Management Discussion and Analysis

GLOBAL ECONOMIC OVERVIEW

The global expansion has weakened during the year under review. As per the World Economic Outlook (WEO) forecast, the global growth for 2018 was estimated at 3.7%, in October 2018, despite weaker performance in some economies, notably Europe and Asia. The global economy is projected to grow at 3.5% in 2019 and 3.6% in 2020, 0.2% and 0.1% below last October's projections.

The global growth forecast for 2019 and 2020 had already been revised downward in the last WEO, partly because of the negative effects of tariff increases enacted in the United States and China. The further downward revision since October 2018 in part reflects carry over from softer momentum in the second half of 2018; including Germany following the introduction of new automobile fuel emission standards and in Italy where concerns about sovereign and financial risks have weighed on domestic demand-but also weakening financial market sentiment as well as a contraction in Turkey now projected to be deeper than anticipated.

Risks to global growth tilt to the downside. An escalation of trade tensions beyond those already incorporated in the forecast remains a key source of risk to the outlook. Financial conditions have already tightened since the fall. A range of triggers beyond escalating trade tensions could spark a further deterioration in risk sentiment with adverse growth implications, especially given the high levels of public and private debt. These potential triggers include a no-deal withdrawal of the United Kingdom from the European Union and a greater-than-envisaged slowdown in China.

The main shared policy priority is for countries to resolve cooperatively and quickly their trade disagreements and the resulting policy uncertainty, rather than raising harmful barriers further and destabilizing an already slowing global economy. Across all economies, measures to boost potential output growth, enhance inclusiveness, and strengthen fiscal and financial buffers in an environment of high debt burdens and tighter financial conditions are imperatives.

INDIAN ECONOMY

The Indian economy retained its tag of the fastest growing major economy in the world in the financial year under review for the second year in a row as it continued its climb on an upward growth path. The economy registered a growth rate of 7% during the financial year 2018-19 as per advance estimates of the Central Statistical Office.

The economy is projected to grow at the rate of 7.5% during 2019, expanding further to 7.7% during 2020 as per the International Monetary Fund (IMF) World Economic Outlook January, 2019 update. The growth rates for the economy are pegged much higher than the global growth rates for the same years, at 3.5% and 3.6% for 2019 and 2020 respectively, thus placing the economy on a solid footing.

The Indian economy witnessed robust industrial growth during the financial year 2018-19 and the momentum is expected to continue in the current financial year as well. The Index of Industrial Production (IIP) with base 2011-12 for the April-January period for 2018-19 registered a 4.4% increase over the corresponding period for the previous year. *(CII - The Indian Economic Outlook 2019-20, dated March 18, 2019).*

In case of various industries, 11 out of 23 Industry-groups (as per 2-digit National Infomatics Center "NIC") exhibited positive growth during January, 2019 over the corresponding month in the previous year, with the industry groups "Manufacture of Food Products" and "Manufacture of Wearing Apparel" recording highest growth rates at 17% and 16.4% respectively. Among other positives, industries such as capital goods and infrastructure/construction goods expanded significantly. Healthy growth in core sectors such as steel and cement could strengthen further. On the trade front, Indian exports grew by 3.74% over January 2018 to reach US$ 26.36 billion in January, 2019. Drugs and pharmaceuticals, organic and inorganic chemicals and readymade garments were the top performing commodity groups with growth rates of 15.2%, 15.56% and 9.33% respectively.

Overall trade including services trade for India is estimated at around US$ 440 billion for April-January 2019, exhibiting a positive growth rate of 9.07% over the corresponding period during last year. Export growth is expected to gain further pace as global trade tensions ease.

INDIAN FINANCIAL SECTOR: NBFCs

RBI liquidity infusions have cooled down bond markets. Aggregate liquidity has significantly eased over the past six months with bank borrowings from the Reserve Bank of India (RBI) dropping from over ₹ 1.2 trillion in September 2018 to near ₹ 500 billion in March 2019. This has been driven by aggressive liquidity injections by RBI, which bought ₹ 3 trillion of bonds (70% of government's net borrowing) in the financial year 2018-19 and also infused ₹ 350 billion through forex swap window. These liquidity injections coupled with repo rate cuts have led to bond yields for both treasuries and corporates declining 60-100 basis points since September 2018.

Non Banking Financial Companies (NBFCs) though, have not yet seen this benefit, as since September 2018, spread for NBFC paper over corporate bond yields is 40-50 basis points higher for AAA rated NBFCs and 20 basis points higher for AA rated NBFCs.

NBFCs/HFCs tapping alternative funding sources to meet repayment obligations

With mutual funds reducing exposure to the sector, the quantum of private bond issuances has declined. Companies have tried to make up for that by resorting to alternative funding sources: External Commercial Borrowings (ECBs), public bond issuances and asset sell-downs. However, despite that, the overall quantum of issuances is still too low to support disbursement growth.

(A) Public Issue of Bonds

During the year under review, NBFCs issued securities by way of public issue of bonds to raise the capital to minimise the liquidity crunch faced by the NBFCs.

(B) External Commercial Borrowings (ECBs)/Masala bonds

With major central banks globally turning dovish, NBFCs/ Housing Finance Companies (HFCs) have resorted to ECBs and Masala bonds to compensate for a decline in domestic private issuances. Recently, RBI relaxed hedging provisions for ECBs besides its forex swap operations reduced forex forward premium all of which helped reduce all-in funding cost.

(C) Asset sell-downs

During the period of liquidity crunch, some NBFCs and HFCs resorted to aggressive selldown of their loan book via direct assignment/securitisation. As a result, sell-down volumes by NBFCs increased 71% in nine months of the financial year 2018-19 compared to the entire financial year 2017-18. Within that, mortgages constituted half of these sell-downs, with their volumes increasing to 1.9 times of financial year 2017-18 levels. Besides, the sector also witnessed HFCs selling down some of their Lease Rental Discounting (LRD) exposures during the period, for the first time in the last three years.

Reducing share of retail loans on book (due to asset sell-downs) to bring credit ratings under watch

In a bid to shore up liquidity and meet repayment obligations, companies which increasingly resorted to sell-down of retail assets will likely experience change in their on-balance sheet loan mix. For instance, your Company not disbursing any fresh loans and selling down an additional ₹ 30-40 billion in fourth quarter of financial year 2018-19, the loan book composition would be very different from what is reported on an Asset Under Management (AUM) basis.

OVERVIEW OF THE HOUSING FINANCING INDUSTRY

The total housing credit outstanding was ₹ 17.8 lakh crore as on September, 2018 as against ₹ 16.6 lakh crore as on March, 2018, leading to an overall growth of 17%. Growth for the housing credit book of banks was supported by portfolio buyouts, which started picking up from second quarter of the year under review. Going forward, while market growth is expected to slow down, increased securitisation volumes could lead to increased share of banks in the overall housing portfolio. HFCs reported a Year on Year (YoY) growth of 22% in the overall portfolio for the 12 months ended September 2018, supported by a higher YoY growth of 30% in the non-housing loan segment while the home loan portfolio grew by 18% during the same period. However, housing loans continue to dominate the HFC loan book, their share in the overall HFC portfolio reduced to 64% as on September, 2018 owing to the higher pace of growth in non-housing loans. The share of housing loans in the overall portfolio of smaller HFCs was higher than all HFCs. In addition, the pace of growth of home loans for smaller HFCs was at a much faster pace at 25% YoY vis-à-vis non-housing loan growth of 9% for the 12 months ended September, 2018.

The total loan book of the players in the affordable housing segment stood at ₹ 1.77 lakh crore as on September, 2018. Furthermore, the portfolio growth for the new players in the segment was higher at 34% YoY (albeit on a smaller base) with a total loan book of ₹ 38,575 crore as on September, 2018.

The large HFCs had the maximum share of the construction finance, including LRD portfolio among the HFCs. Unlike their larger counterparts, the non-housing loan book of small HFCs mainly consists of Loans against Property (LAP). LAP constituted 22% of the total loan book of small HFCs as on September, 2018 compared to 16% for all HFCs.

Further, in terms of borrower mix, small HFCs have a larger proportion of self-employed customers who tend to borrow against property for their business or personal needs, thus providing small HFCs with better opportunities for originating LAP. However, new HFCs operating in the affordable segment remain focussed on the home loan segment, given the good growth potential and expectations of higher yields from this segment, and have a negligible share in construction finance. *(Source: ICRA Report).*

OPPORTUNITIES FOR HOUSING FINANCE SECTOR

The year 2019 promises to be the best year to buy your dream home. Affordability has increased in the recent times aided by stagnant property prices, steady annual wage inflation of over 10% in the last decade and lower effective interest rates, due to tax incentives and renewed interest in the affordable home space aided by Pradhan Mantri Awas Yojana (PMAY) subsidy. With rapid urbanisation, low mortgage penetration, nuclearisation of families and having two-thirds of the country's population below 35 years of age, good demand for housing is expected in 2019. The year 2018 was a good one for commercial leasing with absorption of over 43 million sq.ft. of new office space, a lead indicator for job creation in the service sector. With fiscal deficit and inflation expected to be within the RBI's estimates, the 10-year G-sec (Government Securities) now off its highs, stable currency and lower oil prices, the interest rates for a home loan borrowers are expected to be stable in 2019. Thus, favourable macroeconomic conditions coupled with conducive demographic factors and increasing affordability augurs well for the housing sector.

One of the most important factors for any retail loan borrower is the rate of interest. While overall home loan rates are expected to be stable in 2019, a major change that home loan borrowers would see this year is that banks as mandated by RBI will have to switch to an external benchmark to determine rates. Since short-term benchmark rates move a lot, this will introduce volatility. However, in the long term, this will be a positive move for home loan borrowers.

Another important factor is that, the Country's mortgage is so under-penetrated, 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.

In such a backdrop, the recent pause in home loan disbursals by NBFCs and HFCs, over the entire second half of the financial year 2018-19 and still continuing, has been a point of concern. Though banks have continued to disburse home loans during the liquidity crisis faced by NBFCs and HFCs, their limitations in product offering and turnaround time will surely impact the housing finance growth in the country, especially in tier II and tier III cities. However, with the liquidity situation now close to normalising, NBFCs and HFCs are expected to restart disbursals. In 2019, housing finance is expected to pick up pace, and combined with structural increase in home loan demand on the back of stable macroeconomic conditions and strong demographic factors, the 2019 growth will match or even outpace previous year's growth.

The current government has viewed housing as its centrepiece economic policy and announced various schemes and policies to increase home ownership. It has been well recognised that in addition to its social aspects, housing is also a key driver of economic growth with its ability to create employment and its linkages to multiple other sectors. 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.

In all, based on how various parameters are panning out, India's macroeconomic scenario will remain stable in 2019 and it is expected that the housing finance sector will play a pivotal role in the growth story of the country.

Measures taken to promote real estate

The Union Budget 2018-19 continued its push for the real estate sector by announcing following measures:

(1) Establishment of a dedicated Affordable Housing Fund in National Housing Bank, financed from priority sector lending shortfall, which will make available low-cost long-term funds for affordable housing.

(2) Allocation of ₹ 6,505 crore for Pradhan Mantri Awas Yojana (Urban) [PMAY(U)] as against ₹ 6,043 crore in 2017-18, including allocations for Credit Limit Subsidy Scheme (CLSS). Additionally, Internal and Extra Budgetary Resources of ₹ 25,000 crore under PMAY(U) have been made available for 2018-19.

(3) Allocation of ₹ 21,000 crore for PMAY (Gramin) as against ₹ 23,000 crore in 2017-18. The total resource requirement is projected at ₹ 33,000 crore, comprising of ₹ 21,000 crore of Gross Budgetary Support and ₹ 12,000 crore of Extra Budgetary Resources.

The Government and market regulators have been taking necessary measures for development of monetizing vehicles like Infrastructure Investment Trust (InvIT) and Real Estate Investment Trust (REITs) in India. SEBI in February, 2017 notified norms allowing mutual funds to make investments in such entities. This move is aimed at boosting investor's interest in such alternative investments.

The RBI has raised housing loan limit for eligibility under priority sector lending (PSL) from ₹ 28 lakh to ₹ 35 lakh in metropolitan centres, and from ₹ 20 lakh to ₹ 25 lakh in other centres. The ceiling on cost of eligible dwelling units has also been revised from ₹ 35 lakh to ₹ 45 lakh in metropolitan areas and from ₹ 25 lakh to ₹ 30 lakh in other areas. The limits were revised in order to bring convergence between PSL guidelines for housing loans and the affordable housing scheme under the Pradhan Mantri Awas Yojana (PMAY).

Tax Incentives

The Tax incentives have traditionally been a key instrument used by the Government to promote the growth in the housing sector. The Tax incentives have also been instrumental in driving the housing demand in India with few of the tax benefit as follows:

The Government has allowed a rebate on taxable income between ₹ 2.5 lakh to ₹ 5 lakh per annum in the interim Budget for 2019-20, which will enable housing for all initiative, as it would provide additional disposable income to potential buyers of affordable homes.

The Government has also increased interest deduction on loan taken for an affordable home by ₹ 1.50 lakh. This means that the owner of a self-occupied house in the affordable segment, valued at up to ₹ 45 lakh can claim interest deductions of ₹ 3.50 lakh instead of ₹ 2 lakh.

Government has extended benefits under Section 80-IBA of the Income Tax Act for one more year upto March 31, 2020. Accordingly, all the projects approved and meeting the conditions prescribed under the said Section 80-IBA, are entitled to claim a deduction of 100% of the profits, with respect to the project approved. This benefit is available, only if the concerned housing project has been approved between June 1, 2016 and March 31, 2020. This will enable creation of more homes under affordable housing.

Further, with the aim of giving impetus to real estate, the Government has proposed extending the period of exemption from levy of tax on notional rent, on unsold inventories, from one year to two years. This will be applicable from the end of the year in which the project is completed, and this will benefit the industry facing slow off take of inventory.

For families which have more than one house – one in the home-town and the other in a location where family members work or have a job – currently, income tax on notional rent is payable in such cases i.e. if one has more than one self-occupied house. Considering the difficulty of the middle class having to maintain families at two locations on account of their job, children's education, care of parents etc., the Government have exempted levy of income tax on notional rent on a second self-occupied house.

The benefit of rollover of capital gains under Section 54 of the Income Tax Act has been proposed to be increased from investment in one residential house to two residential house for a tax payer having capital gains up to ₹ 2 crore. This benefit can be availed once in a life time.

Government Initiatives / efforts to boost Affordable Housing

The Government incentives to boost the residential real estate sector, in the current fiscal year, witnessed increase in Affordable Housing projects especially budget housing. Growing affordability for the first-time home buyers, supported by government incentives like the PM's Awas Yojana resulted in a rise in primary home purchases, especially in the affordable housing with loan growth to 17% - 19%.

A Schematic approach to promote afforadable housing

Pradhan Mantri Awas Yojana

The Government of India (GoI) launched the 'Housing for All' mission under the Pradhan Mantri Awas Yojana (PMAY) in June 2015. The mission attempts to address the demand and supply-side constraints that had affected the sector's growth in the past. On the demand side, the GoI proposed a credit-linked subsidy capital, which could be as high as 44% (₹ 2.67 lakh) for a loan of up to ₹ 6 lakh. On December 31, 2016, the Prime Minister introduced two new middle-income categories under the scheme, that is loans of up to ₹ 9 lakh and ₹ 12 lakh with subvention of 4% and 3%, respectively. The income eligibility criteria for the two categories are overall household income of ₹ 12 lakh and ₹ 18 lakh respectively.

These categories are likely to improve affordability for a wider set of borrowers leading to increased growth potential in the affordable housing segment. However, the success of this action would hinge on the availability of supply of such houses. Initiatives taken by state governments and urban local bodies to provide land to keep the prices affordable while ensuring adequate returns for the developers would be critical for ensuring adequate supply of low-cost housing. Further modifications to the scheme were made in November 2017 when the dwelling unit carpet area was increased for the Middle-Income Group segment.

The Union Budget for Fiscal 2018 has maintained its focus on the agenda for Housing for All by 2022; The allocation of ₹ 27,400 crore under PMAY was at levels similar to last year. This would help in continuing the growth momentum in the affordable housing sector on the demand as well as supply side. In addition to the Credit-Linked Subsidy Scheme, the setting up of an affordable housing fund is likely to increase the funding options for HFCs operating in the affordable housing space. In ICRA's opinion, HFCs operating in the affordable housing space could benefit from lower funding costs, which are likely to improve affordability for end borrowers.

The thrust on increasing rural income is also likely to aid the demand for housing and is likely to be a positive for the HFCs from a growth perspective, especially for players with a good presence in rural and semi-urban areas.

Credit-Linked Subsidy Scheme (CLSS)

Under the 'Housing for All by 2022' mission, the Central Government has implemented credit-linked subsidy component as a demand-side intervention to expand institutional credit flow to the housing needs of the people residing in urban regions. Under this component, credit-linked subsidy will be provided on home loans taken by eligible urban population for acquisition and construction of houses. Affordable housing under CLSS will be implemented through banks/ financial institutions. Housing and Urban Development Corporation (HUDCO) and National Housing Bank (NHB) have been identified as Central Nodal Agencies (CNAs) to channelise this subsidy to the lending institutions and for monitoring the progress of this component.

For all the income slabs, as notified, any additional loan taken by the beneficiary up to a maximum tenure of 20 years will be at non-subsidised rates. The interest subsidy amount will not be the differential of interest amount (of actual and subsided rate) but the net present value (NPV) of the interest subsidy amount - to be calculated at a discounted rate of 9%.

Reduction of stamp duty on affordable housing

Stamp duty being a state subject, the duty rates vary at different locations across the country. In addition, stamp duty is calculated ad valorem on the basis of the price of the property sold. Therefore, the government should evaluate the idea of capping the stamp duty rates for affordable homes.

Priority sector lending certificates (PSLC) for HFCs

Priority sector lending certificates (PSLC) are tradable certificates issued against priority sector loans of banks. PSLCs are an effective market-driven interest subsidy to the institutions that originate priority sector loans.

At present, only scheduled commercial banks, urban co-operative banks, small finance banks and local area banks are allowed to issue and buy PSLCs. Given the priority sector classification on affordable housing loans, PSLC issuance should be extended to housing finance companies too.

The existing measures and efforts of the government to offer affordable housing have turned out be quite beneficial for the industry. However, expanding the demand spectrum further, announcements on augmentation of the existing schemes or the launch of a few beneficial ones will definitely spur growth in the industry. It's time to capitalise on the affordability factor.

Launching of 'Knowledge Lab'

To meet its vision of housing for all by 2022, the government has launched an online knowledge lab for states and union territories, detailing ways to execute affordable housing projects through new technologies and innovative designs. The laboratory will act as a source of information on the matters related to affordable housing in the country.

To boost affordable housing and achieve the vision of Housing for All by 2022, the government (Centre and State) have undertaken several initiatives under Pradhan Mantri Awas Yojana (PMAY) with an aim to build 1 crore homes in urban and rural India by 2022.

Affordable housing has also been accorded infrastructure status, ensuring that developers in this segment have access to cheaper loans.

THREATS FOR HOUSING FINANCE SECTOR

The liquidity crisis has hampered credit growth for housing finance companies and is unlikely to improve much in the current financial year, even as the weak external environment will put a pressure on asset quality, warns a report.

HFCs are expected to report a 13-15% credit growth in FY19, which will inch up to 14-16% in next fiscal year. Gross non-performing assets of the home loan segment will increase to up to 1.3% in the medium-term from the present 1% levels. If the project loans are included, their overall Non Performing Assets (NPAs) will shoot up to 1.8% in the medium-term from the present 1.4%.

According to ICRA, the ongoing troubles will result in a narrowing of margins and accordingly, a moderation of profit levels to 14% levels in the financial year 2018-19 from 18% in the year-ago period, and that it is expected that the bottom-line of companies to be at the same levels in FY 2019-20 as well.

Following the September 2018 liquidity crisis slowdown in the credit growth of HFCs, 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%.

Non-Availability of Funds

Financing in any area depends on the availability of funds for the purpose. Housing finance is a long-term investment, which requires plenty of funds. One of the main problems of housing finance sector of India is non-availability of long-term capital for investment. Conventionally, the funds for the housing sector have originated from the individuals themselves by way of their own savings or from the financial institutions that are primarily engaged in the intermediation process of channelizing funds from the savers to the borrowers. But the funds so organized through the formal sector financial institutions remain much lower than what is required to tackle the problems of housing finance in India.

Higher Cost of Acquisition of Land

The availability of land in adequate quantity at the right place & at an affordable price is more important for housing finance sector. The inelastic supply of suitable land results in a spurious increase in the cost of real estate. Besides, the very high stamp duty payable at the time of purchase of property also causes an increase in the cost of land significantly. It gets priced out many potential housing finance customers in owning a house. A long term urban mission that takes into account the supply of land in high concentration areas is essential. It should enable developers to plan and execute clusters of affordable colonies in partnership with the government.

Other factors

Housing loans typically have long maturity periods. Unless long-term capital/debt are available for investment at competitive rates, mis-matches of funds flow could become a challenge both on liquidity as well as in cost of replacement of funds.

Another related challenge is the volatility in the interest rates that could enhance the interest rate risk and disrupt the sustainability of margin of HFCs. Importantly, funding and pricing will remain vulnerable as money market aligns after a time lag to market for demand for resources by HFCs.

Economic cycle and resultant impact on employment will remain a potential challenge to HFCs in adjusting to delay and defaults on repayment commitments.

BUSINESS AND OPERATIONAL OVERVIEW

Your Company is a HFC with a pan India presence catering mainly to lower and middle income customer segments in Tier II and Tier III towns of India. Your Company has maintained a steady growth in Assets Under Management (AUM) over the years and is one of the four HFCs in India with AUM of more than ₹ 1 lakh crore, a benchmark which it crossed in the financial year 2017-18.

Your Company has a robust in house credit appraisal process which targets first time home buyers and customers with limited credit history. As an outcome of this focused approach, your Company has achieved significant milestones under the Pradhan Mantri Awas Yojna (PMAY) scheme, the flagship program of the government to energise affordable housing. Under the PMAY scheme, your Company has received subsidy to the tune of ₹ 1,200 crore for 53,000 cases till May 2019 and is currently processing another 42,400 cases with a total subsidy amount of another ₹ 870 crore.

Your Company, as a part of its growth, made significant investment in people and technology from the financial year 2016-17 onwards, till September 2018 when the liquidity crisis hit your Company hard. After reporting a strong credit growth in first half of the financial year under review, your Company witnessed a slowdown in the third and fourth quarters. At the fag end of the second quarter of the financial year under review i.e. on September 21, 2018, your Company witnessed sharp decline in its stock price which plunged down by 42.58% i.e. from ₹ 610.55 to ₹ 350.55 sparking speculation that your Company may be facing liquidly issues which created a panic in the stock market. The same was strongly denied by your Company in form of an exchange filings as well as press statements and investor calls by the senior management of your Company.

At the time of stopping its fresh origination in end September 2018, your Company was clocking over ₹ 2,500 crore of retail loans per month with close to 70% as Home loans with a ticket size of sub ₹ 20 lakh. Your Company's investments in back office processing and centralized underwriting took wings around this time to match growing volumes and value in retail origination. Even in January, 2019, when your Company had started lending for a couple of days before stopping again, your Company reported more than 1,000 logins in two days thus showing the inherent strength in the business model of your Company.

Post September 2018, bank lines of credit dried up and even existing limits got frozen. This coupled with multiple downgrades by rating agencies created significant pressure on your Company to maintain a stable liability profile and regular liquidity flow. Your Company expressed concerns over the multiple downgrades and alluded to it as non-merit based and not supported by track record of repayments.

Even in adverse circumstances, your Company reiterated its steadfast commitment to all its financial responsibilities. Since September 2018, your Company has made liabilities payment of approx. ₹ 22,706 crore, which includes principal repayment of more than ₹ 19,600 crore and interest payment of more than ₹ 3,000 crore. As on Mach, 31, 2019, your Company had a liability outstanding of around ₹ 91,391 crore. The share of debt markets instruments was at 51%, followed by banks at 36%, deposits at 7%, External Commercial Borrowings at 3% and National Housing Bank at 3%.

While the cash flows are supported by regular EMI collections it is significant to note that the collections of your Company have not witnessed any drop in its efficiency the inability to raise money from the capital markets and banks gradually created cash flow mismatches and challenges in meeting repayment commitments on due dates. The portfolio quality and its acceptance is testimony to your Company's origination capability particularly in the segment of first-time borrowers in the LMI segment with limited access to formal credit. As a result, your Company has sold down loan assets worth more than ₹ 25,000 crore (net loans more than ₹ 21,000 crore) since September 2018. The collections and servicing ability on these sold down assets has been remarkable with no deterioration in asset quality.

Allegations against your Company and corrective measures

During the year under review, your Company was subjected to mischievous and malicious campaign by an Indian news website, with a mala fide intent to cause damage to the goodwill and reputation of your Company resulting in erosion in shareholder value.

Your Company received an email from the said news website on the morning of January 29, 2019, seeking answers to sixty four detailed questions containing not only false but also wholly unjustified innuendos. Your Company was shocked and surprised to receive this inquiry on the morning of January 29, 2019, when the said news website had already announced its press conference on January 25, 2019, with a pre-determined view that they were purportedly exposing an alleged "financial scam".

The entire approach of the news web site raises serious concerns about the motivation of the said so-called 'Expose'. The real intent of this exercise appears to be to defame your Company with many false and scurrilous allegations and even possibly destabilize your Company, leading to serious repercussions to the market.

In any case, in reply to the aforesaid email from the said Indian news website, your Company had confirmed that all the questions were not only false but also wholly unjustified innuendos and allegations.

The Audit Committee of the Board of Directors of your Company took note of the said email from the said news website and the subsequent events. Audit Committee also appointed a reputed independent Chartered Accountant firm viz., M/s. T. P. Ostwal & Associates LLP ("TPO") to carry out an in-depth review of the allegations made by the said news website against your Company and verify the data and Independently place their findings before the Audit Committee.

TPO verified the transactions & dealings entered into by your Company for the period April 1, 2015 to December 31, 2018; and except certain procedural lapses and better end use monitoring of project loans, the audit by TPO did not find evidence in relation to allegations of creation of shell companies, insider trading etc. The Audit Committee also directed the Joint Statutory Auditors of your Company to review the report submitted by TPO. The summary of the report submitted by TPO was submitted by your Company on March 5, 2019 to the stock exchanges i.e. BSE Limited and National Stock Exchange of India Limited.

Your Company took necessary corrective actions to iron out the procedural aspects reported by TPO and the Action Taken Report was placed before the Audit Committee from time to time.

Your Company has received communications seeking clarifications about allegations made by the said news website from Ministry of Corporate Affairs, Securities and Exchange Board of India, Income Tax department etc. seeking information and documents from your Company. Your Company has fully co-operated with the authorities in providing all the information, clarification and documents to the authorities and shall even at all times hereafter co-operate with all authorities in providing any information as may be sought and is confident that your Company would come out clean from this phase.

Liquidity and Sale of non-core assets

Your Company has taken a decision to monetise non-core assets and smaller investments to bring in non-dilutive capital into your Company. Your Company has on June 10, 2019 closed the sale of Aadhar Housing Finance Limited, one of its associate companies to BCP Topco VII Pte. Limited, which is controlled by private equity funds managed by The Blackstone Group L.P. Your Company has also completed the sale/ transfer of 1,92,50,719 equity shares (equivalent to 30.63%) held in Avanse Financial Services Limited to Olive Vine Investment Limited, an affiliate of the Warburg Pincus group and consummated the transaction on July 30, 2019. Further, your Company has sold the entire stake held by it (i.e. 17.12% directly and 32.88% through DHFL Advisory & Investments Private Limited) in DHFL Pramerica Asset Managers Private Limited and DHFL Pramerica Trustees Private Limited to PGLH of Delaware and the transaction was consummated on July 31, 2019. Your Company has sold down a large project loan to Oaktree Capital to raise ₹ 1,375 crore in February 2019.

Product and Services

Your Company is a housing finance company with a focus on providing housing finance and related products for the underserved majority, primarily through home loans provided to the LMI segment in India. Your Company provides secured finance primarily to individuals, partnership firms and companies for the purchase, self-construction, improvement and extension of homes, new and resalable flats, commercial properties and plots. Your Company also provides other non-housing loan products including loans against property, lease rental discounting, loans to SMEs and loans to finance construction of residential and commercial projects.

Retail Loans

Your Company's Housing Loans portfolio consists of a range of home loan products designed for the various classes of borrowers, matched to their borrowing capabilities. The products, suitable for salaried professionals, self-employed and entrepreneurs, come with repayment options up to 30 years. Loans for purchase of ready or under-construction housing units, home renovation/ extension, self-construction, purchase of plots and composite loan for purchase of plot and self-construction are included in this category. Special care is taken to enable home loan access to the LMI segment, while designing the product and processes.

Contours of the Retail Portfolio

Your Company has been steadfast in its focus on servicing the LMI segment and the average ticket size for the housing loans is ₹ 16 lakh. The Non-Housing portfolio is maintained at average of ₹ 36 lakh for Mortgage Loans and ₹ 99 lakh for SME loans.

Your Company efficiently manages credit risk on both portfolio as well as on a transactional level. This reflects in the CIBIL scores of the customer base of our portfolio- 88% of our Retail Housing Loan customers have CIBIL bureau score greater than 650 and 82% of the Retail Mortgage Loan customers have a CIBIL score greater than 650. Further, 93% of the Housing Loan Customers have a Fixed Obligation to Income Ratio (FOIR) of less than 60%. 78% of the SME customers have a FOIR of less than 60% and 75% of the Mortgage Loan Customers have a FOIR of less than 60%. 61% of our Housing Loan Customers have a Loan to Value (LTV) of less than 70%, 65% of the Mortgage Loan Customers have a LTV of Less than 60% and 54% of our SME customers have a LTV less than 50%.

Building Efficiencies in the Securitization Process

Your Company has taken steps to rationalize the workflow management of the securitization process to improve the Turn Around Time (TAT).

- Dedicated teams have been created to handle various process steps. These specialized teams handle audits, resolve audit observations, Daily tracking and file retrievals where needed
- Document Management System has been put in place where scanned images of 90% of all live retail loans are available on the desktop
- Document Management System has enabled desktop audits for the securitization pools by the financial institutions/ Banks. The desktop audits have substantially reduced the time taken for the securitization audit
- Securitization Audits handled centrally at the Central Processing Unit and at storage vendors location to eliminate delays and to ensure timely completion of the audits.

PMAY Process

Your Company also offers products aimed at the weaker sections of society, and actively participates in various schemes of National Housing Bank, such as the Golden Jubilee Rural Housing Refinance Scheme and Pradhan Mantri Awas Yojana (PMAY).

Your Company in a bid to create a robust platform for enabling homeownership for the India that lives in Tier II and III cities and in line with the Indian Government's 'Credit Linked Subsidy Scheme' (CLSS) under the PMAY have created efficient and effective workflow based processes to maximize the benefits for its customers. The focused approach has resulted in PMAY Subsidies of ₹ 1,035 crore for 2018-19 compared to ₹ 156 crore in 2017-18. The new initiatives taken by your Company are as follows :

- Your Company has enhanced its systems to identify town codes with PMAY flag. In order to enable this your Company has bifurcated town code master list into applicable pin codes for the town.
- The systems have been further enhanced to identify the applicable product programs under EWS / LIG / MIG and they were segregated as per Carpet Area, Annual Income and Property Ownership.
- Ancestral Property Investigation is conducted through Residential Verification, CERSAI, Personal Discussion and CIBIL report validation
- Technical validation is performed by the technical team by visiting the property and checking the carpet area as per the prescribed guidelines, Town Code and urban authority approval validation.

Central Processing Units

Your Company has successfully transitioned the loan sanction process to the Central Processing Units (CPU) for all the salaried and self employed files. The CPUs in Mumbai and Hyderabad, with their operating efficiencies, cutting edge tools, state-of-the-art facilities and well trained teams, have helped centralise most of the underwriting requirements, thus improving the loan processing time significantly.

The CPUs built in state of the art facilities at Mumbai and Hyderabad manage 80% of the total retail volumes. The CPUs handled 1.34 lakh applications with an approval rate of 80% during April to September 2018.

Deposits

Fixed Deposits have been an important source of borrowing for your Company, and your Company has steadily build a robust deposit book over the years.

However, pursuant to the series of downgrades in the credit rating of your Company, your Company stopped acceptance of fresh Fixed Deposits, as well as renewals, with effect from May 20, 2019 as the credit rating has gone below the minimum credit rating required for accepting deposits, as prescribed by NHB. As of March 31, 2019 the total outstanding Fixed Deposits were ₹ 6,963.92 crore.

Your Company, however, continues to serve the existing fixed deposits and all maturity and interest payments are happening on the scheduled day without any delay.

Other Products and Services

Your Company also operates in fee-based verticals that complement your Company's core business. By cross-selling various products, including insurance, to Company's customers, your Company retains its present customer base and generate additional fee-based income resulting in higher returns. It also protects interest of the customers in case of unforeseen events with relation to the person or property.

Insurance services

Your Company is registered with the IRDAI as a "Corporate Agent – Composite". With such registration, it is authorized to solicit customers and serve the businesses of both life and general insurance companies. In this regard, your Company has entered into corporate agency agreements with DHFL Pramerica Life Insurance Company Limited, Cholamandalam MS General Insurance Company Limited and DHFL General Insurance Limited. Pursuant to these agreements, your Company acts as agent of aforesaid Insurers.

Asset Management Services

Your Company also offers Mutual fund products of its erstwhile Joint Venture entity i.e. DHFL Pramerica Asset Managers Private Limited.

Structured approach to business development

Your Company follows a systemic approach to business, and has, over the years, developed a well-structured business model, comprising of Sales & Marketing, Credit, Operations, Risk Management, Internal Audit, Collections & Recovery and other key complementary functions. Your Company has an extensive sales network, which includes a direct selling team working under the supervision of your Company's sales supervisors. This team contributes 51% to the quantum of loans disbursed by your Company and based on the disbursement of loans sourced by them, they are paid a combination of fixed fee and performance linked variable commission. DSAs and other business referral partners are also a strong generators of business for your Company.

Your Company's employees remain involved across the value chain of the loan process, engaging with customers from the stage of loan origination through disbursement. With most loan cases originating from the in-house direct selling team, the employees get an opportunity to gain insights into the specific needs of the customers, also leading to strengthening of the credit appraisal mechanism and increased brand awareness.

Your Company's employees' performance is measured for their efficiency and effectiveness, with pre-defined parameters. The performance measurement is quantitative and the individual scorecards are maintained for each employee.

The in-house underwriting team conducts a credit check and verification procedure on each customer, thereby ensuring consistent quality standards and minimising the risk of future losses. 100% of the loans are underwritten by the in-house credit managers.

Your Company has also engaged third party web-based loan origination and lead management systems to originate and manage home loan applications. Such third party providers are engaged on a commission fee on the leads and also based on the amount of loans disbursed to customers who have been originated or led from the loan origination and lead management system. Your Company ensures quick turnaround time to improve customer satisfaction, while maintaining underwriting standards. Your Company services both individual consumers and developers through its end-to-end business model. Technology has emerged as a key driver of your Company's customer-centric growth strategy, enabling it to boost operational productivity and efficiencies. Customer satisfaction is ensured through efficient customer interfaces with quick turnaround, while adhering to the highest underwriting standards. With evaluation of the properties funded, conducted by in-house technical experts, who are qualified civil engineers, customers have the advantage of a one-stop shop. This is of particular help to the relatively inexperienced customers in the LMI segment, which your Company is primarily targeting.

Operational efficiencies

Your Company has a separate Operations vertical to run post sanction disbursement and loan management processes, thus helping it to manage its geographically diverse business, and the related risks, more effectively. The Operations team is tasked with processing of the documents covering legal and technical reviews, besides handling disbursements and relationships across the transaction life cycle.

Your Company's Central Disbursal Units (CDU) in Mumbai and Hyderabad have been setup on the lines of its Central Processing Units (CPUs) by incorporating the best practices, which have helped centralise most of the post sanction disbursal process, thus enabling better controls and improving the processing time.

To ensure procedural discipline, your Company has in place strong checks and processes, which also enables it to achieve exposure limits for several segments and review of the local markets and builders on continuous basis, as a part of its portfolio monitoring and management framework. Further, the sanction conditions have been rationalized, thus enabling significant improvement in operational efficiency and speed of service at the disbursal stage. The processes and systems, designed and followed by the Operations team, help bring in greater efficiencies and enhanced productivity for your Company.

Distribution Network

Your Company has a robust marketing and distribution network, with a presence across 330 locations including 195 branches, 108 service centres, 19 zonal/ regional/CPU Offices, 4 disbursement hubs, 1 Administrative Office, 1 Registered Office, 1 Corporate Office and 1 National Office as at March 31, 2019.

Your Company's distribution network is designed to reach out to the Low and Middle Income (LMI) segment and tap a growing potential customer base throughout India. Its network is grouped into zones and regions located pan-India. Your Company's distribution network in India is spread over Tier II and Tier III cities and towns. Your Company strongly believes that its business model allows it to deliver improved turnover time and to improve customer satisfaction while maintaining asset quality.

The distribution network of your Company also includes direct selling teams (i.e. staff working with us on a contract basis), Direct Selling Agents (DSAs) and other business referral partners. Direct selling teams work under supervision of its employees and the payment for their services is a combination of fixed fee and variable commission based on the disbursement of loans sourced by them. The majority of the loans are sourced through the direct selling teams.

Customer Service and Grievance Redressal Processes

Your Company has established a multi-level customer query and grievance resolution process for customers to approach it through various channels such as through the branches, call centers, emails, letters, social media etc. At branch level, dedicated customer service (CS) managers are appointed at each zonal/ regional office. The CS manager and branch operations manager ensure timely resolution of the complaints/queries received at the zonal/ regional office. In addition to customer walk-ins, phone calls and emails, the secure suggestion boxes and complaint registers are made available at every branch and customers are encouraged to submit their feedback and complaints. Your Company accepts customer complaints through request letters and/or customer request forms available at its branches whereby it can verify the customer's details. Your Company ascertains the nature of the customer request and subsequently assigns a unique service request number. It strives to provide a prompt resolution based on a template response mechanism. If necessary, your Company engages its legal team in the response process. The customer service managers coordinate the respective vertical team members of branches and other units for resolution of complaint. Upon resolution of the complaint, the branch MIS system is updated, and communication is sent to the customer by telephone or by email using standard templates.

Since November 2015, your Company has partnered with Rural Shores Business Services (P) Limited, Kopargaon to handle the customer service related calls and emails at its call centers. The call centre services queries related to home loans, SME, mortgages, insurance and deposits. Apart from Hindi and English, calls are also being answered in Marathi which your Company believes will achieve a higher level of customer satisfaction.

Non-Performing Assets

With all the above mentioned efforts & processes in place, your Company consistently maintains low NPA levels. This has been made possible through adherence to good underwriting standards, regular monitoring and strong recovery systems.

The amount of Gross Non-Performing Assets (NPA) as at March 31, 2019 was ₹ 2,445.52 crore, which is equivalent to 2.72% of the loan portfolio of your Company, as against ₹ 880.94 crore i.e. 0.96% of the loan portfolio as at March 31, 2018. The net NPA as at March 31, 2019 was ₹ 1,902.94 crore i.e. 2.12% of the loan portfolio. The total cumulative provision towards loan and other assets as at March 31, 2019 was ₹ 4,494.07 crore (including extra provision of ₹ 3,020.05 crore) as against ₹ 974.08 crore in the previous year. During the financial year under review, your Company had written off ₹ 212.26 crore of loans / receivables as against ₹ 159.91 crore during the previous financial year.

Fair value Project Loan with a view of existing the line of business

Due to the current business environment, your Company is in the process of strategic shift in the business by keeping its sole focus on retail business. Your Company no longer intends to hold the whole sale portfolio which includes project loans, slum rehabilitation authority (SRA) loans and wholesale mortgage loan portfolio for the purposes of collecting the principal and interest. The Management envisages to monetise the wholesale loan portfolio. Consequently, the said loans aggregating ₹ 34,881.60 crore have been reclassified on Fair Value Through Profit or Loss (FVTPL) as at March 31, 2019 and the resultant fair value loss has been charged to the Statement of Profit and Loss.

BRANDING AND MARKETING

During the year under review, your Company successfully conducted its brand-centric, experiential marketing campaign 'Griha Utsav', which was launched in 2017 in line with the government's vision of 'Housing for All by 2022'. Aimed at strengthening your Company's customer connect in Tier II and III towns, this unique nation-wide initiative comprised of 'Property Expo and Home Loan Melas', wherein a market place was created for builders to display affordable properties, and consumers who were looking for such properties were invited to visit the expo. Through this initiative, your Company touched millions of lives by enabling their home ownership dreams.

Your Company enhanced its social media presence by increasing its engagement with customers via Facebook, Twitter, LinkedIn and YouTube. Basis in-depth research on consumer's online behaviour and journeys, your Company revamped its website making it mobile and user friendly for improved communication with its stakeholders and customers. The website effectively captures your Company's leadership position across housing and non-housing loan portfolios and helps visitors get a better understanding of your Company's products and services with a least number of clicks.

Your Company has leveraged the digital media to generate awareness on the nuances of home loans and welfare schemes, including the Pradhan Mantri Awas Yojana (PMAY), using digital characters 'Sharmaji & Vinodji' launched in 2016, as part of its consumer education initiative.

FINANCIAL OVERVIEW

Balance Sheet Movement

During the financial year under review, your Company has adopted Indian Accounting Standards (Ind AS) notified under Section 133 of the Companies Act, 2013 ("the Act") read with the Companies (Indian Accounting Standards) Rules, 2015. The financial statements for the year ended March 31, 2019 have been prepared under Ind AS. The financial statements for the year ended March 31, 2018 have been restated in accordance with Ind AS for comparative purposes.

The summary of your Company's balance sheet as at March 31, 2019 is as under:

(₹ In Crore)

Particulars	March 2019	March 2018
Assets		
Financial Assets		
Cash and cash equivalents	1,259.63	1,923.05
Other bank balances	1,741.01	1,030.41
Derivative financial instruments	171.13	87.23
Receivables	4.76	42.74
Housing and Other loans:-		
At amortised cost	66,348.82	92,457.92
At Fair Value	31,628.15	656.70
Investments	2,350.22	8,086.28
Other financial assets	1,091.23	766.48
Non-Financial Assets		
Current Assets (Net)	370.20	147.29
Deferred Tax Asset	442.81	95.63
Property, Plant & Equipment	782.93	842.28
Intangible Assets under development	104.01	129.05
Other Intangible Assets	81.75	7.51
Other non-financial Assets	98.60	39.08
TOTAL ASSETS	**106,475.25**	**106,311.65**

(₹ In Crore)

Particulars	March 2019	March 2018
LIABILITIES & EQUITY		
Liabilities		
Financial Liabilities		
Derivatives financial instruments	302.51	135.81
Trade Payables		
(i) Total Outstanding dues of Micro Enterprise & Small enterprises	Nil	Nil
(ii) Total Outstanding dues of Creditors other than Micro Enterprise & Small enterprises	102.05	104.12
Debt Securities	45,379.12	35,813.60
Borrowings (other than Debt Securities)	40,604.21	45,114.14
Deposits	6,588.40	9,652.44
Subordinated Liabilities	1,135.81	1,131.84
Other Financial Liabilities	4,087.69	4,955.96
Provisions	10.15	6.29
Other non-financial Liabilities	163.25	164.92
Equity	313.82	313.66
Other Equity	7,788.24	8,918.87
TOTAL LIABILITIES	**106,475.25**	**106,311.65**

Authorised Share Capital

Equity Share Capital

The present Authorised Share Capital stood at ₹ 828 crore which comprises of (i) 57,80,00,000 equity shares of ₹ 10 each aggregating to ₹ 578 crore and (ii) 25,00,000 non-convertible redeemable cumulative preference shares of ₹ 1,000 each aggregating to ₹ 250 crore.

During the year under review, your Company issued and allotted 1,64,177 equity shares of ₹ 10/- each, upon exercise of options (employee stock option plan and employee stock appreciation rights) by the eligible employees of your Company pursuant to the Employee Stock Option Scheme, 2008 and Employee Stock Appreciation Rights Plan 2015.

Consequently, the issued, subscribed and paid-up equity share capital of your Company increased from ₹ 3,13,65,88,470 divided into 31,36,58,847 equity shares of face value of ₹ 10/- each to ₹ 3,13,82,30,240 divided into 3,13,82,30,240 equity shares of face value of ₹ 10/- each.

Other Equity

During the year under review, your Company suffered a net loss of ₹ 1,036.05 crore on account of huge impact on increased provisioning and consequently, no transfers was made to Special Reserve and Statutory reserve u/s 29C of National Housing Bank Act and to General Reserve.

As at March 31, 2019, other equity has reduced to ₹ 7,788.24 crore as against ₹ 8,918.87 crore in the previous financial year.

As at March 31, 2019, Debenture Redemption Reserve (DRR) stands at ₹ 1,170.00 crore on the outstanding amount of NCDs issued by way of public issue during financial year 2016-17 and 2018-19. Your Company being a Housing Finance Company (HFC) is exempted from the requirement of creating DRR in case of debentures issued on private placement basis.

Dividend

During the year under review, final dividend of ₹ 2.50 per equity shares of face value ₹ 10 each, for the financial year 2017-18, which was approved at the 34th Annual General Meeting held on June 27, 2018, was paid.

For the financial year under review, the Board of Directors of your Company did not recommend any dividend.

Capital Adequacy

Your Company's tangible Net Worth decreased from ₹ 9,232.53 crore as of March 31, 2018 to ₹ 8,102.06 crore as of March 31, 2019, mainly on account of provision on Expected Credit Loss (ECL) and Fair Value Through Profit or Loss (FVTPL) on the loan assets for the period.

Capital Adequacy of your Company in the form of CRAR stood at 14.07% as of March 31, 2019 compared to 15.29% as of March 31, 2018, which is well above the NHB's minimum stipulated requirement of 12%. Company's Tier I CRAR stood at 9.40% as of March 31, 2019 as disclosed at point no. 3 in "Disclosure Required by the National Housing Bank".

Borrowing Composition

As at March 31, 2019, your Company's sources of funding were primarily from banks and financial institutions 36%, Debt market instruments 51%, public (fixed) deposits 7%, refinancing from the NHB 3% and External Commercial Borrowings (ECB) 3%. Your Company aims to continue to gradually reduce its reliance on the borrowings from banks and financial institution and focus on capital market instruments with lower funding costs subject to compliance with conditions prescribed by the NHB from time to time.

Long Term Borrowings

Term Loans from Banks and Financial Institutions

During the financial year under review, your Company raised ₹ 1,425 crore through term loans from banks and financial institutions. The said loans are secured by first ranking pari-passu charge by way of mortgage on your Company's immovable properties and hypothecation of your Company's present and future movable properties, including book debts, in favour of lenders (excluding the floating charge on the specific assets as per the provisions of Section 29B of the National Housing Bank Act, from time to time).

Your Company has 31 banks in its lending consortium as of March 31, 2019, with Union Bank of India as the lead bank of the consortium for credit facilities aggregating to ₹ 32,955.94 crore.

External Commercial Borrowings (ECBs)

During the financial year under review, your Company has refinanced two of the existing ECB loans amounting to ₹ 721.82 crore (USD 110 Million) and ₹ 874.16 crore (USD 130 Million), original lenders being banks under the syndicated loan facilities, with State Bank of India, Singapore Branch, under Reserve Bank of India, ECB Refinance Guidelines, maintaining the same maturity and interest payment schedule as that of the existing ECB facilities. Both these refinances were successfully done to reduce the spread and to effectively bring down the cost of borrowing. According to the terms of RBI guidelines, these borrowings have been swapped into rupees for the entire maturity by way of principal-only swaps and LIBOR has been hedged by way of interest rate swaps.

During the financial year under review, the principal amount for the ECB loans availed by your Company has been fully hedged, in accordance with the guidelines prescribed by Reserve Bank of India.

Non-Convertible Debentures (NCDs)

Private Placement of Secured Redeemable NCDs

During the financial year under review, your Company raised ₹ 5,950 crore through secured redeemable NCDs on a private placement basis. As on March 31, 2019, the outstanding NCDs stood at ₹ 15,561.03 crore (including premium accrued on Zero Coupon NCDs).

Private Placement of Perpetual Debt Instrument (PDI)

Your Company did not raise Non-Convertible Perpetual Unsecured Debentures during the financial year 2018-19. The outstanding balance of such debentures as at March 31, 2019 amounts to ₹ 1,135.81 crore.

Private Placement of Subordinated Debt

As at March 31, 2019, your Company's outstanding subordinated debts were ₹ 2,202.00 crore. The debt is subordinated to present and future senior indebtedness of your Company.

Non-Convertible Debentures (NCDs) by way of public issue

The Board of Directors of your Company at their meeting held on April 30, 2018 had approved the raising of funds by way of public issue of Secured Redeemable Non-Convertible Debentures of face value ₹ 1,000 each, subject to the receipt of necessary approvals, for an amount upto ₹ 15,000 crore (Rupees Fifteen Thousand crore only) (including the green shoe option), in one or more tranches, in terms of the provisions of the Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008, the Companies Act, 2013 and other applicable laws.

During the financial year under review, your Company made a public issue of Secured Redeemable Non-Convertible Debentures of ₹ 12,000 crore (including green shoe option). Your Company allotted 10,94,47,863 NCDs of the Face value of ₹ 1,000 each for aggregate amount of ₹ 10,944.79 crore. The proceeds of the aforesaid issuances were utilized for the purpose for which they were raised, largely towards business purposes, pre-payment/ repayment of borrowings.

Commercial Paper

During the year under review, the reliance on short-term borrowings through commercial papers had declined with the amount outstanding reducing to ₹ 833.18 crore as on March 31, 2019 from ₹ 5,957.65 crore as against the previous financial year ended March 31, 2018.

Public Deposits

Your Company has been consistently growing the retail deposit book over the past several years, backed by a strong distribution network and a competitive product offering. However, this year has been relatively tough for your Company due to adverse economic and market conditions for Housing Finance Companies and Non-Banking Financial Companies. As a result, the fixed deposit portfolio of your Company has seen a decline during the financial year under review. The total deposits reduced by 32% to ₹ 6,915.55 crore as on March 31, 2019 as compared to ₹ 10,166.72 crore as on March 31, 2018, including other deposit.

Deposits accepted by your Company are secured by a floating charge on the statutory liquid assets, created by way of Trust Deed as per the NHB's Guidelines.

Rupee Denominated Medium Term Note (MTN)

As a part of a strategy for diversification of its resources, your Company has successfully entered into international bond market and raised its first maiden Rupee Denominated Medium Term Note (MTN). Your Company filed an Offering Circular for establishment of a Rupee Denominated MTN programme and on April 18, 2018 successfully raised an amount of ₹ 989.72 crore by issue of INR denominated USD settled 10 billion. Notes having a tenure of 5 years under the approval route in accordance with the external commercial borrowing guidelines issued by the Reserve Bank of India (RBI). This issuance opened new avenue for your Company to tap into a new source of fixed income investor base overseas. These bonds are listed on London Stock Exchange (LSE – International Securities Market (ISM) Segment).

Trade Payables

Trade payables as at March 31, 2019 were ₹ 102.05 crore as against ₹ 104.12 crore in the previous financial year. This includes amounts payable to vendors for supply of goods and services.

Property, Plant and Equipment

Your Company's investments in tangible assets represent cost of building, leasehold improvements, computers, office equipment, furniture & fixtures and vehicles. During the financial year under review, your Company's gross block increased by 5.65% over the previous year. The additions on fixed assets were at ₹ 37.57 crore as tangible assets and ₹ 80.86 crore as intangible assets, as given below:

- Building amounting to ₹ 0.07 crore, which was capital work-in-progress till last financial year,
- Leasehold improvements and Furniture and Fixtures amounting to ₹ 10.14 crore,
- Furniture and Fixtures to ₹ 3.21 crore
- Office equipment amounting to ₹ 17.29 crore,
- Vehicle amounting to ₹ 1.67 crore
- Computer systems amounting to ₹5.19 crore,
- Software amounting to ₹ 80.86 crore

Your Company also made investments towards intangible assets which are under development amounting to ₹ 104.01 crore towards IT system upgradation. Your Company has no Capital work in progress as at March 31, 2019.

Lending Operations

The Sanctions and Disbursements of housing/other property loans, during the financial year 2018-19 were ₹ 43,343.28 crore and ₹ 28,770.61 crore, respectively, vis-à-vis ₹ 65,935.78 crore and ₹ 44,800.31 crore, respectively, in the previous financial year. The cumulative loan disbursement of your Company since inception was ₹ 204,986.80 crore. In the backdrops of significant slow down of disbursement post September, 2018, the loan book reduced by 2.42% and stood at ₹ 89,758.00 crore as compared to ₹ 91,931.32 crore in the previous financial year. Your Company's Assets under Management (AUM), including other loans and ICDs were ₹ 1,33,024 crore as against ₹ 1,13,655 crore in the previous financial year with 17.04% growth.

Securitisation/Direct Assignment of Loans

During the financial year under review, your Company has sold/assigned multiple pools of Housing loans aggregating to ₹ 16,245.82 crore and other Non-Housing loans aggregating to ₹ 2,166.09 crore. The aforesaid figures constitute 86.68% of the actual pools sold/assigned aggregating to ₹ 21,239.56 crore with the balance of ₹ 2,827.69 crore being retained by your Company, which is in line with Minimum Retention Requirement (MRR) and Minimum Holding Period (MHP) commitments, as per the extant Guidelines on Securitisation and Assignment, prescribed by Reserve Bank of India. Such securitised receivables are de-recognised in the balance sheet when they are sold (true sale criteria being fully met with) and consideration is received by your Company.

Your Company will, however, continue to collect the interest and EMI payments on these loans on behalf of the acquirer of the loans and remit the same after retaining its portion in terms of the individual agreements.

Investments and Treasury

Your Company has ensured a balance between earning adequate returns on liquidity/treasury assets; and the need to cover financial and business risks. It actively monitors its treasury portfolio and has a policy in place for investing surplus funds. Appropriate limits and controls are in place to ensure that investments are made as per the policy.

The investment/disinvestment decisions are in line with the limits as set out by the Board. As on March 31, 2019, the investment portfolio stood at ₹ 2,350.22 crore as against ₹ 8,086.28 crore in the previous financial year March 31, 2018.

Housing Finance Companies (HFCs) are required to maintain a Statutory Liquidity Ratio (SLR) in respect of public deposits raised. Currently the SLR requirement is 13% of public deposits.

As on March 31, 2019, your Company has invested ₹ 737.95 crore in bank fixed deposits and NHB bonds and ₹ 697.47 crore in approved securities (book value-gross) which includes both Government securities and Government guaranteed bonds.

Significant changes in key financial ratios

Particulars	For the financial year 2018-19	For the financial year 2017-18
Interest Coverage ratio	0.88	1.22
Current ratio	0.97	1.03
Debt Equity ratio	11.57	9.93
Operating Profit margin	63.8%	86.7%
Net Profit margin	-8.0%	11.4%
Return on Net Worth	-11.95%	14.20%

The changes in the aforesaid ratios are largely on account of the loss suffered by the Company during the Financial Year 2018-19 and adverse business circumstances as detailed in this Report.

Subsidiary/Joint Ventures / Associate Companies

As of the date of this report, your Company has four (4) wholly owned subsidiary companies, DHFL Advisory & Investments Private Limited (DAIPL), DHFL Investments Limited (DIL), DHFL Changing Lives Foundation and DHFL Holdings Limited, which were incorporated on February 12, 2016, February 13, 2017, December 1, 2017 and September 20, 2018, respectively.

During the year under review, your Company made investment of ₹ 1 lakh by subscribing to 10,000 equity shares of ₹ 10 each issued by DHFL Holdings Limited.

Further, as on March 31, 2019, your Company had three (3) joint venture(s) viz. DHFL Pramerica Life Insurance Company Limited, DHFL Pramerica Asset Managers Private Limited and DHFL Pramerica Trustees Private Limited and three (3) associate companies viz. Aadhar Housing Finance Limited (formerly known as DHFL Vysya Housing Finance Limited), Avanse Financial Services Limited and DHFL Ventures Trustee Company Private Limited.

Your Company, sold its entire stake i.e. 23,01,090 shares consisting of 9.15% of total equity share capital of Aadhar Housing Finance Limited to BCP Topco VII Pte. Ltd., which is controlled by private equity funds managed by The Blackstone Group L.P. Consequently, Aadhar Housing Finance Limited ceased to be an Associate Company of your Company w.e.f. June 10, 2019.

During the current financial year, your Company sold its entire stake i.e. investment of 1,92,50,719 equity shares, consisting of 30.63% of the total equity share capital of Avanse Financial Services Limited to Olive Vine Investment Limited, an affiliate of the Warburg Pincus group. Consequent upon said sale/transfer on July 30, 2019, Avanse Financial Services Limited ceased to be an Associate Company of your Company.

During the current financial year, your Company made disinvestment of its entire shareholding of 50% in DHFL Pramerica Asset Managers Private Limited (i.e. 17.12% being held directly and 32.88% being held by its wholly owned subsidiary, DHFL Advisory & Investments Private Limited) along with its entire shareholding of 50% in DHFL Pramerica Trustees Private Limited to PGLH of Delaware. Consequent upon said disinvestment on July 31, 2019, both DHFL Pramerica Asset Managers Private Limited and DHFL Pramerica Trustees Private Limited ceased to be Joint Ventures of your Company.

Profit and Loss Statement

(₹ In Crore)

Particulars	Standalone	
	2018-19	**2017-18**
Gross Income	12,902.52	10,864.42
Less : Finance Costs	9,392.85	7,721.95
Net loss on fair value changes	2,458.37	-
Impairment on financial instruments	1,084.98	629.68
Overheads & Provisions	1,080.15	784.14
Depreciation and amortization expense	51.15	27.63
(Loss) /Profit before Tax	**(1,164.98)**	**1,701.02**
Less : Current Tax	538.32	483.62
Deferred Tax	(667.25)	(22.59)
Net (Loss) /Profit after tax	**(1,036.05)**	**1,239.99**

Income from Operations

Your Company registered a robust growth in the total revenue from operations, which mainly includes interest on housing loan disbursed to the customers. This was primarily due to an increase in loan disbursements through deeper penetration into the existing markets and geographical expansion through your Company's captive network.

Income from operations increased from ₹ 10,850.13 crore in the financial year 2017-18 to ₹ 12,883.88 crore for the financial year 2018-19, registering a growth of 18.7%. The increase in income from operations was mainly due to increase in loan book. Your Company has also generated revenue from other miscellaneous receipts. Other revenues constitute ₹ 18.64 crore during the financial year under review, as against ₹ 14.29 crore during the financial year 2017-18.

Interest and Finance Cost

Your Company's interest expenses increased by 21.64% from ₹ 7,721.95 crore in the financial year ended March 31, 2018 to ₹ 9,392.85 crore for the financial year ended March 31, 2019. The increase in interest expenses is due to the rising borrowings required to fund the disbursements.

Employee Remuneration & Benefits

Your Company continued to make substantial investments in human capital and information technology to meet its growth targets. Employee costs increased by 31.08 % from ₹ 370.25 crore for the financial year 2017-18 to ₹ 485.33 crore for the financial year 2018-19, Employee costs accounted for 54.40% of the entire operating expenses for the financial year 2018-19, which is slightly more compared to 51.31% for the financial year 2017-18.

Operating Expenses

The operating, administrative and other expenses increased by 37.75% from ₹ 784.14 crore for the financial year ended March 31, 2018 to ₹ 1,080.15 crore for the financial year ended March 31, 2019 owing to increase in rent, rates, taxes, repairs & maintenance and other expenditure.

Depreciation & Amortisation

Depreciation charged on fixed assets was ₹ 51.15 crore in the financial year 2018-19 vis-à-vis ₹ 27.63 crore during the financial year 2017-18. Depreciation on fixed assets is provided on straight-line method by considering revised useful lives as specified in part 'C' of schedule II to the Companies Act, 2013.

Provision for Taxation

During the financial year under review, your Company has made a provision of ₹ (128.93) crore (including deferred taxation) vis-à-vis ₹ 461.03 crore.

Net Profit

In the backdrop of a significant slowdown in disbursement and loan growth post September 2018, the financials of your Company have been quite strained for the last two quarters of the financial year 2018-19 impacting the overall performance of your Company.

Due to the additional provisioning of ₹ 3,280 crore (including net loss on fair value), your Company reported a net loss of ₹ 1,036.05 crore for the financial year from a net profit of ₹ 1,239.99 crore reported for the financial year 2017-18.

Contribution and Expenses towards Corporate Social Responsibility (CSR)

Your Company is required to spend money on Corporate Social Responsibility (CSR) activity as per the Companies Act, 2013 and rules thereunder. Your Company has adopted a programmatic approach to investing in CSR activities. It has Board approved projects under Early Childhood care and Education (ECCE), Skills Development, Draught Mitigation and Financial Literacy. ECCE the flag ship programme is now managed by DHFL Changing Lives Foundation, a Section 8 Company (wholly owned subsidiary of your Company) thus ensuring the required focus, freedom and professionalism in implementing the CSR projects.

During the financial year under review, your Company has spent ₹ 27.19 crore on its flagship/ identified programmes as against ₹ 26.59 crore which was required to be spent for the financial year as per the provisions of the Companies Act, 2013. It is committed to remain invested in the programmes undertaken over a period of next 3-5 years, which will require higher allocation and expenditure, thus, utilising the required amount to its full extent. The Corporate Social Responsibility Committee of the Board oversees the initiatives undertaken by your Company and that the same meets the requirement as per section 135 of the Companies Act, 2013 read with Schedule VII prescribed under the Companies Act, 2013.

Further, details on the prescribed CSR spend under Section 135 of the Companies Act, 2013 during the financial year 2018-19, are provided in Annexure–5 annexed to the Board's report.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of your Company, its associates, joint ventures and the subsidiaries have been prepared as per the applicable provisions of Companies Act, 2013 and Indian Accounting Standards. The same forms a part of this Annual Report.

A brief summary of the consolidated audited financial results for the year ended March 31, 2019 is as under:

(₹ In Crore)

Particulars	Consolidated	
	2018-19	2017-18
Gross Income	12,911.66	10,891.13
Less : Finance Costs	9,416.91	7,744.02
Net loss on fair value changes	2,458.37	0.00
Impairment on financial instruments	1,008.97	629.68
Overheads & Provisions	1,080.27	784.21
Depreciation and amortization expense	51.15	27.63
(Loss) /Profit before Tax	**(1,104.01)**	**1,705.59**
Less : Current Tax	538.32	483.62
Deferred Tax	(658.40)	(22.59)
Net (Loss) /Profit after tax	**(983.93)**	**1,244.56**

RISK MANAGEMENT

As a lending entity, prudent risk management practices are integral to the vertical's operations and your Company maintains high underwriting standards. The thrust is on sourcing pre defined selective target industries and segments. The growth agenda of your Company is driven by a multi-pronged strategy that includes building of existing and new channels, including MoUs with leading equipment manufacturers, OEMs and distribution agents.

Risk Control Matrix is created where all operations risks are identified in various verticals of credit, operations, legal & Technical. Risk assessment conducted by an independent Party where major risks are identified and tested against critical parameters for each of the verticals. The identified Operational risk metrices are continuously monitored and measured by a separate independent team.

Liquidity risk management

Your Company is susceptible to market-related risks such as liquidity risk, interest rate risk, funding risk etc. Such risk management is assigned to the Asset-Liability Management Committee (ALCO) to monitor these risks on an ongoing basis.

Liquidity risk arises when there is an asset-liability mismatch caused by the difference in the maturity profile of our assets and liabilities. This risk may arise from the unexpected increases in the cost of funding an asset portfolio at the appropriate maturity and the risk of being unable to liquidate a position in a timely manner at a reasonable price. Housing Finance Companies in particular are exposed to liquidity risk in view of the fact that the assets generated by HFCs are of an average tenor of 6 to 8 years while the liabilities contracted are of an average tenor of 4 to 6 years. Your Company actively monitors its liquidity position to ensure that it can meet all requirements of its borrowers, while also meeting the requirements of its lenders and to be able to consider investment opportunities as they arise. Your Company's ALCO, composed of senior management, lays down policies and quantitative limits and apprises the Audit Committee and the Board periodically on our asset-liability mismatch and liquidity issues.

Your Company seeks diverse sources of liquidity to facilitate flexibility in meeting funding requirements. Your Company's operations are principally funded by borrowings from banks and financial institutions, while it also obtains funding from the NHB and public (fixed) deposits.

Interest rate risk management

The borrowings of HFCs like your Company are largely linked to benchmarks such as the Marginal Cost of Funds Lending Ratio (MCLR) and hence the debt of our Company is mainly floating in nature. This exposes HFCs to interest rate risk. Consequently, exposure to interest rate fluctuations and increases needs to be managed in order to mitigate the risk.

Your Company's business is impacted by a change in interest rates although the floating rate loans only re-price on a periodic basis. Exposure to fluctuations in interest rates is measured primarily by way of asset-liability gap analysis, providing a static view of the maturity profile of balance sheet positions. An interest rate gap is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated re-pricing dates. The difference in the amount of assets and liabilities maturing or being re-priced in any time period category would then give an indication of the extent of exposure to the risk of potential changes in the margins on new or re-priced assets and liabilities.

Your Company's strategy is to optimize its borrowings between short-term and long-term debt as well as between floating and fixed rate instruments. Your Company prepares interest rate risk reports periodically and reports to the NHB regarding the same. Your Company follows a prudent policy in respect of managing its assets and liabilities to ensure that exposure to fluctuations in interest rates is kept within acceptable limits. Your Company uses interest rate swaps on a limited basis for the purpose of hedging interest rate mismatches. The ALCO periodically reviews the treasury operations and the pricing of products at specific intervals.

Credit risk management

Credit risk is the risk of default on a debt that may arise from a borrower failing to make required payments. Lenders are exposed to default risk in virtually all forms of credit extensions. Default risk can change as a result of broader economic changes or changes in a Company's financial situation. Certain credit norms and policies are being followed by your Company to manage credit risk, including a standard credit appraisal policy based on customer credit-worthiness approved by the Board. These criteria change between loan products and typically include factors such as profile of applicant, income and certain stability factors such as the employment and dependency detail, other financial obligations of the applicant, Loan to value and the loan-to-cost ratio. Standardised credit approval process including a comprehensive credit risk assessment is in place which encompasses analysis of relevant quantitative and qualitative information to ascertain the credit worthiness of the borrower.

Your Company has implemented an Automated Rule Engine which is the prescribed tool for underwriting of customers in an efficient and error free manner by the regulators. The automated rule engine provides a summary and findings by comparing the loan attributes like Income, obligations, bank details, bureau scores and positive verifications.

The digital tools for areas of Income Tax Return (ITR) extraction through mobility solution, Bank Statement extraction and Analysis with report customized as per Credit requirement have further enhanced the controls and quality of loan review.

The credit policy and loan delivery process are put in place by your Company prescribing ideal portfolio configuration in terms of customer profile and considering factors such as exposure limits, segmented net interest margins (interest rates vis-a-vis default propensity in a segment) and its impact on the loan book, risk based pricing based on probability of default, appraisal standards and collateral management. Your Company efficiently manages credit risk on both portfolio as well as on a transactional level.

Operational risk management

Operational risk management is defined as a continual cyclic process which includes risk assessment, risk decision making, and implementation of risk controls, which results in acceptance, mitigation or avoidance of risk. To manage the Operational Risk, your Company has implemented a comprehensive operational risk management policy with a framework to identify, assess and monitor risks, strengthen controls, improve services and minimise operational losses. Your Company attempts to mitigate operational risk by maintaining a system of internal controls, establishing systems and procedures to monitor transactions, maintaining key back-up procedures, undertaking regular contingency planning and providing employees with continuous training. Moreover your Company remains exposed to substantial risk when transactions are carried out at multiple locations simultaneously. To have a preventive vigilance and control the transaction risk, Risk containment units have been established at major locations, wherein hind sighting, upfront scrutiny and curbing of malpractices are undertaken. The branches perform the initial confirmation review of compliance to the conditions while the Centralized disbursal unit performs the final review and initiates the disbursal which ensures independent maker checker process along with standard and robust process control across all branches

As your Company deals with many external vendors on various sides of business, it has a well-defined Outsourcing Policy, approved by the Board, which clearly lays down the requirements and procedures for any such engagement. Such controls also help your Company in keeping a standard approach in such engagements. Your Company has strengthened its technology platform across systems and processes and also has a disaster recovery site for retrieval of data to operating units in case of an eventuality or system failure as a part of its business continuity plan. Your Company has set up a data centre in Bengaluru to ensure that all transactions are separately kept on real-time basis. Your Company has formulated the contingency plan to address data recovery in case of a natural disaster. The Management also periodically reviews vigilance and fraud reports, recovery reports and audit reports to detect failures with the objective of systemic remediation. Any event or incident, which has the potential risk to your Company's brand name or reputation, is continuously watched out for and your Company has in place related risk controls to manage such risks, with a special focus on the ones which can cause any legal or compliance complications.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Your Company has an adequate system of internal controls for business processes, operations, financial reporting, fraud control, and compliance with applicable laws and regulations, among others. These internal control and systems are devised as part of the principles of good governance; and are accordingly implemented within the framework of proper check and balances. Your Company ensures that a reasonably effective internal control framework operates throughout the organization, which provides assurance about safeguarding the assets, reliability of financial and operational information, compliance with applicable statues, execution of transactions as per the authorization and compliance with the internal policies of your Company.

Your Company's Management Assurance and Audit function is headed by a senior management personnel with reporting lines to the Audit Committee of the Board and a dotted line reporting to the Chairman & Managing Director. The Head of Management Assurance and Audit is accountable to the Board of Directors through the Chairman of the Audit Committee. The function is responsible for providing comprehensive audit coverage of all divisions within your Company as per the audit plan approved by the Audit Committee of the Board and Senior Management. It is an independent and objective assurance and consulting activity designed to add value and improve your Company's operations. It helps your Company accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The function adopts a risk- based audit approach and conducts an audit of all branches and functions and also proactively recommends improvements in operational processes and suggests streamlining of controls to mitigate various risk.

HUMAN RESOURCES

Your Company continues to nurture a culture of talent and leadership development and believes that the internal human potential shall be the stepping stones of establishing a profitable business proposition. It is your Company's constant attempt to create an atmosphere where the workforce thrives, grows up the learning curve and are valued for their contributions.

Your Company believes in acquiring the finest resources, building their capabilities through robust learning models, and retaining them through progressive employee- centric policies and practices. This successfully creates alignment of organizational and individual aspirations.

During the financial year under review, your Company strengthened the pre-trained manpower hiring channel, providing product and process training prior to on-boarding, in order to curtail the loss of productive hours. Your Company is also tied up with prominent and tier 1 learning institutions of the country to curate end-to-end scholastic cycles for the youth of tomorrow. Your Company introduced referral schemes to ensure economical quality hires. It also refurbished its Employee Induction Program, aiding cultural orientation of the off-role staff to the organizational culture, while, at the same time, imparting to them the necessary product and process knowledge.

Under the flagship program, GATI – Career Progression Plan for its DSSL staff – that was announced in financial year 2015-16, approximately 3,500 frontline staff was dispersed across three levels. In the last financial year, your Company on-boarded 10% proportion of its total hire from DSSL source, rationalizing cost of hire and lessening performance lead time on external hires. Your Company also arranged for “First Time Manager” training to employees to hone their people management skills and improve employee relations. Your Company also joined hands with prominent educational institutions to sponsor higher education opportunities for the staff and their families at reduced rates. As part of this initiative, more than 70 applications were received in the last financial year. Through this initiative, your Company intends to provide career growth opportunities to its human capital and foster higher studies amongst the extended DHFL Family, contributing to the cause of developing employable skills amongst the youth of the nation.

Your Company was able to retain its key resources in spite of the year under review being a challenging year for the sector. Top 5 key layers across business functions remained intact. This was necessary for the system and its machinery to remain active for the business continuity and growth.

Your Company, in the financial year 2016-17, had launched “Better Together” - its diversity and inclusion initiative. Your Company continued to maintain a 10% female in the workforce ratio. Your Company leveraged on “Stronger Together” – the DHFL Women's Club, to facilitate knowledge sharing and empowerment among women employees. This informal platform helped us to create a more secure and supportive environment for the women staff. Your Company also scheduled several work-life sessions by celebrated speakers, besides financial knowledge camps, as well as grooming and health awareness sessions. An in-house nutritionist and Desk Yoga instructor were also appointed keeping in mind the welfare of the staff. Your Company, as responsible corporate citizens, will continue to promote diversity and go beyond its duty to build a workplace conducive to female staff, marked by equal opportunities and merit-based career decisions.

Your Company is on its way to building an organization that is future ready, based on the capabilities of its internal human capital, so as to leverage the inborn talents of employees to achieve higher levels of productivity. For this, your Company had worked with a celebrated brand in the Strength Management Field, Gallup, through their tool, Gallup Clifton Strength's Finder – an online assessment tool that identifies areas in which an individual has the greatest potential for building strengths. In financial year 2017 – 18, your Company had started the conversation around strengths and in the last financial year, your Company continued to work with people managers for this initiative and successfully implemented this concept, infusing strengths based working into the backbone of internal processes and human resources. Your Company, post the Leadership Enrichment Session based on the Strengths Philosophy, also worked to progress towards drawing out Succession Plans for the organization, wherein the successors for the top three layers were charted out.

Your Company also progressed in areas of Company level Strength Maps and Competency Framework, keeping in mind the next generation of technology and millennials. This involved the making of Organizational and Functional level Strength Maps that would help ascertain the overall organizational behavior and the competencies that we need to build for the future. The exercise charted out the core competencies that your Company would need to build internally to thrive in the next phase of growth and business operations. This was aimed at supporting the strategic growth charter of your Company and filtering out key action areas in terms of employee capability to make your Company's future-ready.

Your Company respects talent and proactively builds growth-driven symbiotic relationships with its high potential employees. In line with this approach, your Company launched the second rung of ZENITH – Accelerated High Potential Developmental Program, wherein a pool of 57 employees was recognized through a series of rigorous assessments to adjudge their abilities and aspirations. The employees selected in the pilot batch of ZENITH were undertaken through their Individual Development Plans with their HR Anchors and their Business Mentors. These employees were allocated blended learning plans basis their areas of developmental needs and their career aspirations. The initiative has a win-win design for your Company and its employees, fueling individual's career growth and creating a pool of home grown leaders to take up the baton of the organization.

Band-based Interventions

Your Company has structured a holistic internal reward and recognition mechanism - RACE (Recognise and Celebrate Excellence). Under this programme, your Company has, till September 2018, recognised over 500+ top performers for the first quarter, amongst whom 42% were DSSL awardees. The performance levers for identifying achievers every quarter are directly aligned to the overall mission of the organisation and thereby, through RACE, your Company promotes and wishes to replicate performance behaviours that achieve higher productivity levels. RACE operates across the board, covering over 65 unique roles in the organisation spanning varied departments against three major award categories – Miles Awards for frontline sales staff, Star Awards for back-end non-sales staff, and Hero Awards for employees at Area, Region and Zonal Roles. Through RACE, your Company also recognises employees who demonstrate people management skills, through the People Excellence Awards. Your Company fosters a culture of recognition and meritocracy through the platform of RACE, which additionally acts as a booster to employee productivity.

Your Company understands that in addition to building a performance oriented culture, it is also of supreme importance that employees are provided with an engaged work environment. Thus, to promote fun and joy at work, your Company under the SHINE brand Spreads Happiness, Impacts lives and Nurtures Excellence. Under this initiative, your Company organized in house sports activities at regional and zonal levels building greater connect and camaraderie. Your Company is also focused on proactive wellness of its employees, and organized health and wellness camps across the country. In addition, local festivals were celebrated to add to the spirit of the employees.

Your Company appreciates the importance of integrating modern technology, and enabling its seamless use by its employees, to strengthen the people management framework. Led by the vision, of connecting to the last mile of employees, your Company leveraged the internal to launch its surveys. This led to easy access and quick closure at minimum investment of cost and efforts. The DHFL Connect, accessible from a range of devices including mobiles and tablets, facilitates geo-attendance tagging, helped the employees mark their presence on-the-go. DHFL Connect is the starting point of HR digital transformation, automation of lifecycle processes and knowledge management, the derivative of which would be enriched internal customer experience for your Company.

In its continued efforts to build your Company as an employer brand of choice, your Company continued its branding efforts on its official LinkedIn Page, showcasing the ethos, practices and spirit of a DHFL workplace. Your Company achieved a significant growth in organic followers reflecting increased traction and social presence for your Company on the web media.

Your Company also undertook proactive measures to ring-fence critical talent and keep attrition values well within the industry range. Employee productivity also moved up the curve through the financial year, and had a positive impact on business growth continuity.

As on March 31, 2019, your Company's total workforce was 3,320 as against 3,582 on March 31, 2018. The manpower is in line with your Company's operations and geographical reach, especially in Tier II and Tier III cities, towns and peripheral suburbs.

Future Outlook

Going forward, the priority before your Company is to recommence origination of new home loans particularly in the affordable home category. It is in continuing discussion with banks to open new line of credit with back to back arrangement for securitization of loans as they complete seasoning period as per RBI guidelines. The underwriting infrastructure, technology and processes are capable of scaling up quickly once the origination of loans commences. Co-origination of home loans with banks is another avenue to harness the underwriting strength your Company. Cross selling strategies of Insurance and Savings product will continue to be a focus area to add valuable fee based income and strengthen the bottom line.

The next on the importance is to strengthen the equity capital of your Company by bringing in a strategic partner with commitment to grow the retail business. Your Company is engaging with large potential entities to identify and on-board the right strategic partner and are in advanced stages of discussions to achieve the same over the next few months.

Your Company has stated that its objective on the wholesale lending and developer loan book will be to look beyond collection of interest and instalment and monetize these assets through proactive measures. Two large loans have already been monetized through sale of asset to overseas institutional investors of repute through Pass Through Certificate (PTC) route. Simultaneously, efforts are on to identify developers of good standing to join hands as development managers to the projects financed by your Company, who will bring in working capital and project management skills to accelerate the execution of stalled projects on a revenue sharing basis.

Your Company has approached bankers to initiate the process of forming an Inter Creditor Agreement (ICA) under RBI guidelines of June 7, 2019 and bring in other lenders to work towards a Resolution Plan (RP) in the best interest of all lenders. The RP is in advanced stage of drafting for consideration under the ICA process .Your Company has assured its lenders that there shall be no hair cut envisaged under the RP, recasting of debt for longer duration and staggered payback of interest and principle will enable your Company to overcome the liquidity logjam and pay back its liabilities overtime. Simultaneously negotiation with strategic investors are held in the context of valuation of the core strength of your Company as an outcome of restructuring measures and retail consolidation as detailed above.

Your Company's plan for way forward is to build a franchise and enhance its brand value as a focused originator of home loans in affordable segment across geographies and segments. Product and customer focus will be the hall mark. Will be lean on balance sheet but strong on return on assets and equity through strategic business measures. Risk management and collection efficiency will be integral part of strengthening the business development.

Your Company is committed to regain its value and conduct business in a manner which will be value accretive in the current business environment. Your Company thanks all the shareholders for reposing faith in your Company and assures them of sustained growth and brighter future.