

Housing and Urban Development Corporation Limited

April 06, 2020

Ratings

Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Instruments – Bonds (FY20-21)	28,000* (Rs. Twenty Eight thousand crore only)	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned

*Proposed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to proposed long-term instruments/bonds (for FY20-21) of Housing and Urban Development Corporation Ltd (HUDCO) derive strength from it being a majority (89.81% ownership as on December 31, 2019) Government of India (GoI) owned entity, its strategic importance to GoI for implementation various government policies in the sectors such as social housing and urban infrastructure, majority lending backed by government guarantee and budgetary provision from government for debt servicing, expectation of support from GoI in case of need, HUDCO's healthy business growth with incremental lending only to Government sector borrowers resulting in good asset quality profile. The ratings also draws comfort from no incremental lending to private sector, diversified resource profile, healthy capitalization and adequate liquidity profile.

Rating Sensitivities

Going forward, the ability of HUDCO to maintain its asset quality and sustain profitable business growth while maintaining majority lending backed by Government guarantee and budgetary allocation of Government for debt servicing, maintaining its liquidity and capital adequacy profile would be key rating sensitivities.

Negative Factors

- Material changes in shareholding pattern with GoI's holding going below 51% and/or decline in expectation of GoI support for HUDCO
- Material deterioration in asset quality parameters

Detailed description of the key rating drivers

Key Rating Strengths

Majority Government ownership, demonstrated Government support and strategic importance to GoI

HUDCO is majority owned by GoI (GoI owning 89.81% equity shares as on Dec-19), with an expectation of support from the government. HUDCO is a strategically important entity for GoI and has played a significant role in the implementation of its various initiatives in urban infrastructure and social housing. As on March 31, 2020, HUDCO has two functional directors, two nominee directors from Government of India and two independent directors with experience in diverse fields. HUDCO also had access to foreign currency lines from ADB, JBIC (both guaranteed by GoI) and USAID (not guaranteed by GoI) etc and refinance assistance from NHB/IIFCL.

Business growth with incremental lending to low risk Government sector

The gross loan book of HUDCO registered a growth of 48% y-o-y in FY19 to Rs.73,325 crores as on March 31, 2019 which remained stable during 9MFY20 and stood at Rs.74,294 crores end December 31, 2019. The strong loan book growth during FY19 was largely on account of disbursement of Rs.20,000 crores under PMAY-Urban and the funds raised for the same were through GoI fully serviced bonds. These funds were raised as Extra Budgetary Resources (EBR) for PMAY-urban under Ministry of Housing and Urban Affairs (MoHUA). This amount of Rs.20,000 crores was provided to one entity which will further distribute to states as per directives of MoHUA and for this HUDCO has taken special exemption in exposure norms from National Housing Bank (NHB). With lending exposed to government entities only since 2013, HUDCO has loan exposure of 96% towards government agencies as on December 31, 2019. Further, NHB has also granted relaxation to HUDCO with respect to credit concentration (exposure) norms upto 140%, 175% and 120% of NOF in state of Andhra Pradesh, Telangana and Uttar Pradesh respectively. However as per new directions from NHB the same has to be brought down to 100% by 2023.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.

HUDCO's public sector advances reduces credit risk, as 66% of the total advances are backed by government guarantee which also reflect in healthy asset quality as GNPA% in government exposures stood at 0.18% of government advances while having 95.5% share in total loan outstanding as on March 31, 2019.

Diversified resource profile

HUDCO has a diversified funding profile wherein it has raised funds through bonds (Tax free and Taxable), bank loans, commercial paper, refinance lines from NHB/IIFCL, Public Deposits and others. As on December 31, 2019, out of total borrowing of Rs.59,090 crore, taxable bonds constituted 62.2% (including Rs.20,000 crores of GOI fully serviced bonds), tax free bonds formed another 29.4%, NHB/IIFCL refinance (5.4%), commercial Paper (1.7%), foreign currency loans (0.6%) and bank loan at 0.4% and public deposits: 0.3%. HUDCO has stopped accepting public deposits w.e.f 1 July 2019 following NHBs directives.

Healthy capitalization profile

HUDCO's capitalization profile is comfortable as reflected in capital adequacy level at 57.98% as on March 31, 2019 as against 52.70% as on March 31, 2018 well above the regulatory minimum requirement of 12% (minimum regulatory CAR% will increase to 15% by March-2022). HUDCO's gearing was 4.85 times end December 31, 2019 while adjusted gearing levels (excluding GOI serviced bonds) stood at 3.21 times. HUDCO's capital adequacy ratio is also supported by 20% risk weight for state government guaranteed exposures and 0% risk weight on central government guaranteed exposures. In line with high growth seen in recent past and expectation of higher loan book growth, HUDCO's gearing is likely to increase however expected to remain comfortable (within 12 times as on March-2022 as per NHB guidelines) in line with risk profile of its lending book.

Moderate asset quality metrics

HUDCO's asset quality remains moderate and has shown improvement in FY19 with reported GNPA ratio coming down from 7.29% as on Mar-18 to 4.49% as on Mar-19 mainly on account of denominator effect as AUM of the company grew by almost 50% during the period. Also, on an absolute basis, some improvement was registered with gross NPA at Rs 3,287 crore as on March 31, 2019 down 9% Y-o-Y from Rs 3,610 crore as on March 31, 2018. However end December 2019, the GNPA ratio marginally increased to 4.98% due to fresh slippages of three accounts. HUDCO is maintaining provision coverage of 89% hence it reported NNPA of 0.5% as on Mar-19 (PY: 1.96%) however due to fresh slippages in Q3FY20, the overall provisioning cover (CARE adjusted) reduced to 77% ending Dec-19. As per management, the majority of slippages during Q3FY20 have been recovered during Q4FY20. Overall, more than 95% of the NPAs are legacy in nature and in private sector wherein the company has stopped lending. With 96% of the advances are towards government as on Dec-19, the company has been able to contain the pace of its slippages. Any further slippage of accounts leading to asset quality concerns would remain key rating sensitive.

Moderate Profitability

Owing to its public policy mandate with lending largely to government entities, HUDCO's profitability has been moderate over the years. End fiscal 2019, HUDCO reported total income of Rs.5,591 crores, up 32% Y-o-Y from Rs.4,234 crores reported in FY18 on the back of strong loan growth and stable margins. HUDCO reported net interest margin (NIM) of 3.93% and ROTA of 1.94% during FY19 as against 3.94% and 2.29% respectively previous fiscal. Out of total borrowing of Rs31,148 crores during FY19, majority were raised in H2FY19 when interest rate were higher in domestic market and the company has raised Rs.20,000 crores as EBR for MoHUA at weighted average cost of capital of 8.46% fully serviced by GOI. As a result, the cost of borrowing (company reported) for the company increased to 8.04% during FY19 as against 7.57% in FY18.

During 9MFY20, HUDCO reported PAT of Rs.1,267 crores (+34% Y-o-Y) over total income of Rs.5,672 crore (+38% Y-o-Y) hence maintaining PAT margins of 22%. Profitability of the company improved during 9MFY20 with overall ROTA of 2.30% (as against 2.41% for 9M FY19) while adjusted for BMPTC portfolio it stood at 3.16%. Opex of the company remained stable at 0.45% for 9MFY20 while it stood at 0.53% for FY19. NIM% for 9MFY20 stood at 3.54%, down from FY19. During 9FY20, the company raised Rs.6,295 crores through bonds while other major sources of funds are commercial paper, NHB refinance and revolving bank limits with total borrowing of Rs.13,401 crores for the period.

Liquidity profile

Liquidity: Adequate

As per Asset Liability Maturity (ALM) statement dated December 31, 2019, there were negative cumulative mismatches in few of short-term and medium-term time buckets. This is on account of shorter tenure borrowing vis-à-vis long term lending. HUDCO has one year debt outflows of Rs.7,346 crores while advances inflows during same period stood at Rs.5,565 crores. However HUDCO maintains sanctioned but unutilised bank limits to meet short-term requirements and as on March 31, 2020 the unutilized bank lines stood at Rs.6,140 crores.

Analytical approach: Standalone, factoring in timely support from Gol in case of need; given HUDCO is majority owned by Gol and strategically important to Gol.

Applicable Criteria

Criteria on assigning 'Outlook' and 'Credit watch' to Credit Ratings

Rating Methodology: Factoring Linkages in Ratings

CARE's methodology for Short-term Instruments

CARE's Policy on Default Recognition

CARE's Rating Methodology For Housing Finance Companies

Financial Sector –Financial Ratios

About the Company

HUDCO was set up in 1970, is a majority Gol-owned (89.81% as on March 31, 2019) developmental financial institution mandated to provide long-term finance for social housing & core urban infrastructure development in the country. It is a central public sector undertaking and a public financial institution within the meaning of Clause (72) of section 2 of the Companies Act, 2013. Furthermore, HUDCO is also a housing finance company registered with National Housing Bank (NHB). The corporation was conferred 'Mini-Ratna' status in August 2004 resulting in greater operational and financial flexibility. HUDCO is also a Central Nodal Agency, along with NHB, for the implementation and monitoring of the "Pradhan Mantri Awas Yojna – Housing for All by 2022" scheme to be implemented over the period 2015-2022. HUDCO's lending is mainly focused towards state undertakings in the housing or urban infrastructure segment with majority of loans backed by state government guarantees and/or budgetary allocation through state sponsored programmes. Presently, HUDCO operates through a corporate office along with 21 regional offices and 11 development offices.

Brief Financials (Rs. crore)#	FY18 (A)	FY19 (A)
Total operating income	4,234	5,591
PAT	1,010	1,180
Interest coverage (times)	1.61	1.61
Total Assets	48,914	72,829
Net NPA (%)	1.96	0.49
ROTA (%)	2.29	1.94

A: Audited, # as per Ind AS

*Note: Ratios computed based on average of annual opening and closing balances

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Rate	Amount	Allotment Date	Redemption Date	Ratings
Long Term instruments- Bonds (FY20-21)	-	-	28,000	-	-	CARE AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds- Unsecured Redeemable	LT	-	-	-	-	1)Withdrawn (05-Jul-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (12-Jul-16)

2.	Short Term Instruments-CP/STD	ST	-	-	-	-	1)Withdrawn (05-Jul-17)	1)CARE A1+ (29-Dec-16) 2)CARE A1+ (12-Jul-16) 3)CARE A1+ (31-May-16)
3.	Fixed Deposit	LT	2000.00	CARE AAA (FD); Stable	1)CARE AAA (FD); Stable (05-Jul-19)	1)CARE AAA (FD); Stable (06-Jul-18) 2)CARE AAA (FD); Stable (24-May-18)	1)CARE AAA (FD); Stable (05-Jul-17)	1)CARE AAA (FD); Stable (29-Dec-16) 2)CARE AAA (FD) (12-Jul-16)
4.	Bonds-Unsecured Redeemable	LT	-	-	-	-	-	1)Withdrawn (12-Jul-16)
5.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	25000.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (05-Jul-19) 2)CARE AAA; Stable / CARE A1+ (09-Apr-19)	1)CARE AAA; Stable / CARE A1+ (06-Jul-18) 2)CARE AAA; Stable / CARE A1+ (24-May-18)	1)CARE AAA; Stable / CARE A1+ (05-Jul-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (12-Jul-16)
6.	Bonds	LT	5000.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Jul-19)	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (05-Jul-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (12-Jul-16)
7.	Fund-based - ST-Term loan	ST	-	-	-	-	1)Withdrawn (05-Jul-17)	1)CARE A1+ (29-Dec-16) 2)CARE A1+ (12-Jul-16)
8.	Bonds	LT	2401.35	CARE AAA; Stable	1)CARE AAA; Stable (05-Jul-19)	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (05-Jul-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (12-Jul-16)
9.	Bonds	LT	4987.11	CARE AAA;	1)CARE AAA;	1)CARE AAA;	1)CARE AAA; Stable	1)CARE AAA; Stable

				Stable	Stable (05-Jul-19)	Stable (06-Jul-18)	(05-Jul-17)	(29-Dec-16) 2)CARE AAA (12-Jul-16)
10.	Commercial Paper	ST	10000.00	CARE A1+	1)CARE A1+ (05-Jul-19) 2)CARE A1+ (09-Apr-19)	1)CARE A1+ (06-Jul-18) 2)CARE A1+ (24-May-18)	1)CARE A1+ (05-Jul-17)	1)CARE A1+ (29-Dec-16) 2)CARE A1+ (12-Jul-16) 3)CARE A1+ (31-May-16)
11.	Bonds	LT	1500.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Jul-19)	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (05-Jul-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (12-Jul-16)
12.	Bonds	LT	3500.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Jul-19)	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (05-Jul-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (12-Jul-16)
13.	Bonds	LT	3365.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Jul-19)	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (05-Jul-17)	1)CARE AAA; Stable (29-Dec-16) 2)CARE AAA (12-Jul-16)
14.	Bonds	LT	4655.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Jul-19)	1)CARE AAA; Stable (06-Jul-18)	1)CARE AAA; Stable (05-Jul-17)	-
15.	Bonds	LT	24010.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Jul-19)	1)CARE AAA; Stable (06-Jul-18) 2)CARE AAA; Stable (24-May-18)	-	-
16.	Bonds	LT	30000.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Jul-19) 2)CARE AAA; Stable (09-Apr-19)	-	-	-

17.	Bonds	LT	28000.00	CARE AAA; Stable	-	-	-	-
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Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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