NBFC-Infrastructure Finance Companies

Steady growth and earnings profile driven by sound asset quality

September 2024

Highlights

ICRA

Click to see full report

Steady growth prospects, given the GoI's focus on infrastructure creation

Healthy activity in infrastructure sector complementing balance sheet strength recovery of NBFC-IFCs

Higher provisioning requirements for projects under implementation (draft regulations) could impact the financial profile; though impact will be spread over a three-year period

- The overall infrastructure credit growth (including banks and NBFCs) witnessed a steady growth, increasing by 10% in FY2024 and 8% (annualised) in Q1 FY2025. Within this, NBFC-IFCs expanded by 11% in FY2024 while the banking sector's growth was relatively lower at 8%. Further, in Q1 FY2025 the NBFC-IFC book grew by 9% (annualised) in Q1FY2025 compared to the banking sector's growth of 6% (annualised). ICRA expects NBFC-IFCs to grow by 10-12% in FY2025, supported by the Government of India's (GoI's) thrust on the infrastructure sector.
- Healthy activity in the infrastructure sector has coincided with the recovery in the balance sheet strength of NBFC-IFCs and the availability of relatively long-term funding at competitive rates. The increase in infrastructure capital expenditure (capex) to Rs. 11.1 lakh crore in the Budget for FY2024-25, up 11% from the previous fiscal, augers well for growth.
- The reported gross stage 3% of NBFC-IFCs moderated to 2.0% as on June 30, 2024 from 2.4% as on June 30, 2023 (2.1% as on March 31, 2024), driven by loan book growth, limited slippages and the resolution/recovery of some stressed assets and write-offs. The reported asset quality indicators could improve by another 10-20 basis points (bps) in FY2025, supported by controlled slippages and loan book growth.
- NBFC-IFCs have demonstrated a healthy profitability trajectory. Their post-tax return on managed assets (RoMA) is expected to be 2.2-2.4% in FY2025, supported by business growth and a moderation in credit costs, despite some margin pressures.
- The impact of the proposed higher provisioning for under implementation projects as per RBI's draft guidelines dated May 3, 2024 would be significant. Depending on the finalisation of these guidelines, the companies could either take an estimated impact on RoMA or directly create an impairment reserve, which could affect Tier I capital.
- The capitalisation and solvency levels of IFCs are currently comfortable. Prudent capitalisation is a key mitigant against the risks in NBFC-IFCs' portfolios arising from sectoral and credit concentration. Asset-liability maturity (ALM) profiles have improved, as reliance on short-term borrowings has reduced in the recent past.

Agenda

1 Outlook

2 Portfolio trends

3 Asset quality trends

4 Capitalisation, funding and earnings profile

5 Update on draft guidelines and key infrastructure sectors

6 ICRA Ratings in the Sector

Analytical Contact Details

Name	Designation	Email	Contact Number
Karthik Srinivasan	Senior Vice President	karthiks@icraindia.com	+91-22-61143444
A M Karthik	Senior Vice President	a.karthik@icraindia.com	+91-44-4596308
Manushree Saggar	Senior Vice President	manushrees@icraindia.com	+91-124-4545316
Sandeep Sharma	Assistant Vice President	sandeep.sharma@icraindia.com	+91-22-61143419
Rajat Kher	Senior Analyst	rajat.kher@icraindia.com	+91-124-4545833

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

ICRA

ICRA

Thank You!