

April 24, 2024<sup>(Revised)</sup>

## Housing and Urban Development Corporation Ltd.: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term borrowing programme FY2024	18,000.00	18,000.00	[ICRA]AAA (Stable); Reaffirmed
Long-term borrowing programme FY2023	3,970.00	3,970.00	[ICRA]AAA (Stable); Reaffirmed
Long-term/Short-term fund based/Non-fund based	40,000.00	40,000.00	[ICRA]AAA (Stable)/[ICRA]A1+; Reaffirmed
Long-term borrowing programme till FY2022 <sup>@</sup>	24,340.00	24,340.00	[ICRA]AAA (Stable); Reaffirmed
Long-term borrowing programme till FY2022 <sup>#</sup>	5,910.00	0.00	[ICRA]AAA (Stable); Reaffirmed and withdrawn
Fixed deposit programme	0.00	0.00	[ICRA]AAA (Stable); Reaffirmed
Commercial paper programme	10,000.00	10,000.00	[ICRA]A1+; Reaffirmed
<b>Total</b>	<b>1,02,220.00</b>	<b>96,310.00</b>	

\*Instrument details are provided in Annexure I; #Withdrawn since no amount is outstanding against the instrument

@Including GoI fully serviced bonds (GoI FSBs) of Rs. 20,000 crore

### Rationale

The ratings for Housing and Urban Development Corporation Ltd.'s (HUDCO) borrowing programmes derive significant strength from its sovereign ownership (75.17% of the equity held by the Government of India (GoI) as of December 31, 2023) and its important role as a nodal agency for the implementation of Government policies in the high priority sectors of social housing and urban infrastructure. The ratings also draw comfort from the relatively low credit risk profile of HUDCO's portfolio, given the focus on Government-sponsored urban infrastructure and other projects backed by guarantees and/or budgetary provisions from Central/state governments for debt servicing by the concerned entities. The ratings also factor in HUDCO's comfortable capitalisation level, diversified borrowing profile and good financial flexibility, given its sovereign ownership, which supports its liquidity profile even though the relatively less risky exposure results in modest earnings.

ICRA notes that while the credit risk for HUDCO's loan portfolio is mitigated by the presence of government guarantees and/or budgetary allocations for debt repayments, the weak financial profile of many of the state governments remains a risk, especially given its concentrated exposure to states such as Telangana (TEL) and Andhra Pradesh (AP). Nonetheless, HUDCO's gross and net stage 3 percentages remain under control and stood comfortable at 3.1% and 0.4%, respectively, as on December 31, 2023 (3.4% and 0.5%, respectively, as on March 31, 2023). HUDCO witnessed modest portfolio growth in 9M FY2024. With the pick-up in sanctions and disbursements in the latter half of FY2024, ICRA expects the company to report good growth going forward. ICRA has also taken cognisance of HUDCO's inability to meet the conditions for continuation as a housing finance company (HFC) under the revised regulatory definition. In this regard, the company is in the process of seeking fresh registration under the Reserve Bank of India (RBI).

The Stable outlook reflects ICRA's expectation that HUDCO will likely remain strategically important to the GoI for the implementation of its policy in the high priority housing and urban development sectors. Moreover, HUDCO is likely to maintain adequate profitability, borrowing, and capitalisation profiles.

ICRA has reaffirmed and withdrawn the rating for the Rs. 5,910-crore long-term borrowing programme as the instruments have matured and were fully repaid, post maturity. The rating was withdrawn as per ICRA's policy on the withdrawal of credit ratings.

## Key rating drivers and their description

### Credit strengths

**Strategic importance to and majority ownership by Gol** – HUDCO is a nodal agency for the implementation of Government policies for the high priority sectors of social housing and urban infrastructure. Further, as one of the major financiers of urban infrastructure and housing projects, it remains strategically important for achieving the Government's objective of Housing for All. The Gol remains the majority shareholder in HUDCO with a stake of 75.17% as on December 31, 2023. The company's board includes nominee directors of the Gol, besides independent directors and functional directors with experience in different fields. Also, HUDCO has well-established relationships with different state governments, making it a preferred lender for their urban infrastructure and housing projects. Precedents wherein HUDCO has received approval from the Gol to raise tax-free bonds also provide comfort with respect to its financial flexibility and ability to raise low-cost funds.

**Comfortable capitalisation, diversified borrowing profile and good financial flexibility** – HUDCO's financial profile continues to be characterised by comfortable capitalisation with a reported capital adequacy of 73% as on September 30, 2023 and a gearing of 4.1 times {2.9 times, adjusting for Gol fully serviced bonds (Gol FSBs)} as of December 31, 2023 compared to 4.1 times (2.7 times excluding Gol FSBs) as of March 31, 2023. The reported capital adequacy is supported by the 20% risk weight associated with state government-guaranteed exposures and the 0% risk weight for funding to Building Materials and Technology Promotion Council (BMTPC) out of the extra budgetary resources, i.e. Gol FSBs. Moreover, it is noted that the Gol FSBs are to be serviced through appropriate budgetary allocation to the Ministry of Housing and Urban Affairs (MoHUA) in the Union Budget. Prudent capitalisation is one the key mitigants against the concentration risk arising out of the wholesale nature of HUDCO's exposures and ICRA expects the company to maintain a prudent capitalisation level going forward as well.

HUDCO has a diversified funding profile with sources including tax-free bonds, Gol FSBs, taxable bonds, refinance from National Housing Bank (NHB), bank loans, commercial paper, and foreign currency borrowings. Around 50% of its borrowings, as on December 31, 2023, was in the form of tax-free bonds and Gol FSBs with a tenure of at least 10-15 years, auguring well for the asset-liability maturity (ALM) profile. HUDCO used to accept public deposits, but the share has been declining and it stopped accepting the same from FY2020.

**Relatively low credit risk on portfolio, given the high share of government-backed exposures** – Over the past few years, HUDCO's disbursements have been only to state governments and public sector agencies. As a result, the share of its legacy private sector portfolio in the overall portfolio has declined. The public sector loan book accounted for ~97% of the company's total advances as on March 31, 2023 (91% as on March 31, 2017). Further, ICRA notes that the majority of HUDCO's advances in the public sector loan book are backed by guarantees/budgetary allocations of the Central or state governments. This mitigates the credit risk for the company to some extent as the underlying projects may not have adequate cashflows for debt servicing.

HUDCO's stage 3 assets did not witness any slippages in 9M FY2024. The gross and net stage 3 percentages stood at 3.1% and 0.4%, respectively, as on December 31, 2023 (3.4% and 0.5%, respectively, as on March 31, 2023). ICRA also notes that HUDCO's stage 2 percentage remains volatile. At the same time, given the wholesale nature of the loans and the resultant high concentration risk, the company remains exposed to lumpy slippages in the asset quality. ICRA believes that the risks are largely mitigated by the comfortable capitalisation and solvency metrics and the availability of state government guarantees.

**Adequate profitability indicators** – Although the company's relatively less risky exposure results in modest yields, its profitability indicators remain adequate, supported by low credit costs and operating expenses. HUDCO's net interest margins (NIMs) have remained range-bound over the past three years. The NIM appears optically lower at 3.1% in 9M FY2024 due to the impact of the low spread (0.4%) available on the funding extended out of the extra budgetary resources. Further, the company's operating expenses remained low at 0.4% of average managed assets (AMA) in 9M FY2024 (0.5% in FY2023) due to the wholesale nature of its operations. Provisioning costs were negative due to provision reversal, following the settlement of chronic non-performing accounts and limited slippages in 9M FY2024 and FY2023. HUDCO reported a profit after tax (PAT)

of Rs. 1,417 crore in 9M FY2024 (return on managed assets (RoMA) and return on equity (RoE) of 2.2% and 11.9%, respectively) compared to Rs. 1,702 crore in FY2023 (RoMA and RoE of 2.1% and 11.4%, respectively). ICRA expects the overall profitability to remain stable, going forward as well.

### Credit challenges

**Concentration risk** – Although the credit risk for HUDCO's loan portfolio is mitigated by the presence of government guarantees and/or budgetary allocations for debt repayments, the weak financial profile of many of the state governments remains a risk, especially given the concentration (albeit declining) of its exposure to states such as TEL and AP. As on December 31, 2023, HUDCO's exposure to TEL accounted for about 79% of its net worth while its exposure to both these states aggregated 143% of its net worth (178% of its net worth as on March 31, 2022). In this regard, with the revision in the RBI circular, exposures covered by state/Central guarantees will not be subjected to the concentration norms. Nevertheless, HUDCO faces high concentration risk, remaining exposed to lumpy slippages in the asset quality. This could keep the stage 2 and stage 3 buckets volatile though the ultimate losses are expected to remain limited.

**Modest growth in business volumes in recent years** – HUDCO's disbursements remained subdued during FY2021-FY2023, leading to muted portfolio growth of ~4%. However, disbursements picked up to some extent in 9M FY2024 and the gross loan book increased by 5% year-on-year (YoY) to Rs. 84,424 crore as on December 31, 2023 from Rs. 80,743 crore on March 31, 2023, with higher growth expected in Q4 FY2024. HUDCO's ability to revert to a healthy growth trajectory, while demonstrating its competitive position vis-à-vis banks, and to diversify its state-wise portfolio mix remains imperative.

### Environment and social risks

Given the service-oriented nature of its business, HUDCO does not face material physical climate risks. However, it is exposed to environmental risks indirectly through its portfolio of assets. If the entities or businesses to which HUDCO has an exposure face business disruption because of physical climate adversities or if such businesses face climate transition risks because of technological, regulatory, or customer behaviour changes, the same could translate into credit risks for the company. However, such risk is mitigated for HUDCO through adequate portfolio diversification. With regard to social risks, data security and customer privacy are among the key sources of vulnerability for lending institutions as material lapses could be detrimental to their reputation and invite regulatory censure. Given the nature of its business, HUDCO's exposure to social risks is limited.

### Liquidity position: Adequate

While HUDCO does not maintain sizeable on-balance sheet liquidity, it has a demonstrated track record of maintaining sufficient unutilised bank lines for plugging near-term mismatches. Also, its funding profile is favourable as ~50% of the borrowings on its books, as on December 31, 2023, is in the form of tax-free bonds and GoI FSBs with a maturity profile of 10-15 years while 1% is in the form of refinance assistance from NHB/India Infrastructure Finance Company Limited (IIFCL) with a tenure of up to 10 years. This augurs well for its ALM profile. As of September 30, 2023, the company's asset liability maturity profile reflected total outflows of Rs. 5,327 crore against estimate inflows of Rs. 5,552 crore. The liquidity profile is also supported by undrawn bank lines of about Rs. 9,000 crore, as on December 31, 2023. Moreover, the healthy financial flexibility, backed by its parentage and strategic importance to the GoI, provides comfort.

### Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – ICRA could revise the rating outlook to Negative or downgrade the ratings on a change in the ownership and/or a change in HUDCO's strategic role or importance to the GoI. Also, a deterioration in the solvency level to more than 40% on a sustained basis will be a negative for the credit profile.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-banking Finance Companies</a> <a href="#">ICRA's Policy on Withdrawal of Credit Ratings</a>
Parent/Group support	The ratings derive significant strength from HUDCO's sovereign ownership (75.17% held by the GoI as of December 31, 2023) and its important role as a nodal agency for the implementation of Government policy in the high priority sectors of social housing and urban infrastructure. ICRA expects support from the GoI to be forthcoming, if required.
Consolidation/Standalone	Standalone

## About the company

Housing and Urban Development Corporation Ltd. (HUDCO), incorporated in 1970, is a listed Navratna public sector enterprise under the Ministry of Housing and Urban Affairs (MoHUA), Government of India (GoI). It is a public financial institution, primarily financing social housing and urban infrastructure projects. The GoI held a share of 75% in HUDCO, as on December 31, 2023, while the balance was held by the public.

HUDCO has been taking incremental exposures exclusively to state governments and public sector agencies. As a result, the share of its legacy private sector portfolio in the overall portfolio declined to about 3% of its total advances as on December 31, 2023 while the public sector loan book accounted for 97% (91% as on March 31, 2017). As far as the sector-wise portfolio mix is concerned, the housing segment accounted for ~51% of the loan book as on December 31, 2023, while urban infrastructure accounted for 49%.

HUDCO reported a profit after tax (PAT) of Rs. 1,417 crore on total income of Rs. 5,754 crore in 9M FY2024 against PAT of Rs. 1,702 crore on total income of Rs. 7,086 crore in FY2023.

## Key financial indicators

	FY2021	FY2022	FY2023	9M FY2024
	Audited	Audited	Audited	Provisional
Total income	7,278	6,998	7,086	5,754
PAT	1,579	1,717	1,702	1,417
Total managed assets	79,462	81,400	83,402	85,285
Return on managed assets	2.0%	2.1%	2.1%	2.2%
Gearing (times)	4.7	4.3	4.1	4.1
Gross stage 3	4.0%	3.6%	3.4%	3.1%
CRAR	64%	74%	74%	73%*

Source: HUDCO, ICRA Research; Amount in Rs. crore

\*CRAR as on September 30, 2023

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2024 (Rs. crore)	Date and Rating in FY2025 Apr 24, 2024	Date and Rating in FY2024	Date and Rating in FY2023		Date and Rating in FY2022
						Apr 25, 2023	Dec 27, 2022 Jun 02, 2022	Apr 18, 2022	Sep 28, 2021
1	Fixed deposit programme	LT	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	MAAA (Stable)	MAAA (Stable)
2	LT borrowing programme FY2024	LT	18,000	1,500	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-
3	LT borrowing programme FY2023	LT	3,970	3,970	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
4	LT borrowing up to FY2022	LT	24,340	24,340	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5	LT borrowing up to FY2022	LT	5,910	0	[ICRA]AAA (Stable); Withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
6	Commercial paper	ST	10,000	0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Long-term/short-term fund-based/Non-fund based	LT/ST	40,000	37,704.57	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	-
8	Fund based – TL	LT	0	NA	-	-	-	-	[ICRA]AAA (Stable)
9	Fund based – CC	LT	0	NA	-	-	-	-	[ICRA]AAA (Stable)
10	Non-fund based	LT	0	NA	-	-	-	-	[ICRA]AAA (Stable)
11	Short-term loans	ST	0	NA	-	-	-	-	[ICRA]A1+
12	Unallocated	LT/ST	0	NA	-	-	-	-	[ICRA]AAA (Stable) / [ICRA]A1+

Source: ICRA Research; Note: LT: Long term, ST: Short term

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term borrowing programmes	Simple
Commercial paper programme	Very Simple
Fixed deposit programme	Very Simple
Long-term/Short-term fund-based/Non-fund based bank facilities	Very Simple

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 analysing 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 are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details as on March 31, 2024**

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
INE031A08616	GoI FSB*	Nov-12-18	8.60%	Nov-12-28	3,000	[ICRA]AAA (Stable)
INE031A08624	GoI FSB*	Nov-28-18	8.52%	Nov-28-28	2,050	[ICRA]AAA (Stable)
INE031A08673	GoI FSB*	Jan-30-19	8.38%	Jan-30-29	2,066.90	[ICRA]AAA (Stable)
INE031A08681	GoI FSB*	Feb-14-19	8.58%	Feb-14-29	2,563.10	[ICRA]AAA (Stable)
INE031A08699	GoI FSB*	Mar-15-19	8.41%	Mar-15-29	5,320	[ICRA]AAA (Stable)
INE031A08707	GoI FSB*	Mar-25-19	8.37%	Mar-25-29	5,000	[ICRA]AAA (Stable)
INE031A08806	Taxable bond	May-29-20	6.75%	May-29-30	1,040	[ICRA]AAA (Stable)
INE031A08814	Taxable bond	Aug-4-20	5.35%	Apr-11-25	800	[ICRA]AAA (Stable)
INE031A08830	Taxable bond	Feb-22-22	5.59%	Mar-4-25	1,000	[ICRA]AAA (Stable)
INE031A08848	Taxable bond	Mar-25-22	5.62%	May-25-25	1,500	[ICRA]AAA (Stable)
INE031A08855	Taxable bond	Nov-11-22	7.54%	Feb-11-26	1,500	[ICRA]AAA (Stable)
INE031A08863	Taxable bond	Dec-19-22	7.52%	Apr-15-33	470	[ICRA]AAA (Stable)
INE031A08871	Taxable bond	Feb-16-23	7.68%	May-16-26	2,000	[ICRA]AAA (Stable)
INE031A08889	Taxable bond	Apr-20-23	7.48%	Aug-20-26	1,500	[ICRA]AAA (Stable)
INE031A08764	LT borrowing programme till FY2022	Jan-17-20	6.79%	Apr-14-23	1,400	[ICRA]AAA (Stable); Withdrawn
INE031A08772	LT borrowing programme till FY2022	Apr-15-20	6.65%	Jun-15-23	600	[ICRA]AAA (Stable); Withdrawn
INE031A08780	LT borrowing programme till FY2022	Apr-24-20	6.09%	Jun-24-23	1,500	[ICRA]AAA (Stable); Withdrawn
INE031A08798	LT borrowing programme till FY2022	May-12-20	5.95%	Aug-11-23	1,470	[ICRA]AAA (Stable); Withdrawn
INE031A08822	LT borrowing programme till FY2022	Dec-28-20	4.78%	Feb-28-24	940	[ICRA]AAA (Stable); Withdrawn
NA^	LT borrowing programme FY24	-	-	-	16,500	[ICRA]AAA (Stable)
NA^	Commercial paper	-	-	7-365 days	10,000	[ICRA]A1+
NA	Fixed deposits	-	-	-	-	[ICRA]AAA (Stable)
NA	Long-term/Short-term fund based/Non-fund based bank facilities	-	-	-	40,000	[ICRA]AAA (Stable)/ [ICRA]A1+

Source: ICRA Research, HUDCO; \*Government of India fully serviced bonds (taxable); ^ Yet to be placed

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Not applicable

**Corrigendum**

Document dated April 24, 2024 has been corrected with revisions as detailed below:

Revisions: Page 5- Typographical error in the total managed assets section of key financial indicators has been corrected.

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