July 29, 2019

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 FY2020	30,000.00	30,000.00	[ICRA]AAA (Stable); Reaffirmed
Long-term Borrowing Programmes up to FY2019	48,720.00	31,118.76	[ICRA]AAA (Stable); Reaffirmed
Commercial Paper Programme	10,000.00	10,000.00	[ICRA]A1+; Reaffirmed
Fund Based – Term Loan	5,541.03	5,650.00	[ICRA]AAA (Stable); Reaffirmed
Fund Based – Cash Credit	4,750.00	3,900.00	[ICRA]AAA (Stable); Reaffirmed
Non-fund Based	1,112.56	1,112.56	[ICRA]AAA (Stable); Reaffirmed
Short-term Loans	4,897.50	4,540.00	[ICRA]A1+; Reaffirmed
Unallocated	8,698.91	9,797.44	[ICRA]AAA (Stable)/ [ICRA]A1+; Reaffirmed
Fixed Deposit Programme	-	-	MAAA (Stable); Reaffirmed

**Instrument details are provided in Annexure-1; -Rs.2,000 crore programme with Rs. 289.62 crore outstanding as on March 31, 2019*

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 June 30, 2019), 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 (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 total loan book as of March 31, 2019 though they accounted for ~96% of the Stage 3 assets. On the public sector loan book, 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 (TEL), Uttar Pradesh (UP) and Andhra Pradesh (AP).

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 significantly 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 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. The outlook may be revised to Negative if there is a deterioration in the company's asset quality or solvency, or a significant change in the lending mix towards relatively risker exposures. A significant change in the GoI's majority ownership or HUDCO's strategic role or a sustained decline in 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 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, 2019. The company has an 8-member board (as of June 30, 2019), which includes two nominee directors of the GoI, three 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 been declining. The public sector loan book accounted for 96% (PY: 93%) of the company's total advances as on March 31, 2019. Further, ICRA notes that 91% (PY: 83%) of HUDCO's advances in the public sector loan book are backed by guarantees/budgetary allocations of the Central or state governments, thus reducing the credit risk for the company. As of March 31, 2019, only 4% of HUDCO's gross NPAs were related to the public sector book, even though it accounted for 96% of the total advances. The gross stage 3 percentage for HUDCO's public sector book stood at 0.2% as of March 31, 2019, compared to 97% for the private sector book, leading to an overall Stage 3 percentage of 4.5% as on March 31, 2019.

Comfortable capitalisation, though leverage is increasing – HUDCO's financial profile is currently characterised by comfortable capitalisation with a CRAR of 57.9% and a gearing of 5.6 times (3.7 times if GoI fully serviced bonds (GoI FSBs) are excluded) as of March 31, 2019. 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 that HUDCO's borrowing level and hence leverage stand increased on account of the sizeable issuance of GoI FSBs (Rs. 20,000 crore) in FY2019. Moreover, the incremental Rs. 20,000-crore allocation to Ministry of Housing and Urban Affairs (MoHUA) under the statement of extra budgetary resources in Union Budget 2019-20 indicates the possibility of an issuance of a similar size in FY2020 as well. Thus, the company's overall gearing level could cross 6.5 times in the near term though it is likely to remain rangebound excluding the GoI FSBs. Nevertheless, it is noted that the GoI FSBs are to be serviced through appropriate budgetary allocation to 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.

Healthy financial flexibility and liquidity profile – HUDCO's asset liability maturity (ALM) profile is characterised by positive cumulative mismatches in 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 ~62% 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 4% are in the form of refinance assistance 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.

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, 2019, HUDCO's exposure to TEL accounted for about 120% of its net worth, while its exposure to all three states aggregated 290% 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 also to 50% and 100%, respectively, by March 2023.

Notwithstanding the above concern, ICRA notes that HUDCO's asset quality improved in FY2019 because of minimal fresh slippages and sizeable recoveries, with the gross and net Stage 3 assets declining to 4.5% and 0.5%, respectively, as on March 31, 2019, from 7.2% and 2.0%, respectively, in March 2018. The legacy private sector book, which constituted ~4% of the gross portfolio as of March 31, 2019, accounted for 96% of the gross Stage 3 assets. Nevertheless, HUDCO has been making provisions above the regulatory requirement and had a good provision cover of 89% and a solvency profile with net Stage 3/net worth of ~3% as on March 31, 2019. The incremental impact on the asset quality indicators is likely to be limited considering the good provisioning cover and the recognition of almost all the stressed assets as Stage 3. 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 – While HUDCO's revenues in FY2019 benefitted from the sizeable income recognised in relation to recoveries, its net interest margin remained rangebound. Even after including the impact of Rs. 140 crore recovered from the settlement of six chronic stressed accounts and Rs. 336 crore from the part recovery of three other chronic stressed accounts, its profitability indicators remained modest. The company's return on equity was 11.2% in FY2019, which, if adjusted for the aforementioned income, would be lower than the four-year average of 9-10%. Nevertheless, ICRA notes that the company's relatively less risky exposure results in modest yields and hence profitability. Further, ICRA expects HUDCO's profitability indicators to show some improvement from the current level with an increase in business, controlled credit costs, and recoveries from the NPA accounts.

Liquidity position

HUDCO's ALM profile is characterised by positive cumulative mismatches in 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 ~62% 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 4% are in the form of refinance assistance from 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 June 30, 2019) 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) with NHB, and primarily finances social housing and UI projects. The GoI held a share of 89.81% in HUDCO, as of June 30, 2019, while the balance was held by the public.

HUDCO reported a profit after tax (PAT) of Rs. 1,180 crore in FY2019 against PAT of Rs. 1,010 crore in FY2018. It reported a capital adequacy ratio of 57.9% as on March 31, 2019 compared to 52.0% as on March 31, 2018.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Audited)
Accounting Standard	Ind-AS*	Ind-AS	Ind-AS
Total Income	3,585	4,184	5,591
PAT	842	1,010	1,180
Net Worth	9,074	9,943	10,956
Gross Advances	39,661	49,530	73,325
Return on Net Worth (%)	9.6%	10.6%	11.2%
Gearing (times)	3.2	3.8	5.6
CRAR	58.6%	52.0%	57.9%
Gross Stage 3 (%)	8.2%	7.2%	4.5%
Net Stage 3 (%)	2.7%	2.0%	0.5%
Net Stage 3/Net Worth	11.1%	9.3%	3.2%

*Source: HUDCO; Amounts in Rs. crore; *P&L as per I-GAAP; Balance sheet as per Ind-AS*

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
					Jul-19	Apr-19	Jul-18	May-18	Jul-17	Jul-16
1	Long-term Borrowing Programme FY2020	LT	30,000.00	3,735.00^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-
2	Long-term Borrowing Programmes up to FY2019	LT	31,118.76	31,118.76#	[ICRA]AAA (Stable)	[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+	[ICRA]A1+
4	Fund Based – Term Loan	LT	5,650.00	2,794.80*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
5	Fund Based – Cash Credit	LT	3,900.00	1,192.60!	[ICRA]AAA (Stable)	[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)	[ICRA]AAA (Stable)	-
7	Short-term Loans	ST	4,540.00	2,090.45!	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
8	Unallocated	LT/ ST	9,797.44	-	[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+	-
9	Fixed Deposit Programme	MT	~	~	MAAA (Stable)	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 July 19, 2019 with balance yet to be placed; # As of June 30, 2019; !As of April 03, 2019; ~Rs.2,000 crore programme with Rs. 289.62 crore outstanding as on March 31, 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)
INE031A08566	Taxable Bond	21-Feb-18	7.73%	15-Apr-21	675.00	[ICRA]AAA (Stable)
INE031A08582	Taxable Bond	19-Mar-18	7.70%	19-Mar-20	1500.00	[ICRA]AAA (Stable)
INE031A08590	Taxable Bond	27-Mar-18	7.68%	5-Apr-21	460.00	[ICRA]AAA (Stable)
INE031A08608	Taxable Bond	3-Apr-18	7.63%	3-May-21	100.00	[ICRA]AAA (Stable)
INE031A08616	GoI FSB*	12-Nov-18	8.60%	12-Nov-28	3000.00	[ICRA]AAA (Stable)
INE031A08624	GoI FSB*	28-Nov-18	8.52%	28-Nov-28	2050.00	[ICRA]AAA (Stable)
INE031A08632	Taxable Bond	5-Dec-18	8.46%	15-Feb-22	1000.00	[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	1000.00	[ICRA]AAA (Stable)
INE031A08673	GoI FSB*	30-Jan-19	8.38%	30-Jan-29	2066.90	[ICRA]AAA (Stable)
INE031A08681	GoI FSB*	14-Feb-19	8.58%	14-Feb-29	2563.10	[ICRA]AAA (Stable)
INE031A08699	GoI FSB*	15-Mar-19	8.41%	15-Mar-29	5320.00	[ICRA]AAA (Stable)
INE031A08707	GoI FSB*	25-Mar-19	8.37%	25-Mar-29	5000.00	[ICRA]AAA (Stable)
INE031A08715	Taxable Bond	7-Jun-19	7.61%	22-Jun-22	1485.00	[ICRA]AAA (Stable)
INE031A08723	Taxable Bond	20-Jun-19	7.62%	15-Jul-22	1000.00	[ICRA]AAA (Stable)
INE031A08731	Taxable Bond	18-Jul-19	7.34%	16-Sep-22	1250.00	[ICRA]AAA (Stable)
INE031A07AE6	Tax free Bond	24-Mar-14	8.71%	24-Mar-34	8.76	[ICRA]AAA (Stable)
NA	Commercial Paper	-	-	7-365 days	10,000.00	[ICRA]A1+
NA	Long-term Fund Based	-	-	-	9,550.00	[ICRA]AAA (Stable)
NA	Non-fund Based	-	-	-	1,112.56	[ICRA]AAA (Stable)
NA	Short-term Fund Based	-	-	-	4,540.00	[ICRA]A1+
NA	Unallocated	-	-	-	9,797.44	[ICRA]AAA (Stable) / [ICRA]A1+
NA	Fixed Deposits	-	-	-	~	MAAA (Stable)

*Source: HUDCO; *GoI FSBs (taxable); ~Rs.2,000 crore programme with Rs. 289.62 crore outstanding as on March 31, 2019*

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.

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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