

June 29, 2021

## National Housing Bank: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Borrowing Programme	10,000	10,000	[ICRA]AAA (Stable); Reaffirmed
Commercial Paper	8,000	8,000	[ICRA]A1+; Reaffirmed
<b>Total</b>	<b>18,000</b>	<b>18,000</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings factor in National Housing Bank's (NHB) sovereign ownership, its pivotal role in the housing finance industry and comfortable liquidity position arising from strong financial flexibility and access to low cost long-term funds. The ratings also factor NHB's good asset quality, though it deteriorated in FYE6/2020 (Financial Year for NHB is from July to June; FYE6/2020 refers to year ending June 2020) with rise in gross NPA ratio to 2.99%, as on June 30, 2020 and 2.99% as on March 31, 2021 (compared to 0.01% as on June 30, 2019) due to the slippage of a large HFC, which in turn led to moderation in earnings profile for the institution (ROA of 0.23% in FYE6/2020 as compared to 1.06% in FYE6/2019). The ratings also factor in the adequate capitalisation (CRAR of 12.54% as on March 31, 2021 and Tier 1 Capital of Rs 8,678 crore) of NHB.

ICRA takes note of the relatively higher concentration norms and the consequently high credit concentration of NHB vis-à-vis commercial banks. However, the relatively better credit profile of its top borrowers mitigates the concentration risk to some extent. The ratings also factor in NHB's modest earnings profile owing to low margins given the development role played by NHB, though the company benefits from low operating expenses due to its wholesale lending model and moderate credit costs. The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that NHB will continue to benefit from its sovereign ownership and will continue to play a critical role in the development of the housing finance market, going forward as well, while maintaining stable earnings and report improvement in asset quality indicators as well.

### Key rating drivers and their description

#### Credit strengths

**Strong parentage and policy role:** NHB is a wholly owned subsidiary of Government of India (GoI) and plays a key role in the development of the housing finance sector in India. It is the primary agency to provide refinance of housing loans to Housing Finance Companies (HFCs) and various other Primary Lending Institutions (PLIs) (scheduled banks, regional rural banks, state apex cooperative housing finance societies, and state cooperative agriculture and rural development banks). NHB was sanctioned additional funds under various schemes to infuse liquidity in the housing finance industry amidst Covid pandemic. It is also one of the Central Nodal Agencies for implementation of the credit-linked subsidy scheme under "Pradhan Mantri Awas Yojana - Housing for All by 2022" (PMAY). With the GoI's thrust on affordable housing, NHB is expected to continue playing a key policy role in the development of the mortgage market

Following the change in ownership, the regulatory role of NHB for HFCs was transferred to the Reserve Bank of India (RBI), however NHB continues to act as a supervisor for HFCs.

**Good financial flexibility:** NHB enjoys good financial flexibility owing to its parentage. NHB gets access to funds at concessional rates from allocation of Affordable Housing Fund or AHF (Urban Housing Fund & Rural Housing Fund merged in AHF in FYE6/19). Funds for AHF are financed from priority sector lending shortfall of scheduled commercial banks (56% of borrowing profile as on June 30, 2020). In the wake of the COVID-19 pandemic, RBI also provided a Special Liquidity Facility (SLF) of Rs.10,000 crore and Additional Liquidity Facility of Rs 5,000 crore to NHB in FY2021 and further sanctioned additional Rs 10,000

crore under Special Liquidity Facility II in FY2022 to enable it to infuse liquidity into the housing sector. Asset liability maturity profile also remained comfortable supported by long-term nature of funds (such as the seven-year tenure RHF/UHF deposits), which augurs well with the tenure of its loan assets as well (mostly constitutes three to seven-year tenure loans).

**Good asset quality indicators:** Asset quality indicators for NHB have traditionally remained superior, with funds primarily extended to banks and HFCs with strong credit worthiness. In FYE6/20, its gross non-performing assets (NPA) ratio increased from 0.01% as on June 30, 2019 to 2.99%, as on June 30, 2020 due to the slippage of a large HFC and a cooperative bank. There has been no further slippage in the portfolio post that with NHB's gross NPA ratio standing at 2.99% as on March 31, 2021. Also, as a matter of prudence, NHB has fully provided for these NPAs and consequently reported Nil net NPA and solvency (Net NPA/Net worth) as on March 31, 2021.

Going forward, ICRA expects NHB's asset quality to remain comfortable. As per NHB act, NHB has mandates from scheduled banks, regional rural banks, and urban cooperative banks for direct debit of their current accounts with RBI if there is a delay or default in payment of refinance instalments. Moreover, as NHB also functions as a supervisor for HFCs, its asset quality and collection efficiency in this segment remain superior. Also, as per NHB act, proceeds received by a borrowing institution against loans financed/ refinanced by NHB, shall be considered to have been received by the borrowing institution in trust, and accordingly be paid to NHB. With the support of this provision, NHB expects to make substantial recovery against the HFC which defaulted in FYE6/20.

**Adequate capitalisation:** NHB's capital adequacy remained strong with gearing of 8.2x and Tier 1 Capital of Rs 8,678 crore as on March 31, 2021. Capital position is further supported by steady accruals in absence of dividend payouts. Overall CRAR (12.54% as on March 31, 2021) comprised significant proportion of Tier I capital (12.02%) which provides scope to improve CRAR through the issuance of Tier II capital, if required. The reported capital adequacy is also supported by the relatively lower risk weights on NHB's refinance to scheduled commercial banks (SCBs).

## Credit challenges

**Relatively higher exposure norms and consequent higher credit concentration:** NHB's top twenty borrowers account for around 86% of its total portfolio as on June 30, 2020 (vs. 89% as on June 30, 2019) reflecting high credit concentration, however, the relatively better credit profile of top borrowers mitigates the risk to some extent.

**Moderate profitability indicators:** Rise in gearing along with moderation in spreads (following slippages in loan book) lead to compression in net interest margins (NIMs) to 2.0% in FYE6/20 (vs. 2.4% in FYE6/19) and further to 1.6% in 9MFYE6/21. Non-interest income remained small at 0.1% of average assets. It stood at 0.4% in FYE6/19, due to one-time income of Rs.256 crores through stake sale of NHB in two HFCs: SEWA Grih Rin EWS/LIG segments in urban areas Limited (SGRL) and Mahindra Rural Ministry of Housing & Urban Affairs Housing Finance Limited (MRHFL). The overall profitability for NHB has also been supported by its low operating expenses (0.2% of average assets in FYE6/20 and 9MFYE6/21), owing to the wholesale nature of business. Credit costs increased sharply to 1.3% of average assets in FYE6/20 (vs. 0.7% in FYE6/19 and 0.1% in FYE6/18) with NHB making 75% provisions for its two NPA accounts. In 9MFYE6/21, it made additional 25% provisions for the two NPAs, leading to above average credit costs of 0.9% of average assets, however, it stood lower than FYE6/20.

Overall, compressed margins along with higher credit costs lead to moderation in the profitability indicators with RoA of 0.23% and RoE of 2.1% in FYE6/20. While lower credit costs lead to improvement in profitability in 9MFYE6/21 with RoE of 7.9%, however, it remained lower than long-term average (FYE6/15- FYE6/19) of 11.3%.

## Liquidity position: Strong

NHB's liquidity profile is comfortable with most of its asset book getting financed through long-term borrowings. Though the company has some negative cumulative mismatches in less than one month bucket, as per asset liability maturity profile of March 31, 2021, we expect it to get easily refinanced considering NHB's strong financing flexibility given its GoI ownership and policy role. Against NHB's debt obligations of Rs 22,818 crore which are falling due over the next one year, as on March 31, 2021, it had cash & bank balances and liquid investments of Rs 5,492 crore and ~Rs 10,000 crore unutilized bank lines.

Additionally, inflow from loan assets is expected to be Rs. 27,739 crore. Further, the good financial flexibility enjoyed by NHB by virtue of its sovereign ownership, further supports its liquidity profile.

## Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – ICRA could change the rating outlook to Negative or downgrade the ratings on a change in ownership and/or a change in NHB's strategic role or importance to the GoI

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Banks</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	The ratings derive significant strength from NHB's strong parentage owing to its status as a wholly-owned subsidiary of the GoI and the expectation of support, given its strategic importance as the promoter and regulator of HFCs in India.
Consolidation/Standalone	Standalone

## About the company

National Housing Bank (NHB) was established in July 1988 under the National Housing Bank Act, 1987 (the Act) to function as a principal agency to promote housing finance institutions and to provide financial and other support to such institutions. NHB, a wholly owned subsidiary of GoI, is also the supervisor for housing finance companies.

NHB ownership has been transferred from RBI to the Government of India (GoI) for Rs 1,450 crore in March 2019 as per announcements in the Union Budget for fiscal 2020. In July 2019, government transferred the regulatory functions of the NHB to regulate HFCs to the RBI. NHB, a financial institution, will continue to carry out supervisory role for HFC along with playing a key policy role in the development of the housing industry.

NHB reported a net profit of Rs. 196 crore in FYE6/2020 (Financial year ending June 2020) on an asset base of Rs. 90,160 crore compared to net profit of Rs. 733 crore on an asset base of Rs. 75,591 crore in FYE6/2019. The entity reported a net profit of Rs. 576 crore 9MFYE6/21. It reported gross NPAs of 2.99% and net NPA of 0.76% as on June 30, 2020 (vs. gross NPA of 0.01% and nil net NPAs as on June 30, 2019). As on March 31, 2021, its GNPA stood at 2.99% with nil net NPA. NHB's capital adequacy was 12.54% as on Mar 31, 2021.

## Key financial indicators (audited)

Company Name	FYE6/2018	FYE6/2019	FYE6/2020	9MFYE6/2021
Total income (Rs. crore)	4,430	5,262	5,033	3,746
Profit after tax (Rs. crore)	751	733	196	576
Net worth (Rs. crore)	8,194	8,931	9,129	8,678*
Net Loan book (Rs. crore)	57,684	69,805	81,750	81,272
Total assets (Rs. crore)	63,273	75,591	90,160	90,764
Return on assets (%)	1.24%	1.06%	0.23%	0.85%
Return on net worth (%)	9.17%	8.21%	2.14%	7.91%
Gross gearing (times)	6.4	7.1	8.7	8.2
Gross NPA (%)	0.01%	0.01%	2.99%	2.99%
Net NPA (%)	0.00%	0.00%	0.76%	0.00%
Solvency (Net stage 3/Net worth)	0.00%	0.00%	6.84%	0.00%
CRAR (%)	18.66%	16.01%	12.74%	12.54%

Source: Company, ICRA Research; All ratios as per ICRA calculations \*Tier 1 Capital, as on March 31, 2021

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 22, 2021 (Rs. crore)	Date & Rating in Jun 29, 2021	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
						May 22, 2020	April 30, 2019	March 8, 2018
1	Commercial Paper Programme	Short Term	8,000	3,500	[ICRA]A1+; reaffirmed	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
2	Long-term Borrowing Programme	Long Term	10,000	4,196.23	[ICRA]AAA (Stable); reaffirmed	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

Amount in Rs. crore

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Borrowing Programme*	Very Simple
Commercial Paper	Simple

\* Assuming the new instruments issued will be similar in terms of complexity as the previous NCDs raised. Indicator will be changed once they are placed, if required

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or

complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

#### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE557F07041	Tax-free Bonds	26-Mar-13	6.82%	26-Mar-23	196.23	[ICRA]AAA(Stable)
INE557F07066	Tax-free Bonds	30-Aug-13	8.01%	30-Aug-23	17	[ICRA]AAA(Stable)
INE557F07074	Tax-free Bonds	30-Aug-13	8.46%	30-Aug-28	883	[ICRA]AAA(Stable)
INE557F07082	Tax free bonds	13-Jan-14	8.26%	13-Jan-24	139.41	[ICRA]AAA(Stable)
INE557F07090	Tax free bonds	13-Jan-14	8.63%	13-Jan-29	407.16	[ICRA]AAA(Stable)
INE557F07108	Tax free bonds	13-Jan-14	8.76%	13-Jan-34	713.43	[ICRA]AAA(Stable)
INE557F07116	Tax free bonds	13-Jan-14	8.51%	13-Jan-24	88.55	[ICRA]AAA(Stable)
INE557F07124	Tax free bonds	13-Jan-14	8.88%	13-Jan-29	85.73	[ICRA]AAA(Stable)
INE557F07132	Tax free bonds	13-Jan-14	9.01%	13-Jan-34	665.72	[ICRA]AAA(Stable)
INE557F07140	Tax free bonds	24-Mar-14	8.25%	24-Mar-24	97.97	[ICRA]AAA(Stable)
INE557F07157	Tax free bonds	24-Mar-14	8.68%	25-Mar-29	421.99	[ICRA]AAA(Stable)
INE557F07165	Tax free bonds	24-Mar-14	8.65%	26-Mar-34	73.56	[ICRA]AAA(Stable)
INE557F07173	Tax free bonds	24-Mar-14	8.50%	27-Mar-24	25.51	[ICRA]AAA(Stable)
INE557F07181	Tax free bonds	24-Mar-14	8.93%	28-Mar-29	332.61	[ICRA]AAA(Stable)
INE557F07199	Tax free bonds	24-Mar-14	8.90%	29-Mar-34	48.35	[ICRA]AAA(Stable)
INE557F14FD6	Commercial Paper	27-May-21	3.48	30-Aug-21	1,500	[ICRA]A1+
INE557F14FE4	Commercial Paper	31-May-21	3.47	1-Jul-21	2,000	[ICRA]A1+
NA	Long-Term Borrowing Programme	Yet to be placed	NA	NA	5,803.77	[ICRA]AAA(Stable)
NA	Commercial Paper	Yet to be placed	NA	7-365 days	4,500	[ICRA]A1+

Source: NHB

#### Annexure-2: List of entities considered for consolidated analysis: Not applicable

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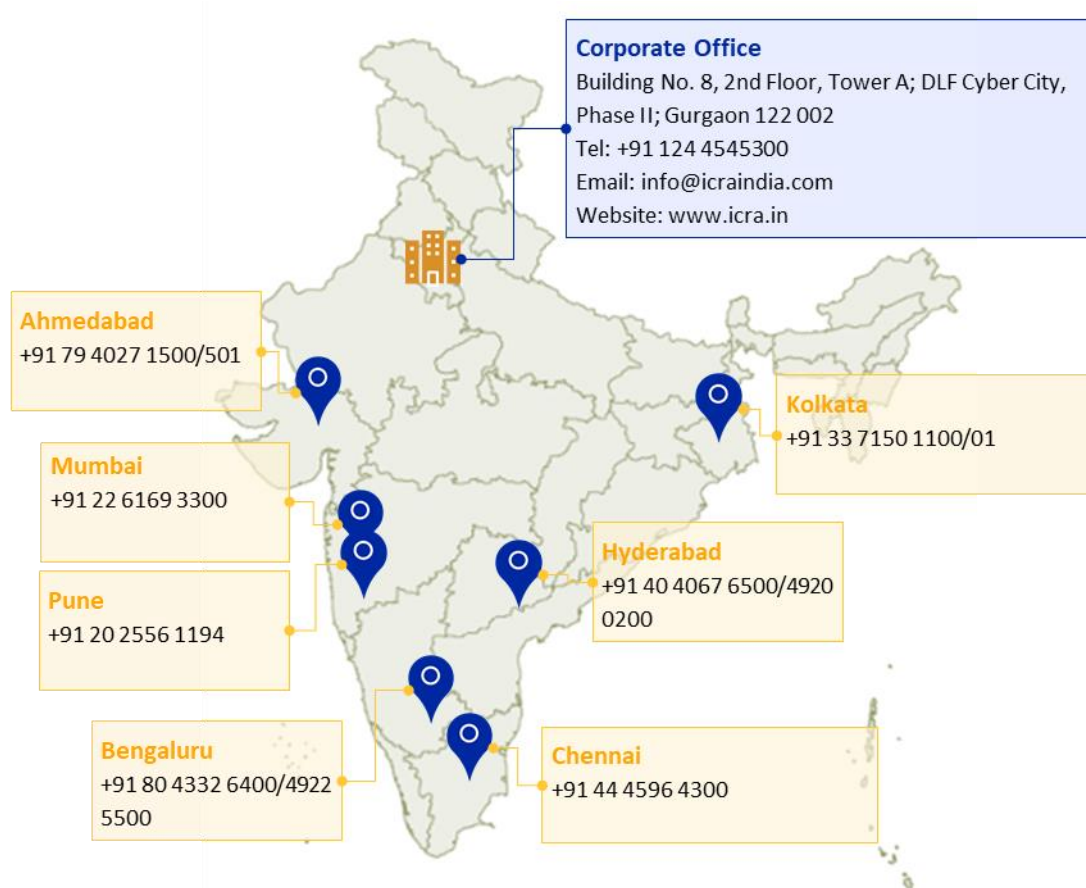


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