IFCI Limited

August 17, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	2,000.00 (Reduced from 5,000.00)	CARE BB; Negative (Double B; Outlook: Negative)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)
Long Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**2,000.00 (Rs. Two Thousand Crore Only)**		
Long Term Instruments- NCD*	575.00	CARE BB+; Negative (Double B Plus; Outlook: Negative)	Revised from CARE BBB+; Negative (Triple B Plus; Outlook: Negative)
Long Term Instruments	1854.57	CARE BB; Negative (Double B; Outlook: Negative)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)
Subordinate Bonds	1,044.97	CARE BB; Negative (Double B; Outlook: Negative)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)
Total Long-Term Instruments	**3,474.54 (Rs. Three Thousand Four Hundred Seventy-Four Crore and Fifty-Four Lakhs Only)**		

**based on credit enhancement in the form of lien of Special Government security (G-sec) in favor of trustee such that the total lien amount is at least 70% of the total liability on the NCD and supplemented by a structured payment mechanism (SPM)*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the long-term bank facilities and non-convertible debentures (NCDs) of IFCI Limited (IFCI) factors in sharp deterioration in the company's capitalization profile, worsening asset quality metrics with stage-3 assets constituting 80% of gross loan book as on March 31, 2021, high borrower-wise loan book concentration and persistently weak profitability metrics with IFCI reporting net loss of Rs 1,958 crore during FY21.

The downgrade in ratings is also underpinned by IFCI's stretched liquidity position having negative cumulative mismatches in more than six months bucket as per Asset Liability Maturity (ALM) statement dated March 31, 2021. While IFCI has sufficient liquidity to meet its debt obligations in the short term, liquidity position going forward remains dependent on materialization of its divestment plans for its non-core assets including its investment in subsidiaries and a substantial equity infusion from the GOI in the near term.

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 Government of India (GoI) and diversified resource profile with weighted average cost of borrowings at 9.10% as on March 31, 2021. The ratings also factor in that IFCI has been mandated by GoI for managing various social and industrial upliftment schemes.

Rating Sensitivities: Going forward, ability of the company to improve its capitalization 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 key rating sensitivities

Positive Factors-*Factors that could lead to positive rating action/upgrade*

- Improvement in the capitalization profile with CAR and Tier-I CAR above regulatory minimum requirements
- Substantial equity infusion by GoI in near-term
- Timely monetization 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 government shareholding and/or government support to IFCI

Outlook: Negative

The outlook on the rating continues to be on 'Negative' with continued weak asset quality and capitalization profile, stretched liquidity position with negative cumulative mismatches in the medium-term buckets, 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 capitalization 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 Government of India (GoI)

GoI is the majority shareholder in IFCI and held 63.81% stake in the company as on June 30, 2021, increased from 61.02% as on June 30, 2020 on account of equity infusion of Rs.200 crore in April-21. Further, GoI has allocated equity capital of another Rs.100 crore for IFCI in the FY 21-22 union budget which is expected to be infused by March 2022, however it still remains substantially lower as compared to capital requirement of IFCI. As per CARE's discussion with the representatives of Ministry of Finance, continuous support from GoI is expected to be rolled out as and when needed to meet its debt obligations in a timely manner given the weak capitalization profile of IFCI. In view of persistent asset quality concerns and losses that have led to erosion in its net-worth, IFCI would need substantially more equity infusion to be able to meet the regulatory minimum requirements. Although, there has been support from GoI for IFCI in terms of IFCI being mandated by the government for managing various social and industrial upliftment schemes. GoI has also appointed two nominee Directors on the Board of IFCI Ltd. 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 (61% of total borrowings as on March 31, 2021), bank loans (19%), subordinated debt (11%) and foreign currency debt (3.4%). The borrowings of the company however reduced by 11% Y-o-Y to Rs 11,939 crore as on March 31, 2021 from Rs.13,483 crore as on March 31, 2020 on account of protracted de-growth in IFCI's loan book. Owing to company's majority GoI ownership coupled with its diversified borrowing profile, IFCI has been able to keep its cost of funds under control with weighted average funding cost of close to 9.10% (-5 bp Y-o-Y) as on March 31, 2021. Also, during FY21, the company raised fresh NCDs of Rs.200 crore at 9.4% from State Bank of India.

Key Rating Weaknesses

Persistent weakness in asset quality

IFCI's asset quality continues to weaken with GNPA and NNPA ratios deteriorating to 73.7% and 50.5% respectively as on March 31, 2021 as compared to 61.9% and 42.7% respectively as on March 31, 2020. In absolute terms, net NPA for the company declined to Rs.2,817 crore as on March 31, 2021, down 19% Y-o-Y from Rs.3,496 crore as on March 31, 2020 on account of higher write-offs clubbed with higher provisioning, while absolute gross NPA increased marginally to Rs 7,801 crore as on March 31, 2021 (Rs 7,775 crore on Mar-20). The CARE adjusted PCR (provision coverage ratio) of the company increased to 64% as on March-21 from 55% as on March 31, 2020.

A large proportion of IFCI's NPAs are under 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 capitalization and profitability profile. IFCI's ability to reduce pressure on asset quality profile through reduction in NPA levels will be critical for its credit profile.

Weak capitalization profile

End fiscal March 31, 2021, capitalization profile of IFCI witnessed severe deterioration as tangible net-worth of the company dropped to Rs 249 crore as on March 31, 2021, compared to Rs 2,174 crore as on March 31, 2020 on the back of net operational losses of Rs 1,958 during the quarter.

As a result, IFCI's capital adequacy ratio (CAR) and Tier-I CAR declined to -10.81% and -10.96% respectively, as compared to CAR and Tier-I CAR of 13.54% and 8.2% respectively as on March 31, 2020, well below the regulatory minimum of 13% and

9% respectively required for GOI owned NBFCs. Furthermore, with IFCI reporting net losses of Rs 718 crore for the quarter ending June 30, 2021, tangible net-worth of the company turned negative with overall CAR declining further to -22.77%. This in turn, has created high dependence on a substantial equity infusion from GOI in near term in order to bring capital adequacy of the company above minimum regulatory requirement of 15% by Mar-22.
Being a GoI owned NBFC, IFCI is dependent on GoI for regular equity infusion. In April 2021, GoI infused equity of Rs.200 crore in IFCI and has made a budgetary allocation of another Rs.100 crore for capital infusion in IFCI for FY22. However, with the weak capitalization profile, the proposed equity support of Rs.100 cr from the government in the current year may not be adequate. IFCI's capitalization profile is also impacted by its sizeable investments in equity shares and other investments. IFCI's management is also focusing on sale of equity investments in order to reduce pressure on IFCI's capitalization 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.

Weak financial and operational performance in FY21
The gross loan book of IFCI continued its downward trajectory and declined to Rs 10,852 crore as on March 31, 2021, down 16% Y-o-Y from Rs.12,555 crore as on March 31, 2020. 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, disbursements for the company declined to an all-time low of Rs 77 crore in FY21 as compared to Rs 742 crore in FY20 (Rs 3,238 crore in FY19). As per management, the decline in lending book is temporary until IFCI is able to resolve its asset quality woes and secure adequate capital from GOI.

On account of decline in credit book, as well as persistent weakness in asset quality profile which impacted core interest income, IFCI's total income declined by 38% in FY21 to Rs.1,397 crore. The decline in total income was on account of 49% Y-o-Y decline in interest income which was underpinned by low interest earning assets coupled with de-recognition of interest income from Stage-3 assets.
Consequently, IFCI reported a negative net interest income of Rs 33 crore despite lower interest expenses of Rs 1,119 crore during the year. Operational performance was further impacted by sharp rise in provisioning expenses to Rs 2,272 crore in FY21 as compared to Rs 422 crore during FY20, which in turn led to operational losses (PBT) widening to Rs 2,147 crore in FY21 as compared to PBT of Rs 141 crore during FY20. IFCI reported a net loss (PAT) of Rs 1,958 crore for fiscal FY21 as compared to a net loss of Rs 278 crore in FY20.
While IFCI's income profile is expected to remain subdued due to no lending operations, IFCI would continue to generate income from its advisory business as in FY 21, 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.

Concentrated loan portfolio
IFCI is engaged in providing high ticket corporate loans and project-specific loans to corporates. As on March 31, 2021, top 20 exposures of the company account for a significant proportion (18 times) of tangible net-worth and 44% of the total loan assets. As on March 31, 2021, 43% of the loans are towards infrastructure sector, 28% of the loans outstanding are towards manufacturing sector followed by service industry at 13% 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 months bucket, as per ALM statement dated March 31, 2021. Over the next twelve months i.e. until Mar-22, the company's debt obligations are around Rs.4,332 crore against which the company has scheduled inflows at around Rs 2,777 crore, including inflows from investments, clubbed with unencumbered cash and bank balances of Rs 827 crore as on March 31, 2021, thus resulting in a stretched liquidity position. However, 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
Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
CARE Methodology for Non-Banking Financial Companies
Financial Sector –Financial Ratios
Factoring linkages for Government support
Policy on withdrawal for ratings

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 categorized 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 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 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 Rs.60 crore of preference share equity in the company from existing shareholders. GoI holds 63.81% equity shares in IFCI as on June 30, 2021.

Brief Financials^ (Rs. crore)	FY20 (A)	FY21 (A)
Total income	2,264	1,397
PAT	(278)	(1,958)
Interest coverage (times)	0.90	(0.92)
Total Assets excluding intangibles and DTA	16,496	13,096
Net NPA (%)	42.70	50.50
ROTA (%)	(1.52)	(13.23)

A: Audited, ^: as per IND AS, (): Negative

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	-	2000.00	CARE BB; Negative
Fund-based - LT-Term Loan					0.00	Withdrawn
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
	INE039A09PQ7	11-Jan-13	9.90%	11-Jan-21	0.00	Withdrawn#
	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	46.74	CARE BB; Negative
	INE039A09NY6	12-Dec-11	8.50%	12-Dec-21	19.02	CARE BB; Negative
	INE039A09NZ3	12-Dec-11	8.75%	12-Dec-26	8.31	CARE BB; Negative
	INE039A09OA4	12-Dec-11	8.75%	12-Dec-26	2.72	CARE BB; Negative
	INE039A09OE6	15-Feb-12	9.99%	15-Feb-22	190.92	CARE BB; Negative
	INE039A09OF3	15-Feb-12	9.09%	15-Feb-22	46.54	CARE BB; Negative
	INE039A09OG1	15-Feb-12	9.16%	15-Feb-27	33.45	CARE BB; Negative
	INE039A09OH9	15-Feb-12	9.16%	15-Feb-27	9.10	CARE BB; Negative

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
	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	18.18	CARE BB; Negative
	INE039A09OX6	31-Mar-12	8.72%	31-Mar-27	5.98	CARE BB; Negative
Bonds	INE039A09NF5	31-May-11	10.20%	31-May-21	0.00	Withdrawn#
	INE039A09OT4	31-Mar-12	10.25%	31-Mar-22	0.89	CARE BB; Negative
	INE039A09OK3	31-Dec-11	10.60%	31-Dec-21	1.75	CARE BB; Negative
	INE039A09NS8	31-Aug-11	10.50%	31-Aug-21	6.38	CARE BB; Negative
	INE039A09OR8	28-Feb-12	10.25%	28-Feb-22	0.40	CARE BB; Negative
	INE039A09OD8	30-Nov-11	10.60%	30-Nov-21	0.30	CARE BB; Negative
	INE039A09ND0	30-Apr-11	10.00%	30-Apr-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	575.00	CARE BB+; Negative
Subordinated Bonds	INE039A09NJ7	01-Aug-11	10.50%	01-Aug-21	169.63*	CARE BB; Negative
	INE039A09NK5	01-Aug-11	10.50%	01-Aug-21	21.68*	CARE BB; Negative
	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
	INE039A09NP4	25-Aug-11	10.55%	25-Aug-21	200.00	CARE BB; Negative
	INE039A09NT6	31-Oct-11	10.60%	31-Oct-21	3.89	CARE BB; Negative
	INE039A09NU4	31-Oct-11	10.60%	31-Oct-21	4.22	CARE BB; Negative
	INE039A09NV2	31-Oct-11	10.50%	31-Oct-21	74.51	CARE BB; Negative
	INE039A09NW0	31-Oct-11	10.75%	31-Oct-26	102.49	CARE BB; Negative

#Withdrawal on basis of maturity
*Redeemed on maturity, pending withdrawal

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (24-Jan-20) 2)CARE BBB-; Negative (05-Jul-19)	1)CARE BBB; Negative (25-Feb-19) 2)CARE BBB+; Negative (24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)
2.	Fund-based - LT-Term Loan	LT	-	-	-	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)	1)CARE BBB; Negative (25-Feb-19) 2)CARE BBB+; Negative (24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)
3.	Term Loan-Long	LT	-	-	-	-	1)Withdrawn	1)CARE BBB; Negative

	Term						(24-Jan-20) 2)CARE BBB-; Negative (05-Jul-19)	(25-Feb-19) 2)CARE BBB+; Negative (24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)
4.	Bonds-Unsecured Reedemable	LT	250.00	CARE BB; Negative	-	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)	1)CARE BBB; Negative (25-Feb-19) 2)CARE BBB+; Negative (24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)
5.	Fund-based - LT-Term Loan	LT	2000.00	CARE BB; Negative	-	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)	1)CARE BBB; Negative (25-Feb-19) 2)CARE BBB+; Negative (24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)
6.	Bonds-Subordinated	LT	1044.97	CARE BB; Negative	-	1)CARE BBB-; Negative (24-Nov-20) 2)CARE BBB-; Negative (10-Aug-20)	1)CARE BBB-; Negative (05-Jul-19)	1)CARE BBB-; Negative (25-Feb-19) 2)CARE BBB; Negative (24-Sep-18) 3)CARE BBB; Negative (22-Jun-18) 4)CARE BBB; Negative (01-Jun-18)
7.	Bonds	LT	466.20	CARE BB; Negative	-	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)	1)CARE BBB; Negative (25-Feb-19) 2)CARE BBB+; Negative (24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)
8.	Debentures-Non Convertible Debentures	LT	319.72	CARE BB; Negative	-	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)	1)CARE BBB; Negative (25-Feb-19) 2)CARE BBB+; Negative (24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)
9.	Debentures-Non Convertible Debentures	LT	818.65	CARE BB; Negative	-	1)CARE BBB-; Negative (24-Nov-20)	1)CARE BBB-; Negative (24-Jan-20)	1)CARE BBB; Negative (25-Feb-19) 2)CARE BBB+; Negative

						2)CARE BBB-; Negative (10-Aug-20)	2)CARE BBB-; Negative (05-Jul-19)	(24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)
10.	Bonds	LT	575.00	CARE BB+; Negative	-	1)CARE BBB+; Negative (24-Nov-20) 2)CARE BBB+; Negative (10-Aug-20)	1)CARE BBB+ (SO); Negative (05-Jul-19)	1)CARE A- (SO); Negative (25-Feb-19) 2)CARE A (SO); Negative (24-Sep-18) 3)CARE A (SO); Negative (22-Jun-18) 4)CARE A (SO); Negative (01-Jun-18)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds	Simple
2.	Bonds-Subordinated	Complex
3.	Bonds-Unsecured Reedemable	Simple
4.	Debentures-Non Convertible Debentures	Simple
5.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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