Rating Rationale

IFCI Venture Capital Funds Ltd

May 16, 2018

Brickwork Ratings revises Rating for various debt instruments aggregating Rs. 119.36 Crores of IFCI Venture Capital Funds Ltd (IVCF)

Particulars:

Instrument	Issue Size (Rs. Crs)	Amount O/S (Rs. Crs)	Tenure	Rating History (April 2017)	Current Rating
NCD	100.00	78.30	Long Term	BWR A- (Pronounced BWR A Minus) Outlook: Stable	BWR BBB+ (Pronounced BWR Triple B Plus) Outlook: Stable
NCD	100.00	41.06			
Total	**200.00**	**119.36**	**INR One Hundred Nineteen Crores and Thirty Six Lakhs Only**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Instrument wise details are given below

Rationale/Rating Sensitivities:

BWR has essentially relied upon the audited financial results up to FY17, provisional financial results for 9M FY18, publicly available information and information and clarifications provided by the Company.

The rating revision is primarily on account of asset quality issues in the company's loan book coupled with shrinkage in the loan portfolio.

The rating continues to remain constrained on account of the company's exposure to real estate and infrastructure sectors which are currently under stress, pressure on profitability on account of increased provisioning requirements and inherent risks associated with the fund management business. These risks are partially offset by the strong parentage of IFCI Ltd, experienced management team and strong capital adequacy ratios.

Going forward, the Company's ability to improve asset quality indicators as well as increase their outstanding loan portfolio shall remain key rating key rating sensitivities.

Key Rating Drivers:

<u>*Parentage of IFCI Ltd:*</u> IFCI Ltd holds 98.60% shareholding in IVCF as on March 31, 2018. The company also gets full support from IFCI in terms of funding, managerial and business operations. The key managerial positions in the company are also held by previous senior level officials of IFCI Ltd who bring enough experience in the financial sector along with them.

Comfortable Capital Adequacy: IVCF has been reporting healthy capital adequacy indicators for the past four years. Total CRAR% increased from 28.17% as on March 31, 2017 to 32.61% as on Dec 31, 2017 and Tier I CRAR% increased from 27.92% as on March 31, 2017 to 32.38% as on Dec 31, 2017. While the TNW increased marginally from Rs. 217.77 Crs as on March 31, 2017 to Rs. 221.35 Crs as on Dec 31, 2017, the increased CRAR% is on account of shrinkage in the loan portfolio from Rs. 647 Crs as on March 31, 2017 to Rs. 516 Crs as on Dec 31, 2017.

Issues with Asset Quality: The asset quality is weak on account of problems associated with certain sectors such as infrastructure and real estate which constituted 55% of the company's loan portfolio as on Dec 31, 2017. While the company has cut down on fresh disbursement to these sectors, the reduced loan portfolio along with fresh slippages have impacted the asset quality indicators. GNPA increased from Rs. 109 Crs as on March 31, 2017 to Rs. 149 Crs as on Dec 31, 2017 forming 28.89% of the Gross Loan Portfolio (16.83% as on March 31, 2017). While, the company has created provision covering 47% of the doubtful assets, the provision for substandard assets is only at 10% in line with the regulatory guidelines which may have to be increased in the future.

Pressure on Profitability: Due to the increased provisioning requirements, profitability of the company has been declining for the past three years. PAT declined from Rs. 21.16 Crs in FY16 to Rs. 19.50 Crs in FY17 and has further declined to Rs. 3.58 Crs during 9M FY18. The reduction in PAT has in turn impacted the ROAA and ROE of the company. With the asset quality woes likely to continue in the near future as well, the profitability is expected to be under pressure.

Rating Outlook: Stable

The outlook for the long term debt instruments is *Stable* indicating that the company's business risk profile is likely to be maintained over the medium term. This also reflects low possibility of a downgrade over the next one year. The outlook can be revised to *Negative* in case the asset quality indicators are lower than the expectations of BWR leading to further decline in profits.

Analytical Approach: While the company is rated on a stand-alone basis, the rating has taken note of the support the company derives from its parent company IFCI Ltd [rated at BWR A+ (Negative)/AA+ (SO) (Stable)].

Please refer to the applicable criteria at the end.

About the Company:

IFCI Venture Capital Funds Ltd (IVCF) is a public financial institution and venture capital arm of IFCI Ltd which holds 98.60% stake in the company as on March 31, 2018. In 2009, the company started lending activities and is registered as a Non-deposit taking NBFC with RBI. It provides short & long term finance/soft loans to ventures/entrepreneurs and corporates. As part of its fund management business, the company manages four funds viz India Automotive Component Manufacturers Private Equity Fund - 1 (IACM-1), Green India Venture Fund (GIVF), India Enterprise Development Fund (IEDF) and Venture

Capital Fund for Scheduled Castes (VCF-SC). IVCF has also invested in these funds as a VC investor. These funds have a combines corpus of Rs. 798 Crs with current investment outstanding of Rs. 362.52 Crs as on March 31, 2017.

During FY18, Mr. E Sankara Rao (MD of IFCI Ltd) joined the company's Board as its Chairman and Mr. Alok Sabharwal (former GM of IFCI Ltd) is the new Managing Director.

Company's Financial Performance:

The company has cut down on fresh disbursements and disbursed only Rs. 46.64 Crs during 9M FY18. The outstanding loan portfolio declined from Rs. 647 Crs as on March 31, 2017 to Rs. 516 Crs as on Dec 31, 2017.

Key financial figures are mentioned in the table below:

Key Financial Figures				
Particulars	**Unit**	**FY16 (A)**	**FY17 (A)**	**9M FY18 (Provisional)**
Portfolio	Rs. Crores	621.21	647.32	515.75
Gross NPA	%	11.82%	16.83%	28.89%
Net NPA	%	8.95%	13.47%	22.59%
Net Interest Income	Rs. Crores	46.62	39.41	36.05
PAT	Rs. Crores	21.16	19.50	3.58
Tangible Net Worth	Rs. Crores	205.52	217.77	221.35
CRAR	%	28.50%	28.17%	32.61%

Rating History for the last three years:

Sl. No.	Instrument	Current Rating (May 2018)			Rating History		
Bonds		**Type**	**Amount (Rs Crs)**	**Rating**	**2017**	**2016**	**2015**
1.	NCD	Long Term	78.30	BWR BBB+/Stable	BWR A-/Stable	BWR A-/Stable	BWR A-/Stable
2.	NCD		41.06				
Total			**119.36**	**INR One Hundred Nineteen Crores and Thirty Six Lakhs Only**			

Status of Non-Cooperation with Previous CRA: NA

Any Other Information: NA

Instrument Wise Details:

Instrument	Issue Date	Issue Size (Rs. Crs)	Amount O/S (Rs. Crs)	Coupon %	Maturity Date	ISIN
NCD	Jan 24, 2012	78.30	53.20	10.75	Jan 24, 2022	INE727M09018
	Jan 24, 2012		25.10	10.75	Jan 24, 2022	INE727M09026
NCD	Oct 16, 2012	99.30	5.96	10.25	Oct 16, 2022	INE727M09067
	Feb 18, 2013		15.10	10.15	Feb 18, 2023	INE727M09075
	Oct 10, 2014		20.00	10.80	Oct 10, 2024	INE727M09083

Hyperlink/Reference to applicable Criteria:

- General Criteria
- Approach to Financial Ratios
- Banks & Financial Institutions
- Rating based on Parent Support

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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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