

National Housing Bank

December 13, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term instruments- Market Borrowing Programme	5,245.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Long-term instruments- National Housing Bank Deposits	4,000.00 (Reduced from 12,000.00)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Long-term instruments- National Housing Bank Deposits	-	-	Withdrawn
Total long-term instruments	9,245.00 (₹ Nine thousand two hundred forty-five crore only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings for the deposits and the market borrowing programme of the National Housing Bank (NHB) continues to factor in its status as the apex financial institution for the housing sector, the 100% ownership by the Government of India (GoI), and the strong financial flexibility arising from access to low-cost funds. The ratings continue to draw comfort from the NHB's consistent growth in business, adequate asset quality metrics, comfortable capitalisation profile, along with the strong liquidity position with the majority of the funding being long-term.

The ratings strengths are, however, partially offset by the NHB's modest profitability, given its policy objective and high entity-wise concentration of loans.

Given the NHB's strategic role and 100% government ownership, timely support from the GoI is expected to continue going forward, and any material change in the ownership of and/or support to the NHB will remain a key rating monitorable.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

Not applicable

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any material changes in government support and/or strategic role played by the NHB in supporting the housing sector.
- Reduction in the GoI's shareholding below 51%.

Detailed description of the key rating drivers

Key rating strengths

Apex financial institution for the housing finance sector in India: The NHB is chartered to function as a principal agency to promote housing finance and housing finance institutions and also to provide financial and other support to such institutions in India. The NHB is the primary agency to provide refinance of housing loans to housing finance companies (HFCs) and various other primary lending institutions (PLIs). Also, it acts as a supervisor for all the HFCs and is tasked with ensuring compliance with the Reserve Bank of India (RBI) directives through on-site inspection and offsite surveillance. The NHB has also been appointed as one of the two central nodal agencies (CNAs) for the implementation of the Credit Linked Subsidy Scheme (CLSS) under the Pradhan Mantri Awas Yojana (PMAY)-Housing for All.

A 100% GoI ownership marked with demonstrated government support: The credit profile of the NHB derives strength from the 100% sovereign ownership and expectation of continued strong support from the GoI given NHB's status as an apex institution for housing. Following the change in ownership of the NHB to the GoI from the RBI, the regulatory role of

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

the NHB for HFCs was transferred to the RBI, while NHB acts in a supervisory capacity for HFCs and assists the RBI in decision-making in regulatory aspects as and when required.

Along with regular low-cost affordable housing fund deposits, the NHB was sanctioned additional funds under various schemes amid the COVID pandemic to infuse liquidity in the housing finance industry. The RBI provided a special liquidity facility (SLF) of ₹10,000 crore and an additional liquidity facility of ₹5,000 crore to the NHB in FY20 (refers to the period from July 01 to June 30) and ₹10,000 crore under SLF-II in FY21 to infuse liquidity in the housing industry, all of which has reached its maturity as these were for one year. Furthermore, the NHB has been identified as a CNA by the Ministry of Housing and Urban Affairs (MoHUA), GoI, to implement the CLSS vertical of the PMAY. The NHB is a CNA to implement the Rural Housing Interest Subsidy Scheme (RHISS) vertical of the Housing for All initiative by the Ministry of Rural Development (MoRD), GoI.

Given its crucial role, the NHB has strong representation from the GoI with the board of directors of NHB, including senior professionals nominated by the RBI and the Central Government. As on June 30, 2022, the NHB has three directors from various ministries of the GoI and two directors from the state governments.

Sizeable market presence with the majority lending towards HFCs: The loan book of the NHB stood sizeable at ₹72,460 crore as on June 30, 2022, with five years compounded annual growth rate (CAGR) of 5% up to FY22. It further rose to ₹73,277 crore as on September 30, 2022. The growth has been kicked up with special liquidity schemes provided by the RBI during COVID, which was disbursed by the NHB. With the special liquidity schemes reaching their maturity of one year, the loan book as well as disbursement declined in FY22 to ₹72,460 crore (-13% y-o-y) and ₹19,313 crore (-44% y-o-y), respectively. For FY23, the bank has targeted disbursing around ₹25,000 crore, and accordingly, CARE Ratings Limited (CARE Ratings) expects the outstanding loan book to grow at a nominal rate in FY23.

Of the gross loan book as on June 30, 2022, 100% was towards the refinance segment and a small percentage towards direct finance. Of the refinance segment, the proportion of loans towards HFCs continued to dominate the portfolio mix with 86%, followed by loans towards scheduled commercial banks (SCBs) with 12%, and loans towards small finance banks (SFBs), regional rural banks (RRBs) and others comprised the balance of the refinance portfolio. Given the historical trend of reducing demand by SCBs due to the ample liquidity available with them, coupled with the NHB's mandate to support HFCs, the proportion of loans towards HFCs will continue to be in the majority.

Adequate asset quality: As per the NHB Act, NHB has the first lien against all the proceeds received against financed receivables. It also has mandates from SCBs, RRBs, and urban cooperative banks (UCBs) for direct debit of their current accounts with the RBI if there is a delay or default in payment of the refinance instalments. Moreover, being a supervisor of HFCs, it is expected to get priority over other lenders for debt payments by HFCs. Due to this, the NHB has traditionally enjoyed comfortable asset quality metrics. Up to FY19, the NHB had a negligible gross non-performing assets (GNPA) percentage, but with Dewan Housing Finance Corporation Limited (DHFL) and Punjab and Maharashtra Cooperative (PMC) Bank slipping to NPAs, the GNPA% increased to 2.99% as on June 30, 2020. With no new slippages in further years and the NHB recovering part dues from the DHFL account, owing to the NHB's first lien over proceeds from receivables, the GNPA% reduced to 2.05% as on September 30, 2022. With a 100% provision coverage ratio, the NHB reported nil net NPA% for all fiscals. The NHB follows stringent internal criteria for sanctions in order to maintain its asset quality and recovery performance.

With the NHB receiving a recovery of ₹628 crore against dues from DHFL in October 2022, CARE Ratings expects the asset quality to improve further by the end of FY23.

Comfortable capitalisation: The NHB reported healthy, although moderated, capitalisation levels with a total capital adequacy ratio (CAR) (per Basel-I) of 16.02% (against the regulatory maximum of 9%) as on June 30, 2022, from 12.14% due to a reduction in the loan book as on June 30, 2022, by 13% y-o-y. The capital position is further supported by steady accruals in the absence of dividend payouts. Additionally, the bank's capital adequacy has been supported by the NHB's refinance to SCBs that attract relatively lower risk weights. However, in the past few years, the share of the refinance to SCBs has been coming down, resulting in a higher pace of growth in the risk-weighted assets.

The gearing levels improved significantly in FY22 to 5.68x from 8.06x as on June 30, 2021, due to an aggregate decline of 16% y-o-y in borrowings and deposits.

Diversified resource profile: The NHB has a well-diversified resource profile. It gets funds at concessional rates from the allocation of the Affordable Housing Fund (AHF). Funds for AHF are financed from priority sector lending shortfalls of scheduled

commercial banks. Also, owing to its quasi-sovereign status, it can mobilise funds at cost-effective rates from various sources such as bonds, commercial paper (CP), funding from international agencies, etc. Along with it, the NHB has access to funds from the RBI under various facilities to infuse liquidity in the housing sector, amid the COVID pandemic. As on June 30, 2022, the borrowings stood at ₹65,632 crore through deposits (aggregate of AHF, Rural Housing Fund [RHF], and Urban Housing Fund [UHF]) forming 65% of the borrowings, bonds forming 29% of the borrowings, followed by term loans, CP, and foreign currency borrowings with 2% of the borrowings each.

Improving profitability profile: The profitability profile of the NHB has significantly improved in FY22 with it reporting a profit-after-tax (PAT) of ₹1,920 crore, up by two folds on a yearly basis, on account of a reversal of provisions, as the bank received recovery against its dues from DHFL. With this, the bank reported an improvement in return on total assets (RoTA) to 2.3% as on June 30, 2022, from 0.7% as on June 30, 2021. Due to its policy role, the NHB generates moderate spreads on its portfolio. The spreads and net interest margins (NIMs) have come down in FY22 mainly on account of the downward interest rate resets, which impacted a major part of its loan portfolio, partially offset by the lower coupon or interest charges paid by the NHB in its own bond issuances and other borrowings.

With the NHB expecting its disbursements to rise in FY23 on a yearly basis and part recovery received against DHFL in October 2022, CARE Ratings expects the profitability profile to remain higher than the pre-COVID level in FY23.

Key rating weaknesses

Credit concentration: The credit concentration risk for the NHB remains high, with the top 20 exposures accounting for 89% of the loan book as on September 30, 2022, as against 92% of the loan book as on June 30, 2021. The share of the largest single borrower also stood high at 17% of the total assets as on June 30, 2022.

Given the nature of its operations with a focus on the housing sector, the NHB is exempted from the RBI's credit concentration norms. The credit risk is partially mitigated, considering the robust asset protection mechanism provided in the NHB Act.

Liquidity: Strong

The liquidity position of the NHB is strong, with no negative cumulative mismatches across all the time buckets, as per the structural liquidity statement as on June 30, 2022. The NHB's long-term refinancing is largely matched by its access to long-term AHF deposits. The liquidity position is further supported by its demonstrated strong resource-raising ability, considering its sovereign ownership and positioned as a developmental role for the housing finance sector. The NHB has liquidity in the form of bank balances and investments in treasury bills and government securities of ₹3,950 crore, as against the next one-year debt obligations of ₹11,268 crore as on June 30, 2022.

Analytical approach

Standalone; factoring in linkages with the GoI in terms of 100% ownership by it and support in terms of representation on the board from various ministries, capital raising through low-cost funding by way of deposits, and being instrumental in major government schemes like the Liquidity Infusion Facility Scheme (LIFT) and special refinance scheme.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Government Support](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Housing Finance Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company

The NHB was established on July 9, 1988, under the NHB Act, 1987 of the Parliament as an apex institution in the housing segment. The NHB is chartered to function as a principal agency to promote HFCs and also to provide financial and other support to such institutions. The NHB is notified as a Public Financial Institution under section 4A of the Companies Act, 1956, and was a wholly owned subsidiary of the RBI, however, following the announcement of the GoI in Union Budget 2018, the RBI divested its entire stake to the GoI and the GoI now holds a 100% stake in the NHB. The NHB provides refinance support to SCBs, HFCs, RRBs, other development cooperative societies and development banks in the housing finance sector.

Brief Financials (₹ crore)	June 30, 2021 (A)	June 30, 2022 (A)	Q1FY23 (UA)
TOI	4,878.19	4,718.89	1,015.17
PAT	663.12	1,919.67	238.64
Interest coverage (times)	1.13	1.83	1.35
Total Assets	90,482.86	79,644.14	82,049.55
Net NPA (%)	0.00	0.00	0.00
ROTA (%)	0.7	2.3	1.2

A: Audited; UA: Unaudited.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
NHB deposits	NA	NA	NA	11-May-2022	0.00	Withdrawn
NHB deposits	NA	NA	NA	17-Mar-2023	4000.00	CARE AAA; Stable
Sub-total					4,000.00	
Tax-free bonds	INE557F07017	14-Dec-2012	7.19%	14-Dec-2022	126.00	CARE AAA; Stable
Tax-free bonds	INE557F07025	01-Jan-2013	7.17%	01-Jan-2023	110.00	CARE AAA; Stable
Tax-free bonds	INE557F07033	06-Feb-2013	6.87%	06-Feb-2023	125.00	CARE AAA; Stable
Tax-free bonds	INE557F07041	26-Mar-2013	6.82%	26-Mar-2023	196.23	CARE AAA; Stable
Tax-free bonds	INE557F07058	22-Mar-2013	6.89%	22-Mar-2023	82.90	CARE AAA; Stable
Tax-free bonds	INE557F07066	30-Aug-2013	8.01%	30-Aug-2023	17.00	CARE AAA; Stable
Tax-free bonds	INE557F07074	30-Aug-2013	8.46%	30-Aug-2028	883.00	CARE AAA; Stable
Tax-free bonds	INE557F07082	13-Jan-2014	8.26%	13-Jan-2024	139.41	CARE AAA; Stable
Tax-free bonds	INE557F07090	13-Jan-2014	8.63%	13-Jan-2029	407.16	CARE AAA; Stable
Tax-free bonds	INE557F07108	13-Jan-2014	8.76%	13-Jan-2034	713.43	CARE AAA; Stable
Tax-free bonds	INE557F07116	13-Jan-2014	8.51%	13-Jan-2024	88.55	CARE AAA; Stable
Tax-free bonds	INE557F07124	13-Jan-2014	8.88%	13-Jan-2029	85.73	CARE AAA; Stable
Tax-free bonds	INE557F07132	13-Jan-2014	9.01%	13-Jan-2034	665.72	CARE AAA; Stable
Tax-free bonds	INE557F07140	24-Mar-2014	8.25%	23-Mar-2024	97.97	CARE AAA; Stable
Tax-free bonds	INE557F07157	24-Mar-2014	8.68%	24-Mar-2029	421.99	CARE AAA; Stable
Tax-free bonds	INE557F07165	24-Mar-2014	8.65%	24-Mar-2034	73.56	CARE AAA; Stable
Tax-free bonds	INE557F07173	24-Mar-2014	8.50%	23-Mar-2024	25.51	CARE AAA; Stable
Tax-free bonds	INE557F07181	24-Mar-2014	8.93%	24-Mar-2029	332.61	CARE AAA; Stable
Tax-free bonds	INE557F07199	24-Mar-2014	8.90%	24-Mar-2034	48.35	CARE AAA; Stable
Proposed	NA	NA	NA	NA	604.88	CARE AAA; Stable
Sub- total					5,245.00	
Grand total					9,245.00	

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Borrowings-Market Borrowing Programme	LT	5,245.00	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Jan-22)	1)CARE AAA; Stable (11-Dec-20)	1)CARE AAA; Stable (06-Jan-20)
2.	NHB deposits	LT	-	-	-	1)CARE AAA; Stable (05-Jan-22)	1)CARE AAA; Stable (11-Dec-20)	1)CARE AAA; Stable (06-Jan-20)
3.	NHB deposits	LT	4,000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Jan-22)	1)CARE AAA; Stable (11-Dec-20)	1)CARE AAA; Stable (06-Jan-20)
4.	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (14-Jan-21) 2)CARE AAA; Stable (11-Dec-20)	1)CARE AAA; Stable (06-Jan-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not available

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Borrowings-Market Borrowing Programme	Simple
2.	NHB deposits	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please [click here](#).

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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