IFCI Limited

July 05, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	200.00 (Reduced from 700.00)	CARE BB; Negative	Reaffirmed
Bonds	159.05	CARE BB; Negative	Reaffirmed
Non-convertible debentures	310.00	CARE BB; Negative	Reaffirmed
Non-convertible debentures	695.35 (Reduced from 818.65)	CARE BB; Negative	Reaffirmed
Subordinated	571.04 (Reduced from 771.04)	CARE BB; Negative	Reaffirmed
Unsecured redeemable	250.00	CARE BB; Negative	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings for long-term bank facilities and non-convertible debentures (NCDs) of IFCI Limited (IFCI) have been reaffirmed with the company continuing to manage its debt obligations during the last few years supported by the recoveries from non-performing assets (NPAs) and continued infusion from the government of India. The net losses reported during FY23 reduced to ₹287 crore as against net losses of ₹1991 crore in FY22 driven by recoveries in FY23 and impairment reversal.

The ratings also factor in deterioration in the company's capitalisation profile, worsening asset quality metrics with stage-3 assets constituting 93.96% of gross loan book as on March 31, 2023 and high borrower-wise loan book concentration.

The ratings, however, continue to derive strength from majority ownership (70.32%) by GoI and diversified resource profile with weighted average cost of borrowings at 9.33% as on March 31, 2023. The ratings also factor in the fact that IFCI has been mandated by GoI for managing various social and industrial upliftment schemes.

The liquidity position, going forward, remains dependent on the recoveries from the NPA, 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).

Rating sensitivities: Factors likely to lead to rating actions

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

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

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

- Significant deterioration in the liquidity position
- Weakness in operational efficiency of the company with continued net losses.
- Any material changes in the government shareholding and/or government support to IFCI.

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

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

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 improve its liquidity position, and the profitability metrics.

Detailed description of the key rating drivers:

Key strengths

Majority ownership by GoI:

GoI is the majority shareholder in IFCI and held 70.32% stake in the company as on March 31, 2023, increased from 64.86% as on March 31, 2022 on account of equity infusion of ₹100 crore in October 2022 and ₹400 crore in April 2023. Though IFCI is not doing any incremental disbursements, IFCI has been mandated by the government for managing various social and industrial upliftment schemes. GoI has also appointed Independent Director on the Board of IFCI in May 2023. IFCI was also recently hired by the ministry of heavy industries (MHI) as the project manager to help streamline Phase II (FAME-II) scheme of ₹10,000 crore to promote electric vehicles.

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 NCDs and bank loans. The borrowings of the company, however, reduced by 24% Y-o-Y to ₹5,808 crore as on March 31, 2023 from ₹7,012 crore as on March 31, 2022, on account of no incremental funding raised since FY22. The weighted average funding cost stood at nearly 9.33% in FY23.

The company has prepaid bonds of ₹300 crore and term loan of ₹50 crore in FY23. It further prepaid term loan of ₹75 crore and subordinate bond of ₹10 crore in Q1FY24. Also, another two bonds amounting to ₹85 crore have been approved by government for prepayment.

Key weaknesses

Weak financial and operational performance in FY23:

The loan book of IFCI continued its downward trajectory and declined to ₹1,799 crore as on March 31, 2023, down 25% Y-o-Y from ₹2,383 crore as on March 31, 2022. The decline in the loan book is on account of the management's strategy to pivot its focus towards the company' advisory business while not sanctioning any new loans for the lending book. The company has not disbursed any fresh loans since FY22.

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 29% to ₹545 crore in FY23**.** Consequently, IFCI reported a negative net interest income (NII) of ₹336 crore despite lower interest expenses of ₹631 crore during the year. The company is currently focusing on recoveries from NPAs and recovered ₹820 crore in FY23. Overall, IFCI continued to report net losses of ₹288 crore, with return on total assets (RoTA) of -3.99%.

IFCI's income profile to remain subdued due to no-lending operations. However, IFCI would continue to generate income from its advisory business.

Persistent weakness in asset quality:

IFCI's asset quality continues to weaken with gross NPA (GNPA) and net NPA (NNPA) ratios deteriorating to 92.39% and 75.99%, respectively, as on March 31, 2023, as compared with 90.7% and 75.4%, respectively, as on March 31, 2022, mainly due to contraction in the loan book. In absolute terms, NNPA for the company declined to ₹1,499.18 crore as on March 31, 2023, down 33% Y-o-Y from ₹2,057 crore as on March 31, 2022, on account of NPA recoveries. The company was able to recover ₹820 crore during fiscal 2023. The CARE Ratings-adjusted provision coverage ratio (PCR) of the company increased to 73.9% as on March 2023 from 68.4% as on March 31, 2022.
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, 2023, the capitalisation profile of IFCI witnessed severe deterioration as the tangible net-worth (TNW) of the company dropped to -₹1,113 crore as on March 31, 2023, compared with -₹1,407 crore as on March 31, 2022, on the back of net operational losses of ₹287.58 during the year.
As a result, IFCI's CAR and Tier-I CAR declined to -70.66% and -71.06%, respectively as on March 31, 2023, as compared with CAR and Tier-I CAR of -64.85% and -64.96%, respectively, as on March 31, 2022, 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 October 2022 and April 2023, GoI infused equity of ₹100 crore and ₹400 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. CARE Ratings notes that IFCI may focus on the sale of equity investments in order to reduce pressure on IFCI's capitalisation while simultaneously improving its liquidity. Moreover, CARE Ratings will continue to monitor IFCI's ability to raise substantial equity from GOI whilst divesting some of its core assets in a timely manner, which remains a key rating sensitivity.

Liquidity: Stretched

The liquidity profile of the company remains stretched with negative cumulative mismatches in more than six-month bucket, as per the asset liability maturity (ALM) statement dated March 31, 2023. Over the next 12 months, i.e., until March 2024, the company's outflows are around ₹962.25 crore against which the company has scheduled inflows at around ₹588.8 crore, including inflows from investments and bank balances as on March 31, 2023, thus resulting in a stretched liquidity position. However, the liquidity profile of the company could be supported by timely recoveries from NPA (target recovery of ₹700 crore in FY24) and capital support from the government if required.

CARE Ratings notes that, supported by the NPA recovery of ₹820 crore during FY23 and capital infusion from GoI, IFCI prepaid bonds of ₹300 crore and term loan of ₹50 crore in FY23. It further prepaid term loan of ₹75 crore and subordinate bond of ₹10 crore in Q1FY24. The company has also got approval from GoI for prepayments of another two bonds amounting to ₹85 crore.

Environment, social, and governance (ESG) risks:

IFCI being an NBFC has limited applicability of National Guidelines on Responsible Business Conduct (NGRBC) principles. However, the company strives to follow applicable directions/ guidelines provided by the Government of India. Further, efforts are being made on the ESG front to contribute to the community either through CSR activities or supporting the GOI in the initiative made in this regard.

Applicable criteria

Rating Outlook and Credit Watch
Policy on default recognition
Non Banking Financial Companies
Financial Ratios - Financial Sector
Policy on Withdrawal of Ratings
Factoring linkages for Government support

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non-Banking Financial Company (NBFC)

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 70.32% equity shares in IFCI as on March 31, 2023.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	1,396.92	763.61	545.26
PAT	-1,957.81	-1,991.34	-287.58
Interest coverage (times)	-0.92	-0.93	0.71
Total Assets	13,096.42	7,217.02	7,191
Net NPA (%)	50.30	75.48	75.99
ROTA (%)	-13.23	-19.61	-3.99

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of Instrument	ISIN	Date of issuance	Coupon Rate	Maturity Date	Size of Issue (₹, crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan (proposed)	-	-	-	-	200.00	CARE BB; Negative
Total					**200.00**	
Redeemable Unsecured NCD - taxable	INE039A09MC4	13-Jul-10	9.75%	13-Jul-30	250.00	CARE BB; Negative
Unsecured redeemable non-convertible bonds	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
	INE039A09PN4	05-Nov-12	9.90%	05-Nov-27	106.875	CARE BB; Negative
	INE039A09PO2	05-Nov-12	9.90%	05-Nov-32	106.875	CARE BB; Negative
	INE039A09PP9	05-Nov-12	9.90%	05-Nov-37	106.875	CARE BB; Negative
	INE039A09PR5	26-Apr-13	9.75%	26-Apr-28	350.00	CARE BB; Negative

Name of Instrument	ISIN	Date of issuance	Coupon Rate	Maturity Date	Size of Issue (₹, crore)	Rating Assigned along with Rating Outlook
Infra Bonds	INE039A09NZ3	12-Dec-11	8.75%	12-Dec-26	7.9985	CARE BB; Negative
	INE039A09OA4	12-Dec-11	8.75%	12-Dec-26	2.679	CARE BB; Negative
	INE039A09OG1	15-Feb-12	9.16%	15-Feb-27	30.99	CARE BB; Negative
	INE039A09OH9	15-Feb-12	9.16%	15-Feb-27	9.026	CARE BB; Negative
	INE039A09OU2	31-Mar-12	8.50%	31-Mar-24	66.287	CARE BB; Negative
	INE039A09OV0	31-Mar-12	8.50%	31-Mar-24	18.946	CARE BB; Negative
	INE039A09OW 8	31-Mar-12	8.72%	31-Mar-27	17.276	CARE BB; Negative
	INE039A09OX6	31-Mar-12	8.72%	31-Mar-27	5.83	CARE BB; Negative
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
Subordinated Bonds	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
	INE039A09NW 0	31-Oct-11	10.75%	31-Oct-26	102.49	CARE BB; Negative
Total					**1985.44**	

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 2023-2024	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
1	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)
2	Bonds-Unsecured Reedemable	LT	250.00	CARE BB; Negative	-	1)CARE BB; Negative (06-Jul-22)	1)CARE BB; Negative (17-Aug-21)	1)CARE BBB-; Negative (24-Nov-20) 2)CARE BBB-; Negative (10-Aug-20)
3	Fund-based - LT-Term Loan	LT	200.00	CARE BB; Negative	-	1)CARE BB; Negative (06-Jul-22)	1)CARE BB; Negative (17-Aug-21)	1)CARE BBB-; Negative (24-Nov-20) 2)CARE BBB-; Negative (10-Aug-20)
4	Bonds-Subordinated	LT	571.04	CARE BB; Negative	-	1)CARE BB; Negative (06-Jul-22)	1)CARE BB; Negative (17-Aug-21)	1)CARE BBB-; Negative (24-Nov-20) 2)CARE BBB-; Negative (10-Aug-20)

5	Bonds	LT	159.05	CARE BB; Negative	-	1)CARE BB; Negative (06-Jul-22)	1)CARE BB; Negative (17-Aug-21)	1)CARE BBB-; Negative (24-Nov-20) 2)CARE BBB-; Negative (10-Aug-20)
6	Debentures-Non Convertible Debentures	LT	310.00	CARE BB; Negative	-	1)CARE BB; Negative (06-Jul-22)	1)CARE BB; Negative (17-Aug-21)	1)CARE BBB-; Negative (24-Nov-20) 2)CARE BBB-; Negative (10-Aug-20)
7	Debentures-Non-Convertible Debentures	LT	695.35	CARE BB; Negative	-	1)CARE BB; Negative (06-Jul-22)	1)CARE BB; Negative (17-Aug-21)	1)CARE BBB-; Negative (24-Nov-20) 2)CARE BBB-; Negative (10-Aug-20)
8	Bonds	LT	-	-	-	1)Withdrawn (06-Jul-22)	1)CARE BB+; Negative (17-Aug-21)	1)CARE BBB+; Negative (24-Nov-20) 2)CARE BBB+; Negative (10-Aug-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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-5: Lender details

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

Note on the 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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About us:
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