

May 28, 2024

IFCI Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based/non-fund based bank limits	300.00	300.00	[ICRA]B+ (Negative); reaffirmed
Long-term bonds (incl. sub debt)	913.10	913.10	[ICRA]B+ (Negative); reaffirmed
	250.62	-	[ICRA]B+ (Negative); reaffirmed and withdrawn
Bonds/NCD programme	973.35	973.35	[ICRA]B+ (Negative); reaffirmed
Commercial paper programme	500.00	500.00	[ICRA]A4; reaffirmed
Total	2,937.07	2,686.45	

*Instrument details are provided in Annexure I

Rationale

The ratings continue to factor in IFCI Limited's stretched liquidity position owing to its forthcoming debt maturities as well as the delays in the finalisation of its business revival plan. The revival plan may include capital infusion from the Government of India (GoI), among other actions, to enable IFCI to turn around its operations. The capitalisation profile continues to remain weak with Tier I capital of -48.36% as on March 31, 2024 (against -71.06% as on March 31, 2023). IFCI has managed its debt repayments during the last few years by running down its standard loan book, making recoveries from non-performing assets (NPAs) and divesting its non-core assets. However, with the significant reduction in the standard loan book and its limited scale relative to repayment obligations, the company's ability to incrementally manage debt repayments from the residual book will remain a challenge. Moreover, IFCI will have to rely on timely support from the GoI, in case NPA recoveries and divestment proceeds trail its upcoming repayment obligations.

Cumulatively, the GoI has infused a capital of Rs. 1,500 crore over the last five years (Rs. 500 crore each in FY2024 and FY2023, Rs. 100 crore in FY2022 and Rs. 200 crore each in FY2021 and FY2020). However, the quantum of capital remains limited in relation to the company's capital requirements, given its negative Tier I capital and high level of stressed assets.

The Negative outlook continues to reflect ICRA's expectation of continued liquidity pressure, which poses challenges for the company's debt-servicing ability. 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ICRA has withdrawn the rating assigned to the Rs. 250.62-crore long-term bonds (including sub-debt) as these bonds have been fully redeemed, and no amount is outstanding against the same. The rating was withdrawn in accordance with ICRA's withdrawal policy (click [here](#) for the policy).

Key rating drivers and their description

Credit Strength: Not applicable

Credit challenges

Liquidity risk persists – IFCI remains highly dependent on recoveries from its stage 3 assets to service its debt obligations. It recovered Rs. 951 crore from its NPAs in FY2024 (Rs. 820 crore in FY2023) compared to debt servicing obligations of Rs. 960 crore in FY2024. As on March 31, 2024, IFCI's standard loan book (net stage 1 and stage 2) declined to Rs. 83 crore from Rs.

356 crore as on March 31, 2023 (Rs. 457 crore as on March 31, 2022) due to continuing repayments/prepayments and a pause on incremental disbursements. Consequently, cash flows from standard assets will be limited on an incremental basis.

As on April 30, 2024, the company reported on-balance sheet liquidity of Rs. 1,128 crore. However, despite this, liquidity remains stretched due to upcoming debt repayment obligations (principal and interest) of Rs. 1,867 crore for the rest of FY2025 and Rs. 549 crore for FY2026. There is limited clarity on the quantum and timing of capital support from the Gol and company's plans for divestment of stake in subsidiaries, if any. Such factors are crucial for IFCI's ability to meet its repayment obligations.

Timely support from Gol continues to remain critical – As on April 30, 2024, the Gol holds a majority stake in IFCI with 71.72% of equity shares. With regular capital infusion, the stake increased from 56% as on March 31, 2020. However, the Gol has not allocated significant equity capital infusion for IFCI yet, in FY2025. Moreover, given the sizeable debt levels in relation to standard advances and investment value, ICRA maintains that IFCI's capital requirements are much higher than the amount infused in the recent past, therefore, timely and meaningful support from the Gol will remain critical in the interim. As a step towards its revival, IFCI has submitted a business plan to the Gol, which is under consideration with the Department of Financial Services (DFS), Ministry of Finance.

Weak asset quality and capital position – IFCI's asset quality remains weak, with gross stage 3 assets of Rs. 4,936¹ crore (97.94% of gross loans) as on March 31, 2024 against Rs. 6,054 crore (93.96% of gross loans) as on March 31, 2023 because of negligible fresh disbursements in last few years and rundown of loan book to meet debt repayments. Furthermore, IFCI's share of net stage 3 assets in the overall net loans and advances stood at 94.60% as on March 31, 2024 (79.97% as on March 31, 2023).

Since the December 2020 quarter, the Tier I capital remained negative and stood at -Rs. 1,689 crore or -48.36% as on March 31, 2024 compared to -Rs. 2,596 crore or -71.06% as on March 31, 2023. The Tier I capital position remains much lower than the net worth of Rs. 1,214 crore as on March 31, 2024, as it excludes net deferred tax assets and investments in subsidiaries. Government-owned non-banking financial companies (NBFCs) are required to maintain Tier I of 10% and a capital-to-risk weighted assets ratio (CRAR) of 15%. Going forward, IFCI's weak asset quality and capital position are unlikely to improve without a substantial capital infusion.

Earnings profile to remain weak amid declining loan book and high level of stressed assets – With a standard net loan book of Rs. 83 crore and debt of Rs. 6,100 crore (including interest accrued but not due) as on March 31, 2024, 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. Although the company reported a net profit of Rs. 128 crore during FY2024 (Rs. -288 crore in FY2023) on account of strong recoveries from Stage 3 assets and healthy non-interest income (dividend income, fee/commission income, rental and other income), the sustainability will continue to be driven by recoveries from NPAs.

Given its weak funding profile and stretched liquidity position, IFCI's fresh net sanctions and disbursements were limited to Rs. 19 crore to its subsidiary in 2024 and remained nil during FY2023 and FY2022. Hence, the declining standard loan book and funding constraints, limiting fresh business activity, will continue to affect the earnings profile over the longer term. The company's ability to secure fresh funding and raise capital to offset the gap between the income generated on earning assets and borrowing costs will also be dependent on the approval of the revival plan submitted to the Gol.

Liquidity position: Stretched

IFCI's liquidity position remains stretched, with repayment obligations of Rs. 1,867 crore (including interest) due in FY2025 (May 1, 2024 onwards), while its on-balance sheet liquidity stood at Rs. 1,128 crore as on April 30, 2024. Although IFCI met its borrowings/repayment obligations in recent years by running down its performing loan book, its ability to ensure meaningful recoveries from its sizeable NPA pool along with capital support from Gol will remain critical from a liquidity perspective, as the residual performing book has shrunk considerably in scale.

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

Rating sensitivities

Positive factors – Given the significantly weak capital position, liquidity, solvency profile and earnings outlook, the ratings could get upgraded if IFCI's strategic importance to the GoI increases significantly along with the infusion of sizeable capital. The infusion 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 on further weakening of 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 the Industrial Finance Corporation of India (IFCI) on July 01, 1948, as a development financial institution (a statutory corporation) to cater to the long-term financial needs of the industrial sector. IFCI's constitution was changed in 1993, transitioning it from a statutory corporation to a company under the Indian Companies Act, 1956. Subsequently, its name was changed to IFCI Limited with effect from October 1999. The company's financing activities covered various kinds of projects spanning airports, roads, telecom, power, real estate, manufacturing, services and other such allied industries. However, IFCI's lending operations stopped in FY 2022 due to capital and liquidity constraints.

Key financial indicators (standalone)

IFCI Limited	FY2022	FY2023	FY2024
Total income	764	665	709
PAT	(1,991)	(288)	128
Total managed assets	9,070	8,930	10,007
Return on managed assets	(16.40%)	(3.20%)	2.28%
Reported gearing (Debt / Net worth)	17.25	10.39	4.50
Gross stage 3	92.21%	93.96%	97.97%
CRAR	(64.85%)	(70.66%)	(48.35%)

Total income = Gross interest income + non-interest income (excluding net gain on fair value changes)

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 (FY2025)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Date & Rating in FY2024	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022		
			(Rs. crore)	(Rs. crore)	May-28-2024	May-29-2023	Aug-17-2022	Nov-30-2021	Aug-11-2021	Jun-28-2021
1	Fund-based bank limits	LT	0.00	0.00	-	-	[ICRA]B+ (Negative)	[ICRA]B+ (Negative)	[ICRA]BB (Negative)	[ICRA]BBB- (Negative)
2	Fund-based/Non-fund based bank limits – Unallocated	LT	300.00	0.00	[ICRA]B+ (Negative)	[ICRA]B+ (Negative)	-	-	-	-
4	Long-term bonds (incl. sub debt)	LT	913.10	913.10^	[ICRA]B+ (Negative)	[ICRA]B+ (Negative)	[ICRA]B+ (Negative)	[ICRA]B+ (Negative)	[ICRA]BB (Negative)	[ICRA]BBB- (Negative)
			250.62	0.00	[ICRA]B+ (Negative) Withdrawn	[ICRA]B+ (Negative) Withdrawn	[ICRA]B+ (Negative); withdrawn	[ICRA]B+ (Negative); withdrawn	[ICRA]BB (Negative)	[ICRA]BBB- (Negative)
5	Bonds/NCD programme	LT	973.35	973.35^	[ICRA]B+ (Negative)	[ICRA]B+ (Negative)	[ICRA]B+ (Negative)	[ICRA]B+ (Negative)	[ICRA]BB (Negative)	[ICRA]BBB- (Negative)
			-				[ICRA]B+ (Negative); withdrawn	[ICRA]B+ (Negative)	[ICRA]BB (Negative)	[ICRA]BBB- (Negative)
6	Commercial paper	ST	500.00	500.00	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A3

^Outstanding as on May 21, 2024 (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
Unallocated bank limits	Not applicable
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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
					(Rs. crore)	
Long-term bonds (incl. subordinated debt)						
INE039A09NZ3	Infra Bonds Series-III OP- III - Cumulative	Dec-12-2011	8.75%	Dec-12-2026	7.70	[ICRA]B+ (Negative)
INE039A09OA4	Infra Bonds Series-III OP- IV - Annual	Dec-12-2011	8.75%	Dec-12-2026	2.60	[ICRA]B+ (Negative)
INE039A09OG1	Infra Bonds Series-IV OP- III - Cumulative	Feb-15-2012	9.16%	Feb-15-2027	30.99	[ICRA]B+ (Negative)
INE039A09OH9	Infra Bonds Series-IV OP- IV - Annual	Feb-15-2012	9.16%	Feb-15-2027	9.03	[ICRA]B+ (Negative)
INE039A09OW8	Infra Bonds Series-V OP- III - Cumulative	Mar-31-2012	8.72%	Mar-31-2027	17.28	[ICRA]B+ (Negative)
INE039A09OX6	Infra Bonds Series-V OP- IV - Annual	Mar-31-2012	8.72%	Mar-31-2027	5.83	[ICRA]B+ (Negative)
INE039A09NL3	Sub Bonds Series- I OP- III - Annual	Aug-01-2011	10.75%	Aug-01-2026	403.59	[ICRA]B+ (Negative)
INE039A09NM1	Sub Bonds Series- I OP- IV - Cumulative	Aug-01-2011	10.75%	Aug-01-2026	64.96	[ICRA]B+ (Negative)
INE039A09NW0	Sub Bonds Series- III OP- IV - Annual	Oct-31-2011	10.75%	Oct-31-2026	102.49	[ICRA]B+ (Negative)
INE039A09OM9	Sub Bonds Series- IV OP- II - Annual	Feb-28-2012	10.70%	Feb-28-2027	123.63	[ICRA]B+ (Negative)
INE039A09PU9	Tax Free Bonds I-OP B	Mar-31-2014	8.76%	Mar-31-2029	145.00	[ICRA]B+ (Negative)
	Total				913.10	
Bonds/NCD programme						
INE039A07801	Public Issue-Tranche I	Dec-01-2014	9.90%	Dec-01-2024	606.17	[ICRA]B+ (Negative)
INE039A07819		Dec-01-2014	9.90%	Dec-01-2024	41.82	[ICRA]B+ (Negative)
INE039A07843	Public Issue-Tranche II	Feb-13-2015	9.40%	Feb-13-2025	302.81	[ICRA]B+ (Negative)
INE039A07850		Feb-13-2015	9.40%	Feb-13-2025	22.55	[ICRA]B+ (Negative)
	Total				973.35	
Fund-based/Non-fund based bank limits*						
	Fund-based/non-fund based bank limit-unallocated				300.00	[ICRA]B+ (Negative)
Commercial Paper						
Unplaced*	Commercial paper	-	-	-	500.00	[ICRA]A4

*As on May 21, 2024

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
					(Rs. crore)	
Long-term bonds (incl. subordinated debt)						
INE039A09PT1	Tax Free Bonds I-OP A	Mar-31-2014	8.39%	Mar-31-2024	165.00	[ICRA]B+ (Negative); withdrawn
INE039A09OU2	Infra Bonds Series-V OP- I - Cumulative	Mar-31-2012	8.50%	Mar-31-2024	66.29	
INE039A09OV0	Infra Bonds Series-V OP- II - Annual	Mar-31-2012	8.50%	Mar-31-2024	18.95	
INE039A09NZ3	Infra Bonds Series-III OP- III - Cumulative	Dec-12-2011	8.75%	Dec-12-2026^	0.3	
INE039A09OA4	Infra Bonds Series-III OP- IV - Annual	Dec-12-2011	8.75%	Dec-12-2026^	0.08	
	Total				250.62	

Source: IFCI Limited

^ Redeemed upon exercise of put option by the investors

Please click [here](#) to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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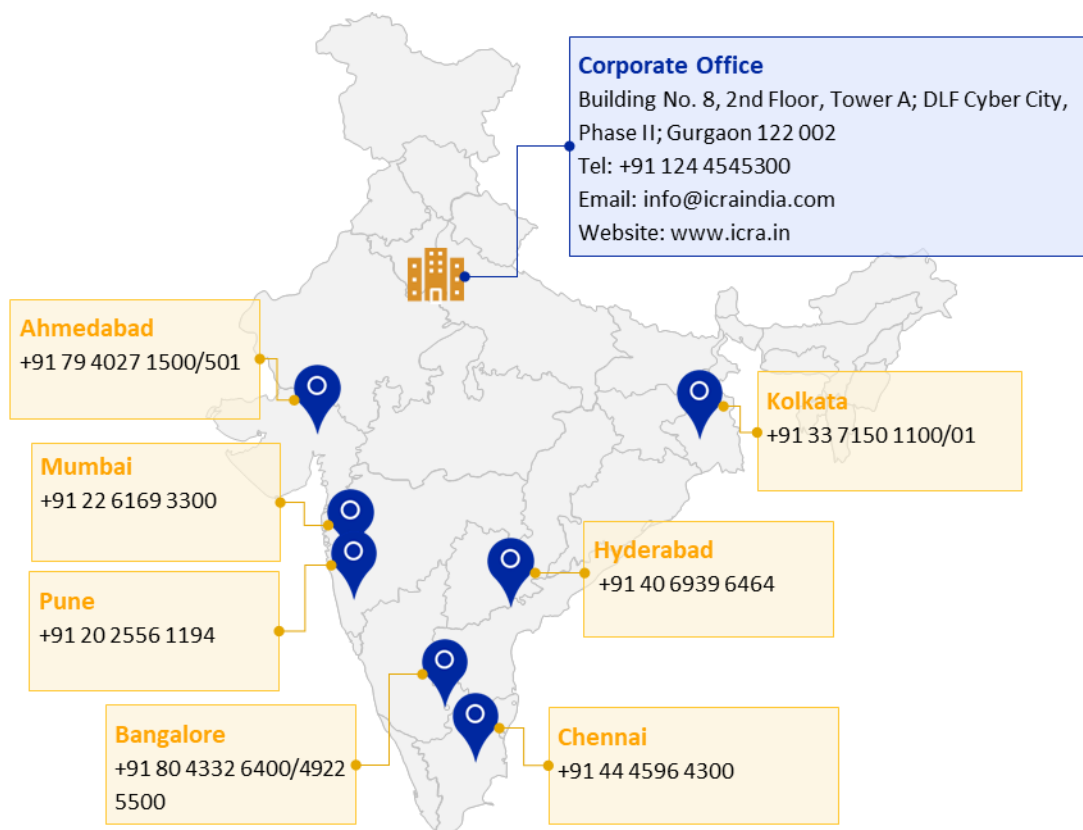


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