



RATING RATIONALE

4 Oct 2022

IFCI Ltd.

Brickwork Ratings withdraws the rating for Secured Non Convertible Debentures of Rs 575 Crs on full redemption and downgrades the ratings for the Non Convertible Debentures/Bonds, proposed NCD and proposed Commercial Paper aggregating to Rs 6638.14 Crs of IFCI Ltd.

Particulars

Facility/ Instrument**	Amount Rated (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (24 Aug 2021)	Present
Long term Debt instruments (NCD/ Bonds)	7802.32	5938.14	Long Term	BWR BB/ Negative Downgraded	BWR B+/ Negative Downgraded
Proposed NCDs	200	200	Long Term	BWR BB/ Negative Downgraded	BWR B+/ Negative Downgraded
Secured NCD	575	-	Long Term	BWR BB+ /Negative Downgraded	Withdrawal on full redemption
Commercial paper (Proposed)	500	500	Short Term	BWR A4+ Downgraded	BWR A4 (Downgraded)
Total	9077.32	6638.14	Rupees Six Thousand Six Hundred Thirty Eight Crore and Fourteen Lakhs only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of NCDs are provided in Annexure I & II.

Withdrawal is on account of full redemption on the due date, as confirmed by the debenture trustee

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has downgraded the rating of Non-convertible debentures/Bonds, proposed NCDs/ proposed Commercial paper as tabulated above of IFCI Ltd. (IFCI or 'the Company').

BWR has principally relied on audited financials upto FY22, unaudited financial statements for June 2022, publicly available information and information/clarifications provided by the company.

The downgrade in the ratings factors in the deterioration in the asset quality from 73.72% as of 31 March 2021 to 90.67 % as on 31 March 2022 and 91.33% as on 30 June 2022 coupled with decline in profitability; further with the degrowth in the portfolio from Rs 10582 Crs as on 31 March 2021 to Rs 7185 Crs as on 31 March 2022 primarily on account of no fresh disbursements in FY 22. The Company reported revenue from operations of Rs 764 Crs for FY 22 as against Rs 1397 Crs in FY 21



with net loss of Rs 1991 Crs in FY 22 as against net loss of Rs 1958 Crs in FY 21 and operating income of Rs 115 Crs with net loss of Rs 232 Crs for Q1FY23. The Company had paused incremental disbursements and the activities were restricted to recoveries. Due to high accumulated losses, TNW of the Company dipped from Rs 2372 Crs as on 31 March 2021 to Rs 445 Crs in FY 22 and further reduced to Rs 205 Crs as on 30 June 2022. CRAR of the Company was negative since FY 21 with high gearing level at 15.74x as on March 22 (PY 4.58x).

The rating, however, derives comfort from ownership & continued support from the Government of India holding 64.86% as on 30 June 2022 and diversified resource profile.

The negative outlook reflects liquidity pressures on the Company in the next 6-12 months if the planned funds are not raised and NPA recoveries do not materialize. The Negative outlook indicates degrowth in the portfolio, no new disbursements in the portfolio coupled with weak asset quality and declining profitability. The rating outlook may be revised to Stable in case the company manages to improve its asset quality and profitability, and raise adequate capital for improved asset cover and liquidity position.

BWR withdraws the rating of the NCDs of Rs. 575 Crs at the request of the company, and confirmation from the debenture trustee on its full redemption on the due date. The Withdrawal of the rating is in line with BWR's policy for the withdrawal of ratings.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

Nil

KEY RATING DRIVERS

Credit Strengths:-

- **Ownership and support from Government of India:** IFCI Ltd is promoted by the Government of India, and it holds the majority stake in the company. The GoI provides capital support to the company through budgetary allocation. During FY 22, Govt infused equity of Rs 100 Crs with that GoI stake stands at 64.86% as on 31 March 2022. GoI has also appointed two nominee Directors on the Board of IFCI. GoI plans to infuse additional equity of Rs 100 Crs in FY 2022-23 for which preliminary approval was given by the Board on 27 Sept 2022. Being a majority-owned entity by GoI, the availability of adequate, timely and regular support from the government in terms of capital infusion, resource raising and other regulatory matters remains a key rating sensitivity.
- **Diversified resource profile:** The borrowing profile of IFCI remains diversified with funds raised from non-convertible debentures and bank loans. The borrowings of the company, however, reduced by 36% Y-o-Y to ₹7,012 crore as on March 31, 2022 from ₹10911 crore as on March 31, 2021, on account of no incremental funding raised in FY22. As on 31 March 2022, the borrowing profile comprises of Rs 610 Crs of term loans (PY Rs 1903 Crs), Subordinate bonds of Rs 975 Crs (PY Rs 1313 Crs), public NCD of Rs 973 Crs (PY Rs 1161 Crs), bonds under private placements Rs 3450 Crs (PY Rs 3925 Crs), Zero Coupon bonds of Rs 310 Crs (PY Rs 1401 Crs), Infrastructure bonds of Rs 321 Crs (PY Rs 466 Crs) and Foreign current debt of Rs 373 Crs (PY Rs 410 Crs).



Credit Risks:-

- **Persistent Weak Asset Quality:** IFCI's asset quality continues to weaken with gross NPA (GNPA) and net NPA (NNPA) ratios deteriorating to 90.67% and 75.43%, respectively, as on March 31, 2022, as compared with 73.72% and 50.05% respectively, as on March 31, 2021. Despite fresh slippages to NPA of Rs 379 Crs in FY 22, GNPA (absolute terms) reduced from Rs 7801 Crs as on March 21 to Rs 6515 Crs in March 22, mainly on account of NPA written off Rs 862 Crs and recoveries of Rs 804 Crs in FY 22. The provision coverage ratio (PCR) of the company increased to 68% as on March 2022 from 64% as on March 31, 2021. A large proportion of IFCI's NPAs are under National Company Law Tribunal (NCLT), while some others are in the process of restructuring/resolution. BWR expects that the profitability and Capitalization level will be further affected with the extent of haircut required on these exposures and consequent additional provisioning required.

Aggregate restructured O/s as on 31 March 2022 was Rs 1270 Crs of 18 accounts and provisions standing against the restructured book was Rs 918.59 Crs. Restructured accounts written off in FY 22 was Rs 337.29 Crs. Company has not restructured any accounts in FY 22. During FY 22, the Company had sold accounts worth Rs 679.18 Crs (5 accounts) to ARC against the aggregate consideration of Rs 288.57 Crs.

Going forward, the Company's ability to better the recoveries from the NPA's and improve the profitability shall be the rating monitorables.

- **Weak Capitalization structure with Negative CRAR:** Govt of India had infused equity of Rs 100 Crs in FY 22 and Rs 200 Crs in FY 21 and Rs 200 Crs in FY20. The CRAR stands at -64.85% (decreased from -10.81% as on 31 March 2021) mainly due to loss incurred by the Company during the year and cap on Subordinated Bonds considered for Tier-II to 50% of Tier I Capital. The gearing levels are at a high mark of 15.74x as on March 22 as against 4.58x as on 31 March 2021 and further deteriorated to 33.13x as on 30 June 22 on account of high debt profile and eroded net worth due to accumulated losses.

The Tier I capital is negative and stood at -Rs. 2,874 Crs or -64.96% as on March 31, 2022 against -Rs. 1,074 crore or -10.96% as on March 31, 2021. The Tier I capital position remains much lower than the net worth of Rs. 445 crore as on March 31, 2022 as it excludes net deferred tax assets and investments in subsidiaries (which are sizeable). The CRAR is much below the regulatory guidelines of minimum 15%. GoI plans to infuse additional equity of Rs 100 Crs in FY 2022-23 for which preliminary approval was given by the Board on 27 Sept 2022. Given the high level debt of the Company at over Rs 7000 Crs against the TNW of Rs 445 Crs as on 31 March 2022 coupled with weakening asset quality, BWR expects that Rs 100 Crs of proposed equity infusion by the Govt of India shall not be adequate to improve the liquidity position of the Company.

Going forward, IFCI's weak asset quality and capital position are unlikely to improve unless a substantial quantum of capital is infused to clean up the stressed book.

Weak Profitability metrics :

The Company recognised interest on effective interest rate for all financial assets whether NPA or not NPA till 31 March 2021. For NPA accounts, interest was being recognised on the carrying amount remaining after deducting provisions. The Company has changed its accounting policy whereby interest income on stage 3 assets shall not be recognised on books of accounts with effect from 01 April 2021. Accordingly, interest income is lower by Rs 248 Crs (net of ECL).



The Company reported operating income of Rs 764 Crs in FY 22 as against Rs 1397 Crs in FY 21 primarily on account of change in accounting policy as mentioned above, no fresh disbursements made in the FY 22 and shrinking of standard loan assets from Rs 2878 Crs (March 21) to Rs 670 Crs in March 2022. The operating income includes dividend income of Rs 37.80 Crs, advisory fee of Rs 50 Crs , rental income & other income of Rs 36 Crs.

On account of 50% reduction in the operating income , the Company reported net losses of Rs 1991 Crs in FY 22 as against net loss of Rs 1958 Crs in FY 21. The Company reported total revenue of Rs 115 Crs in Q1FY23 and net loss of Rs 232 Crs.

Net Interest Margin was negative for FY22 on account of reduction in the interest income coupled with high debt of more than Rs 7000 Crs. Return of assets and Return on equity was negative since FY 2019. The credit cost (%) had improved from 13.50% in FY 21 to 11.31% in FY 22 with reduction in impairment provisions from Rs 2272 Crs in FY 21 to Rs 1373 Crs in FY 22. BWR expects that the Company's policy to pause the fresh disbursements and shrinking standard assets book shall adversely affect the earning profile of the Company.

The ability of the Company to improve its profitability by recovering the NPAs and limiting the stressed assets would be a key rating monitorable

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

To arrive at its ratings, BWR has considered the standalone financials of IFCI Ltd. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

The company's ability to manage asset quality and profitability while maintaining liquidity, improving the overall financial risk profile and raising adequate capital to strengthen the capital structure will be key rating sensitivities.

Positive: The rating outlook may be revised to Stable if there is a significant improvement in asset quality and profitability, and the company is able to maintain adequate liquidity and capitalisation.

Negative: The rating may be downgraded if a further deterioration in asset quality, liquidity position, inability to tie up funds in a timely manner and overall weakening in the financial risk profile.

LIQUIDITY POSITION: STRETCHED

IFCI Ltd has repayment obligations of Rs.1301 Crs from 24 Sept 2022 to 30 Sept 2023 as against the available liquidity of Rs 373 Crs as on 22 Sept 2022 indicating stretched liquidity position. Apart from this, the Company has undrawn OD limits of Rs 126 Crs.

IFCI has been servicing its debt through repayments/prepayments in the standard loan book, divestment of non-core assets/other investments and NPA recoveries.

The Company expects the liquidity position to improve with the divestment of equity stakes in key subsidiaries (namely 52.9% stake in Stock Holding Corporation of India) has been long delayed, which is expected to raise about Rs.2600 Crs subject to GOI approval and additional capital infusion by the GoI.



However, it is to be noted here that during the last 3 financial years, IFCI has serviced principal liabilities of over Rs 13,174 crore, with no incident of delay. In FY 2021-22, Rs 5,115 cr. (Principal Rs.3,908 cr+ Interest- Rs.1207 cr) has been released towards debt servicing. IFC Ltd being a government owned company is expected to receive continued support from the Govt. However, there is no clarity on the quantum of funds and the duration with which the funds shall be infused by the GoI. Till such time, BWR expects the liquidity to be a major concern.

COMPANY PROFILE

IFCI, previously Industrial Finance Corporation of India, is an Indian Government owned finance company established to cater to the long-term finance needs of the industrial sector. It was the first Development Financial Institution established by the Indian government after independence in 1948. In 1993, it was reconstituted as a company to impart a higher degree of operational flexibility. It provides medium and long-term financial assistance to large-scale industrial undertakings. IFCI Ltd has five subsidiaries, namely IFCI Factors Ltd (BWR BB/Stable), IFCI Venture Capital Funds Ltd (BWR B+/ Negative), IFCI Financial Services Ltd, IFCI Infrastructure Development Ltd, MPCON Ltd and Stock Holding Corporation of India Ltd. IFCI is listed on both the BSE and NSE, and the GoI owns 64.86% of the shares in the company..

KEY FINANCIAL INDICATORS

Key Parameters	Units	FY21 IndAs	FY 22 IndAs
Result Type		Audited	Audited
Total Income	(Rs in Crs)	1397	764
Net Profit	(Rs in Crs)	-1958	-1991
Tangible Net Worth	(Rs in Crs)	2372	445
Gearing	(in times)	4.58	15.74
Total CRAR	(%)	-10.81%	-64.85%
Total AUM	(Rs in Crs)	10582	7185
Gross NPA	(%)	73.72	90.67
Net NPA	(%)	50.50	28.64

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY, IF ANY: Nil



RATING HISTORY FOR THE PREVIOUS THREE YEARS (Including withdrawal & suspended)

Sr. No.	Name of Facility/ Instrument	Current Rating (2022)			Rating History for the past 3 years		
		Type	Amount (Rs. Crs)	Rating	2021	2020 (23 June 2020)	2019 (10 July 2019)
1	Long term Debt/Bonds	Long Term	5938.14	BWR B+/Negative (Downgraded)	20 July 2021 BWR BBB-/Negative (Downgraded) 24 Aug 2021 BWR BB/Negative (Downgraded)	BWR BBB+/Negative (Reaffirmed)	BWR BBB+/Negative (Downgraded from BWR A-/Stable)
2	Proposed NCD	Long Term	200	BWR B+/Negative (Downgraded)	20 July 2021 BWR BBB-/Negative (Downgraded) 24 Aug 2021 BWR BB/Negative (Downgraded)	BWR BBB+/Negative (Assigned)	NA
3	Secured NCD	Long Term		Withdrawn on full redemption	20 July 2021 BWR BBB+/Negative (Downgraded) 24 Aug 2021 BWR BB+/Negative (Downgraded)	BWR A+(CE)/Negative (Reaffirmed)	BWR A+(CE)/Negative (Downgraded)
4	Proposed Commercial Paper	Short Term	500	BWR A4 (Downgraded)	20 July 2021 BWR A3+ (Downgraded) 24 Aug 2021 BWR A4+ (Downgraded)	BWR A2+ (Reaffirmed)	BWR A2+ (Downgraded)
	TOTAL		6638.14	Rupees Six Thousand Six Hundred Thirty Eight Crore and Fourteen Lakhs only			

Withdrawn the rating for NCD of Rs 575 Crs on account of redemption on the due date.



COMPLEXITY LEVELS OF THE INSTRUMENTS

NCD/Bonds- Simple

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria:

- [General Criteria](#)
- [Banks & Financial Institutions](#)
- [Approach to financial ratios](#)
- [Short Term Debt](#)

Analytical Contacts	
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IFCI Ltd.

ANNEXURE I - Details of Bank Facilities rated by BWR: Not Applicable

ANNEXURE II - INSTRUMENT (NCD) DETAILS

Instrument	Issue Date	Amount @ (Rs in Crs)	Coupon Rate(%)	Maturity Date	ISIN
BONDS	25/01/2010	200.00	9.75	25/01/2025	INE039A09LC6
BONDS	05/03/2010	200.00	9.55	05/03/2025	INE039A09LG7
BONDS	13/04/2010	225.00	9.55	13/04/2025	INE039A09LK9
BONDS	04/05/2010	250.00	9.70	04/05/2030	INE039A09LL7
BONDS	18/05/2010	250.00	9.70	18/05/2030	INE039A09LM5
BONDS	13/07/2010	250.00	9.75	13/07/2030	INE039A09MC4
BONDS	16/07/2010	500.00	9.75	16/07/2030	INE039A09MD2
BONDS	29/10/2010	250.00	9.98	29/10/2030	INE039A09MN1

BONDS	26/04/2013	350.00	9.75	26/04/2028	INE039A09PR5
BONDS	07/07/2010	19.69	9.75	07/07/2040	INE039A09LS2
BONDS	07/07/2010	21.61	9.75	07/07/2039	INE039A09LT0
BONDS	07/07/2010	23.72	9.75	07/07/2038	INE039A09LU8
BONDS	07/07/2010	26.04	9.75	07/07/2037	INE039A09LV6
BONDS	07/07/2010	28.58	9.75	07/07/2036	INE039A09LW4
BONDS	07/07/2010	31.38	9.75	07/07/2035	INE039A09LX2
BONDS	07/07/2010	34.42	9.75	07/07/2034	INE039A09LY0
BONDS	07/07/2010	37.78	9.75	07/07/2033	INE039A09LZ7
BONDS	07/07/2010	41.47	9.75	07/07/2032	INE039A09MA8
BONDS	07/07/2010	45.53	9.75	07/07/2031	INE039A09MB6
BONDS	28/09/2012	8.20	10.50	28/09/2022	INE039A09PE3
BONDS	08/10/2012	5.41	9.95	08/10/2022	INE039A09PF0
BONDS	08/10/2012	19.59	10.12	08/10/2022	INE039A09PI4
BONDS	08/10/2012	5.15	10.10	08/10/2022	INE039A09PJ2
BONDS	05/11/2012	106.88	9.90	05/11/2022	INE039A09PM6
BONDS	05/11/2012	106.88	9.90	05/11/2027	INE039A09PN4
BONDS	05/11/2012	106.88	9.90	05/11/2032	INE039A09PO2
BONDS	05/11/2012	106.88	9.90	05/11/2037	INE039A09PP9
BONDS	12/12/2011	8.00	8.75	12/12/2026	INE039A09NZ3
BONDS	12/12/2011	2.68	8.75	12/12/2026	INE039A09OA4
BONDS	15/02/2012	30.99	9.16	15/02/2027	INE039A09OG1
BONDS	15/02/2012	9.03	9.16	15/02/2027	INE039A09OH9
BONDS	31/03/2012	66.29	8.50	31/03/2024	INE039A09OU2

BONDS	31/03/2012	18.95	8.50	31/03/2024	INE039A09OV0
BONDS	31/03/2012	17.28	8.72	31/03/2027	INE039A09OW8
BONDS	31/03/2012	5.83	8.72	31/03/2027	INE039A09OX6
NCD	01/12/2014	606.17	9.90	01/12/2024	INE039A07801
NCD	01/12/2014	41.82	9.90	01/12/2024	INE039A07819
NCD	13/02/2015	302.81	9.40	13/02/2025	INE039A07843
NCD	13/02/2015	22.55	9.40	13/02/2025	INE039A07850
Subordinate Bonds	01/08/2011	403.59	10.75	01/08/2026	INE039A09NL3
Subordinate Bonds	01/08/2011	64.96	10.75	01/08/2026	INE039A09NM1
Subordinate Bonds	25/08/2011	100.00	10.55	25/08/2023	INE039A09NP4
Subordinate Bonds	31/10/2011	102.49	10.75	31/10/2026	INE039A09NW0
Subordinate Bonds	28/02/2012	123.63	10.70	28/02/2027	INE039A09OM9
Subordinate Bonds	18/09/2012	50.00	9.98	18/09/2037	INE039A09PD5
Subordinate Bonds	05/10/2012	20.00	9.98	05/10/2037	INE039A09PH6
Subordinate Bonds	15/10/2012	10.00	9.98	15/10/2032	INE039A09PL8
Bonds	31/03/2014	165.00	8.39	31/03/2024	INE039A09PT1
Bonds	31/03/2014	145.00	8.76	31/03/2029	INE039A09PU9
Bonds	29/06/2020	200.00	9.40	21/04/2023	INE039A08189
Bonds	22/10/2002	50.00		01/12/2022	
Bonds	27/09/2002	45.00		01/11/2022	
Bonds	18/11/2002	25.00		01/10/2022	
Bonds	10/12/2002	50.00		01/09/2022	
TOTAL		5938.14			

@ NCD O/s as on 31 Aug 2022



ANNEXURE III

List of entities consolidated : NA

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