

Press Release

West Bengal Infrastructure Development Finance Corporation Limited

August 23, 2019



Rating Reaffirmed

Total Facilities Rated	Rs. 2400.00 Cr. (Revised from Rs. 2900 Cr.)
Long Term Rating	ACUITE A/Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE A**' (**read as ACUITE A**) on the Rs. 2400.00 Cr. (revised from Rs. 2900 Cr.) bank facilities of West Bengal Infrastructure Development Finance Corporation Limited (WBIDFCL). The outlook is '**Stable**'.

About the company:

WBIDFCL, a wholly-owned subsidiary of Government of West Bengal (GoWB), was incorporated in 1997 with an objective to support infrastructure development in West Bengal. The company's primary objective is to mobilise funds from debt market and banks and on lend it to various state level enterprises, joint sector and Private sector companies. Besides Infrastructure, the company has also provided funding to department of food and supplies, management institutions among others.

Analytical Approach

Acuité has adopted a standalone approach while assessing the business and financial risk profile of WBIDFCL and has factored in benefits emanating from the ownership by Government of West Bengal. GoWB's financial support to WBIDFCL is in the form of its ~100 per cent equity ownership and its guarantee for certain borrowings of WBIDFCL. Besides financial support, GoWB also extends managerial support through Board representation.

Key Rating Drivers

Strengths

- **Strong support from the Government of West Bengal:**

WBIDFCL is an RBI registered non-deposit taking NBFC engaged in financing for infrastructure development in West Bengal. The current board comprises Dr. Abhirup Sarkar (Chairman), Mr. Pinaki Roy (Managing Director) along with various professionals and bureaucrats representing Government of West Bengal. This provides strong managerial support on an ongoing basis to WBIDFCL.

WBIDFCL's funding profile is supported by the State Government's moral obligation to support the capitalisation levels both on an ongoing basis and in the event of distress. GoWB is ~100 per cent stakeholder in the corporation and is expected to support the corporation given its key role as a financier for infrastructure development in the state. WBIDFCL's capitalisation levels remained adequate at 78.08 per cent as on June 30, 2019 as against 63.6 per cent as on March 31, 2019. WBIDFCL's funding mix comprises equity contribution from GoWB, NCDs and borrowings from banks. Of the overall outstanding debt of Rs. 1731 Cr. as on March 31, 2019, NCD comprises 59 per cent and remaining 41 per cent are bank borrowings (overdrafts). The NCDs are GoWB guaranteed maturing in April 2020. The ownership by the GoWB enables WBIDFCL to borrow at fine pricing from various banks and institutions. 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 WBIDFCL will continue to receive need based support in future as well.

Since the support from GoWB is critical to the rating, the credit profile of West Bengal state is of key importance. West Bengal's fiscal deficit stood at 2.83 per cent of the GSDP for 2018-19(RE). The outstanding debt of West Bengal state as a percentage of GSDP remained over 34 per cent for 2017-18 and 2018-19. These levels are already elevated. Any further deterioration in the state metrics could impact the headroom to support the entities like WBIDFCL, for whom it is obligated to extend support either on account of an explicit support arrangement or an implicit understanding with the lenders. The fiscal position and credit profile of West Bengal state will be a key rating sensitivity.

Acuité believes that the company will continue to benefit from strong financial and managerial support from the State Government on an ongoing basis over the medium term.

Weaknesses

- **Risks inherent in big ticket lending:**

WBIDFCL's mandate is to offer financial assistance for infrastructure development. The company's loan book as on June was 1025 Cr. (1093 as on March 31, 2019 and Rs. 1311 as on March 31, 2018.) The outstanding book as on July 15, 2019 was Rs. 1074 cr. The entire loan book was spread across 9 borrowers indicating an average ticket size of Rs. 119 cr. These borrowers mostly comprised of entities owned and controlled by the State Government and joint venture entities with the State Government as one of the partners. The loan portfolio includes exposure to Private sector borrower which had turned delinquent.

Since the margins on exposures to the state government entities/ Public sector entities are typically low (on account of the low risk), the company has in the past taken exposures on Private sector entities also. However, it has been observed that the company's experience with lending to Private sector entities have not been very encouraging. The company's Gross NPA as on March 31, 2019 stood at 5.1 per cent (PY: 5.6 per cent). The NPAs have been from the Private sector portfolio of the company. The company's gross NPA's as on June 30, 2019 has moderated to 1.1 per cent and Net NPA stood at 0.5 per cent, primarily on account of sale of assets to an ARC and write offs.

Besides the risk of delinquency in large exposures, WBIDFCL is also exposed to the risk of prepayments or delays in offtake in respect of sanctioned exposures. Since any improvement in operating performance is linked to growth in the loan book, the company will have to maintain a healthy pipeline of disbursements. It has been observed over the past three years, that there has been a significant divergence between the sanctions and the disbursements. This is attributable to sanctions to Government entities which remained undrawn mainly on account of funding arrangements being made by these entities from alternative sources like budgetary support.

Acuité believes that the company's ability to manage the risks inherent in the wholesale lending segment will remain a key rating sensitivity.

- **Limited operational flexibility amidst an Intensely competitive landscape:**

WBIDFCL's objective is to extend financial support to the infrastructure development in the state of West Bengal. The company has primarily focused on lending to Public sector, Private sector entities and entities owned and managed by Government of West Bengal. The company's resource base comprises equity from GoWB and funding from banks and institutions. Currently on a networth base of Rs. 1102 Cr., the company is geared at 1.6 times as on March 31, 2019. As the borrowings increase, the overall cost of funds will be increasingly linked to the interest rates on these incremental debt. The likelihood of raising debt through GoWB guarantees is linked to the Government's willingness to extend further guarantees. Since WBIDFCL is required to pay guarantee commission to the Government for any guarantees, it adds to the cost of funding through that route. Hence, the company has always endeavored to raise funds on the strength of its standalone credit profile.

The ability to access funds at competitive rates will be a key determinant of its future cost of funding. The cost of funds is critical since the company faces competition from other banks and NBFCs who may also be interested in lending to the entities that WBIDFCL is mainly targeting (Public Sector Enterprises). The ability of these banks and FIs to offer fine pricing to their clients is much higher on account of their low cost of funds. Besides the implicit low risk inherent in these deals due to the state government backing, the banks (especially Public sector banks) may be interested in initiating exposures to these entities based on social considerations.

WBIDFCL's mandate of lending to Infrastructure projects/ entities in the State of West Bengal limits the lendable options in an intensely competitive environment. Amidst this intensely competitive landscape, WBIDFCL tries to identify profitable lendable opportunities on the strength of its quick turnaround and speedy decision making.

Acuité believes that against the above competitive backdrop and limited flexibility to go beyond its existing area and scope of operations, WBIDFCL will have to maintain a healthy roster of highly rated Private and Public sector borrowers to sustain its profitability and growth.

Liquidity Position: Adequate

WBIDFCL had adequately matched asset liability profile as on June 30, 2019 with cumulative surplus in all maturity buckets. The company's total debt stood at Rs. 1731 Cr. as on March 31, 2019, of which NCDs are due for redemption amounting to Rs. 1022 Cr. (Principal and interest) in April 2020. The company has maintained liquid investments in term deposits and government bonds /T bills amounting to Rs. 1069 Cr as on July 30, 2019. The company has working capital facility of Rs.1400.00 Cr. from four Public sector banks. These facilities were 14 per cent utilised on an average of six months ending June 30, 2019, indicating the financial flexibility of WBIDFCL.

Outlook: Stable

Acuité believes that WBIDFCL will maintain a 'Stable' credit profile over the near to medium term on the back of ongoing financial and managerial supported from GoWB. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its AUM while maintaining profitability and asset quality at healthy levels. Conversely, the outlook may be revised to 'Negative' in case of any significant deterioration in asset quality or profitability metrics. The ownership and control of GoWB will be a key ratings sensitivity.

About the Rated Entity – Key Financials

Parameters	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	2842.9	2712.0	3426.4
Total Income*	Rs. Cr.	82.7	86.6	41.2
PAT	Rs. Cr.	46.5	58.9	11.8
Net Worth	Rs. Cr.	1101.9	1030.8	984.3
Return on Average Assets (RoAA)	(%)	1.7	1.9	0.3
Return on Average Net Worth(RoNW)	(%)	4.4	5.8	1.2
Total Debt/Tangible Net Worth (Gearing)	Times	1.6	1.6	2.4
Gross NPA	(%)	5.1	5.6	7.9
Net NPA	(%)	2.5	3.0	5.5

* Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA

Not Applicable

Any other information

None

Applicable Criteria

- Rating of Non-Banking Financing Entities – <https://www.acuite.in/view-rating-criteria-44.htm>
- Default Recognition – <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-20.htm>
- State Government Support - <https://www.acuite.in/view-rating-criteria-26.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
July 24, 2018	Overdraft	Long term	500.00	ACUITE A/Stable (Assigned)
	Overdraft	Long term	200.00	ACUITE A/Stable (Assigned)
	Overdraft	Long term	200.00	ACUITE A/Stable (Assigned)
	Overdraft	Long term	300.00	ACUITE A/Stable (Assigned)
	Overdraft	Long term	200.00	ACUITE A/Stable (Assigned)
	Term Loan	Long term	500.00	ACUITE A/Stable (Assigned)
	Proposed Bank Facility	Long term	1000.00	ACUITE A/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	NA	NA	NA	500.00	ACUITE A/Stable (Reaffirmed)
Overdraft	NA	NA	NA	200.00	ACUITE A/Stable (Reaffirmed)
Overdraft	NA	NA	NA	200.00	ACUITE A/Stable (Reaffirmed)
Overdraft	NA	NA	NA	300.00	ACUITE A/Stable (Reaffirmed)
Overdraft	NA	NA	NA	200.00	ACUITE A/Stable (Reaffirmed)
Term Loan	NA	NA	NA	500.00	ACUITE A/Stable (Reaffirmed)
Proposed Bank Facility	NA	NA	NA	500.00 (Revised from Rs. 1000 Cr.)	ACUITE A/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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