

IDFC Limited

December 31, 2018

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	1,500.00	500.00	[ICRA]A1+; reaffirmed
Total	1,500.00	500.00	

Rationale

The rating factors in IDFC Limited's (IDFC) good standing and its strong financial flexibility, by virtue of being the main holding company of the IDFC Group. IDFC holds a 100% stake in IDFC Financial Holding Company Limited (IDFC FHCL), which, in turn, holds an equity stake in IDFC First Bank (rated [ICRA]AA+(Stable)/[ICRA]A1+), IDFC Asset Management Company Limited (IDFC AMC), IDFC Securities Limited and IDFC Infrastructure Finance Limited (IDFC IFL; rated [ICRA]AAA(Stable)/[ICRA]A1+).

However, as part of its strategy, IDFC plans to divest its stakes in various subsidiaries. While it has already sold the business of IDFC Alternatives, it has signed a definitive agreement with National Investment and Infrastructure Fund II (NIIF II) for the sale of its majority stake in IDFC IFL. The good market value of the company's holdings in IDFC First Bank¹ and the strategic holdings in the unlisted companies of the Group support IDFC's liquidity profile. This, coupled with investments in mutual funds and cash and cash equivalents of around Rs. 500 crore as on September 30, 2018, provides liquidity cushion. The rating also factors in IDFC's strong capitalisation levels with a net worth of Rs. 9,775.53 crore, on a standalone basis as on September 30, 2018, with nil borrowings. ICRA, however, takes note of the company's dependence on dividend income from investee companies (mainly IDFC First Bank and IDFC AMC) as the primary source of income and thus the credit profile of these entities would have a key bearing on the ratings for IDFC.

Outlook: Not applicable

Key rating drivers

Credit strengths

Strong market position by virtue of being a key holding company of IDFC Bank – IDFC, through IDFC FHCL (100% subsidiary of IDFC), holds a significant stake in IDFC First Bank (stake of ~40% in the merged entity of IDFC Bank and Capital First Limited). Apart from this, the company has 100% stake in IDFC AMC and IDFC Securities Limited. IDFC recently sold the businesses of IDFC Alternatives. It also entered into a definitive agreement with NIIF II for the sale of its majority stake (81.48% as on September 30, 2018) in IDFC IFL. The transaction is subject to regulatory approvals.

¹ IDFC currently has a stake of ~40% in IDFC First Bank; as per RBI guidelines, with IDFC being the promoter, it can only dilute its stake in IDFC First Bank to 20% in October 2020

Comfortable liquidity – The company has a comfortable liquidity profile given the investments in mutual funds and cash and cash equivalents of around Rs. 500 crore as on September 30, 2018, which provide liquidity cushion. IDFC also has holdings in various unlisted companies (IDFC IFL, IDFC AMC and IDFC Securities). The liquidity is expected to be further supported by the proceeds from the sale of its stake in IDFC IFL. While IDFC also has a shareholding of ~40% in the merged entity of IDFC First Bank, the stake in IDFC First Bank can, however, be diluted to 20% only in October 2020.

Strong capitalisation and low gearing targets – On a standalone basis, IDFC had a strong net worth of Rs. 9,775.53 crore as on September 30, 2018 with nil borrowings. The strong current capitalisation and low gearing target, going forward, are credit positives. The capitalisation profile of the merged bank (IDFC First Bank) is expected to remain at a comfortable level without any capital requirement in the near to medium term. Hence, no equity infusion would be required from IDFC in the short to medium term. ICRA expects IDFC to maintain prudent capitalisation levels going forward, as well.

Credit challenges

Cash flows largely dependent on dividend income from investee companies – Dividend income from investee companies is the primary source of income for IDFC. With the sale of IDFC Alternatives, the agreement signed for IDFC IFL and the plans to hold its stake in IDFC AMC, IDFC's cash flows would largely depend on the dividend income from IDFC First Bank and IDFC AMC. Thus, the credit profile of these subsidiaries would have a bearing on IDFC's credit profile and hence rating.

Liquidity position

The company has a comfortable liquidity profile given the investments in mutual funds and cash and cash equivalents of around Rs. 500 crore as on September 30, 2018 and nil borrowings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Rating Methodology for Holding Companies ICRA's Approach for Rating Commercial Papers
Parent / Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company

In April 2014, IDFC Limited was granted in-principle approval by the Reserve Bank of India to set up a new private sector bank, as per the Guidelines for Licensing of New Banks in the Private Sector. Subsequently, a scheme of arrangement was filed with the Madras High Court for the demerger of a financial undertaking (the lending business of IDFC) to IDFC Bank. All the requisite approvals were obtained, and the Madras High Court approved the demerger by its order dated June 25, 2015.

IDFC Limited, currently registered as an NBFC-IC, holds a 100% stake in IDFC Non-operating Financial Holding Company (IDFC FHCL), which, in turn, holds equity in IDFC First Bank (merged entity of IDFC Bank and Capital First Limited), IDFC Alternatives Limited, IDFC Asset Management Company Limited, IDFC Securities Limited and IDFC Infrastructure Finance Limited. Being an NBFC-IC, IDFC has the flexibility to buy and sell capital market instruments, which provide an additional source of revenue. However, the company would only be involved in selective investment opportunities.

On a standalone basis, the company reported a profit after tax (PAT) of Rs. 148.43 crore in FY2018 compared with PAT of Rs. 55.75 crore in FY2017. For H1 FY2019, the company reported PAT of Rs. 127.5 crore (as per IND AS).

Key financial indicators - (standalone)

For period ending Number of months	FY2017 12	FY2018 12	H1 FY2018* 6	H1 FY2019* 6
Net interest income	104.9	170.7	160.5	109.9
Profit before tax	78.9	161.5	156.6	136.9
Profit after tax	55.8	148.4	150.3	127.5
Net advances	24.8	29.2	20.2	314.1
Total assets excluding revaluation reserves	9,878.5	9,785.1	9783.6	9,820.7
Tier 1 %	67.07%	86.67%	NA	83.43%
% CRAR	67.07%	86.67%	NA	83.43%
% Net profit / Average total assets^	0.6%	1.5%	3.1%	2.6%
% Return on net worth^	0.6%	1.5%	3.1%	2.6%
% Gross NPAs	NA	NA	NA	NA
% Net NPAs	NA	NA	NA	NA
% Provision coverage excl. technical write-offs	NA	NA	NA	NA
% Net NPA / Net worth	NA	NA	NA	NA

Amount in Rs. crore; ^ Annualised; All ratios are as per ICRA calculations

*As per IND AS

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Sr. No.	Name of Instrument	Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2019) Dec-18	Chronology of Rating History for the Past 3 Years				
						FY2018 Nov-17	Sep-17	Jul-17	FY2017 Aug-16	FY2016
1	Commercial Paper Programme	Short Term	500.00	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
NA	Commercial Paper Programme	NA	NA	7-365 days	500.00	[ICRA]A1+

Source: IDFC

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