

March 21, 2024

## National Bank for Financing Infrastructure and Development: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term borrowing programme FY2024	30,000.00	30,000.00	[ICRA]AAA (Stable); reaffirmed
<b>Total</b>	<b>30,000.00</b>	<b>30,000.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating reaffirmation factors in National Bank for Financing Infrastructure and Development's (NABFID) strategic role as one of the principal entities for extending infrastructure financing in the country as well as its sovereign ownership, with the Government of India (GoI) holding a 100% stake as on December 31, 2023. NABFID was set up under an Act of Parliament in 2021, and the GoI had adequately capitalised the bank with an upfront capital infusion of Rs. 20,000 crore in addition to providing a grant of Rs. 5,000 crore to support its competitiveness. Further, concessional rates of GoI guarantees for select borrowings as well as an income tax holiday for 10 years demonstrate the GoI's intent to support the bank in meeting its stated objectives. NABFID is expected to continue to receive support in the form of capital when needed, although this will is not expected in the initial few years of operations.

After being established in FY2022, NABFID's scale of operations is picking up pace gradually with cumulative sanctions and disbursements of ~Rs. 71,000 crore and ~Rs. 21,500 crore, respectively, till January 2024. The loan book is expected to reach ~Rs. 40,000 crore by March 2024 and is likely to pick up further due to the existing sanctions. Given the capital infusion, the bank remains well capitalised and geared for expanding its scale in the near to medium term, which could lead to a gradual increase in the leverage<sup>1</sup>, which stood at 0.7 times as on December 31, 2023.

Given the early stage of operations, the profitability indicators do not truly reflect the business metrics. Going forward, NABFID's ability to grow its loan book profitably while maintaining prudent capitalisation levels and underwriting standards, and hence asset quality indicators, would be the key monitorable. ICRA also expects the bank to ensure the mobilisation of resources in line with the maturity profile of its assets and at competitive rates (as shown in past issuances), thereby supporting its asset-liability maturity (ALM) profile.

ICRA expects that NABFID will benefit from its role of a dedicated and specialised financial institution for the development of the Indian infrastructure sector and will keep benefitting from its sovereign ownership, driving the Stable outlook on the long-term rating.

### Key rating drivers and their description

#### Credit strengths

**Sovereign ownership and strategic importance to GoI for development of infrastructure sector** – NABFID was set up as an All India Financial Institution (AIFI) in 2022 under the NABFID Act, 2021, as the principal entity for infrastructure financing in the country. Apart from NABFID, there are four AIFIs created through various Acts with specific developmental objectives in

<sup>1</sup> Total debt/Net worth (includes grants)

areas of significant economic importance to the Gol. Hence, in ICRA's opinion, NABFID's establishment as an AIFI reflects its importance to the Gol and the role it is expected to play in infrastructure financing in the country.

While the Act has enabling provisions for dilution in the Gol's stake to 26% of the share capital, ICRA expects the Gol to maintain a majority and controlling stake in the long term, considering the objective and strategic importance of the entity. In addition to approving/appointing the Chairman of the board, the Gol is represented by way of two nominee directors. The bank has been adequately endowed with initial capital of Rs. 20,000 crore in addition to a grant of Rs. 5,000 crore to improve the competitiveness of its cost of funds. As per the Act, NABFID can avail concessional guarantees from the Gol for its overseas borrowings at a cost of up to 0.1% along with a facility for the reimbursement of the hedging costs for such borrowings. Additionally, exemption from income tax for the initial 10 years of operations has been provided by way of notification under Section 10 (48D) of the Income-tax Act. These provisions are expected to allow the bank to remain competitive as well as support projects where higher lending rates may make them unviable, thereby supporting its mandate.

**Strong capitalisation profile** – Given the sizeable initial share capital and the interest-free grant of Rs. 5,000 crore, NABFID is well capitalised and geared for pursuing growth in the near to medium term. As per the Act, the Gol may continue providing support to NABFID through grants or contributions in the future, as and when necessary, which is likely to aid its capitalisation as well as resource profile. While the initial funding for projects was largely met by NABFID's own corpus, it raised money through a couple of issuances in FY2024, leading to a marginal increase in the leverage ratio, which stood at 0.7 times as on December 31, 2023. Besides the overall growth, the loan mix will also determine the pace of capital consumption in the coming years. However, if internal capital generation does not keep pace with growth, ICRA expects the Gol to continue supporting the bank whenever required, although this is not expected in the next few years.

### Credit challenges

**Early stage of operations; evolving asset quality and profitability metrics** – NABFID's ability to fulfil its primary objective, i.e. to meet the financing needs of the infrastructure sector in a meaningful way, will depend on its ability to scale up over the coming years. Given the nascent stage of operations, the loan book remains modest. However, the growth has been multi-fold and the net advances stood at Rs. 20,128 crore as on December 31, 2023. It is expected to disburse more than Rs. 40,000 crore by FY2024 and will continue to witness high growth over the next 3-4 years. As the lending spreads are likely to remain relatively thin, the ability to keep the credit cost at a lower levels will be essential for generating sufficient internal growth capital. Further, given the long-term tenors associated with infrastructure lending, asset quality issues could crop up in the future and NABFID's ability to ensure effective and robust credit appraisal and monitoring processes will be a key factor for supporting and maintaining strong asset quality levels. Besides this, credit exposures are expected to remain concentrated and large (top 20 exposures stood at 98% of total current outstanding exposure) in relation to the bank's capital and the potential impact of the slippage of a single exposure on the headline metrics and solvency levels could be high. Over the long term, NABFID's ability to grow its portfolio profitably while maintaining control over credit underwriting would remain the key rating factor.

**Resource raising at competitive rates to be key for profitability** – Given the nascent stage of operations, NABFID remains well capitalised and it funded initial projects/exposures through its initial corpus and a couple of debt issuances. However, the bank will build its resource base through borrowings to fund incremental exposures in the coming years. Although NABFID is expected to remain well placed in terms of its capital structure to support growth in the initial few years, its ability to raise resources (bonds, bank borrowings or overseas borrowings from multilateral agencies) at competitive costs will remain key for profitability. It has raised two series of long-term bonds at a competitive credit spread of 15-20 basis points (bps) over a similar government security, which shall help it maintain its competitive funding profile while matching the tenor of its assets and liabilities. Resource mobilisation at competitive rates will be critical for financing infrastructure projects, especially operational projects, at rates comparable to those offered by other lenders.

Additionally, the Gol's support in terms of an interest-free grant of Rs. 5,000 crore, concessional fees for Gol guarantees for overseas/borrowings from multilateral agencies, reimbursement of hedging costs as well as an income tax holiday for 10 years

will help maintain a competitive funding profile. Moreover, NABFID's strategic importance to the GoI is expected to support resource mobilisation at competitive rates in the coming years.

## Liquidity position: Superior

NABFID's current liquidity profile is superior given its robust capital base, low leverage and the positive cumulative gaps in all the maturity buckets as per its structural liquidity statement as of December 31, 2023. However, as it scales up further, its ability to maintain sufficient on-balance sheet liquidity as well as a well-matched asset-liability profile will be a key driver of its liquidity position. Upon the implementation of the Basel III framework on AIFIs, NABFID will be required to comply with the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements.

## Rating sensitivities

**Positive factors** – NA

**Negative factors** – ICRA could assign a Negative outlook or downgrade the rating in case of a dilution in NABFID's strategic role and importance to the GoI.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">ICRA's Rating Methodology for Banks and Financial Institutions</a> <a href="#">Impact of Parent or Group Support on Issuer's Credit Rating</a>
Parent/Group support	The rating factors in NABFID's sovereign ownership and its role as a public policy institution for the development of India's infrastructure sector. ICRA expects the bank to receive sufficient capital support from the GoI, if required.
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of NABFID.

## About the company

National Bank for Financing Infrastructure and Development (NABFID) was set up by way of the NABFID Act, 2021 passed by the Parliament on March 28, 2021 as the principal entity for infrastructure financing in the country. NABFID has been primarily established to support the development of long-term infrastructure financing in India, including the development of the bonds and derivatives markets necessary for infrastructure financing. NABFID will be regulated and supervised as an All India Financial Institution (AIFI) by the Reserve Bank of India (RBI), making it the fifth sector-specific AIFI in the country.

It reported a net profit of Rs. 1,415 crore in 9M FY2024 against Rs. 1,046 crore in FY2023. Its net worth stood at Rs. 28,169 crore as on December 31, 2023 against Rs. 26,461 crore as on March 31, 2023. As a considerable part of the capital is parked in deposit accounts, the bank's income is sizeable from the interest earned on such investments.

## Key financial indicators (standalone)

NABFID	FY2022	FY2023	9M FY2023	9M FY2024
Total income*	123	1,124	774	1,517
Profit after tax	120	1,046	753	1,415
Total assets (Rs. lakh crore)	25,122	27,315	26,076	48,416
CET I	NA	423.56%	NA	191.14%
CRAR	NA	423.56%	NA	191.14%
PAT/ATA	0.95%	3.99%	3.85%^	4.98%^
Gross NPAs	Nil	Nil	Nil	Nil
Net NPAs	Nil	Nil	Nil	Nil

Source: NABFID, ICRA Research; Amount in Rs. crore unless mentioned otherwise; All ratios as per ICRA's calculations

^Annualised; \*Total income = Net interest income + Non-interest income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated	Amount outstanding	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
		(Rs. crore)	(Rs. crore)	Mar 21, 2024	Mar 24, 2023		
1 LT borrowing programme FY2024	Long term	30,000	19,516 <sup>^</sup>	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-

Source: ICRA Research; LT: Long term; <sup>^</sup>Yet to be placed

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures	Simple
Long-term bank facilities	Simple
Long-term borrowing programme	Simple*

\*Subject to instrument being issued/raised

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance/Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE0KUG08019	Non-convertible debentures	June 16, 2023	7.43%	June 16, 2033	10,000.00	[ICRA]AAA (Stable)
INE0KUG08027	Non-convertible debentures	December 22, 2023	7.65%	December 22, 2038	9,516.00	[ICRA]AAA (Stable)
NA	LT – Bank facilities <sup>^</sup>	NA	NA	NA	9,000.00	[ICRA]AAA (Stable)
NA	LT borrowing programme FY2024	NA	NA	NA	1,484.00*	[ICRA]AAA (Stable)

Source: ICRA Research; <sup>^</sup> Includes fund based and non-fund based facilities; \*Unallocated; LT – Long term

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis – Not applicable**

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