IFCI Limited (Revised)

July 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	700.00 (Reduced from 2,000.00)	CARE BB; Negative (Double B; Outlook: Negative)	Reaffirmed
Total bank facilities	**700.00 (₹ Seven hundred crore only)**		
Bonds	159.05 (Reduced from 466.20)	CARE BB; Negative (Double B; Outlook: Negative)	Reaffirmed
Non-convertible debentures	310.00 (Reduced from 319.72)	CARE BB; Negative (Double B; Outlook: Negative)	Reaffirmed
Non-convertible debentures	818.65	CARE BB; Negative (Double B; Outlook: Negative)	Reaffirmed
Subordinated	771.04 (Reduced from 1,044.97)	CARE BB; Negative (Double B; Outlook: Negative)	Reaffirmed
Unsecured redeemable	250.00	CARE BB; Negative (Double B; Outlook: Negative)	Reaffirmed
Bonds	-	-	Withdrawn
Total long-term instruments	**2,308.74 (₹ Two thousand three hundred eight crore and seventy-four lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation in the ratings assigned to the long-term bank facilities and non-convertible debentures (NCDs) of IFCI Limited (IFCI) factors in the deterioration in the company's capitalization profile, worsening asset quality metrics with stage-3 assets constituting 92.21% of gross loan book as on March 31, 2022, high borrower-wise loan book concentration and persistently weak profitability metrics with IFCI reporting net loss of ₹1,991 crore during FY22 (refers to the period April 1 to March 31).
The rating is also underpinned by IFCI's stretched liquidity position having negative cumulative mismatches in more than six-month bucket as per the asset liability maturity (ALM) statement dated March 31, 2022. While IFCI has sufficient liquidity to meet its debt obligations in the short term, liquidity position, going forward, remains dependent on recoveries from the non-performing assets, materialisation of its divestment plans for its non-core assets including its investment in subsidiaries and a substantial equity infusion from the Government of India (GoI).
The ratings also factor in the company's stance to pivot away from lending operations owing to high asset quality stress in its loan portfolio, and focus towards its advisory fee business.

The ratings, however, continue to derive strength from majority ownership by GoI and diversified resource profile with weighted average cost of borrowings at 9.40% as on March 31, 2022. The ratings also factor in the fact that IFCI has been mandated by GoI for managing various social and industrial upliftment schemes.

Going forward, the ability of the company to improve its capitalisation profile and asset quality metrics substantially along with strengthening its liquidity position and undertaking timely divestments of non-core assets including its investment in subsidiaries would remain the key rating sensitivities.

[1]Complete definition of the ratings assigned are available at HYPERLINK "http://www.careedge.in" www.careedge.in and other CARE Ratings Ltd.'s publications

Ratings sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in the capitalisation profile with capital adequacy ratio (CAR) and Tier-I CAR above regulatory minimum requirements.
- Substantial equity infusion by GoI in the near-term.
- Timely monetisation of its non-core assets.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Weakness in operational efficiency of the company with continued net losses.
- Any material change in the government shareholding and/or government support to IFCI.

Outlook: Negative

The outlook on the rating continues to be on 'Negative' with stretched liquidity position and negative cumulative mismatches in the medium-term buckets, continued weak asset quality and capitalisation profile, sustained loan book contraction and weak profitability metrics. The outlook may be revised to 'Stable' if IFCI is able to achieve resurgence in its loan book, improve its capitalisation profile, improve the asset quality with sustainable reduction in its pace of slippages and inch up profitability metrics.

Detailed description of the key rating drivers

Key rating strengths

Majority ownership by GoI: GoI is the majority shareholder in IFCI and held 64.86% stake in the company as on March 31, 2022, increased from 63.81% as on June 30, 2021 on account of equity infusion of ₹100 crore in March 2022. IFCI has been mandated by the government for managing various social and industrial upliftment schemes. GoI has also appointed two nominee Directors on the Board of IFCI. However, in view of the persistent asset quality concerns and losses that have led to erosion in its net-worth, IFCI would need substantial equity infusion to be able to meet the regulatory minimum requirements in terms of the capital and to restart the lending business. Being a majority-owned entity by GoI, the availability of adequate, timely and regular support from the government in terms of capital infusion, resource raising and other regulatory matters remains a key rating sensitivity, going ahead.

Diversified resource profile: The borrowing profile of IFCI remains diversified with funds raised from non-convertible debentures and bank loans. The borrowings of the company, however, reduced by 36% Y-o-Y to ₹7,687 crore as on March 31, 2022 from ₹11,939 crore as on March 31, 2021, on account of no incremental funding raised in FY22. The weighted average funding cost stood at nearly 9.40% as on March 31, 2022.

Key rating weaknesses

Weak financial and operational performance in FY22: The gross loan book of IFCI continued its downward trajectory and declined to ₹7,185 crore as on March 31, 2022, down 32% Y-o-Y from ₹10,852 crore as on March 31, 2021. The decline in loan book is on account of management's strategy to pivot its focus towards the company' advisory business while not sanctioning any new loans for the lending book. Consequently, the company has not disbursed any fresh loans during the year.

On account of decline in the credit book, as well as persistent weakness in the asset quality profile, which impacted core interest income, IFCI's total income declined by 45% in FY22 to ₹764 crore. Consequently, IFCI reported a negative net interest income (NII) of ₹330 crore despite lower interest expenses of ₹923 crore during the year. The company is currently focusing on recoveries from non-performing assets (NPAs) and recovered ₹1,123.56 crore in FY22. Overall, IFCI continued to report net losses of ₹1,991 crore, with return on total assets (RoTA) of -19.61%.
IFCI's income profile is expected to remain subdued due to no-lending operations. However, IFCI would continue to generate income from its advisory business, on account of the fact that in FY22, IFCI has been appointed as a Project Management Agency by Ministry of Electronics and Information technology (MeitY), GoI, for two new electronics schemes- SPECS and Production Linked Incentive (PLI), which is expected to generate new additional fee income.

Persistent weakness in asset quality: IFCI's asset quality continues to weaken with gross NPA (GNPA) and net NPA (NNPA) ratios deteriorating to 90.7% and 75.4%, respectively, as on March 31, 2022, as compared with 73.7% and 50.5%, respectively, as on March 31, 2021, mainly due to contraction in the loan book. In absolute terms, NNPA for the company declined to ₹2,057 crore as on March 31, 2022, down 27% Y-o-Y from ₹2,817 crore as on March 31, 2021, on account of NPA recoveries. The company was able to recover ₹1,123.56 crore during fiscal 2022. The CARE Ratings-adjusted provision coverage ratio (PCR) of the company increased to 68% as on March 2022 from 64% as on March 31, 2021.

A large proportion of IFCI's NPAs are under National Company Law Tribunal (NCLT), while some others are in the process of restructuring/resolution. The extent of haircut required on these exposures and consequent adequacy of provisioning will be critical for IFCI's capitalisation and profitability profile. IFCI's ability to reduce pressure on the asset quality profile through reduction in the NPA levels will be critical for its credit profile.

Weak capitalisation profile: End fiscal March 31, 2022, capitalisation profile of IFCI witnessed severe deterioration as the tangible net-worth of the company dropped to -₹1,408 crore as on March 31, 2022, compared with ₹249 crore as on March 31, 2021, on the back of net operational losses of ₹1,991 during the year.
As a result, IFCI's CAR and Tier-I CAR declined to -64.85% and -64.96%, respectively, as compared with CAR and Tier-I CAR of -10.81% and -10.96%, respectively, as on March 31, 2021, well below the regulatory minimum of 15% and 10%, respectively, required for GOI-owned non-banking finance companies (NBFCs). This in turn, has created high dependence on a substantial equity infusion from GOI in the near term in order to bring capital adequacy of the company above minimum regulatory requirement of 15%.

In March 2022 and April 2021, GoI infused equity of ₹100 crore and ₹200 crore, respectively, in IFCI. However, with the weak capitalisation profile, the equity support from the government in the current year was not adequate. IFCI's capitalisation profile is also impacted by its sizeable investments in equity shares and other investments. IFCI is focusing on the sale of equity investments in order to reduce pressure on IFCI's capitalisation while simultaneously improving its liquidity. Thus, the ability of the company to raise substantial equity from GOI whilst divesting some of its core assets in a timely manner remains a key rating sensitivity.

Concentrated loan portfolio: IFCI is engaged in providing high-ticket corporate loans and project-specific loans to corporates. As on March 31, 2022, the top 20 exposures of the company account for a significant proportion of tangible net-worth and 56% of the total loan assets. As on March 31, 2022, 37% of the loans are towards infrastructure sector, 31% of the loans outstanding are towards the manufacturing sector followed by service industry at 14% and remaining to real estate, holding companies and banking, etc.

Liquidity profile: **Stretched**
The liquidity profile of the company remains stretched with negative cumulative mismatches in more than six-month bucket, as per the ALM statement dated March 31, 2022. Over the next 12 months, i.e., until March 2023, the company's debt obligations are around ₹1,377 crore against which the company has scheduled inflows at around ₹1,247 crore, including inflows from investments and cash and bank balances of ₹152 crore as on March 31, 2022, thus resulting in a stretched liquidity position. However, the liquidity profile of the company could be supported by timely recoveries from NPA accounts and disinvestment of non-core assets.

Analytical approach: Standalone, factoring linkages given majority GoI ownership.

Applicable criteria
Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Policy on Withdrawal of Ratings
Rating Methodology - Non Banking Finance Companies (NBFCs)

About the company
Incorporated on July 01, 1948, through a special Act of Parliament, IFCI is the oldest development financial institution of India. The constitution of the company was changed from a statutory corporation to a public limited company in 1993. Subsequently, the name of the company was also changed to its present name with effect from October 1999. IFCI has been categorised as systemically important non-deposit taking non-banking financial company (NBFC-ND-SI) by the Reserve Bank of India in FY08. In the early 2000s, IFCI witnessed deterioration in asset quality, resulting in high losses. Thereafter, the Government of India (GoI) in 2002-03, in consultation with the other stakeholders, worked out a financial rescue package for IFCI, which included restructuring of its liabilities. IFCI resumed its lending operations in the year 2008 and is since engaged in providing corporate loans and project-specific loans to corporates. In addition, IFCI also invests in the companies through equity, preference shares and debt instruments. In April 2015, IFCI became a government company u/s 2(45) of the Companies Act, 2013 after the government acquired ₹60 crore of preference share equity in the company from existing shareholders. GoI holds 64.86% equity shares in IFCI as on March 31, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1 FY 2023
Total operating income	1,396.92	763.61	NA
PAT	-1,957.81	-1,991.34	NA
Interest coverage (times)	-0.92	-0.93	NA
Total assets	13,096.42	7,217,02	NA
Net NPA (%)	50.30	75.40	NA
ROTA (%)	-13.23	-19.61	NA

A: Audited: NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	23-Nov-23	700.00	CARE BB; Negative
Redeemable Unsecured NCD - taxable	INE039A09MC4	13-Jul-10	9.75%	13-Jul-30	250.00	CARE BB; Negative
Unsecured redeemable non-convertible bonds	INE039A09PF0	08-Oct-12	9.95%	08-Oct-22	5.41	CARE BB; Negative
	INE039A09PA1	26-Jun-12	10.15%	26-Jun-22	2.80	CARE BB; Negative
	INE039A09PE3	28-Sep-12	10.05%	28-Sep-22	8.20	CARE BB; Negative
	INE039A09PI4	08-Oct-12	10.12%	08-Oct-27	19.59	CARE BB; Negative
	INE039A09PJ2	08-Oct-12	10.10%	08-Oct-27	5.15	CARE BB; Negative
	INE039A09PM6	05-Nov-12	9.90%	05-Nov-22	106.88	CARE BB; Negative
	INE039A09PN4	05-Nov-12	9.90%	05-Nov-27	106.88	CARE BB; Negative
	INE039A09PO2	05-Nov-12	9.90%	05-Nov-32	106.88	CARE BB; Negative
	INE039A09PP9	05-Nov-12	9.90%	05-Nov-37	106.88	CARE BB; Negative
	INE039A09PR5	26-Apr-13	9.75%	26-Apr-28	350.00	CARE BB; Negative
Infra bonds	INE039A09NX8	12-Dec-11	8.50%	12-Dec-21	0.00	Withdrawn*
	INE039A09NY6	12-Dec-11	8.50%	12-Dec-21	0.00	Withdrawn*
	INE039A09NZ3	12-Dec-11	8.75%	12-Dec-26	8.00	CARE BB; Negative
	INE039A09OA4	12-Dec-11	8.75%	12-Dec-26	2,68	CARE BB; Negative
	INE039A09OE6	15-Feb-12	9.99%	15-Feb-22	0.00	Withdrawn*
	INE039A09OF3	15-Feb-12	9.09%	15-Feb-22	0.00	Withdrawn*
	INE039A09OG1	15-Feb-12	9.16%	15-Feb-27	30.99	CARE BB; Negative
	INE039A09OH9	15-Feb-12	9.16%	15-Feb-27	9.03	CARE BB; Negative
	INE039A09OU2	31-Mar-12	8.50%	31-Mar-24	66.29	CARE BB; Negative
	INE039A09OV0	31-Mar-12	8.50%	31-Mar-24	18.95	CARE BB; Negative
	INE039A09OW8	31-Mar-12	8.72%	31-Mar-27	17.28	CARE BB; Negative
	INE039A09OX6	31-Mar-12	8.72%	31-Mar-27	5.83	CARE BB; Negative
	INE039A09OT4	31-Mar-12	10.25%	31-Mar-22	0.00	Withdrawn*
	INE039A09OK3	31-Dec-11	10.60%	31-Dec-21	0.00	Withdrawn*
	INE039A09NS8	31-Aug-11	10.50%	31-Aug-21	0.00	Withdrawn*
	INE039A09OR8	28-Feb-12	10.25%	28-Feb-22	0.00	Withdrawn*
	INE039A09OD8	30-Nov-11	10.60%	30-Nov-21	0.00	Withdrawn*
Tax free bonds	INE039A09PT1	31-Mar-14	8.39%	31-Mar-24	165.00	CARE BB; Negative
	INE039A09PU9	31-Mar-14	8.76%	31-Mar-29	145.00	CARE BB; Negative
Structured secured NCD	INE039A07868	03-May-16	8.55%	03-Nov-21	0.00	Withdrawn*
Subordinated Bonds	INE039A09NJ7	01-Aug-11	10.50%	01-Aug-21	0.00	Withdrawn*
	INE039A09NK5	01-Aug-11	10.50%	01-Aug-21	0.00	Withdrawn*
	INE039A09NL3	01-Aug-11	10.75%	01-Aug-26	403.59	CARE BB; Negative
	INE039A09NM1	01-Aug-11	10.75%	01-Aug-26	64.96	CARE BB; Negative
	INE039A08197	25-Aug-11	10.55%	25-Aug-23	200.00	Rolled over
	INE039A09NT6	31-Oct-11	10.60%	31-Oct-21	0.00	Withdrawn*
	INE039A09NU4	31-Oct-11	10.60%	31-Oct-21	0.00	Withdrawn*
	INE039A09NV2	31-Oct-11	10.50%	31-Oct-21	0.00	Withdrawn*
	INE039A09NW0	31-Oct-11	10.75%	31-Oct-26	102.49	CARE BB; Negative

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term Loan-Long term	LT	-	-	-	-	-	1)Withdrawn (24-Jan-20)

								2)CARE BBB-; Negative (05-Jul-19)
2	Fund-based - LT-Term loan	LT	-	-	-	1)Withdrawn (17-Aug-21)	1)CARE BBB-; Negative (24-Nov-20) 2)CARE BBB-; Negative (10-Aug-20)	1)CARE BBB-; Negative (24-Jan-20) 2)CARE BBB-; Negative (05-Jul-19)
3	Term loan-Long term	LT	-	-	-	-	-	1)Withdrawn (24-Jan-20) 2)CARE BBB-; Negative (05-Jul-19)
4	Bonds-Unsecured redeemable	LT	250.00	CARE BB; Negative	-	1)CARE BB; Negative (17-Aug-21)	1)CARE BBB-; Negative (24-Nov-20) 2)CARE BBB-; Negative (10-Aug-20)	1)CARE BBB-; Negative (24-Jan-20) 2)CARE BBB-; Negative (05-Jul-19)
5	Fund-based - LT-Term loan	LT	700.00	CARE BB; Negative	-	1)CARE BB; Negative (17-Aug-21)	1)CARE BBB-; Negative (24-Nov-20) 2)CARE BBB-; Negative (10-Aug-20)	1)CARE BBB-; Negative (24-Jan-20) 2)CARE BBB-; Negative (05-Jul-19)
6	Bonds-Subordinated	LT	771.04	CARE BB; Negative	-	1)CARE BB; Negative (17-Aug-21)	1)CARE BBB-; Negative (24-Nov-20) 2)CARE BBB-; Negative (10-Aug-20)	1)CARE BBB-; Negative (05-Jul-19)
7	Bonds	LT	159.05	CARE BB; Negative	-	1)CARE BB; Negative (17-Aug-21)	1)CARE BBB-; Negative (24-Nov-20) 2)CARE BBB-; Negative (10-Aug-20)	1)CARE BBB-; Negative (24-Jan-20) 2)CARE BBB-; Negative (05-Jul-19)

8	Debentures-Non convertible debentures	LT	310.00	CARE BB; Negative	-	1)CARE BB; Negative (17-Aug-21)	1)CARE BBB-; Negative (24-Nov-20) 2)CARE BBB-; Negative (10-Aug-20)	1)CARE BBB-; Negative (24-Jan-20) 2)CARE BBB-; Negative (05-Jul-19)
9	Debentures-Non convertible debentures	LT	818.65	CARE BB; Negative	-	1)CARE BB; Negative (17-Aug-21)	1)CARE BBB-; Negative (24-Nov-20) 2)CARE BBB-; Negative (10-Aug-20)	1)CARE BBB-; Negative (24-Jan-20) 2)CARE BBB-; Negative (05-Jul-19)
10	Bonds	LT	-	-	-	1)CARE BB+; Negative (17-Aug-21)	1)CARE BBB+; Negative (24-Nov-20) 2)CARE BBB+; Negative (10-Aug-20)	1)CARE BBB+ (SO); Negative (05-Jul-19)

*Long term/Short term.

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Bonds-Subordinated	Complex
2	Bonds-Unsecured redeemable	Simple
3	Bonds	Simple
4	Debentures-Non-convertible debentures	Simple
5	Fund-based - LT-Term loan	Simple

Annexure-4: Detailed explanation of covenants of the rated instruments/facilities: Not Available

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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