

India Ratings Assigns National Housing Bank's Additional Borrowings 'IND AAA'/Stable

28

NOV 2018

By Devika Malik

India Ratings and Research (Ind-Ra) has rated National Housing Bank's (NHB) additional borrowing as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Bonds*	-	-	-	INR60	IND AAA/Stable	Assigned
Long-term deposit	-	-	-	INR100	IND AAA/Stable	Assigned

*Yet to be issued

Analytical Approach: The rating approach factors in NHB's systemic importance to the government of India (GoI) in its Housing for All programme and it being the regulator of housing finance companies (HFCs).

KEY RATING DRIVERS

Sovereign Support: The ratings continue to reflect the high probability of continued timely support from the GoI to NHB. This is because of the latter's systemic importance by being the regulator for and the sole agency providing refinance to HFCs in India. NHB has strong linkages with the GoI, including the latter's 100% ownership.

The GoI has a track record of extending funding support to NHB in the form of enhancement in the rural housing fund and the urban housing fund (renamed fund for affordable housing to urban poor/economically weaker section/low income group). From time to time, the GoI has allowed NHB to raise funds through tax-free bonds. NHB's foreign borrowings are sovereign guaranteed.

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. The GoI's initiatives – such as allowing foreign direct investment up to 100% in development projects for townships and settlements, approving the Real Estate (Regulation and Development) Bill, 2013, establishing the UHF and appointing NHB as a nodal agency to subsidy schemes such as Rajiv Rinn Yojana and Pradhan Mantri Awas Yojana – strengthen its strategic significance.

In the FY19 union budget, the creation of a dedicated affordable housing fund to further push funding in the sector was announced. This INR100 billion fund will be under the aegis of NHB and its initial capital will be contributed by scheduled commercial banks having shortfall in the priority sector lending target at FYE18. The fund will be used only for the purpose of affordable housing refinancing and will further help NHB in lowering its cost of fund.

Sound Asset Quality: NHB's asset quality is significantly favourable compared with those of peers', despite the concentration of HFCs and commercial banks in its loan portfolio, indicated by a gross non-performing asset (NPA) ratio of mere 0.01% in FY18 (year ending 30 June) (FY17: 0.06%). The decline in the gross NPA ratio was due to recoveries to the tune of INR292.9 million and no fresh slippages. NHB maintains a 100% provisioning coverage ratio.

The low NPA ratio is on account of NHB's role as a regulator of HFCs, towards which the majority of NHB's lending is targeted, and strategy of lending only to high-rated banks. A sound asset protection mechanism in the form of an internal appraisal team and a credit rating model for its entire loan portfolio for assessing credit risk, in addition to on-site supervision also protects its credit profile.

Stable Profitability: NHB is not comparable with commercial banks in terms of profitability, given its policy role and the refinancing nature of its operations. It earned an average net interest margin of 1.98% over FY14-FY18. Despite falling yields on loans (FY18: 7.37%; FY14: 8.42%), NHB has managed to maintain its net interest margin by bringing down its cost of funds (6.10%; 7.00%).

Adequate Liquidity: Although NHB's funding is institutional in nature, its asset and liability tenors are largely matched, aided by financing most of the

asset book through long-term borrowings. NHB had a well-managed asset liability book at FYE18 and its asset liability bucket was overall positive. Even though there were asset-liability mismatches in certain maturity buckets up to the first three months of FY19, there is no liability mismatch in FY19 on a cumulative basis. Also, NHB is well-capitalised; its capital adequacy ratio was 18.66% at FYE18 (FYE17: 17.16%).

RATING SENSITIVITIES

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

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 in India and develop the domestic housing finance market. NHB also coordinates with the GoI and the Reserve Bank of India to develop and implement housing policies, develop new products and promote research in housing such as the NHB RESIDEX (residential real estate price index), which provides housing data trends in 26 major Indian cities.

FINANCIAL SUMMARY

Particulars	FY17	FY18
Total earning assets (INR billion)	569.82	620.76
Net interest income (INR billion)	11.65	10.56
Available funds (INR billion)	4.60	6.36
Return on average assets (%)	1.44	1.24
Gross NPA (%)	0.06	0.01
Net NPA (%)	0.00	0.00
Source: NHB, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	3 April 2018	27 February 2017	16 February 2016
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+
Long-term debt programme*	Long-term	INR10.5	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Bonds	Long-term	INR60	IND AAA/Stable	-	-	-
Long-term deposit	Long-term	INR100	IND AAA/Stable	-	-	-

* Details in annexure

ANNEXURE

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
Long-term debt programme – bonds	INE557F09310	24 December 2008	8.65	24 December 2018	INR7.5	IND AAA/Stable
Long-term debt programme – bonds	INE557F09336	31 March 2009	9.00-9.05	31 March 2019	INR3.0	IND AAA/Stable
Total					INR10.5	

COMPLEXITY LEVEL OF INSTRUMENTS

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

SOLICITATION DISCLOSURES

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Applicable Criteria

Rating of Public Sector Entities

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