

No. CARE/DRO/RL/2017-18/2140

Mr. Deepak Mishra  
Managing Director  
IFCI Venture Capital Funds Limited  
IFCI Tower, 61, Nehru Place,  
New Delhi - 110019

October 04, 2017

Dear Sir,

**Credit rating for bank facilities and Instruments**

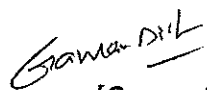
Please refer to our letter dated August 31, 2017 on the above subject.

2. The rationale for the rating(s) is attached as an Annexure - I. Kindly note that the rationale would be published in the forthcoming issue of our monthly journal, 'CAREVIEW'.
3. A write-up (brief rationale) on the above rating(s) is proposed to be issued to the press shortly. A draft of this is enclosed for your perusal as Annexure - II.
4. We request you to peruse the annexed documents 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 October 06, 2017 we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

  
[Akanksha Gupta]  
Deputy Manager  
[akanksha.gupta@careratings.com](mailto:akanksha.gupta@careratings.com)

Yours faithfully,  
  
[Gaurav Dixit]  
Deputy General Manager  
[gaurav.dixit@careratings.com](mailto:gaurav.dixit@careratings.com)

Encl: As above

CARE Ratings Limited  
(Formerly known as Credit Analysis & Research Limited)

**Rating Rationale**  
**IFCI Venture Capital Funds Ltd**

**Ratings**

S. No	Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
1	Long term Bank Facilities	196.68*	CARE BBB+ (SO); Negative [Triple B Plus (Structured Obligation); Outlook: Negative]	Reaffirmed
2	Long term Bank Facilities - Proposed	195.00#	Provisional CARE BBB+ (SO); Negative [Triple B Plus (Structured Obligation); Outlook: Negative]	Reaffirmed
3	Long-term Bank Facilities	92.63	CARE BBB; Negative [Triple B; Outlook: Negative]	Revised from CARE BBB+; Negative [Triple B Plus; Outlook: Negative]
4	Long/Short-term Bank Facilities	25.00	CARE BBB; Negative / CARE A3+ [Triple B; Outlook: Negative/ A Three Plus]	Revised from CARE BBB+; Negative/ CARE A2+ [Triple B Plus; Outlook: Negative/ A Two Plus]
	<b>Total Bank Facilities</b>	<b>509.31</b> <b>(Rupees Five hundred Nine crore and Thirty One lakhs only)</b>		
5	Long-term NCDs	177.60 (Rupees One hundred Seventy Seven crore and Sixty lakh only)	CARE BBB; Negative [Triple B; Outlook: Negative]	Revised from CARE BBB+; Negative [Triple B Plus; Outlook: Negative]

\* backed by the Letter of Comfort from IFCI Ltd (rated 'CARE A-; Negative/CARE A1').

#proposed to be backed by the Letter of Comfort from IFCI Limited

**Rating Rationale**

The revision in the ratings assigned to the bank facilities & debt instruments (S. No. 3, 4 and 5 in the above table) of IFCI Venture Capital Funds Ltd (IVCF) factors in the deterioration in the asset quality parameters as on March 31, 2017 and modest operational performance in FY17 (refers to the period April 01 to March 31). The ratings, however continue to factor in its parentage being a subsidiary of IFCI Ltd (IFCI), explicit support from IFCI in the form of funding, managerial and

<sup>2</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

business development support, moderate level of business diversification, diversified resource profile, comfortable capitalization and adequate liquidity position. However, these strengths are partially off-set by vulnerability of asset quality on account of customer concentration risk and exposure to high-risk sectors of real estate and infrastructure and the exposure to capital market volatility.

Going forward, continuation of support by IFCI, the ability of IVCF to improve its asset quality and sustain profitable operations would be the key rating sensitivities.

The ratings assigned to the long-term facilities (S. No I and II in the above table) are based on the credit enhancement in the form of a 'Letter of Comfort' provided by IFCI (rated 'CARE A-; Negative/ CARE A1').

The ratings assigned to the various bank facilities and instruments of IFCI Ltd (IFCI) factor in the sharp deterioration in the asset quality parameters as on March 31, 2017 and decline in profitability with net loss in FY17 (refers to the period April 01 to March 31). The rating also factors in de-growth in the loan portfolio and vulnerability of asset quality on account of client concentration. The ratings however, continue to derive strength from the majority ownership by Government of India (GOI), adequate capitalization, adequate liquidity and diversified resource profile of the company. Going forward, growth in loan portfolio while improving asset quality, profitable operations and maintaining adequate liquidity and capitalization would be the key rating sensitivities for IFCI Ltd.

#### **Outlook: Negative**

The outlook on the ratings is 'Negative' as CARE expects the stress on the asset quality of IVCF to continue in the short-to-medium term which would adversely impact its profitability and capitalization. The outlook may be revised to 'Stable' if the deterioration in asset quality is arrested with sustained improvement in profitability.

#### **Background**

IFCI Venture Capital Funds Ltd (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

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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 loan portfolio amounted to Rs.647.3 crore as on March 31, 2017

### **Credit Risk Assessment**

#### ***IFCI parentage with operational support and direct brand linkages***

IFCI Ltd has majority shareholding of 98.60% in IFCI Venture. IFCI Ltd has provided support in the form of capital infusion, management support, network for referral business and initiating fund management business for IFCI Venture. Furthermore, IFCI Ltd has provided Letter of Comfort of up to Rs.400 crore for various borrowings raised by IVCF. In addition, IFCI Ltd has given credit line of Rs.50 crore which would act as backup line of credit for IFCI Venture.

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

IFCI Venture has moderate business diversification with fund-based income from loan against shares/property portfolio and investment income from venture capital funds and non-fund-based income from fund management. In FY17, 83% of the total income was by way of interest income, 4% investment income while 10% was fee income.

#### ***Diversified borrowing profile***

IFCI Venture borrowings primarily consist of bank loans and long-term instruments like Bonds and Debentures. Diversified borrowing profile has helped IFCI Venture to keep its cost of funds at moderate level. As on March 31, 2017, the total borrowings stood at Rs.497 crore, raised in form of bank term loans, secured bonds, unsecured bonds and OD/CC/Short-term loans.

### ***Comfortable capitalization and liquidity position***

The CAR was comfortable at 28.17% as on March 31, 2017 (28.5% as on March 31, 2016) while Tier-I CAR stood at 27.92% as on March 31, 2017 (28.27% as on March 31, 2016). Furthermore, the liquidity position of IVCF remains comfortable as on March 31, 2017.

### ***Modest financial performance in FY17***

The loan portfolio as on March 31, 2017 stood at Rs.647 crore as against Rs. 621 crore as on March 31, 2016, registering a growth of 4.2% y-o-y. The total income of IVCF registered growth of 1.28% y-o-y in FY17 to Rs. 94.3 crore as against total income of Rs. 93.1 crore in FY16. However, Net interest spread declined to 1.36% in FY17 from 2.90% in FY16 due to decline in interest yield and increase in average borrowing cost. The NIM and ROTA declined to 3.44% and 2.68% respectively in FY17 (PY: 4.27% and 3.16% respectively).

### ***Stress on Asset Quality***

The asset quality deteriorated as on March 31, 2017 as reflected by Gross NPA and Net NPA of 16.83% and 13.47% respectively as on March 31, 2017 (11.82% and 8.95% respectively as on March 31, 2016). Fresh slippages of Rs.35.50 crore coupled with relatively lower recoveries of Rs. 0.02 crore, led to deterioration in asset quality in FY17. Net NPA/Net worth stood at 38.47% as on March 31, 2017 (26.21% as on March 31, 2016). The net stressed asset to net worth ratio as on March 31, 2017 declined to 38.47% from 36.06% as on March 31, 2016

### ***Concentration in Loan book***

As on March 31, 2017, top 20 exposures accounted for a significant proportion of net worth (186%) as well as of lending book (63%) thereby exposing IFCI Venture to high customer concentration risk. Furthermore, around 49% of the loan portfolio is concentrated in high risk real estate and infrastructure sector. Also, given that the company is engaged in lending against shares, IVCF is exposed to the risk related to the volatility in capital market.

## Financial Performance

(Rs. Crore)

<i>For the period ended / as at March 31,</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
	<i>(12m, A)</i>	<i>(12m, A)</i>	<i>(12m, A)</i>
<b>Working Results</b>			
Interest Income	62.75	74.57	77.88
Interest & Financial Charges	32.10	46.46	54.68
<b>Net Interest Income</b>	<b>30.65</b>	<b>28.10</b>	<b>25.28</b>
Fee Income	7.77	9.98	9.42
<b>Total Income</b>	<b>78.53</b>	<b>93.10</b>	<b>94.30</b>
Operating Expenses & Provisions	10.84	16.39	11.83
PBT	35.56	30.20	27.76
PAT	24.93	20.81	19.64
<b>Financial Position</b>			
Tangible Net worth	191.98	205.52	217.77
Total Borrowings	377.54	503.93	497.39
Total Investments	86.24	92.44	82.29
Loan Portfolio (Gross)	487.77	621.21	647.30
Total Assets	585.42	730.06	738.10
<b>Key Ratios</b>			
<i>Solvency</i>			
Overall gearing ratio(times)	1.97	2.45	2.28
Interest coverage(times)	2.11	1.65	1.51
Capital Adequacy Ratio (CAR) (%)	32.31	28.50	28.17
Tier I CAR (%)	32.11	28.27	27.92
<i>Profitability</i>			
Interest Income/Avg. loans (%)	14.63	13.44	12.28
Interest exp./Average borrowings (%)	9.51	10.54	10.92
Interest Spread (%)	5.11	2.90	1.36
Net Interest Margin (NIM) (%)	5.74	4.27	3.44
ROTA (%)	4.67	3.16	2.68
<i>Asset Quality</i>			
Gross NPA (%)	5.95	11.82	16.83
Net NPA (%)	4.18	8.95	13.47
Net NPA/Net worth (%)	10.42	26.21	38.47

### About the Promoter (IFCI Ltd)

Incorporated on July 01, 1948, through a special Act of Parliament, IFCI is the oldest development Financial Institution of India. The constitution of the company was changed from a statutory corporation to a public limited company in 1993. Subsequently, the name was also changed to its present name with effect from October 1999. IFCI has been categorized as Systemically Important Non-Deposit taking Non-Banking Financial Company (NBFC-ND-SI) by the Reserve Bank of India in

FY08. In the early 2000s, IFCI witnessed deterioration in asset quality, resulting in high losses. Thereafter, the Government of India in 2002-03, in consultation with the other stakeholders, worked out a financial rescue package for IFCI which included restructuring of its liabilities. IFCI resumed its lending operations in the year 2008 and is since engaged in providing corporate loans and project-specific loans to corporates. In addition, IFCI also invests in companies through equity, preference shares and debt instruments. In April 2015, IFCI became a government company u/s 2(45) of the Companies Act, 2013 after the government acquired Rs.60 crore of preference share equity in the company from existing shareholders. GoI holds 51% stake (paid up equity and preference share capital) in IFCI as on March 31, 2017.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total income	4,007	2,874
PAT	337	-458
Interest coverage (times)	1.54	1.20
Total Assets	36,087	30,889
Net NPA (%)	9.54	27.03
ROTA (%)	0.96	-1.37

A: Audited

*The detailed rationale of IFCI Ltd can please be referred to it at [www.careratings.com](http://www.careratings.com).*

**Details of Rated Facilities  
IFCI Venture Capital Funds Ltd**

**1. Long-term facilities**

**1. A. Rupee term loans - Standalone basis**

(Rs. crore)

Sr. No.	Lender	Rated Amount	Remarks
1.	South India Bank	10.96	Outstanding
2.	Vijaya Bank	2.92	Outstanding
3.	Karur Vyasa Bank	18.75	Outstanding
4.	Proposed	50.00	Proposed
	<b>Total</b>	<b>82.63</b>	

**1. B. Fund Based limits - Standalone basis**

Sr. No.	Name of Bank	Fund Based Limits (Rs. Crore)		
		Cash Credit	Others	Total fund-based limits
1	South Indian Bank	10.00	-	10.00
	<b>TOTAL</b>	<b>10.00</b>	<b>-</b>	<b>10.00</b>

**1. C. Rupee term loans - Backed by Letter of Comfort from IFCI Ltd**

(Rs. crore)

Sr. No.	Lender	Rated Amount	Remarks
1.	State Bank of India	55.00	Outstanding
2.	State Bank of India	65.00	Outstanding
3.	Punjab National Bank	35.00	Outstanding
4.	South India Bank	41.68	Outstanding
5.	Proposed	195.00	Proposed
	<b>Total</b>	<b>391.68</b>	

**Total long-term facilities (1.A. + 1.B. + 1.C)      Rs. 484.31 crore**

**2. Long /Short term Facilities**

**2. A. Fund Based limits**

Sr. No.	Name of Bank	Nature of Facility	Amount (Rs. Crore)
1	Karur Vyasa Bank	Cash Credit	25.00
	<b>TOTAL</b>		<b>25.00</b>

**Total short-term/long-term facilities (2. A.)      Rs 25.00 crore**

**Total bank facilities (1 + 2)      Rs. 509.31 crore**



### 3. Details of Instruments

NCD	Rs. Cr	RoI (%)	Allotment Date	Redemption Date	Put/Call Option, if any	ISIN
Secured NCD	78.30	10.75	24-Jan-12	24-Jan-22	At par at the end of 5 <sup>th</sup> year and 7 <sup>th</sup> year resp.	INE727M09026; INE727M09018
Secured NCD	64.20	10.25	16-Oct-12	16-Oct-17	-	INE727M09059
				16-Oct-22	At par, at the end of 7 <sup>th</sup> year	INE727M09067
Secured NCD	15.10	10.15	18-Feb-13	18-Feb-23	At par, at the end of 5 <sup>th</sup> year	INE727M09075
Secured NCD	20.00	10.80	10-Oct-14	10-Oct-24	-	INE727M09083
<b>Total</b>	<b>177.60</b>					

#### Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. 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.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is 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.