
Rating Rationale for National Housing Bank's proposed unsecured Non Convertible Debenture (NCD)/Bond Issue of INR 10,000 crore or INR 100 billion

NCD/Bond Issue Rating: BWR AAA

Outlook: Stable

Brickwork Ratings (BWR) has assigned '**BWR AAA**' (Pronounced **BWR Triple A**) for National Housing Bank's (NHB) proposed unsecured Non Convertible Debenture (NCD) / Bonds Issue of INR 10,000 crore (INR Ten Thousand Crore) with tenor up to 10 years.

'**BWR AAA**' Rating stands for an instrument that is considered to offer **Best** credit quality in terms of timely servicing of principal and interest obligations. The Rating has, inter alia, factored the status of NHB as the apex institution for the housing financial sector, Government of India support given NHB's development role in the housing sector, sole ownership of Reserve Bank of India, comfortable capitalization level and strong asset quality with zero NPAs.

Background

NHB incorporated in 1988 under the National Housing Bank Act 1987, began operations with an initial capital of Rs. 100 crore. Over the years, RBI has infused capital into the institution and currently, NHB has a capital base of Rs. 450 crore.

NHB, is the apex institution in the Housing finance sector. It operates as the principal agency to promote Housing Finance Institutions both at the local and regional levels and provides financial and other support to such Institutions.

It is the regulator for Housing Finance Companies and issues guidelines to them on prudential norms on income recognition, accounting standards, asset classification, provision for bad and doubtful debts, capital adequacy norms etc. Housing Finance Companies are required to furnish statements/returns as directed by NHB which also carries out inspection of such Institutions.

NHB extends refinance support to HFCs, scheduled banks, RRBs, state-level apex cooperative housing finance societies, and state cooperative agriculture and rural development banks. Additionally, it manages the Rural Housing Fund (RHF) wherein Scheduled Commercial Banks deposit in the fund based on shortfall in their priority sector advances.

Besides the above, NHB undertakes research and surveys on construction techniques and other studies relating to shelter, housing and human settlement.

NHB's resource base has been increased by Rs. 2000 crore by the Government of India through its "Stimulus package" for refinance operation in rural housing sector in the last Budget 2009-10.

The Reserve Bank of India had also extended a special Refinance facility of Rs. 4000 crore up to Mar 2010 to NHB under the provisions of section 17(4DD) of the Reserve Bank of India Act, 1934 to meet the liquidity requirement of the housing finance companies.

NHB is increasing its exposure to housing scheme in rural areas and project finance via Housing Micro Finance (HMF), which covers 15,607 housing units located in urban and rural areas of the country. During FY2009, it has introduced a new refinance scheme for construction finance for affordable housing with special focus on Tier II and Tier III cities through various intermediaries by way of refinance.

Management

NHB is a 100% owned entity of the Reserve Bank of India. The Bank's board of directors is appointed under section 6 of the NHB Act, 1987. The Board is headed by the Chairman and Managing Director, and has eleven other Directors. The composition of eleven Directors includes four Independent Directors, two nominated by RBI, three officials of the Central Government, and two officials of the State Government.

Financial Performance

During FY ending 30th June 2009, NHB has made a Disbursement of Rs. 10,889.03 crore, of which Refinance disbursements were Rs. 10,853.62 crore and Project Finance was Rs. 35.41 crore. The Bank's total income increased to Rs. 1691.51 crore in FY2009 from Rs. 1581.51 crore in FY2008. Profit before tax increased to Rs. 350.30 crore in FY2009 as compared to Rs. 257.60 in FY2008. Profit after tax increased by 39% to Rs. 235.62 crore in FY2009 as compared to Rs. 169.70 crore in FY2008. As a result the return on equity capital increased by 52.4% in FY2009 from 37.7% in FY2008.

The bank's Net Owned Funds increased to Rs. 2230.49 crore in FY2009 as compared to Rs. 1998.80 crore in FY2008. Reserves increased to Rs. 1791.99 crore compared to Rs. 1557.83 crore in FY2008. The bank's deposits increased to Rs. 2248.13 crore compared to Rs. 0.25 crore in FY2008 mainly due to Deposits from Banks under Rural Housing of Rs. 1760.33 crore. The bank's gross NPAs were nil and CRAR was 18% in FY 2009. NHB's gross borrowing during FY2009 was Rs. 18,166.75 Crore including Long term and Short term as against Rs. 12109.45 crore in FY 2008. During the year the bank has mobilized resources from various sources. As a result, it has comfortable capital adequacy ratio at 18.19% in FY2009 as compared to 24.51% in FY2008. The bank's interest Income as a percentage to average working funds increased to 8.25% in FY2009 as compared to 7.51% in FY2008. The Bank has slightly improved its net interest margins in FY2009. Consequently, The Bank's Return on average Assets increased to 1.20% in FY2009 as compared to 0.84% in FY2008. The bank's off-balance sheet exposure came down by 22.45% to Rs. 86.36 crore in FY2009 as compared to Rs. 111.37 crore in FY2008.

The Bank had availed a Govt. India guaranteed ECB of Rs. 546 crore from Asian Development Bank. As of Dec 31, 2009, the outstanding amount of the said ECB was Rs.384.33 Crore. NHB's contingent liabilities were Rs. 100 crore as of Dec 2009. NHB's Balance sheet still contains certain entries relating to the past Securities Trading transactions pending decision from the supreme Court.

Financial performance of NHB for the period 2007 to 2009 and Dec -2009 (Half year) are given in Annexure I and II.

NHB's overall sanctions grew from Rs. 13,362 Crore during FY2008 to Rs. 15,729 Crore during FY2009, registering a growth of 18% YoY. Total disbursements increased from Rs. 9036 Crore during FY2008 to Rs. 10,889 Crore during the year FY 2009 with a growth rate of 21% YoY. Out of Rs. 10,889.03 Crore disbursements, Rs. 10,853.62 Crore was Refinance disbursements for HFCs & scheduled banks, while Rs. 35.41 Crore was for Project Finance.

Table 1: NHB's performance

Year Ended 30th June	2009	2008	2007	2006
Sanctions	15,729	13,362	9,101	9,076
Disbursements	10,889	9,036	5,672	5,998
Net Owned Fund	2,230	1,999	1,831	1,730
Gross NPAs	Nil	Nil	27	27
Net NPAs	Nil	Nil	Nil	Nil
Operating Profit (PBITDP)	354	270	204	201
Profit After Tax (PAT)	236	170	101	86
PAT per Employee	2.62	2.13	1.41	1.05
CRAR (%)	18	24	23	22

Sanction, Disbursement & Outstanding Refinance in FY10.

During the nine month period ending March of FY 2010, NHB has sanctioned Rs. 9788.80 crore of refinance against which it has disbursed Rs. 4700.08 crore to different Institutions as under

Sector (Rs. Crore)	Disbursement (Nine Months Ending)	Cumulative Refinance Outstanding
Scheduled Commercial Bank	2245.30	6251.69
Housing Finance Companies	2229.78	10440.80
Co-operative Institutions	225.00	557.68
Total	4700.08	17250.17

Rural Housing Performance

The Bank had made disbursement of Rs. 2479.92 crore in FY2009, a 22.85% of total refinance release of Rs. 10,853.62 crore under its various schemes, to Golden Jubilee Rural Housing Refinance Scheme (GJRHRS) and the newly launched Rural Housing Fund (RHF). This Refinance amounts to about 32% of total outstanding loans for rural housing.

Rural Housing Fund

In FY2009, RBI allocated Rs. 2000 crore under the fund to be deposited by Commercial Banks with NHB and by the end of Jun 2009 the Bank has received an amount of Rs. 1763.46 crore. During Finance Bill 2009-10, The Govt. has allocated Rs. 2000 crore under the Rural Housing Fund against which Rs. 998.68 has been received by the Bank as of Dec 2009.

Policy Initiatives

The Bank introduced a new finance scheme to provide construction finance for affordable housing in FY2009. Under the scheme, the Bank has extended support to housing activities with special focus on Tier II and Tier III cities through refinancing various intermediaries.

Risk Management

The bank's Risk management Advisory Committee (RMAC) monitors the risks through regular review of risk management policies and functions related to ALM, Credit risk and Operational risk management. Asset Liability Management Committee Monitors the management of market risk of the Bank; the Credit Risk Management Committee monitors the credit risk and the operational risk is monitored by Operational Risk Management committee. The Bank has an appropriate reporting system through which the respective Committees report to the RMAC and the latter reports to the Board.

Outlook

The Bank is playing an important role towards providing affordable housing to the low and middle income groups. Besides playing a leading role in formulating the National Urban Housing and Habitat policy, NHB is playing an important role in helping various

State Governments in framing Housing policies. NHB is also planning to undertake project Finance (direct lending) activities. The aim of the Bank’s project finance policy is to facilitate increase in the overall housing stock in the country through supply side intervention with special emphasis on the housing needs of the economically weaker sections of the society. Considering the demographic profile of India and growth rate of the economy, the housing sector (and consequently housing finance) is expected to record growth rate of about 20% during the current year. According to the Govt.’s estimates, the total housing shortage in urban India alone at the end of the 10th five Year plan is estimated to be 24.71 million dwelling units which is expected to further go up to about 26.53 million by the end of the 11th Five year plan. NHB’s continued growth is attributable to increased urbanization, rapid growth of nuclear families and consequent increase in demand for housing and the fiscal incentives provided by the Govt. of India.

NHB is the apex and systemically important institution channelizing resources to the crucial Housing sector of the country. Considering the strategic regulatory and refinancing roles NHB is playing, it is expected to receive continued support from the Govt. of India.

Analysts	Media
Mukesh Mahor , Lead Analyst mukesh.m@brickworkratings.com	Anitha G media@brickworkratings.com
Milind Diwakar , Co-Analyst milind.d@brickworkratings.com	Relationship Contact Ramaswamy Annam Director - Business Development ramaswamy@brickworkratings.com
Phone: 1-860-425-2742	

Disclaimer: Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.

Brickwork Ratings (BWR) has adopted SEBI's standardized Rating Symbols and their definition advised vide SEBI circular CIR/MIRSD/4/2011 dated June 15, 2011, with effect from June 21, 2011. While there is no change in the Rating symbol as a consequence to the above, for the amended definition of the Rating, please refer to <http://www.brickworkratings.com/scale.html>. It is clarified that the said change in the definition should not be construed as a change in the Rating.

Annexure I				
National Housing Bank				
Balance sheet				
(Rs. In Crores)	Dec-2009 (Half Year)	Jun-09	Jun-08	Jun-07
Capital	450.00	450.00	450.00	450.00
Reserves	1810.93	1791.99	1557.83	1389.07
Bonds and Debentures	5168.89	3582.22	5699.30	9083.25
Subordinated Debts	0.00	0.00	400.00	400.00
Deposits	3396.93	2248.13	0.25	0.00
Borrowings	7695.16	10900.69	10865.88	8995.68
Deferred Tax Liability (net)	81.30	76.51	77.29	76.06
Current Liabilities and Provisions	569.51	601.28	553.27	542.82
Other Liabilities	272.49	272.49	272.49	272.49
HLA deposits with Banks & HFCs -as per contra	3.97	3.98	6.17	14.02
TOTAL	19579.70	19927.29	19882.48	21223.39
Cash and Bank Balances	1665.60	1498.30	1089.63	972.01
Investments	870.53	1230.05	719.48	288.23
Loans and Advances	16789.44	16850.96	17671.17	19571.85
Fixed Assets	19.98	20.76	21.81	23.37
Other Assets	230.15	323.24	374.22	353.91
HLA deposits with Banks & HFCs -as per contra	3.97	3.98	6.17	14.02
TOTAL	19579.70	19927.29	19882.48	21223.39
Contingent Liability	100.02	129.67	205.05	200.54

Annexure II				
National Housing Bank				
Profit and Loss Account				
(Rs. In Crores)	Dec-2009 (Half Year)	2009	2008	2007
Expenditure				
Interest on Borrowings and Deposits	516.42	1272.90	1264.59	1213.19
Staff Salaries, Allowances and Terminal Benefits	3.44	4.36	3.39	4.45
Rent, Taxes, Electricity and Insurance	1.17	1.37	1.03	0.96
Stationery, Printing and Advertisement	0.52	1.72	0.57	0.72
Depreciation	1.15	2.62	2.90	2.39
Brokerage, Guarantee Fee and Other Finance Charges	14.73	8.78	3.61	3.75
Stamp duty on Borrowings	2.34	3.32	0.59	2.03
Provision for Bad and Doubtful Debts	12.00	18.10	13.60	10.75
Income Tax	75.35	114.50	86.40	69.20
Balance of Profit c/d	149.37	235.62	169.70	114.31
Total	796.51	1691.51	1581.51	1442.33
Transfer to Reserve Fund		202.33	152.18	61.71
Balance Carried to Balance Sheet	135.37	14.75	11.71	9.15
Total	149.37	242.21	176.81	114.39
Income				
Interest on Loans & Advances and Bank Deposits	733.94	1580.22	1493.47	1275.91
Interest Income and Profit on Interest Rate Swaps	15.01	4.74	2.76	149.62
Income from Investments	13.22	39.49	26.67	3.89
Profit on Sale of Investments	1.89	1.65	7.89	1.71
Profit on Purchase and Sale of Mutual Fund	6.55	29.04	21.71	9.66

Provisions no longer required written back	0.96	13.68	22.25	1.33
Provisions and Contingencies	6.58	7.08	0.00	0.08
Other Income	16.05	9.81	3.61	1.13
Total	796.51	1691.51	1581.51	1442.33
Balance of Profit brought down	149.37	235.62	169.70	114.31
Transfer from Investment Fluctuation Reserve		6.59	7.08	0.00
Total	149.37	242.21	176.78	114.39