

September 16 2020

National Bank for Agriculture and Rural Development: Ratings assigned to long-term bonds and deposit programmes; Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bonds Programme	41,036.05	41,036.05	[ICRA]AAA(Stable); reaffirmed
Long-term Bonds Programme	2,109.95	-	[ICRA]AAA(Stable); reaffirmed and withdrawn
Long-term Bonds Programme	-	40,000.00	[ICRA]AAA(Stable); assigned
Commercial Paper	50,000.00	50,000.00	[ICRA]A1+; reaffirmed
Long-term Deposits	-	1,96,350.00	[ICRA]AAA(Stable); assigned
Short-term Deposits	-	55,000.00	[ICRA]A1+; assigned
Total	93,146.00	3,84,406.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings for National Bank for Agriculture and Rural Development (NABARD) factor in its strategic, supervisory and policy formulation role in India's agriculture and rural development sectors as well as its sovereign ownership with the Government of India (GoI) holding the entire equity stake in the bank. The GoI has demonstrated regular capital support to help maintain the leverage¹ within the regulatory levels.

As a part of its lending operations, NABARD has exposures to the GoI and state government entities for funding various rural development programmes. Further, as a part of refinancing activities, it takes exposure to regional rural banks (RRBs), state co-operative banks (StCBs), scheduled commercial banks (SCBs) and non-banking financial companies (NBFCs). Some of the counterparties, especially the RRBs, StCBs and state-owned entities, could be weak. However, NABARD has maintained a strong asset quality with the gross non-performing advances (GNPAs) and net NPA ratios at 0.25% and 0.11%, respectively, as on June 30, 2020. This is supported by its sovereign exposures and guarantees from the concerned state government for a part of its loan portfolio. Regulatory and supervision oversight on RRBs and StCBs also improves the timely intervention ability of NABARD to address any capital-related issues in these banks. The loan book under moratorium for NABARD remained minimal.

NABARD has maintained a competitive and diversified funding profile supported by low-cost rural infrastructure development fund (RIDF) deposits allocated by the GoI and the Reserve Bank of India (RBI) against the priority sector lending (PSL) target shortfalls of SCBs. In addition, the GoI offers interest subvention on the lending programmes of NABARD, which enables it to offer competitive lending rates to borrowers. Over the last few years, NABARD has been instrumental in raising extra budgetary resources (EBR) for various rural development programmes of the GoI for which it has raised funds through GoI-fully serviced bonds (GoI-FSBs). NABARD also administers various funds earmarked by the GoI for rural development. Overall, NABARD has a diversified funding

¹ Leverage is defined as total debt/net owned funds

profile with positive asset-liability gaps in the short as well as long term as on June 30, 2020, driving a superior liquidity profile.

ICRA expects that NABARD will continue to benefit from its role of the apex financial institution in the Indian agricultural and rural development sectors and will continue to benefit from its sovereign ownership, driving a Stable outlook on the ratings. Given the cap on the lending margins, the earnings profile in terms of the return on assets (RoA)/equity (RoE) is likely to remain modest and the internal capital generation may fall short of the capital required for the targeted growth. Hence, the bank will continue to require capital support in the near term to maintain its leverage within the regulatory levels.

Key rating drivers and their description

Credit strengths

Sovereign ownership and strategic importance to GoI for development of agriculture and rural sector – NABARD (wholly owned by the GoI w.e.f. from March 2018) commenced operations in 1982. It was set up in 1982 under the NABARD Act, 1981, as an apex financial institution for the development and flow of credit to agriculture, small scale industries, cottage and village industries, the rural sector, handicrafts and other rural crafts. Given its role in framing policies for the development of the agriculture and rural sector and for augmenting ground-level rural credit, NABARD continues to have a strategic importance for the GoI. It also conducts the statutory inspection of StCBs, RRBs and district co-operative banks (DCCBs) apart from the voluntary inspection of state co-operative agriculture and rural development banks (SCARDBs), apex co-operative societies and federations.

Though the bank's CRAR was strong at 20.78% as on June 30, 2020, its leverage remains closer to the regulatory level of 10 times² at 9.02 times as of June 2020 (9.03 times as on March 31, 2020). Given the seasonality in the loan book, the peak leverage also tends to be higher than the year-end leverage. Further, the leverage is expected to remain high given the lending requirements under various schemes and the projected credit growth and consequent increase in the borrowing requirement. Moreover, with a modest return on net worth of 7.87% in FY2020, the internal capital generation will lag the growth capital requirements. Accordingly, NABARD will continue to require capital infusion from the GoI in the near term. The GoI has also demonstrated regular capital support to NABARD in the past for meeting its regulatory as well as growth capital requirements.

Strong asset quality indicators – As a part of its lending operations, NABARD has exposures to the GoI and state government entities for funding various rural development programmes. Further, as a part of its refinancing activities, it takes exposure to RRBs, StCBs, SCBs, DCCBs and NBFCs. Some of the counterparties could be weak though NABARD has maintained a strong asset quality with the GNPA and net NPA ratios at 0.25% and 0.11%, respectively, as on June 30, 2020.

NABARD's asset quality is also supported by the RIDF loans, which are secured by an irrevocable letter of authority executed by the state government and registered with the RBI for direct debit to the state government's account with the RBI, in case of any shortfall in repayments. Further, advances towards investment credit (medium-to-long-

² RBI has allowed NABARD a temporary relaxation of 11 times on leverage till September 2021; similar relaxations have been provided in the past

term refinance) to StCBs are made available against guarantees provided by the concerned state governments while refinance to SCARDBs is only against Government guarantees. Further, funding under various Gol programmes is backed by EBR raised through Gol-FSB issuances and these liabilities are serviced by the Gol. However, ICRA notes that all the exposures to state government entities are not covered by state government guarantees. Regulatory and supervision oversight on RRBs, DCCBs and StCBs also improves the timely intervention ability of NABARD to address any capital-related issues in these banks. Overall, these act as a credit risk mitigant for NABARD's advances to entities with a weak financial profile and help in maintaining a strong asset quality.

NABARD witnessed a few slippages in its NBFC exposures during the last two years, which led to an increase in its NPAs and non-performing investments. However, the total exposure to NBFCs is estimated at 2.82% of the loan book and 26.97% of the net worth as on June 30, 2020. Further, given the Covid-19 pandemic-induced stress on the NBFC sector, a few more slippages cannot be ruled out in the near term though these are expected to be limited in relation to the bank's operating profit and net worth. The loan book under moratorium as on March 31, 2020 was 0.01% (by value), aggregating Rs. 42.7 crore, against a loan book of Rs. 4.8 lakh crore as on March 31, 2020 and has not increased materially thereafter.

Diversified funding profile – NABARD's funding profile remains diversified across various sources such as deposits against the PSL target shortfall of SCBs, Gol-FSBs, market borrowings and bank loans. RIDF deposits and other funds³ from SCBs towards the shortfall in the PSL targets constituted ~41% of its total funds (including the net worth) as on June 30, 2020. Gol-FSBs accounted for ~10.2% of the total funds and were deployed towards funding for the PMAY-G scheme, LTIF-G scheme and SBM-G scheme⁴. NABARD's own net worth and reserves accounted for ~9.2% of the total funds with loans from the RBI accounting for ~4.0% of the total funds and market borrowings for the rest. Given its quasi-sovereign status, NABARD mobilises funds at competitive rates from the capital markets in the form of bonds, commercial papers and certificates of deposit. NABARD's borrowings are expected to rise further at a similar pace from the level of ~Rs. 4.6 lakh crore as on March 31, 2020, given its targeted plan of 12-15% growth in the assets over the next few years. The share of Gol-FSBs and market borrowings in the overall borrowings have continued to increase in recent years and is expected to increase further over the next few years as NABARD is one of the entities raising EBR for the funding of various Gol rural and agricultural development programmes.

Credit challenges

Relatively weak counterparties and concentrated exposures – NABARD's lending is concentrated towards state governments (32.1% of net advances as on March 31, 2020), co-operative banks (16.4%), SCBs (18.4%), and RRBs (9.6%) and Others⁵ (5.4%). Some of these entities could have a weak credit profile. The concentration of the top 20 borrowers in the total exposure remained high at ~52% as on March 31, 2020 compared to ~50% as on March 31,

³ Apart from RIDF deposits, which accounted for 22.9% of total funds as on June 30, 2020, NABARD receives a shortfall against PSL targets from SCBs under Short Term Cooperative Rural Credit (STCRC Fund; 8.1%), Long Term Rural Credit Fund (LTRCF; 8.2%) and Short Term Rural Credit (Refinance) Fund for Regional Rural Banks (STRRB Fund; 1.8%)

⁴ PMAY -G: Pradhan Mantri Awas Yojana – Gramin, LTIF-G: Gol's share in LTIF; SBM-G: Swachh Bharat Mission-Gramin

⁵ Loans to state co-operative rural agricultural development banks/land development banks/NBFC-MFIs/agricultural development finance companies

2019. As some of the state-level entities, co-operative banks and RRBs have weak credit profiles, NABARD's exposure to counterparty risk remains.

Modest earnings profile in relation to growth requirements – Given the cap on the lending margins, the earnings profile in terms of RoA/RoE is likely to remain modest. NABARD's net interest margin (NIM) and gross interest spreads improved to 1.73% and 97 bps, respectively, in FY2020. The spreads remained low mainly on account of a cap on its lending margins such as 50 bps on RIDF advances, 40-60 bps on LTIF advances and 40 bps on PMAY-G and SBM-G.

Accordingly, NABARD's earnings profile reflected an RoA of 0.76% in FY2020 (0.75% in FY2019) and RoE of 7.87% in FY2020 (7.70% in FY2019). Given the high growth of over 12-15% expected in the assets, the internal capital generation may fall short of the capital required for the targeted growth. Hence, the bank will continue to require capital support in the near term to maintain its leverage within the regulatory levels.

Liquidity position: Superior

NABARD has a comfortable asset-liability profile with positive asset-liability gaps in the short as well as the long term as on June 30, 2020. It holds liquid investments of 7.58% of the total assets in Government securities and liquid MF as on June 30, 2020. In addition to this, NABARD has undrawn bank lines of Rs. 31,000 crore (7% of the total borrowings as on June 30, 2020) from banks. Overall, the liquid investments and undrawn bank lines drive the bank's superior liquidity profile.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – ICRA could assign a Negative outlook or downgrade the ratings in case of a dilution in NABARD's strategic role and importance to the GoI.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Banks Impact of parent or group support on an Issuer's credit rating
Parent/Group Support	The ratings factor in NABARD's sovereign ownership and its continued role as a public policy institution for the development of the agricultural and rural sectors of India, which will enable it to access fund allocation and capital support from the GoI.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of NABARD. However, in line with its limited consolidation approach, ICRA has factored in the capital requirement of NABARD's subsidiaries, namely NABKISAN Finance Limited, NABSAMRUDDHI Finance Limited, NABARD Financial Services Limited, NABARD Consultancy Private Limited, NABFOUNDATION, NABVENTURE Limited and NABSAURAKHSHAN, which is under the process of incorporation. ICRA notes that all six operational NABARD subsidiaries have a limited scale of operations and are profitable. The capital requirements, if any, are likely to be insignificant in relation to NABARD's profits and net owned funds (NOF) in the near to medium term.

About the company

Wholly owned by the Government of India (GoI) with effect from March 31, 2018, National Bank of Agriculture and Rural Development (NABARD) is the apex agricultural development bank. NABARD was set up under an Act of Parliament in 1982 for the development and flow of credit to agriculture, small scale industries, cottage and village industries, the rural sector, handicrafts and other rural crafts. NABARD also has a mandate to promote the integrated and sustainable development of rural areas. It also frames policies and guidelines for rural financial institutions and provides financial assistance to various issuing financial institutions and banks through refinancing. Moreover, NABARD monitors the flow of ground-level rural credit.

NABARD's board of directors consists of –

- Chairman appointed by Central Government in consultation with RBI
- Three directors from RBI
- Three directors from Central Government
- Four directors from state governments
- Three directors, who are experts in rural economics, rural development, village and cottage industries, small scale industries or persons with experience in the working of co-operative banks, RRBs or commercial banks, are appointed by the Central Government in consultation with the RBI

Key financial indicators (standalone) – NABARD

Particulars	FY2018 Audited	FY2019 Audited	FY2020 Audited	Q1 FY2021 Unaudited
Net interest income (NII)	6,362	7,297	8,828	2594
Profit before tax	4,354	4,959	6,634	1,864
Credit provision	186	522	1,400	266
Profit after tax	2,962	3,365	3,859	1,198
Net advances	3,52,111	4,30,273	4,80,396	4,85,836
Total assets	4,06,642	4,87,470	5,32,075	5,49,774
% Tier I	17.65%	18.59%	19.74%	-
% CRAR	18.85%	18.96%	21.20%	20.78%
Leverage	8.69	9.34	9.03	9.02
% Net interest margin / Average total assets	1.69%	1.63%	1.73%	1.89%
% Net profit / Average total assets	0.78%	0.75%	0.76%	0.87%
% Return on net worth	7.73%	7.70%	7.87%	9.45%
% Gross NPAs	0.05%	0.04%	0.26%	0.25%
% Net NPAs	0.00%	0.00%	0.15%	0.11%
% Net NPA/ Net worth	0.00%	0.00%	1.47%	1.09%

Amount in Rs. crore; All ratios are as per ICRA calculations

Source: NABARD, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other Information: None

Rating history for last three years

Sr. No	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years						
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019			FY2018		
					16-Sept-2020	31-Dec-2019	24-Jan-2019	31-Jul-2018	19-Jan-2018	13-Dec-2017	19-May-2017	
1	Long-term Bonds Programme	Long Term	40,000.00	34,229.40^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-	-	-
2	Long-term Bonds Programme	Long Term	1,036.05	1,036.05	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Long-term Bonds Programme	Long Term	2,109.95	-	Withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Long-term Bonds Programme	Long Term	50,000.00	-	[ICRA]AAA (Stable)	-	-	-	-	-	-	-
5	Commercial Paper	Short Term	50,000.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
6	Short-term Deposits	Short Term	55,000.00	54,739.59#	[ICRA]A1+	-	-	-	-	-	-	-
7	Long-term Deposits	Long Term	1,96,350.00	1,81,662.03#	[ICRA]AAA (Stable)	-	-	-	-	-	-	-

Amount in Rs. crore

[^] Balance yet to be placed

[#] Amount outstanding as on March 31, 2020

Source: ICRA

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	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
INE261F09FL8	Long-term bonds	01-Oct-10	Zero Coupon [^]	01-Oct-20	67.98	[ICRA]AAA(Stable)
INE261F09FN4	Long-term bonds	01-Nov-10	Zero Coupon [^]	01-Nov-20	26.58	[ICRA]AAA(Stable)
INE261F09FQ7	Long-term bonds	01-Dec-10	Zero Coupon [^]	01-Dec-20	117.00	[ICRA]AAA(Stable)
INE261F09FS3	Long-term bonds	01-Jan-11	Zero Coupon [^]	01-Jan-21	40.54	[ICRA]AAA(Stable)
INE261F09FX3	Long-term bonds	01-Feb-11	Zero Coupon [^]	01-Feb-21	10.35	[ICRA]AAA(Stable)
INE261F09GC5	Long-term bonds	31-Mar-11	Zero Coupon [^]	01-Apr-21	73.30	[ICRA]AAA(Stable)
INE261F08BW6	Long-term bonds	09-Jan-20	6.72%	14-Apr-23	2,000.00	[ICRA]AAA(Stable)
INE261F08BX4 [#]	Long-term bonds	31-Jan-20	7.43%	31-Jan-30	6,952.60	[ICRA]AAA(Stable)
INE261F08BY2 [#]	Long-term bonds	10-Feb-20	7.10%	08-Feb-30	3,283.40	[ICRA]AAA(Stable)
INE261F08CA0	Long-term bonds	02-Mar-20	6.40%	31-Jul-23	2,535.00	[ICRA]AAA(Stable)
INE261F08CB8 [#]	Long-term bonds	09-Mar-20	6.87%	08-Mar-30	2,549.50	[ICRA]AAA(Stable)
INE261F08CC6 [#]	Long-term bonds	19-Mar-20	7.40%	19-Mar-30	3,475.50	[ICRA]AAA(Stable)
INE261F08CD4	Long-term bonds	17-Apr-20	6.50%	17-Apr-23	2,500.00	[ICRA]AAA(Stable)
INE261F08CE2 [#]	Long-term bonds	26-May-20	6.65%	25-May-35	903.10	[ICRA]AAA(Stable)
INE261F08CG7	Long-term bonds	01-Jun-20	6.93%	01-Jun-35	611.40	[ICRA]AAA(Stable)
INE261F08CF9	Long-term bonds	01-Jun-20	6.57%	01-Jun-27	1,094.90	[ICRA]AAA(Stable)
INE261F08CA0	Long-term bonds	12-Jun-20	6.40%	31-Jul-23	2,000.00	[ICRA]AAA(Stable)
INE261F08CH5	Long-term bonds	25-Jun-20	6.79%	25-Jun-35	564.30	[ICRA]AAA(Stable)
INE261F08CA0	Long-term bonds	02-Jul-20	6.40%	31-Jul-23	2,500.00	[ICRA]AAA(Stable)
INE261F08CI3	Long-term bonds	29-Jul-20	5.47%	11-Apr-35	1,125.00	[ICRA]AAA(Stable)
INE261F08CJ1	Long-term bonds	29-Jul-20	6.45%	11-Apr-31	1,450.00	[ICRA]AAA(Stable)
INE261F08CK9	Long-term bonds	10-Aug-20	5.14%	31-Jan-34	1,385.00	[ICRA]AAA(Stable)
NA	Long-term bonds	Unutilized	-	-	45,770.60	[ICRA]AAA(Stable)
NA	Commercial paper	NA	NA	7-365 days	50,000.00	[ICRA]A1+
NA	Short-term deposit				55,000.00	[ICRA]A1+
NA	Long-term deposit				1,96,350.00	[ICRA]AAA(Stable)

[^] With redemption premium resulting in promised return

[#] GoI-Fully serviced bonds

Source: NABARD; Amount in Rs. crore

Annexure 2: List of entities considered for limited consolidation analysis

S. No.	Name of the entity	Ownership [^]	Consolidation Approach
1.	NABKISAN Finance Limited	87.5%	Limited Consolidation
2.	NABSAMRUDDHI Finance Limited	90.7%	Limited Consolidation
3.	NABARD Financial Services Limited (NABFINS)	63.1%	Limited Consolidation
4.	NABARD Consultancy Private Limited (NABCONS)	100.0%	Limited Consolidation
5.	NABVENTURES Limited	100.0%	Limited Consolidation
6.	NABFOUNDATION	100.0%	Limited Consolidation
7.	NABSAURAKSHAN	-	Yet to be incorporated

Source: NABARD and ICRA research

[^] As on March 31, 2020

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