

National Housing Bank

November 14, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Bonds	3,000.00	CARE AAA; Stable	Reaffirmed
Bonds	3,000.00	CARE AAA; Stable	Reaffirmed
Long Term Instruments- Market Borrowing Programme	4,587.87 (Reduced from 4,604.87)	CARE AAA; Stable	Reaffirmed
Long Term Instruments- National Housing Bank Deposits	4,944.85	CARE AAA; Stable	Reaffirmed
Long Term Instruments- National Housing Bank Deposits	10,000.00	CARE AAA; Stable	Reaffirmed
Long Term Instruments- National Housing Bank Deposits	-	-	Withdrawn*

Details of instruments/facilities in Annexure-1.

*the rating for the Long Term Instruments- National Housing Bank Deposits is withdrawn on receipt of confirmation of redemption from National Housing Bank.

Rationale and key rating drivers

The ratings for the market borrowing programme (MBP) and other instruments of National Housing Bank (NHB) continue to factor in its status as the apex financial institution for the housing sector, wholly owned by the Government of India (GoI). NHB continues to have access to the low-cost sources of funds, i.e. deposit funds generated from priority sector lending shortfall of banks. The ratings continue to draw comfort from consistent growth in loan book with good asset quality and strong liquidity position.

The ratings' strengths are, however, partially offset by NHB's modest profitability, given its policy objective and high entity-wise concentration of loans.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could individually or collectively lead to positive rating action/upgrade:

Not applicable

Negative factors – Factors that could individually or collectively lead to negative rating action/downgrade:

- Any material changes in strategic role played by the NHB in supporting the housing sector.
- Reduction in the GoI's shareholding below 51%.

Analytical approach:

Standalone; factoring in linkages with the GoI in terms of 100% ownership by it and support in terms of representation on the board from various ministries, access to low-cost funding by way of deposits, and being instrumental in major government schemes.

Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects that NHB will continue to be strategically important to the government and will continue to play an important role in the development of the housing sector.

Detailed description of the key rating drivers:

Key strengths

Apex financial institution for the housing finance sector in India

NHB is a developmental financial institution (DFI), established in 1988, under an Act of Parliament i.e. NHB Act, 1987. The bank operates as a principal agency to promote housing finance companies (HFCs) and to provide them financial and other support. NHB was established to perform three broad functions, namely, regulation and supervision of HFCs, providing them financial assistance, and their promotion and development.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

With the amendments made to the NHB Act, 1987, pursuant to the Union Budget announcements for 2019-20, the ownership of NHB was completely transferred to GoI from the Reserve Bank of India (RBI). Following the change in ownership, the regulatory powers of NHB, including registration of HFCs, was transferred to RBI w.e.f. August 09, 2019 while NHB continues to carry out the role of supervision of HFCs.

Given, the strategic importance of NHB for the GoI, the former has been instrumental in providing liquidity support to the HFCs, through RBI, during COVID-19 through special liquidity facility (SLF) of ₹10,000 crore and an additional liquidity facility of ₹5,000 crore to the NHB in FY20 (FY refers to the period from July 01 to June 30) and ₹10,000 crore under SLF-II in FY21 to infuse liquidity in the housing industry, all of which have reached its maturity as these were for one year.

Furthermore, in the Union Budget 2023-24, it was announced that a fund is to be set up under the name of Urban Infrastructure Development Fund (UIDF) with a total corpus of ₹10,000 crore through the use of priority sector lending shortfall. The fund will be exclusively managed by NHB and will be used by state governments to create urban infrastructure in Tier-II and Tier-III cities.

Wholly owned by the GoI with demonstrated government support

The credit profile of NHB derives strength from the 100% sovereign ownership and expectation of continued strong support from the GoI, given NHB's status as an apex institution for housing. Along with regular low-cost affordable housing fund deposits, the bank was sanctioned additional funds under various schemes amid the COVID-19 pandemic to infuse liquidity in the housing finance industry. Owing to its quasi sovereign status, NHB can mobilize funds at cost effective rates from various sources. Furthermore, NHB will be exclusively managing UIDF which will be utilized for urban infrastructure Tier-II and Tier-III cities.

Given its crucial role, the board of NHB is represented by various ministries of GoI, namely, Ministry of Rural Development, Ministry of Housing and Urban Affairs, Ministry of Finance, RBI and state governments.

Apex DFI for the HFCs with sizeable market presence with the majority lending towards HFCs

NHB being the apex DFI for the HFCs, it has a strong and sizeable market presence in the housing finance sector in India. The loan book of the NHB stood sizeable at ₹ 91,373 crore as on June 30, 2023 (+26% y-o-y), of which majority is towards refinance segment (99.94%) and balance towards direct finance as on June 30, 2023.

Along with being the apex supervisory DFI for the HFCs, NHB lends to scheduled commercial banks (SCBs), small finance banks (SFBs), regional rural banks (RRBs) and others. Of the refinance segment, the proportion of loans towards HFCs continued to dominate the portfolio mix with 85%, followed by loans towards SCBs with 12%, loans towards SFBs, and RRBs comprised the balance of the refinance portfolio, as on June 30, 2023.

Given the historical trend of reducing demand by SCBs due to the ample liquidity available with them, coupled with the NHB's mandate to support HFCs, CARE Ratings expects the proportion of loans towards HFCs continue to be in the majority. However, considering the merger of a large sized HFC with a SCB, share of loans towards SCBs is expected to increase in the loan book in FY24.

Good asset quality

As per the NHB Act, the NHB has the first lien against all the proceeds received against financed receivables. It also has mandates from SCBs, RRBs, and urban cooperative banks for direct debit of their current accounts with the RBI if there is a delay or default in payment of the refinance installments. Moreover, being a supervisor of HFCs, it is expected to get priority over other lenders for debt payments by HFCs. Due to this, the NHB has traditionally enjoyed comfortable asset quality metrics.

Up to FY19, NHB had a negligible gross non-performing assets (GNPA) ratio, but with Dewan Housing Finance Corporation Limited (DHFL) and Punjab and Maharashtra Cooperative (PMC) Bank slipping to non-performing assets (NPAs), the GNPA ratio increased to 2.99% as on June 30, 2020. With no new slippages in further years and NHB recovering part dues from DHFL account amounting to ₹ 676.04 crore and reversal of NPA against PMC Bank amounting to ₹ 149 crore in FY23, the GNPA ratio reduced to 0.77% as on June 30, 2023. The NPA against PMC Bank was reversed by NHB owing to Scheme of Amalgamation (SoA) amongst PMC Bank and Unity SFB Limited.

Given the provision in the NHB Act, CARE Ratings expects the asset quality to remain good going forward.

Comfortable capital position

The capital position of NHB is supported by steady accruals and exemption to pay dividend. Additionally, the bank's capital position has been supported by refinance lending to SCBs that attract relatively lower risk weights. However, in the last few years, the share of refinance to SCBs has been coming down (26% of loan as on June 30, 2019, reduced to 12% of loan as on June 30, 2022 and June 30, 2023) resulting in higher pace of growth in risk weighted assets.

With the rise in loan book, the capital adequacy ratio reduced to 15.17% as on June 30, 2023 from 16.02% as on June 30, 2022, although, well above the minimum regulatory benchmark of 9%. With the rise in loan book, the borrowings (including deposits) rose, leading to rise in gearing level to 7.09x as on June 30, 2023 from 6.15x as on June 30, 2022.

Diversified resource profile

The NHB has a well-diversified resource profile. It gets funds at concessional rates from the allocation of the Affordable Housing Fund (AHF). Funds for AHF are financed from priority sector lending shortfalls of SCBs. Also, owing to its quasi-sovereign status, it can mobilise funds at cost-effective rates from various sources such as bonds, commercial paper (CP), international agencies, etc.

As on June 30, 2023, the borrowings stood at ₹ 84,418 crore through deposits (aggregate of AHF, Rural Housing Fund and Urban Housing Fund) forming 61% (down from 65% previous year), bonds forming 29% (similar level to previous year), followed by borrowings through CP (4%), term loan and Treasury bills Repurchase (3% each) and foreign currency borrowings of 2%.

Moderate profitability

With the rise in yields due to rise in interest rate in the regular refinance loans and reduction in cost of funds owing to majority borrowings for the deposit funds which carry low rate of interest and lower cost of fund on the recently raised bonds, the net interest margin, increased to 1.99% in FY23 from 1.36% in FY22.

NHB's operating expenses (opex) to average asset ratio remains low, due to its wholesale lending model, although, it increased in FY23 to 0.26% from 0.14% in FY22 as the bank has increased its branches and hiring for the lending under UIDF and project finance.

Driven by reversal of provisions against the part recovery received towards DHFL account, credit cost was negative 1% in FY22, which boosted NHB's profitability profile in FY22. In FY23 too, NHB received partial recovery against the DHFL account, however, the bank did not reverse the provisions as the account is still under litigation. Overall, with no incremental slippage, credit costs for NHB stood negligible in FY23.

With the rise in opex ratio and normalization of credit costs in FY23 as against in FY22, the return on total assets moderated to 1.45% in FY23 from 2.33% in FY22. The profit after tax reduced to ₹ 1,262 crore in FY23 from ₹ 1,920 crore in FY22.

Going forward, CARE Ratings expect NHB to continue to report moderate profitability.

Key weaknesses

Credit concentration

The credit concentration risk for the NHB remains high, with the top 25 exposures accounting for 91% of the loan book as on June 30, 2023. The high borrower concentration can be attributed to the fact that the top customers of NHB make majority market share of housing finance industry. Given the nature of its operations with a focus on the housing sector, the NHB is exempted from the RBI's credit concentration norms. The credit risk is partially mitigated, considering the robust asset-protection mechanism provided in the NHB Act.

Liquidity: Strong

As on June 30, 2023, considering interest component, there is no negative cumulative mismatches in the structural liquidity statement. Although, without considering interest component, there is negative cumulative mismatches in the structural liquidity statement as on June 30, 2023 for 29 days –three months' time bucket, over six months to one year's time bucket, over 5 years to 7 years and over 10 years. To mitigate the mismatch, NHB has liquidity in the form of bank balances of ₹ 1700.60 crore, unutilised bank lines of ₹ 4,900 crore and liquid investments of ₹ 4,896.88 crore as on June 30, 2023. Additionally, the liquidity profile of NHB is supported by access to low cost deposit funds created through the shortfall of priority sector lending by the SCBs.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Government Support](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Housing Finance Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Financial Institution

NHB was established on July 9, 1988, under the NHB Act, 1987, of the Parliament as an apex institution in the housing segment. The NHB is chartered to function as a principal agency to promote HFCs and also to provide financial and other support to such institutions. The NHB is notified as a Public Financial Institution under section 4A of the Companies Act, 1956, and was a wholly owned subsidiary of the RBI, however, following the announcement of the GoI in Union Budget 2018, the RBI divested its entire stake to the GoI and the GoI now holds a 100% stake in NHB. NHB provides refinance support to SCBs, HFCs, RRBs, other development cooperative societies, and development banks in the housing finance sector.

Brief Financials (₹ crore)	June 30, 2021 (A)	June 30, 2022 (A)	June 30, 2023 (A)
Total operating income	4,878.19	4,698.89	4,981.49
PAT	663.12	1,919.67	1,261.76
Interest coverage (times)	1.13	1.83	1.60
Total Assets	90,482.86	79,644.14	100,252.63
Net NPA (%)	0.00	0.00	0.00
ROTA (%)	0.7	2.33	1.45

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
NHB Deposits	NA	NA	NA	NA	0.00	Withdrawn
NHB deposits-AHF 2022-23	NA	NA	NA	NA	4,944.85	CARE AAA; Stable
NHB deposits-UIDF 2023-24	NA	NA	NA	NA	10,000.00	CARE AAA; Stable
Subtotal - NHB deposits					14,944.85	
Tax-free bonds	INE557F07066	30-Aug-2013	8.01%	30-Aug-2023	0.00	Withdrawn*

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Tax-free bonds	INE557F07074	30-Aug-2013	8.46%	30-Aug-2028	883.00	CARE AAA; Stable
Tax-free bonds	INE557F07082	13-Jan-2014	8.26%	13-Jan-2024	139.41	CARE AAA; Stable
Tax-free bonds	INE557F07090	13-Jan-2014	8.63%	13-Jan-2029	407.16	CARE AAA; Stable
Tax-free bonds	INE557F07108	13-Jan-2014	8.76%	13-Jan-2034	713.43	CARE AAA; Stable
Tax-free bonds	INE557F07116	13-Jan-2014	8.51%	13-Jan-2024	88.55	CARE AAA; Stable
Tax-free bonds	INE557F07124	13-Jan-2014	8.88%	13-Jan-2029	85.73	CARE AAA; Stable
Tax-free bonds	INE557F07132	13-Jan-2014	9.01%	13-Jan-2034	665.72	CARE AAA; Stable
Tax-free bonds	INE557F07140	24-Mar-2014	8.25%	23-Mar-2024	97.97	CARE AAA; Stable
Tax-free bonds	INE557F07157	24-Mar-2014	8.68%	24-Mar-2029	421.99	CARE AAA; Stable
Tax-free bonds	INE557F07165	24-Mar-2014	8.65%	24-Mar-2034	73.56	CARE AAA; Stable
Tax-free bonds	INE557F07173	24-Mar-2014	8.50%	23-Mar-2024	25.51	CARE AAA; Stable
Tax-free bonds	INE557F07181	24-Mar-2014	8.93%	24-Mar-2029	332.61	CARE AAA; Stable
Tax-free bonds	INE557F07199	24-Mar-2014	8.90%	24-Mar-2034	48.35	CARE AAA; Stable
Proposed	NA	NA	NA	NA	604.88	CARE AAA; Stable
Subtotal - MBP					4,587.87	
NHB Taxable Bonds 2026	INE557F08FR8	26-05-2023	7.22%	23-06-2026	2,000.00	CARE AAA; Stable
Bonds-Proposed	NA	NA	NA	NA	1,000.00	CARE AAA; Stable
Subtotal – Bonds					3,000.00	

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bonds-Proposed	NA	NA	NA	NA	3,000.00	CARE AAA; Stable

NA: Not Applicable

*the rating for the tax-free bonds is withdrawn on receipt of no dues certificate from the debenture trustees

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Borrowings-Market Borrowing Programme	LT*	4587.87	CARE AAA; Stable	1)CARE AAA; Stable (09-Oct-23) 2)CARE AAA; Stable (30-Jun-23) 3)CARE AAA; Stable (15-May-23)	1)CARE AAA; Stable (13-Dec-22)	1)CARE AAA; Stable (05-Jan-22)	1)CARE AAA; Stable (11-Dec-20)
2	NHB deposits	LT	-	-	-	1)Withdrawn (13-Dec-22)	1)CARE AAA; Stable (05-Jan-22)	1)CARE AAA; Stable (11-Dec-20)
3	NHB deposits	LT	-	-	1)CARE AAA; Stable (09-Oct-23) 2)CARE AAA; Stable (30-Jun-23)	1)CARE AAA; Stable (13-Dec-22)	1)CARE AAA; Stable (05-Jan-22)	1)CARE AAA; Stable (11-Dec-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
					3)CARE AAA; Stable (15-May-23)			
4	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (14-Jan-21) 2)CARE AAA; Stable (11-Dec-20)
5	Bonds	LT	3000.00	CARE AAA; Stable	1)CARE AAA; Stable (09-Oct-23) 2)CARE AAA; Stable (30-Jun-23) 3)CARE AAA; Stable (15-May-23)	-	-	-
6	NHB deposits	LT	4944.85	CARE AAA; Stable	1)CARE AAA; Stable (09-Oct-23) 2)CARE AAA; Stable (30-Jun-23)	-	-	-
7	Bonds	LT	3000.00	CARE AAA; Stable	1)CARE AAA; Stable (09-Oct-23) 2)CARE AAA; Stable	-	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
					(30-Jun-23)			
8	NHB deposits	LT	10000.00	CARE AAA; Stable	1)CARE AAA; Stable (09-Oct-23)	-	-	-

*Long term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds	Simple
2	Borrowings-Market Borrowing Programme	Simple
3	NHB deposits	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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