

## RATING RATIONALE

10 Nov 2023

### IFCI Limited

**Brickwork Ratings withdraws the rating for Non Convertible Debentures & Bonds of Rs 430.49 Crs on full redemption and reaffirms the ratings for the Non Convertible Debentures/Bonds, Proposed NCD and Proposed Commercial Paper aggregating to Rs 6207.65 Crs of IFCI Ltd.**

#### Particulars:

Instruments**	Amount (₹ Cr)		Tenure	Rating#	
	Previous	Present		Previous (04 Oct 2022)	Present
Non Convertible Debentures/Bonds	5507.65	<b>5507.65</b>	Long Term	BWR B+/ Negative Downgraded	<b>BWR B+/ Negative /Reaffirmation</b>
Non Convertible Debentures/Bonds	430.49	<b>NIL</b>	Long Term	BWR B+/ Negative Downgraded	<b>Withdrawal on redemption</b>
Proposed NCDs	200	<b>200</b>	Long Term	BWR B+/ Negative Downgraded	<b>BWR B+/ Negative /Reaffirmation</b>
Commercial paper (Proposed)	500	<b>500</b>	Short Term	BWR A4 Downgraded	<b>BWR A4 /Reaffirmation</b>
<b>Total</b>	6638.14	<b>6207.65</b>	<b>Rupees Six Thousand Two Hundred and Seven Crores and Sixty Five Lakhs only</b>		

\*\*Details of NCD/Bonds are provided in Annexure II

#Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

#### RATING ACTION

Brickwork Ratings (BWR) has reaffirmed the rating of Non-convertible debentures/Bonds, Proposed NCDs and Proposed Commercial paper of IFCI Ltd. (IFCI or “the Company”) as tabulated above. BWR has also withdrawn the rating of ‘BWR B+/ Negative’ for NCDs amounting to Rs. 430.49 Crs on account of full redemption.

BWR has principally relied on audited financials up to FY23, unaudited financial statements for half year ended September 2023, publicly available information and information/clarifications provided by the company.



The reaffirmation of the rating factors in the majority ownership of the Government of India and continued Government of India support and additional revenue stream from fee based Advisory services.

The negative outlook reaffirmation of the ratings factors in the deterioration in the asset quality from 90.67% as on 31 March 2022 to 92.39% as at 31 March 2023, 92.30% as at June 2023 and 91.92% as at 30 Sep 2023, coupled with decline in profitability and further degrowth in the portfolio from Rs 7185 Crs as on 31 March 2022 to Rs. 6223 Crs as at March 2023. This was primarily on account of no fresh disbursements in the last three years.

The Company's reported revenue from operations declined from Rs 757 Crs for FY 22 to Rs.534.11 Crs for FY23 and Rs. 242.48 Crs for H1FY24. The operating income for June 2023 was Rs 73.6 Crs with net loss of Rs 160.97 Crs for Q1FY23 and operating income was Rs 179.13 cr with net loss of Rs 77.20 cr for half year ended September 2023.

The Company had paused incremental disbursements and the activities were restricted to recoveries, and advisory and monitoring services. In spite of high accumulated losses, net worth of the Company improved from Rs 445 Crs in FY 22 to Rs 626.10 Crs as on March 2023 and Rs. 541.54 Crs as on 30 September 2023. CRAR of the Company was negative at (-) 70.66% in March 2023 which improved to (-) 61.03% for H1FY24 which, however, is well below the regulatory requirements. The rating, however, derives comfort from ownership & continued support from the Government of India holding 70.32% as at 30<sup>th</sup> September 2023 and diversified resource profile and the 100% security cover maintained against principal and interest on all the secured bonds and debentures issued by the company and outstanding as on 30<sup>th</sup> September 2023.

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 materialise.

The Negative outlook also 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. 430.39 Crs at the request of the company, and confirmation from the debenture trustee on its full redemption on/before the due dates. The Withdrawal of the rating is in line with BWR's policy for the withdrawal of ratings.

#### **KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED**

The NCDs are fully secured, with 100% security cover maintained for principal and interest. The NCDs are also open to prepayment, as per terms of issues. Coupon payment periodicities in applicable cases are annually.



## 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 FY22 and FY23, Govt infused equity of Rs. 100 Crs and Rs. 500 Crs respectively. With that the GoI stake stands at 66.35% as on 31<sup>st</sup> March 2023 and 70.32% as on 30<sup>th</sup> September 2023. GoI has also appointed two nominee Directors on the Board of IFCI. 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 were at Rs. 6432 Crs as at June 2023. The borrowing profile comprises Bonds-Rs. 5362 Crs, Foreign Currency debt- Rs. 347 Crs and accrued interest of Rs. 723 Crs as at June 2023. On all the secured bonds and debentures issued by the company and outstanding as at 30th September 2023, 100% security cover has been maintained against principal and interest by way of floating charge on receivables of the company and/or Government securities owned by the company.

**Diversified Revenue Profile:** The company has shifted its focus from the lending activities to fee-based business. Besides managing the Sugar Development Fund (SDF), the company is also managing and monitoring the implementation of the Production-Linked Incentives (PLI) schemes of the GoI. The company earned Rs. 59 Crs as at March 2023, and sees the fee-based business as a steady source of revenue.

### CREDIT RISK:-

**Persistent Weak Asset Quality:** IFCI's asset quality continues to weaken with gross NPA (GNPA) and net NPA (NNPA) ratios deteriorating to 91.92% and 73.54% as at September 2023. The provision coverage ratio (PCR) of the company increased from 82.68% as on March 2022 to 86.47% as at March 2023. 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. Going forward, the Company's ability to better the recoveries from the NPA's and improve the profitability shall be a rating monitorable.

**Weak Capitalization structure with Negative CRAR:** Govt of India had infused equity of Rs. 500 Crs in FY23, Rs 100 Crs in FY 22 and Rs 200 Crs in FY 21. The CRAR stands at -70.66% as at 31 March 2023 and -61.03% as at 30 September 2023, 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 Tier I capital is negative and stood at Rs. 2596.49 Crs or -71.06% as on March 31, 2023 as against -Rs. 2,874 Crs or -64.96% as on March 31, 2022 and -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. 626.10 crore as on March 31, 2023 as it excludes net deferred tax assets and investments in subsidiaries (which are sizable). The CRAR is well below the regulatory guidelines of minimum 15%. Given the high debt level of the Company of Rs 5713.98 crores against the Net Worth of Rs 541.54 Crs as on September 2023 coupled with weakening asset quality, BWR maintains that the gearing stands skewed. The company will continue to depend on the GoI for financial support. 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 has reduced to Rs. 296 Crs as at March 2023, from Rs. 593 Crs a year ago. The Company reported operating income of Rs 444.34 Crs in FY 23 as against Rs 715.96 Crs in FY 22 primarily on account of change in accounting policy as mentioned above, no fresh disbursements made and shrinking of standard loan assets. The operating income for FY 2022-23 includes dividend income of Rs 51.35 Crs, advisory fee of Rs 59.05 Crs , rental income of Rs 38.28 Crs. On account of 50% reduction in the operating income, the losses continue. The total loss as at March 2023 was Rs. 287.58 Crs.

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: STANDALONE**

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 INDICATORS: STRETCHED**

IFCI Ltd has repayment obligations of Rs. 873.36 Crs from 01 June 2023 to 31 May 2024 (Rs 862.23 crs from 1<sup>st</sup> Oct 2023 to 30<sup>th</sup> Sep 2024) as against the available liquidity of Rs 863.79 cr as on 30<sup>th</sup> September 2023 indicating stretched liquidity position. IFCI has been servicing its debt through repayments/prepayments in the standard loan book, divestment of non-core assets/other investments and NPA recoveries, besides seeking support from the GoI.

The Company expects the liquidity position to improve with the divestment of equity stakes in key subsidiaries and additional capital infusion by the GoI. The GOI approval for disinvestment is awaited.

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.

**Observations in Limited Review Report for September 2023:** The Auditors S. Mann & Co. reported the following under the Emphasis of Matter paragraph - “In a certain case, it was observed that one party has appointed the company as its advisor/consultant for assisting and preparation of their proposal under SDF (Sugar Development Fund) scheme of Government of India (GoI). However, the company is also acting as the nodal agency/agent of the government for independently carrying out various due diligence procedures on applications received by the nodal ministry under SDF Scheme. Notwithstanding express approval from GoI, the action of assisting/coaching an applicant in preparation of documents/project reports on commercial terms, and simultaneously conducting due diligence on behalf of GoI, severely undermines the creditability (sic) of the proposals appraised by the company, and comprises (sic) the independent position of the company”.

### **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 six subsidiaries, namely IFCI Factors Ltd, IFCI Venture Capital Funds Ltd, 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 66.35% of the shares in the company.

**KEY FINANCIAL INDICATORS: Standalone**

Key Financial Indicators	Units	FY22	FY23	H1/Q2 FY24
Result Type		(A)	(A)	(UA)
Total Income	Rs in Crs	764	545.26	243.98
Net Profit	Rs in Crs	-1991	-287.58	-77.20
Net Worth	Rs in Crs	445	626.10	541.54
Gearing	Times	15.74	9.28	10.55
Total CRAR	%	-64.85	-70.66	-61.03
Total AUM	Rs in Crs	7185	6223	5468.88
Gross NPA	%	90.67	92.39	91.92
Net NPA	%	75.48	75.99	73.54

A - Audited

UA - Unaudited

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY:** None

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal & suspended]**

Sl. No.	Name of Facility/ Instrument	Current Rating (2023)			Rating History for the past 3 years		
		Type	Amount (Rs. Crs)	Rating	2022 (04 Oct 2022)	2021	2020 (23 June 2020)
1	Long term Debt/Bonds	Long Term	5507.65#	BWR B+/ Negative (Reaffirmed)	BWR B+/ Negative (Downgraded)	20 July 2021 BWR BBB-/Negative (Downgraded)  24 Aug 2021 BWR BB/Negative (Downgraded)	BWR BBB+/Negative (Reaffirmed)
2	Proposed NCD	Long Term	200	BWR B+/ Negative (Downgraded)	BWR B+/ Negative (Downgraded)	20 July 2021 BWR BBB-/Negative (Downgraded)  24 Aug 2021 BWR BB/Negative (Downgraded)	BWR BBB+/Negative (Assigned)
3	Secured NCD	Long Term	NIL	Withdrawn on full redemption	Withdrawn on full redemption	20 July 2021 BWR BBB+/Negative (Downgraded)  24 Aug 2021 BWR BB+/Negative (Downgraded)	BWR A+(CE)/Negative (Reaffirmed)
4	Proposed Commercial Paper	Short Term	500	BWR A4 (Downgraded)	BWR A4 (Downgraded)	20 July 2021 BWR A3+ (Downgraded)  24 Aug 2021 BWR A4+ (Downgraded)	BWR A2+ (Reaffirmed)
	<b>TOTAL</b>		6207.65	Rupees Six Thousand Two Hundred and Seven Crores and Sixty Five Lakhs only			

#Rs.430.49 Crs. NCDs & Bonds were fully repaid on or before respective due dates.



## COMPLEXITY LEVELS OF THE INSTRUMENTS

Non Convertible Debentures/ Bonds - **Simple**

For more information, visit

[www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks & Financial Institutions](#)
- [Policy on Withdrawal](#)

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**IFCI Limited**

**ANNEXURE I**

**Details of Bank Loan Facilities rated by BWR: Not Applicable**

**ANNEXURE II**

**INSTRUMENT (NCD/Bonds/CP/FDs) DETAILS :**

Sl. No.	Instrument	Issue Date	Rated Amount (Rs. in Cr)	Coupon Rate (%)	Maturity Date	ISIN
1	NCD	12-Jan-2014	606.17	9.9	12-Jan-2024	INE039A07801
2	NCD	12-Jan-2014	41.82	9.9	12-Jan-2024	INE039A07819
3	NCD	13-Feb-2015	302.81	9.4	13-Feb-2025	INE039A07843
4	NCD	13-Feb-2015	22.55	9.4	13-Feb-2025	INE039A07850
5	BONDS	25-Jan-2010	200.00	9.75	25-Jan-2025	INE039A09LC6
6	BONDS	3-May-2010	200.00	9.55	3-May-2025	INE039A09LG7
7	BONDS	13-Apr-2010	225.00	9.55	13Apr2025	INE039A09LK9
8	BONDS	5-Apr-2010	250.00	9.7	5-Apr-2030	INE039A09LL7
9	BONDS	18-May-2010	250.00	9.7	18-May-2030	INE039A09LM5
10	BONDS	7-Jul-2010	19.69	9.75	7-Jul-2040	INE039A09LS2@
11	BONDS	7-Jul-2010	21.61	9.75	7-Jul-2039	INE039A09LT0@
12	BONDS	7-Jul-2010	23.72	9.75	7-Jul-2038	INE039A09LU8@
13	BONDS	7-Jul-2010	26.04	9.75	7-Jul-2037	INE039A09LV6@
14	BONDS	7-Jul-2010	28.58	9.75	7-Jul-2036	INE039A09LW4@
15	BONDS	7-Jul-2010	31.38	9.75	7-Jul-2035	INE039A09LX2@
16	BONDS	7-Jul-2010	34.42	9.75	7-Jul-2034	INE039A09LY0@
17	BONDS	7-Jul-2010	37.78	9.75	7-Jul-2033	INE039A09LZ7@
18	BONDS	7-Jul-2010	41.47	9.75	7-Jul-2032	INE039A09MA8@
19	BONDS	7-Jul-2010	45.53	9.75	7-Jul-2031	INE039A09MB6@
20	BONDS	13-Jul-2010	250.00	9.75	13-Jul-2030	INE039A09MC4
21	BONDS	16-Jul-2010	500.00	9.75	16-Jul-2030	INE039A09MD2
22	BONDS	29-Oct-2010	250.00	9.98	29-Oct-2030	INE039A09MN1



23	BONDS	12-Dec-2011	8.00	8.75	12-Dec-2026	INE039A09NZ3
24	BONDS	12-Dec-2011	2.68	8.75	12-Dec-2026	INE039A09OA4
25	BONDS	15-Feb-2012	30.99	9.16	15-Feb-2027	INE039A09OG1
26	BONDS	15-Feb-2012	9.03	9.16	15-Feb-2027	INE039A09OH9
27	BONDS	31-Mar-2012	66.29	8.5	31-Mar-2024	INE039A09OU2
28	BONDS	31-Mar-2012	18.95	8.5	31-Mar-2024	INE039A09OV0
29	BONDS	31-Mar-2012	17.28	8.72	31-Mar-2027	INE039A09OW8
30	BONDS	31-Mar-2012	5.83	8.72	31-Mar-2027	INE039A09OX6
31	BONDS	11-May-2012	106.88	9.9	11-May-2027	INE039A09PN4
32	BONDS	11-May-2012	106.88	9.9	11-May-2032	INE039A09PO2
33	BONDS	11-May-2012	106.88	9.9	11-May-2037	INE039A09PP9
34	BONDS	26-Apr-2013	350.00	9.75	26Apr2028	INE039A09PR5
35	BONDS	31-Mar-2014	165.00	8.39	31-Mar-2024	INE039A09PT1
36	BONDS	31-Mar-2014	145.00	8.76	31-Mar-2029	INE039A09PU9
37	BONDS	10-Aug-2012	19.59	10.12	10-Aug-2027	INE039A09PI4
38	BONDS	10-Aug-2012	5.15	10.1	10-Aug-2027	INE039A09PJ2
39	BONDS	28-Sep-2012	8.20	10.5	28-Sep-2022	<b>INE039A09PE3*</b>
40	BONDS	10-Aug-2012	5.41	9.95	10-Aug-2022	<b>INE039A09PF0*</b>
41	BONDS	11-May-2012	106.88	9.9	11-May-2022	<b>INE039A09PM6*</b>
42	BONDS	29-Jun-2020	200.00	9.4	21-Apr-2023	<b>INE039A08189*</b>
43	Subordinate Bonds	8-Jan-2011	403.59	10.75	8-Jan-2026	INE039A09NL3
44	Subordinate Bonds	8-Jan-2011	64.96	10.75	8-Jan-2026	INE039A09NM1
45	Subordinate Bonds	31-Oct-2011	102.49	10.75	31-Oct-2026	INE039A09NW0
46	Subordinate Bonds	28-Feb-2012	123.63	10.7	28-Feb-2027	INE039A09OM9
47	Subordinate Bonds	18-Sep-2012	50.00	9.98	18-Sep-2037	INE039A09PD5
48	Subordinate Bonds	10-May-2012	20.00	9.98	10-May-2037	INE039A09PH6
49	Subordinate Bonds	25-Oct-2011	100.00	10.55	25-Aug-2023	<b>INE039A09NP4*</b>
50	Subordinate Bonds	15-Oct-2012	10.00	9.98	15-Oct-2032	<b>INE039A09PL8*</b>
51	Bonds	22-Oct-2002	50		1-Dec-2022	
52	Bonds	27-Sep-2002	45		11-Jan-2022	



53	Bonds	18-Nov-2002	25		10-Jan-2022	
54	Bonds	12-Oct-2002	50		9-Jan-2022	
	<b>Total</b>		<b>5938.16</b>			

\*NCDs amounting to Rs. 430.49 Crs have been redeemed on or before the respective due dates.

@The accumulated value of the Zero Coupon Bonds is Rs. 343.19 Crs as on 30 September 2023.

### ANNEXURE- III

#### List of Entities Consolidated : Not Applicable

BWR has followed a standalone approach and aforesaid details are shared for reference.

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