

IFCI Venture Capital Funds Ltd (Revised)

August 04, 2022

Ratings

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|------------------------------------|--|--|---------------|
| Non-convertible debentures | 12.86 | CARE BB; Negative (Double B; Outlook: Negative) | Reaffirmed |
| Bonds | - | - | Withdrawn |
| Total long-term instruments | 12.86 (₹ Twelve crore and eighty-six lakh only) | | |

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation in the rating assigned to the non-convertible debentures (NCDs) of IFCI Venture Capital Funds Ltd (IVCF) factors in the continued de-growth in the company's loan book on account of the business consolidation and the absence of new disbursements during the year, leading to weak financial performance and persistently weak asset quality parameters, with stage-3 assets constituting 96% of its gross loan book as on March 31, 2022, as compared to 90% as on March 31, 2021, along with the high borrower-wise loan book concentration and persistently weak profitability metrics, with IVCF reporting a net loss of ₹2.97 crore as on March 31, 2022, as compared to a profit of ₹2.47 crore as on March 31, 2021.

The rating, however, derives strength from the company's strong capitalisation profile with the capital to risk (weighted) assets ratio (CRAR) standing at 92.16% as on March 31, 2022, an improved gearing of 0.11x as on March 31, 2022, owing to a decline in borrowing, and the adequate liquidity position. The rating also factors in the IVCF's mandate by the Government of India (GoI) for managing two more venture funds.

Going forward, the ability of the company to improve its profitability profile, while maintaining adequate capitalisation profile, will be the key rating sensitivities.

Rating sensitivities
Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in profitability metrics, with return on capital employed (ROTA) of approximately 2%.
- Timely monetisation of its non-core assets.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Weakness in the operational efficiency of the company with continued net losses.
- Deterioration in the liquidity profile.

Detailed description of the key rating drivers
Key rating strengths

IFCI parentage with management and operational support and direct brand linkages: IFCI Limited (rated CARE BB; Negative) holds a 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 the referral business, and initiating the fund management business for IVCF. However, due to the reduced operational efficiency and book size of the parent, the company has not received any new commitments or credit lines from IFCI Limited as on March 31, 2022. The Managing Director of IFCI Limited, Manoj Mittal, is the Chairman of IVCF. Also, IFCI has made an initial contribution or commitment to various funds that are run by IVCF and also acts as its sponsor and settler.

Comfortable capitalisation: The overall capital adequacy ratio (CAR) of IVCF improved to 92.61% as on March 31, 2022, rising from 75.24% as on March 31, 2021, while Tier-I CAR stood at 92.59% (75.19% as on March 31, 2021); these were

¹Complete definition of the ratings assigned are available at [HYPERLINK "http://www.careedge.in"](http://www.careedge.in) www.careedge.in and other CARE Ratings Ltd.'s publications

against the regulatory minimum requirements of 15% and 10%, respectively. The surge in the CAR ratio has been mainly due to a reduction in the company's risk-weighted assets, as the book size has been coming down gradually over the past years due to nil disbursements. As a result, IVCF's gearing stood at a low of 0.11x as on March 31, 2022, as against 0.59x as on March 31, 2021, due to the early repayment of bank loans and the 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 9% y-o-y to ₹153 crore as on March 31, 2022, as against ₹169 crore as on March 31, 2021, while the company's net loan portfolio shrunk by 25% y-o-y to ₹85 crore as on March 31, 2022, as compared to ₹113 crore as on March 31, 2021. The decline in the portfolio level during FY22 was on account of the management's decision to exit the corporate lending business while focusing mainly on recoveries from non-performing assets (NPAs) amid the weak asset quality and also focusing on the fund management business.

In line with its revised business strategy, IVCF is exiting the corporate loans business, thus shifting 100% focus on its venture fund management business. Accordingly, the credit growth is expected to remain negligible in the short to medium term, which in turn, is likely to affect its revenue growth. As on March 31, 2022, the total income of IVCF stood at ₹20.61 crore (down by 43% y-o-y), as compared to ₹36.06 crore, resulting into net losses of ₹2.97 crore in FY22, as compared to a net profit of ₹2.47 crore in FY21. However, the ability of the company to improve its profitability by monetisation of its stressed accounts and fee income generated from its fund-based business remain key rating sensitivities.

Persistent stress on asset quality: The asset quality of IVCF continues to deteriorate further, with the gross NPA (GNPA) and net NPA (NNPA) ratio increasing to 96.34% and 87.32%, respectively, as on March 31, 2022, as compared to 90.19% and 81.25%, respectively, as on March 31, 2021. The surge in asset quality stress was mainly on account of a reduction in the overall loan book of the company, as IVCF reported a marginal reduction in its absolute GNPA and NNPA levels, to ₹147.78 crore and ₹59.22 crore, respectively, as on March 31, 2022, as compared to ₹152.62 crore and ₹71.70 crore, respectively, as on March 31, 2021. The reduction in absolute asset quality level was on account of zero slippages in FY22, clubbed with recoveries of ₹4.84 crore. The adjusted provision coverage ratio (PCR) in FY22 remained low, at 60%, albeit higher than 53% in FY21. The secured nature of most of IVCF's GNPA's and comfortable capital structure mitigates the risk to some extent.

High borrower-wise loan book concentration: As on March 31, 2022, IVCF had just 14 loan accounts in its portfolio, with the top 10 exposures amounting to ₹135 crore, accounting for 88% of the total lending book and 114% of the tangible net worth, thereby exposing IVCF to high customer concentration risk. Furthermore, of 14 loan accounts, only one account stands as standard and the rest fall under the NPA bucket. However, the company is exiting the corporate lending business and is currently focusing on recoveries from these assets.

Liquidity: Adequate

As on July 31, 2022, IVCF has cash and cash equivalents of ₹9.5 crore. Additionally, the company also has investments in the form of debt securities and equity to the tune of ₹38.7 crore, against which it has debt repayments of about ₹10.95 crore for the next 12 months. Also, the company expects inflows of ₹4 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 Ratings' policy on Default Recognition](#)

[CARE Ratings' methodology for non-banking financial companies](#)

[Financial sector – Financial ratios](#)

[Policy on Withdrawal of Ratings](#)

[CARE Ratings' 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, IVCF's focus has been on venture capital fund management. In 2009, it launched three venture capital funds and is the sponsor and fund manager of the funds. In FY15, IVCF started managing a venture capital fund for the scheduled caste, sponsored by the GoI. It is registered with the Reserve Bank of India (RBI) as a non-deposit taking non-banking financial company (NBFC) since 2001. It is also recognised as a 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) and loan against property (LAP)]. The company's net loan portfolio amounted to ₹85 crore as on March 31, 2022.

| Brief Financials (₹ crore) | March 31, 2021 (A) | March 31, 2022 (A) | June 30, 2022 |
|----------------------------|--------------------|--------------------|---------------|
| TOI | 36.06 | 20.61 | Not Available |
| PAT | 2.47 | (2.97) | |
| Interest coverage (times) | 1.20 | 0.28 | |
| Total assets | 199.83 | 135.16 | |
| Net NPA (%) | 81.25% | 91.35% | |
| ROTA (%) | 1.14 | (1.17) | |

A: Audited; NA: Not available.

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|----------------------------|-------------------------------|-------------------|-------------|-------------------|-----------------------------|---|
| Non-convertible debentures | INE727M09075 | February 18, 2013 | 10.15 | February 18, 2023 | 4.80 | CARE BB; Negative |
| Non-convertible debentures | INE727M09067 | October 16, 2012 | 10.25 | October 16, 2022 | 5.96 | CARE BB; Negative |
| Non-convertible debentures | INE727M09083 | October 10, 2014 | 10.80 | October 10, 2024 | 2.10 | CARE BB; Negative |
| Bonds | INE727M09018, INE727M09026 | January 24, 2012 | 10.75% | January 24, 2022 | 0.00 | Withdrawn |

Annexure-2: Rating history for the last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---------|--|-----------------|------------------------------|-------------------|---|--|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1. | Fund-based - LT/ST-Cash credit | LT/ST* | - | - | - | - | 1)Withdrawn (July 23, 2020) | 1)CARE BB+; Negative/CARE A4+ (July 05, 2019) |
| 2. | Fund-based - LT-Term loan | LT | - | - | - | - | 1)Withdrawn (July 23, 2020) | 1)CARE BB+; Negative (July 05, 2019) |
| 3. | Debentures-Non-convertible debentures | LT | 12.86 | CARE BB; Negative | - | 1)CARE BB; Negative (August 23, 2021) 2)CARE BB; Stable (July 02, 2021) | 1)CARE BB; Negative (July 23, 2020) | 1)CARE BB+; Negative (July 05, 2019) |
| 4. | Bonds | LT | - | - | - | 1)CARE BB; Negative (August 23, 2021) 2)CARE BB; Stable (July 02, 2021) | 1)CARE BB; Negative (July 23, 2020) | 1)CARE BB+; Negative (July 05, 2019) |
| 5. | Fund-based - LT-Term loan | LT | - | - | - | - | 1)Withdrawn (July 23, 2020) | 1)CARE BB+; Negative (July 05, 2019) |
| 6. | Fund-based - LT/ST-Cash credit | LT/ST* | - | - | - | - | 1)Withdrawn (July 23, 2020) | 1)CARE BB+; Negative/CARE A4+ (July 05, 2019) |
| 7. | Term loan-Long term | LT | - | - | - | - | 1)Withdrawn (July 23, 2020) | 1)CARE BB+; Negative (July 05, 2019) |

*Long term/short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:

Not available

Annexure-4: Complexity level of the various instruments rated for this company

| Sr. No. | Name of Instrument | Complexity Level |
|---------|---------------------------------------|------------------|
| 1. | Bonds | Simple |
| 2. | Debentures-Non-convertible debentures | Simple |

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities, please [click here](#).

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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