No. HUDCO/SE/2022-23 November 17th, 2022

Listing Department BSE Limited, Phiroze Jeejebhoy Towers, Dalal Street, Mumbai -400001 Scrip Code-540530	Listing Department National Stock Exchange of India Ltd. Exchange Plaza, C-1, Block-G, Bandra Kurla Complex, Bandra (E), Mumbai-400051 NSE Symbol-HUDCO

Sub: Announcement under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – International Credit Rating by Moody's Investors Service, Singapore

Dear Sir/ Ma'am,

In compliance with Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, this is to inform you that Moody's Investors Service, Singapore, by Credit opinion dated November 17th, 2022 has communicated as under:

- Moody's Investor Service, Singapore – has affirmed the ratings of Housing and Urban Development Corporation Ltd. (HUDCO) at "Baa3" level with 'Stable' outlook, equivalent to that of India's Sovereign Rating.

The Credit Opinion in this regard published by Moody's Investors Service is attached.

The above is submitted for your information and dissemination.

Thanking You,

Yours Sincerely

For **Housing & Urban Development Corporation Ltd.**

HARISH KUMAR SHARMA

Digitally signed by HARISH KUMAR SHARMA
Date: 2022.11.17 14:15:06 +05'30'

Harish Kumar Sharma
Company Secretary & Compliance Officer

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
17 November 2022

Update

Send Your Feedback

RATINGS

Housing and Urban Development Corp Ltd

Domicile	India
Long Term Rating	Baa3
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Lingxiao Shirley Zeng +65.6398.8318
Analyst
shirley.zeng@moodys.com

Srikanth Vadlamani +65.6398.8336
VP-Sr Credit Officer
srikanth.vadlamani@moodys.com

Clarabelle Tan +65.6311.2680
Associate Analyst
clarabelle.tan@moodys.com

Alka Anbarasu +65.6398.3712
Associate Managing Director
alka.anbarasu@moodys.com

Housing and Urban Development Corp Ltd

Update to credit analysis

Summary

Housing and Urban Development Corp Ltd's (HUDCO) Baa3 issuer rating is at the same as Government of India's sovereign rating (Baa3 stable) based on our assumption of a very high level of government support in times of need. The Baa3 rating incorporates one notch of government support uplift from the company's ba1 Baseline Credit Assessment (BCA).

HUDCO's ba1 BCA reflects its strong capitalization and good asset quality, a result of state government guarantees and repayment provisions in state budgets.

HUDCO mainly lends to entities owned by Indian state governments, with explicit guarantees from the state governments, as well as a provision for loan servicing from the respective state budgets. This results in a low-credit risk and stable asset quality.

Its capitalization is strong, with tangible common equity/tangible managed assets of 18.3% as of 31 March 2022, while the reported capital adequacy ratio (CAR) was materially higher at around 64.8% as of the same date. The very high CAR is because its exposures to state government entities are risk-weighted at 20%. HUDCO's capitalization is supported by its robust profitability, with a return on assets (ROA) of 2.2% for the fiscal year that ended 31 March 2022 (fiscal 2022).

We expect the company's liquidity and funding to remain stable over the next 12-18 months because of its status as a government-owned company. While the company largely depends on wholesale funding to meet its operational requirements, its liquidity is tight because it holds limited liquidity on its books.

Credit strengths

» Most of its loans are to state government entities, which reduces credit risk.

» The company's robust profitability supports internal capital generation

Credit challenges

» High reliance on wholesale funding

» Limited liquidity on its books

Outlook

The outlook on HUDCO's ratings is stable, in line with the stable outlook on the Indian government's rating.

Factors that could lead to an upgrade

» HUDCO's ratings could be upgraded if the sovereign rating is upgraded.

» The company's BCA could be upgraded if there is a significant and sustained improvement in its on balance liquidity to buffer against potential adverse market conditions.

Factors that could lead to a downgrade

» The issuer ratings could be downgraded if India's sovereign rating is downgraded or there is an indication of diminishing government support.

» The company's BCA could be downgraded if the proportion of government-guaranteed loans decreases significantly.

Key indicators

Exhibit 1

Housing and Urban Development Corp Ltd (Consolidated Financials) [1]

	03-22[2]	03-21[2]	03-20[2]	03-19[2]	03-18[2]	CAGR/Avg.[3]
Total managed assets (INR Million)	788,936.7	769,577.4	761,257.6	728,283.3	489,141.7	12.7[4]
Total managed assets (USD Million)	10,411.6	10,525.8	10,062.7	10,512.9	7,499.7	8.5[4]
Net Income / Average Managed Assets (%)	2.2	2.1	2.3	2.0	2.3	2.2[5]
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	18.3	17.1	16.2	15.0	20.3	17.4[5]
Problem Loans / Gross Loans (Finance) (%)	3.5	4.0	3.8	4.4	7.2	4.6[5]
Net Charge-offs / Average Gross Loans and Leases (%)	0.0	0.1	0.5	0.3	0.1	0.2[5]
Debt Maturities Coverage (%)	2.7	20.0	1.5	1.2	1.5	5.4[5]
Secured Debt / Gross Tangible Assets (%)	19.7	23.5	25.5	26.4	39.9	27.0[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime.
Sources: Moody's Investors Service and company filings

Profile

Housing and Urban Development Corp Limited (HUDCO) was incorporated on 25 April 1970. The company was registered as a public financial institution under Section 4A of the Companies Act, 1956, on 9 December 1996, by the Ministry of Finance. After becoming a financial institution, the National Housing Bank issued a certificate of registration in July 2001 to permit HUDCO to carry on the business of a housing finance institution.

The primary purpose of the company is to provide financing to and support housing and urban development programs in India. The Indian government is the largest shareholder of the company with an 81.8% shareholding as of 30 June 2022.

Detailed credit considerations

Low-credit-risk business model, supported by lending to state government entities

Asset quality is a key credit strength of HUDCO because of its high provisioning coverage and preponderance of low risk assets. Almost all of HUDCO's lending is to entities owned by state governments, with 96.7% of outstanding loans to these entities as of 30 June 2022.

According to HUDCO, as of 30 June 2022, around 94% of the loans to state government-owned entities carried a repayment guarantee from their respective governments. Further, we estimate that around 81% of these loans are supported by a budgetary provision to finance development projects despite insufficient revenue streams. As a result, HUDCO's asset risk largely reflects the credit risk of the Indian state governments and so far, the state governments have had a strong loan repayment track record with minimal delinquencies.

HUDCO's gross nonperforming loan ratio, based on Stage 3 loans as a percentage of the loan portfolio was 3.6% as of 30 June 2022, with 79% of Stage 3 loans originating from its exposure to the private sector. The company's asset quality has stabilized over the past few years after it stopped lending to the private sector in 2013.

Provision coverage ratio (provisions as a percentage of gross nonperforming loans) was broadly stable at 89% as of 30 June 2022, compared with 90% a year earlier. The coverage level is relatively higher than that of other Indian financial institutions and met the prudential norms set by the Reserve Bank of India.

Capitalization to remain high because of moderate loan growth and robust profitability

As of 31 March 2022, HUDCO's tangible common equity/tangible managed assets increased to 18.3% from 17.1% a year earlier because of muted loan growth of 3.6% over the same period. The company's reported CAR also remained high at around 64.8% as of 31 March 2022, significantly higher than the minimum regulatory capital ratio. The higher CAR is a result of its exposures to state government entities that are risk-weighted at 20%.

The company's capitalization is supported by its robust profitability, with stable ROA of 2.1% in the first two quarters of fiscal 2023 and the year-earlier period. Reported net interest margin was stable at 3.3% over the same period, with decrease in loan yield compensated by lower costs of funds.

HUDCO's profitability benefits from strong interest spread, a result of charging the state government-owned entities higher rates than those at which the state governments are able to borrow from the capital market through state development loans, while funding costs are moderate.

This is because loans from HUDCO to the state government-owned entities, largely guaranteed by state governments, are off-balance-sheet borrowings for the respective state governments. The amount the state governments can borrow on balance sheet is limited by the provisions of the Fiscal Responsibility and Budget Management (FRBM) Act. However, despite the guarantees, borrowings by the state government-owned entities from HUDCO are not counted as part of the state government liabilities under the FRBM Act. As a result, state governments are incentivized to use the company as a funding agency despite HUDCO's interest rate being higher than the rate applicable on state development loans. The company's business model will be at risk if this treatment of off-balance-sheet liabilities of state governments is changed.

Limited liquidity and reliance on wholesale funding

Similar to other finance companies, HUDCO is wholesale funded. However, its status as a government-owned company results in very good access to domestic funding from banks and the bond market.

HUDCO has a diversified funding profile including bonds, term loans and commercial papers. Taxable and tax-free bonds are the primary instruments in the company's funding and represented 85% of its total borrowings as of 30 June 2022.

The company has limited liquid assets that can be mobilized to overcome refinancing issues, amounting to less than 1% of its total assets as of 30 June 2022. HUDCO's liquidity management is largely based on matching the maturities of assets and liabilities. While it occasionally runs maturity mismatches in its near-term maturity buckets, these mismatches are within the limits prescribed by its regulator. The company's liquidity coverage ratio (LCR) of 52% was slightly above the regulatory minimum of 50% for non-bank finance companies as of June 2022. The regulatory minimum LCR will be gradually raised to 100% by 1 December 2025.

The company has low reliance on foreign-currency funding. Foreign-currency liabilities were 0.2% of total liabilities as of March 2022.

The company layers its liquidity management with significant undrawn lines of credit from a large number of banks. However, the terms of these lines of credit, which allow the lending bank to call the credit line on demand, reduce the efficacy of this source of funding as a fallback option in times of acute market stress.

Government support, given HUDCO's role in implementing key government policies

HUDCO was 81.8% owned by the Indian government as of 6 August 2021 and is under the administrative control of the Ministry of Housing and Urban Affairs. The company's entire board, including one government nominee director, is appointed by the government. The government also plays a key part in setting the strategic direction of the company. HUDCO signs an annual memorandum of understanding with the government on its key objectives, including financial goals.

The company is one of the nodal agencies in implementing key government policies related to housing and urban infrastructure, such as the Credit Linked Subsidy Scheme and the Smart Cities Scheme.

Based on the above-mentioned considerations, HUDCO will likely continue to benefit from a very high level of government support. This support is in the form of access to tax-free bonds (a low-cost funding source), as well as guarantees for a significant portion of the company's loans with the state government entities.

Operating environment

We assign a Baa3 score to HUDCO's Operating Environment, based wholly on the industry risk of India's state government sector. India's Macro Profile, reflected in the Baa2 Macro-Level Indicator score, does not have any weighting in the scorecard because this score is higher than the Industry Risk score.

The Operating Environment score has no impact on HUDCO's financial profile and results in a Ba1 Adjusted Financial Profile score, in line with the Ba1 score before the consideration of the operating environment.

Macro-level indicator

HUDCO's revenue is generated in India. The Baa2 Macro-Level Indicator score reflects a score of a2 for Economic Strength, ba1 for Institutional Strength and ba for Susceptibility to Event Risk.

Industry risk

We assign a Baa Industry Risk score for lenders to India's state government sector. Lending to the state government entities is largely restricted to government-owned financial institutions, such as HUDCO, and public-sector banks. In addition, HUDCO's focus on housing and urban development-related projects incorporates an element of required sector expertise, which further restricts the number of companies operating in this segment.

State governments are seen as quasi-sovereigns because of the strong links to the central government, which enables them to raise funding from the markets at favorable pricing. Lending to these entities typically results in low pricing power.

As India becomes more affluent, the government should continue to invest significantly in social-sector spending, of which housing and urban development are a key part. As a result, there should be stable demand for funding for this segment with minimal technology disruption.

Lending to state governments is fairly niche; however, companies in this segment have a long track record because they have existed for a long time. Furthermore, HUDCO has a stable product offering, given that housing and urban development are a key policy agenda of the Indian government.

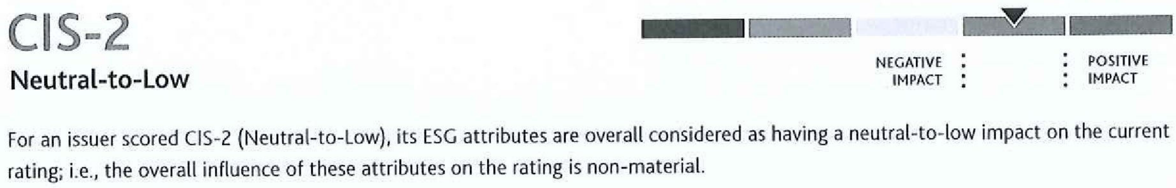
Business profile and financial policy

We make no business profile and financial policy adjustments to HUDCO's scorecard.

Environmental, social and governance considerations

Housing and Urban Development Corp Ltd's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 2
ESG Credit Impact Score



Source: Moody's Investors Service

HUDCO's ESG Credit Impact Score is neutral-to-low (**CIS-2**). The score reflects that ESG considerations have a neutral-to-low impact on the current rating. The company's rating incorporates very strong government support that mitigates impact of ESG risks. HUDCO has low environmental, social and governance risks because of its policy role to finance housing and urban development programs in India and focus in lending to state-owned entities. The company is under direct oversight of the government and has a good track record.

Exhibit 3
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

HUDCO faces low environmental risks. The company's financing is directed to support housing and urban development programs which have relatively low environmental impact. The projects financed by HUDCO include those that improve quality of water supply and waste management in India, limiting its environmental risks.

Social

HUDCO faces low social risks particularly from customer relations and demographics because most of its lending is to state-owned entities and supported by the government budget and guarantee. The company's policy role in promoting housing and infrastructure development for public benefit also limits its social risks.

Governance

HUDCO faces low governance risk because it is under direct oversight by the government, including its strategy and financial goals. The company's lending follows budgetary provisions and aligns with its policy mandate. The company is 81.8% owned by the Indian government and its board members are nominated by the government, but the weakness from concentrated ownership is mitigated by the company's low risk strategy to lend to state-owned entities which have government guarantees.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

HUDCO's Baa3 issuer rating is one notch above its BCA of ba1 and reflects our assessment of the strong links between HUDCO and the Indian government. The support assumption is based on our Government-Related Issuers Methodology.

Methodology and scorecard

About Moody's Scorecard

Our scorecard is designed to capture, express and explain in summary form our rating committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

The methodologies used in this rating were our Finance Companies Methodology, published in November 2019, and Government-Related Issuers Methodology, published in February 2020.

Ratings

Exhibit 4

Category	Moody's Rating
HOUSING AND URBAN DEVELOPMENT CORP LTD	
Outlook	Stable
Issuer Rating	Baa3
Senior Unsecured MTN	(P)Baa3

Source: Moody's Investors Service

REPORT NUMBER 1344077

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE