July 01, 2022

Vivriti Capital Private Limited: Ratings upgraded; Outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Market Linked Debentures (MLD)	81.00	81.00	PP-MLD[ICRA]A (Stable); upgraded from PP-MLD [ICRA]A- and outlook changed to Stable from Positive
Non-convertible Debentures (NCDs)	438.00	438.00	[ICRA]A (Stable); upgraded from [ICRA]A- and outlook changed to Stable from Positive
Long Term – Fund based CC	40.00	50.00	[ICRA]A (Stable); upgraded from [ICRA]A- and outlook changed to Stable from Positive
Long Term – Term loans	571.79	1050.00	[ICRA]A (Stable); upgraded from [ICRA]A- and outlook changed to Stable from Positive
Long Term – Unallocated	488.21	0.00	-
NCDs	46.49	46.49	[ICRA]AA+(CE) (Stable); outstanding
MLD	75.00	75.00	PP-MLD [ICRA]AA+(CE) (Stable); outstanding
MLD	50.00	50.00	PP-MLD [ICRA]AA+(CE) (Stable); outstanding
MLD	50.00	50.00	PP-MLD [ICRA] AA+(CE) (Stable); outstanding
Total	**1,840.49**	**1,840.49**	

** Instrument details are provided in Annexure I; For credit enhanced ratings of the entity, refer to the rationales given under the Structured Finance section here. The letters, PP-MLD, prefixed to a rating symbol stand for principal protected market linked debentures. According to the terms of the rated instrument, the amount invested, i.e. the principal, is protected against erosion while the returns on the investment could vary, being linked to movements in one or more variables such as equity indices, commodity prices, and/or foreign exchange rates. The rating assigned expresses ICRA's current opinion on the credit risk associated with the issuer concerned. The rating does not address the risks associated with variability in returns resulting from adverse movements in the variable(s) concerned*

Rationale

ICRA has taken a limited consolidation approach vis-à-vis the full consolidation approach followed in the past for assessing Vivriti Capital Private Limited (Vivriti). Under the full consolidation approach, ICRA was factoring in the consolidated risk profile of Vivriti and its subsidiaries, namely CredAvenue Private Limited (CAPL) and Vivriti Asset Management Private Limited (VAM). CAPL raised equity in September 2021 and March 2022 and Vivriti's share in CAPL consequently reduced to 51% (on a fully-diluted basis as of March 2022). Following this, Vivriti has not retained control on CAPL and has classified it as an associate. Further, Vivriti's holdings in CAPL are expected to be demerged going forward, with Vivriti's shareholders having direct holdings in CAPL. VAM also raised equity capital in Q1 FY2023 and Vivriti holds a stake of 66.66% as on date. VAM is expected to remain Vivriti's subsidiary, going forward. Under the limited consolidation approach, ICRA has factored in only the expected funding support (equity or debt) from Vivriti to VAM. In ICRA's view, VAM is expected to remain self-sufficient in the near term and funding support from Vivriti is expected to be modest.

The rating action takes into consideration the increase in Vivriti's scale of operations and the improvement in its earnings performance. Its assets under management (AUM) increased to Rs. 3,880 crore in March 2022 from Rs. 1,905 crore in March 2021 (Rs. 1,009 crore in March 2020), while its return on average managed assets improved to 1.9% in FY2022 from 1.6% in FY2021. The earnings performance was supported by the improvement in the operating efficiency and lower credit cost. ICRA, however, notes the pressure on the company's margins; a sustained performance in an increasing interest rate environment would be key from an earnings perspective.

Vivriti has steep growth plans with the AUM expected to growth at a cumulative average growth rate (CAGR) of about 50% over the next two years. It raised equity of about Rs. 537 crore over FY2022 and Q1 FY2023, which has helped it keep its capital profile under control even as the AUM expanded at a steep rate. The company has raised a total of Rs. 1,297 crore since its incorporation in 2018. Considering the growth plans, Vivriti would be required to raise capital regularly, going forward, as it intends to keep its managed gearing below 4x. Vivriti's liquidity profile is adequate at present and it has been able to improve its lender base significantly in the recent past. It also expects to secure funding from overseas/international lenders going forward, which is expected to drive the expected growth in the AUM and improve its earnings profile.

The ratings also take into consideration Vivriti's exposure to borrowers with a moderate risk profile. However, portfolio concentration has moderated with the top 20 exposures reducing to 26% of the AUM in March 2022 vis-à-vis 29% in March 2021 (42% in March 2020). The concentration is envisaged to reduce further going forward. Vivriti's credit exposures are largely to small-and-mid-sized non-banking financial companies (NBFCs) and enterprises (other than financial sector entities) and it had disbursed about Rs.8,705 crore since inception (of which Rs. 1,183 crore were disbursed to non-financial enterprises over the last two years). Vivriti has maintained a healthy asset quality with gross stage-3 of 0.3% as of March 2022. ICRA also takes note of the steady increase in the share of non-financial enterprises and retail (via co-lending arrangements and direct assignment transactions) in the overall AUM; the performance of the exposures to non-financial enterprises would remain a monitorable.

Key rating drivers and their description

Credit strengths

Improving scale of operations – Vivriti has scaled up its AUM since the start of its operations in FY2018 and it achieved an AUM of Rs. 3,880 crore as of March 2022 (Rs. 3,678 crore; excluding the trading book[1]). The AUM consists of exposures to financial service entities (~46% as of March 31, 2022), followed by non-financial enterprises finance (~17%), co-lending, PTC and DA (~32%) and supply chain finance (SCF; ~5%). Within segment-wise exposure to entities, small business loan financing is the largest, contributing 19% (18% in March 2021) to the AUM as of March 31, 2022 followed by microfinance institution (MFI) financing at 13% (17% in March 2021). Going forward, the company is expected to further reduce the share of its exposure to financial services entities with increasing focus on the non-financial enterprises segment. The performance of the exposures in these segments would, however, remain a monitorable from a rating perspective.

Total non-retail exposures had increased to 208 entities in March 2022 vis-à-vis 148 in March 2021 and 122 in March 2020, which led to a reduction in the portfolio concentration in the recent past. The company's exposure to guarantees was modest at 1% while exposures to pass-through certificates (PTCs) increased to 8% as of March 2022 from 5% as of March 2021. However, it is to be noted that the subordinated PTC investments were restricted to less than 2% of the AUM. Going forward, the exposures to guarantees and subordinated PTC investments are likely to remain restricted. Vivriti also expects to increase the share of SCF and the retail book, driven by co-lending (secured by first loss default guarantee) partnerships, in the near term.

Capital profile supported by regular infusions – Vivriti's capitalisation profile is characterised by a managed gearing[2] of 3.0x as of March 2022. Vivriti had raised Rs. 317 crore of capital from its existing investors in FY2022 (March 2022) and another Rs. 220 crore of capital was raised from TVS Shriram Growth Fund (new investor) in May 2022. It had raised capital of Rs. 310 crore from Creation Investments LLC (Creations) during January-May 2019, Rs. 350 crore from LGT Lightstone in March 2020 and a further Rs. 100 crore from Creations in FY2021. ICRA expects the capital raised till date to be sufficient for the envisaged growth in FY2023. VAM also raised Rs. 77 crore from investors in FY2023 and Q1 FY0223 for its sponsor requirements. Vivriti intends to maintain the gearing levels below 4x while embarking on a steep growth plan over the medium term. As such,

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[1] Vivriti invests in debt securities (including market linked debentures) for a short duration (about 15-60 days), based on its liquidity and available investment opportunity

[2] (Total debt including guarantee/net worth)

Vivriti's ability to secure equity in a timely manner would be crucial, apart from securing commensurate funding lines, to grow the portfolio as envisaged.

Improving net profitability; managing interest margins would be a key monitorable – Vivriti's net profitability improved to 1.9% (2.0%, adjusted for the impact of the capital raised in March 2022) in FY2022 from 1.6% in FY2021 (1.0% in FY2020), driven by improvement in the operating costs and reduction in credit costs. Vivriti's operating costs reduced to 1.3% in FY2022 from 3.2% in FY2021. The provision & credit costs declined to 0.4% in FY2022 from 1.6% in FY2021 backed by lower delinquencies. However, ICRA notes that the interest spreads have not improved in line with the increase in the AUM, as the share of non-financial enterprises have increased, yields in which are generally lower than NBFCs. Going forward, its ability to maintain stability in the margins, given the expected increase in the cost of funds and the share of non-financial enterprises in the overall AUM, would be a key monitorable.

VAM reported a net loss of Rs. 25.8 crore in FY2022 compared to a loss of Rs. 5.8 crore in FY2021 because of the shares issued to the promoters (amounting to Rs. 21.7 crore) in lieu of their remuneration. The loss before this exceptional item and tax had narrowed down in FY2022 to Rs. 5.5 crore vis-à-vis the loss before tax of Rs. 7.7 crore in FY2021. ICRA expects minimal funding support from Vivriti to VAM, if required, in the near term. VAM's ability to generate sufficient internal capital would be crucial going forward.

Credit challenges

Steep growth plans – Vivriti has a limited track record as it commenced operations in June 2017. The company received its NBFC licence in January 2018. Vivriti's AUM approximately doubled in FY2022 to Rs. 3,880 crore as of March 31, 2022 from Rs. 1,905 crore as of March 2021. ICRA notes that majority of VCPL's exposures have an original tenor of less than 3 Years and are monthly amortising in nature. Going forward, Vivriti is expected to grow its AUM at a cumulative average growth rate (CAGR) of around 50% over the next two years. The growth is expected to be supported by increasing diversification into the non-financial enterprises segment and retail exposures via co-lending partnerships. While Vivriti is strengthening its operational and infrastructure requirements to support this growth, its ability to maintain the high growth rate amid the increasing competitive environment would be a monitorable.

Exposure to borrowers with moderate risk profile; increase in share of enterprise (non-financial sector) exposures a monitorable – Vivriti's credit exposures are predominantly to small-and-mid-sized NBFCs and corporates with moderate risk profiles. About 15% (not including co-lending, direct assignment, and SCF) of the AUM, as of March 2022, was towards entities that are not rated, down from about 26% in September 2021 (29% in March 2021). ICRA notes the steady increase in the share of non-financial enterprises finance in the overall AUM to ~25% (including SCF) in March 2022 vis-à-vis 14% in March 2020. As the company has a relatively modest track record in the enterprise segment vis-à-vis NBFCs and given its intention to increase its share further in this segment, the performance of this segment would remain a monitorable. The company has set up a separate team to scale-up the portfolio in the enterprise segment.

ICRA, however, notes the moderation in the concentration of exposures with the top 20 exposures accounting for about 26% of the AUM as of March 2022 (reducing from 29% as of March 2021) vis-à-vis 42% as of March 2020. Further, the increasing share of co-lending segment (21% as of March 2022) provides diversification benefits, supporting Vivriti's risk profile to an extent. Going forward, Vivriti's ability to reduce the concentration of its top exposures as per its envisaged plan would remain key from a rating perspective. As of March 31, 2022, the company had 30+ days past due (dpd) of 0.7% of the AUM (0.3% as of March 2021) and the gross stage 3 assets stood at 0.3% (0.3% as of March 2021), though the same was largely provided for. The impact of the IRAC norms, which are applicable from October 2022 is envisaged to be minimal on Vivriti' asset quality. Further, the company has not undertaken any restructurings till date. Vivriti carried provisions of 0.8% of the AUM as of March 31, 2022 (1.5% and 0.9% of the AUM as of March 31, 2021 and March 31, 2020, respectively). Going forward, the ability to keep the credit costs under control, considering the wholesale nature of the exposures and the growth perspectives, would be key from a rating perspective.

Liquidity position: Adequate

The company had Rs. 497.9 crore of cash and cash equivalents and Rs. 187.5 crore of undrawn bank lines as of April 30, 2022 against debt obligations of Rs. 559.0 crore during May-July 2022. The asset-liability maturity (ALM) profile, as of March 2022, reflected positive cumulative mismatches across all buckets. The liquidity profile also draws comfort from the collection efficiency, which stood at 99% in Q4 FY2022, though it dipped marginally to ~97% in Q1 FY2022 due to the intermittent Covid-19 pandemic-related lockdowns. Vivriti has about 46 lenders with banks and financial institutions comprising ~52% of the overall borrowings followed by NBFCs (15%); mutual funds, private wealth managers, commercial papers and other foreign investors accounted for the balance.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company significantly improves its earnings profile and keeps a tight control over its delinquencies. A sustained reduction in its exposure concentration could also positively impact the ratings.

Negative factors – ICRA could downgrade the ratings or revise the outlook to Negative if there is a deterioration in the asset quality (90+ dpd/AUM beyond 3%), thereby impacting the earnings performance on a sustained basis. A sustained weakening in the capital (net worth/AUM below 20%) or liquidity profile would also impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Limited Consolidation Approach
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of Vivriti. However, in line with ICRA's limited consolidation approach, the funding requirement of its subsidiary VAM, if any, going forward, has been factored in.

About the company

Vivriti Capital Private Limited is a registered non-deposit taking systemically important non-banking financial company (NBFC-ND-SI). Promoted by Mr. Vineet Sukumar and Mr. Gaurav Kumar in June 2017, Vivriti provides diverse debt financing solutions including loans, working capital finance and trade finance to NBFCs and other enterprises. It has also started expanding its presence in the retail segment through various co-lending partnerships with other NBFCs.

In FY2022, on a standalone basis, Vivriti reported a net profit of Rs. 67.4 crore on total managed assets of Rs. 4,824.4 crore while it reported a net profit of Rs. 30.0 crore on total managed assets of Rs. 2,244.6 crore in FY2021.

Vivriti has a subsidiary, VAM, which manages alternative investment funds (AIFs). VAM manages seven funds with a combined AUM of Rs. 1,270.5 crore as on March 31, 2022. In Q3 FY2021, Vivriti demerged its technology platform into a subsidiary company, CAPL. CAPL raised its first round of capital of Rs. 661 crore from various private equity investors including Lightspeed, Lightrock, TVS Capital, etc, in September 2021. On the basis of the shareholders' agreement, Vivriti did not retain control over CAPL, which became an associate of the company from September 2021.

Key financial indicators (audited) – IndAS

Vivriti Capital Private Limited (standalone)	FY2020	FY2021	FY2022
Total income	148.2	225.1	351.7
Profit after tax	10.3	30.0	67.4
Net worth	663.5	797.1	1,196.2
AUM	1,009	1,905	3,880
Total managed assets	1,545.6	2,244.6	4,824.4
RoMA	1.0%	1.6%	1.9%
Return on net worth	2.3%	4.1%	6.8%#
Gearing (times)	1.2	1.7	3.0*
Gross NPA	0.7%	0.3%	0.3%
Net NPA	0.1%	0.0%	0.07%
CRAR	64.5%	40.3%	29.57%

Source: Company, ICRA Research; # Net worth including equity raised in March 2022;
**gearing was 2.76x as per the audited financial statements (calculated excluding bank overdrafts and unamortised issue expenses)*
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	
			(Rs. crore)	(Rs. crore)	Jul-01-2022	Dec-22-2021	Aug-03-2021	Mar-19-2021	Feb-17-2020	Jul-04-2019
1	NCD	Long term	438.00	438.00	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	MLD	Long term	81.00	81.00	PP-MLD[ICRA]A (Stable)	PP-MLD[ICRA]A- (Positive)	PP-MLD[ICRA]A- (Stable)	PP-MLD[ICRA]A- (Stable)	PP-MLD[ICRA]A- (Stable)	PP-MLD[ICRA]A- (Stable)
3	Long-term fund-based CC	Long term	50.00	50.00	[ICRA]A (Stable)	[ICRA]A- (Positive)`	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4	Long-term fund-based TL	Long term	1,050.00	1,050.00	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
5	Long-term-Unallocated	Long term	0.00	0.00	-	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)

For credit enhanced ratings of the entity, refer to the rationales given under the Structured Finance section here

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible Debenture – Market Linked Debenture	Moderately Complex
Non-convertible Debenture	Simple
Bank Facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term - Term loans	Mar-19-2021	NA	Dec-31-2024	1,050.00	[ICRA]A (Stable)
NA	Long-term fund-based CC	NA	NA	NA	50.00	[ICRA]A (Stable)
INE01HV07148	NCD	Feb-02-2021	10.57%	Feb-02-2024	10.00	[ICRA]A (Stable)
INE01HV07031	NCD	Aug-16-2019	11.50%	Aug-16-2021*	10.00	[ICRA]A (Stable)
INE01HV07049	NCD	Aug-26-2019	12.12%	Aug-26-2022	20.00	[ICRA]A (Stable)
INE01HV07114	NCD	Dec-16-2020	10.00%	Jun-16-2022*	40.00	[ICRA]A (Stable)
INE01HV07122	NCD	Dec-31--2020	10.25%	Jun-30-2022	20.00	[ICRA]A (Stable)
INE01HV07148	NCD	Feb-10-2021	10.57%	Feb-10-2024	10.00	[ICRA]A (Stable)
INE01HV07163	NCD	Mar-18-2021	11.25%	Jul-25-2022	40.00	[ICRA]A (Stable)
INE01HV07189	NCD	May-25-2021	10.50%	Aug-25-2022	30.00	[ICRA]A (Stable)
Unutilised	NCD	NA	NA	NA	258.00	[ICRA]A (Stable)
INE01HV07064	MLD	Feb-13-2020	NIFTY LINKED	Aug-13-2021*	5.35	PP-MLD[ICRA]A (Stable)
INE01HV07106	MLD	Nov-27-2020	NIFTY LINKED	Nov-27-2022	10.00	PP-MLD[ICRA]A (Stable)
Unutilised	MLD	NA	NA	NA	65.65	PP-MLD[ICRA]A (Stable)

Source: Company

**ICRA is awaiting the relevant documentation from the company on these recently matured securities for withdrawal of the ratings outstanding*

Annexure II: List of entities considered for limited consolidated analysis

Company Name	Vivriti Ownership	Consolidation Approach
Vivriti Asset Management Private Limited	66.66%	Limited Consolidation

Source: Company

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