

India Ratings Assigns InnoVen Capital India's Additional Bank Loans 'IND AA-/Stable

20

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India Ratings and Research (Ind-Ra) has rated InnoVen Capital India Private Limited's (InnoVen India) additional bank loans as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Bank loans	-	-	-	INR1.25	IND AA-/Stable	Assigned

KEY RATING DRIVERS

Support from Parent: Ind-Ra expects continued support from InnoVen India's parent InnoVen Capital Pte Ltd. (InnoVen Capital), a 50:50 joint venture between Temasek Holdings (Private) Limited (Temasek) and Singapore-based United Overseas Bank Limited (UOB; Fitch Ratings Ltd: Issuer Default Rating: 'AA-/Stable). Temasek is an investment company owned by the Singapore Minister for Finance, a body corporate under the Singapore Minister for Finance (Incorporation) Act (Chapter 183). The board members are appointed by the joint venture partners. The board has a strong supervision on InnoVen India's operations.

Further Room for Equity Infusions: InnoVen India is of modest strategic importance to its parent. Temasek and UOB have committed to infuse USD100 million each in InnoVen Capital for its venture debt initiatives in Asian markets. InnoVen India has received USD50 million equity from InnoVen Capital so far. At InnoVen Capital, an equity outlay of USD100 million is still available for future growth of InnoVen Capital's business, including that in India, and should be comfortable to fund growth in the medium term. The sponsors are supportive of future capital infusion, as and when required.

Parent Focused on Venture Funding Ecosystem: In 2013, Temasek increased its focus on the venture funding segment by establishing the Enterprise Development Group to fund early-stage businesses and develop new business models. In 2016, UOB started its own accelerator programme, The FinLab, for global financial technology start-ups, as a part of a joint venture with SG Innovate, a Singaporean government-owned investment vehicle. Ind-Ra expects InnoVen India to be an integral part of the broader strategies of Temasek and UOB to penetrate and develop the venture funding ecosystem in Asia

Comfortable Equity Buffers in Medium Term: Although InnoVen India's leverage (debt to equity) was comfortable at 0.8x in 1QFY19, its leverage level is likely to reach 2.0x-2.5x by FYE22. Its tier 1 ratio (1QFY19: 51.7%) is sufficient for addressing growth requirements. Even in a severe stress case scenario, Ind-Ra expects InnoVen India's equity/asset ratio to remain above 25%.

Ability to Manage Delinquencies Critical with Timely Exit: The company's business model represents concentrated book (the top seven borrowers accounted about 40% of the loan book as on 30 June 2018), loan originations based on venture capital referrals, along with evolving business models of its borrowers, making it vulnerable to uncertain cash flows. While Ind-Ra takes comfort from multiple cycles that InnoVen India has seen, the company had written off certain proportion of its legacy loans (FY12-FY15) in FY18 and Q1FY19 (6.8% of the current book) as management adopted new write-off policy. It also adopted accelerated provisioning policy, ahead of the regulatory requirement which provides 100% provision for overdue account greater than two years, as a part of its policy to keep provision coverage ratio similar across geographies. The management indicated few of the companies are in recovery stage through secondary market sale of their assets. However, Ind-Ra derives comfort from the portfolio quality as cumulative write-offs as percentage of cumulative disbursements since inception were 2.6%.

The gross non-performing asset ratio reduced to 3.4% in 1QFY19 (FY18: 5.4%, FY17: 5.4%) mainly due to the aforesaid write-offs. Ability to manage incremental delinquencies would be a key monitorable. The early indicator of portfolio quality remained reasonable in 1QFY19 measured by runway (number of months of cash flow available for operating expenses) available for individual loan portfolio.

Profitability under Pressure in FY18: Historically, InnoVen's return on assets averaged 7% over FY13-FY17, driven by healthy yields and modest operating and credit costs. However, in FY18, owing to write-offs of large part of older originations loans (FY12-FY15), InnoVen reported modest profitability of INR0.35 million in FY18 (FY17: INR344.5 million). During 1QFY19, it reported net profit of INR89.0 million which led to annualised return on assets of 5.3%.

Ability to Price Risks Appropriately Crucial: Considering InnoVen India was the first mover in the space, it had a pricing power in terms of yields on advances, along with processing fees, right to subscribe (typically 10-12% of its exposure is in the equity warrants of INR672.24 million in 1QFY19) and a back-ended kicker, as well as back-ended fees. However, with new and established players offering value proposition to potential customers, competition has increased in the space. The ability to price inherent risks while growing the book aggressively without adverse selection of customers will be a key monitorable.

RATING SENSITIVITIES

Positive: InnoVen India's ratings are support-driven. Achieving scale along with sustained operational performance and further demonstration of support, with increased linkages with the parent, could lead to the Outlook revision to Positive.

Negative: A decline in the existing linkages between the parent and InnoVen India, and the depletion of the equity available on call with the parent or a multiple-notch negative rating action on the parent could lead to a downgrade. Also, deterioration in the asset quality leading to a drop in the operating and capital buffers can lead to a negative rating action.

COMPANY PROFILE

InnoVen India, the first venture lending firm in India, started operations in the country in 2008. It was renamed InnoVen Capital India Private Limited from SVB India Finance Private Limited after it was bought by Temasek and UOB in 2015. InnoVen Capital has investor commitments totalling USD200 million.

FINANCIAL SUMMARY

Particulars	FY18	FY17
Total assets (INR million)	6,189	6,816
Total equity (INR million)	3,682	3,682
Net profit (INR million)	0.3	344.5
Return on average assets (%)	0.0	6.1
Equity/assets (%)	59.5	54.0
Tier 1 capital (%)	59.6	51.6
Source: InnoVen India		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	12 April 2018	15 September 2017	14 March 2017
Issuer rating	Long-term/Short-term	-	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+
Bank loans	Long-term	INR6.25	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable
Commercial paper*	Short-term	INR0.75	IND A1+	IND A1+	IND A1+	IND A1+

* Details are given in Annexure

ANNEXURE

Instrument Type	Maturity Date	Size of Issue (billion)	Rating
CP	19 October 2018	INR0.75	IND A1+

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Applicable Criteria

[Financial Institutions Rating Criteria](#)

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