

National Housing Bank

January 06, 2020

Ratings

Facilities/Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Market Borrowing Programme	5,245 (Rupees Five Thousand Two Hundred Forty Five crore only)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Deposits (Rs.10,000 crore under RHF and Rs.2000 crore under UHF)	12,000 (Rupees Twelve Thousand crore only)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Deposits (Rs.8,000 crore under RHF and Rs.4000 crore under UHF)	12,000 (Rupees Twelve Thousand crore only)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Non- Convertible Debentures	6,000* (Rupees Six thousand crores only)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Anneuxre-1

* Raised Rs.5987.1 crores till March 31, 2019

RHF - Rural Housing Fund; UHF - Urban Housing Fund, renamed as Funds for Affordable Housing to Urban Poor/EWS/LIG

Detailed Rationale

The rating reaffirmation on various instruments of National Housing Bank (NHB) at **CARE AAA; Stable** continues to factor in its status as the apex financial institution for housing sector, sovereign support from and ownership of Government of India. In March 2019, the Reserve Bank of India (RBI) completed the divestiture of its 100% shareholding in NHB in favour of Gol following the announcement in Union Budget 2018. The rating continues to draw comfort from NHB's consistent growth in business, manageable asset quality metrics, comfortable capitalization (as per BASEL-I), strong liquidity position and diversified resource profile. The ratings, however, are constraint marginally by NHB's modest profitability given its policy objective and high entity-wise concentration of loans.

Given 100% government ownership, timely support from Gol is expected to continue going forward and any material change in the ownership of and/or support to NHB will remain a key rating monitorable. Also, continuing strategic importance of NHB for Gol by virtue of its role in the development of the housing finance sector in India coupled with its ability to maintain asset quality and profitability would be rating sensitivities.

Rating Sensitivities

Negative Factors:

- Any material change in government support and/or strategic role played by NHB in supporting housing sector or reduction in Gol's shareholding below 51%
- Deterioration in NHB's standalone credit profile including its profitability, asset quality and/or capitalization metrics

Detailed description of the key rating drivers

Key Rating strengths:

100% Gol ownership marked with demonstrated government support:

The credit profile of NHB derives strength from 100% ownership of and expectation of continued strong support from Gol given NHB's status as an apex institution for housing. NHB was a wholly owned subsidiary of the Reserve Bank of India (RBI), however following the announcements made in Union Budget of fiscal 2018, the ownership of NHB was completely transferred to Gol in March-2019. Following the change in ownership, the regulatory role of NHB for housing finance companies (HFCs) was transferred to RBI while NHB acts in a supervisory capacity for HFCs and assists RBI in decision making in regulatory aspects as and when required. Given its crucial role, NHB has strong representation from Gol with board of directors of NHB including senior professionals nominated by the RBI and the central government. As on June 30, 2019 NHB had one RBI nominee director while three directors were from Gol who were additional secretary, one each from Ministry of Housing and Urban Affairs, Ministry of Finance and Ministry of Rural Development.

Apex financial institution for housing finance sector in India:

NHB is chartered to function as a principal agency to promote housing finance and housing finance institutions, and also to provide financial and other support to such institutions in India. NHB's statutory functions provide for developing a healthy housing finance sector through refinance of housing loans and also supervision of the sector. NHB provides refinance to various Primary Lending Institutions (PLIs) in respect of the retail housing loans extended by them. The PLIs include scheduled

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

commercial banks, scheduled cooperative banks, housing finance companies, apex co-operative housing finance societies and agriculture and rural development banks. NHB has also been appointed as one of the two Central Nodal Agencies for implementation of the credit-linked subsidy scheme under “Pradhan Mantri Awas Yojana - Housing for All by 2022” (PMAY).

Manageable asset quality:

NHB's loan book primarily comprises refinance loans to banks and housing finance companies against their retail housing loans. As on June 30, 2019, NHB's loan book grew by 21% Y-o-Y to Rs.69,809 crores. Of the total loans, NHB's refinance loan book was Rs.69,095 crore or 99% of total loans end June 2019 comprising refinancing to HFCs (72.6%), commercial banks (26.1%), cooperative banks and others (1.3%). On the back of good credit profile of borrowers, NHB's asset quality has traditionally remained strong with reported Gross NPA of 0.01% as on June 30, 2019. Also owing to 100% provision coverage ratio, the net NPA remained nil (same as previous year). NHB follows stringent internal criteria for sanctions in order to maintain its asset quality and recovery performance. However, with the slippage of two credit exposures (under refinance scheme) in NPA during October-2019, the GNPA% of the bank has risen to around 3.5%.

Comfortable Capitalisation:

NHB reported healthy capitalisation levels with total CAR (per Basel-I) at 16.01% as on June 30, 2019 (PY: 18.66% as on June 30, 2018). Core CAR (common equity ratio) stood at 14.76% as on June 30, 2019 vs 17.41% as on June 30, 2018. NHB's gearing has risen to 7.1 times as on June 30, 2019 vs 6.5 times as on June 30, 2018.

Diversified resource profile:

NHB has a well-diversified resource profile and owing to its quasi sovereign status, it can mobilize funds at cost effective rates from various sources such as funding from international agencies such as Asian Development Bank, Kreditanstalt für Wiederaufbau (KfW), World Bank, AFD France, etc, domestic financial institutions, long-term bonds and commercial paper. NHB can also mobilize funds at concessional rates from allocation of Affordable Housing Fund or AHF (Urban Housing Fund & Rural Housing Fund merged in AHF from FY19) that is financed from priority sector lending shortfall of scheduled commercial banks. These deposits are at concessional interest rates (at a discount from base rates of the banks). As on June 30, 2019, out of the total external borrowings of Rs.63,489 crores, deposits under RUF, UHF and AHF together accounted 64% of borrowing (PY: 69%) followed by bonds (17.1%), term loan (7.1%), commercial papers (4.7%), TREP (4.2%) and foreign commercial borrowings (3.1%) as on June 30, 2019. In fiscal 2019, NHB mobilised Rs.21,852 crores through various sources.

Liquidity: Strong

The liquidity position of NHB is also comfortable with no / negligible negative cumulative mismatch across all time buckets as per structural liquidity statement as on June 30, 2019. NHB's liquidity profile is also supported by demonstrated strong resource raising ability, considering its sovereign ownership and positioned as developmental role for housing finance sector further provides comfort to the liquidity profile. Also, NHB maintains unutilized bank lines of around Rs.12,000 crores from various banks and has cash & bank balances of Rs.1,695 crores as on June 30, 2019 as against next one year debt obligations (including interest liabilities) of Rs.14,935 crores from June-2019

Key rating weaknesses

Modest profitability and spreads due to NHB's policy role: NHB has reported stable, albeit modest, profitability over years on the back of strong asset quality and stable spreads amid lower cost of funds. During FY19, the total income of NHB increase by 19% y-o-y to Rs.5,276 crore mainly on account of growth in loan book, margin expansion and one time other income of Rs.256 crores through stake sale in two HFCs. Given the developmental role of NHB and low cost of lending, its margins are thinner. CARE's computed interest spread and net interest margin stood at 1.44% and 2.28% respectively in FY19 as against 1.21% & 2.08% respectively in FY18. During FY19, NHB reported net profit of Rs.733 crores (down 2.4% y-o-y) on account of higher provisioning charges (Rs.404 crores in FY19 vs Rs.27 crores in FY18) towards standard assets in view of expected slippage from few stressed standard accounts.

Credit concentration

Credit concentration risk for NHB remains high with top-20 exposures accounting for 90% of loan book and around 7 times of networth as on June 30, 2019. However, given the nature of its operations with focus on housing sector, NHB is exempted from RBI's credit concentration norms.

Analytical approach: Standalone; factoring in support from Government of India given 100% owned by Govt.

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)

[Rating Methodology for Housing Finance Companies](#)
[Financial Ratios \(Financial Sector\)](#)
[Rating Methodology; Factoring Linkages in Ratings](#)

About the Company

National Housing Bank was established on July 9, 1988, under the NHB Act, 1987 of the Parliament, As an apex institution in the housing segment, NHB is chartered to function as a principal agency to promote Housing Finance Institutions (HFCs) and also to provide financial and other support to such institutions. NHB is notified as a Public Financial Institution (PFI) under section 4A of the Companies Act, 1956 and was wholly owned subsidiary of Reserve Bank of India (RBI), however following the announcement of GoI in Union Budget 2018, RBI divested its entire stake to GoI and GoI now holds 100% stake in NHB. NHB provide refinance support to schedule commercial banks (SCBs), housing finance companies (HFCs), regional rural banks and other development cooperative societies & development banks in housing finance sectors. During FY19 (refers to the period July 01, 2018 to June 30, 2019), NHB has reported a PAT of Rs.733 crore on a total income of Rs.5,276 crore and gross loan portfolio stood at Rs.69,809 crores as on June 30, 2019.

Brief Financials (Rs. Crores)	FY18 (A)	FY19 (A)
Total income	4,426	5,276
PAT	751	733
Total assets	63,272	75,597
CAR (%)	18.66	16.01
Net NPA (%)	Nil	Nil
ROTA (%)	1.24	1.06

A: Audited

Note: Ratios are 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	Date of Issuance	Maturity Date	Coupon Rate	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Tax free Bonds	INE557F07017	14-Dec-12	14-Dec-22	7.19%	126.00	CARE AAA; Stable
Tax free Bonds	INE557F07025	1-Jan-13	1-Jan-23	7.17%	110.00	CARE AAA; Stable
Tax free Bonds	INE557F07033	6-Feb-13	6-Feb-23	6.87%	125.00	CARE AAA; Stable
Tax free Bonds	INE557F07058	22-Mar-13	22-Mar-23	6.89%	82.90	CARE AAA; Stable
Tax free Bonds	INE557F07041	26-Mar-13	26-Mar-23	6.82%	196.23	CARE AAA; Stable
Tax free Bonds	INE557F07066	30-Aug-13	30-Aug-23	8.01%	17.00	CARE AAA; Stable
Tax free Bonds	INE557F07074	30-Aug-13	30-Aug-28	8.46%	883.00	CARE AAA; Stable
Tax free Bonds	INE557F07082	13-Jan-14	13-Jan-24	8.26%	139.41	CARE AAA; Stable
Tax free Bonds	INE557F07090	13-Jan-14	13-Jan-29	8.63%	407.16	CARE AAA; Stable
Tax free Bonds	INE557F07108	13-Jan-14	13-Jan-34	8.76%	713.43	CARE AAA; Stable
Tax free Bonds	INE557F07116	13-Jan-14	13-Jan-24	8.51%	88.55	CARE AAA; Stable
Tax free Bonds	INE557F07124	13-Jan-14	13-Jan-29	8.88%	85.73	CARE AAA; Stable
Tax free Bonds	INE557F07132	13-Jan-14	13-Jan-34	9.01%	665.72	CARE AAA; Stable
Tax free Bonds	INE557F07140	24-Mar-14	23-Mar-24	8.25%	97.97	CARE AAA; Stable
Tax free Bonds	INE557F07157	24-Mar-14	24-Mar-29	8.68%	421.99	CARE AAA; Stable
Tax free Bonds	INE557F07165	24-Mar-14	24-Mar-34	8.65%	73.56	CARE AAA; Stable
Tax free Bonds	INE557F07173	24-Mar-14	23-Mar-24	8.50%	25.51	CARE AAA; Stable
Tax free Bonds	INE557F07181	24-Mar-14	24-Mar-29	8.93%	332.61	CARE AAA; Stable
Tax free Bonds	INE557F07199	24-Mar-14	24-Mar-34	8.90%	48.35	CARE AAA; Stable
Proposed Bonds					604.87	CARE AAA; Stable
		<i>Sub-total</i>			5,245.00	
NHB deposits	-	-	-	-	12000.00	CARE AAA; Stable
NHB deposits	-	-	-	-	12000.00	CARE AAA; Stable

Name of the Instrument	ISIN	Date of Issuance	Maturity Date	Coupon Rate	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Long-term instrument	INE557F08FB2	27-12-2018	27.12.2021	8.14%	735.00	CARE AAA; Stable
Long-term instrument	INE557F08FC0	10-01-2019	10.01.2022	8.05%	1,720.00	CARE AAA; Stable
Long-term instrument	INE557F08FD8	28.01.2019	31.01.2022	8.02%	1,165.00	CARE AAA; Stable
Long-term instrument	INE557F08FE6	22-02-2019	22-02-2022	8.00%	1,567.10	CARE AAA; Stable
Long-term instrument	INE557F08FF3	25.03.2019	25.03.2022	7.65%	800.00	CARE AAA; Stable
Long-term instrument	Proposed			-	12.90	CARE AAA; Stable
<i>Sub-total</i>				-	<i>6,000.00</i>	

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.	Borrowings-Market Borrowing Programme	LT	5245.00	CARE AAA; Stable	-	1)CARE AAA; Stable (29-Nov-18)	1)CARE AAA; Stable (15-Mar-18)	1)CARE AAA; Stable (18-Jan-17)
2.	NHB deposits	LT	12000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (29-Nov-18)	1)CARE AAA; Stable (15-Mar-18)	1)CARE AAA; Stable (18-Jan-17)
3.	NHB deposits	LT	12000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (29-Nov-18)	1)CARE AAA; Stable (15-Mar-18)	1)CARE AAA; Stable (18-Jan-17)
4.	Debentures-Non Convertible Debentures	LT	6000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (29-Nov-18)	-	-

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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