MANAGEMENT DISCUSSION AND ANALYSIS

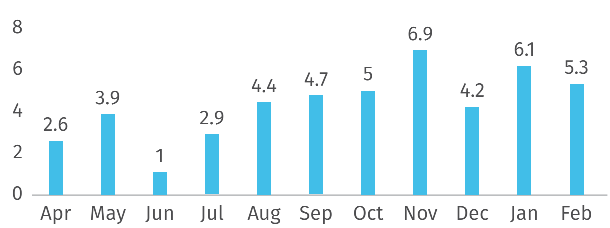
INDIAN ECONOMY OVERVIEW

In the last decade, our country witnessed the fastest economic growth in its modern history. The high growth was accompanied by an accelerated pace of urbanization, The swift urbanization entailed a huge demand for housing and as per the census of 2011, while 69% of our population lives in rural India, for the first time since independence, the absolute growth in population in urban India was higher than rural India in the 10 year period. This estimates requirement of about 25 million homes in the affordable housing segment predominantly for the middle income and lower income groups. To put this in context, this is about four times the entire housing stock financed presently.

India saw a growth in foreign exchange reserve from $367.93 billion at the end of March 2017 to $422.53 billion at the end of March 2018. However, the budgeted fiscal deficit of the country increased from 3.2% of GDP at ₹5.47 Lakh Crore to 3.5% of GDP at ₹5.94 Lakh Crore. This happened mainly due to increase in expenditure coupled with a decrease in revenue. There was an increase in expenditure mainly due to investment towards various reforms launched by the government, and due to increase in crude oil prices. Revenue decreased on account of a fall in tax collections arising out of problems in GST.

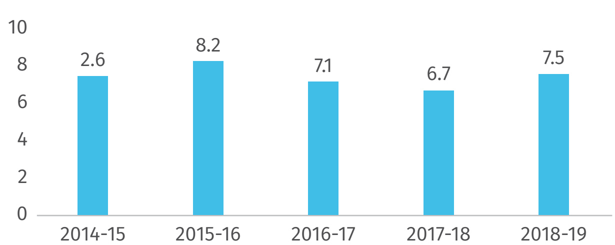
(Source: Ministry of Finance; RBI; IMF, World Economic Outlook April 2018)

Core Sector Growth (in %)



(Source: Ministry of commerce and industry, IIP)

GDP at Market (in %)



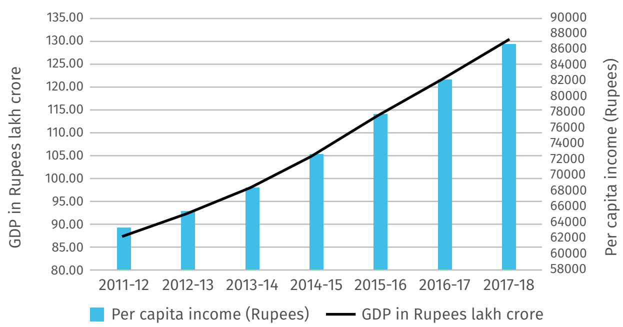
(Source: RBI)

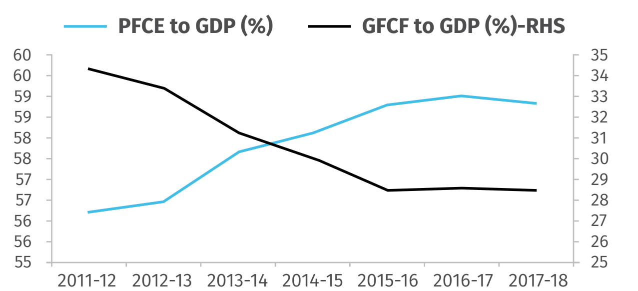
Since FY11-12, India has witnessed a continuous rise in per capita income from ₹63,462 to ₹86,689 in FY17-18. The growth rate in per capita income is estimated to be 5.4% during the financial year under review. This increase in per capita income indicates that there is an increase in amount available for spending.

Between FY11-12 to FY17-18, the Private Final Consumption Expenditure (PFCE) as a proportion to GDP experienced a constant rise. PCFE grew at a CAGR of 12.3% from 56.2% in 2011-12 to 58.85% in FY17-18. On the other hand, Gross Fixed Capital Formation (GFCF) as a proportion to GDP faced a continuous fall from FY11-12 to FY17-18.

According to RBI's report on Housing Finance Committee, 5% of average Indian households wealth is in financial assets while other 95% is in Physical Assets. Financial Assets include deposits, mutual funds, publicly traded shares, life insurances, etc. Physical assets constitutes of 77% investment in real estate, 7% in durables and 11% in gold. Over the past few years, the economy has seen a strategic shift in savings portfolio from savings in household and physical assets to savings in financial assets.

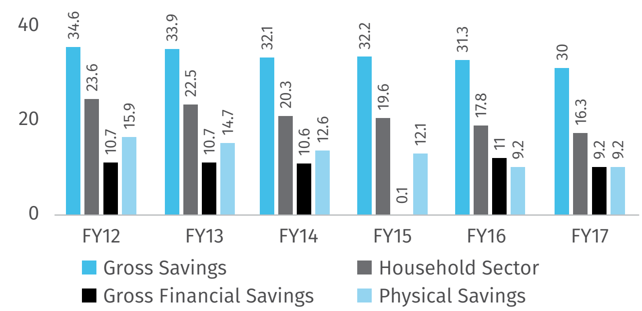
Real GDP and per capita income over the years





(Source: RBI)

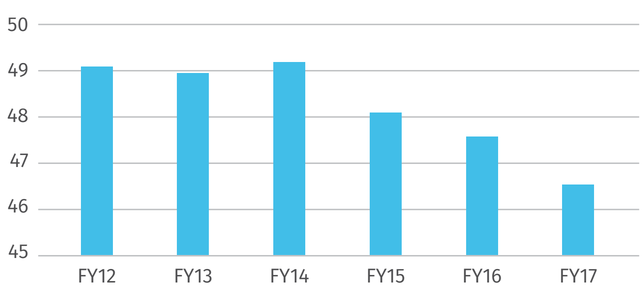
Domestic Savings in proportion to GDP (in %)



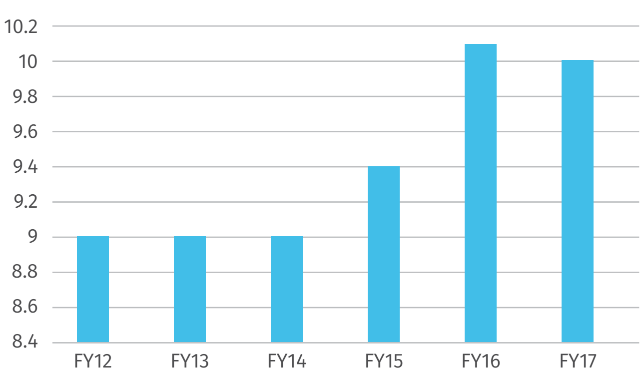
(Source: RBI)

The total loan in proportion to GDP faced a downfall since 2013-14, while there was a rise in personal loan as a percentage of GDP from FY14-15 onwards. This indicates that increase in personal consumption was being satisfied by a growth in retail credit.

Total Loans in proportion to GDP (in %)



Personal Loans as a % of GDP



(Source: RBI)

Outlook

With GST being stabilised, India's GDP is expected to increase from 6.6% in FY17-18 to 7.5% in FY18-19. With a tremendous growth in the economic sector on account of supportive governmental measures, the Indian economy is expected to overtake Japan to be the 3rd largest economy by 2028. India's exports are also expected to improve in the coming years benefitting from the trade war between US and China. Moreover, India's exports are expected to rise with India and China entering into a bilateral trade roadmap. This roadmap is for a medium and long-term period that will help to set timelines and action points for both the countries. It will help to increase bilateral trade between both the countries in a balanced and sustainable manner.

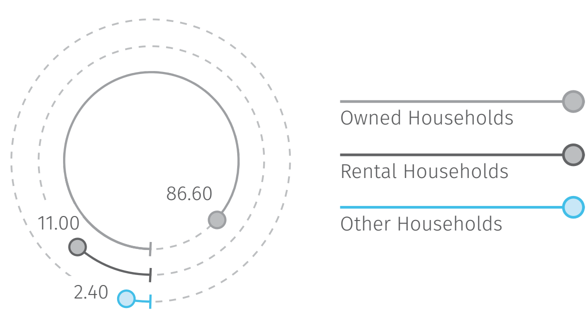
INDUSTRY OVERVIEW

Real Estate Industry

The Indian real estate industry has been driven by a significant number of developments since past few years. Real estate industry is the second largest employer in India, after agriculture. It is expected to employ more than 67 million people by 2022. The key markets of Indian Real estate industry includes Mumbai Metropolitan Region, National Capital Region, Bangalore, Pune, Chennai and Hyderabad.

The real estate industry witnessed various short term effects due to the reforms introduced by the government. The unsold inventory fell down from 8,88,373 units in April 2016 to 8,07,903 units in October 2017. After facing a setback due to demonetization in FY16-17, FY17-18 saw a recovery of the industry. With this recovery, the Indian real estate industry is expected to reach ₹180 billion by 2020 from ₹126 billion in 2015. Housing sector's contribution to GDP is expected to double at 11.2% by 2020. (Source: Economic Survey; CREDAI)

Home ownership in India *(in %)*



Source: Census 2011

Recent developments that will boost the real estate industry

- The government will set up a dedicated affordable housing priority sector fund under National Housing Bank (NHB). This will open new avenues for developers who are planning to offer budgeted homes to the customers.
- RBI has raised housing loan limits for priority sector leading eligibility from ₹28 Lakh to ₹35 Lakh in metropolitan center and from ₹20 Lakh to ₹25 Lakh in other centers.
- President has promulgated an ordinance recognising home buyers as financial creditors, thus giving them greater say in insolvency of defaulting builders.

Government Initiatives for the real estate Industry

1. **Housing for All by 2022 -** Pradhan Mantri Awas Yojana was introduced by the government in 2015. Under this scheme, the government plans to provide 51 Lakh houses in rural area, and 37 Lakh houses in urban area by 2022.

   The total investment outlay for this scheme amounts to ₹2.25 Lakh Crore. Till now 3.4 Lakh houses have been completed under the scheme, and 2.97 Lakh houses have been occupied. Housing for All by 2022 will give a boost to the real estate industry of India with developers moving towards completion of projects in 2018.

   The government has been espousing the cause of housing through its Housing for All by 2022 mission. Under the aegis of this mission, the government has brought out 2 schemes to partly fund the interest of borrowers in urban areas.

   The first scheme, which is very liberal in terms of the interest rate subsidy is applicable to the Economically Weaker Sections (EWS) and those under Low Income Group (LIG) with average annual household incomes of ₹3 Lakh and ₹6 Lakh respectively. The maximum interest subsidy for EWS/ LIG is ₹2,67,280/- and the maximum loan eligible for subsidy under this scheme is ₹6 Lakh. The amount of subsidy will be reduced proportionately if the loan amount is lower than ₹6 Lakh. The interest subsidy benefit is only available for loans that are disbursed on or after June 17, 2015.

   The other scheme covers home loans to the Middle Income Groups – MIG 1 for borrowers having average annual household incomes between ₹6 Lakh and ₹12 Lakh and MIG II for borrowers with average annual household incomes between ₹12 Lakh and ₹18 Lakh on home loans to Middle Income Groups. The interest subsidy is provided at a rate of 6.5% for 20 years or for the tenure of loan, whichever is lower.

   The benefit of interest subsidy under the above schemes has also been extended till March 2019 from previous scheduled end date of 2017.

2. **Affordable Housing-** Affordable housing has been one of the key initiatives taken by government towards growth of real estate industry. Affordable houses will get a boost with GST being reduced from 12% to 8%. It will also be driven by a take-off in Credit Linked Subsidy Scheme (CLSS) for Economically Weaker Section (EWS), and Lower Income Groups (LIG). Allocation for EWS and LIG increased from ₹8 billion in FY17-18 to ₹10 billion in FY18-19. Also, the allocation for Middle income groups has been increased from ₹6 billion in FY17-18 to ₹10 billion in 2019. With a ticket size of ₹10 Lakh to ₹50 Lakh, affordable houses are being popular for buyers in tier 1 and tier 2 cities.

3. **Real Estate Investment Trust (REIT) -** REIT has been successfully approved by the SEBI. It is like a mutual fund, where money of various investors will be pooled together, and money will then be invested in a commercial property. This will allow investors to invest in real estate industry with even a small amount of ₹2 Lakh. The objective of REIT is to provide investors with dividends that are generated from capital gains accruing from sale of commercial assets. The trust will distribute 90% of income as dividends to its investors. REIT will not only safeguard investors, but it will also help the real estate industry to attract more investments. Over the years, REIT is expected to create an opportunity of ₹1.25 trillion investment in the real estate industry.

4. **Real Estate (Regulation & Development) Act (RERA) -** RERA was introduced to bring in transparency and organization into the real estate industry of India. Strict Compliance requirements established under RERA, introduced improved quality and timely completion of projects in the real estate industry. RERA will help to shift the real estate industry towards organization. It will also help in faster completion of long hauled projects by the developers.

   (Source: Economic Times, MOHUA)

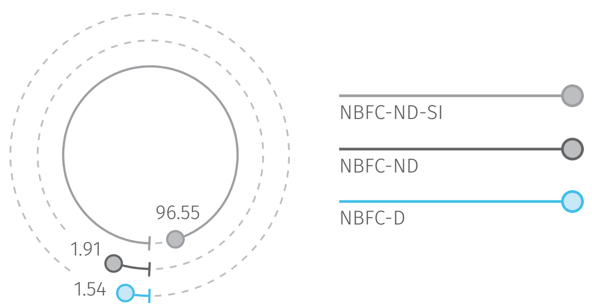
Outlook for Real Estate Industry

Urbanization in India is expected to reach 36% by 2020. The urban population is expected to reach at 590 million by 2030 from 340 in 2008. This will lead to a shortage of around 1 Crore houses which will further provide a scope for the real estate industry to grow. It is also expected that all the government initiatives will be the key drivers in this growth process. In the coming years, real estate industry is anticipated to experience new launches along with completions of various projects. The real estate industry is expected to grow at a rate of 30% in the next decade. (Source: RBI; Business Today & CRISIL)

NBFC INDUSTRY OVERVIEW

Non-banking Financial Institutions (NBFI) have always played an important role in financial service sector of India, when it comes to providing loans to the commercial sector. Non-Banking Financial Companies (NBFCs) specialize in meeting credit requirements and providing financial services. They provide financing for physical assets, commercial vehicles, l assets of financial sector, and 76% of the total assets of NBFI. Around 11,522 NBFCs are registered under RBI, of which 178 are Deposit taking NBFCs, and 220 are Non-deposit taking and systemically important NBFCs. (Source: RBI report on trend and progress of banking in India)

Different categories of NBFC *(in %)*



Since the past few years, NBFCs have been experiencing a double digit growth, leading to stabilization of the economy on account of bridging the financial gap. Loans and advances grew at 6.6% in first half of FY17-18, as against 12.7 in FY16-17. NBFCs are estimated to grow at a moderate rate of 16-18% in FY17-18, higher than 15% in FY16-17. This growth is driven by rise in SME credit and other key target asset classes. The growth pressure of NBFC sector, is likely to be from Loans Against Property (LAP) and SME segment, which constitute 25% of the total retail NBFC credit.

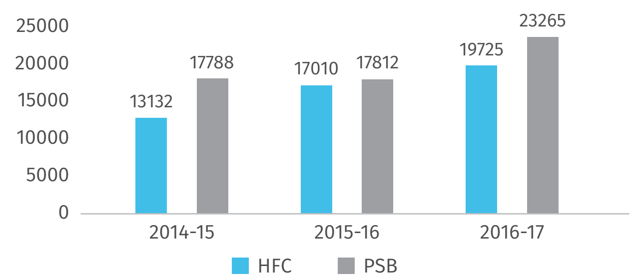
Outlook

With banking sector moving towards recapitalization, and Indian banks facing the challenge of increased Non-Performing Assets (NPAs) in their books, the NBFC sector is expected to get a boost. As the state-run banks will control their lending activities, NBFC sector is anticipated to grow, as more people will start coming to NBFCs for their credit requirements. The NBFC sector is expected to grow at a faster rate by 2020 and the NBFC sector's share in Indian credit market, is expected to grow at 19% by 2020 as against 12% in 2014. (Source: CRISIL)

HOUSING FINANCE COMPANIES (HFC) SECTOR OVERVIEW

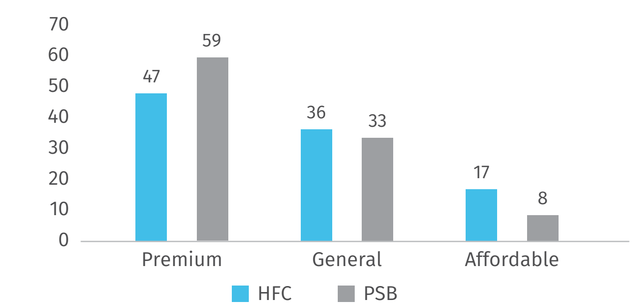
With the real estate sector accounting for 47% of the total loans granted by NBFCs, HFC sector has always been an important part of the NBFC sector. Since, the launch of affordable housing initiative by the government, home loans segment has been driven by the loans for affordable housing. There has been a growth of 16% in general housing segment. Fiscal 2018 has seen HFC sector growing at a constant rate with growth in affordable segment.

Disbursement of Loan upto ₹10 Lakh *(in Crore)*



(Source: RBI)

Share of Average Ticket size *(in %)*



(Source: CRIF's insight on Housing Finance)

GROWTH DRIVERS FOR HFC INDUSTRY IN INDIA

- **Growth in Affordable Housing segment -** Affordable housing has always been one of the key drivers of the real estate industry. The demand for affordable homes is expected to be 25 million homes by 2022. This will give a boost to the construction of affordable houses by the developers. Despite lower ticket size, affordable housing constitutes of 47.41% of the total HFC credit requirement. Thus, growth in affordable housing segment will augment the HFC sector. However the slow pace of lending activity under to PMAY-CLSS across major cities indicates that the desired supply is not available in the market.
- **Increase in urbanization -** It is expected that India will see a huge growth in urbanization with more people moving to urban cities for education or employment. This will increase the demand for houses in urban areas, thus resulting in boost for HFC sector.
- **Increase in per capita income -** The country is moving towards growth along with a rise in working population. This will lead to a rise in India's per capita income. Increase in per capita income will boost the demand for home loans, and thus will provide a growth trajectory for the HFC sector in India.
- **Edge over Banks -** The low ticket loan segment has different dynamics as compared to large ticket loan segment where the HFC's have as edge over the Bank. This will allow HFC sector, which has the required infrastructure and people skills to give more loans and to sustain the rising demand of home loans.

STRENGTHS OF CAN FIN HOMES

- **Diversified Product Portfolio -** Can Fin Homes Limited Offers 24 loan products under housing segment, non-housing segment, and customized for some category of customers. The product portfolio consists of individual loans for different purposes such as loans for rural housing, loans for urban housing, purchase of site and construction of houses thereon, loans for commercial property etc. The company also offers non-housing loans such as mortgage loans and personal loans. This extensive product portfolio will help the company to continue recording high growth.
- **Key market presence -** Indian economy will require huge amount of investment in infrastructure and housing segment in the coming years. Most of this investment will be required by the housing segment in Tier 1 and Tier 2 cities. Can Fin has a well-established base to exploit these opportunities with a good presence in tier 1 and tier 2 cities.
- **Good asset quality -** Can Fin has maintained a good asset quality as compared to most of the other companies in the HFC sector. This has helped the company to maintain its pace of growth and it continues to have an advantage in terms of lower cost of borrowings.
- **Governance –** Over the years Can Fin has established a strong governance framework. Ethical business processes and transparency in operations has led to higher operational efficiency and business sustainability.

BUSINESS SEGMENT REVIEW

Lending operations

Despite slowdown in real estate market in some parts of the country, stiff competition from Banks & HFCs, Can Fin managed to hold its own and deliver a fairly consistent performance. During the year, housing loans and other loans sanctioned (loan approval) were to the extent of ₹5,760 Crore the quantum of loans disbursed was ₹5,207 Crore. The loan portfolio as at March 31, 2018 amounted to ₹15,743 Crore as against ₹13,313 Crore in the previous year, an increase of 18.25% Y-o-Y.

FY17-18 witnessed Can Fin Homes crossing three landmark figures, i.e., Loan Book of ₹15,000 Crore, NII of ₹500 Crore and PAT of ₹300 Crore.

The customer profile continues to be dominated by the salaried and professional category, accounting for 73% of the total portfolio, with 90.70% of the fresh loan approvals given to Housing sector. The average ticket size of incremental housing loan and non-housing loans are ₹18.08 Lakh and ₹8.73 Lakh respectively.

Loan products

24 loan products are offered to the public by CFHL, under housing and non-housing, tailor-made for the niche customer segment it caters to. The products basket covers individual housing loans for construction, purchase, extension, repairs and renovation, site purchase, composite loan, loans for rural housing, loans for urban housing etc and non-housing loans like mortgage loans, personal loans to existing customers, loans for commercial property, loans for rent receivables etc. CFHL introduced 4 new products, New Gruhalakshmi Rural Housing

Scheme, New Urban Housing Scheme, CFHL Nishchint for Pensioners and CFHL-Topup loan during the FY17-18.

Marketing and distribution

CFHL continued to upgrade its marketing and distribution network across 19 states in India, and opened 9 new branches and 4 satellite offices (SOs), in FY17-18. CFHL had pioneered the concept of Affordable Housing Loan centres to fall in line with the 'Housing for all' initiative by the Government in FY16-17 to exclusively provide smaller ticket size Loans under CLSS, (PMAY) Urban Housing (LUH) and Rural Housing schemes. Taking it forward, 10 SOs were identified and converted as AHLCs during FY17-18. The total number of outlets as on 31.03.18 was 173 comprising 133 branches, 20 AHLCs and 20 SOs in the FY17-18. During the FY18-19, CFHL proposes to open 25 branches / AHLCs to enhance its coverage area further.

In addition to the above outlets responsible for augmenting business, direct selling agents (DSA) are empanelled to source proposals/leads throughout the country. However the control over the credit appraisal of these proposals, vests with CFHL. 687 active DSAs sourced 46 % of the total sanctions and 48% of disbursements during the year.

Funding Sources

Primarily Term loans, credit lines from banks, refinance from NHB, money market instruments like Non-Convertible Debentures (NCDs) and Commercial Papers (CPs), deposits from the retail market are the sources through which CFHL raises funds for its lending activities.

Credit Ratings as on March 31, 2017

For Deposits : "MAAA" with a negative outlook by ICRA for its deposit schemes

Borrowings from Banks : 'AAA' for Long-term 'rating' for term loans

Debentures :

(i) Secured Non Convertible Debentures : AAA by CARE, India Ratings and Research Pvt. Ltd (FITCH), and ICRA Limited

(ii) Unsecured Non-Convertible Debentures : AAA by CARE, India Ratings and Research Pvt. Ltd (FITCH), and ICRA Limited

Commercial Paper: A1+ rating by ICRA Ltd

RISK MITIGATION

Risk	Definition	Impact on company
Economy Risk	This risk comprises of the volatility that might take place in the economy. This includes change in RBI interest rates, downfall in particular sectors, a sudden crash in stock market, etc.	High
Industry Risk	A sudden slowdown that might render the industry unattractive for the investors as well as consumers.	High
Regulatory Risk	The regulatory risk includes any act or rule, any change in change which might affect the company's performance.	Medium
Competition Risk	In a perfectly competitive market there exists a risk for losing market share to competition.	Medium
Location Risk	The risk involves losing of business due to concentration at one place.	Medium
Funding Risk	The risk relates to unavailability of required funding sources at right time.	Low

Economy Risk

The Indian economy continues to be on a growth trajectory with significant investments to be made across the core sectors. Riding on development and investments, the economy is expected to be among the fastest growing economies in the world. Against this backdrop, the housing finance and real estate industry is expected to grow. The company will focus on increasing the non-housing segment disbursement to offset any unforeseen contingency in the housing finance sector.

Industry Risk

Can Fin is a part of the HFC sector, which is a growing sector. Thus, the industry in which the company deals in will not cease to exist, though it may face some slow down. Also, the company has successfully carved a position of leadership for it self.

Regulatory Risk

The company is regulated by various rules and regulations. Can Fin Homes Limited has always made sure it follows the security and risk regulations laid down by different regulatory bodies. In February 2018, several NBFCs were placed under high risk category by Finance Intelligence Unit. Can Fin was one of the few NBFC's not to be placed under this category showing that it successfully adhered to all the rules.

Competition Risk

The industry in which Can Fin deals in is a highly competitive industry. To maintain its market share, the company offers the best financial services to its customers. Can Fin has strived to provide loans and good services to its large customer base spread across the country.

Location Risk

Can Fin has 133 branch offices, 20 affordable housing loan centers and 17 satellite offices as on date. This has allowed the company to have a good presence across key regions in India.

Funding Risk

Can Fin's funding through various sources as NHB, banks, Commercial Paper, and Market borrowings at competitive interest rates helps expand its disbursement portfolio. The company has received highest credit ratings for various funding securities like secured and unsecured loan, deposits, Commercial Papers.

ASSET LIABILITY MANAGEMENT

At CFHL, risks pertaining to liability and interest rates are efficiently managed by a competent and responsible team. Adequate credit is arranged from time to time to ensure that no constraints are faced by the Company. Several banks and other financial institutions offer credit to CFHL which makes sure that the Company's business operations are not interrupted. The position of the Company's assets and liabilities is regularly monitored and reviewed by the ALM committee. The committee also takes effective measures to increase the Net Interest Margin. Periodical meetings of the Risk Management Committee., Board of Directors and the Audit Committee are held to review the financial risks.

INTERNAL AUDIT

The Company is equipped with an efficient internal control team which ensures its operational efficiency.

The Audit Committee of the board reviews several audit reports by Risk based Internal Audit (RBIA), National Housing Bank (NHB), Canara Bank, Internal Audit Reports of different branches of the Company. The reports of standalone 'Application audit of IT systems' by the IT auditors and special audit for evaluating "efficiency of existing internal control systems" have been reviewed by the Audit Committee. In addition to that, the operation and performance of the audit department are also reviewed by the committee at quarterly intervals. The Board has been reviewing the risk profile of the Company, KYC/AML compliances, legal compliance report, ALM at quarterly intervals and compliance of fair practice code, customer complaints at half-yearly intervals as per the regulatory guidelines.

All policies are critically analysed by the Risk Management Committee of the Board and reviewed/approved by the Board annually.

ASSET QUALITY

Risk assessment of the customers is made at the time of initial appraisal for the purpose of pricing and granting the loans. The company also makes a portfolio risk analysis at frequent intervals with its stringent review mechanism.

Gross NPA as on March 31, 2018 stood at ₹67 Crore (0.43%) as against ₹28 Crore (0.21%) of loan outstanding during the previous year, one of the lowest in the industry. The follow-up of the Special Mention Accounts (SMA) at the nascent stage along with technological assistance has helped arrest slippages into NPA. Special campaigns were conducted every quarter for all the branches with the active involvement of their staff.

On account of CFHL's unyielding focus on asset quality, the Company has been able to maintain one of the lowest GNPA levels among its peers.

OVERVIEW

1. Outstanding loan book grew by 18.30%.
2. Operating profit, net profit up by 24% and 28% YOY respectively, backed by NII growth of 21%.
3. Gross NPA continues to remain low at 0.43%.
4. 90.50% of fresh loan approvals during the year were for housing and 10.50% for non-housing loans.
6. Average ticket size of incremental housing loans and non housing loans are ₹18.08 Lakh and ₹8.73 Lakh respectively.
7. 73% of the total loan book as of March 2018 comes from salaried and professional segment.

OUTLOOK FOR 2018-19

1. Business budgets for 2018-19 : Loan book size of ₹19,500 Crore (from ₹15,743 Crore at March 18) in line with the Vision of ₹40,000 Crore for FY21-22.
2. Branch expansion plan for 2018-19: 24 new Branches and Affordable Housing Loan Centres
3. Increased thrust on Affordable housing.
4. Salaried and Professional category would continue to be niche segments

FINANCIAL REVIEW AND ANALYSIS, FY17-18

Basis of preparation

The financial statements of the Company were prepared in accordance with generally accepted accounting principles (GAAP) in India. The financial statements were prepared to comply in all material respects with the accounting standards notified by Companies (Accounting Standards) Rules, 2006, as amended, and the relevant provisions of the Companies Act, 2013.

Financial performance review, FY17-18

(₹ in Crore)

Particulars	2017-18	2016-17	Growth
Total Income	1547.06	1353.12	14%
Total Expenditure	1066.91	964.74	11%
PBT	458.06	370.17	24%
PAT	301.77	235.26	28%
EPS (₹)	22.67	17.68	28%

* EPS adjusted to Face Value of ₹2/-per Equity Shares (Subdivision with effect from 13/10/2017)

ANALYSIS OF PROFIT & LOSS

- Gross earnings of the Company during FY17-18 increased by 14% over previous year while expenses were contained at 11% resulting in a 24% rise in Operating Profit from ₹388.38 Crore in FY16-17 to ₹480.16 Crore in FY17-18.
- PAT for the year, at ₹301.77 Crore clocked a Y-o-Y growth of 28% and PBT for the same period grew by 24% to ₹458.06 Crore.
- The cost of the Company's employee benefits increased by 12% from ₹39.36 Crore in FY16-17 to ₹44.16 Crore in FY17-18.
- NIM for the year stood at 3.53% compared to 3.54% in FY16-17.
- ROE for the year under review stood at 24.91% against 24.08% in FY16-17. ROA improved to 2.09% from 1.97% for the previous year.
- The Company's cost to income ratio for the year under review improved to 15.21% compared to 17.02% in FY16-17.
- For the 3rd successive year, the Company declared 100% dividend representing a payout ratio of 8.82% (excluding taxes).

Analysis of Balance Sheet

Sources of Funds

(₹ in Crore)

Particulars	2017-18	% of Capital	2016-17	% of Capital
Equity share capital	26.63	0.17%	26.63	0.20%
Reserves & Surplus	1319.86	8.56%	1049.68	8.04%
Net worth	1346.49	8.73%	1076.31	8.24%
Loan funds	13924.75	90.35%	11872.41	90.89%
Deferred Tax Liability	141.24	0.92%	113.65	0.87%
Capital Employed	**15412.48**	**100%**	**13062.37**	**100%**

Capital employed

The total employed capital of the Company for FY17-18 stood at ₹15412.48 Crore, an increase of 18% from the previous year.

The long term borrowings of the Company as on March 31, 2018 stood at ₹8,721.25 Crore compared to ₹8,028.25 Crore in FY16-17, an increase of 8.63%. The return on equity increased from 21.86% in FY16-17 to 22.41% in FY17-18.

The equity capital was similar to last year, whereas the net worth increased by 25.10% mainly on account of the increase in the reserves and surplus.

The Company's CAR (Capital Adequacy Ratio) as on March 31, 2017 stood at 19.08%, while the NHB's stipulation was 12%.

Net worth

The Company's net worth was ₹1,314.44 Crore (net of Dividend cost) as on March 31, 2018, which increased by nearly 26% compared to the previous year's ₹1044.25 Crore as on March 31, 2017.

Reserves and surplus: The reserves and surplus increased from ₹1017.63 Crore as on March 31, 2017 to ₹1287.81 Crore as on March 31, 2018 (net of Dividend cost).

Loan funds

The total long-term borrowings of the Company as on March 31 2018 stood at ₹8,721.25 Crore compared ₹8,028.25 Crore as on March 31, 2017. The gearing ratio stood at 10.34 at the year end well within the permitted limit of 16 times of the Company's net owned funds.

Application of funds

Fixed Assets

The net block of Fixed Assets of the Company reduced by 6% at ₹9.57 Crore as compared to ₹10.17 Crore as on March 31, 2017.

Correspondingly, depreciation expenses decreased by 17% from ₹3.73 Crore in FY16-17 to ₹3.09 Crore in FY17-18.

Investments

Non-current investments of the Company remained at ₹15.94 Crore as on March 31, 2018.

Cash and bank balances

The cash and cash equivalent for the year stood at ₹19.02 Crore compared to ₹19.95 Crore in the previous year.

Taxation

The Company's total tax liability increased by 12% to ₹128.69 Crore as on March 31, 2018 from ₹115.13 Crore as on March 31, 2017. The Company's deferred tax liability (DTL) for the year stood at ₹27.60 Crore compared to ₹19.78 Crore in FY16-17, an increase of 40%.

Prudential norms for housing finance companies (HFCS)

The National Housing Bank (NHB) has issued certain regulatory guidelines to HFCs on prudential norms for income recognition, borrowing powers, provisioning, asset classification, capital adequacy, concentration of credit/investments, accounting standards, credit rating, KYC (Know Your Customer), Fair Practice Code, Most Important Terms & Conditions (MITC) grievance redressal mechanism, recovery of dues, real estate and capital market exposure norms. CFHL has complied with all these regulatory guidelines.

According to the NHB prescribed prudential norms, an asset is a NPA in case the interest or the principal installment is overdue for 90 days. HFCs have to make provisions at prescribed rates depending on the age of the overdues and the income on such NPAs is not to be recognised. Apart from the provisioning on NPAs, HFCs are also required to carry a provision of 0.25% on standard individual housing loan, 0.75% of commercial real estate-residential properties and 1% on other individual non-housing loans/loans to developers. CFHL has complied with all the regulatory norms as prescribed by the NHB.

CFHL has carried adequate provisions on standard assets and as per requirement created 63% provisions for the NPA.

Human Capital

CFHL believes that the strength of the company depends on the commitment, dedication and professionalism of its workforce and its mission is to maximize the productivity of the company by optimizing the effectiveness and simultaneously improving the work life of the staff.

CFHL has introduced a single window matrix for quarterly evaluation of the performance of the staff with a fair and transparent system driven Performance Appraisal process. The company has promoted performance driven culture through reward and recognition schemes. CFHL's talent acquisition process includes induction of manpower with right skill sets and attitude, both under direct and lateral hiring routes. During FY17-18, the Company has recruited specialist officers, i.e., Chartered Accountant, Company Secretary, Legal Officers, Risk Officers etc. With an average employee age of 34 years, CFHL has a good mix of energy and experience. Considering the growth of the company and increase in the scale of operations, the company has plans for fresh recruitment across various cadres during 2018-19. The total number of employees as on March 2018 was 648.

IT and Security

All the branches and the Registered Office are linked through a core-banking platform (Integrated Business Suite) under the Application Service Provider (ASP) Model. The Company is in advanced phase for implementation of MPLS links through BSNL for a higher bandwidth and dedicated uptime.

In order to improve operational efficiency, your Company embarked on technology initiatives like implementation of C-KYC (Central KYC) solution. The CKYC will act as centralized repository of KYC records of customers in the financial sector with uniform KYC norms and inter-usability of the KYC records across the sector. Your Company is in process to revamp the existing website to make it interactive and more user friendly.

Your Company has introduced online Application Module in its website and a customer portal to access account statements/certificates and online money transfer. Your Company also provides SMS alerts and missed call facility to provide information on loan balances.

The Company has set up a in-house team of IT professionals drawn from reputed institutions / firms to enhance IT capabilities.

Related Party Transactions

CFHL maintains an arm's length relationship with related parties. The Company's detailed policy on related party transactions is uploaded in the Company's website for the information of all the stakeholders. The related party transactions with details are furnished in the Note forming a part of the accounts. All related party transactions are approved by the Audit Committee or Board or members at a general meeting, as applicable.

Corporate Social Responsibility

CFHL has constituted a Corporate Social Responsibility (CSR) Committee of the Board and has put the CSR policy in place. The Company's CSR Policy focusses on promoting holistic education including special education and employment enhancing vocation skills, promoting gender equality through women empowerment, setting up homes, hostels, old age homes, day centres for women and orphans and senior citizens. These measures attempt to reduce inequalities faced by socially and economically backward groups. During the year under review, CFHL spent ₹3.38 Crore towards various activities.

The particulars of the amount to be spent and reasons for not spending the balance, if any, are furnished in the Directors' Report. The Company's policy on Corporate Social Responsibility is uploaded on the Company's website for the information of all the stakeholders.

Cautionary Statement

The statements made in this report describing the Company's objectives, estimations, expectations or projections, outlooks constitute forward-looking statements within the meaning of applicable securities laws and regulations. Actual results may differ from such expectations, projections, among others, whether express or implied. The statements are based on certain assumptions and future events over which the Company has no direct control. The Company assumes no responsibility to publicly amend, modify and revise any of the statements on the basis of any subsequent developments, information or events.

For and on behalf of the Board of Directors

Place: Bengaluru
Date : April 28, 2018

K N Prithviraj
Chairman