

January 19, 2024

National Housing Bank: Ratings reaffirmed; rating simultaneously withdrawn for Rs. 213.23 crore long-term borrowing programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	8,000.00	8,000.00	[ICRA]A1+; Reaffirmed
Long-term borrowing programme	9,786.77	9,786.77	[ICRA]AAA (Stable); Reaffirmed
Long-term borrowing programme	213.23	0.00	[ICRA]AAA (Stable); Reaffirmed and withdrawn
Total	18,000.00	17,786.77	

*Instrument details are provided in Annexure I

Rationale

The ratings factor in National Housing Bank's (NHB) sovereign ownership, its pivotal role in the housing finance industry and strong liquidity position from its good 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 0.77% in FYE6/2023¹ from 2.07% in FYE6/2022. The reduction was due to the resolution of the debt of the large housing finance company (HFC), with NHB witnessing a recovery of Rs. 676 crore in FYE6/2023 (Rs. 1,055 crore in FYE6/2022) and upgrade of Rs. 149-crore debt of a cooperative bank in FYE6/2023. NHB continues to maintain a 100% provision cover against the balance NPAs. Hence, it reported nil net NPAs (NNPAs) as on June 30, 2023. The ratings also factor in NHB's adequate capitalisation with capital-to-risk weighted assets ratio (CRAR) of 15.17% as on June 30, 2023 compared to 16.02% as on June 30, 2022.

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. In FYE6/2023, NHB reported increase in operational expenses due to branch expansion, which along with lower reversal of provisions, kept the overall profitability profile moderate with a return on assets (RoA) of 1.4%² and a return on equity (RoE) of 9.7%² (RoA of 2.3%² and RoE of 16.4%² in FYE6/2022). ICRA also 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 profiles of its top borrowers mitigate the concentration risk to some extent.

The Stable outlook on the long-term 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, while maintaining stable earnings and reporting further improvement in its asset quality indicators.

ICRA has reaffirmed and simultaneously withdrawn the rating for the Rs. 213.23-crore long-term borrowing programme as they have been repaid by the bank and no amount is outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

¹ Financial year for NHB is from July to June; FYE6/2023 refers to the year ending June 2023

² as per ICRA's calculations

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 key 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 was 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). NHB is also managing the recently launched Urban Infrastructure Development Fund. 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, NHB's regulatory role 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. It mobilises funds at competitive rates under allocation for the Affordable Housing Fund (AHF; 61% of the borrowing profile as on June 30, 2023) with bonds (29%) and other borrowings (10%) accounting for the balance. Funds for AHF are financed from the priority sector lending shortfall of scheduled commercial banks (SCBs). The asset-liability maturity profile also remained comfortable, supported by the long-term nature of the funds (such as the seven-year tenure of AHF 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 FYE6/2020, its GNPA 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 GNPA (%) consequently improved to 0.77% as on June 30, 2023 (2.07% as on June 30, 2022). The reduction was due to the resolution of the debt of the large HFC, with NHB witnessing a recovery of Rs. 676 crore in FYE6/2023 (Rs. 1,054.9 crore in FYE6/2022). NHB also upgraded the debt of Rs. 149 crore of a cooperative bank in FYE6/2023. NHB continues to maintain a 100% provision cover against the balance NPAs. Hence, it reported nil net NPAs (NNPAs) as on June 30, 2023.

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 debits 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.

Adequate capitalisation – NHB's capitalisation remained adequate with a CRAR of 15.17% as on June 30, 2023 and a net worth of Rs. 12,982³ 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 available for the same at present, with the gearing at 6.50 times as on June 30, 2023.

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 FYE6/2023. 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 improved to 2.0%³ in FYE6/2023 from 1.4%³ in FYE6/2022 because of improvement in yields and reduction in cost of funds. However, due to increase in operating expenses to 0.3%³ of average assets in FYE6/2023 from 0.1%³ of average assets in FYE6/2022 because of branch expansion and the lower writeback of credit provisions, the RoA moderated to 1.4%³ in FYE6/2023 from 2.3%³ in FYE6/2022 and RoE moderated to 9.7%³ in FYE6/2023 from 16.4%³ in FYE6/2022. Going forward, NHB is expected to continue reporting profitability in line with the historical averages.

Liquidity position: Strong

NHB’s liquidity profile is strong, with most of its asset book getting financed through long-term borrowings. NHB enjoys good financial flexibility given its sovereign ownership, which also helps the entity in raising long-term liabilities at competitive costs. NHB generates majority of its funding from deposits (61% of total funding) and bonds (29%) as on June 30, 2023, which helps it to keep its cost of funding low.

Rating sensitivities

Positive factors – Not applicable

Negative factors – ICRA could downgrade the ratings on a change in the ownership and/or a change in NHB’s strategic role or importance to the Gol.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Banks and Financial Institutions Rating Approach – Implicit Parent or Group Support Policy on withdrawal of credit rating
Parent/Group support	The ratings derive significant strength from NHB’s strong parentage owing to its status as a wholly-owned subsidiary of the Gol and the expectation of support, given its strategic importance as a supervisor of HFCs and its developmental role in the mortgage market
Consolidation/Standalone	Standalone

About the bank

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 provide financial and other support to them. NHB, a wholly-owned subsidiary of the Gol, is also the supervisor of HFCs.

NHB’s ownership was transferred to the Gol from the RBI for Rs. 1,450 crore in March 2019, as per announcements in the Union Budget for FY2020. In July 2019, the Gol transferred the regulatory functions of NHB to regulate HFCs to the RBI. NHB continues 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. 1,262 crore in FYE6/2023 on an asset base of Rs. 1,00,253⁴ crore as on June 30, 2023 compared to a net profit of Rs. 1,920 crore in FYE6/2022 on an asset base of Rs. 79,644⁴ crore as on June 30, 2022. The GNPA stood at 0.77% while net NPAs were nil as on June 30, 2023 compared to GNPA of 2.07% and nil net NPAs as on June

³ as per ICRA’s calculations

⁴ as per ICRA’s calculations

30, 2022. NHB's capital adequacy ratio was 15.2% as on June 30, 2023 (16.0% as on June 30, 2022). Its portfolio (gross loans) stood at Rs. 92,083 crore as on June 30, 2023 and consisted of refinancing to HFCs (84% of total loan book) and SCBs (12%). The balance 4% 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

	FYE6/2021	FYE6/2022	FYE6/2023
Total income	4,817	4,721	4,868
Profit after tax	663	1,920	1,262
Total assets	90,594	79,644	100,253
CET-1	11.57%	15.08%	14.14%
CRAR	12.14%	16.02%	15.17%
Return on average total assets	0.73%	2.26%	1.40%
Gross NPAs	2.91%	2.07%	0.77%
Net NPAs	0.00%	0.00%	0.00%

Source: NHB, ICRA Research; Amounts in Rs. crore; All figures and ratios as per ICRA's calculations

Note: Financial year for NHB is from July to June; FYE6/2023 refers to the year ending June 2023

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
				Jan 19, 2024	Jan 24, 2023	Jun 28, 2022	Jun 29, 2021	May 22, 2020
1 Commercial paper	Short-term	8,000.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+
2 Long-term borrowing programme	Long-term	9,786.77	7,861.99	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

Source: ICRA Research

*As on January 19, 2024

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: [Click Here](#)

Annexure I: Instrument details

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%	Mar-26-2023	196.23	[ICRA]AAA (Stable), withdrawn
INE557F07066	Tax-free bonds	Aug-30-2013	8.01%	Aug-30-2023	17.00	[ICRA]AAA (Stable), withdrawn
INE557F07074	Tax-free bonds	Aug-30-2013	8.46%	Aug-30-2028	883.00	[ICRA]AAA (Stable)
INE557F07082	Tax-free bonds	Jan-13-2014	8.26%	Jan-13-2024	139.41	[ICRA]AAA (Stable)
INE557F07090	Tax-free bonds	Jan-13-2014	8.63%	Jan-13-2029	407.16	[ICRA]AAA (Stable)
INE557F07108	Tax-free bonds	Jan-13-2014	8.76%	Jan-13-2034	713.43	[ICRA]AAA (Stable)
INE557F07116	Tax-free bonds	Jan-13-2014	8.51%	Jan-13-2024	88.55	[ICRA]AAA (Stable)
INE557F07124	Tax-free bonds	Jan-13-2014	8.88%	Jan-13-2029	85.73	[ICRA]AAA (Stable)
INE557F07132	Tax-free bonds	Jan-13-2014	9.01%	Jan-13-2034	665.72	[ICRA]AAA (Stable)
INE557F07140	Tax-free bonds	Mar-24-2014	8.25%	Mar-24-2024	97.97	[ICRA]AAA (Stable)
INE557F07157	Tax-free bonds	Mar-24-2014	8.68%	Mar-25-2029	421.99	[ICRA]AAA (Stable)
INE557F07165	Tax-free bonds	Mar-24-2014	8.65%	Mar-26-2034	73.56	[ICRA]AAA (Stable)
INE557F07173	Tax-free bonds	Mar-24-2014	8.50%	Mar-27-2024	25.51	[ICRA]AAA (Stable)
INE557F07181	Tax-free bonds	Mar-24-2014	8.93%	Mar-28-2029	332.61	[ICRA]AAA (Stable)
INE557F07199	Tax-free bonds	Mar-24-2014	8.90%	Mar-29-2034	48.35	[ICRA]AAA (Stable)
INE557F08FO5	Bonds	Feb-27-2023	7.79%	Mar-09-2026	1,979.00	[ICRA]AAA (Stable)
INE557F08FP2	Bonds	Mar-23-2023	7.77%	Apr-02-2026	1,900.00	[ICRA]AAA (Stable)
NA	Long-term borrowing programme*	NA	NA	NA	1,924.78	[ICRA]AAA (Stable)
NA	Commercial paper*	NA	NA	7-365 days	8,000.00	[ICRA]A1+

Source: NHB, ICRA Research; * Yet to be placed

Annexure II: List of entities considered for consolidated analysis – Not applicable

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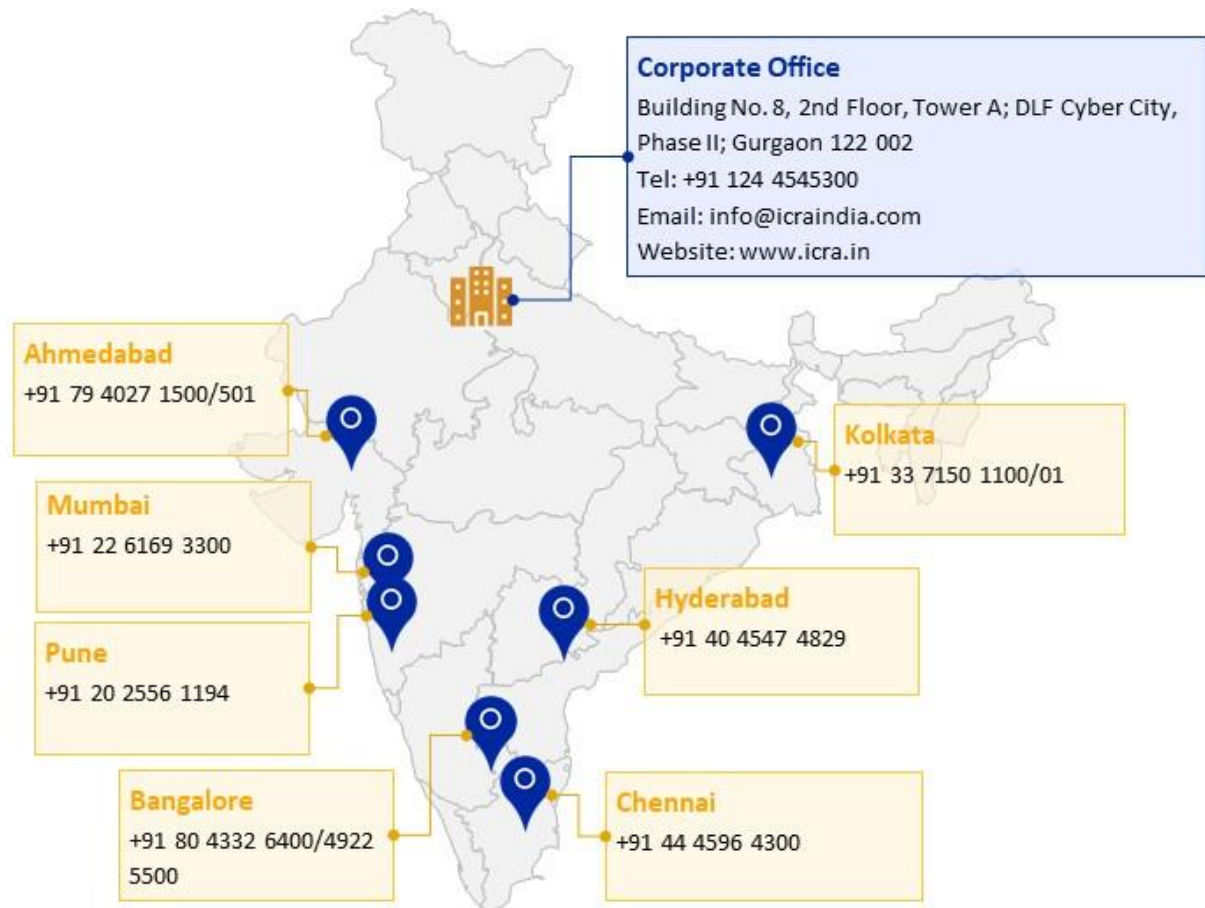
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