

September 04, 2020

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	0	4,000	[ICRA]AAA(stable); assigned
Non-convertible debenture programme	8,000	8,000	[ICRA]AAA(stable); reaffirmed
Commercial paper programme	600	600	[ICRA]A1+; reaffirmed
Total	8,600	12,600	

*Instrument details provided in Annexure-1

Rationale

The ratings reflect the strength of NIIF Infrastructure Finance Limited's (NIIF IFL) investors i.e. National Investment and Infrastructure Fund II (NIIF II; Strategic Opportunities Fund) acting through its investment manager National Investment and Infrastructure Limited (NIIFL), which held 60.51% equity shares in NIIF IFL through National Investment and Infrastructure Fund II (NIIF II) and 30.82% through Aseem Infrastructure Finance Limited (AIFL; a wholly owned subsidiary of NIIF) as on June 30, 2020, its relatively stable business profile supported by a tighter regulatory framework necessitating investment only in operational infrastructure projects, experienced management team, good asset quality indicators, adequate capitalisation levels and good profitability indicators. NIIF is an investor-owned fund manager anchored by the Government of India (GoI) and currently manages 3 funds under it. ICRA draws comfort from the company's prudent underwriting and risk management systems which has helped the company in creating a diversified portfolio and expects NIIF IFL to continue to report good asset quality indicators while growing business volumes. Going forward, the company's ability to grow its loan book while maintaining prudent capitalisation levels and underwriting standards and hence asset quality indicators would be the key monitorables.

Key rating drivers and their description

Credit strengths

Strong parentage – National Investment and Infrastructure Fund II holds majority shareholding in NIIF IFL. While NIIF currently holds 60.51% equity share in NIIF IFL, the balance is held by Aseem Infrastructure Finance Limited (30.82%) and Housing Development Finance Corporation Limited (8.67%). Given the strong financial flexibility and quasi sovereign ownership of NIIF, ICRA expects timely growth capital and liquidity support for NIIF IFL. NIIF IFL also has an experienced senior management team with considerable experience in the infrastructure financing space.

Regulatory framework necessitates lending to operational projects supporting overall business 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 till date did not witness any slippages in its loan portfolio as reflected by Nil Stage 2 and Stage 3 assets during the last three years. Nevertheless, 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. 6,389 crore as on March 31, 2020 (compared with Rs. 4,685 crore as on March 31, 2019). The portfolio is diversified across renewable energy (53%), roads (12%), hospitals (12%), power transmission (10%), amongst others (13%).

Adequate capitalisation profile – NIIF IFL remains adequately capitalized with a net worth of Rs. 833 crore, gearing of 7 times and a capital to risk weighted assets ratio (CRAR) of 19.6% as on March 31, 2020 as against the regulatory requirement of 15%. Further, NIIF and AIFL infused equity of Rs. 250 crore in NIIF IFL in May 2020, to support the portfolio growth over the short to medium term. 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, as and when required.

Profitability supported by tax exemption status enjoyed by IDFs – The interest spreads for NIIF IFL have remained stable at ~1.3-1.5% with marginal downward bias over the past 3 years. At the same time, due to the wholesale nature of operations, the company's operating expenses remain low at 0.39% of average total assets (0.42% in FY2019), supporting the profitability profile. NIIF IFL's profitability is also supported by its low credit costs due to its Nil stage 3 assets as on March 31, 2020. However, the tax liability from FY2014-15 till FY2018-19, amounting to Rs. 108.01 crore was provided and paid for in FY2020. Consequently, the company reported a lower net profit of Rs. 4.5 crore in FY2020 as compared to Rs. 103.1 crore in FY2019. Excluding the impact of the tax liability, PBT/Average total assets and PBT/Average net worth in FY2020 stood at 1.94% and 13.54% as compared to 2.22% and 13.25% in FY2019. 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 – Regulations require all Infrastructure Debt Funds (IDFs) to take exposure only in operational 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 ~31% as on March

31, 2020 of the total portfolio and ~241% of the net worth as on March 31, 2020 as against 33% and 186% respectively as on March 31, 2019. Going forward, the company's ability to maintain strict underwriting standards while growing the portfolio would be a key monitorable. Further, given the current economic disruption due to the Covid-19 related lockdown, there could be increased stress on the asset quality as the cash flows of the underlying exposures have been impacted. While the recent announcements by the Reserve Bank of India (RBI), allowing the lenders to provide a repayment moratorium to their borrowers without impacting the loan asset classification, provide temporary relief to the lenders in terms of their asset quality, the company's ability to control slippages would have a strong bearing on its overall financial profile and would be a key monitorable. As on August 20, 2020, 17% of the portfolio is under moratorium.

Liquidity position: 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 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 June 30, 2020, reflected positive cumulative mismatches across buckets upto 1 year. The company expects inflows of ~Rs. 1,620 crore (inclusive of cash and liquid investments) against total outflows of ~Rs. 1,083 crore till June 30, 2021.

Rating sensitivities

Positive triggers – Not applicable

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

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	National Investment and Infrastructure Fund II acting through its investment manager National Investment and Infrastructure Limited (NIIFL) holds majority shareholding in NIIF IFL. While NIIF currently holds 60.51% equity share in NIIF IFL, the balance is held by Aseem Infrastructure Finance Limited (AIFL; 30.82%) and Housing Development Finance Corporation Limited (8.67%). Given the strong financial flexibility and quasi sovereign ownership of NIIF, ICRA expects timely growth capital and liquidity support for NIIF IFL.
Consolidation/Standalone	Standalone

About the company

NIIF Infrastructure Finance Limited (NIIF IFL; erstwhile IDFC Infrastructure Finance Limited ((IDFC IFL)) is an infrastructure debt fund (IDF) under the non-banking finance company (NBFC) structure, set up in March 2014 and operating after the receipt of RBI approval on September 22, 2014. It provides 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 in IDFC IFL to National Investment & Infrastructure Fund II (NIIF Fund II). Further, on March 15, 2019, SBI Life Insurance Company Limited transferred its entire holding in IDFC IFL to NIIF Fund II. On March 30, 2020, NIIF IFL announced that Aseem Infrastructure Finance Limited an NBFC Infrastructure Company (NBFC-IFC) has acquired 30% equity stake of NIIF IFL from IDFC FHCL, upon consummation of the 2nd tranche of the transaction in terms of the Share Purchase Agreement entered between IDFC Financial Holding Company Limited ("IDFC FHCL"), IDFC Limited and National Investment and Infrastructure Fund II ("NIIF Fund II") on March 12, 2019. Definitive agreement to acquire controlling stake in erstwhile NIIF IFL was signed on October 31, 2018. Pursuant to the acquisition of 30% stake by Aseem Infrastructure Finance Limited ("AIFL"), the sponsor of NIIF IFL also changed from IDFC FHCL to Aseem Infrastructure Finance Limited. Further, on May 28, 2020, NIIF Infrastructure Finance Limited announced allotment of equity shares for Rs. 250 crore on rights basis to NIIF Fund II and Aseem Infrastructure Finance Limited. As a result, NIIF Fund II now holds 60.51% shareholding in the company, while AIFL holds 30.82% and HDFC Limited holds 8.67% equity share in NIIF IFL.

During FY2020, the company reported a net profit of ~Rs. 5 crore vis-à-vis ~Rs. 103 crore reported in FY2019. Its net worth stood at Rs. 833 crore as on March 31, 2020. The company's capital structure is characterized by a gearing of 7.0x with a portfolio size of Rs. 6,389 crore as on March 31, 2019 (4.9x as on March 31, 2018 with a portfolio of Rs. 4,699 crore).

Key financial indicators (audited)

Accounting Standard	FY2018 Ind-AS	FY2019 Ind-AS	FY2020 Ind-AS
Net interest income	94	116	132
Profit before tax (PBT)	83	103	113
Profit (loss) after tax (PAT)	83	103	5
Portfolio (Net of provisioning)	4,191	4,666	6,364
Net worth	727	829	833
Total assets	4,449	4,862	6,715
% Tier 1	21.6%	20.4%	19.0%
% CRAR	22.1%	20.9%	19.6%
Gearing ¹	5.1	4.9	7.0
PBT / Average total assets	2.3%	2.2%	1.9%
PAT/Average total assets	2.3%	2.2%	0.1%
PBT/ Average net worth	12.1%	13.3%	13.5%
PAT/ average net worth	12.1%	13.3%	0.5%
% Gross NPAs	0%	0%	0%
% Net NPAs	0%	0%	0%

Amount in Rs. crore

Source: NIIF IFL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

¹ Debt equity ratio

Rating history for last three years

	Instrument	FY2021				Chronology of Rating History for the Past 3 Years						
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Current ratings	Previous ratings	FY2020		FY2019		FY2018	
					04-Sep-20	7-Apr-20	29-Nov-19	30-Sep-19	23-Nov-18	9-Aug-18	7-Jul-17	
1	Non-convertible debenture programme	Long Term	4,000.00	0.00	[ICRA]AAA (stable); assigned							
1	Non-convertible debenture programme	Long Term	8,000.00	6,449.00	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)
2	Commercial paper programme	Short Term	600.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[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

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	NCD	NA	NA	NA	5,551.00^	[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)
INE246R07392	NCD	23-Dec-19	8.65%	21-Feb-25	500	[ICRA]AAA (stable)
INE246R07400	NCD	15-Jan-20	8.70%	15-Jan-30	500	[ICRA]AAA (stable)
INE246R07418	NCD	4-Mar-20	8.15%	15-Jan-24	150	[ICRA]AAA (stable)
INE246R07426	NCD	23-Apr-20	8.25%	21-May-25	500	[ICRA]AAA (stable)
INE246R07434	NCD	1-Jun-20	7.50%	2-Jun-25	250	[ICRA]AAA (stable)

INE246R07442	NCD	12-Jun-20	7.50%	12-Aug-25	125	[ICRA]AAA (stable)
NA	CP	NA	NA	7-365 days	600.00	[ICRA]A1+

Source: NIIF IFL; ^ Yet to be placed

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