Housing and Urban Development Corporation Ltd.

April 11, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Borrowing Programme FY2020	-	30,000.00	[ICRA]AAA (Stable); Assigned
Long-term Borrowing Programmes up to FY2019	48,720.00	48,720.00	[ICRA]AAA (Stable); Outstanding
Commercial Paper Programme	8,500.00	10,000.00	[ICRA]A1+; Assigned
Fund Based – Term Loan	51.22	5,541.03	[ICRA]AAA (Stable); Assigned
Fund Based – Cash Credit	5,150.00	4,750.00	[ICRA]AAA (Stable); Outstanding
Non-fund Based	1,237.56	1,112.56	[ICRA]AAA (Stable); Outstanding
Short-term Loans	3,390.00	4,897.50	[ICRA]A1+; Assigned
Unallocated	5,171.22	8,698.91	[ICRA]AAA (Stable)/ [ICRA]A1+; Assigned
Fixed Deposit Programme	-	-	MAAA (Stable); Outstanding
Total	**72,200.00**	**1,13,720.00**	

**Instrument details are provided in Annexure-1*

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 equity held by the Government of India (GoI) as of December 31, 2018), and its important role as a nodal agency for the implementation of Government policy in the high-priority sectors of social housing and urban infrastructure. The ratings also draw comfort from the relatively low risk profile of HUDCO's portfolio, given the focus on Government-sponsored urban infrastructure (UI) and social housing projects. The credit risks in these exposures are relatively low, given the guarantees and budgetary provisions from state governments for debt servicing by the concerned entities. The ratings also factor in the company's comfortable capitalisation level, its diversified borrowing profile, 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 incrementally restricted its fresh exposures to the private sector, which accounted for ~96% of the gross NPAs as of December 31, 2018. While HUDCO's credit risk 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, Uttar Pradesh and Andhra Pradesh. Going forward, the company's ability to grow its loan book while maintaining adequate profitability and controlling the asset quality and credit costs would remain a key rating monitorable. Any change in the asset mix, which reduces the share of government-backed exposures, will increase the portfolio vulnerability and will be a credit negative.

Outlook: Stable

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 urban infrastructure projects, while maintaining adequate profitability, and comfortable borrowing and capitalisation levels. Also, support from the Government would be forthcoming, if required. The outlook may be revised to Negative if there is a deterioration in the company's asset quality or solvency. A change in the GoI's majority ownership or HUDCO's strategic role or a sustained decline in the profitability could warrant a rating/outlook change.

Key rating drivers

Credit strengths

Strategic importance to and majority ownership by GoI - HUDCO is a nodal agency for the implementation of Government policy in the high-priority sectors of social housing and urban infrastructure. Further, as one of the major financiers of urban infrastructure 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 December 31, 2018. The company has a nine-member board (as of December 31, 2018), which includes two nominee directors of the GoI, five independent directors and two executive directors with experience in different fields. HUDCO has well-established relationships with different state governments, making it a preferred lender for their urban infrastructure and housing projects.

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 the state governments and public sector agencies. As a result, the share of its legacy private sector portfolio in the overall portfolio is declining. The public sector loan book accounted for 94% of the company's total advances as on December 31, 2018. Further, ICRA notes that 86% of HUDCO's advances in the public sector loan book are backed by guarantees of the Central or state governments. Moreover, in some cases, the debt repayments are made through budgetary allocations, thus reducing the credit risk for HUDCO. As of December 31, 2018, only 4% of HUDCO's gross NPAs were related to the public sector book, even though it accounted for 94% of the total advances. The gross NPA metric for HUDCO's public sector book stood at 0.2% as of December 31, 2018, compared to 96.6% for the private sector book.

Comfortable capitalisation – HUDCO's financial profile is characterised by a comfortable capitalisation level with a gearing of 3.9 times as of December 31, 2018 and a CRAR of 51.46% as of September 30, 2018. The reported capital adequacy is supported by the 20% risk weight associated with state government-guaranteed exposures, which accounted for 81% of HUDCO's portfolio as on December 31, 2018. Overall, given the wholesale nature of exposures and higher concentration in some states, ICRA expects HUDCO to maintain prudent capitalisation levels, going forward as well.

Healthy financial flexibility and liquidity profile - Owing to its sovereign ownership, HUDCO has been able to raise funds at competitive rates. Further, around 78% of its outstanding borrowings, as of December 31, 2018, comprised of long-term bonds. This augurs well for its asset liability maturity (ALM) profile with low cumulative mismatches. Moreover, healthy financial flexibility, backed by its parentage and strategic importance to the GoI, and the availability of sufficient unutilised bank lines support the liquidity profile.

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 Telangana, Uttar Pradesh and Andhra Pradesh. HUDCO's asset quality deteriorated in FY2018 with the gross and net NPA increasing to 6.3% and 1.4%, respectively, as on March 31, 2018 from 6.0% and 1.2%, respectively, as on March 31, 2017. Subsequently, the NPA metrics improved in 9M FY2019 with gross and net NPA declining to 5.8% and 0.8%, respectively, because of lower fresh slippages and sizeable recoveries. The legacy private sector book, which constituted ~6% of the gross portfolio as of December 31, 2018, accounts for 96% of the gross NPAs. Nevertheless, HUDCO has been making provisions above the regulatory requirements and had a good provision cover of 87% and a solvency profile with net NPA/net worth of ~4% as on December 31, 2018. The incremental impact on the asset quality indicators is likely to be limited and there could be further improvement in the same, considering the good provisioning cover and the recognition of almost all the stressed assets as NPAs. Going forward, HUDCO's ability to grow its loan book, while maintaining adequate profitability and controlling the asset quality and credit costs, would remain a key rating monitorable.

Modest profitability indicators – Notwithstanding the expansion in HUDCO's lending yields in 9M FY2019, due to sizeable income recognised on the receipt of a part payment for the default resolution of an NPA account, ICRA notes that its cost of funds has largely mirrored the adjusted lending yields. As a result, the adjusted net interest margin was rangebound at about 2.7%. Even after including the impact of the Rs. 316-crore income recognised in relation to the default resolution of an NPA account, ICRA notes that HUDCO's profitability indicators remain modest. The company's return on equity was about 12% in 9M FY2019, which, if adjusted for the Rs. 316-crore income in 9M FY2019, would stand closer to the four-year average of 9-10%. The company's relatively less risky exposure results in modest yields and hence profitability. Nevertheless, ICRA expects HUDCO's profitability indicators to improve from these levels with an increase in business, controlled credit costs and recoveries from the NPA accounts.

Liquidity position

HUDCO's liquidity profile is characterised by positive cumulative mismatches in all the medium-term and long-term buckets, with sufficient unutilised bank lines available for plugging any mismatches in the near term. Its funding profile is favourable as ~41% of the total borrowing is in the form of tax-free bonds with a maturity profile of 10-15 years while 10% of the borrowings are from National Housing Bank (NHB) with a tenure of up to 10 years. This augurs well for its ALM profile with low cumulative mismatches. Moreover, healthy financial flexibility, backed by its parentage and strategic importance to the GoI, supports the liquidity 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 December 31, 2018) and its important role as a nodal agency for the implementation of Government policy in the high-priority sectors of social housing and urban infrastructure. 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) with National Housing Bank (NHB), and primarily finances social housing and urban infrastructure projects. The GoI held a share of 89.81% in HUDCO, as of December 31, 2018, while the balance was held by the public.

HUDCO reported a profit after tax (PAT) of Rs. 799 crore in FY2018 on an asset base of Rs. 48,930 crore as of March 31, 2018 as against a PAT of Rs.842 crore in FY2017 on an asset base of Rs. 39,322 crore as of March 31, 2017. It reported a net profit of Rs. 944 crore in 9M FY2019 on an asset base of Rs. 55,702 crore as of December 31, 2018.

Key financial indicators

	FY2017 (Audited)	**FY2018 (Audited)**	**9MFY2019 (Limited Review)**
Accounting Standard	Indian GAAP	Indian GAAP	Ind AS
Total Income	3,585	4,173	4,081
PAT	842	799	944
Net Worth	9,167	9,822	10,895
Total Assets	39,322	48,930	55,702
Return on Net Worth (%)	9.6%	8.4%	12.2%
Gearing (times)	3.2	3.9	4.0
CRAR	59%	52%	NA*
Gross NPAs (%)	6.0%	6.3%	5.8%
Net NPAs (%)	1.2%	1.4%	0.8%
Net NPA/Net Worth	4.7%	6.9%	3.9%

*Source: HUDCO; Amounts in Rs. crore; *51.46% as of September 2018*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017
					Apr-19	Jul-18	May-18	Jul-17	Jul-16
1	Long-term Borrowing Programme FY2020	LT	30,000.00	-	[ICRA]AAA (Stable)	-	-	-	-
2	Long-term Borrowing Programmes up to FY2019	LT	48,720.00	31,930.00*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Commercial Paper Programme	ST	10,000.00	1,800.00*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund Based – Term Loan	LT	5,541.03	2,345.01^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
5	Fund Based – Cash Credit	LT	4,750.00	1,192.60^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
6	Non-fund Based	LT	1,112.56	1,112.56^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
7	Short-term Loans	ST	4,897.50	2,090.45^	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
8	Unallocated	LT/ST	8,698.91	-	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	-
9	Fixed Deposit Programme	MT	-	-	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)

*Note: LT: Long term, ST: Short term, MT; Medium term; * As of March 31, 2019; ^ As of April 3, 2019*
Source: ICRA research

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
INE031A08475	Taxable Bond	16-Sep-16	7.36%	30-Nov-19	700.00	[ICRA]AAA (Stable)
INE031A08483	Taxable Bond	22-Sep-16	7.35%	22-Jan-20	600.00	[ICRA]AAA (Stable)
INE031A08491	Taxable Bond	25-Oct-16	7.21%	25-Apr-20	200.00	[ICRA]AAA (Stable)
INE031A08509	Taxable Bond	18-Nov-16	6.80%	18-May-20	700.00	[ICRA]AAA (Stable)
INE031A08517	Taxable Bond	13-Jan-17	6.81%	13-Jan-20	600.00	[ICRA]AAA (Stable)
INE031A08525	Taxable Bond	21-Mar-17	7.59%	21-Jun-20	565.00	[ICRA]AAA (Stable)
INE031A08533	Taxable Bond	14-Jul-17	7.05%	14-Aug-20	400.00	[ICRA]AAA (Stable)
INE031A08541	Taxable Bond	22-Nov-17	7.14%	22-Dec-20	700.00	[ICRA]AAA (Stable)
INE031A08558	Taxable Bond	11-Dec-17	7.06%	11-Jun-19	205.00	[ICRA]AAA (Stable)
INE031A08566	Taxable Bond	21-Feb-18	7.73%	15-Apr-21	675.00	[ICRA]AAA (Stable)
INE031A08574	Taxable Bond	12-Mar-18	7.64%	12-Jun-19	715.00	[ICRA]AAA (Stable)
INE031A08582	Taxable Bond	19-Mar-18	7.70%	19-Mar-20	1,500.00	[ICRA]AAA (Stable)
INE031A08590	Taxable Bond	27-Mar-18	7.68%	5-Apr-21	460.00	[ICRA]AAA (Stable)
INE031A08616	GoI FSB*	12-Nov-18	8.60%	12-Nov-28	3,000.00	[ICRA]AAA (Stable)
INE031A08624	GoI FSB*	28-Nov-18	8.52%	28-Nov-28	2,050.00	[ICRA]AAA (Stable)
INE031A08632	Taxable Bond	5-Dec-18	8.46%	15-Feb-22	1,000.00	[ICRA]AAA (Stable)
INE031A08640	Taxable Bond	11-Dec-18	8.40%	11-Apr-22	980.00	[ICRA]AAA (Stable)
INE031A08657	Taxable Bond	28-Dec-18	8.23%	15-Apr-22	930.00	[ICRA]AAA (Stable)
INE031A08665	Taxable Bond	11-Jan-19	8.34%	11-Jul-22	1,000.00	[ICRA]AAA (Stable)
INE031A08673	GoI FSB*	30-Jan-19	8.38%	30-Jan-29	2,066.90	[ICRA]AAA (Stable)
INE031A08681	GoI FSB*	14-Feb-19	8.58%	14-Feb-29	2,563.10	[ICRA]AAA (Stable)
INE031A08699	GoI FSB*	15-Mar-19	8.41%	15-Mar-29	5,320.00	[ICRA]AAA (Stable)
INE031A08707	GoI FSB*	25-Mar-19	8.37%	25-Mar-29	5,000.00	[ICRA]AAA (Stable)
INE031A14374	CP	7-Feb-19	7.39%	28-May-19	800.00	[ICRA]A1+
INE031A14374	CP	8-Mar-19	7.38%	28-May-19	1,000.00	[ICRA]A1+
NA	Long-term Fund Based	-	-	-	10,291.03	[ICRA]AAA (Stable)
NA	Non-fund Based	-	-	-	1,112.56	[ICRA]AAA (Stable)
NA	Short-term Fund Based	-	-	-	4,897.50	[ICRA]A1+
NA	Unallocated	-	-	-	8,698.91	[ICRA]AAA (Stable) / [ICRA]A1+
NA	Fixed Deposits	-	-	-	-	MAAA (Stable)

*Source: HUDCO; *GoI fully serviced bond (taxable)*

Annexure-2: List of entities considered for consolidation: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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