IDFC Infrastructure Finance Limited

November 23, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Non-convertible debenture programme	5,700	5,700	[ICRA]AAA(stable); outstanding
Commercial paper programme	600	600	[ICRA]A1+; outstanding
Total	**6,300**	**6,300**	

For the last rating rationale for IDFC Infrastructure Finance Limited, please click here.

Update

On October 31, 2018, IDFC Limited announced the entering into a definitive agreement with National Investment and Infrastructure Fund II ("NIIF II") for selling its majority stake in IDFC Infrastructure Finance Limited (IDFC IFL) to NIIF. IDFC Limited currently holds 81.48% in IDFC IFL as on September 30, 2018. The transaction is subject to regulatory approvals.

ICRA has taken note of the announcement. With the strong financial flexibility of NIIF with Government of India being the anchor with 49% stake, ICRA expects timely capital and liquidity support to IDFC IFL to enable the company to scale up its operations. ICRA would continue to monitor the developments and take appropriate rating action, if required, upon receiving further clarity on the transaction and business plans of the entity.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

ICRA's Credit Rating Methodology for Non-Banking Finance Companies

About the company:

IDFC IFL is an infrastructure debt fund (IDF) set up in March 2014, under the non-banking finance company structure, by IDFC Limited. Equity share capital of Rs. 440 crore is held by IDFC Financial Holding Company Limited (IDFC FHC), which is a 100% subsidiary of IDFC Limited. In March 2016, the company received additional equity of Rs. 100 crore from Housing Development Finance Corporation (HDFC) Limited and SBI Life Insurance Company Limited, resulting in partial dilution of IDFC FHC's stake to 81.48%. As on March 31, 2018, IDFC FHC held 81.48%, followed by HDFC Limited (11.11%) and SBI Life Insurance Company Limited (7.41%).

During FY2018, the company reported a net profit of Rs. 86.49 crore on a total income base of Rs. 336.52 crore vis-à-vis a net profit of Rs. 70.84 crore on a total income base of Rs. 206.93 crore in FY2017. The company's net worth stood at Rs. 738.86 crore as on March 31, 2018. The company's gearing[1] was 5.03x with a portfolio size of Rs. 4,220 crore as on March 31, 2018 (3.33x as on March 31, 2017 with a portfolio of Rs. 2,683 crore).

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[1] *Debt equity ratio*

The net worth of IDFC IFL as on September 30, 2018 is ~Rs. 790 crore (Rs 777.8 crores IND AS). The loan book of IDFC IFL increased to Rs. 4,521 (crore on September 30, 2018 from Rs. 4,220 crore on March 31, 2018. The asset quality remains strong with Nil NPAs and a strong capital adequacy of 23% (22.2% IND AS).

About NIIF:

NIIF is sponsored by GoI to catalyse funding into the country's infrastructure sector. NIIF has three funds, each of which are registered with SEBI as Category II AIFs. NIIF's investment objective is to generate attractive long-term risk-adjusted returns for its investors on a sustainable basis. GoI's aggregate contribution to NIIF is Rs. 20,000 crore and it is proposed that a similar amount will be raised from third party investors such that GoI contribution will be 49% of NIIF. NIIF has also received commitment from certain domestic and international institutions including Abu Dhabi Investment Authority (ADIA) and Temasek.

More details about NIIF are available at www.niifindia.in

Key financial indicators (Audited) (Indian GAAP)

	FY2017	FY2018
Net interest income	67	92
Profit before tax	71	86
Profit after tax	71	86
Portfolio	2,683	4,220
Total assets	2,837	4,475
% Tier 1	28.49%	21.61%
% CRAR	28.96%	22.10%
Gearing	3.33	5.03
% Net profit/Average total assets	3.33%	2.37%
% Return on net worth	11.48%	12.43%
% Gross NPAs	0%	0%
% Net NPAs	0%	0%

Amount in Rs. crore

Source: IDFC IFL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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IDFC Infrastructure Finance Limited

August 09, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	-	1,700	[ICRA]AAA(stable); Assigned
Commercial paper programme	400	600	[ICRA]A1+; Reaffirmed
Non-convertible debenture programme	4,000	4,000	[ICRA]AAA(stable); Reaffirmed
Total	**4,400**	**6,300**	

**Instrument details provided in Annexure-1*

Rating action

ICRA has assigned a long-term rating of [ICRA]AAA (pronounced ICRA triple A) to the Rs. 1,700[1]-crore non-convertible debenture (NCD) programme of IDFC Infrastructure Finance Limited (IDFC IFL) [2]. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 600-crore (enhanced from Rs. 400 crore) commercial paper programme of IDFC IFL. ICRA has also reaffirmed the long-term rating of [ICRA]AAA assigned earlier to the Rs. 4,000-crore NCD programme of IDFC IFL. The outlook on the long-term ratings is Stable.

Rationale

The ratings reflect the strength of IDFC IFL's sponsor (IDFC Financial Holding Company Limited (a wholly-owned subsidiary of IDFC Limited (rated [ICRA]A1+), with an 81.48% stake in IDFC IFL as on March 31, 2018), its relatively stable business profile supported by the relatively tight regulatory framework necessitating investment only in operational projects, strong management team, stringent underwriting norms reflected in the strong asset quality, the Group's extensive experience in infrastructure financing, adequate capitalisation and good profitability indicators. In line with the regulatory requirements, the stake of the sponsors in IDFC IFL needs to be reduced to 49% and progress on the same would be a key rating sensitivity.

Outlook: Stable

ICRA believes IDFC IFL will continue to benefit from the relatively tight regulatory framework, regular capital support from the sponsors, experienced management and prudent policy framework. The outlook may be revised to Negative if there is a significant change in the credit profile of the company's sponsors or a decline in their support, an adverse change in the regulatory framework or a significant deterioration in the asset quality. Also, ability to raise adequate capital to support business growth while maintaining a prudent capitalisation profile and sound asset quality would be a key monitorable.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to [ICRA's website](#) or other ICRA rating publications*

Key rating drivers

Credit strengths

Strong parentage and experienced management team - IDFC IFL was set up by IDFC Limited (rated [ICRA]A1+) in March 2014. IDFC Financial Holding Company Limited, the majority shareholder (81.48% stake in IDFC IFL as on March 31, 2018), is wholly-owned by IDFC Limited. The balance is held by Housing Development Finance Corporation Limited (11.11%) and SBI Life Insurance Company Limited (7.41%). IDFC IFL is managed by the management team of erstwhile IDFC Limited with significant experience in lending to the infrastructure sector. In line with the regulatory requirements, the stake of the sponsors in IDFC IFL needs to be reduced to 49% and progress on the same would be a key rating sensitivity.

High portfolio growth; stable business profile - The company's portfolio stood at Rs. 4,220 crore as on March 31, 2018 (compared to Rs. 2,683 crore as on March 31, 2017), registering an annual growth of ~57%. While renewable energy continues to have the highest share of 28% in the portfolio as on March 31, 2018, its share has declined from 34% as on March 31, 2017. Apart from renewables, the portfolio comprises roads (20%), power transmission (14%) and hospitals (12%). While the road sector projects are public-private partnership (PPP) projects with tripartite agreements, the balance exposure (80% of the overall book as on March 31, 2018 is to projects without tripartite agreements. The earlier RBI guidelines for infrastructure debt funds (IDFs) required IDF-NBFCs to invest in debt securities of/or lend to only PPP infrastructure projects with a project authority that had completed at least one year of commercial operations. However, the revised guidelines issued by the RBI in FY2016, widened the scope of financing by IDFs to include investments in PPP projects without a project authority and non-PPP projects with minimum one year of commercial operations. The absence of tripartite agreements exposes the IDFs to the risks associated with the project in the event of termination. Nevertheless, construction and execution risks are mitigated as IDFs can take exposure only after a minimum of one year of successful operations post the commercial operations date. Also, the average operational track record of IDFC IFL's exposures (at ~5 years) is above the regulatory requirement, which provides comfort. ICRA also draws comfort from the strong management team, and good risk mitigants put in place by the company and expects it to continue growing the portfolio while maintaining the underwriting standards.

Favourable liquidity profile - The liquidity profile is favourable as IDFs are allowed to raise resources through the issuance of bonds with minimum five-year maturity, in line with the maturity profile of their assets. Shorter-tenure bonds and commercial papers are not allowed beyond 10% of the outstanding debt. Since IDF-NBFCs can invest only in projects that have completed at least one year of commercial operations, loan repayments start immediately after disbursement. ICRA also derives comfort from the financial flexibility of the entity by being a part of IDFC Group.

Adequate capitalisation profile - The company's capitalisation remains adequate with net worth of Rs. 739 crore as on March 31, 2018 with capital adequacy ratio (CRAR) of 22.10% (against the regulatory requirement of 15%) and gearing of 5.03x. Although the current capitalisation profile is comfortable, the company would need capital to grow while maintaining prudent capitalisation levels as internal capital generation is expected to be lower than the rate of growth. 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.

Profitability supported by tax exemption status enjoyed by IDFs - While spreads for the company have largely remained stable, with the increase in gearing, the company's net interest margins (NIMs) moderated to 2.52% in FY2018 (3.14% in FY2017). Due to the wholesale nature of operations, the company's operating expenses remained low at 0.43% of average total assets (ATA; 0.50% in FY2017). The company has no default in its portfolio and continues to provide standard asset provision of 0.4% as per RBI guidelines. Due to strong asset quality, the provisioning costs were moderated to 0.17% of ATA in FY2018 (0.28% in FY2017). The company reported profit after tax (PAT) of Rs. 86.49 crore in FY2018 (2.37% of ATA) compared to Rs. 70.84 crore in FY2017 (3.33% of ATA). Subject to compliance with the conditions stipulated by the Central Board of Direct Taxes (CBDT), an IDF-NBFC's income is exempt from tax, which supports its profitability.

Credit challenges

Relatively high concentration risk; albeit down from earlier year levels - The inherent nature of infrastructure financing entails chunky exposures to a few sectors, leaving the portfolios vulnerable to asset quality shocks in case of slippages. Consequently, the concentration risk is higher for IDFC IFL, as well, with its top 10 borrowers accounting for 36.5% of the total portfolio as on March 31, 2018 (50.6% as on March 31, 2017). The risk is somewhat mitigated by the operational nature of the projects and ICRA also draws comfort from the company's strong risk management systems. Going forward, the company's ability to maintain strict underwriting standards would be a key monitorable.

Regulatory risk - ICRA takes note of the advantage enjoyed by IDFs on account of their tax exemption. Any changes in these regulations could have an adverse impact on their profitability.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

ICRA's Credit Rating Methodology for Non-Banking Finance Companies

ICRA's Approach for Rating Commercial Papers

About the company

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[3] *Debt equity ratio*

Key financial indicators (Audited)

	FY2017	FY2018
Net interest income	67	92
Profit before tax	71	86
Profit after tax	71	86
Portfolio	2,683	4,220
Total assets	2,837	4,475
% Tier 1	28.49%	21.61%
% CRAR	28.96%	22.10%
Gearing[4]	3.33	5.03
% Net profit/Average total assets	3.33%	2.37%
% Return on net worth	11.48%	12.43%
% Gross NPAs	0%	0%
% Net NPAs	0%	0%

Amount in Rs. crore

Source: IDFC IFL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[4] *Debt equity ratio*

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	August 2018	FY2018 July 2017	FY2017 June 2016	FY2016 February 2016
1	Non-convertible debenture programme	Long Term	1,700.00	NA	[ICRA]AAA (stable)	-	-	-
2	Non-convertible debenture programme	Long Term	4,000.00	3,737.00	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)
3	Commercial paper programme	Short Term	600.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Source: IDFC IFL, ICRA research

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 and Outlook
NA	NCD	NA	NA	NA	1,963^	[ICRA]AAA(stable)
INE246R07012	NCD	29-Sep-15	8.85%	29-Oct-20	150	[ICRA]AAA (stable)
INE246R07020	NCD	21-Oct-15	8.65%	20-Nov-20	155	[ICRA]AAA (stable)
INE246R07038	NCD	16-Nov-15	8.64%	1-Dec-20	75	[ICRA]AAA (stable)
INE246R07046	NCD	9-Dec-15	8.55%	8-Jan-21	75	[ICRA]AAA (stable)
INE246R07053	NCD	8-Jan-16	8.65%	28-Jan-21	250	[ICRA]AAA (stable)
INE246R07061	NCD	22-Mar-16	8.88%	22-Apr-21	103	[ICRA]AAA (stable)
INE246R07079	NCD	14-Jul-16	8.75%	27-Jul-21	209	[ICRA]AAA (stable)
INE246R07087	NCD	9-Aug-16	8.60%	25-Aug-21	141	[ICRA]AAA (stable)
INE246R07095	NCD	29-Aug-16	8.51%	31-Aug-21	136	[ICRA]AAA (stable)
INE246R07103	NCD	1-Sep-16	8.51%	7-Sep-21	25	[ICRA]AAA (stable)
INE246R07111	NCD	27-Sep-16	8.39%	12-Oct-21	255	[ICRA]AAA (stable)
INE246R07129	NCD	17-Nov-16	8.10%	30-Nov-21	25	[ICRA]AAA (stable)
INE246R07137	NCD	30-Nov-16	7.35%	12-Jan-22	60	[ICRA]AAA (stable)
INE246R07145	NCD	6-Dec-16	7.35%	18-Jan-22	25	[ICRA]AAA (stable)
INE246R07152	NCD	1-Feb-17	8.00%	13-Apr-22	150	[ICRA]AAA (stable)
INE246R07160	NCD	22-Mar-17	8.25%	24-May-22	81	[ICRA]AAA (stable)
INE246R07178	NCD	19-Apr-17	8.04%	19-Jul-22	85	[ICRA]AAA (stable)
INE246R07186	NCD	26-Apr-17	8.01%	26-May-22	101	[ICRA]AAA (stable)
INE246R07194	NCD	31-May-17	7.97%	18-Aug-22	101	[ICRA]AAA (stable)
INE246R07202	NCD	12-Jul-17	7.94%	11-Aug-22	100	[ICRA]AAA (stable)
INE246R07210	NCD	31-Aug-17	7.73%	24-Nov-22	82	[ICRA]AAA (stable)
INE246R07228	NCD	19-Sep-17	7.73%	10-Nov-22	340	[ICRA]AAA (stable)
INE246R07236	NCD	28-Nov-17	7.99%	28-Nov-24	115	[ICRA]AAA (stable)
INE246R07244	NCD	18-Dec-17	8.08%	14-Feb-23	265	[ICRA]AAA (stable)
INE246R07251	NCD	6-Feb-18	8.48%	21-Feb-23	50	[ICRA]AAA (stable)
INE246R07269	NCD	22-Mar-18	8.49%	22-Aug-23	217	[ICRA]AAA (stable)
INE246R07277	NCD	26-Apr-18	8.37%	26-May-23	60	[ICRA]AAA (stable)
INE246R07285	NCD	26-Apr-18	8.42%	27-May-25	44	[ICRA]AAA (stable)
INE246R07293	NCD	16-May-18	8.52%	15-May-26	26	[ICRA]AAA (stable)
INE246R07301	NCD	5-Jul-18	9.21%	27-Aug-24	47	[ICRA]AAA (stable)
INE246R07319	NCD	19-Jul-18	9.26%	14-Jul-24	189	[ICRA]AAA (stable)
NA	Commercial Paper	NA	NA	7-365 days	600	[ICRA]A1+

Source: IDFC IFL

^ Yet to be placed

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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