

September 30, 2019

## NIIF Infrastructure Finance Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	-	2,300	[ICRA]AAA(stable); Assigned
Commercial paper programme	600	600	[ICRA]A1+; Reaffirmed
Non-convertible debenture programme	5,700	5,700	[ICRA]AAA(stable); Reaffirmed
<b>Total</b>	<b>6,300</b>	<b>8,600</b>	

\*Instrument details provided in Annexure-1

### Rationale

The ratings reflect the strength of NIIF Infrastructure Finance Limited's (NIIF IFL's) owners, i.e National Investment and Infrastructure Fund ("NIIF", which held 58.89% equity shares in NIIF IFL as on March 31, 2019 through National Investment and Infrastructure Fund II), its relatively stable business profile supported by a tighter regulatory framework necessitating investment only in operational infrastructure projects, experienced management team, good asset quality, adequate capitalisation levels and good profitability indicators. NIIF is an investor-owned fund manager anchored by the Government of India (GoI).

ICRA believes that NIIF IFL will continue to benefit from the relatively tight regulatory framework, 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 promoters or a decline in support from the promoters, or an adverse change in the regulatory framework and/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.

### Key rating drivers

#### Credit strengths

**Strong parentage** - National Investment and Infrastructure Fund Limited (NIIF), an investor-owned fund manager anchored by the Government of India (GoI), through National Investment and Infrastructure Fund II (NIIF II) holds majority shareholding in NIIF IFL. While NIIF currently holds 58.89% equity share in NIIF IFL, the balance is held by IDFC Financial Holding Company Limited (30%) and Housing Development Finance Corporation Limited (11.11%). As per ICRA's understanding, NIIF will also acquire the balance 30% equity shares from IDFC through a wholly owned NBFC, subject to regulatory approvals. Given the strong financial flexibility of NIIF, ICRA expects timely growth capital and liquidity support to NIIF IFL. NIIF IFL also has an experienced senior management team with considerable experience in the infrastructure financing space.

**Business model and regulatory framework supports low credit risk** - The earlier RBI guidelines for infrastructure debt funds (IDFs) necessitated IDF-NBFCs to invest in debt securities of only Public-Private Partnership (PPP) infrastructure projects with a project authority that had completed at least one year of commercial operations. For each exposure, IDF-NBFCs were required to have a tripartite agreement with the concessionaire and the project authority for ensuring a compulsory buyout with termination payment. The revised guidelines issued by RBI in FY2016, however, 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. ICRA notes that the absence of tripartite agreements exposes the IDFs to the risk associated with the project in the event of termination; however, construction and execution risks are mitigated as IDFs can take exposure only after a minimum of one year of successful operations post Commercial Operations Date. ICRA notes that NIIF IFL has till date not witnessed any slippages in its loan portfolio as reflected by Nil Stage 2 and Stage 3 assets during the last three years. Though, given the wholesale nature of the loan book, the portfolio remains vulnerable to lumpy deterioration in asset quality. The company's portfolio stood at Rs. 4,669 crore as on March 31, 2019 (compared to Rs. 4,220 crore as on March 31, 2018). The portfolio is diversified across renewable energy (38%), roads (17%), hospitals (14%), power transmission (12%), IT/SEZs (6%) amongst others (13%).

**Adequate capitalisation profile** – NIIF IFL remains adequately capitalized with a net worth of Rs. 829 crore and a capital to risk weighted assets ratio (CRAR) of 20.9% as against the regulatory requirement of 15% and a gearing of 4.9 times as on March 31, 2019. Although the current capitalisation profile is comfortable, the company would need capital to grow while maintaining prudent capitalisation levels if the rate of growth is significantly higher than pace of internal capital generation. In ICRA's opinion, prudent capitalisation levels is one of the key risk mitigants against the credit risk and concentration risks in the portfolio. Going forward, ICRA expects NIIF IFL to maintain prudent capitalisation levels and believes support from investors to be forthcoming, if required.

**Favourable liquidity profile** - Infrastructure debt funds (IDFs) are allowed to raise resources through the issuance of bonds with minimum five-years' 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. Also, since an IDF-NBFC can invest only in infrastructure projects that have completed at least one year of commercial operations, loan repayments start immediately after disbursement, thus auguring well for the asset liability maturity (ALM) profile. ICRA also derives comfort from the financial flexibility of the company supported by its parentage.

**Profitability supported by tax exemption status enjoyed by IDFs** - The lending spreads for NIIF IFL have remained stable at ~1.5%. Further, due to the wholesale nature of operations, the company's operating expenses remain low at 0.42% of average total assets (0.46% in FY2018). NIIF IFL's profitability is also supported by its low credit costs due to its NIL stage 3 assets as on March 31, 2019. As a result, the company reported a net profit of Rs. 103 crore in FY2019 (Rs. 83 crore in FY2018), translating to a return on asset (RoA) and a return on equity (RoE) of 2.22% and 13.25% (2.29% and 12.07% respectively during FY2018). ICRA notes that subject to compliance of conditions stipulated by Central Board of Direct Taxes (CBDT), an IDF-NBFC's income is exempt from tax, which also supports its profitability. ICRA notes that regulatory changes could have an adverse impact on the profitability of IDF-NBFCs.

## Credit challenges

**Relatively high concentration risk; albeit down from earlier year levels** - Regulations require all Infrastructure Debt Funds (IDFs) to take exposure only in operational infrastructure projects with at least one year of commercial operations, which mitigates the construction and execution risk. However, the inherent nature of business of infrastructure financing means that company is exposed to project risks and the exposures are concentrated and hence the portfolio of NIIF IFL would remain vulnerable to asset quality shocks in case of slippages in few key exposures, which in turn may adversely affect its profitability. The concentration risk is high for NIIF IFL, with its top 10 borrowers accounting for ~33% as on March 31, 2019 of the total portfolio and ~186% of the net worth as on March 31, 2019 as against ~37% and 208%<sup>1</sup> respectively as on March 31, 2018. Going forward, the company's ability to maintain strict underwriting standards while growing the portfolio would be a key monitorable.

## Liquidity: Strong

NIIF IFL, in line with the regulations for IDF-NBFC's, is allowed to raise resources through the issuance of bonds of minimum five years' maturity, in line with the maturity profile of the assets. Shorter-tenure bonds and commercial papers are not allowed beyond 10% of the outstanding debt. Further, since IDF-NBFCs can only invest in infrastructure projects that have completed at least one year of commercial operations, loan repayments also start immediately after disbursement, thereby auguring well for ALM profile. NIIF IFL's ALM profile, as on March 31, 2019, reflected positive cumulative mismatches across buckets upto 1 year. The company expects inflows of ~Rs. 352 crore against total outflows of ~Rs. 160 crore till March 31, 2020. Its liquidity is also supported by cash and liquid investments of ~Rs. 95 crore as on March 31, 2019.

## Rating sensitivities

**Negative triggers** – Negative pressure on NIIF IFL's ratings could emerge on account of increase in leverage on sustained basis and/or weakening of asset quality leading to deterioration in solvency (Net Stage III/ Net Worth >15%) on sustained basis. Any significant change in the regulatory framework leading to increase in portfolio vulnerability and/or change in likelihood of support from the NIIF or deterioration in credit profile of NIIF could warrant a rating revision for NIIF IFL.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	The ratings derive significant strength from NIIF IFL's parentage with 58.89% equity share held by National Investment and Infrastructure Fund Limited (NIIF). With the sovereign ownership of NIIF, which is an investor-owned fund manager anchored by the Government of India (GoI) in collaboration with global and domestic institutional investors, ICRA expects timely growth capital and liquidity support to NIIF IFL, if needed.
Consolidation/Standalone	Standalone

<sup>1</sup> Share of top 10 borrowers as a share of portfolio and net worth as on March 31, 2018 as per I-GAAP.

## About the company

NIIF Infrastructure Finance Limited (NIIF IFL, erstwhile IDFC Infrastructure Finance Limited) is an Infrastructure Debt Fund (IDF) under non-banking finance company structure, set up in March 2014 and operating after receipt of RBI approval on September 22, 2014. It is engaged in the business of providing long term financial assistance for various infrastructure projects.

While NIIF IFL was incorporated as IDFC Infrastructure Finance Limited (IDFC IFL), its name was changed to NIIF IFL post the change in ownership in March 2019. On March 12, 2019, IDFC Financial Holding Company Limited (IDFC FHCL) transferred 51.48% of shareholding to National Investment & Infrastructure Fund II (NIIF Fund II). Further, on March 15, 2019, SBI Life Insurance Company Limited transferred its entire holding to NIIF Fund II. As a result, NIIF Fund II now holds 58.89% shareholding in the company, while IDFC FHCL holds 30% and HDFC Limited continues to hold 11.11% equity share in NIIF IFL.

During FY2019, the company reported a net profit of Rs. 103 crore vis-à-vis Rs. 83 crore reported in FY2018. Its net worth stood at Rs. 829 crore as on March 31, 2019. The company's capital structure is characterized by a gearing of 4.9x with a portfolio size of Rs. 4,666 crore as on March 31, 2019 (5.1x as on March 31, 2018 with a portfolio of Rs. 4,191 crore).

## Key financial indicators (Audited)

Accounting Standard	FY2018 Ind-AS	FY2019 Ind-AS
Net interest income	94	116
Profit before tax	83	103
Profit after tax	83	103
Portfolio	4,220	4,669
Net worth	727	829
Total assets	4,449	4,862
% Tier 1	21.60%	20.42%
% CRAR	22.09%	20.88%
Gearing <sup>2</sup>	5.1	4.9
% Net profit/Average total assets	2.29%	2.22%
% Return on average net worth	12.07%	13.25%
% Gross NPAs	0%	0%
% Net NPAs	0%	0%

Amount in Rs. crore

Source: NIIF IFL, ICRA research

<sup>2</sup> Debt equity ratio

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years:**

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	30-Sep 2019	FY2019		FY2018	FY2017	FY2016
						23-Nov-2018	9-Aug-2018	7-Jul-2017	24-Jun-2016	28-Feb-2016
1	Non-convertible debenture programme	Long Term	2,300.00	NA	[ICRA]AAA (stable)	-	-	-	-	-
2	Non-convertible debenture programme	Long Term	5,700.00	4,424.00	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)
3	Commercial paper programme	Short Term	600.00	-	[ICRA]AAA (stable)	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Source: NIIF 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](http://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	3,576.00 <sup>^</sup>	[ICRA]AAA (stable)
INE246R07012	NCD	29-Sep-15	8.850%	29-Oct-20	150.00	[ICRA]AAA (stable)
INE246R07020	NCD	21-Oct-15	8.650%	20-Nov-20	155.00	[ICRA]AAA (stable)
INE246R07038	NCD	16-Nov-15	8.640%	01-Dec-20	75.00	[ICRA]AAA (stable)
INE246R07046	NCD	09-Dec-15	8.550%	08-Jan-21	75.00	[ICRA]AAA (stable)
INE246R07053	NCD	08-Jan-16	8.650%	28-Jan-21	250.00	[ICRA]AAA (stable)
INE246R07061	NCD	22-Mar-16	8.880%	22-Apr-21	103.00	[ICRA]AAA (stable)
INE246R07079	NCD	14-Jul-16	8.750%	27-Jul-21	209.00	[ICRA]AAA (stable)
INE246R07087	NCD	09-Aug-16	8.600%	25-Aug-21	141.00	[ICRA]AAA (stable)
INE246R07095	NCD	29-Aug-16	8.505%	31-Aug-21	136.00	[ICRA]AAA (stable)
INE246R07103	NCD	01-Sep-16	8.505%	07-Sep-21	25.00	[ICRA]AAA (stable)
INE246R07111	NCD	27-Sep-16	8.385%	12-Oct-21	255.00	[ICRA]AAA (stable)
INE246R07129	NCD	17-Nov-16	8.100%	30-Nov-21	25.00	[ICRA]AAA (stable)
INE246R07137	NCD	30-Nov-16	7.350%	12-Jan-22	60.00	[ICRA]AAA (stable)
INE246R07145	NCD	06-Dec-16	7.350%	18-Jan-22	25.00	[ICRA]AAA (stable)
INE246R07152	NCD	01-Feb-17	8.000%	13-Apr-22	150.00	[ICRA]AAA (stable)
INE246R07160	NCD	22-Mar-17	8.250%	24-May-22	81.00	[ICRA]AAA (stable)
INE246R07178	NCD	19-Apr-17	8.040%	19-Jul-22	85.00	[ICRA]AAA (stable)
INE246R07186	NCD	26-Apr-17	8.010%	26-May-22	101.00	[ICRA]AAA (stable)
INE246R07194	NCD	31-May-17	7.965%	18-Aug-22	101.00	[ICRA]AAA (stable)
INE246R07202	NCD	12-Jul-17	7.935%	11-Aug-22	100.00	[ICRA]AAA (stable)
INE246R07210	NCD	31-Aug-17	7.730%	24-Nov-22	82.00	[ICRA]AAA (stable)
INE246R07228	NCD	19-Sep-17	7.730%	10-Nov-22	340.00	[ICRA]AAA (stable)
INE246R07236	NCD	28-Nov-17	7.990%	28-Nov-24	115.00	[ICRA]AAA (stable)
INE246R07244	NCD	18-Dec-17	8.080%	14-Feb-23	265.00	[ICRA]AAA (stable)
INE246R07251	NCD	06-Feb-18	8.480%	21-Feb-23	50.00	[ICRA]AAA (stable)
INE246R07269	NCD	22-Mar-18	8.490%	22-Aug-23	217.00	[ICRA]AAA (stable)
INE246R07277	NCD	26-Apr-18	8.370%	26-May-23	60.00	[ICRA]AAA (stable)
INE246R07285	NCD	26-Apr-18	8.415%	27-May-25	44.00	[ICRA]AAA (stable)
INE246R07293	NCD	16-May-18	8.520%	15-May-26	26.00	[ICRA]AAA (stable)
INE246R07301	NCD	05-Jul-18	9.210%	27-Aug-24	47.00	[ICRA]AAA (stable)
INE246R07319	NCD	19-Jul-18	9.255%	14-Aug-24	189.00	[ICRA]AAA (stable)
INE246R07327	NCD	12-Oct-18	9.120%	23-Nov-23	12.00	[ICRA]AAA (stable)
INE246R07335	NCD	10-Jan-19	9.050%	22-Feb-22	25.00	[ICRA]AAA (stable)
INE246R07343	NCD	27-Mar-19	8.680%	27-May-20	100.00	[ICRA]AAA (stable)
INE246R07350	NCD	30-Apr-19	9.000%	28-May-24	20.00	[ICRA]AAA (stable)
INE246R07368	NCD	04-Jun-19	9.000%	19-Aug-24	59.00	[ICRA]AAA (stable)
INE246R07376	NCD	20-Jun-19	9.000%	29-Aug-24	81.00	[ICRA]AAA (stable)
INE246R07384	NCD	27-Sep-19	8.600%	07-Nov-24	390.00	[ICRA]AAA (stable)
NA	Commercial Paper	NA	NA	7-365 days	600.00	[ICRA]A1+

Source: NIIF IFL

<sup>^</sup> Yet to be placed

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