



# NBFC-Infrastructure Finance Companies

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**Entities well poised for growth;  
industry outlook revised to Positive**

**March 2023**



*Growth prospects strong amid Government's resolve to focus on infrastructure sector*

*Pickup in activity in infrastructure sector to coincide with recovery in balance sheet strength of NBFC-IFCs*

*Improvement in asset quality indicators and business growth augurs well for profitability trajectory*

***Industry outlook revised to 'Positive' from 'Stable'***



- The overall infrastructure credit growth (including both banks and non-banks) slowed down in FY2022 and in the first two quarters of FY2023. The trend, however, reversed in Q3 FY2023 and infrastructure credit registered an annualised growth of 8% in 9M FY2023.



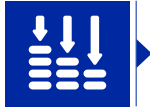
- Within the sector, NBFC-IFCs witnessed a significant slowdown in Q1 FY2023 and Q2 FY2023, before the growth picked up in Q3 FY2023, with this segment registering an annualised growth of 8% in 9M FY2023.



- ICRA expects NBFC-IFCs to grow by 9-11% in FY2023 and 10-12% in FY2024 with the growth supported by the GoI's thrust on the infrastructure sector to revive economic growth.



- The asset quality of NBFC-IFCs has improved in the last few years, led by a few stressed assets 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. The post-tax RoA of NBFC-IFCs is expected to be around 2.0-2.2% in FY2023 and 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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