



# NBFC-Infrastructure Finance Companies

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Continued growth momentum and  
sound asset quality to support  
earnings profile

August 2023



*Strong growth prospects, given GoI'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*



- The overall infrastructure credit growth (including banks and non-banks) slowed down in the first two quarters of FY2023. However, the trend reversed in Q3 and Q4 FY2023 and infrastructure credit grew 8% in FY2023. Within this, the NBFC-IFCs grew by 12%, in line with ICRA's expectations, while the banking sector growth was modest at 3%.

- 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 augurs 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 non-performing 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.



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