

## Rating Rationale for Debt Issue of ₹ 3000 crores and rating reaffirmation for Long Term Debt and Short Term Debt for IFCI Limited's outstanding Debt Issues aggregating ₹ 8,809 crores

Brickwork Ratings (BWR) has assigned and reaffirmed the rating of BWR AA- (Pronounced BWR Double A minus) with an up gradation in the outlook from Stable to Positive and BWR P1+ (Pronounced BWR P one plus) for the following issues of IFCI Limited:

Instruments	Amount	Current Rating	Assigned/ Reaffirmed	Rating History	
				Review As on	Rating As on
Long Term Debt	₹ 3000 crores	BWR AA- (Positive)	Assigned	-	BWR AA- (Positive) May 2011
Long Term Debt	Outstanding Debt Issues aggregating ₹ 8809 crores (out of ₹ 10,000 crores)	BWR AA- (Positive)	Reaffirmed	BWR AA- (Stable) July 2010	BWR AA- (Stable) July 2009
Short Term Debt		BWR P1+	Reaffirmed	BWR P1+ July 2010	BWR P1+ August 2009

“BWR AA-” rating stands for an instrument that is considered to offer HIGH credit quality in terms of timely servicing of debt obligations and “BWR P1+” stands for an instrument that is considered to offer EXCELLENT credit quality in terms of timely servicing of short term debt obligations. The Rating has been assigned and reaffirmed taking into account the performance of the company, publicly available information and clarifications sought from the company.

The rating, inter alia, factors IFCI's registration as Infrastructure Finance Company by RBI and its registration under section 4A of the Companies Act 1949 as a Public Financial Institution, strong growth in sanctions and disbursements of loans, reduction in NPA's through effective recovery measures and initiatives being taken by the management to improve performance and leverage on its core competency of lending to infrastructure projects as well as a modest growth in the profitability of the company. The rating is, however, constrained by the pressurized net interest margins, expectations

of a decrease in cash flow from recovery actions that could impact the overall profitability, a decreasing return on assets and high cost of funds.

## **Background**

Industrial Finance Corporation of India (IFCI) was established in 1948, by the Central Government as the first Development Financial Institution in the country to provide medium and long-term financial assistance to the industrial sector. The company is essentially involved in project financing but also provides other financial, leasing, and merchant banking services. IFCI provides medium term and long-term financial support to all segments of the Indian industry.

Subsidiaries of IFCI:

- IFCI Infrastructure Development Ltd (IIDL)
- IFCI Venture Capital Funds Ltd (IVCF)
- IFCI Financial Services Ltd (IFIN)
- IFCI Factors Ltd (IFL)
- MPCON Ltd

IFCI had primarily engaged in lending operations in development financing. Their business strategies are currently oriented towards five verticals:

- 1) Short term/corporate/structured financing/project/infrastructure financing;
- 2) Project development with ownership;
- 3) Corporate project and other advisory services;
- 4) NPA acquisition and resolution; and
- 5) Treasury and investment.

## **Sanctions and Disbursements**

IFCI has posted good growth in sanctions and disbursement of loans. The sanctioned loans grew from ₹ 6766 crores in FY10 to ₹ 13209 crores in FY11, registering a growth of 95%, while disbursements have grown from ₹ 6054 crores in FY10 to ₹ 8399 crores in FY11, registering a growth of 39%. Of the total disbursements about 60% were Rupee loans, while 12.61% comprised of equity disbursements.

---

## **Funding Mix**

IFCI has a well diversified funding mix with predominance of bank loans. IFCI enjoys an advantage of lower cost of funds with respect to its liabilities that have been restructured; however, it is expected that the incremental costs of borrowing for IFCI will be on the higher side. As on March 31, 2011, IFCI's outstanding borrowings included 43% of long term loans from Banks and FIIs and around 34% of privately placed bonds. In addition to this, IFCI also has optionally convertible debentures of ₹ 923 crores from GOI, bonds of ₹ 2270.21 crores and loans of ₹ 526.85 crores guaranteed by GOI.

## **Asset Quality**

IFCI was established as a Development Financial Institution (DFI) with the objective of providing medium and long term loans. The gross NPAs are mainly on account of legacy accounts and have been on a declining trend over the last three years. The Gross NPA amounts to ₹ 2644 crores in FY11 as compared to ₹ 3810 crores in FY10. The gross NPA's as a percentage to total advances amounts to 14.23% in FY 11 (25.68% in FY10). Net NPA levels in FY11 amounts to ₹ 156 crores as compared to ₹ 56 crores during FY10. Net NPA levels were 0.97% in FY11 as compared to 0.50% in FY10. The NPA levels also include the non-performing accounts acquired by IFCI which have been designated as NPAs by IFCI.

## **Financial Performance**

IFCI's income from operations has increased by 46.14% from ₹ 1657 crores in FY10 to ₹ 2421 crores in FY11. Total income during FY11 was ₹ 2486 crores as compared to ₹ 1679 crores in FY10, registering a growth of 48%. Profit before tax for the year FY10 was ₹ 1115 crores while it stood at ₹ 1166 crores for the year FY11, a growth of 4.57%. The company had registered a net profit of ₹ 706 crores in FY11 as compared to ₹ 670 crores in FY10. Net profit of IFCI Ltd. which showed a very moderate increase of 5% in FY11 was majorly due to increased interest expenses by 48% in FY11. Interest expenses in FY11 increased to ₹ 1318 crores from ₹ 891 crores in FY10. Staff expenses also increased by 13% in FY11 and increase in one time establishment expenses for repairs and maintenance of the building by 20% also had an impact on the overall net profit.

The capital adequacy levels of IFCI Ltd. continue to remain adequate with an overall capital adequacy ratio of 16.43% and a Tier I capital ratio of 12.46% as of March 2011. The return on assets was 3.77% in FY 11 as compared to 5.11% at end of FY 10. The total yield on investment and advances made stood at 10.90% in FY11.

Brickwork Ratings expects the performance of IFCI to improve over the next year. While the income may be constrained by decreasing recoveries from non-performing accounts and pressurized interest margins, the growth in overall income especially through new incremental businesses as well as improving asset quality of IFCI is expected to bolster its performance.

Analysts	Media
<p><b>Rajalakshmi R</b> <a href="mailto:rajalakshmi.r@brickworkratings.com">rajalakshmi.r@brickworkratings.com</a></p>	<p><b>Anitha G</b> <a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a></p>
<p><b>Shilpi Agarwal</b> <a href="mailto:shilpi.a@brickworkrating.com">shilpi.a@brickworkrating.com</a></p>	<p><b>Relationship Contact</b> K N Suvarna Senior VP - Business Development <a href="mailto:kn.suvarna@brickworkratings.com">kn.suvarna@brickworkratings.com</a></p>

**Disclaimer:** Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.

Brickwork Ratings (BWR) has adopted SEBI’s Standardized Rating Symbols and their definition advised vide SEBI circular CIR/MIRSD/4/2011 dated June 15,2011, with effect from June 21, 2011. Consequently, while there is a change in the Rating Symbols as well as their definition, in regard to Short-term instruments. With regard to Long-term instruments, there is no change in the Rating Symbols, but their definition has undergone a minor change. For information on BWR’s Rating Symbols and their definition, please refer to our website link <http://www.brickworkratings.com/scale.html>. It is clarified that any change in the Symbol or the definition should not be construed as a change in the Rating.