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INFRASTRUCTURE FINANCE NON-BANK COMPANIES

Earnings profile improves, driven by better asset quality; Government focus on infrastructure spend augurs well for growth

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Highlights

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- The growth in infrastructure credit in FY2023 is likely to be higher at 9-11% as compared to 8% in the previous year owing to good growth prospects. Demand is expected to gather pace amid the Government of India's (GoI) resolve to focus on the infrastructure sector to revive economic growth.
- The Union Budget FY2023 has prioritised capital formation. With an eye on job creation, the Government has focused on GatiShakti projects that would be driven by investments in core economic sectoral engines - roads, railways, airports, ports, mass transport, waterways and logistics. Moreover, the financial assistance to states towards capital expenditure (capex) will support order activity from the state governments.
- The pick-up in activity in the infrastructure sector will coincide with the recovery in the balance sheet strength of NBFC-IFCs and the availability of relatively long-term funding at competitive rates.
- IFCs, especially Public-IFCs, have demonstrated a healthy profitability trajectory with the decline in the share of non-performing loans and in the cost of borrowings. This is driving healthy internal capital generation and supporting the capitalisation level. As a result, the capitalisation level remains adequate with a downward bias in the gearing level in recent years, which places the industry well for medium-term growth.
- Nonetheless, the capitalisation and solvency levels of 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 IFCs' portfolios arising out of sectoral and credit concentration.
- The asset-liability maturity profiles have improved as reliance on short-term borrowings has reduced and longer-tenor borrowings have been raised in the recent past amid favourable systemic rate movements.
- Given the intense competition from Public-IFCs and banks, ICRA expects the profitability of Private-IFCs to remain lower compared to their public sector peers and IDFs, until these entities can continue to ramp up the loan book and benefit from operating efficiency arising from economies of scale while maintaining control over credit underwriting.

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Thank You!