

IFCI Venture Capital Funds Limited

July 29, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Non-convertible debentures	2.10	CARE BB; Negative	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in the rating of IFCI Venture Capital Funds Limited's (IVCF) non-convertible debentures (NCDs) factors in the weak asset quality with the entire loan book being classified as non-performing asset (NPA), and the high borrower-wise loan book concentration and weak profitability metrics, with IVCF reporting a net profit of ₹1.03 crore for FY24, as compared to a net profit of ₹5.42 crore for FY23.

However, the rating derives strength from low gearing of 0.02x and adequate liquidity position.

Going forward, the company's ability to improve its profitability profile, will be a key rating sensitivity.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors- Factors that could, individually or collectively, lead to positive rating action/upgrade:

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

Negative factors - Factors that could, individually or collectively, lead to negative rating action/downgrade:

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

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

Outlook: Negative

The negative outlook factors in the company's deteriorated asset quality with entire loan book being classified as non-performing asset. Outlook also factors in weak credit profile of the parent company, IFCI (CARE BB; Negative), given that it holds the company's majority shareholding and share brand linkages.

Key weaknesses

Decline in loan book

Gross loan portfolio of IVCF declined by 44% y-o-y to ₹106.75 crore as on March 31, 2024, as against ₹189.5 crore as on March 31, 2023, while the company's net loan portfolio shrunk by 48% y-o-y to ₹39.81 crore as on March 31, 2024, as compared to ₹76.41 crore as on March 31, 2023. Decline in the portfolio level was due to no fresh disbursements in the corporate lending business since FY20 as the company exited this business amid the weak asset quality and is focusing mainly on recoveries from non-performing assets (NPAs) and fund management business. Accordingly, the credit growth is expected to remain negligible in the short-to-medium term.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Weak profitability

As on March 31, 2024, IVCF's total income stood at ₹52.42 crore (up by 116% y-o-y), as compared to ₹24.26 crore. The company's profitability declined as it reported net profit of ₹1.03 crore for FY24, as compared to a net profit of ₹5.42 crore in FY23. Decline in net profit was mainly due to an adjustment of deferred tax of ₹12.78 crore. The company's ability 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

IVCF's asset quality remains weak, with the gross non-performing assets (GNPA) and net NPA (NNPA) ratio at 100% as on March 31, 2024 (same as on March 31, 2023). Although, absolute GNPA and NNPA level substantially declined to ₹106.75 crore and ₹39.81 crore, respectively as on March 31, 2024, as compared to ₹189.5 crore and ₹76.41 crore, respectively as on March 31, 2023, asset quality stress was considering reduction in the company's overall loan book. The adjusted provision coverage ratio (PCR) in FY24 increased to 63% from 60% in FY23. Secured nature of IVCF's GNPA's and comfortable capital structure mitigates the risk to some extent.

Key Strengths**Established fund management business**

IVCF is managing Venture Capital Fund for scheduled castes, backward classes and senior citizens consisting of three SEBI-registered Alternative Investment Funds (AIF), Venture Capital Fund for Scheduled Castes (VCF-SC), Venture Capital Fund for Backward Classes (VCF-BC) and Senior Care Ageing Growth Engine (SAGE) Venture Fund. The company's income from fund management fees increased by 10% y-o-y from ₹12.67 crore in FY23 to ₹13.92 crore in FY24.

Comfortable capitalisation

IVCF's overall capital adequacy ratio (CAR) increased substantially from 103.65% as on March 31, 2023, to 177.22% as on March 31, 2024. These were against the regulatory minimum requirements of 15% and 10%, respectively. The high 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 in the last years due to nil disbursements. As a result, IVCF's gearing remained unchanged at a low of 0.02x as on March 31, 2024, due to consolidation of its borrowing profile to shift towards an asset-light fund-management-based balance sheet.

Liquidity: Adequate

The company has only one debt obligation of ₹2.21 crore (including interest), which is due on October 10, 2024, against which it has cash and cash equivalent of ₹66.58 crore and investment in liquid mutual funds of ₹0.72 crore. Hence, cash and liquid assets are sufficient to repay borrowing obligation.

Applicable criteria

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

[Non Banking Financial Companies](#)

[Factoring Linkages Parent Sub JV Group](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Investment company

IVCF was promoted as Risk Capital Foundation in 1975 by IFCI for providing loans to first-generation entrepreneurs. Later, in 1988, the name was changed to Risk Capital and Technology Finance Corporation Limited. 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. In FY15, IVCF started managing a venture capital fund for the scheduled caste, sponsored by the Government of India (GoI). It is registered with the Reserve Bank of India (RBI) as a non-deposit taking non-banking financial company (NBFC) from 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 ₹40 crore as on March 31, 2024.

IFCI (rated CARE BB; Negative) holds a 98.59% shareholding in the company and provided support to IVCF in the form of management support, capital infusion, network for the referral business, and initiating the fund management business. However, due to the reduced operational efficiency and book size of the parent, the company has not received new commitments or credit lines from IFCI as on March 31, 2024.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	20.61	24.26	52.42
PAT	-2.97	5.42	1.03
Interest coverage (times)	2.58	3.89	61.05
Total Assets	135.16	129.91	151.50
Net NPA (%)	91.35	100.00	100.00
ROTA (%)	-1.17	4.09	0.73

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE727M09083	10-Oct-2014	10.80	10-Oct-2024	2.10	CARE BB; Negative

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Debentures-Non Convertible Debentures	LT*	2.10	CARE BB; Negative	-	1)CARE BB; Negative (31-Jul-23)	1)CARE BB; Negative (04-Aug-22)	1)CARE BB; Negative (23-Aug-21) 2)CARE BB; Stable (02-Jul-21)
2	Bonds	LT*	-	-	-	-	1)Withdrawn (04-Aug-22)	1)CARE BB; Negative (23-Aug-21) 2)CARE BB; Stable (02-Jul-21)

*Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

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

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

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Gaurav Dixit Director CARE Ratings Limited Phone: +91 -120-4452002 E-mail: gaurav.dixit@careedge.in
Relationship Contact Pradeep Kumar V Senior Director CARE Ratings Limited Phone: 91 44 2850 1001 E-mail: pradeep.kumar@careedge.in	Neha Kadiyan Associate Director CARE Ratings Limited Phone: +91-120-4452022 E-mail: Neha.Kadiyan@careedge.in
	Anubhav Khatri Lead Analyst CARE Ratings Limited E-mail: Anubhav.Khatri@careedge.in

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