CARE Ratings
Professional Risk Opinion

CARE/DRO/RL/2020-21/1732
Mr. Shivendra Tomar
Managing Director
IFCI Venture Capital Funds Limited
IFCI Tower, 61, Nehru Place,
New Delhi - 110019

July 17, 2020

Confidential

Dear Sir,

Credit rating for outstanding Non-Convertible Debenture issue

On the basis of recent developments including operational and financial performance of your company for FY20 (audited), our Rating Committee has reviewed the following rating:

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term NCDs	99.36 (Rupees Ninety Nine crore and thirty six lakhs only)	CARE BB; Negative [Double B; Outlook: Negative]	Revised from CARE BB+; Negative [Double B plus; Outlook: Negative]

2. 2. The NCDs are repayable as per Annexure 1.Please inform us the below-mentioned details of issue immediately, but not later than 7 days from the date of placing the instrument:

Instrument type	ISIN	Issue Size (Rs cr)	Coupon Rate	Coupon Payment Dates	Terms of Redemption	Redemption date	Name and contact details of Debenture Trustee	Details of top 10 investors

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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CIN-L67190MH1993PLC071691

3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as Annexure. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by July 20, 2020, we will proceed on the basis that you have no any comments to offer.
4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the debt instrument, CARE shall carry out the review on the basis of best available information throughout the life time of such instrument. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
6. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.
7. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
8. CARE ratings are **not** recommendations to buy, sell, or hold any securities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,
Yours faithfully,

Gaurav Dixit

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Encl.: As above

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

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Annexure-I

Details of rated instruments

NCD	Rs. Cr	RoI (%)	Allotment Date	Redemption Date	Put/Call Option, if any	ISIN
Secured NCD	58.30	10.75	24-Jan-12	24-Jan-22	At par at the end of 5th year and 7th year resp.	INE727M09026; INE727M09018
Secured NCD	5.96	10.25	16-Oct-12	16-Oct-22	At par, at the end of 7th year	INE727M09067
Secured NCD	15.10	10.15	18-Feb-13	18-Feb-23	At par, at the end of 5th year	INE727M09075
Secured NCD	20.00	10.80	10-Oct-14	10-Oct-24	-	INE727M09083
Total	**99.36**					

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Mr. Shivendra Tomar
Managing Director
IFCI Venture Capital Funds Limited
IFCI Tower, 61, Nehru Place,
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July 17, 2020

Confidential

Dear Sir,

Withdrawal of rating(s) assigned to the Bank facilities of IFCI Venture Capital Funds Limited

We have noted that IFCI Venture Capital Funds Ltd. has repaid the aforementioned bank facilities rated by us in full and there is no outstanding amount under the said loan as on date. Taking cognizance of this, we hereby withdraw our rating for IFCI Venture Capital Funds Ltd.'s bank facilities, with immediate effect.

2. As per our normal procedure, we will be announcing the withdrawal of the rating through a Press Release, a copy of which is enclosed. **Meanwhile, please ensure that the ratings are not used hereafter, for any purpose whatsoever.**

3. In case of any future rating requirements, we will be happy to offer our services.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

Gaurav Dixit

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Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

Rating Rationale

IFCI Venture Capital Funds Ltd

13 Aug 2020

Brickwork Ratings reaffirms "BWR BB+" while revising the outlook to Negative from Stable on the NCDs of IFCI Venture Capital Funds Ltd.

Particulars

Instruments**	Previous Amount (₹ Crs)	Present Amount (₹ Crs)	Tenure	Previous Rating	Present Rating*
Fund Based					
Non Convertible Debentures (NCDs)	99.36	99.36	**Long Term**	**BWR BB+/Stable**	**BWR BB+/Negative (Reaffirmed) (Outlook revised to negative from stable)**
Total	**99.36**	**99.36**	**INR Ninety Nine Crores & Thirty Six Lakhs Only**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings.
** Details of instruments given in Annexure I

RATING ACTION / OUTLOOK:

Brickwork Ratings (BWR) reaffirms the "BWR BB+" rating, while revising the outlook to Negative from Stable on the NCDs of IFCI Venture Capital Funds Ltd (IVCF or the company), as tabulated above.

The rating draws comfort from support from the majority-owned parent company IFCI Ltd., comfortable capitalisation and adequate liquidity. However, the rating is constrained by weak asset quality, high portfolio concentration risk and a modest earnings profile.

The Negative outlook reflects continued pressure on asset quality faced by the company and its resultant impact on the profitability and capitalisation. The rating outlook may be revised to Stable in the case of an improvement in asset quality and profitability, along with better capitalisation.

Description of Key Rating Drivers

Credit Strengths:

- **Support from parent company:** IFCI Ltd ("BWR BBB+"/Negative) is the parent company of IVCF and held a 98.59% stake in IVCF as on 31 March 2020. The company gets support from IFCI Ltd. in terms of funding, managerial expertise and business operations. Senior level management personnel that have a long track record with IFCI Ltd. bring their valuable experience in the financial sector to IVCF and hold key managerial positions in the company. The management team of IVCF is highly qualified and proficient in the financial services space and is seasoned through various business cycles.

- **Comfortable capitalisation:** IVCF's capitalisation is comfortable, with a total capital adequacy ratio (CAR) of 51.40% as on 31 March 2020 (44.32% as on 31 March 2019). The ratio is significantly higher than the minimum regulatory requirement of 15%, and the company is expected to remain well-capitalised over the medium term. The tangible net worth stood at Rs. 166.99 Crs as on 31 March 2020. The company has a moderate gearing philosophy, demonstrated by a debt/equity level of 0.61 times as on 31 March 2020, which improved from 0.92 times as on 31 March 2019 as the company repaid all its term loans in FY20. The networth coverage for net non-performing assets (NPAs) was, however, low, at ~1.2 times as on 31 March 2020.

- **Adequate liquidity profile:** IVCF's liquidity profile is adequate, with surplus cumulative mismatches across all the buckets upto 5 years, as per the ALM profile as of 31 March 2020. Furthermore, the company had cash and liquid investments amounting to Rs. 42.81 Crs as on 30 June 2020, ensuring the availability of adequate funds to meet near-term repayment obligations in case there is stress on collections, going forward, in the aftermath of the covid-19 pandemic.

Credit Risks:

- **Deteriorating asset quality:** The asset quality of IFCI Ltd continues to remain weak with a high absolute quantum of gross NPA at Rs. 165.42 Crs as on 31 March 2020 (Rs. 137.30 Crs as on 31 March 2019) and net NPA of Rs. 87.31 Crs as on 31 March 2020. Given degrowth in the AUM to Rs. 205.02 Crs as on 31 March 2020 from Rs. 268.51 Crs as on 31 March 2019, the gross NPA% and net NPA% rose to 80.69% (51.13% on 31 March 2019) and 68.89% (35.07 % on 31 March 2019), respectively, as on 31 March 2020.
The company did not sanction loans in FY20 and is focusing on recoveries from NPAs while strengthening its credit portfolio by incrementally lending to better-profiled customers. The company's loan book remains fairly vulnerable to the COVD-19 crisis in the economy and has extended a 100% moratorium to all its standard accounts. Going ahead, the company's ability to achieve adequate collection efficiency and improve the asset quality in FY21 will be a key rating monitorable.

- **High portfolio concentration risk:** Along with deteriorating asset quality, the company's portfolio has a highly concentrated borrower mix. The company has only five performing borrowers, of which the top three accounts contribute to 67% of the total standard loan portfolio. The company's portfolio faces high concentration risk, and a slippage in any of the five standard accounts will further impact asset quality and affect the company's financial performance.

- **Moderate earning profile:** IVCF's profitability is weak, as reflected by a profit after tax of Rs 0.60 Crs for fiscal 2020; however, due to low write-offs during the year, the same has improved from a net loss of Rs. 28.99 Crs in FY19. Nevertheless, the company's net interest margins remained moderate at 5.07% for FY20 (5.37% in FY19). In FY21, the company expects an increase in management fees from managed venture capital funds, which may partially offset the declining income from the lending division. The company's ability to improve its profitability and operating efficiency while managing credit costs will be a key monitorable.

Analytical Approach
For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES
The company's ability to significantly recover from non-performing assets and grow its portfolio portfolio and profitability will be key rating sensitivities.

Positive: A significant improvement in the asset quality and profitability while maintaining capitalisation will be key positives for the company.
Negative: A continued deterioration in the asset quality or weakening in the financial risk profile will be key monitorables.

Liquidity Profile: Adequate
As on 30 June 2020, the company had Rs. 42.81 Crs of cash and cash equivalents. As informed by the company, 100% customers have availed a moratorium. The company has not availed the moratorium on any of its liabilities. During FY20, the company repaid all debt obligations from term loans, and the company's resource profile only includes NCDs with the nearest maturity in January 2022. Hence, apart from the coupon payment, the company does not have debt repayment obligations in FY21.

COVID-19 (Coronavirus disease), declared a pandemic by the World Health Organisation (WHO), has become a full-blown crisis globally, including in India. As per BWR, financial institutions, mainly those lending to the retail low-income borrower segments, could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on interest and principal on bank debt will provide some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers as the 6-month moratorium ends and to collect accumulated interest and principal dues on a timely basis after this period will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same.

About the Company
IFCI Venture Capital Funds Ltd (IVCF) is a public financial institution and the venture capital arm of IFCI Ltd. IFCI Ltd is the parent company and held a 98.59% stake in the company as on 31 March 2020.

NBFC: In 2009, the company started lending activities and is registered as a non-deposit taking NBFC with the RBI. It provides short- and long-term finance/soft loans to ventures/entrepreneurs and corporates.

AMC: The venture capital funds are floated as Trust Funds, and IVCF derives income from the fund management activities by way of a management fee on the corpus/outstanding amount of funds. The company manages a fund named Venture Capital Fund for Scheduled Castes and Backward Classes with two schemes named Venture Capital Fund for Scheduled Castes (VCF-SC) and Venture Capital Fund for Backward Class (VCF-BC). IVCF has also invested in these funds as a VC investor. This fund had an outstanding corpus of Rs. 682.03 Crs with a current investment outstanding of Rs. 231.97 Crs as on 31 March 2020. In FY20, the company closed three funds, namely Green India Venture Capital (GIVF),

India Enterprise Development Fund (IEDF) and Indian Automotive Component Manufacturers (IACM) and launched a new scheme named Venture Capital Fund for Backward Class in October 2019 under a fund named Venture Capital Fund for Scheduled Castes and Backward Classes.
During FY18, Mr. E Sankara Rao (MD of IFCI Ltd) joined the company's board as its chairman, and Mr. Shivendra Tomar joined the company as its managing director in FY21.

Company's Financial Performance

	Units	31.03.2019	31.03.2020
Key Parameters		**Audited**	**Audited**
Net Interest Income	Rs. Crores	23.88	11.61
PAT	Rs. Crores	-28.99	0.60
Tangible Net Worth	Rs. Crores	166.51	166.99
CRAR	%	44.32	51.40
Total Portfolio	Rs. Crores	268.51	205.02
Gross NPA	%	51.13	80.69
Net NPA	%	35.07	68.89

Rating History for the last three years [including withdrawn and suspended ratings]

Facilities	Current Rating			Rating History		
	Type	**Amount (₹ Crs)**	**Rating**	**2019**	**2018**	**2017**
NCDs	**Long Term**	99.36	**BWR BB+/Negative**	BWR BB+/Stable	BWR BBB+/Stable	BWR A-/Stable
Total		**99.36**	**INR Ninety Nine Crores and Thirty Six Lakhs Only**			

Status of non-cooperation with previous CRA: NA

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Banks and Financial Institutions**

Analytical Contacts	Investor and Media Relations
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IFCI Venture Capital Funds Ltd

ANNEXURE I: Details of the NCDs

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		5.10	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

For print and digital media The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

About Brickwork Ratings : Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partners. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.