June 28, 2022

National Housing Bank: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	8,000	8,000	[ICRA]A1+; Reaffirmed
Long-term Borrowing Programme	10,000	10,000	[ICRA]AAA (Stable); Reaffirmed
Total	**18,000**	**18,000**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings factor in National Housing Bank's (NHB) sovereign ownership, its pivotal role in the housing finance industry and its comfortable liquidity position arising from strong financial flexibility and access to low-cost long-term funds. The ratings also factor in NHB's improved asset quality, with a reduction in the gross non-performing assets (GNPA) ratio to 2.12% in 9M FYE6/22 from 2.91% in FYE6/21 (financial year for NHB is from July to June; FYE6/2021 refers to the year ending June 2021). This was due to the resolution of the debt of a large housing finance company (HFC), with NHB witnessing a recovery of Rs. 1,055 crore, leading to the provision being written back. The reversal of the credit provisions led to a significant improvement in the profitability in 9M FYE6/22 with a return on assets (RoA) of 2.8% and a return on equity (RoE) of 20.9%. The ratings also factor in NHB's adequate capitalisation (capital-to-risk weighted assets ratio (CRAR) of 15.9% as on March 31, 2022 compared to 12.14% as on June 30, 2021).

ICRA takes note of the relatively higher concentration norms and the consequently high credit concentration of NHB vis-à-vis commercial banks. However, the comparatively better credit profile of its top borrowers mitigates the concentration risk to some extent. Notwithstanding the exceptional profitability in 9M FYE6/22, NHB's earnings profile is characterised by relatively lower margins, given the development role played by it, though it benefits from low operating expenses due to its wholesale lending model.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that NHB will continue benefitting from its sovereign ownership and will keep playing a critical role in the development of the housing finance market, going forward as well, while maintaining stable earnings and reporting an improvement in the asset quality indicators.

Key rating drivers and their description

Credit strengths

Strong parentage and policy role – NHB is a wholly-owned subsidiary of the Government of India (GoI) and plays a key role in the development of the housing finance sector in India. It is the primary agency for providing refinance for housing loans to HFCs and various other primary lending institutions (PLIs; i.e. scheduled banks, regional rural banks, state apex cooperative housing finance societies, and state cooperative agriculture and rural development banks).

NHB was sanctioned additional funds under various schemes to infuse liquidity in the housing finance industry amid the Covid-19 pandemic. It is also one of the Central Nodal Agencies for the implementation of the credit-linked subsidy scheme under the 'Pradhan Mantri Awas Yojana - Housing for All by 2022' (PMAY). With the GoI's thrust on affordable housing, NHB is expected to continue playing a key policy role in the development of the mortgage market. Following the change in ownership, the regulatory role of NHB for HFCs was transferred to the Reserve Bank of India (RBI), though it continues to act in a supervisory capacity for HFCs.

Good financial flexibility – NHB enjoys good financial flexibility owing to its parentage and policy role. It mobilises funds at concessional rates from the allocation of the Affordable Housing Fund or AHF (Urban Housing Fund (UHF) and Rural Housing Fund (RHF) were merged into AHF in FYE6/19). Funds for AHF are financed from the priority sector lending shortfall of scheduled commercial banks (SCBs; 59% of borrowing profile as on June 30, 2021). In the wake of the pandemic, the RBI sanctioned an additional Rs. 10,000 crore under Special Liquidity Facility 2 in FY2022 to enable it to infuse liquidity into the housing sector. The asset-liability maturity profile also remained comfortable, supported by the long-term nature of the funds (such as the seven-year tenure of RHF/UHF deposits), while the lending book mostly constitutes loans with three-to-seven-year tenures (quarterly amortising).

Good asset quality indicators – NHB's asset quality indicators have traditionally remained superior, with funds primarily extended to banks and HFCs with strong creditworthiness. In FYE6/20, its gross NPA ratio increased to 2.99% as on June 30, 2020 from 0.01% as on June 30, 2019 due to the slippage of a large HFC and a cooperative bank. There were no further slippages in the portfolio after this and the gross NPA% consequently improved to 2.12% as on March 31, 2022 (2.91% as on June 30, 2021). The reduction was due to the resolution of the debt of the large HFC, with NHB witnessing a recovery of Rs. 1,054.8 crore. NHB continues to maintain a 100% provision cover against the balance NPAs and hence reported nil net NPAs as on March 31, 2022. Going forward, NHB's asset quality is expected to remain comfortable.

As per the NHB Act, NHB has mandates from scheduled banks, regional rural banks, and urban cooperative banks for direct debit from their current accounts with the RBI if there is a delay or default in the payment of refinance instalments. Moreover, as NHB functions as a supervisor of HFCs, its asset quality and collection efficiency in this segment remain superior. Also, as per the NHB Act, proceeds received by a borrowing institution, against loans financed/refinanced by NHB, shall be considered to have been received by the borrowing institution in trust and would accordingly be paid to NHB. With the support of this provision, NHB expects to make a substantial recovery against the HFC which defaulted in FYE6/20.

Adequate capitalisation – NHB's capitalisation remained adequate with a CRAR of 15.9% as on March 31, 2022 and a net worth of Rs. 11,522 crore. The capital position is further supported by steady accruals in the absence of dividend payouts. The reported capital adequacy is also supported by the relatively lower risk weights on NHB's refinance to high-rated SCBs and HFCs. NHB's overall gearing is expected to be maintained below 10 times and sufficient cushion is currently available for the same with the gearing at 5.58 times as on March 31, 2022.

Credit challenges

Relatively liberal exposure norms and consequently higher credit concentration – NHB has a concentrated lending portfolio with the top 20 borrowers accounting for 89% of the total advances in 9M FYE6/22. Though most of the top borrowers are high-rated banks and HFCs, the wholesale nature of the loans exposes NHB to lumpy slippages in the asset quality and could consequently impair the profitability ratios. Nevertheless, with a large proportion of the loan book consisting of exposures to higher-rated banks and HFCs, the risk is mitigated to some extent.

Moderate profitability indicators – As NHB plays a developmental role in the growth of the housing finance sector in India and is the primary agency for providing refinance for housing loans to HFCs and various other PLIs, it operates with lower net interest margins (NIMs). Its NIM stood at 1.3% in FYE6/21 (2.0% in FYE6/20), though the same improved slightly to 1.7% in 9M FYE6/22. It, nevertheless, remains below the historical average of 2.1% over the four-year period from June 2017 to June 2020. However, due to the negligible operating expenses (0.2% of average assets in 9M FYE6/22) and the writeback of credit provisions, the RoA (2.8% in 9M FYE6/22 vs. 0.7% in FY E6/21) and RoE (20.9% in 9M FYE6/22 vs. 6.8% in FYE6/21) improved significantly. Going forward, NHB would continue to report profitability in line with the historical averages.

Liquidity position: Strong

NHB's liquidity profile is comfortable with most of its asset book getting financed through long-term borrowings. Though it had some negative cumulative mismatches in the less-than-one-month bucket in 9M FYE6/21, it has managed to achieve positive cumulative mismatches in 9M FYE6/22 due to the reduction in the long-term borrowings from banks and the RBI. Although cumulative mismatches, as a percentage of assets, are an average of 2% in the less-than-3-months bucket (-2% in 1-3 months bucket), the same increased to an average of 14% in the 1-10 years bucket. Against NHB's debt obligations of Rs. 15,048 crore over the next one year, as on March 31, 2022, it has cash and bank balances and liquid investments of Rs. 5,514 crore. Further, given its good financial flexibility, NHB's refinancing ability remains high.

Rating sensitivities

Positive factors – Not applicable

Negative factors – ICRA could change the rating outlook to Negative or downgrade the ratings on a change in the ownership and/or a change in NHB's strategic role or importance to the GoI.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Rating Methodology for Banks Rating Approach - Implicit Parent or Group Support
Parent/Group Support	The ratings derive significant strength from NHB's strong parentage owing to its status as a wholly-owned subsidiary of the GoI and the expectation of support, given its strategic importance as the promoter and regulator of HFCs in India
Consolidation/Standalone	Standalone

About the company

National Housing Bank (NHB), a financial institution, was established in July 1988 under the National Housing Bank Act, 1987 to function as a principal agency to promote housing finance institutions and to provide financial and other support to such institutions. NHB, a wholly-owned subsidiary of the GoI, is also the supervisor of HFCs.

NHB's ownership was transferred to the GoI from the RBI for Rs. 1,450 crore in March 2019 as per announcements in the Union Budget for FY2020. In July 2019, the GoI transferred the regulatory functions of NHB to regulate HFCs to the RBI. NHB will continue to carry out a supervisory role for HFCs while playing a key policy role in the development of the housing industry.

NHB reported a net profit of Rs. 663 crore in FYE6/2021 (financial year ending June 2021) on an asset base of Rs. 90,594 crore compared to a net profit of Rs. 196 crore on an asset base of Rs. 90,160 crore in FYE6/2020. It reported a net profit of Rs. 1,813 crore in 9M FYE6/22. Gross NPAs stood at 2.9% while net NPAs were nil as on June 30, 2021 (3.0% and 0.8%, respectively, as on June 30, 2020). As on March 31, 2022, the GNPAs stood at 2.12% and net NPAs were nil. NHB's capital adequacy ratio was 15.91% as on March 31, 2022. NHB's portfolio (gross loans) stood at Rs. 71,230 crore, as on March 31, 2022, and consisted of refinancing to HFCs (85%) and SCBs (13%). The balance 2% consisted of refinancing to regional rural banks, small finance banks, urban cooperative banks and project financing to Housing Boards and microfinance institutions.

Key financial indicators

National Housing Bank	FYE6/2019	FYE6/2020	FYE6/2021	9M FYE6/2022
	Audited	Audited	Audited	Audited
Total income (Rs. crore)	5,262	5,033	4,817	4,788
Profit after tax (Rs. crore)	733	196	663	1,813
Net worth (Rs. crore)	8,931	9,129	9,795	11,522

National Housing Bank	FYE6/2019	FYE6/2020	FYE6/2021	9M FYE6/2022
Loan book (Rs. crore)	69,805	81,750	83,354	70,753
Total assets (Rs. crore)	75,598	90,160	90,594	80,677
Return on assets (%)	1.06%	0.24%	0.73%	2.82%
Return on net worth (%)	8.21%	2.14%	6.77%	20.98%
Gross gearing (times)	7.11	8.65	7.96	5.58
Gross NPA (%)	0.01%	2.99%	2.92%	2.12%
Net NPA (%)	0.00%	0.76%	0.00%	0.00%
Solvency (Net stage 3/Net worth)	0.00%	6.85%	0.00%	0.00%
CRAR (%)	16.00%	12.74%	12.14%	15.91%

Source: Company, ICRA Research; All ratios as per ICRA's calculations
Note: Financial year for NHB is from July to June; FYE6/2020 refers to the year ending June 2020

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 20, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jun 28, 2022	Jun 29, 2021	May 22, 2020	Apr 30, 2019
1	Commercial Paper Programme	Short Term	8,000	1,500	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
2	Long-term Borrowing Programme	Long Term	10,000	4,196.23	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

Source: ICRA Research

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Borrowing Programme*	Very Simple
Commercial Paper	Simple

** Assuming the new instruments issued will be similar in terms of complexity as the previous NCDs raised; Indicator will be changed once they are placed, if required*

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details as on June 20, 2022

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE557F07041	Tax-free Bonds	Mar-26-2013	6.82%	26-Mar-23	196.23	[ICRA]AAA (Stable)
INE557F07066	Tax-free Bonds	Aug-30-2013	8.01%	30-Aug-23	17	[ICRA]AAA (Stable)
INE557F07074	Tax-free Bonds	Aug-30-2013	8.46%	30-Aug-28	883	[ICRA]AAA (Stable)
INE557F07082	Tax-free bonds	Jan-13-2014	8.26%	13-Jan-24	139.41	[ICRA]AAA (Stable)
INE557F07090	Tax-free bonds	Jan-13-2014	8.63%	13-Jan-29	407.16	[ICRA]AAA (Stable)
INE557F07108	Tax-free bonds	Jan-13-2014	8.76%	13-Jan-34	713.43	[ICRA]AAA (Stable)
INE557F07116	Tax-free bonds	Jan-13-2014	8.51%	13-Jan-24	88.55	[ICRA]AAA (Stable)
INE557F07124	Tax-free bonds	Jan-13-2014	8.88%	13-Jan-29	85.73	[ICRA]AAA (Stable)
INE557F07132	Tax-free bonds	Jan-13-2014	9.01%	13-Jan-34	665.72	[ICRA]AAA (Stable)
INE557F07140	Tax-free bonds	Mar-24-2014	8.25%	24-Mar-24	97.97	[ICRA]AAA (Stable)
INE557F07157	Tax-free bonds	Mar-24-2014	8.68%	25-Mar-29	421.99	[ICRA]AAA (Stable)
INE557F07165	Tax-free bonds	Mar-24-2014	8.65%	26-Mar-34	73.56	[ICRA]AAA (Stable)
INE557F07173	Tax-free bonds	Mar-24-2014	8.50%	27-Mar-24	25.51	[ICRA]AAA (Stable)
INE557F07181	Tax-free bonds	Mar-24-2014	8.93%	28-Mar-29	332.61	[ICRA]AAA (Stable)
INE557F07199	Tax-free bonds	Mar-24-2014	8.90%	29-Mar-34	48.35	[ICRA]AAA (Stable)
INE557F14FG9	Commercial paper	May-31-2022	4.80%	1-Jul-22	1,500	[ICRA]A1+
NA	Long-term borrowing programme	Yet to be placed	NA	NA	5,803.77	[ICRA]AAA (Stable)
NA	Commercial paper	Yet to be placed	NA	7-365 days	6,500	[ICRA]A1+

Source: *ICRA Research, NHB*

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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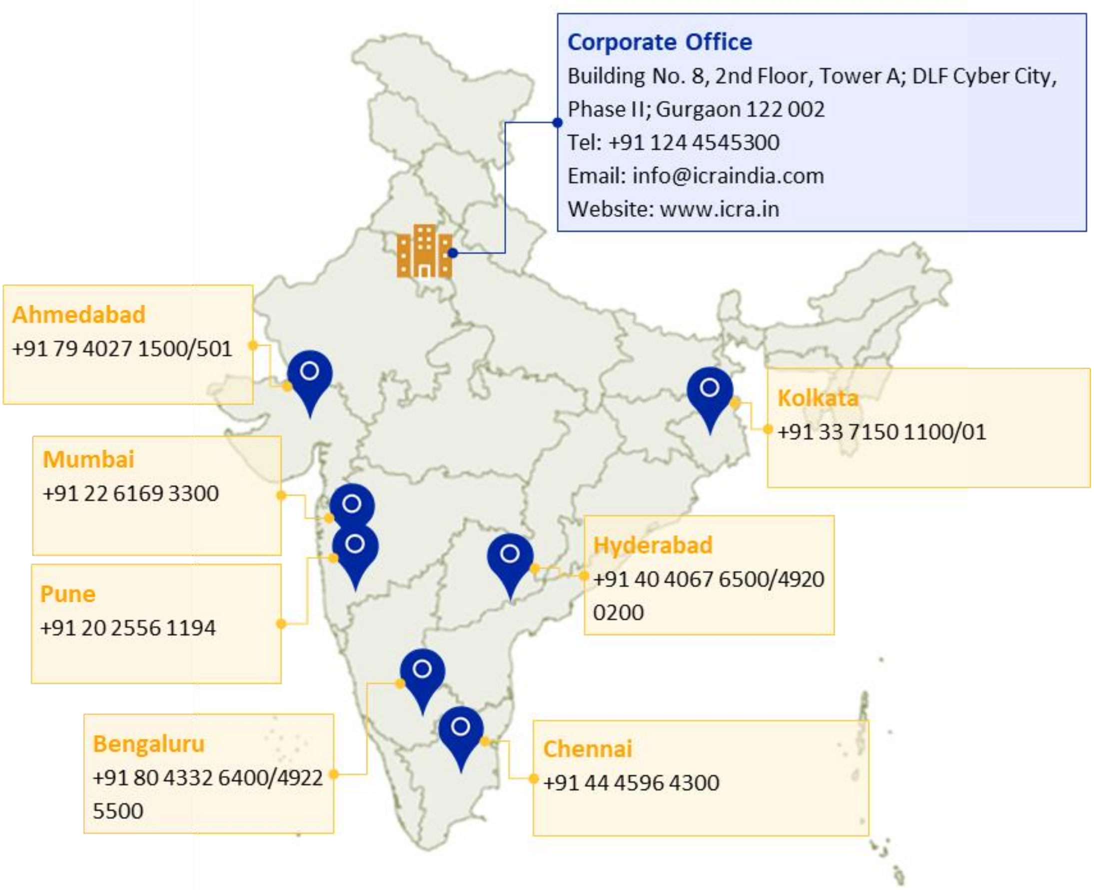

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