient despite some of the significant challenges faced globally, like vigorous monetary tightening by US central banks to combat record-high inflation, war between Russia and Ukraine and slow recovery from the pandemic in some parts of the world. However, India managed to continue being one of the fastest-growing economies globally, with a robust estimated overall GDP growth rate of 7% for FY23.

India has witnessed consumption-driven growth on the backdrop of a large, young, and rising share of the upper middle–income population, coupled with strengthened corporate balance sheets. The demand fuelled by consumer consumption persists on account of increased customer confidence and higher disposable income.

The housing market also picked up, with higher demand for housing loans, declining inventories, and construction of new dwellings.

According to the 2023 Economic Survey, while the rupee is performing better than most other currencies, it faces the challenge of depreciation due to the likelihood of the US Fed increasing policy rates. The current account deficit (CAD) is also expected to widen as global commodity prices remain

high and the Indian economy continues to show strong growth momentum.

Inflation remained largely beyond the tolerance levels of the RBI and resulted in a series of rate hikes by the apex bank.

India's growth outlook for FY24 remains positive, owing to a favourable policy push by the government and sustained private consumption growth. The economy projects a baseline GDP growth rate of 6.5% in real terms for FY24. The opening up of the Chinese economy towards the end of 2022 indicated the gradual normalisation of the global supply chain. A healthy balance sheet of the financial and corporate sectors is expected to kick-start a healthy upward financial cycle. Further, digitalisation reforms and the resulting efficiency gains in terms of greater formalisation, higher financial inclusion, and more economic opportunities will be another reason for the country's economic growth. It is expected that India will continue to be one of the fastest-growing economies in the world.

HOUSING FINANCE INDUSTRY WITNESSING A BOOM

India's housing credit market is estimated at ₹27.8 trillion. The post-pandemic drivers of the housing sector comprise increasing preference towards owning a home, lower interest rate regime and pent-up demand, among others.

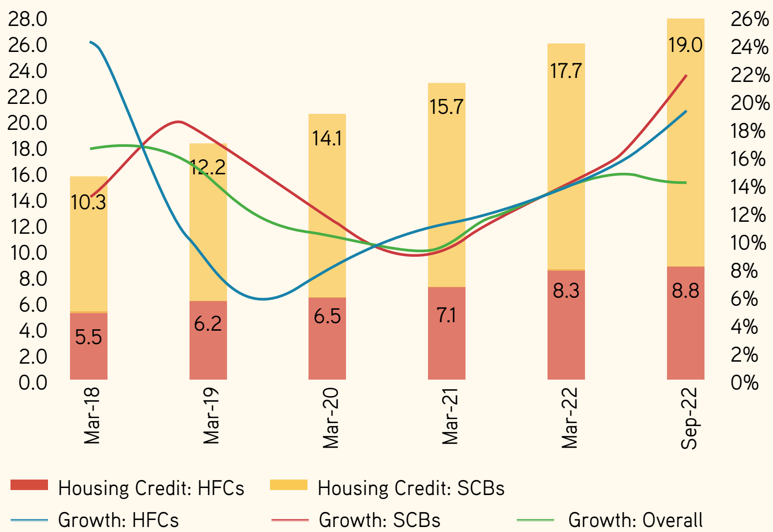
The home loan market in India is expected to grow by 14%* over the medium term due to factors such as increasing affordability, urbanisation, and expansion to locations beyond Tier-I cities. As India's population grows, incomes rise and household sizes shrink, there could be a demand for additional 26-27 million homes from 2022-2031. Further, there is a shortage of existing homes, creating a need for upgrades and resale demand, all contributing to the demand for housing. Even though the housing loan penetration rate in FY23 remained steady at 10.5%, which is comparable to the rate of 10.6% in FY22, it still falls significantly short of the rates seen in developed markets such as the US, UK, and China. By FY30(E), outstanding housing loans are expected to reach ₹72 trillion, implying 14% CAGR over FY22-30E and financing of incremental ~23mn housing units in India.

Affordable housing segments are driving incremental growth, with lower-ticket housing loan disbursement growing by 25% YoY during FY23 (till Dec'22) mostly in tier II cities and beyond. The growth in affordable housing finance is driven by expansion and increasing penetration rather than rate cycles or market growth.

Overall, the housing finance sector in India is expected to see sustained growth in the coming years.

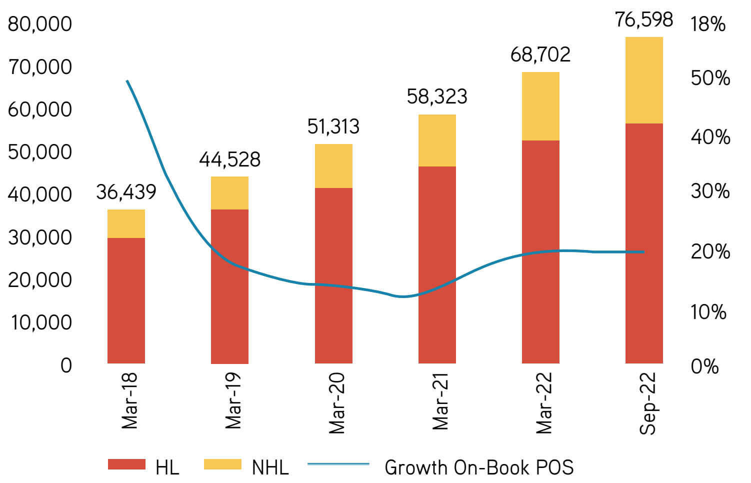
*Source: ICRA Indian Mortgage Finance Market Q2 FY2023

Trends in housing credit

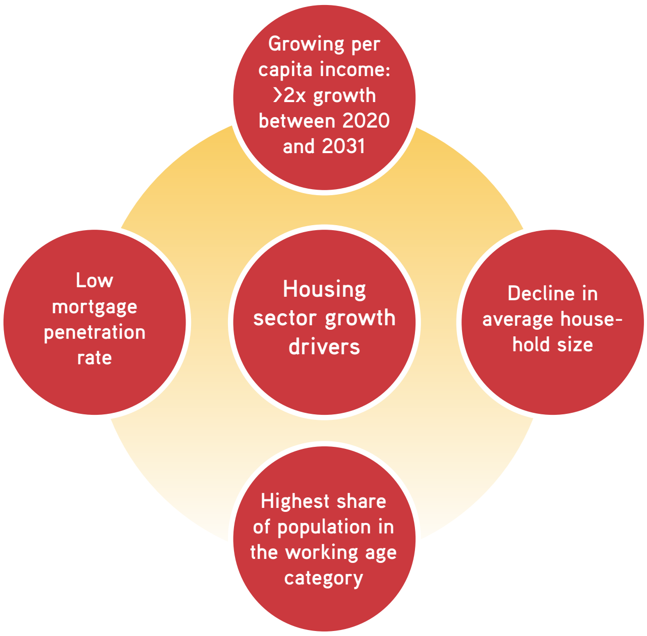


Source: Indian Mortgage Finance Market Report by ICRA as of September 30, 2022

Accelerated growth in the affordable portfolio (₹ in crore)

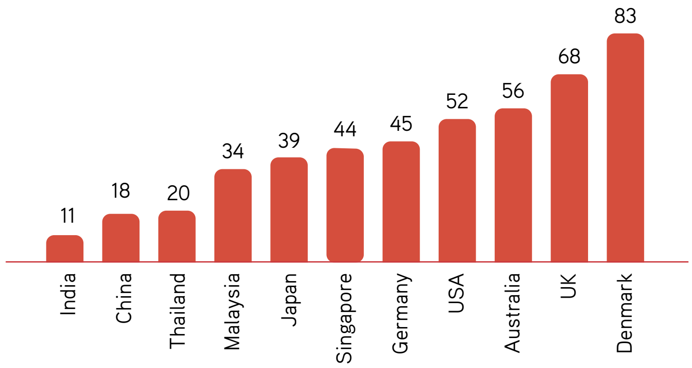


Source: ICRA



Significant opportunity in mortgage penetration

(%)



Source: CRISIL

AFFORDABLE HOUSING SECTOR IN SWEET SPOT

India's growing younger population, increasing per capita income and rising demand from beyond the top seven cities are key growth drivers of the country's housing sector, especially in the affordable segment. Additionally, the increasing rate of urbanisation and subsequent shortage in urban dwellings have accelerated the demand for residential units in the affordable category. The Housing for All scheme by the Indian government is also acting as a growth catalyst for this sector. Case in point: the demand for home loans below ₹25 lakh is the highest in the sector accounting for two-thirds of the disbursement volumes.

Source: Morgan Stanley

BUSINESS OVERVIEW

PNB Housing Finance Limited, in the last few years, has strengthened its processes, leveraged digitalisation to drive superior customer experience and expanded its operations into new segments. We have embarked on an accelerated growth path with a stable foundation to support our aspirations.

Growing strength to strength with our strategic priorities

As we chart our path for growth, we are keenly attuned to market trends and strategically planning our approach for FY24. Our focus lies in the retail segment, where we anticipate maximum room for expansion, while potentially reducing our exposure in the corporate books. By aligning our strategic pillars, we are poised to capitalise on opportunities, optimise our resources, and drive sustainable growth.

Strategic pillar 1

ACCELERATE GROWTH BY FOCUSSING ON RETAIL LENDING AND LEVERAGING OUR EXPERTISE IN THE RETAIL LOAN SEGMENT

We are accelerating growth by leveraging our expertise in the retail loan segment. With the double-digit industry growth, we aim to maximise opportunities in both prime and affordable segments. Our focus on the retail segment led retail disbursements to be 99% of the total disbursements done during the year. The Retail Loan Book grew by 9.8% during the year, reaching ₹55,471 crore compared to the previous year. In FY23, the average ticket size for individual housing loans was ₹29 lakh, with the salaried segment representing 71% of the total.

Key Developments

- Implemented ACE, a digital platform that enables secure and efficient onboarding of new retail customers without physical paperwork or contact
- Successfully maintained an average ticket size of ₹29 lakh in our product offering, ensuring suitability for our target market
- Boosted login numbers to support business growth, indicating increased customer engagement and potential for expanded market reach
- Targeted online marketing campaigns, engaging content, choice of media channels, and segmentation for better customer engagement

Key Performance Indicators

9.8%
YoY growth in retail segment

93.6%
Of Loan Book is retail

Strategic pillar 2

EXPAND AFFORDABLE HOUSING LOAN OFFERING

To capitalise on the favourable market conditions for affordable housing, we have strategically focused on expanding our offering in this segment. As part of this strategy, the Company introduced a specialised division called "Roshni", which is designed to cater specifically to the needs of individuals seeking affordable home loan solutions.

Expanding our affordable housing loan offering allows us to tap into a growing market and make a positive social impact by enabling home ownership for salaried and self-employed individuals. We are focusing on strengthening our distribution network by increasing our presence in tier II and tier III cities.

Key Developments

- Built a separate affordable vertical with dedicated sales, credit, collections and operations
- Identified and successfully operationalised new locations to expand the Roshni-focused network
- Target Average ticket size of ₹15-17 lakh for customers in the affordable segment
- Target Operating model in place with requisite policies and processes

Key Performance Indicators

82
Roshni-specific branches

₹137 crore
Disbursement under Roshni

Strategic pillar 3

ENHANCE UNDERWRITING AND COLLECTION FRAMEWORK TO STRENGTHEN THE CREDIT QUALITY

We recognise the importance of accurate and coherent underwriting processes in mitigating risk and ensuring loan repayments from customers. By leveraging digital and analytical tools, we aim to further strengthen our underwriting processes and improve the accuracy and efficiency of loan assessments. Additionally, we have implemented a streamlined procedure for recovering delinquent loans, reducing the time and resources needed for overdue payment collections. Overall, the strategy focuses on utilising technology to enhance operational efficiency and the quality of our loan portfolio.

Key Developments

- Leveraged advance analytics and digital tools to automate credit appraisal journey
- Augmented collections efforts led to improvement in Gross and Net NPA
- Maintained sufficient provisions to ensure adequate coverage

Key Performance Indicators

98.6%
Retail collection efficiency

3.83%
GNPA as on 31st March 2023, reduced by 430 bps YoY

Strategic pillar 4

ACCESS TO DIVERSIFIED FUNDING SOURCE

We continue to maintain adequate capitalisation levels to borrow from multiple sources at competitive rates. During the year the Rating outlook was changed to 'Stable' from 'Negative' by ICRA, CRISIL and India Ratings.

At PNB Housing Finance, we are constantly evolving to meet the changing needs of our customers and the industry as a whole. Our focus on strategic growth coupled with our dedication to monitoring and improving key performance indicators allows us to remain at the forefront of the housing finance sector.

Key Developments

- Successfully completed capital raise through Rights Issue of ₹2,493.76 crore in May 2023
- Maintained adequate gearing ratio and Capital to Risk Asset Ratio (CRAR)

Key Performance Indicators

4.87x
Gearing as on 31st March 2023

24.43%
Capital to Risk Asset Ratio

Strategic pillar 5

DRIVE GROWTH THROUGH DIGITALISATION FOR BETTER CUSTOMER ENGAGEMENT

By embracing digital tools, we can streamline our operations and deliver personalised solutions to customers. Through targeted data analysis and automation, we can effectively identify the specific needs of each customer and tailor our offerings accordingly. By harnessing the power of technology, we are well-positioned to enhance operational efficiencies and provide a seamless experience to our customers.

Key Developments

- Enhanced our website and launched a customer mobile app to provide a better experience and seamless interactions to our customers.
- Introduced rule-based sanction for digitising credit and implemented Straight Through Processing (STP) for certain cohort of loan applications.
- Optimised digital platforms, incorporated WhatsApp for seamless communication, utilised remarketing strategies, all aimed at enhancing the customer experience through web marketing and personalised offers.
- Maintained higher engagement through WhatsApp, chatbot, personalised content and marketing automation
- Introduced lead scoring and RO mobile app for better lead to conversion ratios

Key Performance Indicators

33%

Improvement in customers accessing customer portal and mobile app for self service

COMPANY'S PERFORMANCE IN THE YEAR

During the year, we sanctioned 71,839 loan applications, reflecting a 25.2% increase over the previous year. We disbursed loans amounting to ₹14,965 crore, an increase of 33.1% over the corresponding period last year. With a focus on the retail segment, the Retail Loan Asset grew by 9.8% in FY23 to ₹55,471 Crore as on 31st March 2023 representing 93.6% of Total Loan Asset. The Loan Asset stood at ₹59,273 crore, registering a growth of 2.4% YoY. The Asset under Management was at ₹66,617 crore as against ₹66,983 crore the previous year.

Further, our return ratios improved significantly during the year. The Spread on Loan Assets was 2.81% vs 2.12% last year, and NIM was 3.73% vs 2.80% last year. Overall, ROA improved significantly to 1.61% vs 1.24% in the previous financial year. The average cost of borrowing during the year stood at 7.47%, reflecting a 17 bps increase over FY22 on the back of an increase in repo rate by 250 bps during FY23.

Our concerted efforts in strengthening our balance sheet over the years showed positive results. During the year, we have further reduced our gearing and significantly improved our CRAR. As on 31st March 2023, with the improvement in the external environment, the Company reduced its cash and cash equivalents in FY23 as compared to FY22. The Company had over ₹4,000 crore as cash and cash equivalents as on 31st March 2023. The Company also has sanctioned and undrawn lines as on 31st March 2023. Our deposits during the year de-grew 2.5% YoY and reported at ₹17,248 crore in line with our strategy to maintain funding concentration as per our approved liquidity risk policy. During the year, we sourced around 71,688 deposit applications amounting to a total of ₹6,068 crore.

In May 2023, the Company successfully completed the Rights Issue of ₹2,493.76 crore with a subscription of 1.21x. Our top-4 investors viz. PNB (promoter), Carlyle, Ares SSG and General Atlantic participated in the Rights Issue. Apart from this, we have witnessed the participation of large domestic and foreign institutional investors. With this capital inflow, the capital adequacy ratio will further improve. The proceeds from the capital raise will be utilised to fund strategic growth plans and capitalise on the available growth opportunities.

ENHANCING OUR RETAIL LOAN BOOK

Over the past few years, we have heightened our focus on the retail loan business, which has been primarily divided into two categories –prime and affordable segment. Under the prime segment, we cater to Individuals to fulfil their housing requirements and offer loans against properties to customers for meeting their immediate financing needs. The affordable segment is a separate vertical under the 'Roshni' brand.

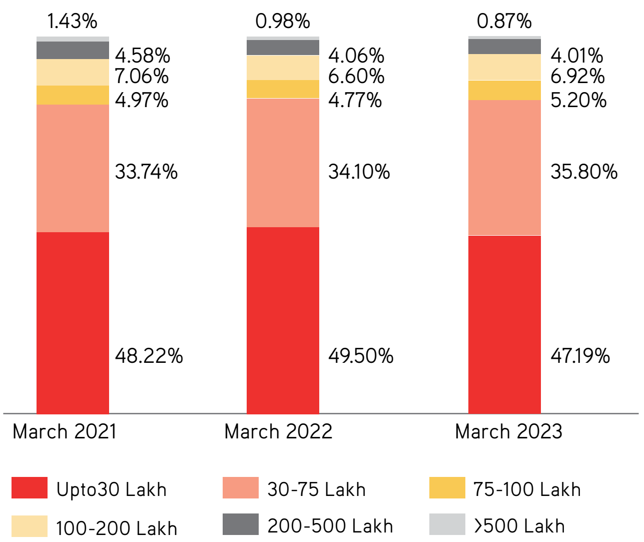
Under the retail segment, the Company is focussing on the salaried segment resulting in an increase in the salaried segment to 59% of retail loan book as on 31st March 2023 as compared to 56% as on 31st March 2022.

The Retail Loan Book grew by 9.8% to ₹55,471 crore as compared to the last year. The retail contribution to the total loan book has increased to 93.6% in FY23 as compared to 87% in FY22.

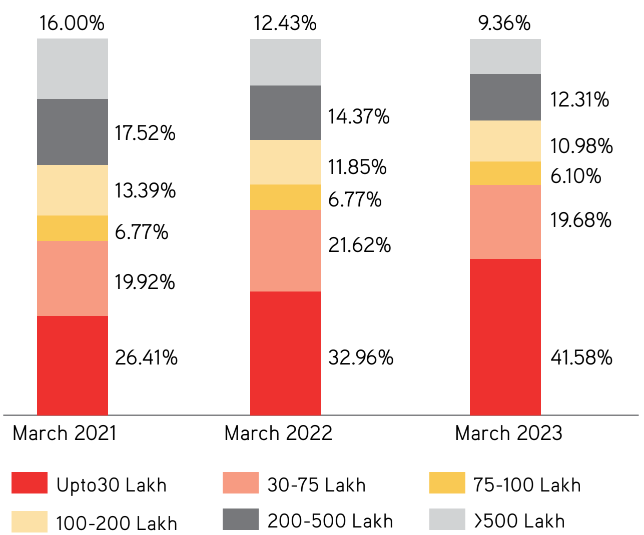
Individual housing loans

In the individual housing loan segment, we are focusing largely on the salaried class of customers. With an average ticket size of ₹29 lakh in FY23, the salaried segment accounted for 71% of the individual housing loan segment. During the year, we have introduced Straight Through Processing for the salaried segment, to fast-track the loan approval process for customers. Our conservative approach towards underwriting and disbursement led to an LTV for individual housing loans at 71% as on 31st March 2023.

ATS of individual housing loan



ATS of retail loan against property



Retail loan against property

Retail loans against property for the year saw a 40.9% increase in total disbursements to ₹3,146 crore. The segment accounted for 21% of the total disbursements during the year. With a focus on the granularisation of the book, the Average ticket size for the segment stood at ₹33 lakh reduced from ₹36 lakh as on 31st March 2022. The weighted average LTV was maintained below 50%. Further, the focus on the salaried segment resulted in a reduction in the self-employed segment to 73% of the retail LAP book as compared to 78% as on 31st March 2022.

Retail non-residential premises loan (NRPL)

Retail NRPL includes loans given for the construction of commercial properties. With ATS of ₹37 lakh for the year reduced from ₹39 lakh as on 31st March 2022, the segment accounted for 4% of the total loan asset at the end of the financial year under review.

Affordable Segment - Roshni

Aligned with the Central Government's mission of 'Housing for All', the affordable segment was launched under the brand 'Roshni', to fulfil every individual's aspiration of owning a home. Roshni is proof of the company's dedication to last-mile financial inclusion and is designed to cater to the needs of aspiring homebuyers who are looking for affordable financing options. The target average ticket size for this segment is ₹15-17 lakh. With dedicated 82 branches in 150+ districts and over 500+ locations across the country, the business is concentrated in 8 regions based on potential demand. Under this programme, loans ranging from ₹5 lakh to ₹35 lakh are provided for the purchase of a home, self-construction, home extension/renovation, plot purchase plus construction, loan against property, and other purposes. The underlying objective of Roshni is to widen the customer base by including new-to-credit applicants, with a household income starting as low as ₹10,000 a month and having serious intent to pay. Roshni offers a customer-centric approach to housing finance, with a robust service delivery model, minimal formal income documentation, flexible loan tenure, high loan-to-value ratio and competitive interest rates, backed by a trusted brand with close to four decades of experience.

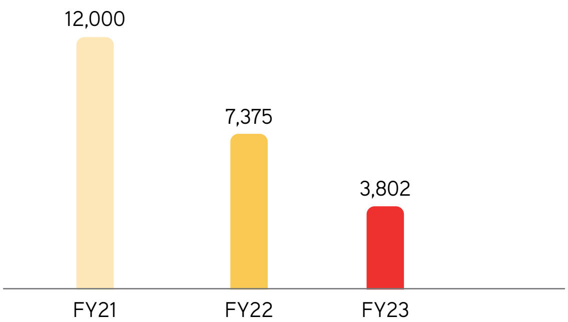
82

Dedicated Roshni branches as on 31st March 2023

CORPORATE LOANS

As a strategy, the Company was reducing its corporate book which has declined by 48% in FY23. The corporate book is at 6.4% of Loan Asset as on 31st March 2023 as compared to 12.7% as on 31st March 2022. **As of 31st March 2023, the corporate book accounted for ₹3,802 crore of the Loan Asset.**

Corporate loans (₹ crore) (% of Total Loan Asset)



FY21	FY22	FY23
19%	12.7%	6.4%

Diverse distribution channels with widespread geography mix

As a de-risking strategy, we have a multi-channel sourcing model, with a wide geographic spread. We source our business primarily through two channels - the in-house team and Direct Selling Agents (DSAs). We continue to introduce innovative digital tools and strategies to enhance the productivity of both channels.

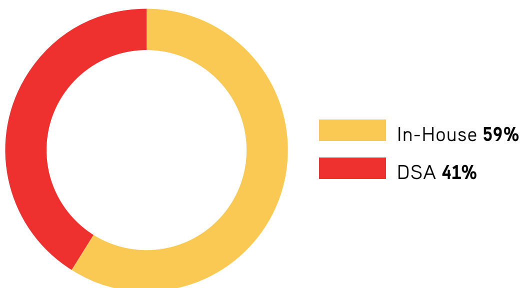
Some of our impactful initiatives

- Implemented acquisition strategy to enhance sales capabilities by focusing on branch performance, identifying non-performing branches, setting targets, and improving overall productivity.
- Enhanced customer lifecycle management, encompassing lead generation, streamlined application processing, efficient customer servicing, effective cross-selling, robust retention strategies, and strengthened collection processes.
- Contact centres serve as an additional distribution channel, seamlessly integrating digital marketing leads into the lead management system, and providing pre-qualified leads to support our customer relationship officers.
- Implemented channel engagement initiatives to strengthen the share of the DSA channel. Energised DMA partners in the previous fiscal year, leveraging a balanced mix of proprietary and DMA channels. Strengthened relationships with partners by meeting their specific requirements. Expanded business by engaging corporate and smaller DMAs.
- Created a dedicated channel for our affordable housing business, 'Roshni'. We have dedicated branches to drive our business operations through this channel.

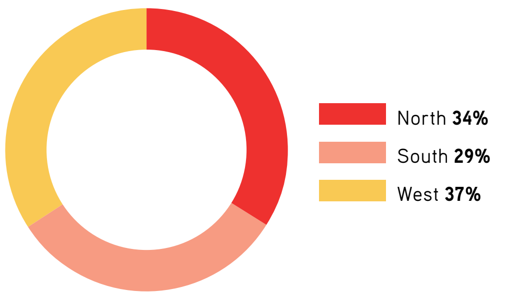
41%

Of business received from DSA channel in FY23

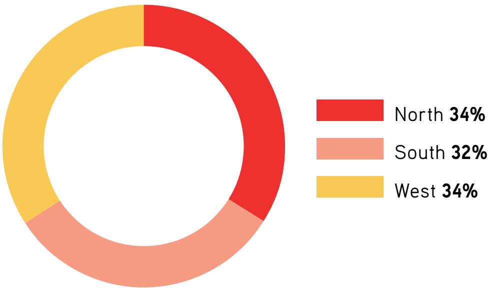
Disbursement origination



Loan Asset geographical breakup



Disbursement geographical breakup



Overall, we have made great strides in expanding our geographical presence, with a wide network across 138 cities and 20 states and UTs in India. As of 31st March 2023, we have established a presence through 162 branches, 27 outreaches and 22 hubs for credit decision-making. In addition, with over 14,000 active channel partners for loans and deposits, we are attractively positioned to serve the needs of a diverse range of customers across the length and breadth of the country. These achievements are a testament to the Company's commitment to providing accessible and affordable housing finance solutions to our customers.

Branches & Outreaches

MARKETING STRATEGY

We have developed a well-defined marketing roadmap based on three objectives to maximise growth – sourcing support for the retail & affordable housing business areas, building the corporate brand reputation and establishing brand salience through sustained awareness and engagement initiatives. By adopting an omnichannel approach leveraging both offline and online marketing techniques, we are focusing on full-funnel targeting to achieve greater visibility for the brand.

As consumers are relying more on online platforms to manage their finances, businesses need to strengthen their digital strategies to remain responsive to the rapidly evolving market dynamics. Our digital and social media strategies are designed to capture consumer attention at various touchpoints and cater to their changing preferences by creating compelling content to maximize its reach and impact.

Our ISO-certified contact centre has developed as a crucial mode for customers to get quick service, right from enquiries to complaints to fraud reporting. We have a strong team of 60+ executives that source pre-filtered leads for the in-house sales channel, generating over sixty thousand OTP-verified loan enquiries per month. Our lead-to-login conversion rate is close to 25% which is much higher than the industry average.

Additionally, we also work with new-age online business partners like Paisabazaar, LoanTap, NoBroker, Andromeda, Spoctree, etc. to generate new leads from their customer base.

HOW WE PLAN TO DO IT!

- **Community Building**
  Social media and moment marketing based video content for high engagement and brand love to enhance brand imagery
- **Affinity based media**
  High affinity media selection based on geographical location - print, TV, radio, OOH, digital
- **Golocal**
  Content localisation and focus on regional media for improved consideration levels
- **Multi-platform marketing campaigns**
  Leveraging both online and offline platforms to generate better visibility for the brand
- **Reputation management**
  Sustained efforts for building a positive reputation through PR engagement
- **Performance-led acquisition strategy**
  Blogs, SEO, SEM, emails, affiliate marketing, social media marketing

PHFL HOME LOANS & SERVICES LIMITED (PHFL)

With a view to reduce our dependence on external sources for new customer acquisition, we floated a wholly-owned subsidiary for sales and distribution for PNB Housing Finance. PHFL accounted for 74% of the disbursements during the year under review.

Centralised Operations

Our Centralised Operations team ensures operational excellence and is divided into two business units: Central Processing Centre (CPC) and Centralised Operations (COPS).

The CPCs are located in Mumbai, Bengaluru, and Noida and serve as the repository for customer documents such as loan files, deposit applications, repayment pouches, and business partner applications. The CPC handles around 16,000 service requests each month including loan closure and refund claims, within pre-defined timelines. As a responsible lender, we ensure the safety of sensitive data and have digitised customer records for security. We have scanned and stored original loan documents of all 2.76 lakh customers on the cloud, thus providing faster service and mitigating the risk of loss or transit damage of original documents.

The COPS team processes deposit insurance reconciliation, pay-out processing, customer correspondence, and channel partner empanelment. We provide a paperless environment, where deposits are processed through images, and payments are made electronically, among other improvements. During the year, we mobilised fixed deposits from over 76,000 customers with an average TAT of t+1 days from cheque clearance to the issuance of FD receipt.

ENABLING DIGITALISATION TO SMOOTHEN THE PROCESS

We have fully embraced digitalisation across all aspects of our business, recognising its profound impact on our customers and internal operations. By continually improving our digital landscape, we aim to elevate our customer service and enable data-driven decision-making throughout our value chain.

In line with this commitment, the company has implemented cutting-edge technology and security solutions. The existing digital landscape is being rapidly modernised to meet the scalability and agility requirements of our growing business. To manage information security risks, we have implemented an Information Security Management System certified to ISO 27001:2013 industry standards. We have also bolstered our cyber security posture through the implementation of various controls, tools, and policies.

We have centred our digitalisation efforts around four pillars – enhancing operational efficiency, digital transformation, compliance and information security, and customer experience enhancement.

Key initiatives undertaken during the year

We have implemented various micro initiatives aimed at improving stability and optimising processes. These initiatives involve streamlining workflows, eliminating bottlenecks, and automating manual tasks. By identifying areas of improvement and implementing targeted solutions, we aim to enhance the overall efficiency of our operations.

Digital transformation: We have invested significantly in digital transformation and around below focus areas:

- Sales and distribution: We are building digital tools to drive the productivity of our distribution team – both in-house and DSA/DMAs. This will help our partners right from onboarding to training to lead management to conversion.
- Underwriting: We have successfully implemented the business rule engine to automate our credit rule book, enabling us to standardize and streamline our underwriting process. By eliminating subjectivity, we have achieved greater consistency in our credit assessments and have begun to implement straight-through processing for select customers, improving our operational efficiency and enhancing the customer experience.
- Customer service: We are launching various touch points for engaging better with our customers. We revamped our customer portal ACE 2.5, launched our mobile app, and integrated NPS into our customer survey channels.

- Compliance and information security: We are migrating towards Zero Trust Architecture where every transaction will be validated in a seamless manner.
- Customer experience: We are committed to enhancing our customers' digital experience by creating a cutting-edge digital asset. We have revamped our customer portal and also launched a customer mobile app (for both Android and iOS users) that provides complete visibility of loans, deposits and all relationships of a customer with PNBHFL. These digital platforms also provide several self-service options like downloading schedules, tax certificate, loan account statement and initiate changes to communication address etc. We have seen improvement in customer usage of these platforms given the seamless experience that is now being delivered to our customers. For the first time, we have also proactively delivered the income tax provisional certificates to our customers on WhatsApp during January and February period to simplify access to these critical documents for our customers. As part of our customer-centric approach, we are also in the process of launching a WhatsApp bot to facilitate easy communication with our customers.
- Introduced new technology: We embraced a new initiative into technology by implementing ALGO, a digitised credit policy administration initiative, integrating a robust business rule management system with core processing systems for housing loan disbursements. This enhanced operational efficiency, enabling seamless STP of home loan applications through API-based decision making and dynamic rule-based assessments using FICO rule engine.

CUSTOMER CENTRICITY

We remain committed to delivering unparalleled customer service that reflects our unwavering dedication and professionalism. At the core of our onboarding, engagement, and retention activities lies customer service, which we consistently strive to enhance. Our omnichannel approach ensures that customers can engage with us at their convenience, whether through our branches, contact centres, email, or customer portal.

70%

Of monthly requests availed through digital channels during FY23

Despite having an extensive customer database, we faced challenges with customer retention due to the general macroeconomic conditions and rate hikes. To address this issue, we created a "retention war-room" to proactively educate our customers about current trends, elaborate on the best available options, and assist them in making informed decisions. These efforts have proven fruitful as we successfully reduced the run off percentage from 24% in FY22 to 19.4% in FY23.

We take pride in TALISMA, our ERP-integrated customer relationship management module, which enables us to benchmark turnaround time and maintain our service delivery within the promised timeframes. Our simplified IVR call menu and its self-service options extend round the clock. The system even identifies the caller's phone number, helping reduce verification layers. Our 'call back' option introduced in FY22, has enhanced customer experience and also ensured zero missed calls.

Technology Initiative of the Year

Given for ACE at Mint|TechCircle Business Transformation Award 2022

Wait Time – 1 min 14 secs

Which reduced from 3 mins in FY22

Over 62,000 beneficiaries/borrowers have received PMAY subsidy over a period of 6 years. PNB Housing Finance has helped these borrowers in their journey of building their dream homes. Furthermore, we introduced video KYC, providing an end-to-end digital, paperless, and zero-contact customer onboarding process. It also helped us control customer drop-off rates and reduce turnaround time, providing a touchless transaction option for our customers. We have also provided critical documents like our Fair Practice Code in vernacular languages for customer convenience and ease.

One of the key retention strategies for the year was offering pre-approved top-up loans to our customers. We created a dedicated underwriting team for top up loans to help in upselling and improving our books. Besides this, we have started disbursing loans through RTGS and introduced eNACH for EMI payment to provide ease of service to our customers.

We have also taken steps to train our channel partners and sensitise them towards customer complaints. This has effectively reduced escalation of grievances to the next level by 21% in FY23, and facilitated regional level grievance redressal structure.

In addition to the above, we have also taken the following steps to improve our customer centricity:

- Enabled banker platform (Major banks are now equipped to facilitate this payment mode)
- Enabled QR Code and UPI for faster payments
- Participation in monthly forums of NHB where we come to know about best practices from other players and implement it to improve customer service
- Introduced a multilingual website, available in 6 vernacular languages – Hindi, Marathi, Tamil, Telugu, Malayalam and Kannada
- We have enabled documentation in Braille for visually impaired customers
- Completed digitisation of historical documents of customers

We believe that these initiatives will help us to further improve our customer service and provide our customers with the best possible experience.

FINANCIAL PERFORMANCE

Consolidated performance indicators (as per Ind AS)

Particulars (₹ in crore)	FY 2022-23	FY 2021-22	Change
Net Interest Income*	2,345.54	1,868.92	25.5%
Fee and Commission Income (Net of Fees and Commission Expense)	271.74	251.43	8.1%
Other Income	2.33	4.8	
Gross Income	2,619.62	2,125.15	23.3%
Operating Expenditure	519.78	456.97	13.7%
Impairment on assets held for sale	47.65	7.86	
Operating Profit	2,052.19	1,660.32	23.6%
Impairment of Financial Instruments and Write Offs	691.28	576.36	19.9%
Profit Before Tax*	1,360.91	1,083.96	25.5%
Profit After Tax*	1,046.00	836.48	25.0%
Other Comprehensive Income (Net of Taxes)	77.06	97.3	-20.8%
Total Comprehensive Income	1,123.06	933.78	20.3%
Basic Earnings Per Share (₹)	62.01	49.64	

*Net Interest Income, Profit Before Tax & Profit After Tax increased by more than 25% on account of higher yield and lower interest expense.

Key financial ratios

Particulars	FY 2022-23	FY 2021-22	Change
Average Yield	10.28%	9.42%	86 bps
Average Cost of Borrowing	7.47%	7.30%	17 bps
Spread	2.81%	2.12%	69 bps
NIM	3.73%	2.80%	93 bps
GIM	4.06%	3.16%	90 bps
Cost-to-Income	18.67%	20.24%	(157) bps
Return on Asset	1.61%	1.24%	37 bps
Return on Equity	9.98%	8.92%	106 bps
Total Provision/Total Asset Ratio	2.42%	4.42%	(200) bps
Gearing (x)	4.87	5.37	(50) bps
Book Value Per Share	652.26	585.51	
CRAR*	24.43%	23.40%	103 bps
Tier I Capital	22.40%	20.73%	167 bps
Tier II Capital	2.03%	2.67%	(64) bps
Risk-Weighted Asset (₹ in Crore)	42,289	40,604	4.10%

*Provisional Post Rights Issue CRAR is ~30%

Enhancing our underwriting capabilities

Over the past few years, we have made consistent efforts to strengthen our underwriting capabilities. We have used advanced analytics and digital tools like Fusion, Perfios, Hunter, and Credit Vidya to make the process more robust and accelerate the approval process. In addition, we have implemented a green channel processing system for high-quality loans.

This system allows us to approve loans quickly and efficiently, while still maintaining our high standards of creditworthiness. We have also implemented a straight-through-processing (STP) journey for both Roshni and Prime segments, but with different credit guidelines as per the segment. This has helped us to improve the efficiency of our underwriting process and reduce the time it takes to approve loans.

How are we strengthening underwriting to collections

SPECIALISATION

- Professionally qualified with vast mortgage experience
- Stable and vintage cadre of senior personnel
- Specialised roles, distinguished responsibilities and collective decision making
- Predictive service standards

CUSTOMER PROFILING

- Selective approach to customer profiling
- Evidence-based income assessment and established banking relationships
- Seasoned mass affluent customers with multiple assets and credit tested
- Mandatory touch base with self-employed customers at their work premises

OTHER MITIGATING MEASURES

- Mark-to-market policies with tailormade offerings
- Multiple checks and balances with maker-checker approach
- Workflow based assessment on single IT platform
- Use of technology verification of customer data points and geo-tagging of properties

3C APPROACH: COUNSEL, COLLECT AND CURE

- Periodic portfolio scrub for early warning signs
- Efficiencies through centralised banking
- In-house Contact Centre
- Special cadre for resolution through legal tools
- Collections on the go through mobility for effective supervision

Our scalable hub and spoke model is designed to facilitate customer acquisition and servicing through integrated modes of communication, ensuring a seamless experience and expedited issue resolution. We have established regional decision-making hubs that enable efficient credit appraisals, loan decision-making, and underwriting vendor platforms. These platforms assist our partners on the go, leveraging various tools to streamline processes. In our post-disbursement activities, we prioritize customer convenience and efficiency, with an impressive 93% resolution rate within the specified turnaround time (TAT). This customer-centric approach enhances satisfaction by addressing requests promptly and fostering a smoother experience throughout the customer journey.

Our credit underwriting, monitoring, and collection processes are well-established and streamlined. During loan underwriting, we perform KYC checks, credit history assessments, and verify income through salary slips or tax returns. The Financial Crime Unit (FCU) conducts customer verification, while technical valuations and checks ensure accuracy. Loan disbursement involves executing loan agreements, preparing equitable mortgage documents, and setting up electronic clearance instructions for EMIs. Portfolio monitoring includes analysing delinquency aging and early warning indicators for loans with higher delinquency rates. For asset recovery, we employ soft collections, repayment demands, field visits, and review of security documents. Severe delinquencies lead to hard collections and SARFAESI actions, such as notice issuance and property auctions. Our comprehensive approach ensures efficient credit management and effective recovery.

As a result of these efforts, we have been able to achieve a high level of delinquency arrest. In the last couple of years, we have arrested 97-98% of opening delinquency. We have also maintained a strong legal record, with no major legal issues in the last couple of years.

We are committed to providing our customers with the best possible underwriting experience. We will continue to invest in our underwriting capabilities and strive to be the leading provider of underwriting services in the industry.

Efficiently driving recovery to strengthen asset quality

Asset quality has remained one of the key concerns for the company in the past few years. We realigned our recovery process with the target to enhance overall quality of the book. We automated the collection system with rule-based engine and use of advanced analytics. We bucketed the risky assets through stringent portfolio monitoring and arrested slippages. We focused on the initial bucket and deployed host of initiatives like tele calling, phone and text alert. We introduced digital repayment channels for ease of recovery. We strictly implemented SARFAESI for NPAs and embarked on prompt notice issuance, possession and auction of properties. All these efforts have helped in improving the asset quality; our gross NPA reduced by 430 bps to 3.83% as on 31st March 2023 from 8.13% as on 31st March 2022.

98.6%
Retail collection efficiency

3.8%
Gross NPA for FY23

FUNDING MIX

Fund is the key raw material for any financing company. Our funding mix comprises debt market instruments [non-convertible debentures (NCDs) forming around 10%, of the funding mix as on 31st March 2023], deposits around 32%, bank borrowings around 42%, National Housing Bank refinance around 6%, and external commercial borrowings around 10%. The increase in borrowing cost in the market led to an overall increase in our cost of funds. About 67% of our resources are in the floating category, helping replace and reprice whenever there is an attractive opportunity.

During the year, ICRA, CRISIL and India Rating updated the credit rating outlook for the debt instruments and banking facilities to 'Stable' from Negative. Further in Q4FY23 the Company has raised ₹150 crore of NCDs and 50 crore of Commercial Papers. The Company will endeavour to look for further diversifying the funding mix.

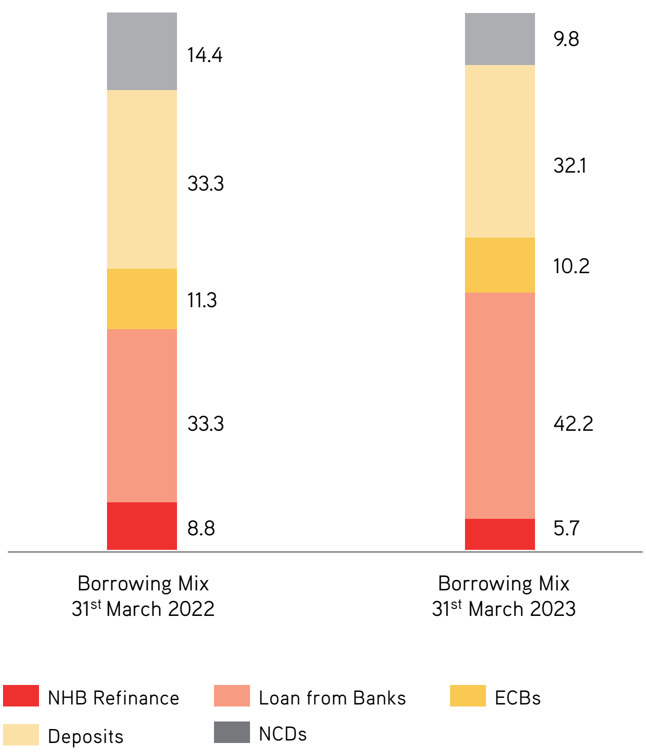
7.47%

Average cost of borrowing for FY23

112%

Average liquidity coverage ratio for FY23 maintained against stipulated 60%

Well Diversified Borrowing Profile



Making our balance sheet robust

We have further strengthened our balance sheet through deleveraging initiatives and reducing the load of high-risk weight assets on our capital. The gearing as on 31st March 2023 stood at 4.87x against 5.37x reported as on 31st March 2022. Our CRAR stood for the year was 24.43% as on 31st March 2023, much beyond the limit mentioned by the RBI.

Liquidity and asset-liability management

To finance our growth, we utilised various resources such as long-term bank borrowings, CP, NCDs, and deposits. To ensure liquidity coverage for a minimum of three months, we maintained sufficient liquidity throughout the year. As of 31st March 2023, we had surplus liquidity of over ₹4,000 crore and additional sanctioned but undrawn lines of more than ₹2,500 crore.

Bank borrowings

Bank borrowings remained the largest source of funds for the Company. During the year, we borrowed ₹11,738 crore as long-term loans from both private sector and public sector banks. We also have ₹5,900 crore of sanctioned working capital limits from various banks. Our total outstanding bank loans as on 31st March 2023 stood at ₹22,654 crore, accounting for around 42% of the total borrowing.

Deposits

We are the third largest deposit book holder housing finance company in the country. We also provide loan against deposits. During the year, we sourced gross deposits to the tune of ₹6,068 crore. Deposit contributes around 32% to the total borrowing.

Non-convertible debentures

The Company reinitiated borrowing through wholesale debt market in Q4 FY23 and mobilised funds through NCDs. The Company mobilised ₹150 crore in FY23 against ₹455 crore in FY22 through the issuance of secured, rated and listed NCDs. The Company plans to increase its borrowings through NCD in the next financial year.

External commercial borrowings

No fresh ECB was raised during FY23. The outstanding balance of ECB stands at ₹5,508 crore as on 31 March 2023.

Securitisation

The outstanding Loans Sold/Assigned amounted to ₹7,186 crore as on 31st Mar 2023. During the FY23, the Company did not securitise any new loan and currently there are no plans to securitise. The plan is to grow the retail book going forward.

NHB refinancing

During the FY23, the Company didn't avail any refinancing facilities from NHB. The balance outstanding of facilities availed from NHB is ₹3,046 crore.

RISK MANAGEMENT

Effective management of risk is an integral component of our business strategy. To ensure that we address potential risks and uncertainties across our business and portfolios, we have established a comprehensive risk management process at PNB Housing Finance. Our risk management framework is implemented across all functions and enables us to manage and mitigate risks effectively. Our risk management approach includes various measures such as risk assessment, risk appetite framework, risk planning, risk culture, internal controls, and robust governance.

The Risk Management Committee of the Board regularly reviews the effectiveness of our risk management framework and takes necessary corrective actions. The key business risks we face include credit risk, liquidity risk, reputation risk, and technology risk. We remain vigilant in identifying and addressing these risks to ensure sustainable growth for our business.

Key Risks	Our Response
Credit Risk	
A risk that a company faces when its customers or counterparties fail to meet their obligations to the company, including making full and timely payments of principal, interest, and other receivables. The failure of customers to meet their obligations can result in significant financial loss for the Company.	We established a robust framework that identifies, assesses, measures, monitors, controls, and reports credit risks in an effective manner. We are fixing accountability of business units for effective credit risk governance and customising risk measurement approaches for various portfolio segments/sub-segments to ensure the risk is appropriately assessed. We can now observe early warning signs of delinquency and taking proactive measures to maintain asset quality. Further we are consistently reviewing Key Risk Indicators (KRIs) of concentration and delinquency to stay ahead of potential risks and reviewing and aligning underwriting policies and processes with the dynamics of the business environment at micro levels to ensure risk mitigation strategies are up to date.
Market Risk	
A potential financial loss a company may face due to adverse changes in the value of its assets and liabilities resulting from fluctuations in market variables such as interest rates, foreign exchange rates, credit spreads, implied volatilities, and asset correlations.	To manage our liquidity effectively, we have invested in short-term Fixed Deposits (FDs), as well as short duration Mutual Funds like Overnight Funds, Liquid Funds, and Money Market funds. In compliance with Liquidity Coverage Ratio (LCR) regulations for housing finance companies, we have been investing in central Government securities. Keeping a close eye on the interest rate scenario, we have invested in Government Securities of shorter durations to avoid potential Mark-to-Market (MTM) losses due to rising interest rates. With a proactive approach to liquidity management, we ensure financial stability and can navigate market volatility with ease.

Key Risks	Our Response
Reputation Risk	
The actions, decisions, or events that affect customer trust in a brand. It can arise from a range of factors including poor customer service, ethical breaches, negative media coverage, or involvement in controversial activities.	We continuously engage with all stakeholders, including employees, customers and suppliers, to identify potential risks and implement preventive measures. We have a dedicated team that can be tasked with addressing customer complaints and resolving issues in a timely manner. Additionally, a mechanism for recording and reporting risks helps us track the risk exposure and develop effective mitigation strategies. By taking proactive steps to identify and manage operational risks, we protect our reputation, reduce losses, and improve our overall performance.
Liquidity Risk	
The Company's inability to meet its financial obligations due to inadequate financing. To manage this risk, companies need to assess potential gaps and maintain adequate reserves. It involves adjusting financing strategies in response to market conditions. Proactive risk management can help companies avoid financial disruptions and ensure they have the resources to support their operations	To mitigate the risk, we hold optimal liquidity levels to manage our business requirements and maturing debt obligations. It also secures longer-term debt to manage the asset-liability mismatch. Projected cashflow planning is discussed with the business to ensure adequate flow of funds. In addition, a 'liquidity contingency plan' is in place to address any adverse liquidity position. We maintain relationships with various debt providers to manage the reputation and employ a diversified and sustainable funding mix. To further support these measures, a strong market feedback mechanism is utilised by the Asset Liability Committee (ALCO) to discuss and implement policy tools.
Technology risk	
The risk arises from the potential loss or disruption to the Company's operations due to outdated systems, system failures, and the ever-evolving cyber threat landscape which includes risks associated with data privacy, cybersecurity, and continuity of business operations.	We have aligned several strategies in place to mitigate the technology risk. We are committed to continuously upgrading and investing in technology and security to ensure that systems are up-to-date and can handle continuously evolving cyber threats. Systems are constantly monitored for uptime and health, and disaster recovery sites have been created for seamless operations in case of system failure. We have in place well-articulated Information Security Policy, Cyber Security Policy, Cloud Security Policy and Cyber Crisis Management Plan to support our well-established Information Security Management System Framework to protect the business information across layers.

INFORMATION AND CYBER SECURITY

At PNB Housing Finance, we recognise that in today's digital era, customer information is a highly valuable asset, and it is our utmost responsibility to take preventive measures and ensure security of circulating information. Following the principle of "defence in depth" for implementing security controls, we have implemented multi-layers controls for identification, prevention, detection, and response to various cyber security threats we face today.

Our risk-centred approach, backed by the Information Security Policy, Cyber Security Policy, Cloud Security Policy, and Cyber Crisis Management Plan, reinforces our well-established Information Security Management System Framework to ensure the protection of business information across all layers, including Network, Endpoint, Perimeter, Application, Data, and Human layers. The IT Strategy Committee and Information Security Committee, led by Independent Directors, oversee cyber security risks using cyber security risk and performance indicators to assess the implementation and effectiveness of various cyber security controls.

We engage industry experts to perform comprehensive vulnerability assessments and penetration testing of underlying infrastructure, applications, and supporting network components to test and improve the implemented control measures. Our Business Continuity Policy, Disaster Recovery site in tandem with backup controls ensure continued availability of information. Implementation of Next Generation Firewall along with 24x7 Security Operations Centre (SOC) and End Point Protection (EPP) software help us protect our externally facing and internal IT environment from various threats. We also continuously monitor our brand and data for any leakage over social media and dark web with help from service provider in addition to restricting internal server to server communication only on authorized ports and services. Considering the criticality of data we process, we have also deployed Data Loss Prevention (DLP) solution for monitoring and restricting data loss either from endpoint, network, or web gateway. DLP solution is complemented with Web Proxy solution to restrict users from accessing non-work-related websites. With use and adoption of multiple digital applications we have also implemented Web Application Firewall for all Internet facing applications. To empower employees to work from anywhere, most of the users have been provided with Laptops, which are secured with Full-Disk encryption and users are made aware of various Do's and Dont's of Information Security on regular basis. With our dependence on multiple business partners, we also ensure that similar security controls are practiced in safeguarding sensitive information. Cyber security simulation exercises are done at regular intervals to make all stakeholders aware of the actions that needs to be taken in an event of cyber, infrastructure or natural disaster. We continue to enhance our security controls and keep abreast with industry leading practices.

BUILDING TRUST THROUGH INVESTOR ENGAGEMENT

At PNB Housing Finance, we prioritise continuous engagement with our investors to understand their needs and expectations. Our investor outreach program is designed in alignment with their requirements and includes regular interactions such as updates, conferences, meetings, and non-deal roadshows. Our dedicated investor relations (IR) team actively engages with investors, meeting with numerous funds and research houses during the year. We ensure timely dissemination of material events including quarterly, half-yearly, and annual results through email, accompanied by detailed investor presentations and press releases. Earnings calls are conducted each quarter, providing important business and financial updates and addressing market participant queries. Furthermore, our website features a concise two-pager factsheet under the Investor Relations section, offering a quick overview of our company.

INTERNAL CONTROL SYSTEM

The Company has instituted adequate internal control systems commensurate with the nature of its business and the size of its operations. Internal Audit Department (IAD) independently carries out the evaluation of the adequacy of all internal controls. Risk-based internal audit has been implemented in the Company which encompasses all the functions, processes, products, and operation across geography. IAD ensures that operation and business units adhere to laid down internal processes and procedures as well as to regulatory & legal requirements and recommends improvements.

The Company has adequate internal controls and processes with respect to its financial statements which provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. It also has a mechanism of testing the financial controls at regular intervals for their design and operating effectiveness.

The Company has been declared an NBFC under upper layer as per the scale based regulatory framework, with enhanced risk control and compliance requirement which is implemented in the Company.

CAUTIONARY STATEMENT

This Annual Report contains forward-looking statements that relate to the implementation of strategic initiatives and provide information on our business development and commercial performance. While we believe these statements reflect our judgment and future expectations, it's important to note that a range of factors beyond our control could cause actual results to differ materially from what we anticipate. These factors include economic conditions, government regulations, natural disasters, and other important considerations. As a result, PNB Housing Finance cannot guarantee the accuracy of these forward-looking statements, and we undertake no obligation to revise them to reflect future events or circumstances.