

Scheme for providing Partial Credit Enhancement (PCE) to Secured Non-Convertible Debentures/Bonds (NCDs/NCBs) of Housing Finance Companies (HFCs)



OBJECTIVE

- Enable HFCs to raise funds directly from the market at competitive rates by enhancing credit ratings of their Secured NCDs/NCBs.
- Reduce over-reliance on bank funding and link capital markets with the housing finance sector.
- PCE helps HFCs overcome asset-liability mismatches and rating constraints.

ELIGIBILITY CRITERIA FOR HFCs

- Non-deposit taking HFC with asset size \geq ₹1,000 crore.
- Long-term debt instruments/bank facility rated at least A+ by two SEBI-registered agencies.
- GNPA \leq 2.5% of Gross Advances, NNPA \leq 1.5% of Net Advances.
- Profit earned in last 3 years or since inception if $<$ 3 years.

ISSUE SIZE & TENURE

- Minimum issue size: ₹50 crore.
- Tenure: 3–5 years.

ASSET CLASSIFICATION

- Treated as NPA if remains outstanding for 90 days from the Due Date

OTHER CONDITIONS

- Compliance with all regulatory/statutory guidelines.
- Annual renewal/re-affirmation of credit rating; disclosure of effect of PCE in offer documents.
- Interest on drawn PCE facility linked to floating rate mechanism (PLR + spread) for HFCs as per the Refinance Policy of NHB.
- Additional PCE fee (2% p.a.) if classified as NPA.
- No promoters/defaulters with pending criminal proceedings or defaults.

NATURE & EXTENT

- Maximum 50% of issue size.
- In the form of irrevocable contingent line of credit
- Revolving facility, 30 days from invocation provided to the bond issuer for replenishment.
- PCE shall be subordinated

PCE FEE

- Linked to pre-enhanced credit rating:
 1. A+: 100 bps
 2. AA & AA-: 50 bps
 3. AA+: 25 bps
- Fees shall be payable on the PCE portion of the debentures
- Fee payable upfront annually; additional fee of 100 bps in case of rating downgrade.

SECURITY

- NCDs/NCBs secured by floating charge on book debts/receivables (100–115% of debentures depending on rating).

END USE OF FUNDS

- Funds from PCE-backed NCDs/NCBs used only for refinancing existing HFC debt.
- Certificate from Statutory Auditor required within 7 days of receipt.



VINOD KOTHARI
CONSULTANTS

Vinod Kothari Consultants
Kolkata | Mumbai | Delhi | Bengaluru

