May 22, 2020

National Housing Bank: Ratings reaffirmed; Rated amount enhanced

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	7,000	8,000	[ICRA]A1+; Reaffirmed
Total	**17,000**	**18,000**	

**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 consider the entity's good asset quality (gross NPAs of 0.01% as on June 30, 2019), though the same deteriorated slightly in H1 FYE6/2020 (the financial year for NHB is July to June; FYE6/2020 refers to the year ending June 2020) with a gross NPA ratio of 3.8% as on December 31, 2019 due to the slippage of a large housing finance company (HFC). The ratings also factor in NHB's adequate capitalisation (CRAR of 18.7% as on December 31, 2019 and 16.0% as on June 30, 2019).

ICRA takes note of the relatively liberal 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.

Key rating drivers and their description

Credit strengths

Strong parentage – NHB is a wholly-owned subsidiary of the Government of India (GoI) and plays a key role in the development of the housing finance sector in India. It is the primary agency for providing refinance for 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). With the GoI's renewed thrust on affordable housing, NHB is expected to continue playing a key policy role in the development of the mortgage market. It is one of the Central Nodal Agencies for the implementation of the credit-linked subsidy scheme under Pradhan Mantri Awas Yojana - Housing for All by 2022 (PMAY). Further, the GoI has provided special lines to NHB to extend special refinance to HFCs to support the sector, given the challenges in the operating environment.

Strong financial flexibility – NHB enjoys strong financial flexibility owing to its parentage and policy role. It mobilises funds at concessional rates from the allocation to the Affordable Housing Fund or AHF (Urban Housing Fund (UHF) and Rural Housing Fund (RHF) merged into AHF in FYE6/2019). The funds for the AHF are financed from the priority sector lending shortfall of scheduled commercial banks (SCBs; 64% of the borrowing profile as on June 30, 2019). The asset liability maturity profile also remained comfortable supported by the long tenure of the funds (such as the seven-year tenure RHF/UHF/AHF deposits) while its lending book mostly constitutes loans which have a tenure of three-to-seven years (quarterly amortising).

Good asset quality indicators – NHB's asset quality indicators remain good with a gross NPA ratio of 0.01% and nil net NPAs as on June 30, 2019. ICRA has taken note of the recent deterioration in the asset quality indicators with the gross NPA ratio increasing to 3.8% as on December 31, 2019 due to the slippage of a large HFC and a cooperative bank. NHB has made provisions to the extent of 35% against these exposures. While recovery efforts are on, the timing of the same is uncertain as these accounts are currently under the restructuring process.

Going forward, ICRA expects NHB's asset quality to remain under control as most of the exposures are towards relatively higher rated banks and HFCs. As per the National Housing Bank Act, NHB has mandates from scheduled banks, regional rural banks, and urban cooperative banks for the direct debit of their current accounts with the Reserve Bank of India (RBI) if there is a delay or default in the payment of refinance instalments. Also, as NHB functions as a supervisor of HFCs, its asset quality and collection efficiency in this segment remain superior. Also, NHB's loans are secured by individual housing loans given by banks/HFCs. Thus, the recovery prospects remain high.

Adequate capitalisation in relation to low risk – NHB's capital adequacy remained strong with a CRAR of 18.7% as on December 31, 2019 (16.0% as on June 30, 2019) and a net worth of Rs. 8,931 crore as on June 30, 2019. Its capital position is further supported by steady accruals in the absence of dividend payouts. The reported capital adequacy is also supported by the relatively lower risk weights on NHB's refinance to SCBs, though the share has been gradually declining over the years (26% as on June 30, 2019 compared to 41% as on June 30, 2016).

Credit challenges

Relatively liberal exposure norms and consequently higher credit concentration – NHB's top 20 borrowers accounted for around 89% of its total portfolio as on June 30, 2019 (vs. 90% as on June 30, 2018), reflecting high credit concentration. While the relatively better credit profile of the top borrowers mitigates the risk to some extent, NHB remains exposed to lumpy slippages.

Moderate profitability indicators – Due to its wholesale lending model and good asset quality, NHB's operating expenses remained very low. However, the advantage of low operating expenses and moderate credit cost was partly offset by the very low fee-based income and relatively low net interest margins (NIMs), resulting in moderate profitability. The yield expansion along with the increased gearing led to an improvement in NIMs to 2.4% in FYE6/2019 (vs. 2.1% in FYE6/2018). The non-interest income, which generally remains at around 0.1% of average assets, increased to 0.4% in FYE6/2019 (vs. 0.1% in FYE6/2018) due to a one-time income of Rs. 256 crore through the equity stake sale in two HFCs. Given its wholesale lending model, NHB's operating expenses remained low at 0.2% of average assets in FYE6/2019, similar to the FYE6/2018 level. The provisioning charges increased to 0.7% of average assets in FYE6/2019 with NHB making a prudent 15% provision against the HFC which became an NPA in H1 FYE6/2020. The increased provision charges largely offset the impact of the improved margins and higher non-interest income, resulting in a deterioration in the profitability metrics, with the return on average assets reducing to 1.1% in FYE6/2019 (vs. 1.2% in

FYE6/2018) and the return on average equity reducing to 8.6% (vs. 9.6% in FYE6/2018). ICRA believes that NHB will continue to play a critical role in the development of the housing finance market while maintaining stable earnings.

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 the less-than-three-months bucket, ICRA expects it to get easily refinanced considering NHB's strong financing flexibility due to its GoI ownership and policy role. Against NHB's debt obligations of Rs. 10,688 crore over the next one year, as on March 15, 2020, it has cash & bank balances and liquid investments of Rs. 5,495 crore and unutilised bank lines of ~Rs. 10,000 crore. Further support from the GoI is expected if the need arises.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – 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	Rating Methodology for Housing Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
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 role in the development and supervision of the housing finance sector 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 the GoI, is also the supervisor of HFCs.

NHB's ownership was transferred to the Government of India (GoI) from the Reserve Bank of India (RBI) for Rs. 1,450 crore in March 2019 as per the announcement in the Union Budget for fiscal 2020. In July 2019, the Government transferred NHB's regulatory functions regarding HFCs to the RBI. NHB, a financial institution, will continue to carry out a supervisory role for HFCs along with playing a key policy role in the development of the housing industry.

NHB reported a net profit of Rs. 733 crore in FYE6/2019 on an asset base of Rs. 75,598 crore compared to a net profit of Rs. 751 crore on an asset base of Rs. 63,273 crore in FYE6/2018. The entity reported a net profit of Rs. 475 crore in H1 FYE6/2020. It reported gross NPAs of 3.8% and net NPAs of 2.9% as on December 31, 2019 (0.01% and nil, respectively, as on June 30, 2019). NHB's capital adequacy was 18.7% as on December 31, 2019. Its portfolio of Rs. 69,193 crore, as on June 30, 2019, mostly consisted of refinancing to HFCs (73%) and SCBs (25%).

Key financial indicators (audited)

	FYE6/2017 (Jul-16 to Jun-17)	FYE6/2018 (Jul-17 to Jun-18)	FYE6/2019 (Jul-18 to Jun-19)
PAT	848	751	733
Net Worth	7,440	8,194	8,931
Portfolio	54,419	58,838	69,193
Total Assets	58,293	63,273	75,598
Return on Average Assets	1.4%	1.2%	1.1%
Return on Average Equity	12.1%	9.6%	8.6%
Gearing (times)	6.5	6.4	7.1
CRAR	17.2%	18.7%	16.0%
Gross NPA%	0.06%	0.01%	0.01%
Net NPAs %	0.00%	0.00%	0.00%
Net NPA/Net Worth (%)	0.00%	0.00%	0.00%

Source: National Housing Bank, ICRA research
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	FY2021	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					22-May-20	30-Apr-19	8-Mar-18	23-Mar-17
1	Commercial Paper Programme	Short Term	8,000	8,000	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
2	Long-term Borrowing Programme	Long Term	10,000	4,196	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website 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)
INE557F07 082,090,108,116,124,132	Tax-free Bonds	13-Jan-14	8.26-9.01%	13-Jan-24	2,100	[ICRA] AAA(Stable)
INE557F07 140,157,165,173,181,199	Tax-free Bonds	14-Jan-14	8.26-9.01%	26-Mar-24	1,000	[ICRA] AAA(Stable)
NA	Proposed Unutilised Long-term Borrowing Programme	NA	NA	NA	5,803.77	[ICRA] AAA(Stable)
NA	Commercial Paper	NA	NA	7-365 days	8,000	[ICRA] A1+

Source: National Housing Bank

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About ICRA Limited:

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