October 05, 2020

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 FY2021	28,000.00	28,000.00	[ICRA]AAA (Stable); Reaffirmed
Long-term Borrowing Programme FY2020	7,695.00	7,695.00	[ICRA]AAA (Stable); Reaffirmed
Long-term Borrowing Programmes up to FY2019#	25,845.00	25,845.00	[ICRA]AAA (Stable); Reaffirmed
Long-term Borrowing Programmes up to FY2019	1,865.00	-	[ICRA]AAA (Stable); Reaffirmed and Withdrawn
Commercial Paper Programme	10,000.00	10,000.00	[ICRA]A1+; Reaffirmed
Fixed Deposit Programme~	-	-	MAAA (Stable); Reaffirmed
Fund Based – Term Loan	150.00	900.00	[ICRA]AAA (Stable); Reaffirmed
Fund Based – Cash Credit	4,100.00	4,100.00	[ICRA]AAA (Stable); Reaffirmed
Non-fund Based	2,050.06	1,375.06	[ICRA]AAA (Stable); Reaffirmed
Short-term Loans	4,439.94	4,639.94	[ICRA]A1+; Reaffirmed
Unallocated	14,260.00	13,985.00	[ICRA]AAA (Stable)/ [ICRA]A1+; Reaffirmed
Total	**98,405.00**	**96,540.00**	

**Instrument details are provided in Annexure-1; ^Refer to page 6 for details of outstanding amounts; ~Rs. 2,000-crore programme with Rs. 168.47 crore outstanding as on March 31, 2020; #Including GoI fully serviced bonds of Rs. 20,000 crore; # Withdrawn as instruments have been redeemed and fully repaid basis publicly available information, as also confirmed by the company*

Rationale

The ratings for Housing and Urban Development Corporation Ltd.'s (HUDCO) borrowing programmes continue to derive significant strength from its sovereign ownership (89.81% of the equity held by the Government of India (GoI) as of June 30, 2020) 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 (UI). The ratings also draw comfort from the relatively low risk profile of HUDCO's portfolio, given the focus on Government-sponsored UI and social housing projects. The credit risks in these exposures are relatively low, given the guarantees and/or budgetary provisions from Central/state governments for debt servicing by the concerned entities. The ratings also factor in the company's comfortable capitalisation level, its 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 HUDCO has restricted its fresh exposures to the private sector since 2013. Legacy private sector loans accounted for only ~4% of the total loan book as of June 30, 2020. While HUDCO's credit risk in the public-sector loan book 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 concentrated presence of HUDCO in states like Telangana (TEL), Uttar Pradesh (UP) and Andhra Pradesh (AP). In this regard, ICRA has taken cognizance of the spurt in HUDCO's stage 3 assets in the interim in Q3 FY2020 due to two public sector exposures aggregating ~Rs. 869 crore (including one backed by a state government guarantee). However, it is noted that the larger exposure of Rs. 726 crore was subsequently regularised in January 2020. The gross and net stage 3 percentages for HUDCO stood at 4.3% and 0.6%, respectively, as on June 30, 2020.

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. Moreover, the healthy financial flexibility, supported by the sovereign ownership and the ability to raise funds at short notice, provides comfort. Going forward, the company's ability to keep the asset quality and credit costs under control would remain a key rating monitorable. A weakening of the asset quality and a resultant deterioration in solvency (Net Stage III/Tier I Capital), to a level above 40% on a sustained basis, will be a negative for the credit profile (HUDCO's Net Stage III/Tier I Capital ratio stood at a comfortable ~3.6% as of June 30, 2020). Any change in the asset mix, which significantly reduces the share of government-backed exposures, will increase the portfolio vulnerability and will also be a credit negative.

ICRA believes HUDCO will remain strategically important to the GoI and will play a major role in the Government's Housing for All scheme. Consequently, it is likely to remain a major financier of housing and UI projects while maintaining adequate profitability and comfortable borrowing and capitalisation levels. Also, ICRA expects that support from the Government would be forthcoming, if required. Hence, the outlook on the long-term rating is Stable.

Key rating drivers and their description

Credit strengths

Strategic importance to and majority ownership by GoI – HUDCO is a nodal agency for the implementation of Government policies for the high-priority sectors of social housing and UI. Further, as one of the major financiers of UI and housing projects, it remains strategically important for achieving the Government's objective of Housing for All. The GoI remains the majority shareholder in HUDCO with a stake of 89.81% as on June 30, 2020. The company typically has a ten-member board, which includes two nominee directors of the GoI, five independent directors and three functional directors with experience in different fields. Also, HUDCO has well-established relationships with different state governments, making it a preferred lender for their UI and housing projects. Precedents wherein HUDCO has received approval from the GoI to raise tax-free bonds also provide comfort with respect to its financial flexibility and ability to raise low-cost funds.

Relatively low credit risk on portfolio, given the high share of government-backed exposures – Over the past five years, HUDCO has registered strong portfolio growth, wholly driven by disbursements 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 96% of the company's total advances as on June 30, 2020 (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 given that the underlying projects may not have adequate cashflows for debt servicing. While HUDCO's stage 3 assets witnessed a spurt in Q3 FY2020 due to two public sector exposures aggregating ~Rs. 869 crore (including one backed by a state government guarantee), it is, however, noted that the larger exposure of Rs. 726 crore was subsequently regularised in Q4 FY2020. The gross and net stage 3 percentages for HUDCO stood at 4.3% and 0.6%, respectively, as on June 30, 2020.

Comfortable capitalisation – HUDCO's financial profile is characterised by comfortable capitalisation with a CRAR of over 50% and a gearing of 5.0 times (3.4 times if the GoI fully serviced bonds (GoI FSBs) are excluded) as of June 30, 2020. 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. GoI FSBs. ICRA, however, notes the increase in HUDCO's borrowing level and hence leverage (gearing was lower at 3.8 times as on March 31, 2018 compared to 5.1 times as on March 31, 2020) on account of the sizeable issuance of GoI FSBs (Rs. 20,000 crore) in FY2019. Nevertheless, it is noted that the GoI FSBs are to be serviced through appropriate budgetary allocations to the Ministry of Housing and Urban Affairs (MoHUA) in the Union Budget. Also, given the wholesale nature of the exposures and the higher concentration in some states, ICRA expects HUDCO to maintain a prudent capitalisation level going forward as well.

HUDCO has a diversified funding profile with sources including tax-free bonds, GoI FSBs, taxable bonds, refinance from National Housing Bank (NHB), bank loans, commercial papers, and foreign currency borrowings. About 60% of its borrowings are in the form of tax-free bonds and GoI FSBs, which have a tenure of at least 10-15 years and hence augur well for the asset liability maturity (ALM) profile. The company also enjoys long tenor refinance from NHB. In the past, HUDCO also accepted public deposits, but the share has been declining and the company stopped accepting public deposits in Q1 FY2020.

Credit challenges

Concentration risk – 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 TEL, UP and AP. As on March 31, 2020, HUDCO's exposure to TEL accounted for about 116% of its net worth while its exposure to all three states aggregated 268% of its net worth. In this regard, while NHB has been providing exposure norm-related relaxations to HUDCO, a road map has been set whereby the company is required to take suitable steps to bring down its exposure (as a percentage of net owned funds) to Government/public agencies and to state governments (under group exposure) in the exempted cases as well to 50% and 100%, respectively, by March 2023.

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, notwithstanding the curtailed cash inflows in H1FY2021 due to the moratorium extended to the customers (35% of the loan book in June 2020), the company has retained the back-up liquidity with documented and unavailed sanctions of about Rs. 7,717 crore available as on August 24, 2020 compared to estimated debt repayments of about Rs. 7,700 till March 31, 2021. Its funding profile is also favourable as ~60% of the borrowings on its books are in the form of tax-free bonds and GoI FSBs with a maturity profile of 10-15 years while 5% are in the form of refinance assistance from NHB with a tenure of up to 10 years. This augurs well for its ALM profile and limits cumulative mismatches in the near-term buckets. Moreover, the healthy financial flexibility, backed by its parentage and strategic importance to the GoI, provides comfort.

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 HUDCO's strategic role or importance to the GoI. Also, a deterioration in the solvency to a level above 40% on a sustained basis will be a negative for the credit profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[ICRA's credit 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 HUDCO's sovereign ownership (89.81% held by the GoI as of June 30, 2020) and its important role as a nodal agency for the implementation of Government policy in the high-priority sectors of social housing and UI. 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 Miniratna public sector enterprise under the Ministry of Housing and Urban Affairs, Government of India (GoI). It is a public financial institution registered as a housing finance company (HFC), and primarily finances social housing and UI projects. The GoI held a share of 89.81% in HUDCO, as of June 30, 2020, while the balance was held by the public.

HUDCO reported a profit after tax (PAT) of Rs. 1,708 crore in FY2020 against PAT of Rs. 1,180 crore in FY2019. It reported a capital adequacy ratio of 57% with a net worth of Rs. 12,343 crore as on March 31, 2020.

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Audited)	Q1 FY2021 (Unaudited)
Accounting Standard	Ind-AS	Ind-AS	Ind-AS	Ind-AS
Total Income	4,184	5,591	7,572	1,782
PAT	1,010	1,180	1,708	203
Net Worth	9,943	10,956	12,343	12,543
Gross Advances	49,530	73,325	76,565	78,180
Return on Net Worth (%)	10.6%	11.2%	14.7%	6.5%
Gearing (times)	3.8	5.6	5.1	5.0
CRAR	52.0%	56.1%	56.9%	NA
Gross Stage 3 (%)	7.2%	4.5%	3.8%	4.3%
Net Stage 3 (%)	2.0%	0.5%	0.2%	0.6%
Net Stage 3/Net Worth	9.3%	3.2%	1.1%	3.6%

Source: HUDCO; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)						Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Date & Rating			FY2020		FY2019		FY2018
					Oct 05, 2020	May 01, 2020	Apr-06, 2020	Jul 29, 2019	Apr 11, 2019	July 13, 2018	May 30, 2018	Jul 05, 2017
1	LT Borrowing Programme FY2021	LT	28,000.00	4,610.00^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-	-
2	LT Borrowing Programme FY2020	LT	7,695.00	7,695.00^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-
3	LT Borrowing Programmes up to FY19	LT	25,845.00	25,845.00^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	LT Borrowing Programmes up to FY19	LT	1,865.00	-	Withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5	Commercial Paper	ST	10,000.00	1,500.00^	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Fund Based – TL	LT	900.00	24.50*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
7	Fund Based – CC	LT	4,100.00	-*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
8	Non-fund Based	LT	1,375.06	600.06*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
9	Short-term Loans	ST	4,639.94	1,772.15*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
10	Unallocated	LT/ST	13,985.00	-	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+
11	Fixed Deposit Programme	MT	-	~	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)

*Note: LT: Long term, ST: Short term, MT: Medium term; ^ As of June 30, 2020; ~ Rs. 2,000-crore programme with Rs. 168.47 crore outstanding as on March 31, 2020; *As of August 24, 2020; Source: ICRA research; 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
INE031A08814	Taxable Bond	04-Aug-20	5.35%	11-Apr-25	800	[ICRA]AAA (Stable)
INE031A08806	Taxable Bond	29-May-20	6.75%	29-May-30	1,040	[ICRA]AAA (Stable)
INE031A08798	Taxable Bond	12-May-20	5.95%	11-Aug-23	1,470	[ICRA]AAA (Stable)
INE031A08780	Taxable Bond	24-Apr-20	6.09%	24-Jun-23	1,500	[ICRA]AAA (Stable)
INE031A08772	Taxable Bond	15-Apr-20	6.65%	15-Jun-23	600	[ICRA]AAA (Stable)
INE031A08764	Taxable Bond	17-Jan-20	6.79%	14-Apr-23	1,400	[ICRA]AAA (Stable)
INE031A08756	Taxable Bond	11-Sep-19	6.99%	11-Nov-22	1,370	[ICRA]AAA (Stable)
INE031A08749	Taxable Bond	13-Aug-19	7.05%	13-Oct-22	1,190	[ICRA]AAA (Stable)
INE031A08731	Taxable Bond	18-Jul-19	7.34%	16-Sep-22	1,250	[ICRA]AAA (Stable)
INE031A08723	Taxable Bond	20-Jun-19	7.62%	15-Jul-22	1,000	[ICRA]AAA (Stable)
INE031A08715	Taxable Bond	7-Jun-19	7.61%	22-Jun-22	1,485	[ICRA]AAA (Stable)
INE031A08665	Taxable Bond	11-Jan-19	8.34%	11-Jul-22	1000	[ICRA]AAA (Stable)
INE031A08657	Taxable Bond	28-Dec-18	8.23%	15-Apr-22	930	[ICRA]AAA (Stable)
INE031A08640	Taxable Bond	11-Dec-18	8.40%	11-Apr-22	980	[ICRA]AAA (Stable)
INE031A08632	Taxable Bond	5-Dec-18	8.46%	15-Feb-22	1000	[ICRA]AAA (Stable)
INE031A08608	Taxable Bond	3-Apr-18	7.63%	3-May-21	100	[ICRA]AAA (Stable)
INE031A08590	Taxable Bond	27-Mar-18	7.68%	5-Apr-21	460	[ICRA]AAA (Stable)
INE031A08566	Taxable Bond	21-Feb-18	7.73%	15-Apr-21	675	[ICRA]AAA (Stable)
INE031A08541	Taxable Bond	22-Nov-17	7.14%	22-Dec-20	700	[ICRA]AAA (Stable)
INE031A08707	GoI FSB*	25-Mar-19	8.37%	25-Mar-29	5000	[ICRA]AAA (Stable)
INE031A08699	GoI FSB*	15-Mar-19	8.41%	15-Mar-29	5320	[ICRA]AAA (Stable)
INE031A08681	GoI FSB*	14-Feb-19	8.58%	14-Feb-29	2563.1	[ICRA]AAA (Stable)
INE031A08673	GoI FSB*	30-Jan-19	8.38%	30-Jan-29	2066.9	[ICRA]AAA (Stable)
INE031A08624	GoI FSB*	28-Nov-18	8.52%	28-Nov-28	2050	[ICRA]AAA (Stable)
INE031A08616	GoI FSB*	12-Nov-18	8.60%	12-Nov-28	3000	[ICRA]AAA (Stable)
INE031A08491	Taxable Bond	25-Oct-16	7.21%	25-Apr-20	200	Rating Withdrawn
INE031A08509	Taxable Bond	18-Nov-16	6.80%	18-May-20	700	Rating Withdrawn
INE031A08525	Taxable Bond	21-Mar-17	7.59%	21-Jun-20	565	Rating Withdrawn
INE031A08533	Taxable Bond	14-Jul-17	7.05%	14-Aug-20	400	Rating Withdrawn
NA	Commercial Paper	-	-	7-365 days	10,000	[ICRA]A1+
NA	Long-term Fund Based	-	-	-	5,000	[ICRA]AAA (Stable)
NA	Non-fund Based	-	-	-	1,375.06	[ICRA]AAA (Stable)
NA	Short-term Fund Based	-	-	-	4,639.94	[ICRA]A1+
NA	Unallocated	-	-	-	13,985	[ICRA]AAA (Stable) / [ICRA]A1+
NA	Fixed Deposits	-	-	-	~	MAAA (Stable)

*Source: HUDCO; *Government of India fully serviced bonds (taxable); ~ Rs. 2,000-crore programme with Rs. 168.47 crore outstanding as on March 31, 2020*

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About ICRA Limited:

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