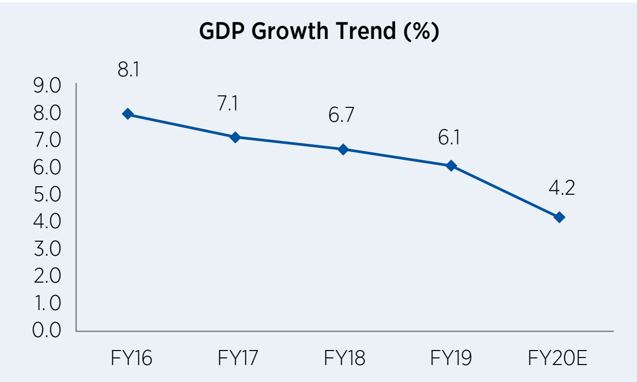
MANAGEMENT DISCUSSION AND ANALYSIS REPORT

MACROECONOMIC OUTLOOK

The Indian economy has already been experiencing significant slowdown over the past year. Investment and consumption demand had been languishing and a number of stimulus measures have been taken to bring back the economy on a growth path. Covid-19 outbreak has raised fresh challenges for the Indian economy, causing severe disruptive impact on both demand and supply side elements. As per the provisional estimates of Central Statistics Organisation (CSO), the growth of India's real GDP during FY2020 is estimated at 4.2%, as compared to 6.1% in FY2019. The MSME sector that contributes around one-third to India's GDP would be hit particularly hard by the current crisis. Given the large share of unorganised sector in India, the slowdown will have severe repercussions on employment, which in turn will have an adverse impact on consumption and investment in the economy.



Source: Central Statistics Organisation, 3rd Advance Estimates dated 29th May, 2020

Still among the fastest growing

However, India is still considered as one of the fastest growing economies of the world. After overtaking the United Kingdom and France, India has became world's fifth largest economy in 2019 in terms of nominal GDP. Buoyed by a strong economy, rising household income, socio-economic factors and change in spending pattern, consumption expenditure has been on a rise in India. On the basis of purchasing power parity (PPP) India is the third largest economy in 2019. Indian economy is expected to register a sharp turnaround and resume its growth trajectory on the back of digitization, globalization, favourable demographics, Government reforms and fiscal stimulus packages. The growth will be further aided by strengthening of labour reforms and gradual recovery in supply chain development.

Economic measures for revival

The Government of India and the Reserve Bank of India (RBI) have also announced several measures to combat the social and economic crisis arising out of the Covid-19 breakout. To uplift the economic gloom, the Government has laid out a road map towards building a self-reliant India with five key pillars identified as Economy, Infrastructure, System, Vibrant Demography and Demand. The Government has announced economic stimulus 'the Atmanirbhar Bharat Abhiyan package' of ₹ 20 trillion, which represents roughly 10% of the Indian GDP.

Overall the economic stimulus focussed on land, labour, agriculture, supply chain and tax reforms along with massive spending on social sector and infrastructure building. The liquidity support measures are focussed on the key areas of MSME, NBFC, MFIs, power distribution companies, real estate etc. It also includes RBI's initiatives to inject large liquidity into the system through open market transactions and reducing cash reserve ratios, reverse repo rate, providing six months moratorium on loan etc. The RBI has cut the repo rate by a total of 115 bps in phases since the lockdown began in late March which now stands at 4%.

The Inflation measured by the Consumer Price Index (CPI), peaked at 7.6% in January 2020 before being moderated to 5.9% by March 2020. With softening of food prices, sharp fall in crude oil price and expected normal monsoon, RBI expects inflation to remain firm in first half of FY2021 and is expected to fall below the target of 4% in second half of FY2021.

Although there is temporary slow- down of Indian economy, the structural reforms, fiscal, monetary and administrative measures being currently undertaken are expected to revive the economic growth in second half of FY2021. However, the containment duration, the extent of global slump and further domestic policy support will decide the shape of economic recovery.

INDUSTRY OUTLOOK

Housing Industry- Structure & Development

Housing occupies a prominent position in the Indian economy as it has inter-linkages with other industries. The development of housing sector can have direct impact on employment generation, GDP growth and consumption pattern in the economy. The current estimated market size of the Real Estate industry is ₹ 12 lakh crore (USD 180 bn) for FY2020. By 2030, the Indian real estate industry is expected to touch ₹ 65 lakh crore (USD1 trillion), becoming the third largest globally. The residential segment in India contributes 80% of the entire real estate sector.

Key growth drivers

Some of the key growth drivers for increasing housing demand in India are as below: -

- **Urbanisation:** Rising income and employment opportunities have led to growing urbanisation and higher demand for affordable housing. Rising number of nuclear families have also aided the housing demand.

- **Traction in tier II and III cities and surging demand from rural sector:** The healthy growth trajectory is expected in these areas. Developers with income generating assets, healthy balance sheets and brand recognition are in a better position to increase rural penetration.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

- **Affordable Housing and Housing for All:** Backed by several government reforms, growing population and developer realignment of product-mix, the focus has now been shifted towards affordable housing from luxury and mid segment housing. Under Pradhan Mantri Awas Yojana (PMAY) – Urban, the Government has estimated demand of 1.12 crore houses for urban poor. As on 01st January, 2020, out of 1.03 crore houses approved, 60 lakhs have been grounded for construction, of which 32 lakh houses have been completed and delivered.

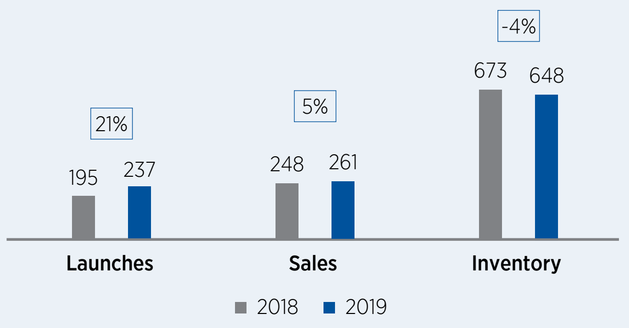
- **Government Policies and Initiatives:** The government has introduced several measures during the last couple of years to improve the prospects of the Real-Estate sector. These includes the RERA, Benami Transactions Act, impetus for affordable housing construction, reduction of GST rates, Interest subsidy and tax saving incentives for home buyers etc.

- **Increasing trend of Co-living:** Developers are now diversifying and exploring new arenas providing solutions to niche segments like senior community living, co-living and co-working spaces, student housing options, healthcare facilities and other segments like townships and plotted developments.

Sales momentum in India's top cities

The slowdown in the economy owing to the reduced consumption coupled with the liquidity crisis has had a cascading effect on the Indian housing sector in 2019. In line with the rise in new launches, 2019 also saw sales pick momentum, although at a slow pace. The housing sales of top seven cities in India stood at 2.61 lakh units in 2019, recording a yearly rise of 5%. Top seven cities presently account for around 70% of the overall residential market. Rising demand for ready properties or those nearing completion also helped the unsold stock across the cities to decline by over 4% in a year - from 6.73 lakh units in 2018 to 6.48 lakh units by the end of 2019.

Indian Residential Market (Housing - Thousand Units)



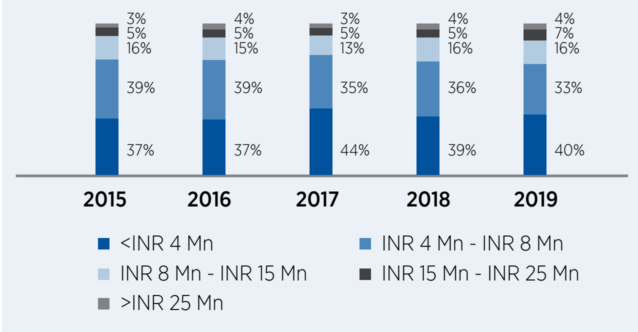
Source: Anarock India Residential Real Estate 2019 Annual Round-up

Note: Figures represent the top seven cities of India –Mumbai Metro political Region (MMR), NCR-Delhi, Bengaluru, Chennai, Pune, Hyderabad and Kolkata.

New launches

The new launch supply across the top seven cities of India increased by 21% in 2019 as against 33% YoY growth in the preceding year. Mumbai Metropolitan Region (MMR) accounted for nearly 33% of the total launches across top seven cities in 2019, followed by Pune and Bengaluru which accounted for 19% and 17% respectively. Of the estimated 2.37 lakh new unit launches in 2019 in the top seven cities, nearly 40% or approximately 92,000 units have come in the affordable housing segment (units priced <₹ 40 Lakh). The government's strong push on 'Housing for All' mission and extension of several benefits to the homebuyer and developer in this segment led to a wave of affordable housing developments and increase in launches.

Focus on Affordable and mid-segment (Units Price - Affordable: ₹ < 40 Lakh; Mid-end: ₹ 40 Lakh - ₹ 80 Lakh)



Source: Anarock India Residential Real Estate 2019 Annual Round-up

Sales increased by nearly 5% across the top cities in 2019 compared to the previous year. Mumbai Metropolitan Region (MMR) recorded the highest annual increase in sales at 22%. Bengaluru, Hyderabad and Kolkata recorded a decline in sales in the current year as compared to 2018, amidst restricted supply and marginally improving demand. Unsold inventory reduced across most cities in the range of 1% to 14%, barring Pune and Chennai where it increased by 6% and 4% respectively.

Growing demand for affordable housing

Home buyers have become extremely price conscious during the past few years. As a result, developers are consciously reducing the average property sizes across cities to fit their properties in the expected budget range. The demand for smaller units at prime locations is driven by increasing trend of nuclear families and working professionals/couples as they prefer to cut down on maintenance hassles and underlying costs. Developers are shrinking unit sizes which eventually helped to reduce the overall ticket prices for homes and thus fit into the affordability bracket of home buyers. Home Unit sizes drop maximum in MMR by 33% in 2019 followed by Pune.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Shrinking unit sizes to match the ticket size requirements

City	MMR	NCR	Bengaluru	Pune	Hyderabad	Chennai	Kolkata
% decline in Average Unit size –sqft (2018 to 2019)	33%	21%	20%	28%	8%	14%	7%

Source: Anarock India Real Estate Overview

With affordable housing being accorded infrastructure status in 2017, the housing market has been streamlined and is being given equal importance as other major infrastructure segments. To accelerate development in housing in the country, there is need to have a well-developed housing finance market.

Housing Finance Industry- Structure & Development

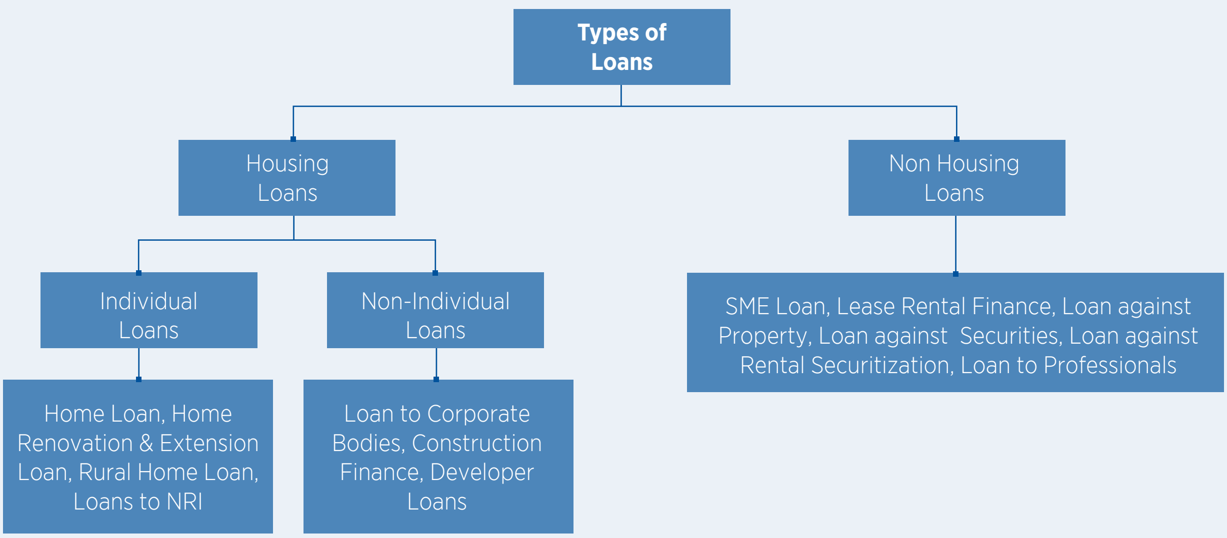
The housing finance market in India is a highly competitive segment in overall credit industry. The government, both at centre and states, is a facilitator and is assisted by two regulators, Reserve Bank of India (RBI) and National Housing Bank (NHB). There are number of players in the housing finance market which includes commercial banks, both domestic and foreign. In addition, there are cooperative banks, housing finance companies (HFCs), self-help groups, micro-finance institutions and NGOs. The RBI regulates commercial banks and partially cooperative banks, which are mainly governed by the State Governments under State Cooperative Acts, while NHB regulates the housing finance companies. The others such as self-help groups, NGOs etc. are not regulated by any authority in the country. It may be mentioned that the Finance (No. 2) Act. 2019 (23 of 2019) amended the National Housing Bank Act, 1987, confirming powers of regulation of HFCs with RBI which government notified on 9th August, 2019 i.e. the date on which Part VII of Chapter VI of the Finance (No. 2) Act. 2019 has come into effect.

Rising share of retail home loans

The need of long term finance for the housing sector in India is catered by scheduled commercial banks (SCBs), financial institutions, cooperative banks, regional rural banks (RRBs), Housing finance companies (HFCs), agriculture and rural development banks, non-banking finance companies (NBFCs), micro finance institutions (MFIs) and self -help groups (SHGs). The largest contributor to housing loans by virtue of their strong branch network and customer base are SCBs, accounting for the major share of housing loan portfolio in the market followed by HFCs. Furthermore, retail home loan has been the largest asset class as it forms around 60% of the total retail advances of HFCs, NBFCs and SCBs.

HFCs provides housing finance to individuals, co-operative societies, corporate bodies and leased commercial and residential premises to support housing activities in the country. For a financing institution to be registered with the NHB as a HFC, it is mandatory to record 70% of the on-book loans as housing loans. Further, to be eligible for re-finance from the NHB, the HFC has to record 50% retail home loans on its loan book.

Types of Loans extended by HFCs



MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Fuelling liquidity in Housing Finance

The Housing Finance sector has undergone a major transformation post IL&FS crisis in September 2018, followed by subsequent liquidity issues around the HFCs & NBFCs leading to a sharp deceleration in the growth of credit extended by HFCs. Since then, there has been a series of interventions from the Government of India to facilitate adequate liquidity flow to these entities from the Banking sector such as, Liquidity Infusion Facility (LIFt), Partial Credit Guarantee Scheme (PCGS) of Government of India for buy-out of rated asset pools of HFCs/ NBFCs, relaxed norms of RBI for securitization of assets etc. The HFCs have majorly been funded through capital market and bank borrowings. Since FY2019, funding via bank credit has increased as the NPA situation in banks improved and the access to the capital markets became costlier for certain HFCs.

As on January 2020, there were 100 HFCs, of which only 18 were deposit taking entities. Out of the 100 HFCs, 76 HFCs with 82% share in total credit and 91% of the total Housing Loan of all HFCs have shown a positive asset growth of 21% post IL&FS default. Their asset book or total loan book has increased by 21% during the 16 months period from ₹ 8.28 lakh crore on September 2018 to ₹ 10.02 lakh crore on January 2020 with primary source of funding of ₹ 23,000 crore by National Housing Bank (NHB) during the period.

Source: NHB, ICRA

LOOKING AHEAD

The disbursements of HFCs were impacted owing to Covid-19 related slowdown for the quarter ended March 2020, as per the ICRA Rating agency. The credit growth of HFCs is anticipated to be lower at 11% to 13% for the full year FY2021 as against last 3 years CAGR of 16% on account of salaried class and self-employed people, facing the prospects of job loss, salary cuts, business slowdown etc. following the economic impact of coronavirus pandemic. Further, it is expected that there will be deferment in purchasing home and taking home improvement/ extension decisions by the public until they are able to achieve stability in income levels/resumption of business activities. This will impact asset quality of all segments viz. Housing loans, loan against property (LAP) and construction finance.

However, the rating agency expects recovery in the second half of FY2021 depending on the overall economic turnaround. ICRA expects non-performing assets in the housing segment to increase to 1.8% to 2% by March 2021 from 1.4% as of December 2019. The slippages in the non-housing segment could be higher, with gross NPAs increasing to 3% to 3.5% in FY2021 from 2.1% as on 31st December, 2019.

Recent Government Initiatives to Support Housing Finance

Housing and real estate are amongst the fastest moving sectors in the country and has received continued thrust through demand side and supply side interventions from the Government of India, RBI and NHB. The government has initiated a slew of measures with an aim to boost housing demand and restructure the operations of HFCs. Following are the key measures announced:

- **NHB brings down total borrowings of HFCs to 12 times their NOF and raises capital adequacy to 15%:**

  The Housing Regulator has mandated HFCs to bring down their total borrowings to 12 times their net owned funds (NOF) and has raised their capital adequacy requirement (CAR) to 15%. Both the revisions are to be undertaken in a phased manner by FY2022. Further, the deposit accepting HFCs are allowed to accept public deposits amounting only up to 3 times of their NOF. The reduction in the borrowing limits would reinforce discipline amongst HFCs, while an increase in the minimum CAR level would strengthen their balance sheets.

- **Ban on Subvention Schemes – To curb unfair practices**

  With several complaints of frauds coming, the NHB has instructed HFCs to refrain from offering loans where real estate developers pay pre-EMIs on behalf of home buyers for a certain period.

- **Extended Tax benefits – To encourage first time homebuyers**

  The income tax deduction limit on interest paid on loans taken for affordable housing was increased from ₹ 2 Lakh to ₹ 3.5 Lakh per annum for self-occupied property valued under ₹ 45 Lakh in the previous budget. In Union Budget 2020-2021, the Government announced that the additional benefit of this deduction towards home loan under section 80EEA would be extended by one more year till 31st March, 2021.

- **Extension of Tax Holidays for Developers**

  The government provides tax holiday under the section 80-IBA of the Income-tax Act on profits earned by developers of affordable housing projects. The date of approval of affordable housing projects for availing this tax holiday was extended by one more year till 31st March, 2021 which was earlier approved till March 2020.

- **Restructuring of the loans for an additional year**

  RBI initiative to consider extension of window for restructuring of debts by MSMEs by one more year (which was earlier scheduled to close on March 31, 2020), will ease the cash flow pressure of the developers. This cash can be utilized for speeding up the construction work of housing projects.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

- **Realty Fund for Last-mile Funding – Affordable & Mid Income segment to benefit**

  The Government approved the creation of Category - II AIF (Alternate Investment Fund) of ₹ 25,000 crore to provide priority debt financing for the completion of stalled housing projects in affordable and mid-segment. The Government will provide ₹ 10,000 crore and the rest will be invested by LIC of India, State Bank of India (SBI) and sovereign funds. The initiative will encourage builders as well as incentivise the consumers to buy houses. The fund will be registered with SEBI and would be run professionally. (Source: Economic Survey 2019-20)

Benefits to Housing Sector under Atmanirbhar Bharat Stimulus Package

- The Credit Linked Subsidy Scheme (CLSS) for Middle income Group, operationalized from May-17, was earlier extended till March 2020. Under the new initiative, CLSS for the purchasing of new affordable houses has been extended till March 2021.

- Treat Covid-19 as an event of "Force Majeure" under RERA. RERA imposed completion deadlines on real estate projects scheduled to expire on or after March 25, 2020 has been extended by up to six months. The measures will de-stress real estate developers and ensure completion of projects, with the extended timelines also coming to aid amid the labour crisis.

- In view of the extension of the lockdown and continuing disruptions on account of Covid-19, permitting lending institutions to extend a total of six months moratorium on loan EMIs starting from March 1, 2020 to August 31, 2020. The move will delay the overall collection and recovery procedure and stretch the total liquidity cycle. However, the Government announced it will provide credit guarantee on investment-grade debt papers of NBFCs, MFIs and HFCs to the extent of ₹ 30,000 crore to boost liquidity.

- RBI has also announced special refinancing of ₹ 50,000 crore at repo rate to NABARD, SIDBI and NHB to ensure that they can support the credit demand in their respective sectors.

Key challenges faced by HFCs

The primary challenge for HFCs has been to access long term funds to readjust their Liability mix and rising cost of such funds. NHB has been proactive in responding to the liquidity environment and has initiated several measures to ease the situation. Liquidity Infusion Facility (LIFt) was introduced in August 2019 as a special window till 30th June 2020 for all HFCs, including those not eligible under regular refinance schemes on account of higher Net NPA (> 3.5%) and/or low Home Loan portfolio (<51%).

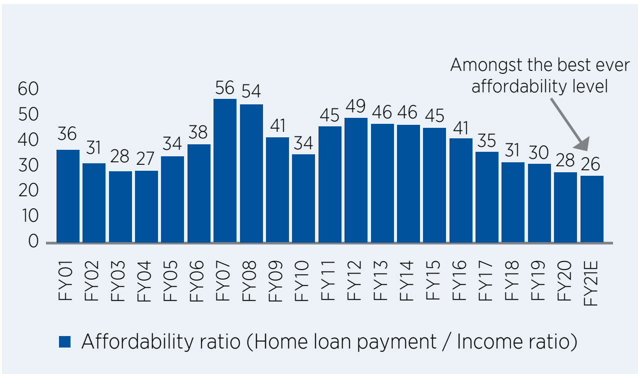
The scheme provides for additional exposure of up to 30% of HFC's NOF or 50% of NHB's NOF, whichever is lower, and this is over and above the refinance available under the two existing schemes of Liberalised Refinance Scheme (LRS) and Affordable Housing Fund (AHF). For the period July 2019 to January 2020, NHB has already sanctioned ₹ 22,675 crore to 40 HFCs which includes ₹ 9,037 crore sanctioned under LIFt.

The NHB has initiated another Liquidity Infusion Facility Scheme LIFt (2) in December 2019 for HFCs with an increased scheme allocation of upto ₹ 30,000 crore. NHB has further relaxed various conditions under LIFt (2) including the rates of Interest, time limit for end use, security conditions etc. Entities upto "B" as internal rating have been categorized under LIFt (1) and those with rating "C" have been categorized under LIFt (2).

Increasing Affordability – a key positive

Along with the Government initiatives, gradual decline in home loan rates, which are down ~350bps from their 11% levels in 2013 to 7.5% now, has increased affordability. Affordability (ratio of mortgage payment to post tax income) for a mid-income apartment (2BHK in a city-suburb) shows that the affordability levels are now the best in past 15 years.

Home loan payment to income ratio



Source: Jefferies Report on India Property - May 2020

COMPETITION

The housing finance sector growth has slowed down in the last one year due to liquidity crunch. Housing finance companies (HFCs) lowered their disbursements and raised portfolio sale through securitisation for repayment of debt obligations. Banks increased their retail home loan portfolio by 19% while HFCs grew by 9 % in last financial year.

The past few years have witnessed the emergence of private equity (PE) funds and institutional investors pumping money in construction finance through structured deals and mezzanine

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

financing. CARE Ratings expects this route to gain more acceptance as a result of regulatory changes like RERA. NBFCs had turned aggressive with their lending to real estate sector over the past few years, but had to slow down since September 2019 due to liquidity crisis.

Increasing overseas investment

While NBFCs are crawling back and have started investing, they are selective with quality and liquidity of assets they are investing in. The sustained caution among NBFCs of which HFCs are also part of, with their exposure to real estate, have provided private equity players a robust pipeline of real estate project financing transactions. Private Equity and Venture Capital investments in real estate sector reached US$ 4.47billion in 2018 and reached US$1.47billion during January-March 2019. Real estate attracted around US$14billion of foreign private equity (PE) between 2015 and Q32019.

Private Equity firms are increasingly looking at capitalizing on the growing requirement of last-mile funding by real estate developers, considering that such projects are less risky as they come with the required approvals and have already started generating sales. The ongoing liquidity crisis and reluctance of banks to refinance loans have also increased demand for funds, given that several late-stage projects are stuck due to insufficient capital. For instance, global alternative investment manager Investcorp, which is setting up a new real estate platform, will look at opportunities for last-mile funding apart from serving other credit requirements. Edelweiss Alternative Asset Advisors (EAAA) partnered with South Korean Financial services conglomerate Meritz Financial Group also launched a late-stage funding platform to buy out existing residential real estate loans. However, Housing Finance Companies with a dedicated focus on the industry and better understanding of the underlying real estate markets stand on a better position when it comes to understanding the needs of the customers as also assessing the risks in the industry.

OPPORTUNITIES

Housing is the fourth largest contributor to Indian GDP and the sector has the potential to become the engine of domestic growth for the Indian economy in the coming years. The home loan-to-GDP ratio in India is expected to grow significantly over the next few years as India has a low mortgage-to-GDP ratio at 9%, compared even to other developing countries. Hence, the low penetration points to a very large opportunity for growth. NBFCs and HFCs have taken advantage of this potential and have been the biggest drivers of housing finance growth. They have adopted multi-pronged distribution model and their last-mile connectivity in tier II and tier III cities has been very effective in tapping under-banked areas and underpenetrated segments of home buyers. HFCs and NBFCs have developed efficient loan processing capabilities through the use of technology platform and cost efficient processes, with an ability to offer faster loan turnaround time.

The new normal in realty sector

The Indian real estate market has shown some signs of stability, as developers have been reconciling to the new expectations, since the implementation of the RERA and GST and increasing supply gradually. The RERA is one of the significant reforms implemented in the real estate sector. The core objective of this transformative legislation is to ensure regulation and promote real estate sector in an efficient and transparent manner and to protect the interest of home buyers. RERA has now been notified in most States and Union Territories. The Act has ensured greater transparency and efficiency in residential markets.

'Housing for All'

The housing finance industry has received a boost from the increased growth in the affordable housing segment in the last few years, which has been driven by the government's vision of 'Housing for all by 2022' under the Pradhan Mantri Awaas Yojna (PMAY). Policies and structural reforms, such as RERA and GST are playing a transformational role in opening opportunities, improving transparency and enhancing consumer trust. The government has taken various initiatives to promote the scheme and are incentivising individuals and developers.

The extension of the Credit Linked Subsidy Scheme (CLSS) for middle income group till March 2021 will boost demand for affordable housing, while rental housing policy for migrant labour/urban poor will open new business opportunities for builders.

The affordable housing space accounts for roughly 15% of the overall portfolio of HFCs. HFCs co-lending with Banks in this space will also provide required impetus to drive growth, given the government push towards affordable housing. Banks can leverage HFCs' geographic reach and benefit from their origination and servicing capabilities and HFCs will get access to better-profile clients and higher fee income.

BENEFITS OF BUYING PROPERTY

1) **Tax Benefit**

   Tax deduction on home loan principal amount can be claimed under Section 80C with a limit of ₹ 1.5 lakh – stamp duty and registration charges can also be claimed under Section 80C. However, it needs to be claimed in the year in which these expenses are paid. Furthermore, one can claim tax deduction under Section 24 of upto ₹ 2 lakh on home loan interest, whereas first time home owners can also claim deduction of upto ₹ 50,000 under the Section 80EE.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The income tax deduction limit on interest paid on loans taken for affordable housing was increased from ₹ 2 Lakh to ₹ 3.5 Lakh per annum for self-occupied property valued under ₹ 45 Lakh in the previous budget. In Union Budget 2020-21, the additional deduction of ₹ 1.5 lakh, over and above the existing ₹ 2 lakh, provided under the Section 80EEA has been extended by one more year till March 31, 2021.

2) **A good investment option**

If a person buys property, good returns are guaranteed, whereas there is no value for the money if one pays each month as rent.

3) **Security**

Having a roof over one's head is a basic necessity for any human being and hence, owing a house provides lifetime security.

THREATS (BOTTLENECKS)

The liquidity crisis has hampered credit growth for housing finance companies and is unlikely to improve much in the current financial year, as the weak external environment will put a pressure on asset quality. Following the slowdown in the credit growth of HFCs after September 2018 liquidity crisis, banks have been quick to seize the opportunity. The housing loans portfolio for HFCs and other shadow banking lenders came down to 13% from 18% in the year-ago period, while the overall housing credit outstanding growth also narrowed down to 16% from 18%.

Cost of funds

With the tight liquidity seen in debt markets since September 2018, HFCs are raising funds from banks as well as selling their assets to banks. Share of securitisation as a funding source is on the rise, while there is a significant decline in short-term borrowings. Consequently, the cost of funds for HFCs has risen. Most of them are keeping on-balance sheet liquidity buffers for meeting any sudden market disruptions and near-term debt obligations, as well as reducing Asset and Liability Management (ALM) gaps.

Asset quality

Further, to mitigate the margin risk and conserve or raise liquidity through prepayment, HFCs are cautiously increasing focus on their non-housing books. ICRA expects non-performing assets (NPAs) in the housing segment to increase from 1.8% to 2% by March 2021 from 1.4% as of December 2019. While slippages in the non-housing segment could be higher with gross NPAs increasing to 3% to 3.5% in FY2021 from 2.1% as on December 31, 2019. A prolonged slowdown in the economy can drive slippages and deteriorate asset quality even further.

While six months moratorium granted on loans is a mixed bag for NBFCs –it provides relief to borrowers but also further stretches the ALM mismatch for many NBFCs. This is likely to result in a cash flow mismatch for NBFCs. As a result, NBFCs would focus on conserving liquidity to honour payments.

ICRA expects the realisations for financial creditors though IBC are expected to take a hit in FY2021. The outbreak of Covid-19 pandemic and the suspension of new proceedings for a period of one year under the Insolvency and Bankruptcy Code (IBC) is expected to result in significantly lower realisations, by 30% to 40% for the financial creditors in FY2021 and pose new challenges.

Overall HFCs operating at high leverage have built up sizeable real-estate books which is a cause of concern. The slowdown in the real estate sector coupled with higher risk perception of refinancing developers could impact the asset quality of players in the sector.

Stress Points in HFCs

- Non-availability of long-term capital for investment.
- Huge housing inventory pile up coupled with refinancing risks faced by realtors and stress in the SME sector.
- Large chunk approximately 40% of loan book under moratorium.
- Growth of non-housing loans has had a dampening effect on the asset quality of HFCs.
- Volatility in the interest rates that could enhance the interest rate risk and disrupt the sustainability of margin of HFCs.
- Economic cycle and resultant impact on employment will remain a potential challenge to HFCs in adjusting to delay and defaults on repayment commitments.

SEGMENT WISE REPORTING

Segment has been identified in line with the Accounting Standard on segment reporting, taking into account the organisation structure as well as the differential risk and returns of these segments. The Company is exclusively engaged in the Housing Finance business and revenues are mainly derived from this activity.

OUTLOOK

The structural demand for housing for India will always be strong due to factors such as improved affordability, rise of nuclear families, government's thrust on affordable housing, favourable demographics, increasing urbanisation and rising aspirations.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Due to a nationwide lockdown, on-going construction activities has come to a grinding halt which will lead to a further delay in completion of the on-going projects. The residential sector which was already adjusting to the structural reforms and reeling under inventory overhang and lack of consumer confidence, is headed for an overall slump in demand. Muted sentiments along with Covid-19 ensured that weakness pervaded the housing segment in Q1CY2020-21. With the festive season ending, developers refrained from launching projects.

Plunging demand

According to provisional data by Prop Equity, new launches across top 9 cities during the quarter ending March 2020 declined 39% YoY and 13% QoQ. Similarly, shrinking purchasing power and mandatory 'social distancing', ensured that customers stayed away, resulting in demand plunging 27% YoY and 19% QoQ during Q1CY2020-21. The consolidation story has gained strength, particularly as large, listed developers proved to be fairly resilient to the industry-wide liquidity crunch seen during this period.

Factors affecting growth

Growth in the HFCs' loan book is expected to remain subdued as a result of the funding challenges and lowered housing demand due to slowing GDP growth. Extended lockdown and increase in the moratorium period to unsecured borrowers can weaken the credit culture. Moreover, it will also make it difficult for NBFCs to assess their true loan book status and borrower quality. The asset quality and profitability will remain under pressure as the borrowing cost and credit costs rise on the back of increased delinquencies in the developer loan and loan against property (LAP) portfolios.

Managing asset-liability

Moreover, the spurt in loan growth in the next fiscal will depend on HFCs successfully redefining their business model to include increased levels of co-lending with banks and continuing the steady pace of loan securitisation, while reducing reliance on short-term borrowings. In addition to refinancing facility provided by NHB, RBI is also infusing greater liquidity in the economy as well as lowering interest rates, indirectly supporting the performance and development of NBFCs and HFCs. An unprecedented rise in loan securitisation by HFCs along with government measures, such as partial credit guarantee scheme, is expected to help improve liquidity and enable HFCs to better manage their asset-liability profile.

HFCs' core strengths to be the key

Given the tough economic environment and the risk aversion in the system, problems for the HFCs are expected to continue. The sector continues to face competition from the banks, however HFCs with strong percentage are expected to grow secularly. With funding challenges looming at large, the HFCs' ability to manage asset quality and liquidity, reshape their balance sheets profitably and co-existence with banks will largely determine their sustenance over the medium to long term. Also, post lifting of the lockdown, it is unlikely that demand in housing category would return to normal very soon. When the normalcy returns in the sector, NRIs will find favour in owning a house in their hometown, which as an asset grows over time besides providing the much-needed financial stability.

The theme of households upgrading to a bigger house will continue to exist because now people will be working from home more often. In addition, the Government's increased thrust on mass housing in Tier II and III townships provide an impetus to housing loan growth as well as influences the quality of assets. As a result, housing loan will continue to occupy the lion's share of the total loan book of larger HFC players.

RISKS AND CONCERNS

Every business has been characterized with its unique Risks and mitigation measures. Building and implementing robust risk mitigation measures and continuous review of the same is an integral part for the top management.

A housing finance company has also been exposed to various kinds and degrees of risks; hence effective risk management is a crucial and strategic tool for the Company's performance. The major risks associated with a housing finance company's business are credit risk, interest rate & market risk, liquidity risk and operational risk. At LICHFL, effective identification and mitigation of risks forms part of its core operations. The Company take continuous optimisation of asset liability management function with focus on safeguarding from any adverse movements in liquidity, interest rates and exchange rates. Over the years under operation, the Company has created a robust environment and processes to mitigate risks arises from any adverse liquidity situations, interest rate and currency fluctuations by using tools such as time-bucket wise liquidity statements, duration gap and forex exposure reports. The prudent process ensures any adverse impact on Net Interest Income (NII) to a great extent.

Some of the major associated risks and mitigations have been discussed as follows:

1. **Credit Risk**

   Also termed as Default risk, the credit risk is among the biggest risk for any lending business. It is the risk associated with the borrower's failure to make the repayment of principal or interest amount to the lender. In case of default in payment for more than 90 days, the loan is classified as Non-Performing Asset (NPA) in the Company's books.

   At LICHFL, the loans are disbursed in the lump sum, based on progress of construction of the security etc.,

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and recovered in Equated Monthly Instalments (EMIs). The Company has very rigorous and stringent appraisal processes of loan applications. The process has several layers of checks and balances to mitigate any future risks. In case of any early signs of potential defaults, the Company takes pre-emptive actions to avoid the account as default.

For seamless implementation of the policies and processes, the Company has a Standard Operating Procedure (SOP) document, which clearly defines the due-diligence guidelines including credit appraisal, legal appraisal, technical appraisal, verification, valuation, documentation etc. To incorporate learnings and industry developments the SOP is reviewed on a regular basis and updated if required.

2. Market Risk

As per the business practice, the finance company has some positions in the money market instruments and any adverse movements in these instruments expose the financing business to market risk. It could be due to re-pricing of balance sheet item or change in market pricing due to external market forces. The balance sheet items like Housing loans at floating rate ,loans to developers at floating rate, Non-Convertible Debentures (NCDs) with options, bank loans with option, Foreign Currency Bank Loans, Coupon Swaps, etc. are exposed to market risks. This risk can be divided into following two types:

i. Interest Rate Risk

The adverse movement in the interest rates viz. hardening or softening of interest rates by market forces or by RBI intervention, creates risks in the balance sheet. The risks could be higher interest cost on the liabilities or reduced interest yields on the assets. Maturity mis-matches or re-pricing of assets and liabilities are the frequently occurred events in the lending business, which constitute additional risks.

At LICHFL, continuous tracking of composition and pricing of assets and liabilities helps in mitigating this risk. In addition, the Company's ALCO Committee actively monitors the ALM position and makes the actions as per the policies and market scenarios.

ii. Liquidity Risk

The finance company need to have enough liquidity at any point of time to manage redemptions, higher than expected disbursals, operational expenses etc. this creates the risk on operations and profitability of the business. The liquidity risk could have arisen due to stress on systemic liquidity due to CRR hikes, higher government borrowing program and advance tax outflows, etc. At the same time, to ensure efficient capital management and returns, any excess liquidity is also detrimental for the business.

At LICHFL, the borrowing plan is dependent on the market liquidity conditions and business requirements on evolving basis. With the deep understanding of the market conditions gained through decades of experience, the Company manages fund flow activities in a very effective and prudent manner. Also, the Company's well-diversified pool of resources to raise funds on both short and long term basis mitigate such risks.

3. Operational Risk

In the lending business, any ineffective operational controls may create financial or reputational losses to the Company. The reasons could be inadequate or failed internal processes, people and systems, or from external events. At LICHFL, robust internal control systems and regular monitoring mechanisms are in place to ensure effective business operations and adequacy of controls. In addition, the Company has stringent MIS reporting structures to manage such risks. The operational risks can be sub divided into the following categories:

i. Compliance risk

The housing finance company need to deal with several compliances framed by several regulators, government bodies, associations etc. Any failure to adhere to their compliance requirements could lead to risk on the operations and financials of the business. As the Company is regulated by NHB, registered with ROC and its equity shares are listed on the Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE) and the Luxembourg Stock Exchange, making it imperative that the Company follows all the applicable laws. To ensure all compliances, the Company's designated Compliance Officer takes utmost care of all the requirements on an on-going basis.

ii. Legal risk

As the nature of lending business involves, the lenders entering into many legal agreements to safeguard their interest. Any omission, negligence, fraud or mislead in legal due diligence or any other legal processes may cause legal risk. At LICHFL, lending money for/against mortgage loans is the primary business, thus exposed to such legal risks. To mitigate the same, the Company has vigorous legal processes

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

and systems for title verification and legal appraisal of all the loan documents. To mitigate the potential legal risks arising from customers' grievances; the Company has well designed protocols for customer delivery and operational mechanism.

4. Regulatory Risk

Various regulatory and governing bodies regulate, monitors and supports the development of lending business in India. Any changes in laws and regulations could materially impact the operations and its associated costs of lending business. Also, any non-adherence of any rules, directives, norms etc. may have adverse impact on business sustainability. To mitigate these risks, the Company rigorously reviews and manages all the changes/ directives/rules issued or expected to be issues by various such bodies' viz. NHB, SEBI, RBI etc. and amend their operations and systems as per the requirements.

5. Competition Risk

Any high growth industry attracts many new players and thus creates competition risks for existing players in terms of threat of losing market share. The intensity of competition is determined by barriers to entry, industry growth potential, customers profile etc. As housing finance business is the largest sub-segment of lending business in the country and growing very rapidly due to economic growth, increased urbanisation, government incentives, acceptability of credit in society and rise in nuclear families, the industry is bound to attract many new players. The Company mitigates this risk by utmost focus on customer centricity, utilisation of state of art infrastructure facilities, including IT interfaces and effective marketing strategies. Due to a long standing position in the industry and agile team across the verticals, the Company's plans always steer ahead with new developments in the industry including product offerings, pricing and schemes of the competitors.

ASSET LIABILITY MANAGEMENT

The Company follows 'The Asset Liability Management System for Housing Finance Companies – Guidelines' issued by NHB. The Company has in place Board approved Risk management policy. The policy specifies the prudential gap limits and the tolerance limits and the reporting mechanism. The Asset Liability Management (ALM) reports are periodically reviewed by Asset Liability Committee (ALCO) and ALCO in turn apprises the Board on ALM issues periodically.

The average loan to value in respect of the retail loans is in the range of 50-60% (as against the regulatory limit of 90 % for loans upto ₹ 30 lakh and 80 % for loans above ₹ 30 lakh and upto ₹ 75 lakh and 75% for loans above ₹ 75 lakh) and its instalment to income ratio ranges between 30-40 %, both being amongst the lower ones in the industry. The low average ticket size of the loan of ₹ 24 lakh and pan India spread of business, adequately disperses the risk.

The Company has one of the best recovery machineries in its category to address NPAs, supported by legislations such as SARFAESI Act.

INTERNAL CONTROL SYSTEMS & THEIR ADEQUACY

The Company has internal audit system which is effective and commensurate with the size of its operations. Adequate records and documents are maintained as required by law from time to time. Internal audits and checks are regularly conducted and internal auditor's recommendations are considered for improving systems and procedures. The Company's audit committee reviews the internal control system and looks into the observations of the statutory and internal auditors. During the year, various guidelines / circulars were issued on the operational side to ensure better credit appraisal, as a result of which quality of portfolio should further improve during the years to come.

DISCUSSION OF FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE FINANCIAL / FUND MANAGEMENT

The Company's borrowing is planned taking into consideration ALM gaps, interest rate mismatches and the prevailing market conditions. LIC Housing Finance has got highest rating for bank borrowings, non-convertible debentures, commercial paper and public deposit scheme from CRISIL / CARE rating agencies, which has helped the Company to procure funds at very competitive rates.

The prime lending rate of the Company is regularly reviewed and revised as it is a benchmark for asset pricing. Since 93% of the asset portfolio is on the floating rate, the Company re-prices the loan assets consequent upon the revision in prime lending rate of the company at specified intervals.

The Company also reviews the fund position on daily basis and parks surplus funds in liquid mutual fund schemes, fixed deposits as per the Board approved policy with an objective of reducing the negative carry to the extent possible.

The derivative contracts selectively entered into by the Company to manage risks associated with interest rate movement are regularly monitored and the Company unwinds such transaction at the appropriate time.

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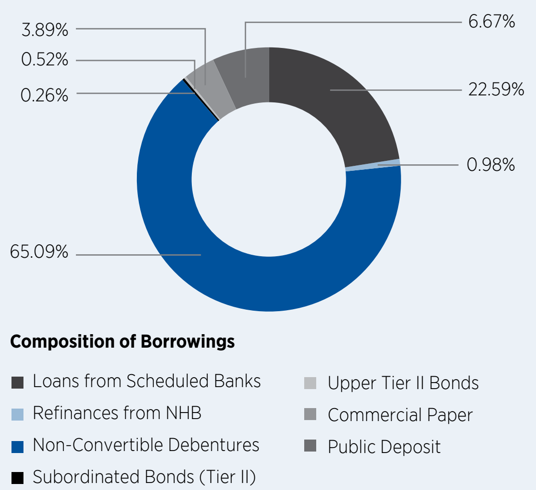
The composition of outstanding borrowings as on 31st March, 2020 & the ratings assigned by rating agencies is as under:

Particulars	Percent to total Borrowing	Rating
Loans from Scheduled Banks	22.59%	CRISIL AAA/Stable & CRISIL A1+
Refinances from NHB	0.98%	-
Non-Convertible Debentures	65.09%	CRISIL AAA/Stable & CARE AAA Stable
Subordinated Bonds (Tier II)	0.26%	CRISIL AAA/Stable & CARE AAA Stable
Upper Tier II Bonds	0.52%	CRISIL AAA/Stable & CARE AAA Stable
Commercial Paper	3.89%	CRISIL A1+ & ICRA A1+
Public Deposit	6.67%	FAAA (Stable)
Total	100.00%	



Composition of Borrowings

BASIS OF PREPARATION OF IND-AS FINANCIAL STATEMENTS

In accordance with the notification issued by the Ministry of Corporate Affairs, the Company is required to prepare its Standalone Financial Statements as per the Indian Accounting Standards ('IND AS') prescribed under section 133 of the Companies Act, 2013 read with Rule 3 of the Companies (Indian Accounting Standards) Rules, 2015 as amended with effect from 01st April, 2017. Accordingly, the Company has prepared these Standalone Financial Statements, which comprise the Balance Sheet as at 31st March, 2020, the Statement of Profit and Loss, the Statements of Cash Flows and the Statement of Changes in Equity for the year ended 31st March, 2020 and accounting policies and other explanatory information (together hereinafter referred to as "Standalone Financial Statements" or "Financial Statements").

The Standalone Financial Statements have been prepared on the historical cost basis except for certain financial instruments and certain employee benefit assets, which are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Fair value is the price that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability which any market participant would have taken into account while pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IND AS 17 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IND AS 2 or value in use in IND AS 36.

In addition, for financial reporting purposes, fair value measurements are categorised within the fair value hierarchy into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability. The financial statements are presented in Indian Rupees (₹) and all values are rounded to the nearest Crore except when otherwise stated.

PERFORMANCE / OPERATION HIGHLIGHTS

During the year, the Company sanctioned ₹ 48,498.71 crore and disbursed ₹ 44,318.00 crore registering a decline by 3.54 per cent in sanctions and decline by 5.26 per cent in disbursements over the last year, due to overall market scenario in the real estate sector and lockdown, as a result of widespread pandemic-COVID-19. For the year ended 31st March, 2020, the Company's revenue from operations was ₹ 19,696.69 crore as against ₹ 17,357.79 crore in the previous year. Net profit before tax for year ended 31st March, 2020 was ₹ 3,268.99 crore when compared to ₹ 3,379.56 crore of the previous year, showing a decline of 3.27 per cent over the previous financial year. Net Profit after tax for the year ended 31st March, 2020 was ₹ 2,401.84 crore as against ₹ 2,430.98 crore during the same period last year, resulting into a decline by 1.20 per cent. The outstanding

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

loan portfolio grew by 8.19 per cent to ₹ 2,10,600.42 crore as on 31st March, 2020 as against ₹ 1,94,652.22 crore as on 31st March, 2019.

KEY ELEMENTS OF STATEMENT OF PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2020

- The Revenue from operations amounted to ₹ 19,696.69 crore as on 31.03.2020 as against ₹ 17,357.79 crore on 31.03.2019 which resembles a growth of 13.47%.
- Net profit before tax for year ended 31st March, 2020 was ₹ 3,268.99 crore as against ₹ 3,379.56 crore of the previous year. Net interest margin for the year was 2.34 per cent.
- Tax provision for the year amounted to ₹ 828.98 crore as compared to ₹ 1,059.43 crore in the previous year.
- The Net Interest Income grew by 9.78% over the previous year and stood at ₹ 4,688.96 on March 31, 2020, as against ₹ 4,271.25 on March 31,2019.
- For the year ended 31st March, 2020 dividend @ 400% is being recommended as against dividend @ 380% in the previous year.

IMPAIRMENT ASSESSMENT

The references below show the Company's impairment assessment and measurement approach. It should be read in conjunction with the Summary of significant accounting policies.

The Company applies General approach to measure for credit losses prescribed by IND AS 109, which provide to recognise 12-months expected credit losses where credit risk has not increased significantly since initial recognition and to recognise lifetime expected credit losses for financial instruments for which there have been significant increase in credit risk since initial recognition considering all reasonable and supportable information, including that is forward looking.

DEFINITION OF DEFAULT

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on his contractual obligations.

The three stages reflect the general pattern of credit deterioration of a financial instrument. The differences in accounting between stages relate to the recognition of expected credit losses and the calculation and presentation of interest revenue.

Stage wise Categorisation of Loan Assets

The Company categorises loan assets into stages based on the Days Past Due status:

- Stage 1 [0-30 days Past Due]: It represents exposures where there has not been a significant increase in credit risk since initial recognition and that were not credit impaired upon origination. The Company uses the same criteria mentioned in the standard and assumes that when the days past due exceeds '30 days', the risk of default has increased significantly. Therefore, for those loans for which the days past due is less than 30 days, the Company recognises as a collective provision, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months.
- Stage 2 [31-90 days Past Due]: The Company collectively assesses ECL on exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired. For these exposures, the Company recognises as a collective provision, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset)
- Stage 3 [More than 90 days Past Due]: The Company identifies, both collectively and individually, ECL on those exposures that are assessed as credit impaired based on whether one or more events, that have a detrimental impact on the estimated future cash flows of that asset, have occurred. The Company uses the same criteria mentioned in the Standard and assumes that when the days past due exceeds '90 days', the default has occurred.

RETAIL LOANS:

As at 31st March, 2020 the loan book constituted of 94.42 per cent of retail portfolio. Depending on the nature of the financial instruments and the credit risk information available for particular groups of financial instruments, an entity may not be able to identify significant changes in credit risk for individual financial instruments before the financial instrument becomes past due. In case of retail loans, the financial instruments are backed by sufficient margin of underlying security which absorbs the associated risks. Hence, the Company has performed the assessment of significant increase in credit risk on a collective basis for retail loans by considering information that is indicative of significant increase in credit risk on groups of financial instruments.

For the purpose of determining significant increase in credit risk and recognising loss allowance on a collective basis, the Company has grouped financial instruments on the basis of shared credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increase in credit risk identified on a timely basis.

PROJECT LOANS:

As at 31st March, 2020 the loan book constituted of 5.58 per cent of project portfolio. Project loans are far less in number and more in terms of value per loan. The loans are also credit rated internally. However, the Company does not have any history of the loan transitioning from one rating to the other over a fairly long period of time to arrive at a reliable transition matrix. The Company has used transition matrix compiled and published by a premier rating agency in India for arriving default rate.

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Accordingly, loans have been identified into different groups as given below:

Credit Quality Analysis – Classification on the basis of risk pattern (Collective and Individual Basis)

(₹ in Crore)

	Stage 1		Stage 2		Stage 3		Total	
	Outstanding Balance	**Impairment Loss**	**Outstanding Balance**	**Impairment Loss**	**Outstanding Balance**	**Impairment Loss**	**Outstanding Balance**	**Impairment Loss**
As at March 31, 2020	1,94,678.78	0.10	9,605.48	0.15	6,316.16	2,612.20	2,10,600.42	2,612.45
As at March 31, 2019	1,83,135.46	23.91	8,564.12	111.53	2,952.64	1,524.04	1,94,652.22	1,659.48
As at March 31, 2018	1,59,789.46	283.99	6,386.32	116.71	1,290.80	908.43	1,67,466.58	1,309.13

ECL MODEL AND ASSUMPTIONS CONSIDERED IN THE ECL MODEL

The Company has used Markov chain model for estimating the probability of default on retail loans. In a Markov chain model for loans receivable an account moves through different delinquency states each quarter. For example, an account in the "Regular" state this quarter will continue to be in the "Regular" state next month if a payment is made by the due date and will be in the "90 days past due" state if no payment is received during that quarter. Another valuable feature is that the Markov chain model maintains the progression and timing of events in the path from "Regular" to "Defaulted". For example, an account in the "Regular" state doesn't suddenly become "Defaulted". Instead, an account must progress monthly from the "Regular" state to the "90 days past due" state to the "180 days past due" state and so on until foreclosure activities are completed and the collateral assets are sold to pay the outstanding debt.

The transition matrix in the Markov chain represents the period-by-period movement of receivables between delinquency classifications or states. The transition evaluates loan quality or loan collection practice. The matrix elements are commonly referred to as "roll-rates" since they denote the probability that an account will move from one state to another in one period. The transition matrix is referred to as the "delinquency movement matrix".

The loan portfolio for the past several quarters are analysed to arrive at the transition matrix. Each loan is traced to find out how the loan has performed over the last several quarters. The days past due is grouped into 6 buckets namely Regular [0 days past due], 1 to 90 days past due, 91 to 180 days past due, 181 to 270 days past due, 271 to 365 days past due and above 365 days past due. In a subsequent quarter, the loan may continue to remain in the same bucket or move into the next bucket or previous bucket depending upon the repayments made by the customer. The bucket intervals are 90 days and the data points considered are also quarterly. The occurrences of every loan over the past several quarters are considered to arrive at the total transitions happening from different buckets in the previous quarter to different buckets in the current quarter. The Company has considered the quarterly loan performance data starting from the quarter ending 30th June 2013 onwards to compute the transition matrix. The total number of such transition occurrences is converted as a percentage to arrive at the transition matrix.

The Company has used transition matrix, compiled and published by a premier rating agency in India for arriving default rate for Project loans since the Company do not have any history of the loan transitioning from one rating to the other over a fairly long period of time to arrive at a reliable transition matrix. Accordingly, the transition matrix is computed using matrix multiplication.

Probability of Default

Stage 1 – [No significant increase in credit risk]: Based on Markov model, the quarterly normalised transition matrix is converted into a 12-month transition matrix for determining the probability of default for those loan accounts on which the risk has not increased significantly from the time the debt is originated. The Company uses the same criteria mentioned in the standard and assume that when the days past due exceeds '30 days', the risk of default has increased significantly. Therefore, for those loans for which the days past due is less than 30 days, one-year default probability is considered.

Stage 2 – [Significant increase in credit risk]: The credit risk is presumed to have increased significantly for loans that are more than 30 days past due and less than 90 days past due. For such loans, lifetime default probability should be considered. Based on the maturity date of the loan, the probability of default is arrived at to determine the quantum of the loan that is likely to move into the buckets '90 days past due' and greater. The quarterly transition matrix is used to find out the transition matrix applicable for the loan considering the maturity date of such loan.

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Stage 3 – [Defaulted loans]: As per the standard there is a rebuttable presumption that default does not occur later than, when a financial asset is 90 days past due, unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The Company assumed that the default has occurred when a loan moves into '90 days past due' bucket.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

The probability of default (PD) of a loan which is less than 30 days past due [Stage 1] is represented by the one-year transition matrix. This PD is used to measure the quantum of the loan that is likely to move into the buckets 90 days past due and above over the next 12 months. The PD of a loan which is 30 days past due and less than 90 days past due [Stage 2] is represented by the transition matrix of the corresponding maturity period of the loan. This PD is used to measure the quantum of the loan that is likely to move into the buckets 90 days past due and above, over the remaining life of the loan. The PD of a loan which is 90 days past due [Stage 3] is 100% as the loan has already defaulted. This PD is used to measure the quantum of the loan that is defaulted as on the valuation date over the remaining life of the loan.

Loss given at default

Value of collateral property: The loans are secured by the adequate property. The property value for those loans which are over 90 days past due are regularly updated. The present value of such collateral property should be considered while calculating the Expected Credit Loss. The Company initiate the recovery process of NPA accounts, within the statutory time limit as per SARFAESI and other applicable laws and accordingly the realisable period has been considered for computing the Present Value of Collateral.

ASSET LIABILITY MANAGEMENT (ALM)

Assets and liabilities are classified on the basis of their contracted maturities.

Housing Finance being the Company's core business, maintaining the liquidity for meeting the growth perspective in the business as also to honor its committed repayments is the fundamental objective of the Asset Liability Management (ALM) framework. Investment being the Company's ancillary activity is derived of this ALM requirement and it is imperative to constantly monitor the liquidity of the Company's investments to achieve its core objective.

The Asset Liability Management Committee (ALCO) of the Company oversees efficient management of risk associated with derivative transactions. Company identifies, measures, monitors the exposure associated with derivative transaction. For effective mitigation of risk it has an internal mechanism to conduct regular review of the outstanding contracts which is reported to the ALCO & Risk Management Committee of the Board which in turn reports to the Audit Committee and to the Board of Directors.

MARKETING

The Company has established leadership position in the industry through its wide reach and network across the country. As on 31st March 2020, the Company has a well spread network of 9 Regional Offices, 282 Marketing Offices, 25 Back Offices to conduct the credit appraisal and administrative functions and a centrally operated Customer Service Point. In its international foray, the Company has set up its representative offices in Dubai and Kuwait as well. To ensure last mile connectivity with end customers, the Company has established strong team of Home Loan Agents, Direct Selling Agents and Customer Relation Associates. During the year, the Company also participated in property exhibitions in various parts of the country and the same has been an impetus for successful marketing.

RECOVERY MANAGEMENT

The gross Non-Performing Assets (NPA) as on 31st March, 2020 had seen a considerable growth this year due to the overall market scenario and stood at Rs.5,967.90 crore as against ₹2,971.69 crore as on 31st March, 2019. The gross NPA ratio of the company stood at 2.86 % as on 31st March, 2020 as against 1.54% as on 31st March, 2019. The net NPAs excluding provision on standard assets as per NHB norms as at 31st March, 2020 stood at 1.99 % (₹ 4120.10 crore) as against 1.08 % (₹ 2,081.20 crore) on the corresponding dates last year. The provision cover on the NPAs stood at 30.96 % (excluding provision on standard loans as per NHB norms) as on 31st March, 2020.

The aforesaid figures are as per IGAAP. As per IND-AS, the provision on per ECL is ₹ 2612.45 crore as at 31st March, 2020 as against ₹1,659.48 crore as at 31st March, 2019.

The Company has initiated all out efforts for accelerating the recovery and has deployed more of its resources towards this crucial area of its operations in order to ensure a more focused approach.

HUMAN RESOURCES DEVELOPMENT

The Company considers its employees to be the most important assets and believes in providing a conducive and open work culture where they can succeed as well as contribute to the growth of the Company. The Company consistently reviews its business and people policies to improve ways of working. The Company constantly endeavours to provide learning and skill

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

improvement training to all employees to motivate employees and enhance productivity. The Company's performance management processes have been instrumental in ensuring employee engagement.

As on March 31, 2020, the Company had 2,392 employees who have been contributing to the progress and growth of the Company. As on March 31, 2020, the loan asset per employee was ₹ 88.03 crore and net profit per employee was ₹ 1.04 crore.

CONCLUSION WITH CAUTION

Statements in this report, describing the Company's objectives, projections, estimations, expectations are "forward looking statements" within the meaning of applicable laws, guidelines and regulations. These statements are based on certain assumptions in respect of future events and Company assumes no responsibility in case the actual results differ materially due to change in internal or external factors.