

National Housing Bank

December 11, 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

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

*Call option has been exercised for Rs. 5,987.10 crore out of Rs. 6,000.00 crore

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 (GoI). In March 2019, the Reserve Bank of India (RBI) completed the divestiture of its 100% shareholding in NHB in favour of GoI 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 rating strengths are however, partially offset by NHB's modest profitability given its policy objective and high entity-wise concentration of loans. Given 100% government ownership, timely support from GoI 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 GoI 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 GoI'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% GoI ownership marked with demonstrated government support

The credit profile of NHB derives strength from 100% ownership of and expectation of continued strong support from GoI 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 GoI 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 GoI with board of directors of NHB including senior professionals nominated by the RBI and the central government. As on June 30, 2020, NHB had one RBI nominee director while three directors were from Central Government who were additional secretaries, one each from Ministry of Housing and Urban Affairs, Ministry of Finance and Ministry of Rural Development and two directors were from State government who were Secretary to the Government of Karnataka and Secretary to the Government of Assam.

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

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 commercial banks, scheduled cooperative banks, regional rural 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, 2020, NHB's loan book grew by 20% Y-o-Y to Rs. 83,628 crores. Of the total loans, NHB's refinance loan book was Rs. 83,628 crore or 99% of total loans comprising refinancing to HFCs (78.13%), commercial banks (18.36%), cooperative banks and others (3.52%). During the year NHB did refinance disbursements of Rs 31,258 crore, up 24% Y-o-Y, of which 88% were towards HFCs, 5% towards SCBs and rest 7% towards others. NHB's asset quality, though manageable, has registered weakness with GNPA ratio spiking to 2.99% end FY 20 from 0.01% end FY 19. This was on account of two accounts namely Dewan Housing Finance Corporation Limited (DHFL) and Punjab and Maharashtra Cooperative Bank (PMC) totalling to Rs 2,499 crore thereby increasing the total GNPA to Rs 2503 crore end FY20, up from Rs 4.2 crore end FY19. End June 20, the provision coverage against the NPA stood at 75% thereby translating net NPA to 0.76%. In Q1 FY 21, the bank further increased its provision coverage ratio to 100%. NHB follows stringent internal criteria for sanctions in order to maintain its asset quality and recovery performance.

Comfortable capitalisation

NHB reported healthy capitalisation levels with total CAR (per Basel-I) at 12.74% as on June 30, 2020 (PY: 16.01% as on June 30, 2019). The bank's common equity tier 1 (CET-1) stood at 12.22%, end FY20 down from 14.76% previous fiscal underpinned by decline in profits due to substantially higher provisions on NPAs. Additionally, the bank's capital adequacy has been supported by NHB's refinance to SCBs that attract relatively lower risk weights. However, in the last few years, the share of refinance to scheduled commercial banks (SCBs) has been coming down resulting in higher pace of growth in risk weighted assets. NHB's gearing has risen to 8.76 times as on June 30, 2020 as against 7.22 times as on June 30, 2019.

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, 2020, out of the total external borrowings of Rs.78,993 crores, deposits under RUF, UHF and AHF together accounted 55.7% of borrowing followed by bonds (19.6%), term loan (1.3%), commercial papers (6.9%), TREP (2.1%) and foreign commercial borrowings (2.3%). The special liquidity facility that was announced by RBI in the wake of covid-19 pandemic constituted 12% of the total borrowings end FY 20. In FY 20, NHB raised funds to the tune of Rs 34,116 crore (up 56% Y-o-Y) through various instruments taxable Bonds, commercial Papers (CPs), Short Term Loans, Affordable Housing Fund and Special Liquidity Facility (SLF) from RBI. The bank's cost of capital stood at 5.43% end FY 20 as against 5.85% end FY 19.

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, 2020. 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. NHB has cash & bank balances of Rs.3,719 crores as on June 30, 2020 as against next one year debt obligations (including interest liabilities) of Rs.12,929 crores from June-2020

Key rating weaknesses

Modest profitability and spreads due to NHB's policy role

NHB has reported stable, albeit modest, profitability over years on account of reasonable asset quality and stable spreads amid lower cost of funding due to its quasi sovereign status. End FY20, the total income of NHB decreased by 5% y-o-y to Rs.5,025 crore mainly on account of margin contraction. 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 1.28% and 1.89% respectively in FY20 as against

1.44% & 2.28% respectively in FY19. During FY20, NHB reported net profit of Rs.196 crores (down 73.30% y-o-y) on account of sharp increase in provision and write off expenses of Rs 1082 crore end FY 20 as against Rs 482 crore previous fiscal thereby adversely affecting bank's bottom line

Credit concentration

Credit concentration risk for NHB remains high with top-20 exposures accounting for 86% of loan book and around 8 times of networth as on June 30, 2020. The share of largest single borrower has been steadily rising and constituted 16.4% of total assets end FY 20, up from 13.8% end FY 19 and 11.9% in FY18. However, given the nature of its operations with focus on housing sector, NHB is exempted from RBI's credit concentration norms.

Impact of covid-19

On account of COVID-19 pandemic, RBI permitted Financial Institutions to grant a moratorium of up to three months on payment of all instalments falling due between March 1, 2020 and May 31, 2020. In view of the extension of lockdown and continuing disruption on account of COVID-19, RBI permitted Financial Institutions to extend the moratorium by another three months i.e. from June 1, 2020 to August 31, 2020 and NHB extended the moratorium by another three months i.e. for instalments due between June 1, 2020 and August 31, 2020. Four HFCs have been granted moratorium totalling to Rs 191.85 crore. Additionally to mitigate the liquidity risk in the overall housing finance system, NHB granted moratorium to PLIs and launched a new scheme named Special Refinance Facility (SRF) for disbursing an amount of Rs 10,000 crore provided by RBI under Special Liquidity Facility (SLF).

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

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Housing Finance Companies \(HFCs\)](#)

[Financial Ratios – Financial Sector](#)

[Rating Methodology: Notching by factoring Linkages with Government](#)

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 Gol in Union Budget 2018, RBI divested its entire stake to Gol and Gol 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 FY20 (refers to the period July 01, 2018 to June 30, 2019), NHB has reported a PAT of Rs.196 crore on a total income of Rs.5,025 crore and gross loan portfolio stood at Rs. 83,628 crores as on June 30, 2020.

Brief Financials (Rs. Crores)	FY19 (A)	FY20 (A)
Total income	5,276	5,025
PAT	733	196
Total assets	75,597	90,160
CAR (%)	16.01	12.74
Net NPA (%)	Nil	0.76%
ROTA (%)	1.06	0.24

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>			<i>5,245.00</i>	
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>	

*call option exercised on 27-12-2019, balance outstanding nil, however, debenture trustee certificate is awaited for withdrawal of ratings.

** call option exercised on 11-03-2020, balance outstanding nil, however, debenture trustee certificate is awaited for withdrawal of ratings.

Call option exercised on 28-02-2020, balance outstanding nil, however, debenture trustee certificate is awaited for withdrawal of ratings.

call option exercised on 22-05-2020, balance outstanding nil, however, debenture trustee certificate is awaited for withdrawal of ratings.

@ Call option exercised on 27-03-2020, balance outstanding nil, however, debenture trustee certificate is awaited for withdrawal of ratings.

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Borrowings-Market Borrowing Programme	LT	5245.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jan-20)	1)CARE AAA; Stable (29-Nov-18)	1)CARE AAA; Stable (15-Mar-18)
2.	NHB deposits	LT	12000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jan-20)	1)CARE AAA; Stable (29-Nov-18)	1)CARE AAA; Stable (15-Mar-18)
3.	NHB deposits	LT	12000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jan-20)	1)CARE AAA; Stable (29-Nov-18)	1)CARE AAA; Stable (15-Mar-18)
4.	Debentures-Non Convertible Debentures	LT	6000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Jan-20)	1)CARE AAA; Stable (29-Nov-18)	-

Annexure-2: Complexity level of various instruments rated for this Company

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

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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