Housing & Urban Development Corporation Ltd.

May 30, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term borrowing programme FY2019	0.00	40,000.00	[ICRA]AAA (Stable); Assigned
Subordinated Debt (Sub-limit of Long Term Borrowing Programme FY2019)	0.00	(4000.00)	[ICRA]AAA (Stable); Assigned
Commercial Paper programme	6,500.00	8,500.00	[ICRA]A1+; Assigned
Fund based – LT/ST	5,700.00	8,591.22	[ICRA]AAA (Stable)/A1+; Assigned
Non-fund based – Long Term	1,362.56	1,237.56	[ICRA]AAA (Stable); Assigned
Unallocated	2,937.44	5171.22	[ICRA]AAA (Stable)/A1+; Assigned
Previous year rated borrowing programme[1]	15,865.00	15,865.00	[ICRA]AAA (Stable); Outstanding
Fixed Deposit Programme	-	-	MAAA (Stable); Outstanding
Total	**32,365.00**	**79,365.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a rating of [ICRA]AAA (pronounced ICRA triple A) to the Rs. 40,000-crore long-term borrowing programme FY2019 (including a sublimit of Rs. 4,000-crore subordinated debt) of Housing & Urban Development Corporation Ltd (HUDCO)[†]. ICRA has also assigned a rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 8,500-crore (enhanced from Rs. 6,500 crore) commercial paper programme of HUDCO. ICRA has also assigned a rating of [ICRA]AAA/[ICRA]A1+ to the Rs. 15,000-crore (enhanced from Rs. 10,000 crore) bank lines of HUDCO. ICRA has a rating outstanding of [ICRA]AAA on the Rs. 15,865-crore previous year rated bond programme. ICRA also has a rating outstanding of MAAA (pronounced M triple A) for HUDCO's fixed deposit programme. The outlook on the long-term and medium-term ratings is Stable.

Rationale

The ratings for HUDCO derive significant strength from its sovereign ownership (89.81% of equity held by the Government of India (GoI) as on March 31, 2018) and its important role as a nodal agency for the implementation of Government policy in the high-priority sectors of social housing under the Pradhan Mantri Awas Yojana (PMAY) and urban infrastructure. The ratings also draw comfort from HUDCO's comfortable asset profile considering the realignment of its lending focus towards government-sponsored urban infrastructure (UI) and social housing projects, where credit

[1] *The total rated amount is Rs. 15,865 crore for previous year against which outstanding amount is Rs. 8,820 crore and unutilized amount is Rs. 7,045 crore as on April 30, 2018.*

[†] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

risks are low given the guarantees and budgetary provisions from state governments for debt servicing. The ratings also factor in HUDCO's comfortable capitalisation profile and its strong financial flexibility given its sovereign ownership.

ICRA takes note of the quality of HUDCO's relatively vulnerable private sector portfolio, which, while accounting for ~8% of the total portfolio, comprised ~94% of gross NPAs as on December 31, 2017. The overall portfolio vulnerability is also aggravated by HUDCO's high presence to certain states like Andhra Pradesh and Telangana, thereby exposing it to concentration risks. However, the presence of government guarantees and/or budgetary allocation for debt repayment mitigate the credit risk to some extent. Overall, the entity's ability to grow its loan book while maintaining adequate profitability and controlling asset quality and credit costs would be a key rating monitorable.

Outlook: Stable

ICRA believes HUDCO will remain significantly important to the GoI and will play a major role in the GoI's Housing for All scheme. The outlook may be revised to Negative if there is a deterioration in the company's asset quality or solvency. Also, any significant dilution in the GoI's stake, a change in HUDCO's strategic role or a sustained decline in profitability indicators could warrant a rating/outlook change.

Key rating drivers

Credit strengths

Strong parentage and strategic importance to GoI - HUDCO is a nodal agency for the implementation of Government policy in the high-priority sector of social housing under the PMAY. Further, as one of the major urban infrastructure and housing projects financiers, HUDCO remains strategically important for achieving the Government's objective of Housing for All. The GoI remains the majority shareholder in the company, with a stake of 89.81% as on March 31, 2018.

Experienced management and operational team - The company has an experienced management team with the senior team having an experience of more than 30 years in project financing. The company has well-established relationships with different state governments, which make it a preferred lender for urban infrastructure and housing projects.

Strong financial flexibility and comfortable liquidity profile - Owing to its sovereign ownership, HUDCO has been able to raise funds at competitive rates (weighted average cost of funds is competitive at 7.48% as on December 31, 2017). Around 70% of HUDCO's outstanding borrowings, as on December 31, 2017, were in the form of long-term bonds, which match well with the maturity profile of its assets. HUDCO has a comfortable asset-liability matching profile with low cumulative mismatches. Its strong financial flexibility and the availability of unutilised bank lines are expected to keep its short-term liquidity comfortable.

Healthy capitalisation - HUDCO has a comfortable capitalisation profile with a gearing of 3.32 times as on December 31, 2017 and CRAR of 49.93% as on September 30, 2017 (58.55% as on March 31, 2017). HUDCO's capital adequacy is further supported by the zero percent risk weight associated with state government-guaranteed exposures, which accounted for 65% of its portfolio as on March 31, 2017. The company's capitalisation is expected to remain adequate over the medium term, supported by its ability to raise capital through public issues.

Credit challenges

Vulnerability of legacy private sector portfolio - The company's asset quality deteriorated in 9M FY2018 with gross and net NPA increasing to 6.99% and 1.84%, respectively, as on December 31, 2017 (6.02% and 1.15%, respectively, as on March 31, 2017) owing to fresh slippages in legacy accounts. The legacy private sector book, which constituted ~8% of as on December 31, 2017, accounted for 94% of gross NPAs. Overall, the entity's ability to grow its loan book while maintaining adequate profitability and controlling asset quality and credit costs would be a key rating monitorable.

Modest profitability indicators - The yield remained stable at 9.54% in 9M FY2018 as against 9.53% in FY2017. However, a reduction in the average cost of funds to 7.07% led to an improvement in the company's gross interest spreads to 2.48% in 9M FY2018 from 2.33% in FY2017. Consequently, the net interest margin improved to 4.09% in 9M FY2018 from 4.01% in FY2017. Operating expenses, in relation to average assets, remained low at around 0.51% in 9M FY2018 while credit costs increased to 1.44% during this period owing to a deterioration in asset quality indicators. Consequently, the return on average net worth declined to 8.14% in 9M FY2018 as against 9.56% in FY2017.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Rating Methodology for Housing Finance Company

About the company:

HUDCO, a listed 'Miniratna' public sector enterprise under the Ministry of Housing and Urban Poverty Alleviation, Government of India, was incorporated in April 1970 under the Companies Act, 1956. HUDCO is a public financial institution with the status of a housing finance company. The GoI had a majority shareholding of 89.81% in HUDCO as on March 31, 2018, while the balance was held by the public.

During FY2017, HUDCO reported profit after tax (PAT) of Rs. 842 crore on an asset base of Rs. 39,322 crore compared to PAT of Rs. 784 crore on an asset base of Rs. 35,878 crore in FY2016. During 9M FY2018, HUDCO reported PAT of Rs. 577 crore. As on December 31, 2017, the corporation's net worth was Rs. 9,732 crore and its gross and net NPAs stood at 6.99% and 1.84%, respectively.

Key financial indicators (audited)

	FY2016	FY2017	9M FY2018
Net Interest Income	1,202	1,448	1,251
Profit After Tax	784	842	577
Net worth	8,446	9,167	9,732
Total assets	35,878	39,322	44,229
Gearing (times)	3.03	3.10	3.32
Return on net worth (%)	9.66%	9.56%	8.14%
Gross NPA (%)	6.68%	6.02%	6.99%
Net NPA (%)	2.06%	1.15%	1.84%
CRAR	63.85%	58.55%	NA

Source: HUDCO

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating May-18	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 Jul-17	Date & Rating in FY2017 Jul-16	Date & Rating in FY2016 Sep-15
1	Long-term Borrowing programme FY2019	Long Term	40,000.00	-	[ICRA]AAA (Stable)	-	-	-
2	Long-term Borrowing programme for previous fiscals	Long Term	15,865.00	8820.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Commercial Paper programme	Short Term	8,500.00	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
4	Fund based-Term Loan	Long Term	51.22	51.22	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-
5	Fund based – CC	Long Term	5150.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)		
6	Long term- Non-Fund based	Long Term	1237.56	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-
7	Short-term bank loans	Short Term	3390.00	-	[ICRA] A1+	[ICRA]A1+	-	-
8	Unallocated	Long Term/ Short term	5171.22	-	[ICRA]AAA (Stable)/A1+	[ICRA]AAA (Stable)/ A1+	-	-
9	Fixed Deposit Programme	Medium Term	-	-	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)

Source: ICRA Limited

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE031A09F12	NCD	30-May-13	8.14%	30-May-18	700	[ICRA]AAA (Stable)
INE031A08475	NCD	16-Sep-16	7.36%	30-Nov-19	700	[ICRA]AAA (Stable)
INE031A08483	NCD	22-Sep-16	7.35%	22-Jan-20	600	[ICRA]AAA (Stable)
INE031A08491	NCD	25-Oct-16	7.21%	25-Apr-20	200	[ICRA]AAA (Stable)
INE031A08509	NCD	18-Nov-16	6.80%	18-May-20	700	[ICRA]AAA (Stable)
INE031A08517	NCD	13-Jan-17	6.81%	13-Jan-20	600	[ICRA]AAA (Stable)
INE031A08525	NCD	21-Mar-17	7.59%	21-Jun-20	565	[ICRA]AAA (Stable)
INE031A08533	NCD	14-Jul-17	7.05%	14-Aug-20	400	[ICRA]AAA (Stable)
INE031A08541	NCD	22-Nov-17	7.14%	22-Dec-20	700	[ICRA]AAA (Stable)
INE031A08558	NCD	11-Dec-17	7.06%	11-Jun-19	205	[ICRA]AAA (Stable)
INE031A08566	NCD	21-Feb-18	7.73%	15-Apr-21	675	[ICRA]AAA (Stable)
INE031A08574	NCD	12-Mar-18	7.64%	12-Jun-19	715	[ICRA]AAA (Stable)
INE031A08582	NCD	19-Mar-18	7.70%	19-Mar-20	1,500	[ICRA]AAA (Stable)
INE031A08590	NCD	27-Mar-18	7.68%	5-Apr-21	460	[ICRA]AAA (Stable)
INE031A08608	NCD	3-Apr-18	7.63%	3-May-21	100	[ICRA]AAA (Stable)
	Fund Based – Term Loan	1998-99	-	2022-23	51.22	[ICRA]AAA (Stable)
	Fund Based – Long Term/CC	-	-	-	5150.00	[ICRA]AAA (Stable)
	Fund Based – Short Term	-	-	-	3390.00	[ICRA]A1+
	Non-Fund Based – Long Term	-	-	-	1237.56	[ICRA]AAA (Stable)
	Unallocated	-	-	-	5171.22	[ICRA]AAA (Stable)/A1+
	Commercial Paper Programme			Upto 365 days	8,500	[ICRA]A1+
	Long Term borrowing programme FY2019			Yet to be placed	40,000	[ICRA]AAA (Stable)
	Fixed Deposit Programme	-	-	-	-	MAAA (Stable)

Source: HUDCO

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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