August 11, 2021

IFCI Limited: Ratings downgraded to [ICRA]BB (Negative)/[ICRA]A4

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]BB (Negative); downgraded from [ICRA]BBB- (Negative)
Long-term Bonds (incl. sub debt)	2,729.76	2,729.76	[ICRA]BB (Negative); downgraded from [ICRA]BBB- (Negative)
	191.32	-	[ICRA]BB (Negative); downgraded from [ICRA]BBB- (Negative) and withdrawn
Bonds/NCD Programme	1,161.36	1,161.36	[ICRA]BB (Negative); downgraded from [ICRA]BBB- (Negative)
Commercial Paper Programme	500.00	500.00	[ICRA]A4; downgraded from [ICRA]A3
Total	**7,582.44**	**7,391.12**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings downgrade considers the recent approval accorded by the board of IFCI Limited (IFCI) to roll over the upcoming repayment of one of its bonds. While the actual rollover would be contingent on the receipt of approval from the investors and the regulator, the enabling board approval underpins IFCI's intent to build up some liquidity cushion. ICRA notes that IFCI has the required liquidity to make the upcoming repayment relating to the aforementioned bonds (even without the rollover) as well as the other scheduled payments over the next few quarters. However, the debt servicing is subsequently going to be highly dependent on the divestment of non-core assets and recoveries from non-performing assets (NPAs), the timing of which remains uncertain.

In its previous rationales, ICRA had maintained that the company's liquidity position is stretched. Further, given the negative capital position, IFCI's ability to raise sufficient capital as envisaged in the business revival plan submitted to the Government of India (GoI) will be critical for the resumption of business and securing fresh funding from other lenders. In the absence of any positive developments on the business revival plan, the liquidity pressure could keep on increasing in the upcoming quarters. While the GoI had infused capital of Rs. 200 crore each in FY2020 and FY2021 and budgeted a capital infusion of Rs. 100 crore for FY2022, ICRA has maintained 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 approval of the board for rolling over the proposed liabilities has increased the uncertainties on timely capital support from the GoI and a similar rollover of the upcoming maturity of liabilities cannot be ruled out in the near future.

The ratings remain constrained by the weak asset quality, elevated level of losses and consequently weak capitalisation of the company. Over the last few years, the company has been servicing its debt through the reduction of standard loan assets, divestments, and recoveries from NPAs. With continued slippages and a declining loan book, IFCI's asset quality remains weak with gross stage-3 assets of 79.53% of gross assets and net stage-3 assets of 61.87% of net assets as on March 31, 2021. The company's reported Tier I capital deteriorated to -10.96% as on March 31, 2021 from 8.20% as on March 31, 2020. It must be noted that IFCI's Tier I capital is much lower than its net worth because of the high level of deferred tax assets and the sizeable portion of net worth deployed in its subsidiaries.

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 if the planned divestments and NPA recoveries do not materialise. 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. 191.32-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. 2,573 crore as on March 31, 2021 from Rs. 4,718 crore as on March 31, 2020 and is estimated to have declined further as of June 2021 because of repayments/prepayments and limited incremental disbursements. As on June 29, 2021, the company had on-balance sheet liquidity of Rs. 1,563 crore, which is primarily generated through repayments/prepayments of the standard loan book and NPA recoveries. NPA recoveries and divestments remained muted at Rs. 520 crore, respectively, in FY2021 (Rs. 797 crore and Rs. 1,095 crore, respectively, in FY2020).

Given the sizeable repayment obligations in the coming quarters, ICRA expects recoveries in the NPA accounts, divestment of equity stakes in key subsidiaries (namely 52.9% stake in Stock Holding Corporation of India) and/or capital support from the GoI to remain critical 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 June 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 June 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 as on March 31, 2021 (which is expected to decline further) and risk-weighted assets of ~Rs. 9,800 crore as on March 31, 2021, IFCI's regulatory capital requirement of 10% (Tier I) itself is estimated at over Rs. 2,500 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 will 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 also 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. 10,103[1] crore (79.53% of gross assets) as on March 31, 2021 against Rs. 11,886 crore (71.41% of gross assets) as on March 31, 2020. Despite

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

limited NPA recoveries, IFCI's net stage-3 assets decreased to Rs. 4,009 crore (61.87% of net assets) as on March 31, 2021 from Rs. 6,056 crore (58.82% of net assets) as on March 31, 2020 due to the uptick in provisioning, leading to complete erosion of the Tier I capital.

The Tier I capital turned negative in the December 2020 quarter and remained negative (-Rs. 1,074 crore or -10.96%) as on March 31, 2021 against Rs. 969 crore or 8.20% as on March 31, 2020. It remains much lower than the net worth of Rs. 2,372 crore as on March 31, 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 a 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 for cleaning up the stressed book.

Earnings profile to remain weak amid declining loan book and high level of stressed assets – With a standard loan book of Rs. 2,573 crore and debt of Rs. 11,939 crore (including interest accrued but not due) as on March 31, 2021, IFCI's interest-bearing assets are much lower than its interest-bearing liabilities and 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. 2,147 crore in FY2021 (Rs. 141-crore loss in FY2020 and Rs. 691-crore loss in FY2019).

Given its weak funding and liquidity position, IFCI's fresh net sanctions remained NIL in FY2021 (Rs. 158 crore in FY2020) while disbursements moderated to Rs. 77 crore (Rs. 742 crore in FY2020). 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 sizeable repayment obligations of ~Rs. 3,644 crore (including interest) between August 2021 and March 2022 against which it had on-balance sheet liquidity of ~Rs. 1,563 crore as on June 29, 2021. As per the structural liquidity statement (SLS) as on March 31, 2021, the company has negative cumulative mismatches over the 1-year bucket. Given these negative mismatches and the absence of fresh funding, ICRA expects IFCI to be highly reliant on its internal cash generation from NPAs and divestments for debt servicing in FY2022.

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 – As the ratings are supported by a majority sovereign ownership, inadequate or delayed funding support from the GoI as envisaged in the business revival plan will remain a negative trigger. Weakening in liquidity position will also be negative rating trigger.

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 Government of India 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	FY2020	FY2021
Net Interest Income	728	(33)
Profit before Tax (excl. OCI changes)	(141)	(2,147)
Profit after Tax (excl. OCI changes)	(278)	(1,958)
Total Comprehensive Income (incl. OCI changes)	(318)	(1,936)
Net Advances	10,295	6,480
Total Assets	18,429	15,219
% Tier I	8.20%	(10.96%)
% CRAR	13.54%	(10.81%)
% Net Interest Margin / Average Total Assets	3.58%	(0.20%)
% Net Profit / Average Total Assets	(1.56%)	(11.51%)
% Return on Net Worth	(7.62%)	(59.74%)
% Gross Stage-3 Assets	71.41%	79.53%
% Net Stage-3 Assets	58.82%	61.87%
% Provision Coverage Ratio	49.05%	60.23%
% Net Stage-3 / Net Worth	160%	169%

Note: *Amounts 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	
					Aug-11-2021	Jun-28-2021	Jun-19-2020	Dec-03-2019	Jun-28-2019	Dec-26-2018	May-30-2018
1	Fund-based Bank Limits	LT	3,000.00	665.87*	**[ICRA]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	2,529.76	2,529.76^	**[ICRA]BB (Negative)**	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
			191.32	-	**[ICRA]BB (Negative); withdrawn**	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
			200.00	200.00^	**[ICRA]BB (Negative)**	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	-	-	-	-
3	Bonds/NCD Programme	LT	1,161.36	1,161.36^	**[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]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3+	[ICRA]A2+	[ICRA]A2+

**As on May 31, 2021; ^Outstanding as on August 05, 2021 (CP is NIL as the instrument has not been placed); LT – Long term; ST – Short term*

Complexity level of the rated instrument

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)						
INE039A09179	59-R	19-Aug-91	8.26%	19-Aug-21	147.37	[ICRA]BB (Negative)
INE039A09187	60-R	13-Jan-92	8.19%	13-Jan-22	138.25	[ICRA]BB (Negative)
INE039A09195	61-R	3-Mar-92	8.22%	3-Mar-22	46.22	[ICRA]BB (Negative)
INE039A09DN0	BN	25-Jan-02	6.00%	25-Jan-22	200.00	[ICRA]BB (Negative)
INE039A09NX8	Infra Bonds Series-III OP - I -Cumulative	12-Dec-11	8.50%	12-Dec-21	46.74	[ICRA]BB (Negative)
INE039A09NY6	Infra Bonds Series-III OP- II -Annual	12-Dec-11	8.50%	12-Dec-21	19.02	[ICRA]BB (Negative)
INE039A09NZ3	Infra Bonds Series-III OP- III -Cumulative	12-Dec-11	8.75%	12-Dec-26	8.31	[ICRA]BB (Negative)
INE039A09OA4	Infra Bonds Series-III OP- IV - Annual	12-Dec-11	8.75%	12-Dec-26	2.72	[ICRA]BB (Negative)
INE039A09OE6	Infra Bonds Series-IV OP- I -Cumulative	15-Feb-12	9.09%	15-Feb-22	190.92	[ICRA]BB (Negative)
INE039A09OF3	Infra Bonds Series-IV OP- II -Annual	15-Feb-12	9.09%	15-Feb-22	46.54	[ICRA]BB (Negative)
INE039A09OG1	Infra Bonds Series-IV OP- III -Cumulative	15-Feb-12	9.16%	15-Feb-27	33.45	[ICRA]BB (Negative)
INE039A09OH9	Infra Bonds Series-IV OP- IV -Annual	15-Feb-12	9.16%	15-Feb-27	9.10	[ICRA]BB (Negative)
INE039A09OU2	Infra Bonds Series-V OP- I -Cumulative	31-Mar-12	8.50%	31-Mar-24	66.29	[ICRA]BB (Negative)
INE039A09OV0	Infra Bonds Series-V OP- II -Annual	31-Mar-12	8.50%	31-Mar-24	18.95	[ICRA]BB (Negative)
INE039A09OW8	Infra Bonds Series-V OP- III -Cumulative	31-Mar-12	8.72%	31-Mar-27	18.18	[ICRA]BB (Negative)
INE039A09OX6	Infra Bonds Series-V OP- IV -Annual	31-Mar-12	8.72%	31-Mar-27	5.98	[ICRA]BB (Negative)
INE039A09OT4	ON-12	31-Mar-12	10.25%	31-Mar-22	0.89	[ICRA]BB (Negative)
INE039A09OK3	ON-12	31-Dec-11	10.60%	31-Dec-21	1.75	[ICRA]BB (Negative)
INE039A09NS8	ON-12	31-Aug-11	10.50%	31-Aug-21	6.38	[ICRA]BB (Negative)
INE039A09OR8	ON-12	28-Feb-12	10.25%	28-Feb-22	0.40	[ICRA]BB (Negative)
INE039A09OD8	ON-12	30-Nov-11	10.60%	30-Nov-21	0.30	[ICRA]BB (Negative)
INE039A09NL3	Sub Bonds Series- I OP- III -Annual	1-Aug-11	10.75%	1-Aug-26	403.59	[ICRA]BB (Negative)
INE039A09NM1	Sub Bonds Series- I OP- IV -Cumulative	1-Aug-11	10.75%	1-Aug-26	64.96	[ICRA]BB (Negative)
INE039A09NP4	Sub Bonds Series- II OP- I -Annual	25-Aug-11	10.55%	25-Aug-21	200.00	[ICRA]BB (Negative)
INE039A09NT6	Sub Bonds Series- III OP- I -Cumulative	31-Oct-11	10.60%	31-Oct-21	3.89	[ICRA]BB (Negative)
INE039A09NU4	Sub Bonds Series- III OP- II -Annual	31-Oct-11	10.60%	31-Oct-21	4.23	[ICRA]BB (Negative)
INE039A09NV2	Sub Bonds Series- III OP- III -Annual	31-Oct-11	10.50%	31-Oct-21	74.51	[ICRA]BB (Negative)
INE039A09NW0	Sub Bonds Series- III OP- IV -Annual	31-Oct-11	10.75%	31-Oct-26	102.49	[ICRA]BB (Negative)
INE039A09OL1	Sub Bonds Series- IV OP- I -Annual	28-Feb-12	10.50%	28-Feb-22	64.70	[ICRA]BB (Negative)
INE039A09OM9	Sub Bonds Series- IV OP- II -Annual	28-Feb-12	10.70%	28-Feb-27	123.63	[ICRA]BB (Negative)
INE039A09PT1	Tax Free Bonds I-OP A	31-Mar-14	8.39%	31-Mar-24	165.00	[ICRA]BB (Negative)
INE039A09PU9	Tax Free Bonds I-OP B	31-Mar-14	8.76%	31-Mar-29	145.00	[ICRA]BB (Negative)
	BE	22-Oct-02	0.00%	1-Dec-22	50.00	[ICRA]BB (Negative)
	BE	27-Sep-02	0.00%	1-Nov-22	45.00	[ICRA]BB (Negative)
	BE	18-Nov-02	0.00%	1-Oct-22	25.00	[ICRA]BB (Negative)
	BE	10-Dec-02	0.00%	1-Sep-22	50.00	[ICRA]BB (Negative)
INE039A08189	PP Bonds Series 62	29-Jun-21	9.40%	21-Apr-23	200.00	[ICRA]BB (Negative)
	Total				**2,729.76**	
Bonds/NCD Programme						
INE039A07785	Public Issue-Tranche I	1-Dec-14	9.90%	1-Dec-21	176.79	[ICRA]BB (Negative)
INE039A07793		1-Dec-14	9.90%	1-Dec-24	11.22	[ICRA]BB (Negative)
INE039A07801		1-Dec-14	9.90%	1-Dec-21	606.17	[ICRA]BB (Negative)
INE039A07819		1-Dec-14	9.90%	1-Dec-24	41.82	[ICRA]BB (Negative)
INE039A07843	Public Issue-Tranche II	13-Feb-15	9.40%	13-Feb-25	302.81	[ICRA]BB (Negative)
INE039A07850		13-Feb-15	9.40%	13-Feb-25	22.55	[ICRA]BB (Negative)
	Total				**1,161.36**	
-	**Fund-based Bank Limits^**	-	-	-	**3,000.00**	[ICRA]BB (Negative)
Unplaced*	**Commercial Paper**	-	-	-	**500.00**	[ICRA]A4

*^Outstanding as on May 31, 2021 – Rs. 665.87 crore. *Outstanding as on August 05, 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)						
INE039A09NJ7	Sub Bonds Series- I OP- I -Annual	1-Aug-11	10.50%	1-Aug-21	169.63	[ICRA]BB (Negative); downgraded and withdrawn
INE039A09NK5	Sub Bonds Series- I OP- II -Cumulative	1-Aug-11	10.50%	1-Aug-21	21.69	
	Total				**191.32**	

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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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