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NBFC-Infrastructure Finance Companies

Steady growth momentum and earnings profile supported by sound asset quality

March 2024

Highlights

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Steady growth prospects, given GoI's focus on infrastructure creation

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

Stable asset quality indicators and business growth augurs well for profitability trajectory

- The overall infrastructure credit growth (including banks and NBFCs) witnessed an uptick from Q3 FY2023, increasing by 8% in FY2023 and 9% (annualised) in 9M FY2024. Within this, NBFC-IFCs expanded by 11% (annualised) in 9M FY2024 while the banking sector's growth was modest at 5%.
- Consequently, the share of NBFC-IFCs increased to 55% of the total infrastructure credit as on December 31, 2023. ICRA expects NBFC-IFCs to grow by 10-12% in FY2025, supported by the GoI's thrust on the infrastructure sector.
- Healthy 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 to Rs. 11.1 lakh crore in the Interim Budget for FY2024-25, up 11% from the previous fiscal, augers well for growth.
- The reported gross stage 3% of NBFC-IFCs moderated to 2.2% as on December 31, 2023 from 2.5% as of March 31, 2023, driven by limited slippages and a few stressed asset resolutions/recoveries and write-offs. The reported asset quality indicators could improve by another 10-20 basis points (bps) in FY2025, supported by controlled slippages and growth in the loan book.
- NBFC-IFCs have demonstrated a healthy profitability trajectory with the decline in the share of non-performing loans. Their post-tax return on managed assets (RoMA) is expected to be 2.1-2.3% in FY2025, supported by business growth and moderation in credit costs; notwithstanding some margin pressures.
- The capitalisation and solvency levels of IFCs are currently comfortable. Prudent capitalisation is a key mitigant against the risks in NBFC-IFCs' portfolios arising out of sectoral and credit concentration.
- Asset-liability maturity (ALM) profiles have improved as reliance on short-term borrowings reduced and longer-tenor borrowings were raised in the recent past.

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Thank You!