

IFCI Limited

January 24, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	5,400.00 (reduced from 7,825.00) (Rupees Five Thousand and Four hundred crore only)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed
Long term Instruments	2,032.27 (reduced from 2,655.00) (Rupees Two Thousand and thirty two crore and twenty seven lakhs only)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities and non-convertible debentures of IFCI Limited (IFCI) factor in stretched liquidity position of the company with negative cumulative mismatches in upto 3 months and upto 1 year bucket as per ALM statement dated September 30, 2019, weak capitalization profile of IFCI following an absence of capital infusion from GoI since fiscal 2019, deteriorating asset quality metrics with stage-3 assets forming 55.8% of gross loan book as on September 30, 2019, concentrated loan book and weak profitability metrics with IFCI reporting net loss during FY19 and H1FY20 despite provision reversal on account of change in LGD assumption. Also there has been a delay in the execution of the planned divestment of non-core assets including investment in subsidiaries. In Dec 2019, IFCI divested its entire stake of 2.44% in NSE and realised approximately Rs.942.21 crore, representing about 96% of the total committed amount which is expected to provide some comfort to the liquidity profile.

The ratings however, continue to derive strength from majority ownership by Government of India (GOI) and diversified resource profile with average cost of borrowings at 9.23% as on September 30, 2019.

Rating Sensitivities: Going forward, the ability of the company to attain positive loan growth, improve its capitalization profile and asset quality and to strengthen its liquidity position and timely divestments of non-core assets including its investment in subsidiaries would be the key rating sensitivities.

Positive Factors

- Improvement in the capitalization profile and asset quality metrics of the company
- Substantial equity infusion by GoI
- Improvement in liquidity position of the company with inflows more than the outflows in the near term
- Strong and sustainable loan growth

Negative factors

- Any weakness in the capitalization profile with CAR going below minimum regulatory requirement of 10% for GoI owned NBFCs
- Any material change in government shareholding and/or government support to IFCI

Outlook: Negative

The outlook on the ratings has been reaffirmed as 'Negative' on account of continued weak capitalization profile, stretched liquidity position with negative cumulative mismatches in the near term bucket and weak asset quality profile, sustained loan book contraction and weak profitability metrics. IFCI's ability to get adequate equity capital from GoI, liquidate non-core investments in a timely manner and reduce asset quality stress through recoveries will be critical for improvement in IFCI's credit profile. 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.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Detailed description of the key rating drivers

Majority ownership by Government of India (Gol): Gol is the majority shareholder in IFCI and held 56.42% equity shares of IFCI as on September 30, 2019. In March 2018, Gol infused equity capital of Rs.100 crore in IFCI which increased Gol's equity holding from 55.53% as on Dec 31, 2017 to 56.42% as on March 31, 2018. Gol allocated equity capital of Rs.200 crore for IFCI in the budget which is expected to be infused by March 2020. Being a majority owned entity by Gol, IFCI is expected to receive support from the government in equity capital and resource raising and other regulatory matters. Gol has also appointed two nominee Directors on the Board of IFCI Ltd. Given majority government ownership, timely support from Gol remains a key rating sensitive.

Diversified resource profile: The borrowing profile of IFCI is diversified with funds raised from non-convertible debentures (61% of total borrowings as on September 30, 2019), bank loans (27%), subordinated debt (9%) and foreign currency debt (3%). The borrowings of the company however reduced by 20% Y-o-Y to Rs.16,094 crore as on March 31, 2019 and then further to Rs.14,447 crore as on September 30, 2019 on account of protracted de-growth in IFCI's loan book. Although reduced borrowings lead to gearing ratio improving to 5.76 times end Sept 2019 as against 7.56 times as on March 31, 2019. Owing to company's majority Gol 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 9.23% (+25 bp Y-o-Y) as on September 30, 2019. Also, during H1FY20, the company did not raise any fresh borrowings.

Key Rating Weaknesses

Weak asset quality: IFCI's asset quality remains weak with GNPA and NNPA at 53.6% and 32.3% respectively as on Sep 30, 2019 increased from 49.6% and 31.7% respectively as on March 31, 2019. While the incremental slippage ratio has come down, the increase in reported GNPA and NNPA ratio is due to denominator effect amid prolonged loan book contraction. In absolute terms, the gross and net NPA decreased to Rs.8,071 crore and Rs.4,035 crore respectively as on Sep 30, 2019 from Rs.8,610 crore and Rs.4,069 crore respectively as on March 31, 2019 on account of recoveries and write-offs. The CARE adjusted PCR (provision coverage ratio) of the company reduced to 50% as on Sep-19 from 53% as on March 31, 2019 on account of change in LGD assumption.

The gross stage 3 assets constituting 52.5% of gross loans end fiscal 2019 reduced from Rs.9,237.35 crore to Rs.8,409 crore or 55.8% of gross loans as on September 30, 2019. IFCI's provision cover on stage-3 assets was around 49% as on September 30, 2019 reduced from 61% as on March 31, 2019. A large numbers 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: Owing to changes in LGD assumptions leading to lower provisioning costs, the capital adequacy ratios of IFCI improved with Tier 1 CAR and overall CAR at 8.9% and 13.30% respectively as on Sep 30, 2019 from 5.31% and 7.97% respectively as on March 31, 2019, which is above the regulatory minimum capital requirement of 7% and 10% Tier 1 and CAR respectively for Gol owned NBFCs. The capital adequacy is also supported by the contraction in loan book leading to lower risk weighted assets (RWA) with no reduction in the tangible net worth.

Also, being a Gol owned NBFC, IFCI is dependent on Gol for regular equity infusion. In current fiscal, Gol made a budgetary allocation of Rs.200 crore for capital infusion in IFCI for FY20 as against IFCI's capital request of Rs.1,100 crore in FY19. The capital of Rs 200 crore is expected to be infused by March 2020. IFCI's capitalization profile is also impacted by its sizeable investments in equity shares and other investments. IFCI's management is focussing on sale of equity investments in order to reduce pressure on IFCI's capitalization. IFCI realized fund amounting to Rs.942.21 crore, representing about 96% of total committed amount through the sale of stake in NSE. Further, IFCI's ability to get adequate equity capital from Gol, and liquidate non-core investments in a timely manner will remain a key rating sensitivity.

Weak financial and operational performance in FY19 and H1FY20: The gross loan book continued its downward trajectory and declined from Rs.17,594 crore as on March 31, 2019 to Rs.15,054 crore as on September 30, 2019. Till the company is able to materially resolve its asset quality challenges and secure adequate equity capital from Gol / liquidates non-core investments to improve its capitalization, there will be limited headroom for loan growth. As per management, the company is not focussing on loan book expansion and hence the amount of sanctions has come down to Rs.135 crore for H1 FY 2020 as against Rs.1,840 crore for the corresponding period last year.

On account of decline in credit book, as well as weakness in asset quality profile which impacted interest income and despite profit on sale of investments, IFCI's total income declined by 34% in FY19 to Rs.2,466 crore from Rs.3,740 crore in FY18. IFCI's

profit before provisions was Rs.393 crore in FY19 supported by profit on sale of non-core investments. Further, on account of weakness in asset quality, provisions increased to Rs.1,085 crore and led to net loss of Rs.444 crore in FY19.

During H1FY20, IFCI reported total income of Rs.1,026.20 crore and net loss of Rs.1.68 crore despite provision reversal of Rs.487.53 crore in H1FY20 on account of change in LGD assumption from 65.23% to 49.25%.

Concentrated loan portfolio: IFCI is engaged in providing high ticket corporate loans and project-specific loans to corporates. As on March 31, 2019, top 20 exposures of the company account for a significant proportion (253%) of tangible net-worth and 31% of the total loan assets. As on September 30, 2019, 27% of the loans outstanding are towards manufacturing sector followed by infra-energy at 21%, infra-transport and logistics at 11%, service industry at 11% and remaining to real estate, hold Co., banking etc. However, the management mentioned that it plans to move towards more of short term loans and incrementally do less of project and consortium loans.

Liquidity profile: Stretched

The liquidity profile of the company remains stretched with negative cumulative mismatches in upto 3 months bucket and upto 1 year bucket, as per ALM statement dated September 30, 2019. Over the next six months, the company's debt obligation outflows are around Rs.2,056 crore against which the company scheduled inflows are low at around Rs.1,292 crore because of high levels of NPA and reducing standard loan book at Rs.6,957 crore as on September 30, 2019. However, the company has liquidity buffer of Rs.1,171 crore which includes investment in liquid mutual funds and G-sec amounting to Rs.786 crore as on Jan 08, 2020 which provides some comfort to the liquidity profile. The liquidity profile will be further supported by the planned disinvestment of non-core assets and recoveries from NPA.

Analytical approach: Standalone, factoring linkages with majority GoI ownership

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Short Term Instruments](#)

[Rating Methodology - Non Banking Finance Companies \(NBFCs\)](#)

[Financial Ratios – Financial Sector](#)

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 56.42% equity shares in IFCI as on March 31, 2019.

Brief Financials^ (Rs. crore)	FY18 (A)	FY19 (A)
Total income	3,740	2,466
PAT	468	(444)
Interest coverage (times)	1.24	0.61
Total Assets excluding intangibles and DTA	25,185	20,160
Net NPA (%)	29.02	31.77
ROTA (%)	1.67	(1.96)

A: Audited, ^: as per IND AS

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
Term Loan-Long Term	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	Up to Jul 2022	5400.00	CARE BBB-; Negative
Term Loan-Long Term	-	-	-	-	0.00	Withdrawn
Redeemable Unsecured NCD - taxable	INE039A09MC4	13-Jul-10	9.75%	13-Jul-30	250.00	CARE BBB-; Negative
Unsecured redeemable non-convertible bonds	INE039A09PF0	08-Oct-12	9.95%	08-Oct-22	5.41	CARE BBB-; Negative
	INE039A09PA1	26-Jun-12	10.15%	26-Jun-22	2.80	CARE BBB-; Negative
	INE039A09PE3	28-Sep-12	10.05%	28-Sep-22	8.20	CARE BBB-; Negative
	INE039A09PI4	08-Oct-12	10.12%	08-Oct-27	19.59	CARE BBB-; Negative
	INE039A09PJ2	08-Oct-12	10.10%	08-Oct-27	5.15	CARE BBB-; Negative
	INE039A09PM6	05-Nov-12	9.90%	05-Nov-22	106.88	CARE BBB-; Negative
	INE039A09PN4	05-Nov-12	9.90%	05-Nov-27	106.88	CARE BBB-; Negative
	INE039A09PO2	05-Nov-12	9.90%	05-Nov-32	106.88	CARE BBB-; Negative
	INE039A09PP9	05-Nov-12	9.90%	05-Nov-37	106.88	CARE BBB-; Negative
	INE039A09PQ7	11-Jan-13	9.90%	11-Jan-21	151.20	CARE BBB-; Negative
INE039A09PR5	26-Apr-13	9.75%	26-Apr-28	350.00	CARE BBB-; Negative	
Infra Bonds	INE039A09NX8	12-Dec-11	8.50%	12-Dec-21	46.74	CARE BBB-; Negative
	INE039A09NY6	12-Dec-11	8.50%	12-Dec-21	19.02	CARE BBB-; Negative
	INE039A09NZ3	12-Dec-11	8.75%	12-Dec-26	8.31	CARE BBB-; Negative
	INE039A09OA4	12-Dec-11	8.75%	12-Dec-26	2.72	CARE BBB-; Negative
	INE039A09OE6	15-Feb-12	9.99%	15-Feb-22	190.92	CARE BBB-; Negative
	INE039A09OF3	15-Feb-12	9.09%	15-Feb-22	46.54	CARE BBB-; Negative
	INE039A09OG1	15-Feb-12	9.16%	15-Feb-27	33.45	CARE BBB-; Negative
	INE039A09OH9	15-Feb-12	9.16%	15-Feb-27	9.10	CARE BBB-; Negative
	INE039A09OU2	31-Mar-12	8.50%	31-Mar-24	66.29	CARE BBB-; Negative
	INE039A09OV0	31-Mar-12	8.50%	31-Mar-24	18.95	CARE BBB-; Negative
	INE039A09OW8	31-Mar-12	8.72%	31-Mar-27	18.18	CARE BBB-; Negative
	INE039A09OX6	31-Mar-12	8.72%	31-Mar-27	5.98	CARE BBB-; Negative
Bonds	INE039A09NF5	31-May-11	10.20%	31-May-21	0.30	CARE BBB-; Negative
	INE039A09OT4	31-Mar-12	10.25%	31-Mar-22	0.89	CARE BBB-; Negative
	INE039A09OK3	31-Dec-11	10.60%	31-Dec-21	1.75	CARE BBB-; Negative
	INE039A09NS8	31-Aug-11	10.50%	31-Aug-21	6.38	CARE BBB-; Negative
	INE039A09OR8	28-Feb-12	10.25%	28-Feb-22	0.40	CARE BBB-; Negative
	INE039A09OD8	30-Nov-11	10.60%	30-Nov-21	0.30	CARE BBB-; Negative
	INE039A09ND0	30-Apr-11	10.00%	30-Apr-21	26.20	CARE BBB-; Negative
Tax free bonds	INE039A09PT1	31-Mar-14	8.39%	31-Mar-24	165.00	CARE BBB-; Negative
	INE039A09PU9	31-Mar-14	8.76%	31-Mar-29	145.00	CARE BBB-; Negative

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	-	-	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)	1)CARE A-; Negative (12-Jul-17)	1)CARE A; Negative (30-Mar-17) 2)CARE A+ (14-Jul-16)
2.	Fund-based - LT-Term Loan	LT	400.00	CARE BBB-; Negative	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)	1)CARE A-; Negative (12-Jul-17)	1)CARE A; Negative (30-Mar-17) 2)CARE A+ (14-Jul-16)
3.	Term Loan-Long Term	LT	-	-	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)	1)CARE A-; Negative (12-Jul-17)	1)CARE A; Negative (30-Mar-17) 2)CARE A+ (14-Jul-16)
4.	Bonds-Unsecured Redeemable	LT	250.00	CARE BBB-; Negative	1)CARE BBB-; Negative (05-Jul-19)	1)CARE BBB; Negative (25-Feb-19) 2)CARE BBB+; Negative	1)CARE A-; Negative (12-Jul-17)	1)CARE A; Negative (30-Mar-17) 2)CARE A+ (14-Jul-16)

						(24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)		
5.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (12-Sep-17) 2)CARE A1 (12-Jul-17)	1)CARE A1+ (30-Mar-17) 2)CARE A1+ (14-Jul-16)
6.	Fund-based - LT-Term Loan	LT	5000.00	CARE BBB-; Negative	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)	1)CARE A-; Negative (12-Jul-17)	1)CARE A; Negative (30-Mar-17) 2)CARE A+ (14-Jul-16)
7.	Bonds-Subordinated	LT	1044.97	CARE BBB-; Negative	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)	1)CARE BBB+; Negative (12-Jul-17)	1)CARE A-; Negative (30-Mar-17) 2)CARE A (14-Jul-16)
8.	Bonds	LT	466.20	CARE BBB-; Negative	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)	1)CARE A-; Negative (12-Jul-17)	1)CARE A; Negative (30-Mar-17) 2)CARE A+ (14-Jul-16)
9.	Debentures-Non Convertible Debentures	LT	346.22	CARE BBB-; Negative	1)CARE BBB- ; Negative (05-Jul-19)	1)CARE BBB; Negative (25-Feb-19)	1)CARE A-; Negative (12-Jul-17)	1)CARE A; Negative (30-Mar-17)

						2)CARE BBB+; Negative (24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)		2)CARE A+ (14-Jul-16)
10.	Debentures-Non Convertible Debentures	LT	969.85	CARE BBB-; Negative	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)	1)CARE A-; Negative (12-Jul-17)	1)CARE A; Negative (30-Mar-17) 2)CARE A+ (14-Jul-16)
11.	Bonds	LT	575.00	CARE BBB+; Negative	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)	1)CARE A+ (SO); Negative (12-Jul-17)	1)CARE AA- (SO); Negative (30-Mar-17) 2)CARE AA (SO) (14-Jul-16) 3)CARE AA (SO) (06-Jun-16)

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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