

**NBFC-Infrastructure Finance Companies** 

Continued growth momentum and sound asset quality to support earnings profile

August 2023



## **Highlights**

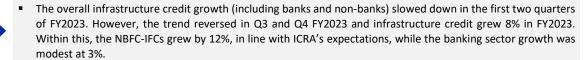


Strong growth prospects, given Gol's focus on infrastructure creation

Pickup in activity in infrastructure sector complementing recovery in balance sheet strength of NBFC-IFCs

Improvement in asset quality indicators and business growth augurs well for profitability trajectory







Consequently, the share of NBFC-IFCs increased to 55% in the total infrastructure credit as on March 31, 2023. ICRA expects NBFC-IFCs to grow by 10-12% in FY2024 with the growth supported by the Government of India's (GoI) thrust on the infrastructure sector.



• The pickup in activity in the infrastructure sector has coincided with the recovery in the balance sheet strength of NBFC-IFCs and the availability of relatively long-term funding at competitive rates. The increase in capital expenditure (capex) on infrastructure by 37% in the Union Budget for FY2023-24 augers well for growth.



■ The asset quality of NBFC-IFCs has improved in the last few years, driven by a few stressed asset resolutions/recoveries, sizeable write-offs, and curtailed incremental slippages. The reported gross stage 3% is expected to moderate further by 10-30 basis points (bps) in FY2024, supported by controlled slippages and growth in the book.



 NBFC-IFCs have demonstrated a healthy profitability trajectory with the decline in the share of nonperforming loans. Their post-tax return on assets (RoA) is expected to be 2.2-2.4% in FY2024, supported by business growth and moderation in credit costs.



The capitalisation and solvency levels of NBFC-IFCs have witnessed a respite only in the recent past. Hence, the ability of these entities to grow in a calibrated manner without significantly reducing the cushion in the capital over the levels prescribed by the regulator will remain imperative.



 Prudent capitalisation is a key mitigant against the risks in NBFC-IFCs' portfolios arising out of sectoral and credit concentration. The availability of long-term funding, matching the underlying asset tenures, is imperative for asset-liability mismatch (ALM) management.



Name	Designation	Email	Contact Number
Karthik Srinivasan	Senior Vice President	karthiks@icraindia.com	+91-22-61143444
A M Karthik	Vice President	a.karthik@icraindia.com	+91-44-4596308
Manushree Saggar	Vice President	manushrees@icraindia.com	+91-124-4545316
Sandeep Sharma	Senior Analyst	sandeep.sharma@icraindia.com	+91-22-61143419
Rajat Kher	Senior Analyst	rajat.kher@icraindia.com	+91-124-4545833

















## **ICRA Business Development/Media Contact Details**

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693377
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector - West & East	vipin.saboo@icraindia.com	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860



















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