July 29, 2024

India Infradebt Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	23,334	23,334	[ICRA]AAA (Stable); reaffirmed
Non-convertible debenture programme#	1,140	0	[ICRA]AAA (Stable); reaffirmed and withdrawn
Subordinated debt programme	1,750	1,750	[ICRA]AAA (Stable); reaffirmed
Commercial paper programme	500	500	[ICRA]A1+; reaffirmed
Total	**26,724**	**25,584**	

**Instrument details are provided in Annexure I; #Withdrawn as instruments have been fully repaid on maturity*

Rationale

The ratings reflect India Infradebt Limited's (Infradebt) strong asset quality and liquidity, aided by the relatively tighter regulatory framework, the limited interest rate risk, and the comfortable capitalisation profile supported by strong shareholders. The ratings also consider the experienced management team, prudent underwriting norms and healthy profitability indicators. The company's strength is reflected in its key shareholders, namely ICICI Bank Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+) and Bank of Baroda (rated [ICRA]AAA (Stable)/[ICRA]A1+), while Citicorp Finance (India) Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+) and Life Insurance Corporation of India Limited are the other shareholders. Given the wholesale nature of the loans, the concentration risk remains relatively high. However, ICRA draws comfort from the tighter regulatory framework and the company's good risk management systems as reflected by the strong asset quality indicators.

ICRA notes that the scope of lending and fund-raising options has been expanded under the revised regulatory framework for non-banking financial companies-infrastructure debt funds (NBFC-IDFs) released on August 18, 2023 by the Reserve Bank of India (RBI). The impact of the same on the loan and borrowing mix would be visible only over the medium term. Also, the capital requirement (minimum Tier I requirement increased to 10% from 7.5%) and exposure norms (maximum permissible single party exposure capped at 30% of Tier I capital compared with higher limits earlier) have been tightened, though Infradebt is well within the threshold for both these parameters. While portfolio vulnerability can increase, given the expansion of the scope and the requirement of tripartite agreements being made optional, the company's good underwriting and risk guardrails should help it in managing the incremental risk. Further, ICRA notes that if the RBI's draft regulations on provisioning for project finance are implemented in the current format, the impact on the reported capital adequacy of NBFC-IDFs will be marginal. However, the company has sufficient buffer in its Tier I capital to absorb any impact. Going forward, Infradebt's ability to grow its loan book, while maintaining prudent capitalisation levels and strong asset quality indicators on a steady-state basis, would be the key monitorable.

The Stable outlook reflects ICRA's expectation that the company would continue to report strong asset quality indicators while growing its business volumes, supported by its robust risk management systems.

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 1,140-crore non-convertible debenture (NCD) programme as no amount is outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Strong asset quality; regulatory framework necessitates lending to operational projects, reducing overall business risk – Infradebt's portfolio grew by 20% year-on-year (YoY) in FY2024, higher than the 3-year compound annual growth rate (CAGR) of ~15% during FY2020-FY2023, to Rs. 21,300 crore as on March 31, 2024 from Rs. 17,719 crore as on March 31, 2023. This was supported by the growth across various business segments including the solar renewable segment, hydro, airport, data centre and education. The share of the renewable energy segment remained the highest at 69% of the portfolio as on March 31, 2024, followed by road projects (10%), with the balance spread across other sectors (airport, telecom, electricity transmission, hotels, education and data centres).

The regulatory framework for IDFs necessitates lending/investment in infrastructure projects with at least one year of satisfactory commercial operations and also allows direct lending to toll-operate-transfer (TOT) projects. Hence, construction and execution risks are nil and the operating risk is low, given the track record of operations, though ICRA notes that the requirement of tripartite agreements is now optional. This exposes the IDFs to the risk of higher loss given defaults (LGDs) associated with the project in the event of termination. Nevertheless, the LGDs of the road and renewable energy sectors are likely to remain low and the asset quality of these operational projects (including projects without tripartite agreements) is expected to be stable, given the lower risks compared to non-operational projects. Overall, ICRA expects Infradebt to continue growing at a steady pace of about 15-20% over the near-to-medium term. The company's ability to grow the loan book in a diversified manner would remain a key monitorable, though the renewable energy sector would continue to dominate the portfolio mix over the medium term.

Experienced management team – The ratings draw comfort from the company's experienced senior management team with considerable expertise in the infrastructure financing space. Infradebt has a demonstrated track record in underwriting and superior risk management. It is expected to follow prudent policies while increasing the scale of operations with sectoral diversification.

Strong liquidity profile – In line with the regulations for NBFC-IDFs, Infradebt can raise resources through the issuance of bonds with a minimum maturity of five years and through the loan route via external commercial borrowings (ECBs) with a minimum tenure of five years (in line with the maturity profile of the assets). Shorter-tenure bonds and commercial paper are not allowed beyond 10% of the outstanding debt. Further, since NBFC-IDFs can invest in infrastructure projects that have completed at least one year of satisfactory commercial operations, loan repayments start immediately after disbursement, supporting the asset-liability maturity (ALM) profile.

Comfortable capitalisation profile supported by strong shareholders – Infradebt's capitalisation remains comfortable with a net worth of Rs. 3,106 crore, a capital adequacy ratio (capital-to-risk weighted assets ratio; CRAR) of 19.8% (Tier I CRAR of 16.0%) against the regulatory requirement of 15% (Tier I requirement of 10%), and a gearing of 6.3 times as on March 31, 2024. Infradebt was set up by ICICI Bank Limited, Bank of Baroda, Citicorp Finance (India) Limited and Life Insurance Corporation of India Limited in October 2012. ICRA takes comfort from the company's strong key shareholders and their demonstrated financial support.

Given the healthy internal accruals and the range-bound loan book growth, the requirement for external capital remains low and ICRA expects the gearing to remain stable over the medium term. In ICRA's opinion, prudent capitalisation levels are one of the key risk mitigants and monitorables for a portfolio that has relatively high concentration risks. In this regard, ICRA expects Infradebt to maintain prudent capitalisation levels and believes support from the investors/shareholders will be forthcoming if required. However, a significant change in the shareholding (since the requirement of a sponsor has now been withdrawn) and support from the existing key shareholders will be monitorable.

Profitability supported by tax-exemption status enjoyed by IDFs – Infradebt's net interest margin (NIM; including fee income) expanded to 2.4% of average total assets (ATA) in FY2024 from 2.1% in FY2023 with incremental disbursements at higher rates. Further, due to the wholesale nature of operations, the operating expenses remained low at 0.2% of ATA in FY2024 (0.2% in FY2023). However, the provisioning costs increased to 0.6% of ATA in FY2024 from 0.2% in FY2023 on account of the higher provision coverage ratio on stage 3 assets. Overall, the company reported a profit after tax (PAT) of Rs. 408 crore in FY2024 (return on assets (RoA) of 1.9%) compared to Rs. 350 crore in FY2023 (RoA of 1.9%). The profitability indicators are underscored by the tax-free status enjoyed by IDFs, subject to compliance with the conditions stipulated by the Central Board of Direct Taxes (CBDT), whereby an NBFC-IDF's income is exempt from tax. ICRA notes that any changes in these regulations could have an adverse impact on the profitability.

Credit challenges

Concentration risk – Regulations require all IDFs to take exposure only in operational infrastructure projects with at least one year of satisfactory commercial operations, mitigating the construction and execution risk. However, the inherent nature of the business of infrastructure financing means that the company is exposed to project risks and the exposures are concentrated. Hence, the portfolio would remain vulnerable to asset quality shocks in case of slippages in a few key exposures, which may adversely affect its profitability. Nevertheless, ICRA notes that Infradebt is compliant with the tightened exposure norms (maximum permissible single party exposure capped at 30% of Tier I capital by the RBI in FY2024). Nonetheless, concentration risk remains high with the share of the top 10 borrowers in the total portfolio increasing to 29% as on March 31, 2024 (28% as on March 31, 2023). The overall asset quality remained strong with gross stage 3 assets of 0.6% and nil net stage 3 as on March 31, 2024 (0.7% and 0.3%, respectively, as on March 31, 2023). Going forward, the company's ability to maintain strict underwriting standards while growing the portfolio would be a key monitorable.

Liquidity position: Strong

Infradebt's ALM profile, as on March 31, 2024, reflected some cumulative mismatches in the buckets up to 1 year. As per the ALM profile as on March 31, 2024, the company had expected principal debt repayments of Rs. 2,290 crore during the 1-year period ending March 31, 2025 against expected principal inflows from performing advances of Rs. 1,236 crore. The liquidity position is strong supported by regulatory requirement of raising longer tenured liabilities against assets which start getting repaid periodically as soon as they are disbursed, cash and liquid investments of up to Rs. 1,258 crore as on March 31, 2024 and the history of sizeable prepayments, providing comfortable liquidity cover. ICRA also derives comfort from the company's good financial flexibility and the demonstrated support of the shareholders.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on Infradebt's ratings could emerge on account of an increase in the leverage above 9 times on a sustained basis and/or weakening of the asset quality, leading to a deterioration in the solvency on a sustained basis. A significant change in the regulatory framework, leading to an increase in portfolio vulnerability and/or a change in the likelihood of support from the shareholder or a deterioration in the credit profile of the shareholder could warrant a rating revision for Infradebt.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's credit rating methodology for non-banking finance companies Policy on withdrawal of credit ratings
Parent/Group support	Demonstrated support from the parents in the form of capital infusions through equity rights issue and investment in NCDs by ICICI Bank and Bank of Baroda; ICRA expects support from the shareholders to be forthcoming as and when required
Consolidation/Standalone	Standalone

About the company

India Infradebt Limited (Infradebt) is the first infrastructure debt fund (IDF) floated in a non-banking financial company structure, set up by ICICI Bank Limited, Bank of Baroda, Citicorp Finance (India) Limited and Life Insurance Corporation of India Limited in October 2012. ICICI Bank is the largest shareholder with a 42% stake as on March 31, 2024, followed by Bank of Baroda at 41%, Citicorp Finance (India) at 10% and Life Insurance Corporation of India Limited at 7%.

Infradebt reported a PAT of Rs. 408 crore in FY2024 on a total asset base of Rs. 22,974 crore as on March 31, 2024 compared to a PAT of Rs. 350 crore in FY2023 on a total asset base of Rs. 19,274 crore as on March 31, 2023. Its portfolio stood at Rs. 21,300 crore as on March 31, 2024 compared with Rs. 17,719 crore as on March 31, 2023. It had a net worth of Rs. 3,106 crore as on March 31, 2024 (Rs. 2,717 crore as on March 31, 2023). It reported gross stage 3 assets of 0.6% and nil net stage 3 as on March 31, 2024 compared with 0.7% and 0.3%, respectively, as on March 31, 2023.

Key financial indicators (audited)

India Infradebt Limited	FY2021	FY2022	FY2023	FY2024
Total income	1,306	1,443	1,614	1,997
Profit after tax	276	306	350	408
Total assets	14,656	16,866	19,274	22,974
Return on average total assets	2.1%	1.9%	1.9%	1.9%
Gearing (Debt/Net worth; times)	5.9	6.0	6.0	6.3
Gross stage 3	0.9%	0.8%	0.7%	0.6%
CRAR	22.3%	23.2%	21.8%	19.8%

Source: Company, ICRA Research; Amount in Rs. crore; All ratios as per ICRA's calculations

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 (Rs. crore)	Amount outstanding (Rs. crore)*	Date and rating in FY2025	Date and rating in FY2024		Date and rating in FY2023		Date and rating in FY2022
					Jul 29, 2024	Mar 19, 2024	Aug 29, 2023	Dec 08, 2022	Jun 17, 2022	Jun 22, 2021
1	Non-convertible debenture programme	Long term	23,334	19,803	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Non-convertible debenture programme	Long term	-	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Non-convertible debenture programme	Long term	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Non-convertible debenture programme	Long term	1,140	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5	Subordinated debt programme	Long term	1,750	550	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
6	Commercial paper programme	Short term	500	0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Source: Company, ICRA Research
**As on July 19, 2024*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible debenture programme	Very simple (Simple* for ISIN: INE537P07679, INE537P07737)
Subordinated debt programme	Very simple
Commercial paper programme	Very simple

** Complexity indicator is simple for ISIN INE537P07679 and INE537P07737 because of the put option for these NCDs*

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 (as on July 19, 2024)

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE537P07463	Non-convertible debenture	Apr-23-2019	9.0000%	Apr-23-2024	300	[ICRA]AAA (Stable); withdrawn
INE537P07026	Non-convertible debenture	May-28-2014	9.7000%	May-28-2024	165	[ICRA]AAA (Stable); withdrawn
INE537P07349	Non-convertible debenture	Jun-01-2017	8.0200%	Jun-01-2024	100	[ICRA]AAA (Stable); withdrawn
INE537P07422	Non-convertible debenture	Jun-19-2018	9.3000%	Jun-19-2024	360	[ICRA]AAA (Stable); withdrawn
INE537P07364	Non-convertible debenture	Jul-13-2017	7.9500%	Jul-12-2024	215	[ICRA]AAA (Stable); withdrawn
INE537P07471	Non-convertible debenture	Sep-30-2019	8.6000%	Sep-30-2024	500	[ICRA]AAA (Stable)
INE537P07489	Non-convertible debenture	Nov-20-2019	8.4000%	Nov-20-2024	150	[ICRA]AAA (Stable)
INE537P07497	Non-convertible debenture	Dec-30-2019	8.6000%	Dec-30-2024	450	[ICRA]AAA (Stable)
INE537P07042	Non-convertible debenture	Feb-04-2015	8.4500%	Feb-04-2025	50	[ICRA]AAA (Stable)
INE537P07554	Non-convertible debenture	May-27-2020	8.0000%	May-27-2025	165	[ICRA]AAA (Stable)
INE537P07539	Non-convertible debenture	Apr-20-2020	8.2500%	Jun-20-2025	300	[ICRA]AAA (Stable)
INE537P07562	Non-convertible debenture	Jun-30-2020	7.5000%	Jun-30-2025	375	[ICRA]AAA (Stable)
INE537P07505	Non-convertible debenture	Feb-13-2020	8.5000%	Aug-13-2025	200	[ICRA]AAA (Stable)
INE537P07513	Non-convertible debenture	Feb-25-2020	8.3500%	Aug-25-2025	300	[ICRA]AAA (Stable)
INE537P07588	Non-convertible debenture	Nov-12-2020	7.0000%	Nov-12-2025	500	[ICRA]AAA (Stable)
INE537P07547	Non-convertible debenture	May-19-2020	8.0000%	Nov-19-2025	300	[ICRA]AAA (Stable)
INE537P07067	Non-convertible debenture	Nov-19-2015	8.5000%	Nov-19-2025	200	[ICRA]AAA (Stable)
INE537P07083	Non-convertible debenture	Jan-08-2016	8.6000%	Jan-08-2026	94	[ICRA]AAA (Stable)
INE537P07109	Non-convertible debenture	Jan-28-2016	8.7000%	Jan-28-2026	10	[ICRA]AAA (Stable)
INE537P07125	Non-convertible debenture	Mar-08-2016	8.6200%	Mar-07-2026	155	[ICRA]AAA (Stable)
INE537P07166	Non-convertible debenture	Mar-22-2016	8.6500%	Mar-21-2026	82	[ICRA]AAA (Stable)
INE537P07141	Non-convertible debenture	Mar-21-2016	8.6500%	Mar-21-2026	70	[ICRA]AAA (Stable)
INE537P07596	Non-convertible debenture	Mar-25-2021	7.2500%	Mar-25-2026	425	[ICRA]AAA (Stable)
INE537P07182	Non-convertible debenture	May-05-2016	8.5100%	May-05-2026	50	[ICRA]AAA (Stable)
INE537P07216	Non-convertible debenture	Jun-23-2016	8.5700%	Jun-23-2026	50	[ICRA]AAA (Stable)
INE537P07612	Non-convertible debenture	Jun-30-2021	7.1500%	Jun-30-2026	500	[ICRA]AAA (Stable)
INE537P07240	Non-convertible debenture	Aug-30-2016	8.2400%	Aug-29-2026	95	[ICRA]AAA (Stable)
INE537P07752	Non-convertible debenture	May-14-2024	8.2450%	Sep-14-2026	710	[ICRA]AAA (Stable)
INE537P07257	Non-convertible debenture	Nov-30-2016	8.2400%	Nov-30-2026	300	[ICRA]AAA (Stable)
INE537P07778	Non-convertible debenture	Jun-03-2024	8.1850%	Dec-03-2026	460	[ICRA]AAA (Stable)
INE537P07273	Non-convertible debenture	Dec-27-2016	8.1000%	Dec-25-2026	15	[ICRA]AAA (Stable)
INE537P07646	Non-convertible debenture	Feb-22-2022	7.1500%	Feb-22-2027	1,100	[ICRA]AAA (Stable)
INE537P07620	Non-convertible debenture	Sep-30-2021	6.7500%	Mar-30-2027	400	[ICRA]AAA (Stable)
INE537P07638	Non-convertible debenture	Dec-13-2021	6.7500%	Jun-14-2027	500	[ICRA]AAA (Stable)
INE537P07638 (reissue)	Non-convertible debenture	Dec-29-2021	6.7500%	Jun-14-2027	200	[ICRA]AAA (Stable)
INE537P07653	Non-convertible debenture	Jun-28-2022	8.0000%	Jun-28-2027	1,000	[ICRA]AAA (Stable)
INE537P07661	Non-convertible debenture	Aug-29-2022	7.7700%	Aug-29-2027	1,300	[ICRA]AAA (Stable)
INE537P07687	Non-convertible debenture	Dec-22-2022	7.8700%	Dec-22-2027	940	[ICRA]AAA (Stable)
INE537P07711	Non-convertible debenture	Jun-27-2023	7.9500%	Jun-27-2028	1,000	[ICRA]AAA (Stable)
INE537P07695	Non-convertible debenture	Apr-24-2023	8.0500%	Jul-24-2028	1,200	[ICRA]AAA (Stable)

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE537P07729	**Non-convertible debenture**	Jul-05-2023	7.9500%	Oct-05-2028	300	[ICRA]AAA (Stable)
INE537P07745	**Non-convertible debenture**	Feb-12-2024	8.0600%	Aug-13-2029	400	[ICRA]AAA (Stable)
INE537P07745 (reissue)	**Non-convertible debenture**	Apr-15-2024	8.0600%	Aug-13-2029	780	[ICRA]AAA (Stable)
INE537P07570^	**Non-convertible debenture**	Jul-15-2020	8.5700%	Jul-15-2030	750	[ICRA]AAA (Stable)
INE537P07679@	**Non-convertible debenture**	Oct-31-2022	8.0700%	Oct-31-2032	1,000	[ICRA]AAA (Stable)
INE537P07703	**Non-convertible debenture**	Apr-24-2023	8.0400%	Apr-25-2033	180	[ICRA]AAA (Stable)
INE537P07703 (reissue)	**Non-convertible debenture**	Jun-27-2023	8.0400%	Apr-25-2033	300	[ICRA]AAA (Stable)
INE537P07703 (reissue)	**Non-convertible debenture**	Feb-12-2024	8.0400%	Apr-25-2033	447	[ICRA]AAA (Stable)
INE537P07737$	**Non-convertible debenture**	Oct-31-2023	8.1000%	Oct-31-2035	600	[ICRA]AAA (Stable)
INE537P07786#	**Non-convertible debenture**	Jun-28-2024	7.9900%	Jun-28-2036	900	[ICRA]AAA (Stable)
NA	**Non-convertible debenture***	NA	NA	NA	3,531	[ICRA]AAA (Stable)
INE537P08024	**Subordinated debt**	Jan-18-2018	8.4500%	May-18-2028	250	[ICRA]AAA (Stable)
INE537P08032	**Subordinated debt**	Aug-04-2021	7.3700%	Aug-04-2031	300	[ICRA]AAA (Stable)
NA	**Subordinated debt***	NA	NA	NA	1,200	[ICRA]AAA (Stable)
NA	**Commercial paper***	NA	NA	NA	500	[ICRA]A1+

*Source: Company; *Yet to be placed/unutilised; ^ Tenure of 10-year NCDs with staggered equal annual redemption from seventh to tenth year; @ Tenure of 10-year NCDs with staggered equal annual redemption from sixth to tenth year; $ Tenure of 12-year NCDs with staggered equal annual redemption from eighth to twelfth year; # Tenure of 12-year NCDs with staggered equal annual redemption from eighth to twelfth year*

Annexure II: List of entities considered for consolidated analysis

Not applicable

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