

Press Release

West Bengal Infrastructure Development Finance Corporation (WBIDFC)

July 24, 2018



Rating Assigned

Total Bank Facilities Rated	Rs. 2900.00 Cr.
Long Term Rating	ACUITE A/Outlook: Stable

Rating Rationale

Acuité has assigned a long term rating of '**ACUITE A**' (read as **ACUITE A**) to the Rs. 2900.00 Cr. bank facilities of **West Bengal Infrastructure Development Finance Corporation (WBIDFC)**. The outlook is '**Stable**'.

About the company

WBIDFC, wholly owned by the Government of West Bengal (GoWB), started its operations in 1997 to finance infrastructure projects across West Bengal. It has engaged in mobilizing funds from debt market or banks and on lending for infrastructure development as well as working capital requirements for various state level enterprises, joint sector and private sector companies. Since inception, WBIDFC has made cumulative disbursements of Rs. 30,000 Cr.

Key rating drivers

Strengths

Strong support from the Government of West Bengal

WBIDFC is wholly owned by the GoWB and has received regular support from the State Government since inception. GoWB has been requested to infuse Rs. 40.00 Cr of fresh capital in the current financial year, thus strengthening the company's capitalisation. Also, the company benefits from the name sharing with the state and therefore any default by WBIDFC will have a bearing on the soundness of the State Government. GoWB had also extended guarantees for the past bond issuances and part of the bank loan facilities of the company. Given the linkages with the WB Government and its role in facilitating funding for several state enterprises as well as companies that play an important role in the state economy, Acuité believes that WBIDFC will continue to receive need based support in future as well.

West Bengal has been one of the fastest growing states in India with gross state domestic product growing at 11.5% in 2017-18 (advanced estimates). While the state's revenue deficit continues to be relatively high at 1.11% (revised estimates), its fiscal deficit was at than 3% in 2017-18 (revised estimates). The GoWB has significantly increased its focus on increasing industrial development in the state. It is also focusing on asset creation towards infrastructure and social sectors. The state is ranked tenth in ease of doing business ranking for Indian States by Department of Industrial Policy & Promotion, Government of India. However, the state's overall borrowing level continues to remain high and is a challenge to its overall fiscal profile.

Acuité believes that WBIDFC will continue to benefit from the strong support from GoWB on an ongoing basis over the medium term.

Healthy Capitalisation

WBIDFC has a healthy capitalisation, marked by a net worth and CRAR of Rs.998.98 Cr and 50.12%, respectively, as on 31st March, 2018 as against Rs.963.69 Cr. and 59.26% as on 31st March, 2017. Total debt of the company, Rs.1640.09 Cr. as on 31March, 2018, mainly consisted of bonds of Rs.1000.00 Cr (Guaranteed by the Government of West Bengal) and short term borrowing of Rs. 590.09 Cr in the form of bank overdraft facility. The company has a comfortable debt-equity ratio of 1.64 times as on 31st March, 2018 as against 2.41 times as on 31st March, 2017. The State Government has been requested to infuse Rs. 40.00 crores in FY 2018-19 and additional amounts in the subsequent years, which will further strengthen capitalisation. The company owns a sizeable commercial land bank at Rajarhat, New Town, Kolkata, which it plans to monetise over the next few years. This will help the company to bolster its capitalization further and support medium term growth plans.

Acuité believes that the company shall maintain a comfortable position, suitably supported by GoWB to facilitate its business growth going forward.

Strong growth potential backed by government focus on infrastructure sector

WBIDFC had a moderate loan book of Rs.1311.11 Cr. as on 31st March, 2018 and around 61% comprised of mid to long term loans to various state government entities for infrastructure development purposes. The GoWB's focus on increasing its expenditure on capital creation and other social welfare and development programmes, efforts to increase plan outlays for building infrastructure in the areas of road connectivity, power, drinking water, urban utilities, etc. and the overall development of the state will result in strong financing demands at the state level. WBIDFC is expected to benefit from this strong demand potential and is looking to aggressively grow its loan book over the medium term. WBIDFC has a strong pipeline of sanctions which it proposes to disburse in the near term.

Acuité believes the initiatives being taken by the Government of West Bengal to boost the economic activities within the state will in-turn impact the company's business profile positively. Acuité nevertheless, believes that the company's ability to scale up its operation and at the same time diversify its portfolio would remain a key rating sensitivity factor.

Weaknesses

Moderate asset quality

WBIDFC has moderate asset quality as reflected in its GNPA ratio of 5.55 per cent as on 31st March, 2018(P) as compared to 7.82 per cent a year ago. The NPA levels (in absolute terms) have remained same over a period of past three years as there were no fresh slippages during the period. This is on account of prudent lending practices followed by the company, where the company focuses on lending to relatively highly rated corporate borrowers and to public sector undertakings or joint sector companies. Following this conservative approach, the company has been able to grow its book moderately.

Also, the outstanding NPAs are on account of the advances made by the company in the past. The company expects to recover the amount of NPAs to a certain extent through NCLT process or through settlement but the timelines are uncertain. A sizeable quantum of the NPA is expected to be recovered under one time settlement scheme; 1st tranche of the said amount has been received in April 2018.

Acuité believes that the company's ability to maintain asset quality while expanding its loan portfolio would remain a key rating sensitivity factor.

Low, albeit improving, profitability

WBIDFC's profitability is low, with a net interest margin (NIM) of 1.90% for FY17-18 vis-à-vis 1.18% for FY16-17. The profitability is low on account of two reasons; one being low yield on lending given the focus on lending to Government linked entities or relatively good quality corporate borrowers and other being low yields on past investments. Hence, the return on average assets (RoAA) is near to unity, i.e. 1.14 percent for FY18 as compared to 0.30 percent for FY17. Sudden increase in the RoAA is on account of one time income in the form of dividend of Rs.24.00 Cr received during the year.

The interest rate on advances to the government owned entities is around 10%, and more than half of the advances currently fall in that category. The interest rate charged on the corporate/joint sector company's advances range from 9.50% to 12.15%. Also, the company has a sizeable proportion of funds in the sinking fund account in the form of investments in G-Sec, PSU Bonds, Treasury bills, State Development loans & deposits with bank, which yield relatively lower interest income. Out of the total interest income of Rs.204 Cr, roughly 56 percent is earned through interest on investments.

While the provisions have remained low in the recent years due to no incremental slippages, any sharp deterioration in asset quality will adversely impact the company's profitability.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of WBIDFC and has factored in support extended by the parent, GoWB, in the form of ongoing assistance.

Outlook: Stable

Acuité believes WBIDFC will maintain a stable credit risk profile supported by expectation of continued support from GoWB, healthy capital position and the overall momentum in infrastructure investments in the state which is expected to augur well for players like WBIDFC. The outlook may be revised to Positive with significantly higher than expected growth in the loan portfolio along with sustained improvement in profitability and asset quality. However, the outlook may be revised to Negative in case of sustained pressure on profitability indicators and/or asset quality. The outlook may also be revised to Positive or Negative, in case of any corresponding change in the credit profile of GoWB.

About the Rated Entity - Key Financials

	Unit	FY18(P)	FY17	FY16
Total Assets	Rs. Cr.	2739.76	3447.32	4513.90
Total Income (Net of Interest Expense)	Rs. Cr.	70.00	41.21	52.74
PAT	Rs. Cr.	35.29	11.83	24.62
Net Worth	Rs. Cr.	998.98	963.69	941.86
Return on Average Assets (RoAA)	(%)	1.14	0.30	1.09
Return on Average Tangible Networth (RoNW)	(%)	4.82	1.24	2.65
Total Debt/Tangible Net Worth (Gearing)	Times	1.64	2.41	3.62
Gross NPAs	(%)	5.55	7.82	7.22
Net NPAs	(%)	2.62	5.49	5.55

*Total Income = Net Interest Income + Other Income

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Non - Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.htm>
- State Government Support - <http://www.acuite.in/view-rating-criteria-26.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Applicable Criteria

Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>

Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

Non-Banking Finance Entities: <https://www.acuite.in/view-rating-criteria-10.htm>

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Rating/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	500.00	ACUITE A/ Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A/ Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A/ Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE A/ Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A/ Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	500.00	ACUITE A/ Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1000.00	ACUITE A/ Stable

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About Acuite Ratings & Research:

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