

National Bank for Agricultural & Rural Development

Instrument Details	Rating Outstanding
	March 2016
Rs. 8000 Crore Long Term bonds programme (O/S Rs 6,099.698 crore as on 28 th February, 2016)	[ICRA]AAA with Stable outlook reaffirmed

[ICRA]AAA rating with stable outlook has been reaffirmed for the Rs 8000 crore bonds programme of National Bank for Agricultural & Rural Development (NABARD or The Bank). The rating takes into consideration the strategic role that NABARD plays in meeting the GOIs policy objectives of extending finance to the agricultural and rural sector, besides the Bank's comfortable asset quality indicators, favourable liquidity profile and comfortable capitalisation levels. The rating also draws comfort from NABARD's ownership pattern viz. 99.6% being held by Government of India and remaining 0.4% by Reserve Bank of India (RBI), as on 31st March, 2015. NABARD is also involved in the formulation and changes in the policies related to the agricultural and rural developments, in addition to performing the supervisory function of inspecting the State Co-operative Bank, District Cooperative Banks, Regional Rural Banks etc. ICRA however notes the newer initiatives taken by NABARD to re-initiate direct lending where historically the Bank has had to deal with asset quality issues and hence shall remain a rating sensitivity.

NABARD's credit portfolio grew by 15.5% in FY 15 to Rs.2.46 lakh crore as on March 31, 2015 from Rs. 2.13 lakh crore as on March 31, 2014. NABARD usually has three avenues for lending – refinance for short term loans – Production Credit (less than one year in tenor), refinance for long term Loans –Investment Credit and RIDF loans (usually 5-7 years tenor). RIDF loans usually are guaranteed by the state governments and hence extremely efficient from both asset quality as well as capital adequacy perspective. In FY 15 the growth was primarily driven by the long term refinance portfolio which grew by 32.63% (22.04% FY 14) while the short term refinance portfolio grew by 11.16% (22.44% in FY 14) and RIDF by 5.81% (5.19% in FY 14). The re-finance portfolio grew by 17.20% during FY2015 (21.74% in FY14), mainly due to growth in long term refinance loans. NABARD has re-initiated direct lending over the last 48 months. While as at date the portfolio remains small at ~Rs 9000 crore (~3-4% of the overall lending portfolio), ICRA notes that this lending has the potential to present asset quality surprises.

During FY15, the Gross NPA and Net NPA levels have increased in absolute terms, the GNPA% and Net NPA% remain comfortable at 0.05% and 0.01% respectively (compared to a Gross NPA of 0.04% and a Net NPA of 0.01% in FY14). In H1FY16, Gross NPA increased in absolute terms marginally, by 2% however GNPA % and Net NPA% remains stable at 0.05% and 0.01% respectively.

NABARD's Net Interest Margins remained stable at 1.69% in FY15 (1.69% in FY14). While, yields showed slight decline to 6.60% in FY15 from 6.64% in FY14 due to decline in yields from investments, it was compensated by the cost of borrowings declining from 5.99% in FY15 to 5.84% in FY15, on account of increased money market borrowings. The Return on Equity was at 9.77% as on March'15.

The Bank's capital adequacy ratio has remained comfortable at 15.83% with internal accruals and regular equity infusion by the Government. The Government, in the Budget of 2011-12 had proposed to infuse capital of Rs 3000 crore in a phased manner in NABARD. The Institution received Rs 1000 crore in March 2012, another Rs 1000 crore in FY13, Rs 700 crore in H1FY14 and Rs 300 crore in H1FY15. As at date, NABARD's authorised capital of Rs 5000 crore has been fully subscribed to and any further capital infusion from the GoI will be contingent on the increase of authorised share capital as enshrined in the NABARD Amendment Bill. However, while leverage is at 9.35 times as at March 2015 (public institutions have a cap of 10 times), NABARD has been allowed by the RBI to lever up to 11 times till September 2016.

The funding profile of the bank is well diversified with a major share of funding coming through the Rural Infrastructure Development Fund (RIDF) which are deposits received from commercial banks for covering the short fall in the priority sector lending. During FY2015-16, the Government of India has allocated Rs 1,00,000 crore of funds under RIDF, STCRC, STRRB, LTRC, Warehousing Infrastructure Fund and Food Processing together, which will further aid the liquidity profile of NABARD. Given the quasi-sovereign status enjoyed by NABARD, it is able to mobilize funds at competitive rates from capital markets as well. The overall liquidity profile of the Bank is comfortable, with surpluses seen over the short as well as medium term.



Background

NABARD is wholly owned by the Government of India (99.6%) and the Reserve Bank of India (0.4%). The bank is the premier institution for financing and re-financing the funding for agriculture and rural infrastructure projects. NABARD had a total asset base of Rs.2.89 lakh crore as on March 31, 2015. During FY15 the bank reported a total income of Rs.17,805 crore and a net profit after tax of Rs.2,403 crore as compared to a total income of Rs.15,442 crore and a net profit after tax of Rs.1,860 crore in FY14. NABARDs asset quality indicators continued to remain comfortable, with a Gross NPA% of 0.05% and Net NPA% of 0.01% as on March 31, 2015. In H1FY16, the Gross NPA% was 0.05% and Net NPA% was 0.01%. NABARDs capital adequacy ratio stood at 15.83% as on March 31, 2015.

March 2016

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