

## MANAGEMENT DISCUSSION & ANALYSIS REPORT

### 1. INDUSTRY STRUCTURE AND DEVELOPMENTS

India has registered an impressive growth in recent years. Indian economy is consolidating the gains from recent reforms and is moving in the right direction. Revival in rural demand and increased infrastructure spending are also likely to drive India's growth in current year. As per the provisional estimates for Gross Domestic Product released by Central Statistics Office (CSO), the GDP growth for 2017-18 was 6.7% and is expected to grow by 7.3 percent in 2018-19 (ADB). With the improvement in the economic scenario, there have been investments in various sectors of the economy. The consumer price index based inflation or the retail inflation stayed lower during the initial months of the FY but rose gradually later on, to reach a peak of 5.21% in December 2017 and subsequently levelled off thereafter to 4.28% in March 2018. On the monetary policy front, the Reserve Bank of India (RBI) reduced the policy repo rate once during the financial year in August 2017 by 25 basis points from 6.25% to 6.00%. The RBI data on sectoral deployment of bank credit revealed a somewhat slower credit growth in retail housing sector by the banks compared to the previous fiscal.

On the policy front, the Government of India initiated steps to boost affordable housing. In order to add momentum to the pace of the implementation of the flagship programme - "Pradhan Mantri Awas Yojna (PMAY)", the government approved the creation of a National Urban Housing Fund of ₹ 60,000 crore to finance the scheme.

Since inception of the Pradhan Mantri Awas Yojna-Urban (PMAY-U) mission and till March, 2018, a total of 7,474 projects for construction of 37,43,631 houses have been sanctioned by Government under the mission with an investment of ₹ 57,652 crore. Central assistance of ₹ 13,150 crore has also been released to the concerned states against approved projects (Annual report 2017-18, MoHUA). Further, carpet area of houses for the middle-income group (MIG) under the Pradhan Mantri Awas Yojna - Urban (PMAY-U) was also increased. The government also lowered GST on affordable housing.

### 2. STRENGTHS AND WEAKNESSES

HUDCO is a premier techno-financing public sector enterprise of our country in the field of housing and urban development. The principal mandate of HUDCO is to facilitate housing and infrastructure development in the country. A special thrust is laid on catering to the housing needs of the Economically Weaker Sections (EWS) and Low Income Groups (LIG). The company has long-standing association with State Governments and State level agencies like Development Authorities, Housing Boards, Urban Local Bodies, etc. Its operations cover the entire country, through its network of 21 Regional Offices and 11 Development Offices in addition to its corporate office located in New Delhi. HUDCO has rich experience in project appraisal and financing of housing and urban infrastructure projects.

HUDCO is a financially sound and consistently profit-making Company. The Company has the highest Credit Ratings and access to diversified funds. HUDCO is professionally enriched as its employees are from diverse background ranging from Finance, Law, Technical, Human Resources, Information Technology, Economics, Sociology and related areas with the team focusing on Housing and Urban Infrastructure aspects. In addition to providing loan assistance for various programmes of States and their agencies in the sector, HUDCO is also involved in providing technical support to implementation of the Government of India flagship programmes through its support for appraisal/scrutiny, site-inspections/monitoring. HUDCO also provides training/capacity building support in Housing and Urban development sector to urban managers of ULBs and other agencies within the country as well as abroad, in its Human Settlement Management Institute located in New Delhi.

Some of the weaknesses that the company faces include limited access to low cost source of funds, constraints in getting state government guarantee/budgetary support and exposure norms and prudential norms of NHB limiting the extent of lending by HUDCO under individual and group exposure. Continuous attention is being paid for monitoring of default and/ NPA's position to keep them at minimum level.

### 3. OPPORTUNITIES, THREATS, RISKS AND CONCERNS

Urbanization in India has become an irreversible process, and it is an important determinant of national economic growth and poverty reduction. The process of urbanization is also characterized by an increase in the number of large cities. As per Census of India 2011, about 377.10 million (31.2%) constitutes urban and about 833.40 million (68.8%) population resides in rural areas. At current rate of growth, urban population in India is estimated to reach a staggering 575 million by 2030 and 875 million by 2050 (Annual Report 2017-18, MoHUA). This transition needs to be accompanied by a commensurate increase in the supply of basic urban services, necessitating huge investments in infrastructure development.

With a rapidly urbanizing India, there is an enormous potential for HUDCO. The large gap between demand and supply in housing and urban infrastructure sectors provides a huge scope for HUDCO's lending operations. The Government of India has also unveiled a slew of initiatives to revitalise the urban sector through flagship programmes like 'Pradhan Mantri Awas Yojna (PMAY) - Housing For All' both for urban and Gramin areas, development of 100 Smart Cities, development of infrastructure in secondary cities through 'Atal Mission for Rejuvenation and Urban Transformation (AMRUT)' for 500 cities, Swachh Bharat Mission, etc. All these programmes are likely to catalyse huge investment-flow into the urban housing & infrastructure across the country. Under PMAY (urban), HUDCO has been appointed as one of the Central Nodal Agencies (CNA) along with NHB to channelize the subsidy under the Credit Linked Subsidy Scheme (CLSS) component. The revision in guidelines of CLSS enlarging the scope/coverage of beneficiaries in the recent past is expected to enrol a larger number of beneficiaries in the coming months.

The real estate and infrastructure projects are characterized by heavy investment, long gestation and payback periods and sensitivity to various domestic and international economic factors which pose a number of risks. Poor health of borrowers especially Urban Local Bodies (ULBs), limited access to cheaper funds to HUDCO, etc., are constraints that hinder further growth of HUDCO. HUDCO also has prudential /credit concentration norms, as notified by NHB, limiting the extent of exposure to individual agencies and under group exposure to States.

In business, the realisation of potential opportunities would depend on the extent of competition and the strength of the competitors as well. HUDCO has to accept increasing level of competition from banks and financial institutions who have entered in to the hitherto niche areas of HUDCO. Thus, HUDCO has also been witnessing loss of business to banks, over small margins in interest rates. The rise in NPAs has affected the banks across the country. However, as far as HUDCO is concerned, with no increase in exposure to the Private Sector after March, 2013, its NPAs in Private Sector have been largely curtailed to those loans sanctioned prior to March, 2013 but now requiring provisioning as per applicable norms and as such putting pressure on profits with substantial provisioning already made. HUDCO net NPAs as at the end of 31<sup>st</sup> March, 2018 was only 1.42%.

During the financial year ended 31<sup>st</sup> March, 2018, HUDCO has sanctioned a total loan of ₹ 38,648 crore and disbursed an amount of ₹ 16,565 crore which is 21% and 81% respectively higher as compared with the corresponding figures of 2016-17.

#### **4. SEGMENT WISE OR PRODUCT-WISE PERFORMANCE**

The Company operates only in one segment and has no other reportable segment as per Accounting Standards issued by ICAI. Further, product/ sector wise performance, during the year under review has been explained in the Annual Report.

#### **5. FUTURE OUTLOOK**

Nearly 31% of India's current population lives in urban areas and contributes 63% of India's GDP (Census 2011). With increase in urbanisation, urban areas are expected to house more than 40% of India's population and contribute 75% of India's GDP by 2030 (Annual Report 2017-18, MoHUA). In order to reap the economic benefits of urbanisation, the Government of India has taken lot of initiatives in the housing sector creating a huge scope for HUDCO business. Various flagship programmes of Government of India under the Housing and Urban development sector are in active implementation mode. HUDCO is already supporting the Ministry of Housing and Urban Affairs by providing technical support by undertaking appraisal/scrutiny of project reports as well as taking up site-inspections wherever required. In addition, HUDCO is also providing loan assistance as viability gap funding to States and their agencies to meet the State/ULB share of project cost under the PMAY programme. In the context of the objective to be achieved by 2022, there is a considerable scope for HUDCO to contribute in the successful implementation of the PMAY programme both through technical support as well as funding opportunity. As a Central Nodal Agency, HUDCO shall also continue to play a major role in the successful implementation of the CLSS component of PMAY programme. HUDCO also envisages a major funding opportunity under the other flagship programmes such as development of 100 smart cities, Swachh Bharat Mission (SBM), Atal Mission for Rejuvenation & Urban Transformation-AMRUT, National Heritage City Development and Augmentation Yojna (HRIDAY), etc., in the coming years.

Competition from Commercial banks, financial institutions in financing the infrastructure and housing sector is increasing and banks have also access to low cost funds. HUDCO has to keep up with the challenges in the current market scenario and continue business with various central/state government agencies. HUDCO would continue to utilise its core strength of techno-financing capability to retain its pre-eminent position in the housing and urban development sector.

#### **6. INTERNAL CONTROL SYSTEM AND ITS ADEQUACY**

The Internal Control System and its adequacy and Internal Audit in the Company, during the year under review have been explained in the Directors Report.

## **7. DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE**

The Financial Performance with respect to Operational Performance has been fully explained in the Directors Report.

## **8. MATERIAL DEVELOPMENT IN HUMAN RESOURCES, INDUSTRIAL RELATIONS FRONT, INCLUDING NUMBER OF PEOPLE EMPLOYED**

Your Company has a high performing and engaged workforce equipped to deliver the results. To ensure their constant upgradation of skills and knowledge base, capability development programmes were organized in various strategic, functional and behavioural areas for the employees through in-house training institute as well as other institutes of eminence. Your Company maintains cordial relations with employees at all levels.

As on 31<sup>st</sup> March, 2018, HUDCO has a total strength of employees as 869 against 875 in the previous year. Further, HUDCO had 253 women employees, representing 29% of the total workforce.

## **9. ENVIRONMENTAL PROTECTION AND CONSERVATION, TECHNOLOGICAL CONSERVATION, RENEWABLE ENERGY DEVELOPMENTS, FOREIGN EXCHANGE CONSERVATION**

The details pertaining to, technological conservation, foreign exchange, etc., has already been discussed in the Directors Report.

## **10. CORPORATE SOCIAL RESPONSIBILITY**

The position with respect to Corporate Social Responsibility and Annual Report on CSR for the financial year 2017-18, has duly been explained/ annexed with the Directors Report.

## **11. CAUTIONARY STATEMENT**

All the Statements in the Management Discussion and Analysis Report with regard to projections, estimates and expectations are forward looking statement, based on certain future assumptions and expectations, which could vary from the actuals envisaged. The Company assumes no responsibility in any way to modify or revise such statements based on subsequent events or developments.

**For and on behalf of the Board of Directors**

**Sd/-**

**Dr. M. Ravi Kanth**  
**Chairman & Managing Director**  
**(DIN:01612905)**

**Place : New Delhi**  
**Date : 7<sup>th</sup> August, 2018**