

November 30, 2021

IFCI Limited: Long-term ratings downgraded to [ICRA]B+ (Negative); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Bank Limits	3,000.00	3,000.00	[ICRA]B+ (Negative); downgraded from [ICRA]BB (Negative)
Long-term Bonds (incl. sub debt)	2,493.38	2,493.38	[ICRA]B+ (Negative); downgraded from [ICRA]BB (Negative)
	236.38	-	[ICRA]B+ (Negative); downgraded from [ICRA]BB (Negative) and withdrawn
Bonds/NCD Programme	1,161.36	1,161.36	[ICRA]B+ (Negative); downgraded from [ICRA]BB (Negative)
Commercial Paper Programme	500.00	500.00	[ICRA]A4; reaffirmed
Total	7,391.12	7,154.74	

*Instrument details are provided in Annexure-1

Rationale

The ratings downgrade factors in the continued deterioration in IFCI Limited's liquidity position vis-à-vis its upcoming debt repayment obligations and the lack of incremental updates on its business revival plan, which envisaged capital infusion from the Government of India (GoI) to turn around the company's business operations. The capitalisation profile continues to deteriorate due to continued losses and worsened further with a Tier I capital of -37.77% as on September 30, 2021 (against -10.96% as on March 31, 2021). IFCI has managed its debt repayments during the last few years by running down its standard loan book, making recoveries from non-performing advances (NPA) and divesting its non-core assets. With a significant reduction in the standard loan book, the ability to incrementally manage debt repayments will also remain a challenge. The company will have to rely on timely support from the GoI, apart from recoveries from NPA accounts or divestment of key subsidiaries to service its upcoming repayment obligations.

The GoI had infused capital of Rs. 200 crore each in FY2020 and FY2021 and had budgeted a capital infusion of Rs. 100 crore for FY2022; however, ICRA maintains that IFCI's capital requirements are much higher. This is because of the negative Tier I capital and the significantly large book of stressed assets. Moreover, its debt levels are much higher in relation to the standard advances and the value of the investments.

The Negative outlook continues to reflect ICRA's expectation of increasing liquidity pressure, which will pose challenges for the company's debt-servicing ability over the next few months. The rating outlook will be changed to Stable if IFCI's strategic importance to the GoI increases significantly along with the infusion of sizeable capital, which would improve its solvency and liquidity position and enable it to resume business growth by securing fresh funds.

ICRA has withdrawn the rating assigned to the Rs. 236.38-crore long-term bonds (including sub debt) as these bonds are fully redeemed and no amount is outstanding against the rated instrument. The rating was withdrawn in accordance with ICRA's policy on withdrawal (click [here](#) for the policy).

Key rating drivers and their description

Credit challenges

Increasing liquidity risk – During the last few years, the company managed to service its debt through repayments/prepayments in the standard loan book, divestment of non-core assets/other investments and NPA recoveries. IFCI's standard loan book (Stage-1 and Stage-2) declined to Rs. 1,532 crore as on September 30, 2021 from Rs. 2,573 crore as on March 31, 2021 and is estimated to have declined further as of November 2021 because of repayments/prepayments and lack of incremental disbursements.

As on November 11, 2021, the company had on-balance sheet liquidity of Rs. 1,233 crore, which is primarily generated through repayments/prepayments of the standard loan book and NPA recoveries. Against the on-balance sheet liquidity, the company has debt repayment obligations (principal and interest) of Rs. 921 crore for the rest of Q3 FY2022 and Rs. 1,304 crore for Q4 FY2022. The divestment of equity stakes in key subsidiaries (namely 52.9% stake in Stock Holding Corporation of India) has been long delayed and there is limited clarity on capital support from the GoI, which are critical events for IFCI's ability to meet its repayment obligations.

Increased uncertainty on timely support from GoI – The GoI has a majority stake in IFCI, holding 63.81% of the equity shares as on September 30, 2021. It has demonstrated regular capital support to IFCI (Rs. 200 crore each in FY2020 and FY2021), thereby increasing its shareholding to 63.81% as on September 30, 2021 from 56% prior to the infusions (March 31, 2020). Further, the GoI has budgeted an equity capital infusion of Rs. 100 crore for IFCI in FY2022. However, given the sizeable debt levels in relation to the standard advances and the value of the investments, ICRA has maintained that IFCI's capital requirements are much higher than the budgeted capital infusion. With negative core capital and risk-weighted assets of ~Rs. 6,941 crore as on September 30, 2021, IFCI's regulatory capital requirement of 10% (Tier I) itself is estimated at over Rs. 3,300 crore. The actual quantum will be even higher considering the high level of net stressed assets but will be offset by the company's ability to divest some non-core assets/investments in subsidiaries and make some recoveries from its large book of stressed assets.

As a step towards its revival, IFCI has submitted a business plan to the GoI regarding a capital infusion of ~Rs. 2,000 crore and guarantees for its fresh borrowings in FY2022. ICRA had expected that the GoI would extend timely support to IFCI to enable its debt servicing in a timely manner. However, despite the increase in financial stress, capital support from the GoI has remained limited. Further, the recent proposal by the company to roll over its liabilities has created uncertainty regarding timely support from the GoI. ICRA had previously mentioned that inadequate funding support from the GoI will act as a negative trigger.

Weak asset quality and capital position – IFCI's asset quality remains weak with gross stage-3 assets of Rs. 9,472¹ crore (85.39% of gross assets) as on September 30, 2021 against Rs. 10,103 crore (79.53% of gross assets) as on March 31, 2021. IFCI's net stage-3 assets declined to Rs. 2,680 crore (63.63% of net assets) as on September 30, 2021 from Rs. 4,009 crore (61.87% of net assets) as on March 31, 2021 due to the uptick in provisioning, leading to the complete erosion of the Tier I capital.

The Tier I capital turned negative in the December 2020 quarter and remained negative (-Rs. 2,622 crore or -37.77%) as on September 30, 2021 against -Rs. 1,074 crore or -10.96% as on March 31, 2021. It remains much lower than the net worth of Rs. 1,139 crore as on September 30, 2021 as the net deferred tax assets and investments in subsidiaries (which are sizeable) are knocked off from the net worth to calculate the Tier I capital. Government-owned non-banking financial companies (NBFCs) are required to maintain Tier I of 10% and a CRAR of 15% by March 31, 2022. IFCI's weak asset quality and capital position are unlikely to improve unless a substantial quantum of capital is infused to clean up the stressed book.

¹ Gross stage-3 assets include assets classified under stage 3, reclassified security receipts and income recognised on stage-3 assets

Earnings profile to remain weak amid declining loan book and high level of stressed assets – With a standard loan book of Rs. 1,532 crore and debt of Rs. 10,530 crore (including interest accrued but not due) as on September 30, 2021, IFCI’s interest-bearing assets are much lower than its interest-bearing liabilities. Hence, the net interest income (NII) is negative on a cash basis. Further, the company has revised the loss-given default (LGD) assumptions upwards such that the expected credit loss (ECL) based provisions are higher than the Reserve Bank of India’s (RBI) mandated provisioning on stressed assets. As a result, the company generated pre-tax losses (excluding other comprehensive income changes) of Rs. 1,569 crore in H1 FY2022 (Rs. 2,147-crore loss in FY2021 and Rs. 141-crore loss in FY2020).

Given its weak funding and liquidity position, IFCI’s fresh net sanctions remained NIL in H1 FY2022 (NIL in FY2021) while disbursements also remained NIL (Rs. 77 crore in FY2021). Hence, the declining standard loan book and funding constraints, which limit fresh business activity, will continue to adversely impact the earnings profile over the longer term. The company’s ability to tie up fresh funding and raise capital to bridge the gap between the income generated on earning assets and the borrowing costs will drive an improvement in its earnings profile.

Liquidity position: Stretched

IFCI has repayment obligations of Rs. 921 crore (including interest) between November 11, 2021 and December 31, 2021 and Rs. 1,304 crore (including interest) in Q4 FY2022 against which it had on-balance sheet liquidity of Rs. 1,233 crore as on November 11, 2021. As per the structural liquidity statement (SLS) as on March 31, 2021, the company has negative cumulative mismatches over the 1-year bucket.

Rating sensitivities

Positive factors – Given the significantly weak capital position, liquidity, solvency profile and earnings outlook, the ratings are unlikely to be upgraded in the near term. However, the outlook may be changed to Stable if IFCI’s strategic importance to the GoI increases significantly along with the infusion of sizeable capital, which would improve its solvency and liquidity position and enable it to resume business growth by securing fresh funds.

Negative factors – The ratings could be downgraded upon further weakening in the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA’s Credit Rating Methodology for Non-Banking Finance Companies Impact of Parent or Group Support on an Issuer’s Credit Rating ICRA’s Policy on Withdrawal of Credit Ratings
Parent/Group Support	The ratings factor in IFCI’s sovereign ownership and the track record of capital infusions by the GoI.
Consolidation/Standalone	To arrive at the ratings, ICRA has considered IFCI’s standalone financials as it has stated its plans to divest its subsidiaries with no incremental funding support proposed to be extended to the subsidiaries.

About the company

The GoI established Industrial Finance Corporation of India (IFCI) on July 01, 1948 as a development financial institution (a statutory corporation) to cater to the long-term finance needs of the industrial sector. The constitution of IFCI was changed in 1993 from a statutory corporation to a company under the Indian Companies Act, 1956. Its name was subsequently changed to IFCI Limited with effect from October 1999. The company’s financing activities cover various kinds of projects such as airports, roads, telecom, power, real estate, manufacturing, services sector and other such allied industries.

Key financial indicators

IFCI Limited	FY2021	H1 FY2021	H1 FY2022
Net Interest Income	(33)	384	(203)
Profit before Tax (excl. OCI changes)	(2,147)	(602)	(1,569)
Profit after Tax (excl. OCI changes)	(1,958)	(369)	(1,244)
Total Comprehensive Income (incl. OCI changes)	(1,936)	(356)	(1,233)
Net Advances	6,480	9,336	4,211
Total Assets	15,219	17,279	13,028
% Tier I	(10.96%)	3.18%	(37.77%)
% CRAR	(10.81%)	6.02%	(37.45%)
% Net Interest Margin / Average Total Assets	(0.20%)	4.30%	(2.88%)
% Net Profit / Average Total Assets	(11.51%)	(3.99%)	(17.46%)
% Return on Net Worth	(59.74%)	(18.13%)	(140.43%)
% Gross Stage-3 Assets	79.53%	73.52%	85.39%
% Net Stage-3 Assets	61.87%	62.83%	63.63%
% Provision Coverage Ratio	60.23%	45.00%	71.71%
% Net Stage-3 / Net Worth	169%	175%	235%

Note: Amount in Rs. crore; Figures are based on IND-AS; All calculations are as per ICRA

Source: IFCI, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)						Chronology of Rating History for the Past 3 Years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022			Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019		
				Nov-30-2021	Aug-11-2021	Jun-28-2021		Jun-22-2020	Dec-03-2019	Jun-28-2019	Dec-26-2018	May-30-2018
1 Fund-based Bank Limits	LT	3,000.00	665.87*	[ICRA]B+ (Negative)	[ICRA]BB (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	
2 Long-term Bonds (incl. sub debt)	LT	2,293.38	2,293.38	[ICRA]B+ (Negative)	[ICRA]BB (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	
		236.38	-	[ICRA]B+ (Negative); withdrawn	[ICRA]BB (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	
		200.00	200.00	[ICRA]B+ (Negative)	[ICRA]BB (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	-	-	-	-	
3 Bonds/NCD Programme	LT	1,161.36	1,161.36	[ICRA]B+ (Negative)	[ICRA]BB (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	
4 Commercial Paper	ST	500.00	0.00^	[ICRA]A4	[ICRA]A4	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3+	[ICRA]A2+	[ICRA]A2+	

*As on May 31, 2021; ^Outstanding as on November 22, 2021 (CP is NIL as the instrument has not been placed); LT – Long term; ST – Short term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Bank Limits	Simple
Long-term Bonds (incl. sub debt)	Simple
Bonds/NCD Programme	Simple
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Long-term Bonds (incl. subordinated debt)						
INE039A09187	60-R	Jan-13-92	8.19%	Jan-13-22	138.25	[ICRA]B+ (Negative)
INE039A09195	61-R	Mar-03-92	8.22%	Mar-03-22	46.22	[ICRA]B+ (Negative)
INE039A09DN0	BN	Jan-25-02	6.00%	Jan-25-22	200.00	[ICRA]B+ (Negative)
INE039A09NX8	Infra Bonds Series-III OP- I - Cumulative	Dec-12-11	8.50%	Dec-12-21	46.74	[ICRA]B+ (Negative)
INE039A09NY6	Infra Bonds Series-III OP- II -Annual	Dec-12-11	8.50%	Dec-12-21	19.02	[ICRA]B+ (Negative)
INE039A09N23	Infra Bonds Series-III OP- III - Cumulative	Dec-12-11	8.75%	Dec-12-26	8.31	[ICRA]B+ (Negative)
INE039A09OA4	Infra Bonds Series-III OP- IV - Annual	Dec-12-11	8.75%	Dec-12-26	2.72	[ICRA]B+ (Negative)
INE039A09OE6	Infra Bonds Series-IV OP- I -Cumulative	Feb-15-12	9.09%	Feb-15-22	190.92	[ICRA]B+ (Negative)
INE039A09OF3	Infra Bonds Series-IV OP- II -Annual	Feb-15-12	9.09%	Feb-15-22	46.54	[ICRA]B+ (Negative)
INE039A09OG1	Infra Bonds Series-IV OP- III - Cumulative	Feb-15-12	9.16%	Feb-15-27	33.45	[ICRA]B+ (Negative)
INE039A09OH9	Infra Bonds Series-IV OP- IV -Annual	Feb-15-12	9.16%	Feb-15-27	9.10	[ICRA]B+ (Negative)
INE039A09OU2	Infra Bonds Series-V OP- I -Cumulative	Mar-31-12	8.50%	Mar-31-24	66.29	[ICRA]B+ (Negative)
INE039A09OV0	Infra Bonds Series-V OP- II -Annual	Mar-31-12	8.50%	Mar-31-24	18.95	[ICRA]B+ (Negative)
INE039A09OW8	Infra Bonds Series-V OP- III - Cumulative	Mar-31-12	8.72%	Mar-31-27	18.18	[ICRA]B+ (Negative)
INE039A09OX6	Infra Bonds Series-V OP- IV -Annual	Mar-31-12	8.72%	Mar-31-27	5.98	[ICRA]B+ (Negative)
INE039A09OT4	ON-12	Mar-31-12	10.25%	Mar-31-22	0.89	[ICRA]B+ (Negative)
INE039A09OK3	ON-12	Dec-31-11	10.60%	Dec-31-21	1.75	[ICRA]B+ (Negative)
INE039A09OR8	ON-12	Feb-28-12	10.25%	Feb-28-22	0.40	[ICRA]B+ (Negative)
INE039A09OD8	ON-12	Nov-30-11	10.60%	Nov-30-21	0.30	[ICRA]B+ (Negative)
INE039A09NL3	Sub Bonds Series- I OP- III -Annual	Aug-01-11	10.75%	Aug-01-26	403.59	[ICRA]B+ (Negative)
INE039A09NM1	Sub Bonds Series- I OP- IV -Cumulative	Aug-01-11	10.75%	Aug-01-26	64.96	[ICRA]B+ (Negative)
INE039A08197	Sub Bonds Series- II OP- I -Annual	Aug-25-11	10.55%	Aug-25-22	100.00	[ICRA]B+ (Negative)
	Sub Bonds Series- II OP- I -Annual	Aug-25-11	10.55%	Aug-25-23	100.00	[ICRA]B+ (Negative)
INE039A09NW0	Sub Bonds Series- III OP- IV -Annual	Oct-31-11	10.75%	Oct-31-26	102.49	[ICRA]B+ (Negative)
INE039A09OL1	Sub Bonds Series- IV OP- I -Annual	Feb-28-12	10.50%	Feb-28-22	64.70	[ICRA]B+ (Negative)
INE039A09OM9	Sub Bonds Series- IV OP- II -Annual	Feb-28-12	10.70%	Feb-28-27	123.63	[ICRA]B+ (Negative)
INE039A09PT1	Tax Free Bonds I-OP A	Mar-31-14	8.39%	Mar-31-24	165.00	[ICRA]B+ (Negative)
INE039A09PU9	Tax Free Bonds I-OP B	Mar-31-14	8.76%	Mar-31-29	145.00	[ICRA]B+ (Negative)
	BE	Oct-22-02	0.00%	Dec-01-22	50.00	[ICRA]B+ (Negative)
	BE	Sep-27-02	0.00%	Nov-01-22	45.00	[ICRA]B+ (Negative)
	BE	Nov-18-02	0.00%	Oct-01-22	25.00	[ICRA]B+ (Negative)
	BE	Dec-10-02	0.00%	Sep-01-22	50.00	[ICRA]B+ (Negative)
INE039A08189	PP Bonds Series 62	Jun-29-21	9.40%	Apr-21-23	200.00	[ICRA]B+ (Negative)
	Total				2,493.38	
Bonds/NCD Programme						
INE039A07785	Public Issue-Tranche I	Dec-01-14	9.90%	Dec-01-21	176.79	[ICRA]B+ (Negative)
INE039A07793		Dec-01-14	9.90%	Dec-01-21	11.22	[ICRA]B+ (Negative)
INE039A07801		Dec-01-14	9.90%	Dec-01-24	606.17	[ICRA]B+ (Negative)
INE039A07819		Dec-01-14	9.90%	Dec-01-24	41.82	[ICRA]B+ (Negative)

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE039A07843	Public Issue-Tranche II	Feb-13-15	9.40%	Feb-13-25	302.81	[ICRA]B+ (Negative)
INE039A07850		Feb-13-15	9.40%	Feb-13-25	22.55	[ICRA]B+ (Negative)
	Total				1,161.36	
-	Fund-based Bank Limits[^]	-	-	-	3,000.00	[ICRA]B+ (Negative)
Unplaced*	Commercial Paper	-	-	-	500.00	[ICRA]A4

[^]Outstanding as on May 31, 2021 – Rs. 665.87 crore; *Outstanding as on Nov 22, 2021 against commercial paper is NIL as the instrument has not been placed

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Long-term Bonds (incl. subordinated debt)						
INE039A09179	59-R	Aug-19-91	8.26%	Aug-19-21	147.37	[ICRA]B+ (Negative); downgraded and withdrawn
INE039A09NS8	ON-12	Aug-31-11	10.50%	Aug-31-21	6.38	
INE039A09NT6	Sub Bonds Series- III OP- I -Cumulative	Oct-31-11	10.60%	Oct-31-21	3.89	
INE039A09NU4	Sub Bonds Series- III OP- II -Annual	Oct-31-11	10.60%	Oct-31-21	4.23	
INE039A09NV2	Sub Bonds Series- III OP- III -Annual	Oct-31-11	10.50%	Oct-31-21	74.51	
	Total				236.38	

Source: IFCI Limited

Annexure-2: List of entities considered for consolidated analysis

Name	Ownership*	Consolidation Approach
IFCI Infrastructure Development Limited	100.00%	Limited Consolidation
IFCI Factors Limited	99.89%	Limited Consolidation
IFCI Venture Capital Funds Limited	98.59%	Limited Consolidation
IFCI Financial Services Limited	94.78%	Limited Consolidation
MPCON Limited	79.72%	Limited Consolidation
Stock Holding Corporation of India Limited	52.86%	Limited Consolidation

*As on March 31, 2021

Source: IFCI Limited

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