



HUDCO/CS/SE/2019

11<sup>th</sup> November, 2019

**Listing Department**  
**BSE Limited**  
**Phiroze Jeejeebhoy 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- Change in Credit Rating.**

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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 Investor Service, Singapore, by press release dated 8<sup>th</sup> November, 2019, has affirmed the ratings of Housing and Urban Development Corporation Limited (HUDCO) at "Baa2" level (i.e. at the Sovereign ceiling). At the same time, Moody's has revised the outlook of HUDCO to Negative from Stable. The rating action follows the affirmation of India's "Baa2" Sovereign rating and the change in the outlook to 'Negative' from 'Stable'.


The press release in this regard published by Moody's Investor Service, Singapore is attached.

The above is submitted for your information and dissemination.

Thanking you

Yours faithfully

**For Housing and Urban Development Corporation Ltd**

  
Harish Kumar Sharma  
**Company Secretary & Compliance Officer**

हाउसिंग एंड अर्बन डेवलपमेंट कॉर्पोरेशन लिमिटेड (भारत सरकार का उपक्रम) कोर 7 ए, हडको भवन, भारत पर्यावास केन्द्र, लोधी रोड, नई दिल्ली-110003

दूरभाष : 011-24649610-23 फैक्स: (011) 24625308, आई एस ओ 9001:2015 प्रमाणित कम्पनी

वेबसाइट : www.hudco.org सी आई एन : L74899DL1970GOI005276, GST : 07AAACH0632A1ZF

**Housing and Urban Development Corporation Ltd., (A Govt. of India Enterprise) Core - 7'A', HUDCO Bhawan, India Habitat Centre**

Lodhi Road, New Delhi - 110 003, Tel:011-24649610-23, Fax:011-24625308, AN ISO 9001:2015 Certified Company

website :www.hudco.org CIN : L74899DL1970GOI005276 GST : 07AAACH0632A1ZF

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# MOODY'S

## INVESTORS SERVICE

### Rating Action: Moody's takes rating actions on 11 Indian financial institutions, after change in sovereign outlook

08 Nov 2019

Singapore, November 08, 2019 -- Moody's Investors Service has affirmed the ratings of the 11 Indian financial institutions below.

- (1) Bank of India (BOI),
- (2) Canara Bank (CAN),
- (3) Export-Import Bank of India (EXIM India),
- (4) HDFC Bank Limited,
- (5) Hero Fincorp Limited,
- (6) Housing and Urban Development Corp Ltd (HUDCO),
- (7) Indian Railway Finance Corporation Limited (IRFC),
- (8) Oriental Bank of Commerce (OBC),
- (9) State Bank of India (SBI),
- (10) Syndicate Bank (Syndicate) and
- (11) Union Bank of India (UBI).

At the same time, Moody's has revised the outlook of six financial institutions to negative from stable. The affected financial institutions are EXIM India, HDFC Bank, Hero FinCorp, HUDCO, IRFC, and SBI. The rating outlooks for BOI, CAN, OBC, Syndicate and UBI are maintained at stable.

The rating actions follow the affirmation of India's Baa2 sovereign rating, and the change in the outlook to negative from stable on 07 November 2019. For details, please refer to the press release: [https://www.moody's.com/research/Moodys-changes-Indias-outlook-to-negative-from-stable-affirms-Baa2--PR\\_410439](https://www.moody's.com/research/Moodys-changes-Indias-outlook-to-negative-from-stable-affirms-Baa2--PR_410439)

Separately, Moody's has downgraded the long-term Counterparty Risk Assessment (CR Assessment) and long-term local currency Counterparty Risk Rating (CRR) of HDFC Bank Limited, Bahrain Branch and ICICI Bank Limited, Bahrain Branch to Ba2(cr) from Ba1(cr) and Ba2 from Ba1, to align these ratings with Bahrain's local currency ceilings.

Also for ICICI Bank Bahrain Branch, Moody's has downgraded the long-term foreign currency senior unsecured MTN program rating and subordinate MTN program rating to (P)Ba3 from (P)Ba2, to align these ratings with Bahrain's foreign currency bond ceiling. There are currently no outstanding bonds issued out of the Bahrain branch.

Please click on this link [http://www.moody's.com/viewresearchdoc.aspx?docid=PBC\\_204799](http://www.moody's.com/viewresearchdoc.aspx?docid=PBC_204799) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

#### RATINGS RATIONALE

Please click on this link [http://www.moody's.com/viewresearchdoc.aspx?docid=PBC\\_204799](http://www.moody's.com/viewresearchdoc.aspx?docid=PBC_204799) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

#### Principal Methodologies

**AFFIRMATION OF RATINGS AND CHANGE IN OUTLOOK TO NEGATIVE FROM STABLE FOR EXIM India, HDFC Bank, HUDCO, IRFC, and SBI**

EXIM India, HUDCO, IRFC, and SBI's final ratings are at the same level as the sovereign rating because of the uplift to their ratings, based on Moody's assumption that these companies will receive government support in times of need. Consequently, if Moody's downgrades the sovereign rating, Moody's will also downgrade these companies' final ratings.

The close links between the four companies and the Government of India is the key reason why Moody's has changed the outlooks for these companies to negative from stable, after doing the same for the sovereign rating.

As for the change in outlook for HDFC Bank, given the strong linkages between a bank's business and the sovereign credit profile, including by way of large direct exposure to government debt and exposure to common underlying operating conditions, the Baseline Credit Assessment (BCA) of a bank is capped at the sovereign rating of the country that it operates in. Consequently, for HDFC Bank, Moody's will downgrade the bank's baa2 BCA, if Moody's downgrades India's Baa2 sovereign rating. This situation in turn would lead to a downgrade of HDFC Bank's final ratings and is the key driver of the change in the bank's ratings outlook to negative from stable.

All the inputs into the ratings, including their standalone credit profiles and government support, remain unchanged. Consequently, Moody's has affirmed all five financial institutions' ratings.

#### AFFIRMATION OF HERO FINCORP'S RATINGS AND CHANGE IN OUTLOOK TO NEGATIVE

Hero FinCorp's Baa3 issuer rating incorporates a very high probability of support from its parent, Hero MotoCorp Limited (HMCL) which results in a 3 notch uplift as compared to its standalone assessment of ba3.

Moody's has changed the outlook on Hero FinCorp's ratings to negative from stable to reflect Moody's expectation that the slowdown in the Indian economy may negatively impact the financial strength of HMCL and thereby its ability to support Hero FinCorp.

#### AFFIRMATION OF RATINGS OF BOI, CAN, OBC, Syndicate AND UBI, OUTLOOK MAINTAINED AT STABLE

Moody's expects that BOI, CAN, OBC, Syndicate and UBI will continue to enjoy a very high level of support from the government. Under these support assumptions, even if the sovereign rating is downgraded by one notch to Baa3, the support uplift should be sufficient to keep the final ratings unchanged at Baa3. This situation is the key driver of Moody's affirmation of the five banks' ratings.

Moody's does not have any particular governance concern for all the issuers impacted by today's rating action. Moody's does not apply any corporate behavior adjustment to the banks and views their risk management framework as consistent and commensurate with their risk appetite.

#### ASSIGNMENT OF FOREIGN CURRENCY CRR TO HDFC BANK AND SBI AND THEIR BRANCHES

In the case of HDFC Bank and its Hong Kong branch, Moody's has assigned foreign currency CRR of Baa1/P-2, which is at the same level as the banks' respective domestic currency CRR, which Moody's has already assigned.

For SBI and its DIFC Branch, Hong Kong Branch, London Branch and Nassau Branch, Moody's has assigned foreign currency CRR of Baa2/P-2, which is at the same level as the banks' respective domestic currency CRR, which Moody's has already assigned.

In assigning the CRR to the banks, Moody's applies its basic Loss Given Failure (LGF) approach, because Moody's sees India as not having an operational resolution regime. Moody's basic LGF analysis positions CRRs in line with the banks' CR Assessments and one notch above their Adjusted BCAs, prior to government support.

#### RATING ACTION ON HDFC BANK AND ICICI BANK'S BAHRAIN BRANCH

The rating actions on HDFC Bank's Bahrain Branch and ICICI Bank's Bahrain Branch is solely to align their long-term CR Assessment and long-term local currency CRR with Bahrain's local currency ceilings and does not reflect any deterioration in the standalone assessment or the BCA of the banks.

Also, the downgrade of ICICI Bank Bahrain Branch's long-term foreign currency senior unsecured MTN program rating and subordinate MTN program rating is to align these ratings with Bahrain's foreign currency bond ceiling.

For more details, please see Moody's rating action on Bahrain on 03 August 2018: [https://www.moody's.com/research/Moodys-downgrades-Bahrains-ratings-to-B2-maintains-negative-outlook-PR\\_387174](https://www.moody's.com/research/Moodys-downgrades-Bahrains-ratings-to-B2-maintains-negative-outlook-PR_387174) and 17 December 2018: [https://www.moody's.com/research/Moodys-changes-outlook-on-Bahrains-rating-to-stable-affirms-B2-PR\\_392698](https://www.moody's.com/research/Moodys-changes-outlook-on-Bahrains-rating-to-stable-affirms-B2-PR_392698)

Moody's has also assigned a foreign currency CRR of Ba3/NP to HDFC Bank's Bahrain Branch. The foreign currency CRR is capped by Bahrain's foreign currency bond ceiling of Ba3. Moody's has also affirmed HDFC Bank Bahrain Branch's short-term CRA and local currency CRR at NP(cr) and NP respectively.

#### WITHDRAWAL OF OUTLOOK ON THE ISSUER RATING FOR IRFC

Moody's has withdrawn the outlook on IRFC's foreign currency issuer rating for its own business reasons. Please refer to the Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on its website, [www.moody's.com](http://www.moody's.com)

#### WHAT COULD CHANGE THE RATING UP

##### *SBI, HDFC Bank and EXIM India:*

Given the negative outlook on the sovereign and bank ratings, SBI, HDFC Bank and EXIM India's ratings are unlikely to be upgraded over the next 12-18 months.

Nevertheless, Moody's could upgrade the BCA of SBI and EXIM India, if these banks demonstrate improvement in their asset quality, supported by recovery in profitability and capital levels, as well as maintaining stable funding and liquidity.

An upgrade of HDFC Bank's BCA is unlikely, because the BCA is already at the same level as the sovereign rating.

##### *BOI, CAN, OBC, Syndicate and UBI:*

Given the stable outlook, the ratings of these financial institutions are unlikely to be upgraded over the next 12-18 months.

Nevertheless, Moody's could upgrade the banks' BCAs if their asset quality improves, supported by the recovery in profitability and capital levels, and if they maintain stable funding and liquidity.

##### *HUDCO and IRFC:*

Given the negative outlook, HUDCO's and IRFC's ratings are unlikely to be upgraded over the next 12-18 months.

Nevertheless, Moody's could upgrade HUDCO's BCA, if there is a significant and sustained improvement in its liquidity profile, particularly an increase in excess liquidity on its balance sheet to buffer against potential adverse market conditions.

Hero FinCorp:

Given the negative outlook, Hero FinCorp's ratings are unlikely to be upgraded over the next 12-18 months.

Nevertheless, Moody's could raise Hero FinCorp's standalone assessment if there is (1) a significant and sustained improvement in the company's asset quality, driven by a decline in the formation of new nonperforming loans across different product segments; (2) improved profitability, driven by lower credit costs and increased operating leverage; or (3) an improvement in the company's liquidity, driven by the maintenance of high-quality liquid assets on its balance sheet.

#### WHAT COULD CHANGE THE RATING DOWN

SBI, HDFC Bank and EXIM India:

Moody's could downgrade the ratings of SBI, HDFC Bank and EXIM India if Moody's downgrades the sovereign rating.

Moody's could downgrade the three banks' BCAs if their financial fundamentals deteriorate significantly.

If all other rating factors are constant, their BCAs would come under pressure, if the banks report significantly increased problem loan ratios or a significant decline in earnings, which leads in turn to weakened capitalization.

Any indication of diminishing government support for the banks could also lead to a downgrade of their ratings.

In the case of HDFC Bank, a downgrade of the sovereign rating will also lead to a downgrade of the bank's BCA, because the BCA is at the same level as the sovereign rating.

CAN, UBI, BOI, OBC and Syndicate:

Moody's could downgrade the BCAs of CAN, UBI, BOI, OBC and Syndicate, if the banks' financial fundamentals deteriorate significantly. If all other rating factors are constant, their BCAs would come under pressure, if the banks report significantly increased problem loan ratios or a significant decline in earnings, which would lead in turn to weakened capitalization.

In the case of UBI and CAN, Moody's could downgrade their BCA and ratings if there is a weakening in their solvency metrics, because of the amalgamation with Corporation Bank and Andhra Bank for UBI, and Syndicate with CAN; scenarios which were announced by the Indian government in August 2019.

Any indication of diminishing government support for the banks could also lead to a downgrade of their ratings.

HUDCO and IRFC:

Moody's could downgrade IRFC's ratings if (1) there is a material change in the company's business model such that it significantly increases its risk profile, (2) there is a change in the government's supportive stance toward IRFC, or (3) there is a downgrade of the sovereign rating.

For HUDCO, Moody's could downgrade its ratings if Moody's downgrades the company's BCA by more than one notch or downgrades India's sovereign rating. Moody's could downgrade HUDCO's BCA if the entity's share of the government-guaranteed loan book materially reduces from the current levels.

Hero FinCorp:

Moody's could downgrade Hero FinCorp's rating if (1) the company's asset quality or profitability deteriorate, or (2) there is a weakening in Moody's expectation of support from the key shareholder in times of need.

Bank of India is headquartered in Mumbai, and reported total assets of INR6.1 trillion at 30 June 2019.

Canara Bank is headquartered in Bangalore, and reported assets of INR7.1 trillion at 30 June 2019.

Export-Import Bank of India is headquartered Mumbai, and reported total assets of INR1.2 trillion at 30 June 2019.

HDFC Bank Limited is headquartered in Mumbai, and reported total assets of INR13.2 trillion at 30 September 2019.

Hero FinCorp Limited is headquartered in New Delhi, and reported total assets of INR200 billion at 31 March 2019.

Housing and Urban Development Corp Ltd is headquartered in New Delhi, and reported total assets of INR700 billion at 30 June 2019.

Indian Railway Finance Corporation Limited is headquartered in New Delhi, and reported total assets of INR1.6 trillion at 31 March 2018.

Oriental Bank of Commerce is headquartered in Delhi, and reported assets of INR2.6 trillion at 30 September 2019.

State Bank of India is headquartered in Mumbai, and reported total assets of INR 39.1 trillion at 30 September 2019.

Syndicate Bank is headquartered in Bangalore, and reported assets of INR3.0 trillion at 30 June 2019.



Union Bank of India is headquartered in Mumbai, and reported assets of INR5.0 trillion at 30 June 2019.

## REGULATORY DISCLOSURES

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moodys.com](http://www.moodys.com).

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at [www.moodys.com](http://www.moodys.com), for each of the ratings covered, Moody's disclosures on the lead rating analyst and the Moody's legal entity that has issued the ratings.

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Alka Anbarasu  
VP - Senior Credit Officer  
Financial Institutions Group  
Moody's Investors Service Singapore Pte. Ltd.  
50 Raffles Place #23-06  
Singapore Land Tower  
Singapore 48623  
Singapore  
JOURNALISTS: 852 3758 1350  
Client Service: 852 3551 3077

Graeme Knowd  
MD - Banking  
Financial Institutions Group  
JOURNALISTS: 852 3758 1350  
Client Service: 852 3551 3077

Releasing Office:  
Moody's Investors Service Singapore Pte. Ltd.  
50 Raffles Place #23-06  
Singapore Land Tower  
Singapore 48623  
Singapore  
JOURNALISTS: 852 3758 1350  
Client Service: 852 3551 3077

**MOODY'S**  
INVESTORS SERVICE

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# MOODY'S

## INVESTORS SERVICE

### Rating Action: Moody's changes India's outlook to negative from stable, affirms Baa2 ratings

07 Nov 2019

New York, November 07, 2019 – Moody's Investors Service ("Moody's") has today changed the outlook on the Government of India's ratings to negative from stable and affirmed the Baa2 foreign-currency and local-currency long-term issuer ratings. Moody's also affirmed India's Baa2 local-currency senior unsecured rating and its P-2 other short-term local-currency rating.

Moody's decision to change the outlook to negative reflects increasing risks that economic growth will remain materially lower than in the past, partly reflecting lower government and policy effectiveness at addressing long-standing economic and institutional weaknesses than Moody's had previously estimated, leading to a gradual rise in the debt burden from already high levels.

While government measures to support the economy should help to reduce the depth and duration of India's growth slowdown, prolonged financial stress among rural households, weak job creation, and, more recently, a credit crunch among non-bank financial institutions (NBFIs), have increased the probability of a more entrenched slowdown. Moreover, the prospects of further reforms that would support business investment and growth at high levels, and significantly broaden the narrow tax base, have diminished. If nominal GDP growth does not return to high rates, Moody's expects that the government will face very significant constraints in narrowing the general government budget deficit and preventing a rise in the debt burden.

The Baa2 rating balances the country's credit strengths including its large and diverse economy and stable domestic financing base for government debt, against its principal challenges including high government debt, weak social and physical infrastructure and a fragile financial sector.

India's long-term foreign-currency bond and bank deposit ceilings remain unchanged at Baa1 and Baa2, respectively. The short-term foreign-currency bond and bank deposit ceilings remain unchanged at Prime-2. The long-term local currency bond and deposit ceilings remain unchanged at A1.

A full list of affected ratings is provided towards the end of this press release.

#### RATINGS RATIONALE

#### RATIONALE FOR CHANGING THE OUTLOOK TO NEGATIVE FROM STABLE

#### RISE IN RISK OF AN ENTRENCHED GROWTH SLOWDOWN AS MEDIUM-TERM REFORM PROSPECTS HAVE DIMMED AND STRESS IN THE FINANCIAL SECTOR HAS INCREASED

India's economic growth has slowed materially, with real and nominal GDP growth falling to 5% and 8% year on year in April-June 2019, respectively. Moody's estimates that the growth slowdown is in part long-lasting. Moreover, compared with two years ago when Moody's upgraded India's rating to Baa2 from Baa3, the probability of sustained real GDP growth at or above 8% has significantly diminished. Rather, the downside risks to the growth outlook have increased as prospects for economic and institutional reforms that would lift and maintain growth at high rates have diminished. Stress among NBFIs, with the possibility of a more severe credit crunch that would affect credit supply, both directly and through linkages with non-banks and banks, adds to the downside risks to the medium-term growth outlook.

The drivers of the economic deceleration are multiple and mainly domestic. In the context of a prolonged period of weak investment, private consumption has slowed, driven by financial stress among rural households and weak job creation. Moody's does not expect the credit crunch among NBFIs, major providers of retail loans in recent years, to be resolved quickly. With public sector banks still dealing with the legacy of non-performing loans accumulated at the beginning of the decade, credit supply is likely to remain impaired for some time, compounding the income shocks. With a per-capita income of around \$7,900 on a purchasing power parity (PPP) basis in 2018, Indian households' capacity to absorb such negative shocks is limited.

In recent months the government has responded to the growth slowdown with a series of measures aimed at stimulating domestic demand. These include income support to farmers and low-income households, help for stressed industries including autos and NBFIs, and a broad corporate tax cut that reduced the base rate to 22% from 30%. Meanwhile, the Reserve Bank of India has repeatedly cut the policy rate, by a cumulative 135 basis points since February 2019.

Although Moody's expects these measures to provide support to the economy, they are unlikely to restore productivity and real GDP growth to previous rates. Moreover, the multiple facets of the slowdown and structural weaknesses in the real economy and financial system that it reflects point to further downside risks to Moody's expectations that real and nominal GDP growth will rise towards 6.6% and 11% respectively over the next year.

In turn, a prolonged period of slower economic growth would dampen income growth and the pace of improvements in living standards, and potentially constrain the policy options to drive sustained high investment growth over the medium-to long term.

Looking forward, potential GDP growth and employment generation will remain constrained unless reforms are advanced to directly reduce restrictions on the productivity of labor and land, stimulate private sector investment, and sustainably strengthen the financial sector. Moody's considers the prospects for effective implementation of such reforms to have diminished since its upgrade of India's sovereign rating in 2017. In the absence of such reforms, structural constraints on productivity and job creation, will weigh further on India's sovereign credit profile.

#### PROSPECTS FOR THE DEBT BURDEN TO DECLINE HAVE DIMINISHED

The rate of India's nominal GDP growth over the next few years will have a critical impact on the government's ability to address its relatively weak fiscal position.

At about 67% of GDP in 2018, India's general government (combined central and state governments) debt is materially larger than the Baa median of around 52%. Meanwhile, interest payments comprise about 23% of general government revenue, the highest interest burden among Baa-rated peers and three times the Baa median of 8%.

Under Moody's assumption of a slight pick-up in GDP growth, scope for the government to narrow the budget deficit will remain very limited. For instance, with the recently announced corporate tax cuts and lower nominal GDP growth, Moody's now expects a central government deficit of 3.7% of GDP in the fiscal year ending in March 2020 (fiscal 2019), marking a 0.4 percentage point slippage from its target despite significant one-off revenue from the special RBI dividend payment. Government disinvestment (asset sales) could fill some of the gap between actual and expected deficits; however, budgeted targets have not always been met in years past. State deficits will likely be at or very close to the 3% of GDP cap. A deeper liquidity squeeze that threatened the solvency of some NBFIs could give rise to some fiscal costs from government support to some institutions.

In this context, Moody's analysis shows that the outlook for the debt burden is significantly dependent on trends in nominal GDP growth. Indeed, India's historically high rate of nominal GDP growth was an important driver of a declining debt burden in the past, from above 80% of GDP in the early 2000s to about 67% in 2010. Now, under nominal GDP growth of around 11%, which Moody's broadly projects as its baseline over the next few years, the debt burden will remain around 68% of GDP.

The downside risks to growth explained above point to risks that, instead of falling as expected previously, the debt burden rises gradually. In that scenario, India's already very weak debt affordability would weaken further, constraining fiscal flexibility even more. If such developments were to encourage greater reliance on state-owned enterprises to meet the country's need for social and physical infrastructure, the sovereign's contingent liability risks would rise commensurately.

#### RATIONALE FOR AFFIRMING THE Baa2 RATING

The Baa2 rating reflects India's large and diverse economy and stable domestic financing base for government debt, balanced by its high government debt burden, weak infrastructure and a fragile financial sector.

With nominal GDP of \$2.7 trillion in 2018 India's economy is the largest among Baa-rated sovereigns. The Indian economy has been supported by its very large domestic market, which has provided consistently strong domestic demand, fueled by rising incomes, which has historically helped to shelter it from the impact of external demand shocks. Nonetheless, although at currently slower rates India's growth still remains high by international standards, weak infrastructure, rigidities in labor and product markets, and ongoing asset quality challenges in the financial system continue to constrain the economy's potential.

At the same time, a large pool of domestic private savings, available to finance government debt, partly mitigates the sovereign's fiscal risks posed by high government debt and weak debt affordability. High savings have enabled the government to issue long maturity debt, over 90% of which is owed to domestic institutions and denominated in local currency. As a result, despite its large fiscal deficits, India's gross financing requirements are moderate and relatively insulated from external financing and exchange rate risk. The longer maturity profile of government debt, averaging close to 10 years, also lowers the impact of interest rate volatility on debt servicing costs.

#### ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Environmental considerations are material to India's rating, as the country is vulnerable to climate change. For example, monsoon rains are critical for India's agricultural sector, given that almost half the country's farm land is not irrigated. Half of India's overall consumption comes from the rural sector and many rural incomes are dependent on agriculture. The magnitude and dispersion of seasonal monsoon rainfall continue to influence agricultural sector growth, food inflation and rural household consumption. As a result, droughts can create economic, fiscal and social costs for the sovereign. Elevated levels of pollution and rising concerns around water scarcity and management, also present environmental risks.

Social considerations are material to India's credit profile, mainly related to demographics driven by India's young and growing working-age population. The United Nations estimates that India's working age population (15 to 64 years old) will continue to rise from about 66% of the total in 2018 to about 68% in 2030-40. Meanwhile, 6 to 8 million youths will enter the labor force every year through 2030. This creates both opportunities, through a higher contribution of labor to potential growth, and social challenges, if job creation does not keep pace with India's working age population growth.

Governance is material to India's credit profile. The country's scores are moderate on institutional factors, as measured by the Worldwide Governance Indicators, reflecting moderate government and policy effectiveness.

#### WHAT WOULD CHANGE THE RATING UP

The negative outlook indicates that an upgrade is unlikely in the near term. Moody's would likely change the rating outlook to stable if the likelihood that fiscal metrics would stabilize and improve over time increased significantly. This would probably result from renewed indications that economic and institutional reforms would support sustained, strong investment and GDP growth, and broaden the government's revenue base over the medium term. In particular, at this juncture, a credible and durable stabilization of the non-bank financial sector that reduced the possibility of negative spillovers to banks and restored strong credit provision to productive sectors would be credit positive.

#### WHAT WOULD CHANGE THE RATING DOWN

Moody's would likely downgrade India's ratings if its fiscal metrics were increasingly likely to weaken materially. This would probably happen in the context of a prolonged or deep slowdown in growth, with only limited prospects that the government would be able to restore stronger growth through economic and institutional reforms. A marked and long-lasting weakening in the health of the financial sector would both raise the associated fiscal costs should the government need to support some institutions and increase the risk that growth remains too low to prevent a rise in the debt burden.

GDP per capita (PPP basis, US\$): 7,859 (2018 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 6.8% (2018 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 2.9% (2018 Actual)

Gen. Gov. Financial Balance/GDP: -5.9% (2018 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: -2.1% (2018 Actual) (also known as External Balance)

External debt/GDP: 20.0% (2018 Actual)

Level of economic development: High level of economic resilience

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 04 November 2019, a rating committee was called to discuss the rating of the India, Government of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have not materially changed. The issuer's institutional strength/framework, have not materially changed. The issuer's fiscal or financial strength, including its debt profile, has not materially changed. The issuer's susceptibility to event risks has materially increased.

The principal methodology used in these ratings was Sovereign Bond Ratings published in November 2018. Please see the Rating Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable

#### LIST OF AFFECTED RATINGS

##### Affirmations:

...Issuer: India, Government of

...Long-term Issuer Rating (Foreign and Local Currency), Affirmed Baa2

...Senior Unsecured Regular Bond/Debenture (Local Currency), Affirmed Baa2

...Other Short-Term Rating (Local Currency), Affirmed P-2

...Outlook, Changed To Negative From Stable

#### REGULATORY DISCLOSURES

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moody's.com](http://www.moody's.com).

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see [www.moody's.com](http://www.moody's.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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William Foster  
 VP - Senior Credit Officer  
 Sovereign Risk Group  
 Moody's Investors Service, Inc.  
 250 Greenwich Street  
 New York, NY 10007  
 U.S.A.  
 JOURNALISTS: 1 212 553 0376  
 Client Service: 1 212 553 1653

Marie Diron  
 MD - Sovereign Risk