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Infra finance NBFCs to grow 10-12% in FY24, ICRA revises outlook to positive

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Infrastructure finance NBFCs are expected to grow 10-12 per cent in FY24 supported by continued government thrust on the sector to revive economic activity.

The government has set an infrastructure investment target of over ₹111-lakh crore under the National Infrastructure Pipeline (NIP) and the pace of investment is targetted to be doubled.

"ICRA has revised the industry outlook for NBFC-IFCs (Infrastructure Finance Companies) to 'positive' from 'stable', reflecting its expectation that the enhanced performance witnessed in FY23 will continue in FY24 as well, given the improvement in the solvency profile, calibrated loan book growth in the near term and better asset quality and earnings profile," Manushree Saggar, Vice-President and Sector Head–Financial Sector Ratings said.

AMBITIOUS GOAL. Centre has set an infra investment target of ₹111-lakh crore under the National Infrastructure Pipleline

Overall infrastructure credit, including banks and NBFCs, saw annualised growth of 8 per cent in the the first nine months of the financial year ending March 2023 (9MFY23), aided by a sharp pickup in Q3FY23 and bucking the trend of the previous 18 months. NBFC-IFCs too grew in line, maintaining their market share at around 54 per cent as on December 2022, ICRA said in a note.

ASSET MANAGEMENT

"The increased demand has coincided with the period during which NBFC-IFCs witnessed receding asset quality pressure, led by a few stressed asset resolutions/recoveries, sizeable write-offs, and curtailed incremental slippages," it said.

As a result, the gross stage 3 assets ratio eased to 3.4 per cent in March 2022 from the peak of 6.8 per cent in March 2018. The ratio is further expected to moderate by 10-30 bps in FY24, supported by limited slippages and growth in the book.

While the capitalisation and solvency levels of NBFC-IFCs have improved, the ability of these entities to grow in a calibrated manner without significantly reducing the capital cushion will remain imperative, it said, adding that availability of long-term funding will also remain crucial for asset liability maturity (ALM) management.