Management Discussion and Analysis

PNB Housing's mission is to fulfil the home ownership aspirations of millions of Indians. We endeavour to serve as a responsible and trusted partner to our customers by providing housing credit services and to the nation by enabling economic progress.

We measure our success through the time-tested relationships that we have built. That said, it is our resilience to adversity that makes our growth story even more exciting and, above all, credible.

Our journey, over three decades, is characterised by determination, prudence and resilience; and FY 2019-20 put these tenets to test. We optimised our capital base, recalibrated our lending strategies and strengthened our underwriting standards. We leveraged our operating model and technology backbone to enhance our capabilities and deliver greater value to customers.

In the process, we demonstrated our ability to evolve through a complex environment into an enduring institution of trust. Strength in the face of adversity does not come from what we can do, but from doing what we are least expected to. It comes from the hard work and dedication of our colleagues who have helped build a culture, of which we can be proud, and which is anchored to our mission and core values. Strength comes from within.

ECONOMIC REVIEW: RECOVERY DELAYED BY PANDEMIC OUTBREAK

The Indian economy witnessed a cyclical slowdown due to muted private consumption, a contraction in manufacturing and sluggish investments. The Government of India announced a series of counter-cyclical measures to revive the economy, with the Reserve Bank of India (RBI) complementing with an accommodative policy stance for most parts of the year.

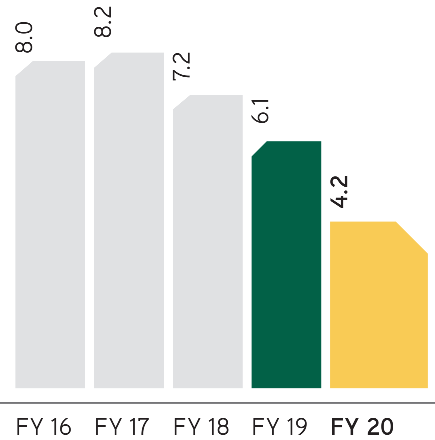
However, any prospects of a recovery were nipped in the bud with the outbreak of the novel coronavirus (COVID-19). The Union government, in coordination with states, imposed a nationwide lockdown to break the chain of transmission, which brought economic activities to a halt. The Indian economy recorded its slowest growth in 11 years at 4.2%.

The World Health Organisation (WHO) declared COVID-19 as a pandemic on March 11, 2020. The rapid spread of the virus has exacted a heavy toll on human life and livelihood.

External risks have increased significantly, with weakened export demand, reduced investor confidence and non-availability of raw materials and intermediate inputs. The lockdown disrupted supply chains and led to a sharp fall in consumption. Although the full impact of the pandemic is yet to be ascertained, major global economies including India are likely to witness a sharp downturn in FY 2020-21. While there is expectation for a strong rebound in FY 2021-22, a concerted effort is required to realise this – spanning a multi-pronged approach through public policy impetus, private sector participation and civic society support.

India's GDP growth trend

(%)



Source: Economic Survey of India 2019-20; Central Statistics Office

RBI FIRES ON ALL CYLINDERS TO CUSHION PANDEMIC IMPACT

In order to enhance the pace of recovery and minimise the impact of COVID-19 on the economy, the RBI announced a slew of measures to infuse liquidity in the system and keep interest rates lower for longer. The central bank encouraged non-banking finance companies (NBFCs), housing finance companies (HFCs) and micro-finance institutions (MFIs) to ease credit flows to micro, small & medium enterprises (MSMEs) and consumer segments (auto and housing).

The RBI slashed the cash reserve ratio (CRR) by 100 basis points to 3% of bank deposits, bringing ₹ 1.37 lakh crores into the system. It also allowed banks to borrow an additional 1% from their investments in statutory liquidity ratio (SLR) securities, making available another ₹ 1.37 lakh crores. Further, banks were given an option to borrow three-year funds up-to ₹ 1 lakh crore through targeted long-term repo operations (TLTROs).

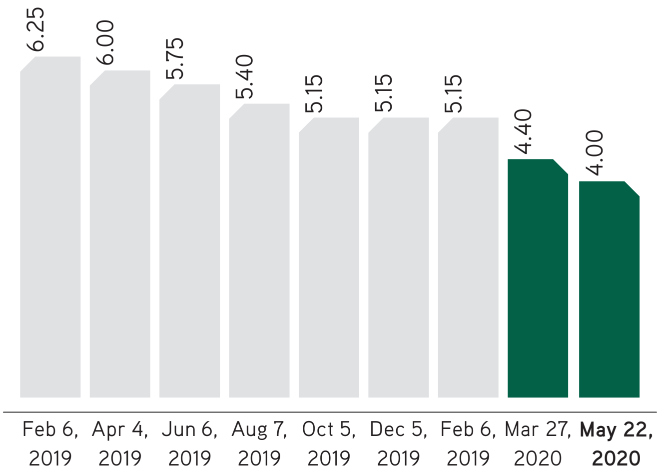
Other initiatives implemented, as of May 22, 2020, to ease financial stress are as follows.

Repo rate cut

The RBI held two consecutive monetary policy reviews ahead of time, on March 27, 2020 and May 22, 2020, to cut the repo rate by 75 basis points and again by 40 basis points.

Repo rate trend

(%)



Source: Reserve Bank of India

Moratorium on term loan instalments

A loan moratorium was initially declared for three months, from March 1 to May 31, 2020, which was extended by another three months upto August 31, 2020. Accordingly, the repayment schedule and all subsequent due dates, as well as tenors of such loans, are allowed to be shifted across the board by another three months.

Moratorium/deferment not to impact asset classification/borrower credit history

The moratorium/deferment is being provided to enable borrowers to tide over COVID-19 disruptions, and will not be treated as changes in terms and conditions of loan agreements due to financial difficulty of the borrowers and thus will not result in asset classification downgrade.

The rescheduling of payments, on account of the moratorium/deferment, will not qualify as a default for the purposes of supervisory reporting to Credit Information Companies (CICs) by lending institutions. CICs will ensure that the actions taken by lending institutions do not adversely impact the credit history of the borrowers.

In addition, the 90-day non-performing asset (NPA) classification norm will exclude the deferment/moratorium period (March 1, 2020 to August 31, 2020) for accounts being allowed to avail moratorium/deferment, and which were standard as on March 1, 2020. Thereafter, the normal ageing norms will apply.

NBFCs, which are required to comply with the Indian Accounting Standards (Ind-AS), may follow the guidelines duly approved by their Boards and advisories of the Institute of Chartered Accountants of India (ICAI) in recognition of impairments. Thus, NBFCs have flexibility under the prescribed accounting standards to consider such relief to their borrowers.

Targeted investment in NBFCs/HFCs

The RBI announced TLTRO 2.0 of ₹ 50,000 crores targeted specifically towards the small/mid-sized corporates, including NBFCs and MFIs. The RBI conducted an auction of ₹ 25,000 crores on April 23, 2020; however, the bids received were only for half the amount, that is, ₹ 12,850 crores highlighting the significant risk aversion of banks towards NBFCs.

In addition, the RBI provided special refinance facilities of ₹ 50,000 crores at repo rate to National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and the National Housing Bank (NHB) to support credit demand in their respective sectors.

Extended Partial Credit Guarantee (PCG) Scheme

This is an extension of the existing PCG scheme, which was offered earlier to public sector banks (PSB) for buying high-rated pool of assets from financially sound non-banking financial companies and housing finance companies. The scheme has been extended to the PSBs for:

(1) Purchase of pooled assets having a rating of BBB+

(2) Purchase of bonds and commercial papers (CPs) with a rating of AA and below, through primary issuance of non-convertible debentures (NCDs) or CPs for a tenure of upto 18 months (CPs upto 1 year)

Under the extended scheme the first loss of 20% is to be guaranteed by the Government of India. The overall ceiling of the guarantee is of ₹ 10,000 crores under this scheme which means upto ₹ 50,000 crores of primary NCDs/CPs can be supported under the scheme. For the purchase of pooled assets, the scheme is valid till March 31, 2021; and for the buying of bonds/CPs, the portfolio is to be built in three months' time. The verification/evaluation of compliance with approved criteria and the performance of other operational functions under the scheme has been delegated to SIDBI.

Emergency Credit Line Guarantee Scheme (ECLGS)

The Union Finance ministry announced ₹ 3 lakh crores of ECLGS for helping the MSMEs. These loans to be provided by bank and NBFCs/HFCs upto 20% of the entire outstanding credit as on February 29, 2020 will be 100% credit guaranteed by the National Credit Guarantee Trust Co. Ltd. (NCGTC) in the form of a Guaranteed Emergency Credit Line (GECL) facility. The applicable risk weights for such funding is also nil, which is a very positive move to pump liquidity for the mass and broader economy.

Deferment of interest on working capital facilities

With respect to working capital facilities in the form of cash, credit/overdraft, lending institutions are allowed to defer payment of interest for another three months, from June 1, 2020 to August 31, 2020, in addition to the three months allowed on March 27, 2020.

Ease of payment of accumulated interest for the deferment period

In order to ease the difficulties a borrower could face in repaying the accumulated interest for the deferment period on working capital facilities, lending institutions are permitted to convert the accumulated interest (upto August 31, 2020) into a funded interest term loan, which is repayable no later than the end of March 31, 2021.

Easing of working capital financing

For working capital facilities, lending institutions are allowed to recalculate the 'drawing power' by reducing the margins till August 31, 2020 and restore to the original levels by March 31, 2021.

Further, lending institutions are permitted to reassess the working capital cycle upto an extended period till March 31, 2021, which will enable lenders to make an informed assessment on the impact of the pandemic on the borrowing entity.

However, such changes will not be treated as concessions granted due to financial difficulty of the borrower and consequently, will not result in asset classification downgrade.

Extension of resolution timeline

Under the Prudential Framework, lending institutions are required to hold an additional provision of 20% in the case of large accounts under default, if a resolution plan has not been implemented within 210 days from the date of such default. Given the continuing challenges to the resolution of stressed assets, lending institutions are permitted to exclude the entire moratorium/deferment period from March 1, 2020 to August 31, 2020 from the 30-day period or the 180-day resolution period, if the period had not expired as on March 1, 2020.

ARSENAL OF POLICY MEASURES TO ADDRESS THE LIQUIDITY CONCERNS

Fiscal

- Providing guarantees against loans extended to MSMEs
- Relief from insolvency proceedings in FY 2020-21
- Indirect equity infusion in MSMEs through fund of funds
- Creation of liquidity facility to facilitate purchase of debt paper of NBFCs and HFCs

Monetary

- Slashing of benchmark interest rates
- Lowering of reserve requirements for banks by cutting CRR
- Ramping up of open-market operations
- Targeted liquidity infusion through TLTRO
- Regulatory forbearance, including extending moratoriums
- Special liquidity windows and refinancing facilities to certain financial entities

INDUSTRY REVIEW: FOCUS ON LIQUIDITY AND ASSET QUALITY OF HFCS

HFCs were undergoing a challenging period on the back of muted demand and emerging asset quality concerns. This was aggravated by the near halt in economic activities following the COVID-19 outbreak. Funding and liquidity positions of HFCs are likely to remain under pressure in the coming months, as collections stay subdued. Going forward, the industry focus will be more on asset quality and liquidity of HFCs, rather than growth. While all HFCs are facing significant headwinds because of the currently evolving situation, their ability to keep adequate liquidity and control the asset quality would be the key differentiator.

HOUSING CREDIT GROWTH REMAINS SUBDUED

The overall on-book housing loan portfolio growth of HFCs and NBFCs slowed significantly to 6% year-on-year, for the period ended December 31, 2019, owing to lower disbursements due to continued funding constraints for the sector and portfolio sales made by HFCs through securitisation. Banks continued to outpace housing credit growth at HFCs, partly supported by portfolio buyouts, leading to an overall market growth of 13% (vs. 16% in the year earlier). The total housing credit outstanding stood at ₹ 20.7 lakh crores, as on December 31, 2019.

The COVID-19-induced slowdown is likely to further impact the performance of HFCs, which were facing slower growth, liability and asset quality-related challenges in FY 2019-20. Housing credit growth is expected to be in the range of 9-12% in FY 2020-21 (lower than the last three years' CAGR of 16%). The growth is expected to be slower in H1 FY2020-21, while recovery in H2 FY2020-21 would depend on the overall economic turnaround.

₹ 20.7 lakh crores

Total housing credit outstanding as on December 31, 2019

Source: 'Indian Mortgage Finance Market April 2020' – ICRA report with information up-to Q3 FY2019-20

ASSET QUALITY LIKELY TO DETERIORATE

The pressure on asset quality is expected to mount due to the lockdown and the consequent impact on borrower cash flows and viability. Overall, the impact will be felt across all segments – housing loans, loan against property (LAP) and construction finance. Within housing, the asset quality in the affordable and self-employed segment could worsen more vis-à-vis the salaried segment, which is expected to exhibit more resilience, except in sectors that could face salary cuts/job losses impacting their debt-servicing capacity. Further, the liquidity of repossessed properties could get impacted, which could also impact the losses on the sale of properties, especially those that were financed at higher loan-to-value (LTV) ratios.

The overall gross non-performing assets or GNPAs (Stage 3 assets as per revised Ind-AS June 2018 onwards) increased to 2.2% as on December 31, 2019 (vs. 1.6% as on March 31, 2019) due to a deterioration across HFCs in the wholesale loan construction finance segment, given the tight liquidity faced by some developers with delayed projects and the reduced fund availability for the developers.

Going forward, the loss of livelihoods and a reduction in income, especially for self-employed borrowers engaged in non-essential services, are likely to impact incomes and hence the asset quality of retail home loans as well. While the lifetime losses on secured retail loans such as home loans and LAP are partly by the underlying collateral and a moderate LTV, a downward movement in property prices could expose lenders to higher levels of credit risk. GNPAs in the housing segment are expected to increase to 1.8-2.0% in FY 2020-21, while slippages in the non-housing segment could be higher, leading to overall GNPAs of 3.0-3.5% in FY 2020-21.

2.2%

GNPAs as on December 31, 2019

Source: 'Indian Mortgage Finance Market April 2020' – ICRA report with information up-to Q3 FY2019-20

IMPROVING FUNDING MIX AS CP BORROWINGS GET REFINANCED BY BANK BORROWINGS

CP borrowings accounted for 5% of overall borrowings of HFCs, as on December 31, 2019 (vs. 7% as on December 31, 2018 and 10% as on March 31, 2018). Meanwhile, the share of bank borrowings rose to 26% as on December 31, 2019 from 24% as on March 31, 2019, while that of securitisation increased to 14% from 12%. Securitisation will help raise funds. However, access to funding, though improving, will remain constrained for a few. Rollover of short-term borrowings will be limited and TLTRO is likely to benefit larger players.

26%

Share of bank borrowings in overall borrowings for HFCs as on December 31, 2019

Source: 'Indian Mortgage Finance Market April 2020' – ICRA report with information up-to Q3 FY2019-20

COMFORTABLE CAPITALISATION LEVELS, BUT PROFITABILITY UNDER PRESSURE

Aggregate on-balance sheet gearing, which had decreased to 5.6 times as on December 31, 2019, remained largely unchanged at 6.1 times as on March 31, 2019. Despite the high leverage of many HFCs, the reported capital adequacy remained good with a median capital to risk assets ratio (CRAR) of 18.3% as on December 31, 2019, supported by relatively low risk weights for home loans and commercial real estate loans for residential projects. While the overall capitalisation indicators are comfortable for the sector, the economic capitalisation indicators for some HFCs weakened due to the increased vulnerability of the wholesale book, leading to higher capital requirements.

18.3%

CRAR as on December 31, 2019

Source: 'Indian Mortgage Finance Market April 2020' – ICRA report with information up-to Q3 FY2019-20

Going forward, net interest margins (NIMs) are expected to remain stable as the cost of funds could moderate. However, a slowdown in growth is likely to impact operating expense ratios. While the profitability indicators for FY 2019-20 are likely to remain rangebound between 13% and 15% (partly supported by the upfront income booking on assignments), a prolonged slowdown in growth and the COVID-19 related impact on asset quality could lead to an increase in credit costs and weigh on the profitability indicators in FY 2020-21.

LONG-TERM OUTLOOK REMAINS INTACT

Mortgage penetration in India continues to increase steadily and the long-term prospects of the housing segment remain strong. The mortgage penetration in the Country has increased by 2.5% since March 2014 upto December 2019. Still the penetration is much lower than many other countries.

In the near term, some people may defer their home purchases and home improvement/extension decisions till they are able to achieve stability in income levels/resumption in business activities. However, the long term outlook remains intact.

10.3%

Mortgage penetration in India as on December 31, 2019

Source: 'Indian Mortgage Finance Market April 2020' – ICRA report with information up-to Q3 FY2020

PNB HOUSING REVIEW: BUILDING AN ENDURING INSTITUTION OF TRUST

FY 2019-20 was a challenging year for the sector as well as the Company. We focused on strengthening our balance sheet. With a prudent sourcing strategy, we maintained a healthy liquidity position and built a strong deposit franchise, considered the second largest in the market.

In terms of business segments, we increased the share of retail from 79% of our assets under management (AUM), as on March 31, 2019, to 82% as on March 31, 2020; retail accounted for 92% of disbursements, up from 73% a year earlier. Our branch network in Tier-II and Tier-III cities stabilised, allowing us to grow the individual housing loan segment with a focus on sourcing and fund completed properties and projects. Meanwhile, we not only reduced our corporate loan sanctions and disbursements, but also tightened our lending norms and heavily invested in IT enablement of the workflow to further make operations robust and world class.

We sanctioned 73,553 loan applications in FY 2019-20, down 34% year-on-year, respectively. We disbursed ₹ 18,626 crores of loans in FY 2019-20, which was 48% lower than that of FY 2018-19. AUM was at ₹ 83,346 crores, down 2% year-on-year. Loan Assets moderated 9% to ₹ 67,571 crores on account of lower disbursements and higher securitisation during the year. We sold loans of ₹ 9,311 crores through the direct assignment route during the reporting period, as compared with ₹ 7,337 crores during FY 2018-19.

We maintained higher liquidity on our balance sheet. As on March 31, 2020, we had cash and cash equivalents of ₹ 8,514 crores. Deposits grew 15% year-on-year to ₹ 16,470 crores. We sourced around 1,50,000 deposit applications amounting to ₹ 9,120 crores, up by 69% and 56% year-on-year, respectively.

We strengthened our existing teams and created specialised groups of skilled professionals from various streams to monitor, measure and proactively mitigate risks arising out of the current environment. We made collective efforts to support the recovery team across geographies, in containing early delinquencies, resolving NPAs and reducing assets held-for-sale.

Overall, we continued to adopt a balanced approach to business and growth with a keen eye on asset quality and profitability. We took every measure to safeguard the interest of our human capital and with their continued support, we are confident of emerging as a much stronger entity.

The Board of the Company, on July 30, 2019, accorded an omnibus approval to raise capital of upto ₹ 2,000 crores, which is currently being worked on.

RESPONDING TO COVID-19: SURVIVE, SUSTAIN AND SHIFT GEARS

As advised by the Government, PNB Housing has complied with all the directives issued with regards to COVID-19. Consequently, the Company closed all its offices including branches, outreaches, hubs, zonal offices and central office, effective March 2020. During the lockdown, the Company immediately activated its business continuity plan (BCP) and seamlessly shifted to remote working. At the same time, the Company leveraged on its robust technology to efficiently manage all the critical activities like customer service, recovery, liquidity management, treasury, EMI collection, vendor payments, among others. While doing so, the Company ensured to safeguard its systems from any data leakage and data security. During these times, we followed the 3S approach, that is, Survive, Sustain and Shift gears.

SURVIVE	SUSTAIN	SHIFT GEARS
• Health and safety of our employees accorded paramount importance • 100% offices closed during Lockdown 1.0 • 80% employees worked from home • Moral and emotional connect with the employees maintained	• Continue business in a secure manner and with sufficient precautions • Focus on customers service, collections and treasury operations • Strong deposit franchise with mobilisation of ₹ 9,120 crores in FY 2019-20 • 100% of our branches are now operational	• Focus on mass housing and capital-efficient retail segment • Digital transformation: sourcing to sanction, through e-medium and enhance our digital interventions in underwriting, collections and other functions • Tightening of underwriting policy incorporating changes arising due to COVID-19 • Focus on reducing operating expenses • Re-prioritisation of IT initiatives for the financial year

KEY COVID-19 RESPONSE INITIATIVES

- **People**
  Aligned with the Company's first core value, 'People first', proactive measures were implemented to minimise the impact of COVID-19. Right from an enhanced cycle of sanitation, continuous monitoring through first information officers (FIOs), personal hygiene to the activation of the BCP on March 21, 2020, the Company took every step to ensure the health and safety of its employees. All employees were asked to work from home and necessary arrangements were made. The human resource (HR) team engaged with the employees periodically to ensure their mental well-being. Further, to enhance knowledge and productive engagement, the Company initiated functional and behavioural online trainings and workshops for its employees, subsidiaries and vendors, among others. During the lockdown, in the month of April and May 2020, 44,000 person-hours were spent on online trainings.

- **Information technology**
  The Company heavily leveraged its investments in technology. The Enterprise System Solution ensured that the business activities could be carried out from a work-from-home environment. The Company implemented a cloud-based virtual system interface solution was implemented to facilitate secured remote access to PNB Housing enterprise applications and data.

- **Customer service and operations**
  Going by the second core value, 'Customer-centric', with the help of technology, several measures were undertaken to ensure that customers can reach out to the Company via calls, chat, interactive voice response (IVR) and e-mails. The Company constantly engaged with its channel partners and other stakeholders spread across India. They were also provided online trainings and workshops. The Company took measures to respond to customers in a timely manner. While our teams worked from home, different communication channels were made available to customers. During the lockdown, customer engagement was effectively maintained with a service turnaround time (TAT) of 95%.

  Central Operations performed all its critical processes covering electronic transactions in the work-from-home environment, including EMI banking, refund processing, pay-out processing, among others. 98% of EMI payments happen electronically and the balance is primarily received through post-dated cheques. During the lockdown, 13 EMI cycles were seamlessly handled from home.

- **Collections**
  Collections was an area impacted by the lockdown. The Company enhanced its collection efforts by utilising cross-functional teams like business and underwriting; however, due to the lockdown, various activities, namely, property possession, auction, field collection, among others, could not be completed. Customers were offered alternate modes of payment like Airpay and Paytm to ensure convenience and ease of payment. The collection efficiency (excluding moratorium) was at 98.63% and 98.47% in Q4 FY2020 and FY 2019-20, respectively.

- **Liquidity management**
  The Company maintained sufficient liquidity of ₹ 8,514 crores as on March 31, 2020 and ₹ 5,850 crores as on June 5, 2020. Additionally, the Company has sanctioned, but undrawn lines of over ₹ 4,500 crores. The Company was among the first ones to borrow ₹ 750 crores from the NHB under the Special Refinance Facility announced by the RBI in April 2020. The Company is the first HFC to sign a funding of US$75 million via external commercial borrowing (ECB) from Japan International Corporation Agency (JICA). Considering its robust liquidity position, the Company offered moratorium on EMIs to its customers, but did not avail the facility from its lenders and serviced its financial obligations in a timely manner.

- **Moratorium**
  In context of the moratorium, on March 27, 2020, to mitigate the burden of debt servicing and provide relief to borrowers, Reserve Bank of India announced moratorium on loans for three months from March 2020 to May 2020 (Phase 1). This was further extended by another three months upto August 2020 (Phase 2). The Company adopted an 'opt in' route for accepting customer requests for moratorium.

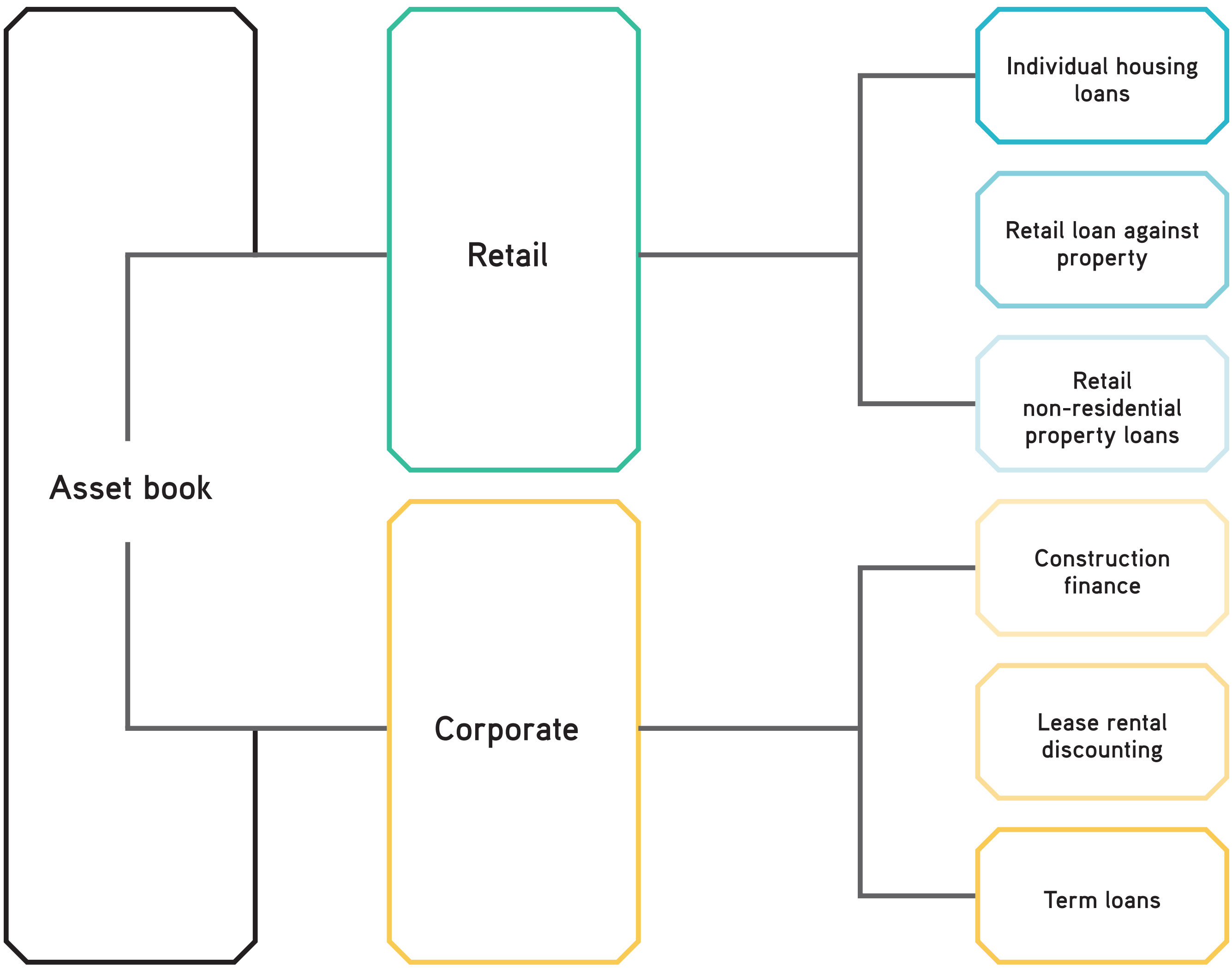
As on June 5, 2020, under the first phase of the moratorium, ~56% of Company's AUM have opted for moratorium and under the second phase, ~31% of Company's AUM opted for moratorium – indicating a sharp drop in the customers requesting for moratorium. Retail loans accounted for 49% of the retail AUM under the first phase and 20% under the second phase.

- **Corporate Social Responsibility**
  As a responsible corporate, PNB Housing came forward to support the nation. The Company allocated around ₹ 2.04 crores towards COVID-19 relief for supporting the following:
  - Partnered with the National Centre for Biological Sciences for research on developing washable personal protective equipment (PPE) and COVID-19 diagnostic tests, and supporting clinical assessment for rapid screening of new drugs
  - Contributed to the Prime Minister's National Relief Fund (PMNRF) and the Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES Fund)
  - Supported provision of 'essentials kit' to migrant worker families
  - Undertaken an R&D programme in partnership with IIT Delhi, to develop sustainable PPE material

INTRINSIC AND STRATEGIC STRENGTHS

Balanced segment mix

The Company's asset book is divided into retail and corporate. The retail book consists of individual housing loans, retail loan against property (LAP) and retail non-residential property loans (NRPL). Corporate loans comprise construction finance, lease rental discounting and term loans.



During the year, the Company made disbursements worth ₹ 18,626 crores. With the objective of optimising the capital consumption and keeping in mind the lower risk weights applicable on individual housing loans, the Company focused on disbursing in the retail segment. The retail segment contributed 92% to the total disbursements. Individual housing loan accounted for the lion's share in total disbursements, at 64% of the retail disbursements.

The Company started focusing on building a mass housing portfolio within its individual housing loan book, that is, the Unnati home loans. Unnati aims to capitalise on the vast opportunity landscape in the mass housing segment. The Government has launched several initiatives to boost this segment, from expanding the definition of the Pradhan Mantri Awas Yojna (PMAY) to MIG-1 and MIG-2, to the extension of tax benefits on the supply side. The maximum ticket size in this category is ₹ 35 lakhs. The Company logged in 17,594 files under Unnati and disbursed ₹ 1,169 crores at a blended yield of 11.16%, which was 180 basis points higher than the prime home loan yield of 9.37%.

The Company closed the year with an AUM of ₹ 83,346 crores. The retail asset contributes 82% to the AUM and corporate loans 18%. Individual housing loans constitute 58% of the AUM, retail LAP 20% and retail NRPL 4%.

In the corporate loan book, the exposure has reduced to 18% of the AUM, from 21% of the AUM as on March 31, 2019. This comprises 12% construction finance, 4% corporate term loan and 2% lease rental discounting. During the year, we down sold corporate book worth ₹ 2,307 crores. Further, in corporate loans, only existing commitments were honoured, and fresh business was not acquired.

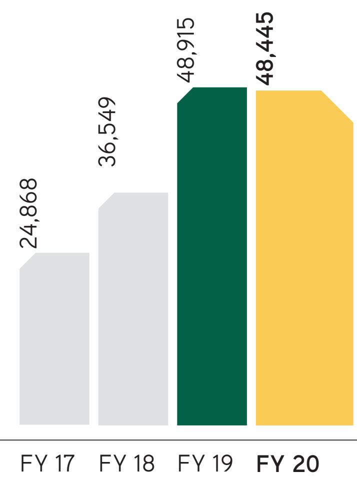
82%
Of AUM comprise retail assets

Individual housing loans

The average ticket size (ATS) of individual housing loans was ₹ 29 lakhs. Salaried customers accounted for 72% of the individual housing loans, while self-employed contributed 28%. The Company has a conservative approach towards underwriting and disbursing loans. The LTV for individual housing loan is at 71% as on March 31, 2020. The Company was pre-emptive in its approach and considering the risk associated with the under-construction properties, focusing on the home loan disbursement for the purchase of ready properties. As a result, the share of the under-construction portfolio in the individual housing AUM decreased from 31% as on March 31, 2017 to 19% as on March 31, 2020.

Individual housing loans: 58% of AUM*

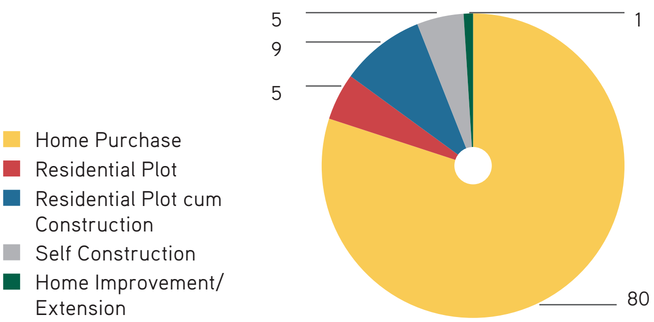
(₹ crores)



*as on March 31

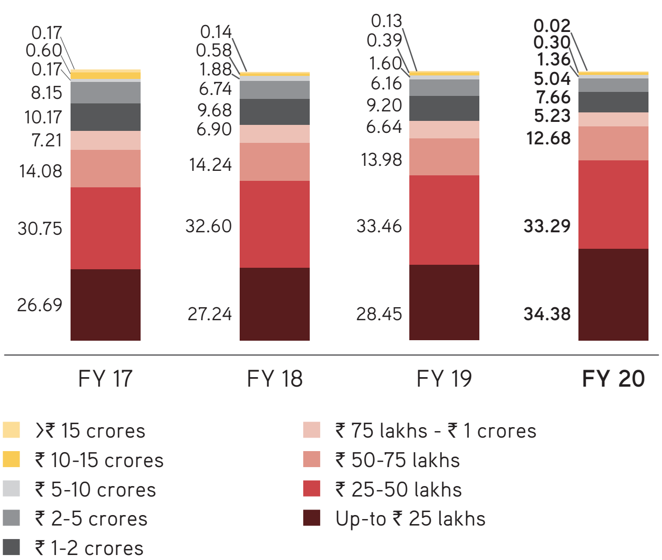
Individual housing loan break up

(%)



Individual housing loans: ATS range*

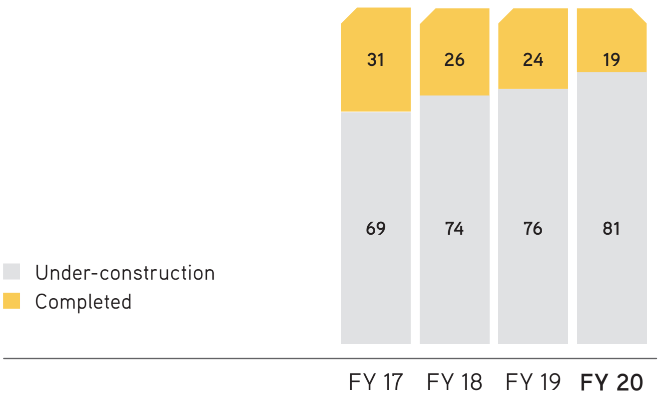
(%)



*as on March 31

Individual housing loans: Under-construction vs Completed

(%)

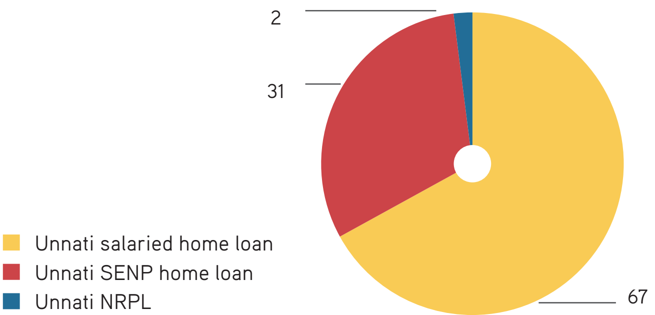


Unnati loans

The Company's focus on Unnati home loans has been very cautious and calibrated, ensuring quality sourcing while gaining competitive pricing edge in the segment. The ATS of Unnati home loans was ₹ 17 lakhs.

Unnati segment mix

(%)

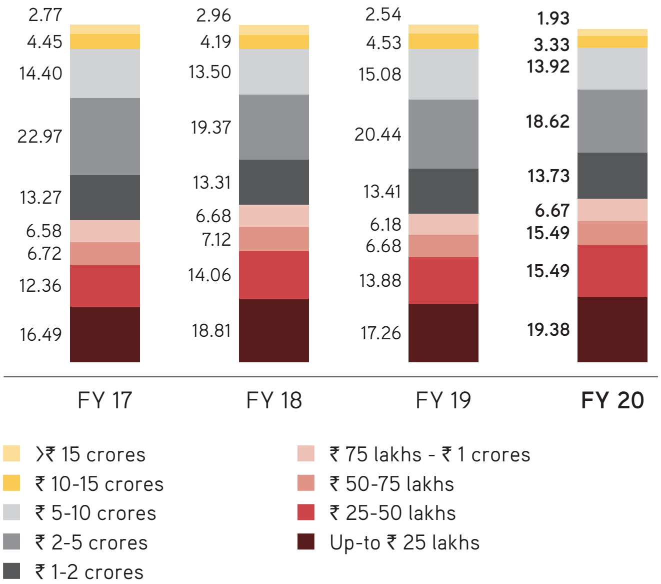


Retail loan against property

The Company, over time, has been conservative with its approach towards the retail LAP business. The ATS, over time, has reduced to ₹ 47 lakhs, as on March 31, 2020. The weighted average LTV was maintained below 50%. The self-employed segment accounts for 81% of the retail LAP book.

Retail loan against property: ATS range*

(%)



*as on March 31

Retail non residential premises loan

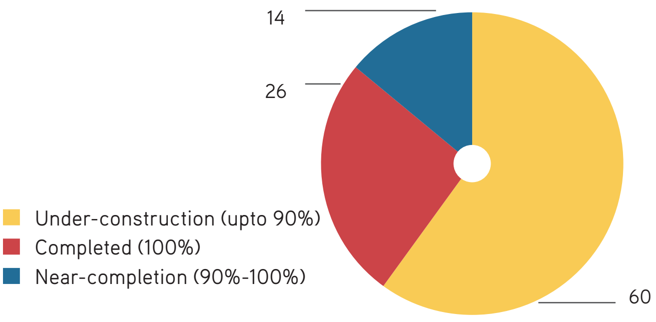
Retail NRPL contributes 4% to the asset under management. These loans are given for the construction of the commercial property. The ATS for retail NRPL is ₹ 44 lakhs.

Construction finance loan
Construction finance, as defined by the NHB, refers to the loans given to the developers for construction of residential dwelling units. This book comprises 12% of the AUM, as on March 31, 2020 and the ATS on a unique corporate house basis is ₹ 148 crores. The construction finance book is spread across 108 developers, with top seven markets contributing 87% of the AUM.

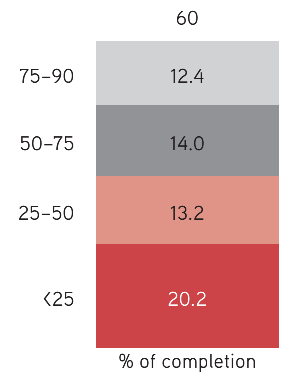
18%
Of AUM comprise corporate assets

141
Unique developers comprise our corporate book, as on March 31, 2020

Construction finance loan (as on March 31, 2020) (%)



Under-construction further break-up (%)



Corporate term loan
Corporate term loan refers to the loans given to the developers either for construction of commercial units or as a term loan secured against a mortgage. This book comprises 4% of the AUM, as on March 31, 2020 and the ATS on a unique corporate house basis is ₹ 104 crores. The corporate term loan book is spread across 46 developers, with top seven markets contributing to 86% of the AUM. The cash flows are clearly identified and earmarked for the corporate term loan book.

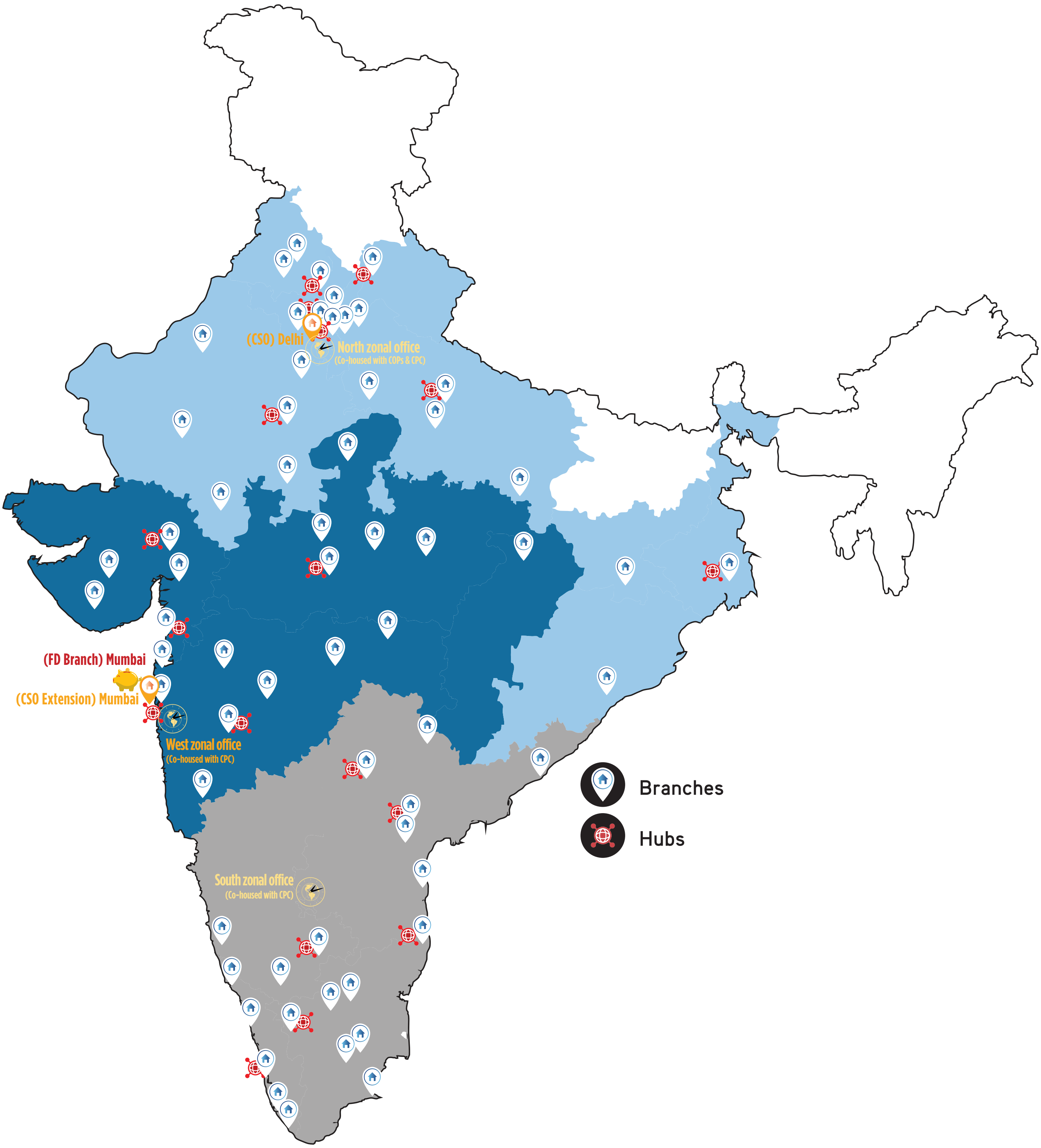
Lease rental discounting
Lease rental discounting refers to the loans given to the developers against the rental receipts derived from lease contracts with corporate tenants. This book comprises less than 2% of the AUM as on March 31, 2020 and the ATS on a unique corporate house basis is ₹ 98 crores. The lease rental discounting book is spread across 13 developers, with a presence in seven large cities. 100% of the lease rental discounting book is backed by leased out commercial office buildings with multiple tenants.

Balanced channel and geography mix
Of the total disbursement of ₹ 18,626 crores, 57% were contributed by in-house channels, and the rest were acquired through third-party channels. By geography, the northern zone accounted for 29%, the western zone 41% and the southern zone 30%. Three branches were operationalised during the year under review, taking the total count to 105 branches and 23 hubs, spanning 64 cities. The Company also marked its presence through 28 outreaches across three zones.

For Unnati, in-house channels contributed 75% of the disbursement, while third-party channels contributed 25%. The western zone contributed 46%, followed by the northern zone at 32% and the southern zone at 22%.

105
Branches across 64 cities

Our office network



PHFL Home Loans & Services Limited (PHFL)

The wholly owned subsidiary, PHFL primarily focuses on sales and distribution functions of PNB Housing. The dedicated arm has reduced dependence on external sources for acquiring new businesses. It contributed to over 50% (disbursement) of the Company's total retail asset business during FY 2019-20. The Company has also been providing adequate processing support to ease the delivery process for customers.

Reliable funnel for leads

Our ISO-certified Contact Centre executives are the first point of contact for prospective customers and a great support to the in-house sales team. During the year, digital activities were focused towards home loan acquisition. Our contact centre today serves customers with six different language options (English, Hindi, Tamil, Telugu, Malayalam, Kannada) to improve the customer experience and have better local connect.

To serve our customers with multilingual facility, we started a Contact Centre in Bangalore.

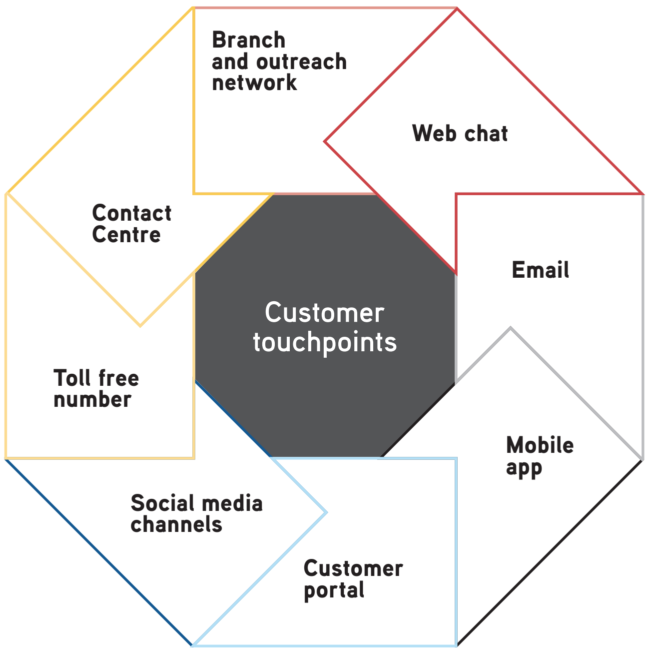
The Contact Centre sourced 8,583 loan applications and 5,999 sanctions amounting to ₹ 1,422 crores and ₹ 979 crores of disbursement during FY 2019-20.

During the year, due to reduced disbursements, the Contact Centre realigned its digital media presence to scale up fixed deposit penetration. Close to 2.14 lakh fixed deposit enquiries were generated during the year, of which 18,197 qualified leads/appointments were made through the Contact Centre, translating into 6,422 fixed deposit applications for ₹ 254 crores.

~8,600
Loan applications sourced by the Contact Centre

Innovating with customers at the core

Our footprint in the mass housing segment is expanding incrementally, making it imperative to achieve economies of operations and proactively cater to the evolving needs of this segment. Customer service is the main pillar of the customer onboarding, engagement and retention strategy. The brick and mortar structure of 105 branches, supported by a central Contact Centre enables PNB Housing to provide multi-channel access for various services, to its loan and deposit customers. Both units i.e. the branch operations and the Inbound Contact Centre (ICC) are ISO 9001 certified. The certification signifies the standardisation of operating procedures for services across all channels.



The common customer relationship management (CRM) system, TALISMA, which is tightly integrated with the ERP system, forms the backbone of the service processes. It is the common thread which runs seamlessly across various units.

PNB Housing believes that transparency brings in commitment. Investment in technology has empowered us to provide self-service features on the customer portal mobile app, which has seen a 70% penetration amongst the asset customers. Similar modules on IVR enable the customer to access their accounts 24x7. Investment in practical technology, a robust CRM system and a tight monitoring mechanism has allowed PNB Housing to serve customers within the prescribed TAT in 96% of requests.

Since the Company is spread across the length and breadth of the country, the ability to communicate in local language was understood as one of the key parameters of the customer engagement strategy. Apart from the brick and mortar branches, where the staff is conversant in local language, the capability was enhanced even in the alternate channels handled by the ICC. It serves the customers in seven major languages including those of South India. The automated self-service IVR is also available in these languages.

Constant improvement basis the voice of customer has been the centrepiece of the service agenda. Listening to the customer helps PNB Housing design practicable and pragmatic processes and products. In the fourth quarter of last year, PNB Housing embarked upon the journey of recording and monitoring the net promoter score (NPS) from customers. The indigenously designed model, covers all customer touchpoints in the process lifecycle: sanction, disbursement, post disbursement service and deposit booking. At all steps, recorded calls soliciting customer feedback are broadcasted. The feedback scores are supplemented by targeted calls to customers who scored us low; this helps identify sticky points, where we can make improvements.

- The ability to deliver value at the first time and a million times over, is dependent on the training and retraining imparted to the frontline workforce. Our integrated training interface, Training Nuggets was rolled out during the year, wherein we embraced a multichannel approach to disseminate information on products and processes in a modular manner.
- The Ministry of Housing & Urban Affairs and the NHB launched the CLSS Awas Portal (CLAP) to process the Pradhan Mantri Awas Yojana Subsidy (Urban) applications online. The portal enables customers to track the status of their applications online without having to depend on anyone for any information. PNB Housing is one of the three HFCs registered on CLAP. Through the new portal, 14,000 applications were moved, of which about 1,000 were approved on CLAP, awaiting the release of subsidy. In January 2020, we executed the electronic protocol to exchange real-time information through CLAP APIs.
- 45% of recorded transactions came through alternate channels (email, portal, webchat); 23% were registered through the centralised toll-free number, taking the share of non-branch transactions to 68%.
- The uptake of our online disbursement facility, available on mobile and web platforms, saw a healthy momentum. More than 60% of the subsequent disbursement requests came through online channels.

>60%
of subsequent disbursements processed online

Property Services Group

PNB Housing has established a network of reputed developers across the country and built strong relationships with them over the years. With its vast network, the Company has gained access to a wide menu of property inventory across sizes and budgets.

Often home buyers, who approach PNB Housing for home loans, seek pre-approved loans before finalising a property. In this way, they are able to ascertain their loan eligibility and search for properties of an appropriate price. The Company offers customers services that can help them in selecting and finalising the most optimal property, considering their budget and other requirements. Playing the role of a facilitator, the Company introduces the developers to customers guiding them in the first step towards fulfilment of their property requirements.

Property Services by PNB Housing is a unique platform, where customers can avail special offers and discounts from selected developers, while seeking their dream homes.

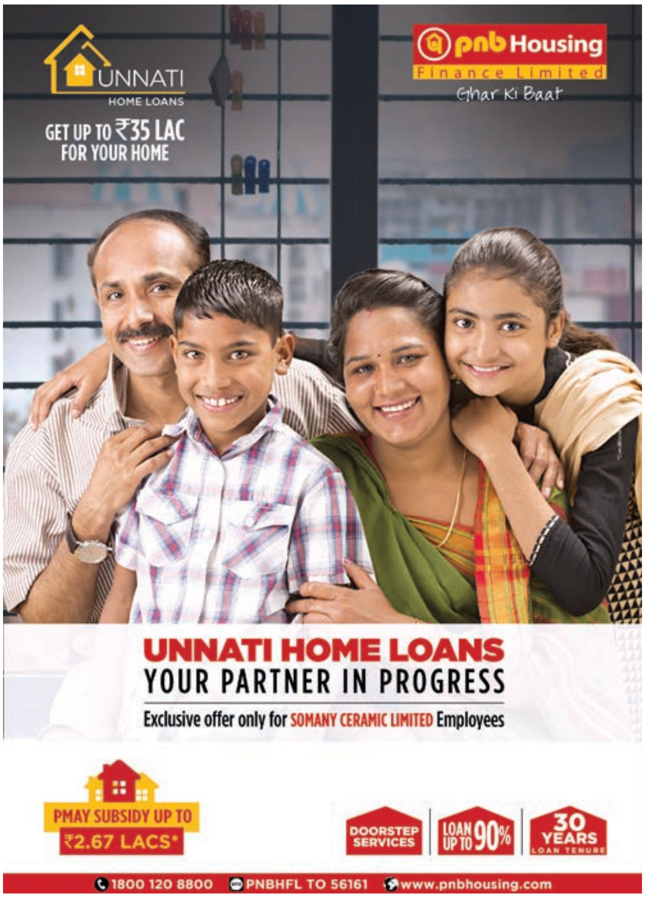
Key benefits

- Complimentary services extended to customers for shortlisting and finalising the ideal property
- Customers have access to developers offering a wide range of properties spanning all sizes and prices
- Customers have access to lucrative deals offered by developers
- Only RERA and SARFAESI approved projects are onboarded
- Customers have an option to discuss and negotiate with developers directly

Proactive marketing activations

Our marketing initiatives are largely designed to complement our business objectives and enhance brand recall. Our tactical approach was to build on-ground activities that were high impact and cost effective, while launching focused digital campaigns through multiple modes like affiliate marketing, display advertisements on targeted sites, ads on social media platforms, customer engagement through branded content, among others.

During the year, we launched our first ever multimedia product campaign for fixed deposits in major markets like Pune, Jaipur, Hyderabad, Ahmedabad, Bangalore, Chennai, Kolkata, Delhi NCR, Mumbai and Lucknow, helping create higher on-ground visibility. We updated all our communications to different regional languages to gain a wider acceptance. We participated in select annual exhibitions and conferences to tap into niche audiences. Round-the-year engagement on the web has helped us further enhance our reach and start conversations with the tech-savvy customers of today.



*Under production

Blending the art and science of credit underwriting

PNB Housing is committed to building a loan portfolio that is in tune with the credit risk appetite. We follow a robust credit underwriting process spanning across retail and corporate segment, backed by a favourable sourcing mix, scalable hub-and-spoke operating model, centralised portfolio monitoring, rigorous recovery processes and proven expertise. Our GNPA at AUM level is 2.29%. The GNPA at loan assets is 2.75% (retail book GNPA at 1.25% and corporate loan book GNPA at 8.18%) with healthy provisions. The life to date write-offs by the Company is 10 basis points of the cumulative disbursements.

We believe in this dynamic environment, the best risk mitigant approach is to build a cushion against the same. Hence, we have created provisions worth ₹ 471 crores on account of COVID-19 and based on the current indication of future economic condition, the Company considers the expected credit loss (ECL) provision to be adequate. As on March 31, 2020, our total provision to assets stands comfortably at 2.61%. The provision coverage ratio for Stage 3 has moved up to 36.23% as of March 31, 2020 compared to 20.95% as of March 31, 2019. The Stage 3 provision coverage ratio for the corporate book is 42.2% and retail is 25.4% as on March 31, 2020. Along with Stage 3, the Company has created adequate provisions in Stage 2 and Stage 1 at 17.2% and 1.06% respectively. The total provision coverage ratio stands at 95%.

23

Specialised processing hubs across the country perform underwriting of loans

ROBUST RISK BUYING: FROM 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

Retail underwriting: Leveraging technology, strengthening processes

PNB Housing realigned its retail business acquisition strategy this year, shifting focus to mass housing, including Unnati home loans and resale properties. There has been a significant movement in the portfolio quality monitoring, with deeper emphasis on enhancing personal connect with customers and ensuring timely repayments. The other focus area during the year was on controlling the file processing costs by leveraging digital tools.

In the retail segment, the Company witnessed a 33% reduction in logins and a 34% reduction in sanction numbers. Within retail, for the individual housing loan, there was a 40% decline in logins and 41% in sanctions. This is attributed to the weak real estate market sentiment as well as cautious decision making to avoid under-construction properties and certain customer segments. For non-housing segment, logins reduced by 6% and sanctions by 5%. A target-based approach was undertaken in these segments, where customers had to meet working capital requirements.

To meet customer expectations on delivery and service, the Company undertakes a focused approach in delivering an optimum end-to-end TAT from the customers' perspective, that is, from the receipt of the file at the branch to sanction at the hub. During the year, 80% of loan applications were approved in ~3.5 working days (wing to wing: from reference generation to sanction), improving upon the figure of ~4.5 working days in FY 2018-19. This was on account of an increased use of digital tools, benefits arising out of successful implementation of Total Quality Management and the conscious drive to better TAT.

WIDE GAMUT OF DIGITAL TOOLS USED IN CREDIT APPRAISAL

Fraud detection	Project monitoring	Work e-mail validation	Vendor management	KYC verification	Banking analytics
• Common pool of fraud customers from over 100+ major financial institutions in India • Improved efficiencies	• Automatic monitoring for top 8 business locations covering 70% of business volume • Better operational efficiency	• Effective way of employment verification without personal visit • Real-time check of employer domain and mailbox	• State-of-the-art features like GPS coordinates, digital signature, live dashboard, etc. • Better control and monitoring	• Online verification from authentic data sources • Efficient document sampling • Captures customers with alternate credit history	• In-depth and informative analysis at a click • Reduction in TAT • Faster results with minimal human intervention

SME functions: Pillars of underwriting

- **Fraud Control Unit (FCU)**
  The Company adopted digital initiatives that are performing well and assisting in arresting market frauds. With the adverse macroeconomic scenario and market inputs, the Company propelled stricter norms in document screening and resulted in sampling 63% of cases, which yielded a hit-rate of 3.12% for FY 2019-20. The team has conducted ~200 training sessions covering a wide variety of topics related to fraud prevention and deterrence to enhance efficiencies and productivity.

- **Technical Services Group (TSG)**
  TSG approved 992 new projects under the advance processing facility (APF), which was lower than a year earlier due to fewer launches as well as the greater emphasis on the quality of APF portfolio by increasing approvals in Category A and B developers. Also, the focus of the Company shifted towards completed properties. To keep a tab on exposures to developers at various stages of construction, the Company periodically reviewed the funding limits.

- **Legal counsel**
  We efficiently manage the PDD monitoring process for tracking and document collection through empanelled vendors in balance transfer and resale transactions. We extensively use our search platform to detect defaults, any litigation filed against companies, among others.

Corporate underwriting: Robust monitoring amid turbulence

PNB Housing remains cautious about lending in the corporate space and during the year, did not sanction any new loan in this segment. The corporate loan business is managed by a team of relationship managers in key markets, experienced credit underwriters and qualified operations personnel, along with specialised legal and technical experts, who ensure continued delivery of high-quality services and closer monitoring of the portfolio amid the ongoing turbulence. During the year, the Company tightened its monitoring norms and made necessary restructuring to make operations robust.

CORPORATE BOOK: RISK BUYING AND REVIEW MECHANISM

Risk buying

- External valuation and legal title checks to supplement in-house expertise
- Centralised team with specialisation across acquisition, technical, legal, credit and operations
- Effective risk management with segregation of responsibilities
- Stress test at the start of a relationship with clear guidelines
- Construction-linked disbursement

Credit covenants

- Minimum security coverage ratio of 1.5x; weighted average as on December 31, 2019 is 2.25x
- Average cash receivable coverage (net of project expense) of 1.5x
- Collections through escrow mechanism

Monitoring

- Fund utilisation, sales velocity, collection efficiency and escrow discipline
- Continuous monitoring at the time of every subsequent disbursement; and RAG analysis on a regular basis (presented to the Board)
- Helps in early warning signals to take timely corrective measures

Recoveries: Stringent measures in place for early detection of problem loans

PNB Housing's portfolio management methodologies are designed for early identification of problematic loans at regular intervals through various qualitative and quantitative measures. There is a multi-layered, cross-functional and participative review mechanism at various levels. Periodicity of reviews and accountability of those reviews are laid down very clearly. The insights, findings and learnings are shared with all stakeholders for continuous improvements and/or immediate corrective actions.

The Company collections team uses analytics to reduce delinquencies and mitigate losses allowing businesses to maximise their accounts receivable recovery. Collection analytics aids in understanding customer preferences and behaviour patterns, which in turn help in developing better collection strategies. Collection strategies further help us to determine which accounts have a higher probability of losses, categorise the different types of customers, prioritise and target customers.

Few of our methodologies/analytics tools that help in developing different strategies for maximum collection efficiency are appended below.

- As a part of pro-active tapping of potential delinquencies, we are taking help of various credit bureaus and those cases are separately tracked for pre-emptive calling and to analyse if any further stress is built-up in these accounts
- The Company has also taken a third-party initiative, to drive the customer engagement initiative with respect to moratorium
- PNB Housing has also developed an internal collection scoring model basis past repayments, industry news, stress in certain industries and other parameters. Accordingly, basis the scoring the collection strategies are designed
- The Company also does portfolio level analysis that reflects the movement of the portfolio month on month over the last one year or so, with the purpose to highlight concentration of delinquency in respective buckets and the efficiency of the collections efforts in resolving delinquent accounts. This analysis also gives the inputs about the flow basis past trends and the quality of new bookings

The Company also undertook various initiatives to enhance its recoveries. These include deployment of resources from across verticals into recovery activities; tie-ups with Paytm and Airpay, among other e-payment wallets, for monthly overdue collection; proactive analysis of the credit worthiness of customers; empanelment with a pan-India auction agency and a distressed property marketing company.

The Company had instituted recovery proceedings against the delinquent and non performing accounts including proceedings under the Arbitration and Conciliation Act, 1996, Negotiable Instruments Act 1881, SARFAESI Act, 2002 and the Insolvency and Bankruptcy Code, 2016.

The uptrend in delinquency was observed across all segments mainly due to ongoing systemic stress and vintage impact, low portfolio growth, securitisation of good quality retail portfolio. Moreover, there were legal challenges due to a spurt in recovery cases under specialised courts like DRT, DRAT as all NBFCs were notified eligible under the SARFAESI Act, which resulted into prolonged recovery proceedings. These courts have very limited infrastructure, which is not enough to handle influx of cases in timely manner. Earlier, only 35 HFCs were allowed to initiate action under the SARFAESI Act, 2002, apart from banks. Now all NBFCs (which are more than 160 in numbers) are covered under the SARFAESI Act. Recently, co-operative banks have also been allowed to use the SARFAESI Act.

The SARFAESI success rate that the Company has maintained is 62%. With concentrated efforts and tie-ups with various business partners, we were able to dispose 53 assets with an outstanding of ₹ 43 crores during the year.

With the consistent recovery efforts, Stage 2 in the retail loan assets has substantially reduced compared to the previous quarter, mainly due to high roll back and normalisation rate, with curing of stressed accounts. This was achieved with focused strategy of maintaining bucket level resolutions. The fresh flow of accounts was controlled effectively by using highly automated recovery contact centre with in-built predictive dialling. The Company has identified slow-moving, under construction projects with outstanding of ~₹ 720 crores, in which voluntary SICR was applied during the year, otherwise these would have been classified in Stage 1. As a part of Stage 2, life-time provisions were applied in these accounts.

Similarly, on the corporate book, Stage 2 asset was lower by 18% year-on-year at ₹ 914 crores as on March 31, 2020. This includes loan accounts that moved into next bucket due to significant increase in credit risk (SICR). The Company identified three new and one existing account under SICR having total outstanding of ₹ 389 crores that was voluntarily moved into Stage 2. The Company has created sufficient provision of 28% in Stage 2 compared to 15.2% as on March 31, 2019.

A TECHNOLOGY COMPANY IN THE BUSINESS OF HOUSING FINANCE

We live in an era of continuous and rapid disruptions with evolving customer preferences. Technology-led innovation is playing a key role, not just in ensuring relevance, but also in providing a competitive edge. Simply put, technology is enabling enterprises to imagine and deliver better products and services that enrich customer experience.

The information technology (IT) architecture at PNB Housing helps the Company stay ahead of the curve. The IT team engages with leaders across business verticals to provide tailormade solutions, with speed, accuracy and transparency both at the back end and the front.

Today, the Company's digital capabilities are deeply entrenched, positioning PNB Housing as a technology company in the business of housing finance. The Company has evolved from a conventional lending entity to a contemporary service provider in a very short duration.

In FY 2019-20, the Company aimed to consolidate and augment the work done in the previous financial years to bring in efficiencies and enhance productivity from the multitude of business applications and infrastructure deployed. With an automated algorithm, a vast network of fintech integrations and more than three decades of business blueprint, we are enriching the experience of home buyers by becoming their trusted financial partner.

FY 2019-20 highlights

- **ISO certification**
  PNB Housing was awarded the ISO 27001:2013 certification in March 2020, one of the highest security standards in the country. ISO 27001:2013 takes a risk-based approach to information security, requiring organisations to identify threats and select appropriate controls to tackle them.
  The Company enables frictionless business workflows, while ensuring security and controls to prevent unsolicited transactions and perpetrations of fraud. The Company believes in an integrated security strategy with common governance set for people, processes and platforms – in other words, a unified technology solution for the complete spectrum of business operation.

- **User behaviour analytics**
  The Company has implemented user behaviour analytics (UBA) in its security operation centre to strengthen the monitoring of insider threats in the organisation. UBA develops risk profiles for all users in the corporate network and enables the IT security team to act when there is an anomaly in the standard behaviour.
  Risk profiling is done by assigning risk to different security use cases. The risk score also helps in identifying the high-risk users. UBA has been implemented with Machine Learning algorithms to automate and predict the behaviour patterns and risk associated with the users in the network.

- **Work from home solutions**
  IT played a significant role in transitioning the Company's employees to remote working in a seamless, efficient and secure manner, without any loss in working days, during the nationwide lockdown.
  All machines were encrypted to mitigate the risk of data loss/theft. Only authorised personnel to whom the laptop is assigned can unlock it to access the data. For sustainable business continuity, some of the other solutions that were deployed include multi-factor authentication; central repository of registered users, session recording, session shadowing, centralised desktop interface and access management with least privilege access principles.

- **Branch delivery**
  PNB Housing opened a new branch in the Fort area of Mumbai. It is the first branch of the Company, which is focused on the deposits business, namely, fixed deposits. It has been equipped with modern and state-of-the-art high-speed devices.

- **Integration with Paytm and Amazon**
  The Company integrated many of its banking services with different digital platforms, like Paytm and Amazon. Customers can check their balance and clear their due payments through Paytm. Amazon merchants can use the Amazon Seller Lending Network to avail loans from PNB Housing.

- **Project Galileo**
  Project Galileo is redefining the canvas of corporate finance at PNB Housing. It is a new age smart solution integrated with more than 150 digital interfaces, a collaborative business platform for all stakeholders. The project will bring in better efficiency, ease, insights and controls.

- **Enterprise service bus**
  PNB Housing implemented IBM's Integrated Bus as a middleware suite for its application integrations. The core concept of Enterprise Service Bus architecture is to amalgamate different applications by putting a communication layer between them and then enabling applications to exchange information via the Enterprise Service Bus. This decouples systems from each other, allowing them to communicate without dependency or knowledge of other systems integrated with the middleware. Also, it creates an additional security layer while communicating with external service providers to enhance security controls on external integrations.

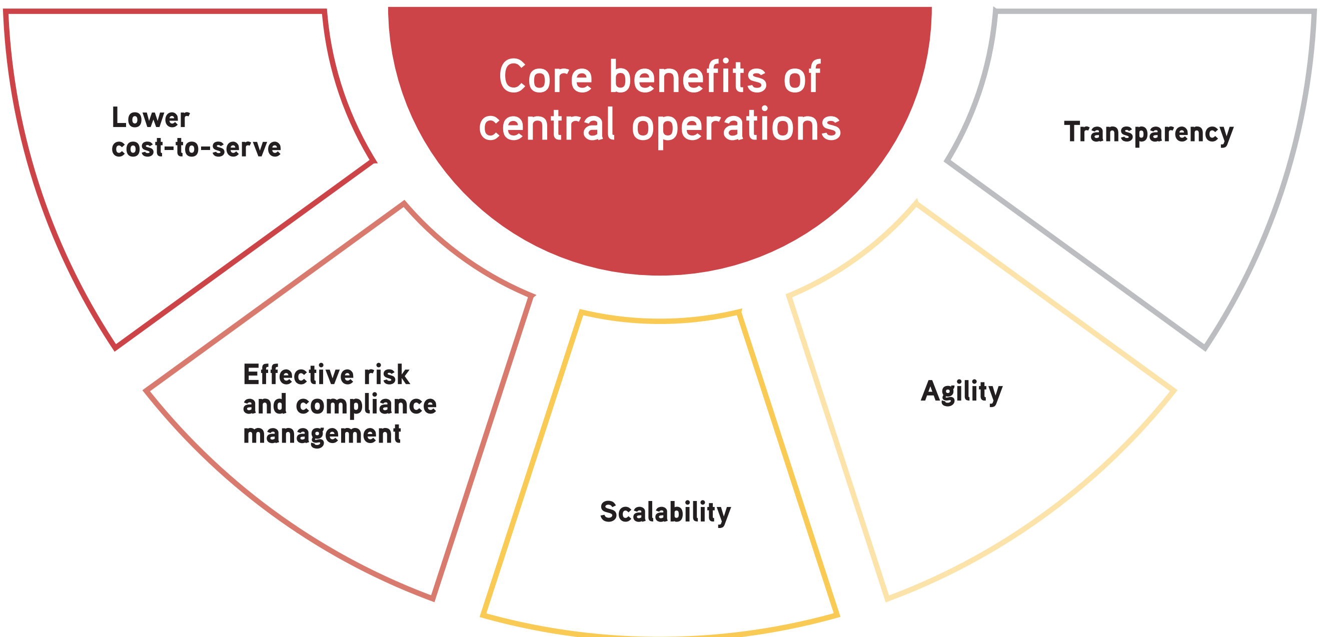
- **Treasury management system**
  Obtaining the right amount of funds at the right time and at the right price is a hallmark of a successful treasury function. In order to help the treasury function to manage its day-to-day business in an efficient manner, a new treasury management system was introduced. It was seamlessly integrated with the enterprise system solution. It entails a deal recording system that ensures complete flow of information from front, to middle, to back offices, across various modules. The new system has an in-built architecture to support risk monitoring in accordance with business requirements.

- **Enterprise System Solution**
  - **Statement of Account**
    After the launch of enterprise system solution, a new version of statement of account (SOA) was introduced in the system, based on the feedback received from operations and collections teams. The new version of SOA is simpler to understand, more user friendly and easy to comprehend.
  - **TDS bulk upload**
    A new functionality of bulk upload of TDS certificates was developed in V-Connect so that business partners can easily get the access of their respective TDS certificates through the app. This feature will make the TDS upload process swift and hassle free and will give a better user experience to our business partners.
  - **Single disbursement account**
    The Company instituted a single disbursement account for pan-India branches, replacing separate disbursement bank accounts for every branch and the same is controlled centrally, thus reducing the time taken to manage the bank account. Branches do not require to do follow-up with the local bank branch about transactions as the same are managed centrally with ease. Efficiency in conducting bank reconciliation and in other accounting exercises has improved. This further led to enhanced monitoring at the central level.
  - **Disbursement authorisation matrix**
    The Company also introduced facsimile signatures on disbursement cheques and revamped the disbursement authorisation module.

- **Moratorium**
  The surge in queries post the announcement of moratorium by the RBI, was deftly managed by customer services. The IT team helped significantly eliminate any operational challenges that could arise out of implementing a moratorium amidst the lockdown and at a time when branches were operating at sub-optimal capacities. The Company proactively disseminated information to customers, while providing them with necessary guidance, documenting their consent to exercise the option and ensuring the requisite paperwork was in place.

ACHIEVING GREATER EFFICIENCY THROUGH CENTRALISED OPERATIONS

The Company's central operations, an ISO certified unit, is a transaction powerhouse to implement best practices in operational activities and customer experience.



The central operations team has successfully delivered all non-customer interface operational activities as per the enhanced service level agreement (SLA). The team is divided into two specialised business units: central processing centre (CPC) and centralised operations (COPS).

All activities managed by CPC and COPS are completely system generated, centrally standardised and electronically conducted, resulting in enhanced accuracy, reduced TAT and customer delight. The central operations provide critical back-end support, elevating productivity and enabling branch operations to focus on top-of-the-line sales and customer service.

Key activities of CPC and COPS

- Custodian of documents
- Digitisation of title documents
- Business partner management
- CERSAI charge creation and satisfaction
- Centralised refund processing
- Image-based deposit processing
- Repayment mode management
- Cash management services
- Service request management for internal and external customers
- Customer correspondence management

Central Processing Centre (CPC)

The Company operationalised two new CPCs in Mumbai and Bengaluru, in addition to the existing CPC in Noida. These new facilities, a testimony to our scalable target operating model, strengthens our agile delivery. This has helped in achieving the load balancing and ensuring business continuity, while acting as a disaster recovery site for the Noida CPC.

CPC acts as a custodian of documents – loan files, deposit applications, repayment pouches and business partner applications, among others.

Scanned and digitised documents are stored on dedicated private cloud. The key benefits derived from digitisation of documents include elimination of transit risk involved in the retrieval of security documents from storage facility, elimination of misplacement of documents in any scenario. Digitisation gives us online access to all the mortgage documents from a digital repository and has reduced turnaround time involved in retrieving the documents, thereby ensuring better customer service.

Post digitisation, all documents are stored inside sealed dockets in a professionally managed storage warehouse. The warehouses are well protected against the risks of floods, waterlogging and fire. Repayment pouches are stored separately as these are more frequently referred to. There is complete visibility on the movement of all documents, throughout the loan lifecycle, with the help of bar code tracking. The stock of on-hand dockets is updated in real time, based on which the actual location of the dockets can be tracked at any given point.

CPC also manages the repayment mode and creation/settlement of charge at Central Registry of Securitisation Asset Reconstruction and Security Interest (CERSAI) and settlement of the Pradhan Mantri Awas Yojana subsidy applications.

CPC further assists in the banking of instruments, both cash management services (CMS) and easy monthly instalments (EMI) within defined timelines. CPC handles nearly 12,000 service requests, including loan closure and refund claims, every month, also within defined timelines.

Centralised Operations (COPS)

The COPS team, based out of Noida is oriented towards the processing of deposits, insurance reconciliation, pay-out processing, customer correspondence and channel partner empanelment. COPS enables a paperless environment, wherein deposits are processed through images, payments to depositors are made electronically and so on. It is the single processing hub for payments of all channel partners as defined in the pay-out structure.

FY 2019-20 highlights

- **Custodian of documents**
  All title/security documents were stored in docket covers with a specialised custodian company. The movement of documents was tracked through bar codes to ensure proper control throughout the lifecycle of the loan.
- **Digitisation of title documents**
  1.75 lakh title documents were digitised during the year.
- **Centralised refund processing**
  The Company has introduced a new process of centralised refund, which will mitigate the financial risks involved. It ensures improvement through increased efficiency and centralised access to information, accuracy and timely processing.
- **Repayment mode management**
  98% of EMI payments happened through the electronic mode and 2.41 lakh EMI instruments were banked electronically as well.

FINANCIAL PERFORMANCE

Consolidated performance indicators (as per Ind-AS)

(₹ in crore)	FY 2019-20	FY 2018-19	Variance
Net interest income	2,308.04	2,063.48	12%
Fee and Commission income (net of Fees and Commission expense)	289.92	394.82	(27%)
Other Income	7.71	3.90	
Gross income	2,605.67	2,462.20	6%
Operating expenditure	543.30	538.89	1%
Operating Profit	2,062.37	1,923.31	7%
Impairment of Financial instruments & Write offs	1,251.37	188.95	
Profit before tax	811.01	1,734.39	(53%)
Profit after tax	646.24	1,191.52	(46%)
Other Comprehensive Income (net of taxes)	(55.30)	(102.33)	
Total Comprehensive Income	590.94	1,089.19	(46%)
Basic Earnings per share (₹)	38.45	71.19	(46%)
Dividend per share (₹)	0.00	9.00	

Key financial ratios

(%)	FY 2019-20	FY 2018-19	Variance
Average yield	10.71%	10.35%	36bps
Average cost of borrowing	8.25%	8.00%	25bps
Spread	2.46%	2.35%	11bps
NIM	2.98%	2.93%	5bps
Cost-to-income	16.89%	19.61%	(272bps)
Return on asset	0.80%	1.61%	(81bps)
Return on equity	8.12%	17.44%	(932bps)
Total provision/total asset ratio	2.61%	0.80%	
Average gearing	8.8	9.3	
Book value per share	475.49	450.46	6%
CRAR	17.98%	13.98%	400bps
- Tier I capital	15.18%	11.00%	
- Tier II capital	2.80%	2.98%	
Risk-weighted asset (₹ in crore) (as per IGAAP including off balance sheet items)	49,143	58,020	(15%)

FOCUSING ON LIQUIDITY AND COST OF FUNDS

Treasury mobilises the basic raw material needed to effectively drive the business. The team ensures maintenance of adequate liquidity to support business growth planned for the year, with a focus on cost of funds and risk management through the ALM framework. By mobilising and managing liquidity at the right price and through appropriate mix in terms of fixed and floating, long term and short term, treasury enables the Company to effectively price the loan assets to earn a meaningful risk-adjusted return on capital. Treasury is also responsible for investments of surplus funds, with a focus on safety and returns.

The team was quick to pre-empt the challenges around liquidity and short-term borrowings and effectively reworked its borrowing mix. As a result, bank borrowings increased from 18.2% as on March 31, 2019 to 24.4% as on March 31, 2020. The funding from short-term commercial papers also reduced from 9.6% as on March 31, 2019 to 0.5% as on March 31, 2020. The Company currently has a well-diversified resource base, which includes bank loans, refinance facility from the NHB, foreign currency-denominated ECBs, CPs, NCDs and securitisation through direct assignment.

FY 2019-20 highlights

- **G-Sec rate movement and policy announcements**
  The 10-year G-Sec rate was in the range of 6-7.5% during the year. The G-Sec rates moved lower largely on account of repo rate reduction of 75 basis points by the RBI in March 2020 and infusion of liquidity in the system in response to the lockdown initiated by the government due to COVID-19. Despite the fall in G-sec rates, spreads on corporate papers did not contract to the same extent primarily due to risk averseness in the market for the NBFC/HFC sector. The risk aversion also stemmed from the fact that the RBI permitted banks and NBFCs/HFCs to extend moratorium on instalments for three months beginning March 1, 2020 to their customers.
- **Deposit mobilisation**
  The deposits business gathered momentum, with the activation of in-house channels for sourcing new businesses and cross-selling to existing loan customers. Evolving with the need of the hour, the Company introduced online deposits and loan against deposits. Loan against deposits were provided at lower rates than that of personal home loan market players. The Company witnessed healthy inflow of deposits during the year, garnering gross flows of ₹ 9,120 crores, despite weak market sentiment, supported by the PNB brand and an enabling business team, thus taking total deposits to ₹ 16,470 crores as on March 31, 2020, a healthy growth of 15% as compared to previous financial year with increased share of retail deposits.
- **Bonds**
  The Company mobilised funds through secured, rated and listed bond issuance of ₹ 3,000 crores, of which ₹ 2,500 crores were raised with a door-to-door issuance and weighted average tenure of 10 years and eight years, respectively. The bond issuance sharply fell compared to the previous year due to subdued debt capital market sentiment affecting NBFCs and HFCs and due to high yields demanded by debt capital market in comparison to bank term loans. Hence, the Company, as a strategy, focused on raising funds through bank term loans and securitisation routes. The Company made bond redemption of face value of ₹ 7,308 crores during the year.
- **Bank borrowings**
  The Company mobilised bank loans of ₹ 14,396 crores during the year. The Bank term loans mobilised from both public and private sector banks are for a tenure of four years. The Company has sanctioned working

capital limits of ₹ 5,125 crores from various banks as on March 31, 2020 to address any temporary cashflow mismatch. Banks have reduced their Marginal Cost of Funds based Lending Rate (MCLR) recently, primarily due to the reduction in the repo rate by the RBI. As all the term loans are on a floating rate basis with interest rate reset at various intervals, the Company expects lower borrowing cost on the outstanding term loans during FY 2020-21. The outstanding bank loans were at ₹ 20,508 crores, as on March 31, 2020.

- **External commercial borrowings (ECB)**
  The Company raised US$175 million through ECBs from SMBC Bank, Singapore and the IFC, Washington for tenor of three and five years, respectively, and on a fully hedged basis. In September 2019, the Company officials participated in roadshows in Singapore and Taiwan to provide update on the organisation and further tap this market. In April 2020, the Company signed an agreement with the Japan International Cooperation Agency (JICA) to raise ECB of US$75 million at attractive pricing with co-financing of US$25 million by Citibank for the purpose of providing affordable housing to low income households in India. JICA is one of the largest bilateral development organisations in the world. This was JICA's first debt funding in the housing finance sector in India. The ECB is for a tenor of 5 years and further enables the Company to manage its ALM. Despite the lockdown, with our operational robustness and resilient human capital, the team worked relentlessly to have the agreement executed. The outstanding amount under the ECB route stands at ₹ 5,659 crores, as on March 31, 2020.

- **Securitisation**
  The Company securitised retail portfolio under the direct assignment (DA) route of ₹ 9,311 crores to various public sector banks and a few foreign banks. There was good demand for Company's retail portfolio by the banks due to low non-performing assets in the pool. The Company intends to make use of the DA route as and when necessary as it releases capital, adds to profitability, provides liquidity and helps in ALM. All the securitisation transactions were carried out without any credit enhancement or partial credit guarantee. The outstanding securitised portfolio as on March 31, 2020 stood at ₹ 15,775 crores.

- **Refinancing from the NHB**
  The Company received refinance facility sanction of ₹ 1,500 crores from the NHB for a tenor of 10 years. The Company availed the disbursement under the above sanctioned facility in two tranches in April and May 2020. The outstanding amount, as on March 31, 2020 under this facility stood at ₹ 6,235 crores. In addition, in May 2020, the Company was among the first to receive ₹ 750 crores from the NHB under the special refinance facility announced by the RBI.

- **CPs**
  The Company's CP borrowings reduced from ₹ 7,950 crores, as on March 31, 2019, to ₹ 416 crores, on March 31, 2020. The Company raised fresh CPs aggregating ₹ 13,406 crores during the year for an average tenor of three months at a weighted average cost of 7.43%. The reduction in CP outstanding was mainly on account of subdued demand in the market for CPs of tenor greater than three months, whereas the Company had planned to raise longer-term CPs to manage the ALM. Hence, the Company reduced its dependence on CPs.

- **ALM and liquidity position**
  The Company's asset-liability maturity profile is very strong. As on March 31, 2020, the Company had positive cumulative gaps in the up-to six-month bucket (excluding lines of credit) largely helped by high on-balance sheet liquidity.

  As on March 31, 2020, the Company maintained sufficient liquidity of around ₹ 8,514 crores (not considering SLR investments) and had additional sanctioned but undrawn lines of over ₹ 4,000 crores. The Company has serviced all committed liabilities to date without exercising the moratorium option with any of its lenders.

  The Company also undertakes robust monitoring of its liquidity position through multiple liquidity parameters through the quarterly ALM Committee meetings.

ENHANCING WORKPLACE PRODUCTIVITY AND EFFICIENCY

Facilities management function coordinates space, infrastructure and general administration. Office administration is one of the key elements associated with high levels of workplace productivity and efficiency. It is responsible for planning, design, execution, operation and maintenance of all the facilities and provides complete logistics support for meticulous execution of day-to-day business activities. At the same time, it steers through financial and technical constraints with aesthetics, security, accessibility and ease of doing business. The function, while planning for a new location, keeps in mind the accessibility for the employees as well as customers. For instance, many of our branches are closer to the metro lines so that it is easy to commute. The function continues to play a crucial role in re-positioning our brand, both within the organisation and to the external world.

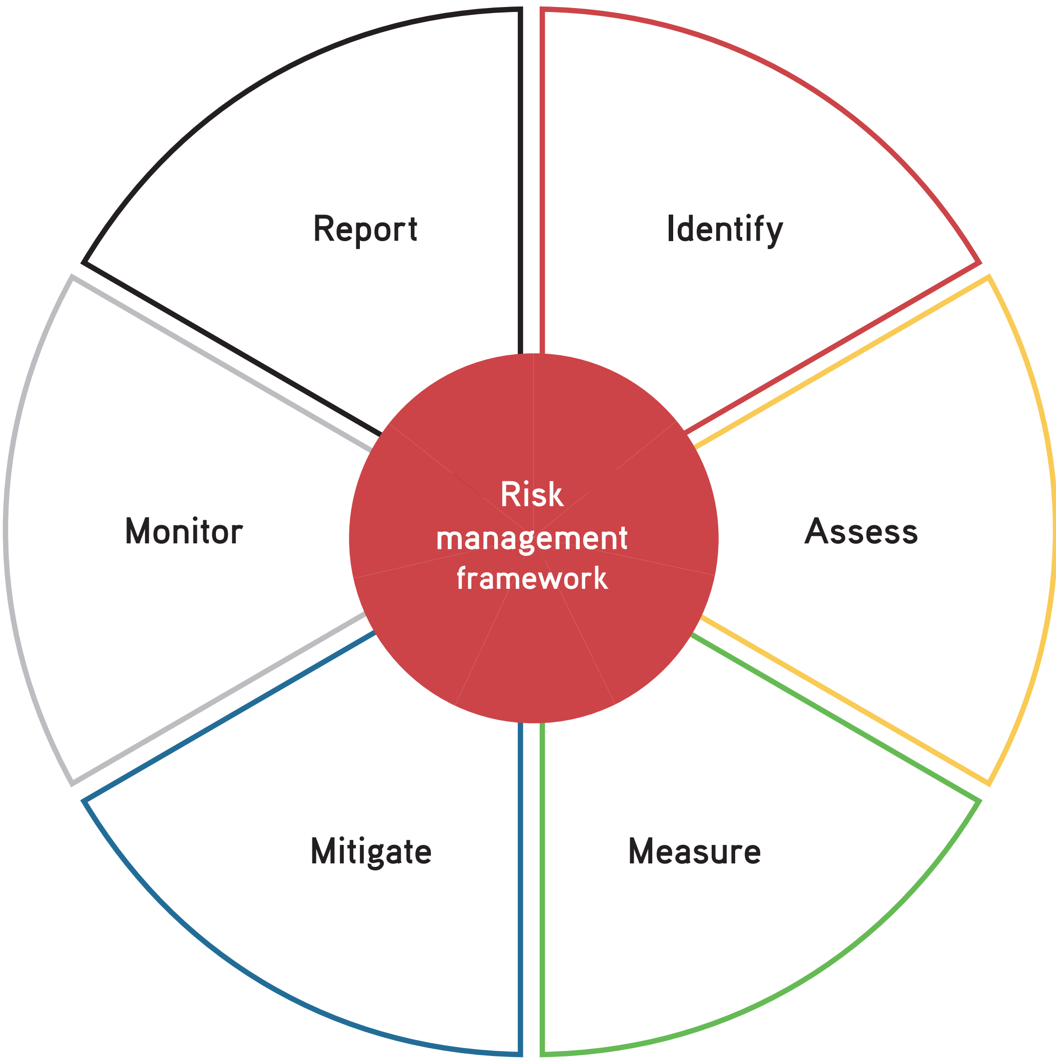
FY 2019-20 highlights

- PNB Housing began the year, operating out of 125 office spaces, comprising 102 branch offices, 23 processing hubs, regional offices and a central support office, maintaining a total area of 4,12,926 sq. ft. An incremental work area of 6,292 sq. ft. was added during FY 2019-20, taking the total workspace to 4,19,218 sq. ft.
- In the wake of the pandemic, the facilities team provided complete support to our full-time employees as well as PHFL staff members, according the highest priority to the health and wellbeing of our internal teams as well as walk-in customers. Workplaces were sanitised round the clock, with hand-sanitising stations located at strategic places. Clear protocols were instituted, in line with international and national advisories. Strict social distancing norms were enforced. Thermal scanners at points of entry were used, to run temperature checks, while visitors' entry was restricted to only those deemed essential. Staff operated in branches at less-than-full capacity, on the basis of rotational shifts.

PRUDENT RISK MANAGEMENT IN AN UNCERTAIN WORLD

PNB Housing's risk mitigation methodology is designed to actively identify and manage risks that impede the achievement of business objectives, as well as provide reasonable, but not absolute, assurance against material misstatement or loss. We continue to build risk management into the way we work. It is implemented through a Company-wide framework and this enables us to be closer to realising our ambition of being one of the most preferred HFC for stakeholders. Our risk management measures broadly include risk assessment, risk catalogue, risk appetite framework, risk planning, risk culture, internal controls and good governance. We clearly articulate our risk appetite, functional policies and key risk indicators (KRIs) to explicitly define the level and nature of risk that we are willing to take.

The Board has delegated the responsibility of risk management to its risk management committee (RMC), which reviews the efficacy of our risk management framework, provides important oversight and assesses whether it is consistent with the risk tolerance levels as laid down. The RMC gives directions to executive risk management committee (ERMC) that comprises our senior management team. The principal business risks (assessed function wise) are credit risk, market risk, liquidity risk, reputation risk and technology risk. We have formulated risk management policies along with KRIs, which are measured and reported to the RMC on quarterly basis.



Principal business risks

The principal business risks (assessed function-wise) are credit risk, market risk, liquidity risk, reputation risk and technology risk. We have formulated risk management policies along with KRIs, which are measured and reported to the RMC on a quarterly basis.

Principal risks	Description	Mitigation measures
Credit risk	Risk of a decrease in the value of the Company's assets due to uncertainty about a stakeholder's ability to meet their obligations	• Facilitate the Company to take appropriate risks to achieve its business objectives within the acceptable level of risk tolerance; setting out the principles, standards and approach through a comprehensive framework to identify, assess, measure, monitor, control and report credit risks in a timely and efficient manner, helping observe early warning signs of delinquency and maintaining asset quality year-on-year • Define roles and responsibilities for RMC, ERMC and business units to optimise credit risk governance • Customise approaches for risk measurement of various portfolio segments/sub-segments • Develop strong underwriting and security/collateral management frameworks • Review KRIs of concentration; delinquency; and efficiency
Market risk	Risk of a decrease in the value of the Company's assets held for trading or an increase in the value of its liabilities held for trading, due to fluctuations in interest rates, credit spreads, external factors or prices in the market where the assets and liabilities are traded	• Review the interest rate scenario regularly • Provide inputs regarding market risk profile and portfolio performance so that positions taken are within the approved risk tolerance limits
Liquidity risk	Risk of insufficient liquid assets or limited access to market financing to meet contractual maturities of liabilities, regulatory requirements or the investment needs of the Company	• Ensure availability of adequate liquid resources with a view to keep assets and liabilities maturity mismatches within the desired levels • Implement a 'Liquidity Contingency Plan' to take care of any adverse liquidity position
Reputation risk	Any indirect loss expected to arise from adverse experience or adverse perception in the public domain	• Measure and monitor the traditional as well as social media landscape for threats • Promptly respond to consumer complaints • Continually interact with internal and external stakeholders
Technology risk	Losses due to hardware or software inadequacies or failures in the technical infrastructures that could compromise the availability, integrity, accessibility and security of the infrastructures and data	• Review KRIs of availability and continuity; security; data integrity; and outsourcing • Constantly monitor failure of system processes as well as any external forces that could endanger operations • Incorporate best practices vis-a-vis the protection of corporate information, IT systems, services and equipment

SHAPING A RESPONSIBLE BUSINESS

Environmental, social and governance (ESG) considerations are integrated across the business and built into the policies and principles that govern PNB Housing. This is viewed as a business fundamental and we seek continuous improvement in these areas because they underpin the long-term value-creation ability of the Company.

Employee engagement

Please read more on Page 28 of the Annual Report.

Environment responsibility

Please read more on Page 31 of the Annual Report.

Role in society

Please read more on Page 32 of the Annual Report.

Governance and ethics

Please read more on Page 36 of the Annual Report.

DEVELOPING CLOSER CONNECT WITH MARKET PARTICIPANTS

In addition to capital raising activities, the Company, through its robust investor outreach programme, continued its close connect with market participants in the form of regular updates, meetings, calls, investor conferences, non-deal roadshows and so on across geographies.

During the year, the investor relations team met and had calls with 430 funds and research houses, including 67% unique meetings. There were 11 inbound visits of the investors to our branches and hubs. The inbound visits help an investor to understand our operating model, which differentiates PNB Housing from other HFCs.

The Company participated in 14 conferences in Mumbai and Delhi. We conducted non-deal roadshows in various geographies, namely, Mumbai, Hong Kong, Singapore, London, New York, Boston and for the first time, Taiwan.

The quarterly, half yearly and annual results were intimated to the stock exchanges and emailed to the market participants, along with the press release and a detailed investor presentation. The earnings call post results was conducted on the same day, where the management spent time to first give an update on the business and financials, followed by answering the queries of market participants. In order to ensure the information sharing is up-to-date and relevant for the market, the investor pack is regularly updated with additional information basis internal and external scenario, interaction with market participants and their feedback. The Company has also placed a two-pager factsheet on its website under investor relations section to give a quick glimpse of the Company.

The investor relations team also conducted a third-party perception study among the investors, to identify risks and opportunities critical to manage the investors and analysts, gauge the effectiveness of the Company's communication, analyse knowledge gaps, etc. The Company will continue to add value to its communication with the market and draw from the results of these engagements.

AUGMENTING INTERNAL CONTROLS

Business growth demands that internal audit performs stringent checks to track any deviation. The internal audit function applies a systematic, disciplined approach to evaluate the effectiveness of the controls and risk management process across the Company. We have processes for internal audit in place, where by disbursement and docket audit while getting shifted from CPC to branches, are audited by external legal firms and their findings are shared monthly while the audit reports are issued quarterly. This year, portal filings were carried out online, in line with the guidance from the regulators. The key issues identified during the audit were apprised to the ACB on a quarterly basis.

The hubs and branch audits are conducted at various intervals by the in-house audit teams. For auditing the functions such as accounts, deposits, general administration, IT, HR, customer service and so on, the auditors visit the branches twice a year. Transaction audit of the branches are completed as per the given scope and in time. Functions at the CSO, namely, treasury, finance and accounts, general administration and HR are audited by an external auditor at quarterly intervals. The functions like corporate finance, compliance, CSR, COPS and CPC, central recovery and IT are audited by in-house internal auditors at specified intervals.

SAFE HARBOUR STATEMENT

In this Annual Report, certain statements are forward looking, including and without limitation statements within the meaning of applicable laws and regulations, relating to the implementation, strategic initiatives and other information on our business, business development and commercial performance. While these forward-looking statements exemplify our judgment and future expectations concerning the development of our business, a number of risks and uncertainties and other important factors viz. economic conditions affecting demand and supply, government regulations, natural calamities and so on, may cause actual development and results to differ materially from our expectations. PNB Housing Finance undertakes no obligation to publicly revise any forward-looking statements to reflect future events or circumstances.