IFCI Venture Capital Funds Limited (Revised)
August 23, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Non-Convertible Debentures	71.16	CARE BB; Negative (Double B; Outlook: Negative)	Reaffirmed; Outlook revised from Stable
Total Long-Term Instruments	**71.16 (Rs. Seventy-One Crore and Sixteen Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the long-term debt instruments of IFCI Venture Capital Funds Ltd (IVCF) factors in the company's strong capitalization profile and liquidity position.
These rating strengths are however partially offset by the continued de-growth in company's loan book on account of business consolidation and absence of new disbursements during the year leading to weak financial performance in FY21 and persistently weak asset quality parameters. The vulnerability in company's asset quality is on the back of lower recoveries, fresh slippages and high customer concentration risk and exposure to high-risk sectors such as real estate and infrastructure.

Going forward, continuation of support by IFCI, ability of IVCF to improve its asset quality, profitably scale up the operations while maintaining capitalization profile would be the key rating sensitivities.

The revision in rating outlook from **'Stable' to 'Negative**' primarily factors in deterioration in the credit profile of the parent company i.e. IFCI Limited (IFCI) (CARE BB; Negative) and the resultant impact on IVCF, given IFCI's majority shareholding in the company and shared brand linkages. The 'Negative' outlook also represents any future operational risks which IVCF may face owing to any liquidity/shareholding changes at the parent level.

Key Rating sensitivities:

Positive factors- *Factors that could lead to positive rating action/upgrade*

- Improvement in profitability metrics with RoTA of approx 2%
- To improve asset quality metrics with higher recoveries going forward

Negative factors- *Factors that could lead to negative rating action/downgrade*

- Moderation in profitability metrics
- Deterioration in liquidity profile with mismatches arising in near to medium term bucket

Detailed description of the key rating drivers

Key Rating Strengths

IFCI parentage with management and operational support and direct brand linkages, though declining on account of weak credit profile of IFCI Ltd

IFCI Limited (rated CARE BB; Negative) holds 98.59% shareholding in the company and has in the past provided support to IVCF in the form of management support, capital infusion, network for referral business and initiating fund management business for IVCF. However, due to the reduced operational efficiency and book size of the parent, the company hasn't received any new commitments or credit lines from IFCI ltd as on March 31, 2021. The MD of IFCI Limited, Mr Manoj Mittal is the chairman of IVCF. Also, IFCI has made initial contribution/commitment to various funds that are run by IVCF and also acts as their sponsor and settler.
However, with the ongoing liquidity and capitalization challenges at the parent level, future expectations of any support from IFCI towards IVCF looks unlikely in the short to medium term.

Moderate level of business diversification through investment in Venture Capital funds and fund management

IVCF has moderate business diversification with fund-based income from loan against shares/property portfolio, income

from investments made in venture capital fund and fee-based income from managing venture capital funds (19% of total income).
Currently the company is managing two government-sponsored funds, i.e. Venture Capital Fund for Scheduled Castes (VCF-SC with a corpus of Rs 606 crore as on March 31, 2021) and Venture Capital Fund for Backward classes (VCF-BC with a corpus of Rs.106 crore). Also, the company is in final stages to commence a third government-sponsored fund i.e. Venture Capital Fund for Scheduled Tribes (VCF-ST) for which the target corpus is yet to be finalized.
Moreover, with the management aiming to exit out of its corporate lending portfolio in the next two fiscal years, IVCF would be solely dependent on the management fee income arising out of the above funds thus lowering its business diversification.

Comfortable capitalization
The overall capital adequacy ratio (CAR) improved to 75.24% as on March 31, 2021, rising from 51.40% as on March 31, 2020 while Tier-I CAR stood at 75.19% (51.33% as on March 31, 2020) against the regulatory minimum requirement of 15% and 10% respectively. The surge in CAR ratio has been mainly due to reduction in the company's risk-weighted assets as the book size has been coming down gradually over the past years. As a result, IVCF's gearing stood at a low of 0.59 times as on March 31, 2021 as against 0.84 times as on March 31, 2020 due to early repayment of bank loans and consolidation of its borrowing profile in order to shift towards an asset-light fund-management based balance sheet.

Key Rating Weaknesses

Decline in loan book and continued stress in profitability
The gross loan portfolio of IVCF declined by 12% Y-o-Y to Rs 228 crore as on March 31, 2021 as against Rs 261 crore as on March 31, 2020, while the company's net loan portfolio shrunk by 26% Y-o-Y to Rs 113 crore as on March 31, 2021 compared to Rs 152 crore as on March 31, 2020. The decline in portfolio level during FY21 was on account of management curtailing its disbursements while focusing mainly on recoveries from NPAs amid weak asset quality and also focusing on fund management business.

In line with its revised business strategy, IVCF is reducing its exposure to corporate loans while increasingly focusing on its venture fund management business. Accordingly, the credit growth is expected to remain negligible in short- to medium term which in turn is likely to affect its revenue growth. End fiscal 2021, total income of IVCF stood at Rs 36.06 crore, marginally up from Rs 34.22 crore in FY20 on account of higher management fee and other income. Consequent to a marginally higher top-line and downfall in its interest expenses to Rs 9.40 crore (down 34% Y-o-Y), IVCF reported a net profit of Rs 2.47 crore in FY21 as compared to 0.60 crore in FY20, owing to which its RoTA surged to 1.13% for FY21 (0.23% in FY20). However, the ability of the company to maintain profitability amid reducing interest income remains a challenge and a key rating sensitivity.

Persistent stress on asset quality
The asset quality of the company continues to deteriorate further with GNPA and NNPA ratio increasing to 90.19% and 81.25% respectively as on March 31, 2021 as compared to 80.69% and 68.89% respectively as on March 31, 2020. The surge in asset quality stress was majorly on account of reduction in overall loan book of the company as IVCF reported marginal reduction in its absolute GNPA and NNPA level to Rs 152.62 crore and Rs 71.70 crore respectively as on March 31, 2021, as compared to Rs.165.42 crore and Rs.87.31 crore respectively as on March 31, 2020. The reduction in absolute asset quality level was on account of lower slippages during the fiscal year FY21 clubbed with higher reductions and write-offs as the management aims to consolidate 100% of its lending portfolio in the next 2 fiscal years. As a result, the NNPA/Tangible Net worth improved to 58.50% (72.4% as on March 31, 2020). The CARE adjusted provision coverage ratio (PCR) remains low at 53%, albeit higher than 48% last fiscal. Secured nature of most of IFCI Venture's gross NPAs and comfortable capital structure mitigates risk to some extent.

High borrower-wise loan book concentration
As on March 31, 2021, IVCF had just 18 loan accounts in its portfolio with the top 10 exposures amounting to Rs.135 crore accounting for 80% of reported net worth or 110% of tangible net-worth as well as 80% of total lending book thereby exposing IVCF to high customer concentration risk. Furthermore, around 70% of the loan portfolio is concentrated in high risk real estate, textiles and infrastructure sector.

Liquidity: Adequate
As on March 31, 2021, IVCF had adequate liquidity with cash and cash equivalents of Rs 35.67 crore. Additionally, the company also has investments in the form of debt securities and equity to the tune of Rs 38.5 crore against which it has debt repayment of about 59.6 crore for the next 12 months. Also, the company expects inflows of Rs 11.7 crore from its performing advances for the next 12 months.

Analytical approach: Standalone, factoring linkages and 98.6% ownership by IFCI Limited

Applicable Criteria
Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
CARE Methodology for Non-Banking Financial Companies
Financial Sector –Financial Ratios
CARE's policy on factoring linkages

About the Company
IVCF was promoted as Risk Capital Foundation in 1975, by IFCI Ltd for providing loans to first-generation entrepreneurs. Later in 1988, the name was changed to Risk capital and Technology Finance Corporation Ltd. Since 1991, IFCI Venture's focus has been into venture capital fund management. In 2009, it launched three venture capital funds and is the sponsor & fund manager of the funds. In FY15, IVCF started managing a "Venture Capital fund for Scheduled Caste, sponsored by the Government of India. It is registered with RBI as Non-Deposit taking NBFC since 2001. It is also recognized as Public Financial Institution under Clause (72) of section 2 of the Companies Act, 2013. It gave thrust to its NBFC activities in 2009 with focus on secured loans [primarily Loan against shares (LAS)/ Loan against Property (LAP)]. The net loan portfolio amounted to Rs.113 crore as on March 31, 2021.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total income	34.22	36.06
PAT	0.60	2.47
Interest coverage (times)	0.54	1.29
Total Assets	235.55	199.84
Net NPA (%)	57.44	81.25
ROTA (%)	0.23	1.13

A: Audited
Total assets net of deferred tax and intangible assets

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Amount O/s (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	INE727M09067	16-Oct-12	10.25	16-Oct-22	5.96	CARE BB; Negative
Debentures-Non-Convertible Debentures	INE727M09075	18-Feb-13	10.15	18-Feb-23	4.80	CARE BB; Negative
Debentures-Non-Convertible Debentures	INE727M09083	10-Oct-14	10.80	10-Oct-24	2.10	CARE BB; Negative
Bonds	INE727M09018 INE727M09026	24-Jan-12	10.75	24-Jan-22	58.30	CARE BB; Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding	Rating	Date(s) & Rating(s)	Date(s) & Rating(s)	Date(s) & Rating(s)	Date(s) & Rating(s)

			(Rs. crore)		assigned in 2021-2022	assigned in 2020-2021	assigned in 2019-2020	assigned in 2018-2019
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	-	-	-	1)Withdrawn (23-Jul-20)	1)CARE BB+; Negative / CARE A4+ (05-Jul-19)	1)CARE BBB; Negative (24-Sep-18)
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (23-Jul-20)	1)CARE BB+; Negative (05-Jul-19)	1)CARE BBB; Negative (24-Sep-18)
3.	Debentures-Non Convertible Debentures	LT	12.86	CARE BB; Negative	1)CARE BB; Stable (02-Jul-21)	1)CARE BB; Negative (23-Jul-20)	1)CARE BB+; Negative (05-Jul-19)	1)CARE BBB; Negative (24-Sep-18)
4.	Bonds	LT	58.30	CARE BB; Negative	1)CARE BB; Stable (02-Jul-21)	1)CARE BB; Negative (23-Jul-20)	1)CARE BB+; Negative (05-Jul-19)	1)CARE BBB; Negative (24-Sep-18)
5.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (23-Jul-20)	1)CARE BB+; Negative (05-Jul-19)	1)Provisional CARE BBB (SO); Negative (24-Sep-18) 2)Provisional CARE BBB (SO); Negative (11-Jun-18)
6.	Fund-based - LT/ ST-Cash Credit	LT/ST	-	-	-	1)Withdrawn (23-Jul-20)	1)CARE BB+; Negative / CARE A4+ (05-Jul-19)	1)CARE BBB; Negative / CARE A3+ (24-Sep-18)
7.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (23-Jul-20)	1)CARE BB+; Negative (05-Jul-19)	1)CARE BBB (SO); Negative (24-Sep-18) 2)CARE BBB (SO); Negative (11-Jun-18)

Annexure 3: Complexity level of instruments

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds	Simple
2.	Debentures-Non Convertible Debentures	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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