

July 07, 2017

IDFC Infrastructure Finance Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Non Convertible Debenture Programme	1,500	[ICRA]AAA (stable) assigned
Commercial Paper	400 (enhanced from Rs. 200 crore)	[ICRA]A1+ reaffirmed
Non Convertible Debenture	2,500	[ICRA]AAA (stable) reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned rating of [ICRA]AAA (pronounced ICRA triple A) to Rs. 1,500 crore of Non Convertible Debenture Programme of IDFC Infrastructure Finance Limited (IDFC IFL). ICRA has also reaffirmed rating of [ICRA]A1+ (pronounced ICRA A one plus) to Rs. 400 crore (enhanced from Rs. 200 crore) commercial paper programme. ICRA has also reaffirmed the rating of [ICRA]AAA for the Rs. 2,500 crore non convertible debenture programme. The outlook on the long term ratings is stable.

Rationale

The ratings for IDFC IFL reflect its parentage in the form of IDFC Financial Holding Company Limited, which is a wholly owned subsidiary of IDFC Limited (rated [ICRA]A1+) and the regulatory framework governing IDF-NBFCs, which are expected to provide high degree of certainty to IDFC IFL's business profile. ICRA derives comfort from the group's long experience into infrastructure financing and strong management team with tight underwriting norms and good risk management processes.

Key rating drivers

Credit strengths

- Strong promoter; the parent IDFC Financial Holding Company Limited, is wholly owned by IDFC Limited (rated [ICRA]A1+)
- Group's long track record in infrastructure financing
- Strong management team with tight underwriting norms and strong risk mitigants in place
- IDF-NBFCs are permitted investments in debt securities of infrastructure projects with at least one year of satisfactory commercial operations, thereby eliminating construction risk
- Favourable liquidity profile given that IDF-NBFCs are allowed to raise resources through issue of bonds of minimum five year maturity in line with the maturity profile of assets

Credit weaknesses

- IDF-NBFCs are exposed to project related risks associated with the operational infrastructure projects; however, construction risk continues to be mitigated
- Absence of precedence of termination payment by project authority; however, given the contractual agreement and payment of consideration to the project authority by the IDF-NBFC, there is

significant comfort regarding the project authority's commitment to paying termination amount to IDF-NBFCs

Description of key rating drivers

IDFC IFL was set up by IDFC Limited in March 2014. The majority shareholder (81.48% as on March 31, 2017), IDFC Financial Holding Company Limited, is wholly owned by IDFC Limited (rated [ICRA]A1+) with the balance being 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 having significant experience in lending to the infrastructure sector. ICRA also draws comfort from the company's strong risk management systems, project appraisal & structuring capabilities and in depth understanding of the infrastructure segment.

Prior to May 2015, the extant RBI guidelines necessitated IDF-NBFCs to invest in debt securities of only PPP infrastructure projects with a project authority, and having completed at least one year of commercial operations. For each exposure, IDF-NBFCs were required to enter into a tripartite agreement with the concessionaire and the project authority for ensuring a compulsory buyout with termination payment. RBI however revised the guidelines in May 2015, and widened the scope of financing by IDFCs by including investments in PPP projects without a project authority and non-PPP projects, both with minimum one year of commercial operations. While the absence of tripartite agreements exposes IDFCs to project related risks, construction risk continues to be mitigated on account of stipulation of a minimum one year of successful operations post COD, required as per regulations.

The company had a total exposure of Rs. 2,683 crore outstanding as on Mar 31, 2017 (as compared to Rs. 1,202 crore as on March 31, 2016), registering a growth of 123% in FY2017. Renewable energy has the highest share of 34% in the portfolio as on March 31, 2017 followed by roads (18%), IT Parks/ SEZs (11%) and healthcare (11%). While the road sector projects are PPP projects with tripartite agreements, the balance exposure (82% of overall book as on March 31, 2017) is to projects without tripartite agreements. ICRA notes that since all exposures are taken after a minimum of one year of successful operations post COD, the credit risk is relatively low as compared with projects under construction, though the company remains exposed to other project related risks associated with such projects. Nevertheless, ICRA draws comfort from the company's strong risk management systems and its cautious stance of fund power projects only in the renewable energy and power transmission space. Also, investments in projects apart from roads help diversify the portfolio. While the maximum exposure that an IDF-NBFC can take on projects with tripartite agreements is capped at 50% of its total capital funds¹, the same is capped at 25% for single party exposure and 40% for group exposure for projects without a tripartite agreement thereby reducing concentration risk to an extent.

As per RBI regulations, IDF-NBFCs can raise resources through the issue of bonds of a minimum five year maturity and also through shorter tenure bonds and commercial papers from the domestic market (limited to 10% of total outstanding borrowings). This has helped the company in maintaining comfortable liquidity position while funding long tenure infrastructure projects.

With incremental business being funded through fresh borrowings, the company's gearing increased to 3.3 times as on March 31, 2017 from 1.4 times as on March 31, 2016. While the current gearing remains low, ICRA expects the gearing to gradually increase with growth in business.

¹ Additional exposure up to 10% could be taken at the discretion of the Board of the IDF-NBFC, and further additional 15% with the approval of the RBI.



The company reported a profit after tax (PAT) of Rs. 70.84 crore in FY2017 on an asset size of Rs. 2,837 crore, thus reporting a return on average assets of 3.33% for FY2017. As in the case of all other IDF's, IDFC IFL's profitability is supported by its lower operating costs (operating expenses in relation to average assets of 0.50% in FY2017) on account of wholesale lending model and income tax exemptions. Going forward, ICRA expects the company's profitability to improve further with an increase in scale of operations, comfortable operating expenses and credit costs supported by its robust systems and processes and the inherently less risky asset class without any construction risk.

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 non-banking finance company structure by IDFC Limited. The equity share capital of Rs. 440 crores is held by IDFC Financial Holding Company Limited (IDFC FHC) which is 100% subsidiary of IDFC Limited. In Mar-16, the company received additional equity of Rs 100 crores from Housing Development Finance Corporation Limited and SBI Life Insurance Company Limited resulting into part dilution of the stake of IDFC FHC to 81.48%.

Table: Key Financials

	<i>Mar-16</i>	<i>Mar-17</i>
Total Assets	1,422	2,837
Advances	1,202	2,683
Equity Capital	540	540
Net Worth	582	652
Total Income*	50	193
Net Profit	37	71
Profit after Tax / ATA	NM^	3.33%
Profit after Tax/Average Net worth	NM^	11.48%
Net Non-Performing Assets (NPA)/Loans (%)	0.00%	0.00%
Capital/Risk Assets (%)	43.05%	28.96%

**Excluding Profit on sale of investments*

^Not meaningful

Source: IDFC IFL and ICRA Research; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:

Table:

Sr. No.	Instrument			Current Rating (FY2018)		Chronology of rating history for the past 3 years		
		Type	Rated amount (Rs. crore)	Outstanding amount (Rs. Crore)	July 2017	FY2017	FY2016	FY2015
						Jun 2016	Feb 2016	Dec 2014
1	Non Convertible Debentures	Long Term	1500*	-	[ICRA]AAA (Stable)	-	-	-
2	Non Convertible Debentures	Long Term	2500	2,202^	[[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Commercial Paper Programme	Short Term	400	-	[ICRA]A1+	[ICRA]A1+	-	-

**Fresh Rating Assigned*

^Balance amount is unutilised

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

Instrument	Date of issuance / sanction	Coupon rate	Maturity date	Rated Amount (Rs. crore)	Current rating and outlook
Non convertible debenture	29-Sep-2015	8.85%	29-Oct-2020	150	[ICRA]AAA (stable)
Non convertible debenture	21-Oct-2015	8.65%	20-Nov-2020	155	[ICRA]AAA (stable)
Non convertible debenture	16-Nov-2015	8.64%	1-Dec-2020	75	[ICRA]AAA (stable)
Non convertible debenture	9-Dec-2015	8.55%	8-Jan-2021	75	[ICRA]AAA (stable)
Non convertible debenture	8-Jan-2016	8.65%	28-Jan-2021	250	[ICRA]AAA (stable)
Non convertible debenture	22-Mar-2016	8.88%	22-Apr-2021	103	[ICRA]AAA (stable)
Non convertible debenture	14-Jul-2016	8.75%	27-Jul-2021	209	[ICRA]AAA (stable)
Non convertible debenture	9-Aug-2016	8.60%	25-Aug-2021	141	[ICRA]AAA (stable)
Non convertible debenture	29-Aug-2016	8.51%	31-Aug-2021	136	[ICRA]AAA (stable)
Non convertible debenture	1-Sep-2016	8.51%	7-Sep-2021	25	[ICRA]AAA (stable)
Non convertible debenture	27-Sep-2016	8.39%	12-Oct-2021	255	[ICRA]AAA (stable)
Non convertible debenture	17-Nov-2016	8.10%	30-Nov-2021	25	[ICRA]AAA (stable)
Non convertible debenture	30-Nov-2016	7.35%	12-Jan-2022	60	[ICRA]AAA (stable)
Non convertible debenture	6-Dec-2016	7.35%	18-Jan-2022	25	[ICRA]AAA (stable)
Non convertible debenture	1-Feb-2017	8.00%	13-Apr-2022	150	[ICRA]AAA (stable)
Non convertible debenture	22-Mar-2017	8.25%	24-May-2022	81	[ICRA]AAA (stable)
Non convertible debenture	19-Apr-2017	8.04%	19-Jul-2022	85	[ICRA]AAA (stable)
Non convertible debenture	26-Apr-2017	8.01%	26-May-2022	101	[ICRA]AAA (stable)
Non convertible debenture	31-May-2017	7.97%	18-Aug-2022	101	[ICRA]AAA (stable)
Non convertible debenture^	-	-	-	1,798	[ICRA]AAA (stable)
Commercial Paper programme	-	-	-	400	[ICRA]A1+

^Yet to be placed

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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.

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