

India Ratings Affirms InnoVen Capital at 'IND AA-'/Stable & its CP at 'IND A1+'

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MAY 2020

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India Ratings and Research (Ind-Ra) has affirmed InnoVen Capital India Private Limited's (InnoVen India) Long-term Issuer Rating at 'IND AA-' with Stable Outlook and Short-Term Issuer Rating at 'IND A1+'. The instrument wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Bank loans	-	-	-	INR6,250	IND AA-/Stable	Affirmed
Commercial paper	-	-	7-365 days	INR750	IND A1+	Affirmed

Analytical Approach: The Long-Term Issuer Rating of InnoVen India is support driven. Ind-Ra expects continuous support from Temasek Holdings (Private) Limited (Temasek) and Singapore-based United Overseas Bank Limited in light of its indirect 100% ownership of InnoVen India.

KEY RATING DRIVERS

Continued 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 corporate under the Singapore Minister for Finance (Incorporation) Act (Chapter 183). The parent foresees InnoVen India as a platform to promote venture debt lending in India and intends to leverage the latter's experience and relationships with borrowers for its equity and debt investments. The board members are appointed by joint venture partners and the representatives of the parent are also the part of the board.

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.

Additional Equity Commitment from Sponsors: In 2015, Temasek and UOB committed to infuse USD100 million each in InnoVen Capital for its venture debt initiatives in the Asian markets. So far, InnoVen India has received USD70 million in equity from InnoVen Capital, of which USD10 million was infused in July 2019. In FY20, Temasek and UOB have further committed substantial additional capital of USD200 million, demonstrating their strong support. This takes the collective equity outlay available for all three entities of InnoVen Capital based in China, Singapore and India (InnoVen India) to over USD200 million amid the unprecedented times of COVID-19 pandemic thereby aiding a stretch in the liquidity position, if any in the coming times. The sponsors are supportive of future capital infusion, as and when required.

Comfortable Equity Buffers: Although InnoVen India's leverage (debt/equity) was comfortable at 0.5x as at end-FY20 (unaudited; FY19: 0.5x), the management does not expect the same to exceed 1.5x. The company had adequate capital buffers in the form of tier-1 ratio of 59.0% as at end-FY20 (end-FY19: 54.9%). Even in a severe stress case scenario, Ind-Ra expects InnoVen India's equity/asset ratio to remain above 30%.

Liquidity Indicator – Adequate: As at end-FY20, InnoVen India had adequate short-term assets to cover all its liabilities up to one year period, with the short-term assets exceeding short-term liabilities (in the up to one year bucket) by 27.9% as a percentage of total inflows. As on 30 April 2020, the company had adequate cash and liquid investments of INR1,630 million, which even in the worst case scenario of nil inflows for 1HFY21 and no access to undrawn bank lines of INR910 million and no roll-over of short-term borrowings of INR1,000 million, is adequate to cover outflows (debt repayment, interest expense and operating costs) of INR1,610 million for 1HFY21 (till September 2020). Of the total

outstanding loan book as at end-FY20, about one third of the borrowers had availed of the Reserve Bank of India's moratorium and the balance are servicing their debt obligations to the company, which will further aid liquidity in the current times. The total outstanding loan book, which is expected to mature in the next 12 months is over INR4,900 million.

Profitability to be Under Pressure for FY21: InnoVen India reported robust profit of INR780 million and INR567 million in FY19 and FY20, which led to return on assets of 10.7% and 6% and return on equity of 17.6% and 9.8%, respectively. The profitability improved partly driven by the gains resulting from the exit from right to subscribe (RTS) transaction of INR263 million and INR238 million in FY19 and FY20, respectively, and an increase in the mark-to-market realisation of INR486 million and INR70 million, respectively.

The company exited three of its RTS transactions in the last two fiscals, which were substantially in-the-money. InnoVen India can exit from its existing RTS positions based on the valuation of its borrower company by raising new venture capital funds. The value of the RTS transactions is an integral part of the venture-debt model and the market-led movement in the value of the RTS adds to volatility in the company's profitability. The agency believes that given the challenging global economic environment amid the COVID-19 pandemic, fewer venture capital deals are likely to be completed in FY21, than in FY19 and FY20. Further, the agency believes the valuations of the borrower companies may not materially increase and expects a few to slip to the non-performing asset (NPA) category, leading to mark-to-market loss on RTS position, and rising credit costs on the existing exposure, thereby affecting near-term profitability. However, the agency notes that while the gross NPA as on end-FY20 was 0.5%, the company had already made provisions of 4.4% on its existing loan book (of INR7,940 million); the provision also includes provision on overdue standard (not NPA) accounts as well as current watchlist accounts (not overdue) and, hence significant credit costs are already covered.

InnoVen India ramped up its annual disbursements at INR5,546 million and INR6,074 million in FY19 and FY20, respectively; however, for FY21, the management intends to focus on maintaining stable asset quality levels and is extremely conservative on taking on any incremental exposures in the near-term. Further, some of the borrower companies have already completed their equity infusion rounds with venture capital funds, which adds to its liquidity buffers. As per the management, the disbursements for FY21 would be lower than the previous two fiscals and the bar for credit quality of the prospect client will be much higher. Hence, in the agency's view, muted credit growth for FY21 coupled with the expectation of not being able to exit RTS positions and increase in credit costs is expected to pressurise the company's profitability for FY21.

Controlling Delinquency Levels Critical; Macroeconomic Stress May Aggravate: InnoVen India has been able to maintain stable asset quality in the last two fiscals with gross NPA (excluding write-offs) at 0.5% as at end-FY20 (end-FY19: 0.6%) mainly due to the exclusion of writeoffs; the write-offs as a percent of outstanding loan book was at 0.7%, as at end-FY20 (end-FY19: 3.1%). The company has stringent credit risk ranking (CRR) framework, wherein, it assigns the rank to each borrower between CRR one and CRR 10 – with CRR one been the highest and safest investment rank. About 73% of the portfolio has CRR rated at three, which as per internal parameters confirms that the borrower does not have any prior track record of default; no outstanding covenant breaches and has satisfactory relationship with its bankers.

Within the CRR framework, InnoVen India also measures minimum liquidity reserve or the number of runway months the operation of the borrower company can survive in the absence of incremental funding or debt. The bulk of the borrowing companies have cash to run the business for more than nine months. The borrowing companies with runway months of less than six months as at end-FY20 were 16% of the outstanding loan book; the agency notes that majority of the borrowing companies are in advanced-stage discussions with venture capital funds to raise capital in the near-term, and a few have already completed equity infusion rounds with venture capital fund which adds to their liquidity buffers. Hence, in the agency's view, given the unprecedented situation, its asset quality may come under pressure in the near-term if the venture capital deals do not materialise with borrower companies (especially the ones with low runway months' liquidity) or the business may take longer than expected to normalise for the borrower companies.

RATING SENSITIVITIES

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

Negative: A decline in the existing linkages in terms of dilution in shareholding and business involvement 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 decline in the operating and a significant fall in liquidity buffers (on balance sheet liquidity of less than three months) can lead to a negative rating action.

COMPANY PROFILE

InnoVen India, the first venture lending company 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.

FINANCIAL SUMMARY

Particulars	FY20 (unaudited)	FY19
Total assets (INR million)	10,544	8,362
Total equity (INR million)	6,411	5,169
Net profit (INR million)	567	780

Return on average assets (%)	6.0	10.7
Equity/assets (%)	54.9	61.8
Tier 1 capital (%)	59.0	54.9
Source: InnoVen India		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	13 May 2019	20 September 2018	15 September 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	INR6,250	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable
Commercial paper	Short-term	INR750	IND A1+	IND A1+	IND A1+	IND A1+

COMPLEXITY LEVEL OF INSTRUMENTS

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Applicable Criteria

[Financial Institutions Rating Criteria](#)

[Non-Bank Finance Companies Criteria](#)

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