

India Ratings Affirms National Housing Bank at 'IND AAA'/Stable

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India Ratings and Research (Ind-Ra) has affirmed National Housing Bank's (NHB) Long-Term Issuer Rating at 'IND AAA' with a Stable Outlook and Short-Term Issuer Rating at 'IND A1+'. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Bonds*	-	-	-	INR100	IND AAA/Stable	Affirmed
Long-term deposit	-	-	-	INR100	IND AAA/Stable	Affirmed

*Details in Annexure

Analytical Approach: The ratings factor in NHB's systemic importance to the government of India (GoI) with its key role as a policymaker and supervisor for housing finance companies (HFCs) in India.

Key Rating Drivers

Sovereign Support: NHB is 100% owned by the GoI and has strong linkages with the latter. The GoI has a track record of extending funding support to NHB in the form of regular allocation of affordable housing funds from which NHB can borrow and lend further at competitive rates. The GoI, in the past, has allowed NHB to raise funds through tax-free bonds. The ratings accordingly continue to reflect the high probability of continued timely support from the GoI to NHB, mainly on account latter's systemic importance by being the supervisor and the sole agency for refinancing HFCs' loans in India.

Strategic Importance: Against the backdrop of a huge housing shortage among low-income segments, NHB has emerged as a significant public policy institution in adopting a multi-pronged approach to tackle this problem. As a backstop institution, NHB provides concessional loan assistance to mortgage lenders for better home ownership among low-income households. There is an improved flow of credit to low-income segments of the society, thereby promoting financial inclusion. Furthermore, the steps taken by the GoI, such as the appointment of NHB as a nodal agency for subsidy schemes such as the Pradhan Mantri Awas Yojana and providing funds to NHB through the Reserve Bank of India for further disbursement under the special refinance facilities in response to the COVID-19 crisis, boost NHB's strategic significance for the GoI.

Improvement in Asset Quality: A 13.8% yoy fall in the outstanding loan book to INR740 billion at FYE22 (year ended June 2022) and no incremental slippages coupled with a partial recovery in one non-performing asset (NPA) account led to an improvement in NHB's asset quality with the gross NPA ratio falling to 2.07% in FY22 (FY21: 2.92%). The net NPA remained nil in FY22 (FY21: nil). Ind-Ra expects the bank's asset quality ratios to remain fairly comfortable, given NHB's predominant lending to highly rated banks and HFCs.

Liquidity Indicator - Superior: Although NHB's funding is institutional in nature, its asset and liability tenors are largely matched, aided by the financing of most of its asset book through long-term borrowings. NHB had a well-managed asset liability book at FYE22 with no negative cumulative mismatches over a one-year horizon. Furthermore, the stock of liquid instruments such as government-securities (although some could be under lien) and bank deposits, which together stood at INR58.3 billion as on 30 June 2022, lend support to the liquidity. NHB also had undrawn sanctioned short-term bank limits of INR86 billion as on 30 June 2022. Moreover, the average monthly utilisation of the sanctioned short-term bank limits stood at 7% during the 12 months ended July 2022.

Increase in Capitalisation: The bank's capital to risk weighted assets ratio (CRAR) registered a robust increase to 16.02% in FY22 (FY21: 12.14%), largely on the back of a steep improvement in net profitability to INR19.2 billion (INR6.63 billion). The fall in outstanding loan book which lowered the risk weighted assets also facilitated the improvement in CRAR. The steep increase in net profitability was largely dictated by a writeback in the NPA provision (due to the partial recovery) coupled with an exceptional one-time income of INR4.28 billion related to a 1991-92 case. However, as a civil appeal has been filed in the Hon'ble Supreme Court against this receipt, a contingent liability of the amount received has also been booked in FY22. Any crystallisation of the said contingent liability however could impair the profitability.

Ind-Ra expects the CRAR to remain comfortably above the regulatory benchmark of 9% in the near-to-medium term.

Further Compression in Margins: NHB is not comparable with commercial banks in terms of profitability, given its policy role and the refinancing nature of its operations. Its net interest margin further contracted to 1.14% in FY22 (FY21: 1.25%, FY20: 1.69%), mainly on account of the downward interest rate resets which impacted a major part of its loan portfolio, partially offset by the lower coupon/interest charges paid by NHB in its own bond issuances and other borrowings. The bank's return on average total assets improved substantially to 2.26% in FY22 (FY21: 0.72%), mainly on the higher net profitability.

Concentration in Lending Portfolio: NHB continued to have a concentrated lending portfolio with the top 20 borrowers accounting for 88.4% of the total advances in FY22 (FY21: 90%). Although most of top borrowers are high-rated banks and HFCs, slippage of any of them in the substandard category could lead to steep deterioration in the asset quality ratios, and consequently, impair the profitability and capital adequacy.

Rating Sensitivities

Negative: A negative rating action could result from a dilution in NHB's role as a public policy institution for promoting HFCs in India or the Govt's significant reduction in NHB's stake to the extent of any weakening of the linkages.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on NHB, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please [click here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please [click here](#).

Company Profile

NHB was established in 1988 under an act of Parliament, with the status of an apex financial institution for housing finance in India and a setup to refinance, regulate and supervise HFCs and develop the domestic housing finance market in the country. However, in July 2019, the regulatory powers of NHB over HFCs were transferred to the Reserve Bank of India.

FINANCIAL SUMMARY

Particulars	FY21	FY22
Total assets (INR billion)	905.94	796.44
Net interest income (INR billion)	11.06	9.50
Net Income (INR billion)	6.63	19.2
Gross NPA (%)	2.91	2.07
Capital to risk weighted assets ratio (%)	12.14	16.02
Source: NHB, Ind-Ra		

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	1 October 2021	5 October 2020	7 October 2019
Issuer Rating	Long-/short-term	-	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+
Bonds	Long-term	INR100	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Long-term deposit	Long-term	INR100	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable

Annexure

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
Bonds	INE557F08FG1	18 December 2019	7.05	18 December 2024	INR17.2	IND AAA/Stable
Bonds	INE557F08FH9	21 January 2020	6.88	21 January 2025	INR19.5	IND AAA/Stable
Bonds	INE557F08FI7	15 April 2020	6.55	17 April 2023	INR20	IND AAA/Stable
Bonds	INE557F08FJ5	13 May 2020	5.80	15 May 2023	INR20	IND AAA/Stable
Bonds	Unutilised				INR23.3	IND AAA/Stable
Total					INR100	

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Bonds	Low
Long-term deposit	Low

For details on the complexity level of the instrument, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Rating of Public Sector Entities

Revenue-Supported Rating Criteria

The Rating Process

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