

India Ratings Assigns National Housing Bank's Additional Bonds at 'IND AAA'/Stable; Affirms Existing Ratings

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India Ratings and Research (Ind-Ra) has taken the following rating actions on National Housing Bank's (NHB) debt instruments:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating Assigned along with Outlook/Watch	Rating Action
Bonds*	-		-	INR100	IND AAA/Stable	Assigned
Bonds*	-		-	INR200	IND AAA/Stable	Affirmed
Other fixed deposits	-		-	INR100	IND AAA/Stable	Affirmed

*Details in annexure

Analytical Approach

The ratings continue to 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.

Detailed Rationale of the Rating Action

The ratings reflect NHB's continued strong financial performance in FY24, led by the rise in its net interest income, adequate liquidity profile, and a reduction in its net non-performing assets (NPAs) and gross NPA position. Furthermore, Ind-Ra expects NHB's linkages with the GoI to remain strong over the long term.

List of Key Rating Drivers

Strengths

- Sovereign support
- Strategic importance
- Improvement in asset quality; no incremental slippages
- Stable margins
- Adequate capitalisation

Weaknesses

- Concentration in lending portfolio
- Substantial contingent liabilities

Detailed Description of Key Rating Drivers

Sovereign Support: Ind-Ra expects NHB's 100% sovereign ownership and strong linkage with the GoI to continue even in the medium- to long-run. 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, allowed NHB to raise funds through tax-free bonds. Ind-Ra expects the Gol to continue to provide support 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: Ind-Ra contemplates that in 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 society, thereby promoting financial inclusion. Furthermore, NHB has been appointed as the nodal agency for Pradhan Mantri Awas Yojana and can also borrow through treasury bills repurchase (TREPS).

In FY24 Union Budget, the government has set up the Urban Infrastructure Development Fund (UIDF), which was established for dealing with priority sector lending shortfall and to be used by public agencies to create urban infrastructure in tier 2 and tier 3 cities. NHB will manage this fund with an initial corpus of INR100 billion.

Improvement in Asset Quality; No Incremental Slippages: Ind-Ra expects NHB's asset quality to remain comfortable and stable in the near-to medium-term, mainly due to majority of its lending to highly rated banks and HFCs. While NHB's outstanding loan book increased 12.86% yoy to INR964.74 billion at 1QFY25, there have not been any incremental slippages. This, along with a partial recovery in NPA has improved NHB's asset quality in 1QFY25. The gross NPA ratio declined to 0.67% in 1QFY25 (1QFY24: 0.79%). In August 2024, NHB received INR612 million as part of an NPA resolution of Dewan Housing Finance Corporation Limited based on the plan submitted by Piramal Housing Finance Limited. Also, NHB has reversed the NPA against Punjab and Maharashtra Co-operative Bank (PMC Bank). PMC Bank has been amalgamated with Unity Small Finance Bank which will eventually repay bullet dues of INR1.49 billion to NHB in FY27.

Stable Margins: Ind-Ra notes that NHB being a policy institution will continue to have low and stable margins. NHB's margins cannot be compared with those of commercial banks. By design, NHB is unlikely to have high margins. NHB's net profit margin remained at 1.72% in 1QFY25 (1QFY24: 1.39%), supported by the growth in its loan book with almost nil slippages. The bank's operating margins (pre-impairment operating profit/average total assets) remained stable at 2.27% in 1QFY25 (1QFY24: 2.31%), mainly due to its better net profitability.

Adequate Capitalisation: Ind-Ra believes NHB's capitalisation (capital-to-risk weighted assets ratio (CRAR) and tier-1 capital ratio) would continue to be higher than the regulatory requirement and sufficient to accommodate future growth and take care of unforeseen slippages. The bank's CRAR improved to 41.95% in 1QFY25 (1QFY24: 15.98%), due to a change in the method of calculation. Till 30 June 2024, NHB has followed Basel-I risk framework for net worth and CRAR calculation. From 1 July 2024, NHB transitioned to Basel-3 (as per the Reserve Bank of India's (RBI) Master Directions no: RBI/DoR/2023-24/105 dated 21 September 2023). Also, its profitability improved to INR4.72 billion in 1QFY25 (1QFY24: INR3.44 billion) and tier I capital ratio to 41% (14.65%), reflecting the bank's adequate capitalisation levels.

Concentration in Lending Portfolio: Ind-Ra expects NHB's lending portfolio to be concentrated on 31 December 2024 as the top 20 borrowers accounted for 84.35% of the total advances in 9MFY25 (1QFY25: 82.82%; FY24: 82.85%). Although most of the top borrowers are high-rated banks and HFCs, a slippage of any of them in the substandard category could lead to steep deterioration in the asset quality ratios, and consequently, impair profitability and capital adequacy.

Substantial Contingent Liabilities: Ind-Ra expects the Gol to provide additional support in case NHB's contingent liabilities materialise. The bank had huge contingent liabilities of INR14.79 billion as of FY24 (FY23: INR14.69 billion). These contingent liabilities mostly relate to arbitration/court cases. NHB has actively pursued the resolution of these disputes and claims.

Liquidity

Superior: Although NHB's funding is institutional in nature, its assets 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. As per the asset-liability management statement dated 31 December 2024, up to period of one-year NHB has three negative

mismatches i) 13.16% in one-to-seven days bucket, ii) 99.99% in 15-to-28 days bucket, and iii) 95.83% in 29 days-to-three months.

The unutilised bank lines and liquid investments provide comfort on negative ALM. NHB has short-term bank lines of INR112 billion as on 31 December 2024, the average utilisation of which was 16.47% in the 12 months ended December 2024. Also, considering the high credit worthiness and well-established relationship of the company with lenders, it can continue to mobilise sufficient funds from domestic market to meet contingencies, if required. Furthermore, the stock of liquid instruments such as treasury bills, government security investments and TREPS of NHB together stood at INR92.51 billion as on 31 December 2024, providing comfort on ALM.

Rating Sensitivities

Positive: Not applicable.

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 Gol's significant reduction in NHB's stake to the extent of any weakening of 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](#).

About the Company

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 RBI.

Key Financial Indicators

Particulars	1QFY25	FY24	FY23
Total assets (INR billion)	1,069.28	1,121.53	1,002.52
Tangible equity (INR billion)	151.24	146.51	129.82
Net income (INR billion)	4.72	16.64	12.62
Return on average assets (%)	1.72	1.59	1.45
Gross NPA (%)	0.67	0.69	0.77
CET - 1 ratio (%)	41.00	15.13	14.14
Capital to risk weighted assets ratio (%)	41.95*	16.38	15.17

Source: NHB, Ind-Ra

*Till 30 June 2024, NHB has followed Basel-I risk framework for Networth and CRAR calculation. From 1 July 2024, NHB has transitioned to Basel-3 as per RBI's Master Directions no: RBI/DoR/2023-24/105 dated 21 September 2023. CRAR have been calculated as per new Basel-3 method.

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (billion)	Current Rating/Outlook	Historical Rating/Outlook					
				9 December 2024	26 September 2024	20 October 2023	28 September 2023	30 September 2022	1 October 2021
Issuer rating*	Long-term	-	-	-	-	WD	IND AAA/Stable	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+
Bonds	Long-term	INR300	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Other fixed deposits	Long-term	INR100	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable

*Short-Term Issuer Rating was withdrawn on 10 March 2023

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bonds	Low
Other fixed deposits	Low

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

Annexure

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
Special series priority sector bonds	INE557F09278	28 March 2002	9.75	10 September 2025	INR0.052	IND AAA/Stable
Special series priority sector bonds	INE557F09286	26 June 2002	9.75	10 September 2025	INR0.054	IND AAA/Stable
Bonds	INE557F08FQ0	25 April 2023	7.42	5 May 2026	INR16	IND AAA/Stable
Bonds	INE557F08FX6	26 April 2024	7.51	4 April 2031	INR30	IND AAA/Stable
Bonds	INE557F08GB0	19 December 2024	7.2	3 October 2031	INR39	IND AAA/Stable
Bonds	INE557F08GC8	27 January 2025	7.29	4 July 2031	INR34.80	IND AAA/Stable
Bonds	Unutilised	-	-	-	INR180.094	IND AAA/Stable
Bonds	INE557F08FG1	18 December 2019	7.05	18 December 2024	INR17.2	WD (paid in full)
Bonds	INE557F08FH9	21 January 2020	6.88	21 January 2025	INR19.5	WD (paid in full)
Total					INR300	

Source: NHB

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Evaluating Corporate Governance

Rating of Public Sector Entities

Financial Institutions Rating Criteria

The Rating Process

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