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ICRA reaffirms highest credit quality ratings to various debt instruments of Infrastructure Development Finance Company Limited

ICRA has retained the LAAA rating (pronounced LAAA) with stable outlook to the Rs. 228 billion Long-Term Debt Programme of Infrastructure Development Finance Company Limited (IDFC). The rating indicates highest credit quality and the rated entity carries the lowest credit risk. ICRA has also retained the A1+ (pronounced A one plus) rating to the Rs. 30 billion Short-Term Debt Programme, including Commercial Paper, of IDFC, indicating highest credit quality. Instruments rated in this category carry the lowest credit risk in the short term. The ratings factor in the strength of IDFC's promoter institutions, adequate capitalization, comfortable liquidity position, sound asset quality, increasing focus on fee income generating avenues and strong focus on risk management systems. While the ratings also take into account the risks inherent in the infrastructure lending business, the demonstrated track record, cautious approach of the IDFC management and adequate capitalization levels provides comfort.

IDFC offers a wide bouquet of product offerings such as project finance, investment banking, asset management and advisory services thereby placing it on a strong position in the Infrastructure funding space, while diversifying the revenue streams. The focus area for IDFC continues to be power and transportation followed by telecom and commercial & industrial infrastructure.

IDFC's asset base grew marginally to Rs. 297 billion as on Mar-09 from Rs. 286 billion as on Mar-08 with top outstanding disbursements to sectors such as Power (36%), Transportation (25%), Telecommunications & IT (14%) and Industrial and Commercial (13%). IDFC continues have a concentration among exposures with the top 20 largest single borrowers accounting for 36% of the total exposures as on March 31, 2009 (33% as on March 31, 2008). Despite these high sector specific risks, we believe that IDFC's risk management systems, project appraisal & structuring capabilities and diversity of projects in these sectors partly mitigate these risks. ICRA also draws comfort from the fact that a large part of the project exposures for IDFC have started generating cash flows and project execution risk is limited. With sentiments improving and a strong loan pipeline, ICRA expects the loan book to pick up during the second half of FY09-10.

Due to an improvement in Net Interest Margins, IDFC's (consolidated) net interest income grew by 28% in FY08-09. The operating profits grew by 16% to Rs. 8.66 billion during the same period as the rise in non interest income was partly negated by the rise in operating expenses. IDFC's net profits was stable at Rs 7.49 billion as the company made additional Rs 1 billion provision for contingencies. The return on average assets at 2.57% in FY08-09 (3.16% in FY07-08) continues to remain strong. But for the additional provisions, the reported financial indictors would have been better. During the quarter ended June 30, 2009, IDFC reported net profits of Rs. 2.72 billion on a total income of Rs. 9.94 billion as against net profits of Rs. 2.17 billion on a total income of Rs.8.71 billion in the corresponding period last year.

IDFC's asset quality remains comfortable, with the company continuing to report Gross Non-Performing Assets (NPAs) of 0.4% and Net NPAs at 0.2% as on March 31, 2009. As per the management, there have been limited restructuring of its loan book. Aided by the further standard asset provisioning done in FY08-09, IDFC with a cumulative provision of Rs 3.71 billion (1.8% of its loan book) has adequate cushion to mange any asset quality issues over the short term.

ICRA believes that at a capital adequacy of 23.75% (Tier I: 20.04%) as of March 2009, IDFC currently maintains sufficient capital in relation to the underlying quality of its assets and scale of operations. IDFC's capitalisation level is also supported by the long term funds of Rs 6.50 billion (maturing in 2047) from the Government of India, which qualify as Tier II debt capital. While IDFC's management had indicated increasing its capital in 2008-09, ICRA has noted that the same has been deferred as the company had tempered its asset growth plans. With a significant proportion of capital being in form of Tier I capital, IDFC has substantial head room to raise additional debt capital to meet regulatory capital adequacy requirements. ICRA believes that IDFC has the ability to raise adequate capital to meet its business growth objectives. ICRA has also noted IDFC's business model to maintain a good mix of on balance sheet assets and assets under management which provides the entity with stable source of fee income while keeping the capital requirements moderate. IDFC's liquidity profile also remains comfortable, given that the company has high liquid investments and well matched duration of assets and liabilities.

Company Profile

IDFC with its corporate office in Mumbai has been set up by the Government of India as a key institution to facilitate infrastructure development in the country. The other leading shareholders of IDFC include leading foreign financial institutions involved in infrastructure development world-wide. The focus areas for IDFC continue to be the power, telecom, Industrial & Commercial and transportation sectors, although the company is also targeting the healthcare, education and urban infrastructure sectors. IDFC also works with State and national-level entities to formulate policies aimed at expediting infrastructure development in the country. IDFC had an asset base of nearly Rs 297.07 billion as on March 31, 2009. On a consolidated basis, IDFC reported net profits of Rs. 7.49 billion on a total income of Rs. 15.55 billion in FY09 on the back of higher business volumes and strong profits on sale of investments as compared with Rs. 7.42 billion and Rs. 13.24 billion respectively during FY08. IDFC reported strong Q1FY09 results, with net profits of Rs. 2.72 billion on a total income of Rs. 9.95 billion as against net profits of Rs. 2.17 billion on a total income of Rs. 8.71 billion for Q1FY09 due to reversal of investment provision to the tune of Rs. 0.24 billion and inclusion of income from asset management company of Rs. 0.72 billion (Rs. 0.18 billion in Q1FY09).

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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