

July 12, 2024

## Vivriti Capital Limited: Update on Entity

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Market linked debentures (MLD)	65.65	65.65	PP-MLD[ICRA]A+ (Stable); outstanding
Non-convertible debentures (NCDs)	518.00	518.00	[ICRA]A+ (Stable); outstanding
NCD – Public issuance	500.00	500.00	[ICRA]A+ (Stable); outstanding
Long term – Fund-based CC	55.00	55.00	[ICRA]A+ (Stable); outstanding
Long term – Fund-based term loans	2,045.00	2,045.00	[ICRA]A+ (Stable); outstanding
<b>Total</b>	<b>3,183.65</b>	<b>3,183.65</b>	

\* Instrument details are provided in Annexure I

### Rationale

The rating factors in the continued scale-up of Vivriti Capital Limited's (VCL) operations, with its assets under management (AUM) increasing to Rs. 8,071 crore as of March 2024 from Rs. 5,836 crore as of March 2023, and the improvement in its earnings performance. VCL's profitability (profit after tax/average managed assets; PAT/AMA) improved to 2.3% in FY2024 from 2.2% in FY2023, supported by higher interest margins and controlled credit costs. ICRA expects the company's overall earnings performance to remain adequate in the near-to-medium term, though the interest margins could come under pressure in the near term in view of the competitive environment.

The ratings consider VCL's adequate capitalisation profile with a managed gearing of 3.8 times as of March 2024. The company has raised Rs. 1,399 crore of capital since its incorporation in 2018. The latest equity raise of Rs. 100 crore in FY2024 helped it keep its capital profile under control even as the AUM expanded at a high rate. VCL is looking to increase its AUM at a compound annual growth rate (CAGR) of about 35% over the next three years. Considering the growth plans, VCL would be required to raise capital regularly to keep its managed gearing below 4.0-4.5 times, going forward.

The ratings also factor in VCL's exposure to borrowers with a moderate risk profile, largely comprising small and mid-sized non-banking financial companies (NBFCs) and enterprises (other than financial sector entities), and its relatively limited vintage in lending to the non-financial enterprises and retail segments. The company's ability to maintain control on its asset quality amid the envisaged scale-up would remain crucial. However, ICRA notes that portfolio concentration has moderated with the top 20 exposures reducing to 12% of the AUM as of March 2024 from 20% as of March 2023 (25% in March 2022). This is expected to decline further, going forward. VCL's gross stage 3<sup>1</sup> increased to 1.1% as of March 2024 from 0.3% as of March 2023, mainly due to the change in the accounting in the co-lending/partnership segment, following the revised digital lending guidelines.

VCL, on June 28, 2024, intimated the stock exchanges that its board of directors has approved a composite scheme of arrangement (Proposed Scheme) between the company, Hari and Company Investments Madras Private Limited (HCIMPL), Vivriti Next Private Limited (VNPL), Vivriti Asset Management Private Limited (VAM; VCL's subsidiary operating as asset management company (AMC)), Vivriti Funds Private Limited (VFPL) and their respective shareholders. As per the proposed scheme,

1. the NBFC business of VCL would be demerged to HCIMPL.
2. Following this, VAM would be amalgamated with VCL as the first step, and consequently demerged to VFPL.

<sup>1</sup> Excluding the impact of change in accounting, gross stage 3 would be 0.55%

3. The resultant VCL, which would have its investment in CredAvenue Private Limited (CAPL; VCL's associate into the online platform business), would be merged with CAPL.

As per the proposed scheme, Vivriti group is separating the online platform business without any shareholding linkages with its NBFC and AMC businesses. Though, the demerged NBFC and AMC businesses would become 100% subsidiaries of VNPL following the implementation of the proposed scheme. The consideration for all the transactions in the scheme of arrangement would be through issuance / swap of shares. The proposed scheme is subject to regulatory approvals.

As a result of these transactions, the capital adequacy of the demerged NBFC business is expected to be impacted by around ~1.4%. Given that the company is adequately capitalised, with CRAR of 21.3% as of March 2024, ICRA does not expect the impact of the proposed scheme on the capitalisation profile to be significant. Further, the demerged NBFC business would continue to provide funding support, if required, to the demerged AMC business, in line with its previously stated position. Overall, ICRA is of the view that the credit profile of the demerged NBFC business would remain unchanged as a result of the implementation of the proposed scheme.

The Stable outlook reflects ICRA's opinion that the company would continue to benefit from its established clientele and partnerships in the financial sector, coupled with its stable underwriting and risk management practices, which would help maintain its performance over the near-to-medium term.

## Key rating drivers and their description

### Credit strengths

**Adequate near-term capitalisation** – VCL is adequately capitalised for its current scale of operations with a managed gearing<sup>2</sup> of 3.8 times as of March 2024 (3.3 times as of March 2023). The managed gearing, adjusted for exposure to associates and subsidiaries<sup>3</sup>, stood at 4.2 times as of March 2024 (3.6 times as of March 2023). VCL raised Rs. 100 crore of capital in FY2024 from TVS Shriram Growth Fund. It had raised around Rs. 1,299 crore from various investors during FY2019-FY2023.

As VCL envisages to expand at a steep rate in the next 2-3 years, its ability to obtain equity capital in a timely manner would remain crucial for keeping the managed gearing below 4.0-4.5 times. Vivriti Asset Management Private Limited (VAM; subsidiary of VCL) received Rs. 50-crore equity from VCL in FY2024; it had also raised capital of Rs. 77 crore during FY2022-FY2023. As of March 2024, VCL had investments of Rs. 124 crore in VAM and CredAvenue Private Limited (CAPL). It is in the process of divesting its holdings in CAPL and is awaiting various associated approvals for the same. Overall, VCL's exposure to its subsidiary and associates is expected to be capped at 10% of its net worth.

**Improving earnings profile** – VCL's profitability metrics have been on an improving trend over the past few years, supported by better economies of scale. The PAT/AMA stood at 2.3% in FY2024 vis-à-vis 2.2% in FY2023 (1.9% in FY2022). Adjusting for the gains from the sale of investments (non-core exceptional income), VCL's net profitability was 2.1% in FY2024 vis-à-vis 2.0% in FY2023. The company's interest margins expanded to 5.3% in FY2024 from 4.0% in FY2022. However, credit costs also increased to 1.3% in FY2024 from 0.2% in FY2023 due to the change in the accounting in the co-lending/partnership segment, following the digital lending guidelines in June 2023. Further VCL's operating cost increased to 1.9% in FY2024 from 1.7% in FY2023 (1.3% in FY2022) as it continued investing in its operational and infrastructural setup to support its growth plans. Its ability to limit the contraction in margins, given the expected increase in the cost of funds in the near term, would be a key monitorable.

<sup>2</sup> (Total debt including guarantee and assigned book/Net worth)

<sup>3</sup> (Total debt including guarantee and assigned book/Net worth reduced by investments and loans to VAM and CAPL)

## Credit challenges

**Steep growth plans** – VCL commenced operations in June 2017 and received its NBFC licence in January 2018. Its AUM increased to Rs. 8,071 crore as of March 2024 (Rs. 5,836 crore as of March 2023), reflecting a CAGR of 72% over the last five years. It started out with providing loans to financial sector entities and has diversified over the years into lending to non-financial enterprises (predominantly in the mid-market segment), retail exposures via co-lending/partnership arrangements and supply chain financing. It recently commenced factoring and leasing. VCL is expected to expand its AUM at a CAGR of around 35% over the next three years, with the share of non-financial sector entities targeted to steadily improve over the medium term.

ICRA notes that exposures with longer tenors (original tenor of more than three years) have increased over the years. However, the majority of VCL's exposures have an original tenor of less than three years and are monthly amortising in nature. Coupled with the envisaged strong AUM growth, portfolio seasoning (especially in the non-financial enterprise segment) would remain monitorable. Moreover, maintaining its established underwriting standards and risk management practices (including for single party and group exposure limits, sectoral exposure limits, etc) would be key. The continued strengthening of its operations and infrastructure would be critical for the envisaged growth while maintaining its healthy asset quality position amid the increasingly competitive environment.

**Moderate risk profile of exposures; performance of enterprise (non-financial sector) and retail exposures is monitorable**—VCL's AUM consists of exposures to financial service entities (~38% as of March 2024), co-lending/partnership arrangements (36%), non-financial enterprise finance (~21%), and supply chain finance, leasing & factoring (SCF; 5%). Its credit exposures are predominantly to small and mid-sized NBFCs/corporates with moderate risk profiles. The share of co-lending/partnership arrangements in the AUM increased to 36% as of March 2024 from 26% as of March 2023 (21% as of March 2022). Exposure to small business loan financing entities continued to account for the largest share in the overall AUM at 14% as of March 2024 (19% in March 2023), followed by consumer finance entities at 8% (5% in March 2023) and the agriculture sector at 5% (2% as of March 2023). The company's exposure to guarantees was modest at less than 1%. Going forward, the exposure to guarantees and subordinated past-through certificate (PTC) investments is likely to remain restricted.

The co-lending/partnership arrangements are largely in the consumer loans, small business loans and vehicle finance segments. ICRA notes that while VCL determines the underwriting criteria for this segment, it depends on its partners for the origination and servicing of exposures. As such, managing the partnerships over cycles, including adequate diversification (partners/sectors), stepping in to service the loan portfolio, if necessary, etc, would be critical to scale up this segment on a sustainable basis over the long term. Further, while these exposures are generally covered by a first loss default guarantee (FLDG), the same is currently limited to 5% of the disbursements pursuant to the revised digital lending guidelines.

About 17% of the AUM, as of March 2024, was towards entities in the non-investment grade rating or unrated category, down from about 21% in March 2023 (19% as of March 2022). Further, 27% of the exposures, as of March 2024, were in the BBB rating category, slightly below 30% as of March 2023. ICRA notes that the share of non-financial enterprise finance (including SCF) in the overall AUM is targeted to increase to 50% over the medium term from ~27% as of March 2024 (~30% as of March 2023). As the company has a relatively lower track record in the enterprises segment vis-à-vis loans to NBFCs and given its intention to increase its share further in this segment, the performance of this segment would remain a monitorable.

ICRA notes that portfolio concentration has moderated with the top 20 exposures reducing to 12% of the AUM as of March 2024 from 20% as of March 2023 (25% in March 2022). This is expected to decline further, going forward. VCL's gross stage 3 increased to 1.1% as of March 2024 from 0.3% as of March 2023, mainly due to the change in the accounting in the co-lending segment following the revised digital lending guidelines. VCL carried provisions of 1.1% of the AUM as of March 2024 (0.8% as of March 2023). Going forward, the ability to keep the credit costs under control, considering the wholesale nature of the exposures and the growth expectation, would be important.

The company is expected to increase the share of retail exposures, SCF and the non-financial enterprises segment. The performance of the exposures in these segments would remain monitorable from a rating perspective.

### Liquidity position: Adequate

VCL had a free cash and bank balance of Rs. 425.3 crore and liquid investments of Rs. 100.7 crore as on March 31, 2024 against debt repayment obligations of Rs. 1,371.8 crore during April-June 2024. The liquidity profile draws comfort from the healthy collection efficiency level, which stood at ~93-98% in H2 FY2024. Further, the asset-liability maturity (ALM) profile, as of March 2024, reflected positive cumulative mismatches across all buckets. VCL has about 53 lenders with banks comprising ~58% of the overall borrowings followed by NBFCs & financial institutions (~19%). Private wealth managers, mutual funds, retail NCD investors and other foreign investors accounted for the balance.

### Rating sensitivities

**Positive factors** – A sustained improvement in the earnings profile, while scaling up the portfolio and maintaining tight control over its delinquencies, could have a positive impact on the ratings.

**Negative factors** – Deterioration in the asset quality (90+ days past due (dpd)/AUM beyond 3%), impacting the earnings performance, on a sustained basis would put pressure on the ratings. A sustained increase in the managed gearing above 4.5 times or a deterioration in the liquidity profile would also impact the ratings.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-banking Finance Companies</a>
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of VCL. However, in line with ICRA's limited consolidation approach, the funding requirement of its subsidiary (VAM), going forward, has been factored in.

### About the company

VCL 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, VCL provides diverse debt financing solutions including loans, working capital finance and trade finance to enterprises across sectors including manufacturing, infrastructure and financial services. It has also expanded its presence in the retail segment through various co-lending partnerships with other NBFCs.

In FY2024, VCL reported a net profit of Rs. 191.3 crore, on a standalone basis, on total managed assets of Rs. 9,521.5 crore while it reported a net profit of Rs. 129.3 crore on total managed assets of Rs. 6,821.1 crore in FY2023. VCL has a stake in two Group entities – VAM and CAPL.

VAM is a ~70% subsidiary (on a diluted basis) and manages alternative investment funds (AIFs). It is currently managing nine funds with a combined AUM of Rs. 2,752.2 crore as of March 2024. VCL holds a 49.92% stake in its associate company, CAPL, which is in the syndication platform business.

**Key financial indicators (audited) – IndAS**

<b>Vivriti Capital Limited (standalone)</b>	<b>FY2022</b>	<b>FY2023</b>	<b>FY2024</b>
<b>Total income</b>	351.7	671.2	1,050.7
<b>Profit after tax</b>	67.4	129.3	191.3
<b>Total managed assets</b>	4,853.3	6,821.1	9,521.5
<b>RoMA</b>	1.9%	2.2%	2.3%
<b>Managed gearing (times)</b>	3.0	3.3	3.8
<b>Gross NPA</b>	0.3%	0.3%	1.1%
<b>CRAR</b>	29.6%	25.7%	21.3%

Source: Company, ICRA Research; 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	Type	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years							
			Amount Rated (Rs. crore)	Date & Rating in FY2025			Date & Rating in FY2024		Date & Rating in FY2023			Date & Rating in FY2022	
				July-12-2024	June-04-2024	May-14-2024	Jun-09-2023	Dec-23-2022	Aug-30-2022	Jul-01-2022	Dec-22-2021	Aug-03-2021	
1	NCD	Long term	518.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
2	NCD –Public issuance	Long term	500.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-	-	-	-
3	MLD	Long term	65.65	PP-MLD[ICRA]A+ (Stable)	PP-MLD[ICRA]A+ (Stable)	PP-MLD[ICRA]A (Stable)	PP-MLD[ICRA]A (Stable)	PP-MLD[ICRA]A (Stable)	PP-MLD[ICRA]A (Stable)	PP-MLD[ICRA]A (Stable)	PP-MLD[ICRA]A (Stable)	PP-MLD[ICRA]A- (Positive)	PP-MLD[ICRA]A- (Stable)
4	Long-term fund-based CC	Long term	55.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
5	Long-term fund-based TL	Long term	2,045.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
6	Long term – Unallocated	Long term	0.00	-	-	-	-	-	-	-	-	[ICRA]A- (Positive)	[ICRA]A- (Stable)

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Market linked debenture	Moderately Complex
Non-convertible debenture	Simple
Non-convertible debenture – Public issuance	Simple
Long-term fund-based CC	Simple
Long-term fund-based TL	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: [Click Here](#)

**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	Sep-24-2021 to Jun-30-2024	NA	Aug-30-2024 To Jun-30-2034	2,045.00	[ICRA]A+ (Stable)
NA	Long-term fund-based CC	NA	NA	NA	55.00	[ICRA]A+ (Stable)
INE01HV07379	NCD	Apr-04-2023	10.15%	May-25-2026	25.00	[ICRA]A+ (Stable)
INE01HV07387	NCD	May-08-2023	8.62%	May-08-2025	150.00	[ICRA]A+ (Stable)
INE01HV07395	NCD	Jun-09-2023	8.90%	May-05-2025	75.00	[ICRA]A+ (Stable)
Unutilised	NCD	NA	NA	NA	268.00	[ICRA]A+ (Stable)
INE01HV07411	NCD – Public issuance	Sep-06-2023	9.57%	Mar-06-2025	86.16	[ICRA]A+ (Stable)
INE01HV07403	NCD – Public issuance	Sep-06-2023	10.00%	Mar-06-2025	45.60	[ICRA]A+ (Stable)
INE01HV07429	NCD – Public issuance	Sep-06-2023	9.65%	Sep-06-2025	104.72	[ICRA]A+ (Stable)
INE01HV07437	NCD – Public issuance	Sep-06-2023	10.03%	Sep-06-2025	188.80	[ICRA]A+ (Stable)
INE01HV07445	NCD – Public issuance	Sep-06-2023	10.50%	Sep-06-2025	67.46	[ICRA]A+ (Stable)
Unutilised	NCD – Public issuance	NA	NA	NA	7.26	[ICRA]A+ (Stable)
Unutilised	MLD	NA	NA	NA	65.65	PP-MLD[ICRA]A+ (Stable)

Source: Company

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**Annexure II: List of entities considered for limited consolidated analysis**

Company Name	Vivriti Ownership*	Consolidation Approach
Vivriti Asset Management Private Limited	69.99%	Limited Consolidation

Source: Company; \* On a diluted basis



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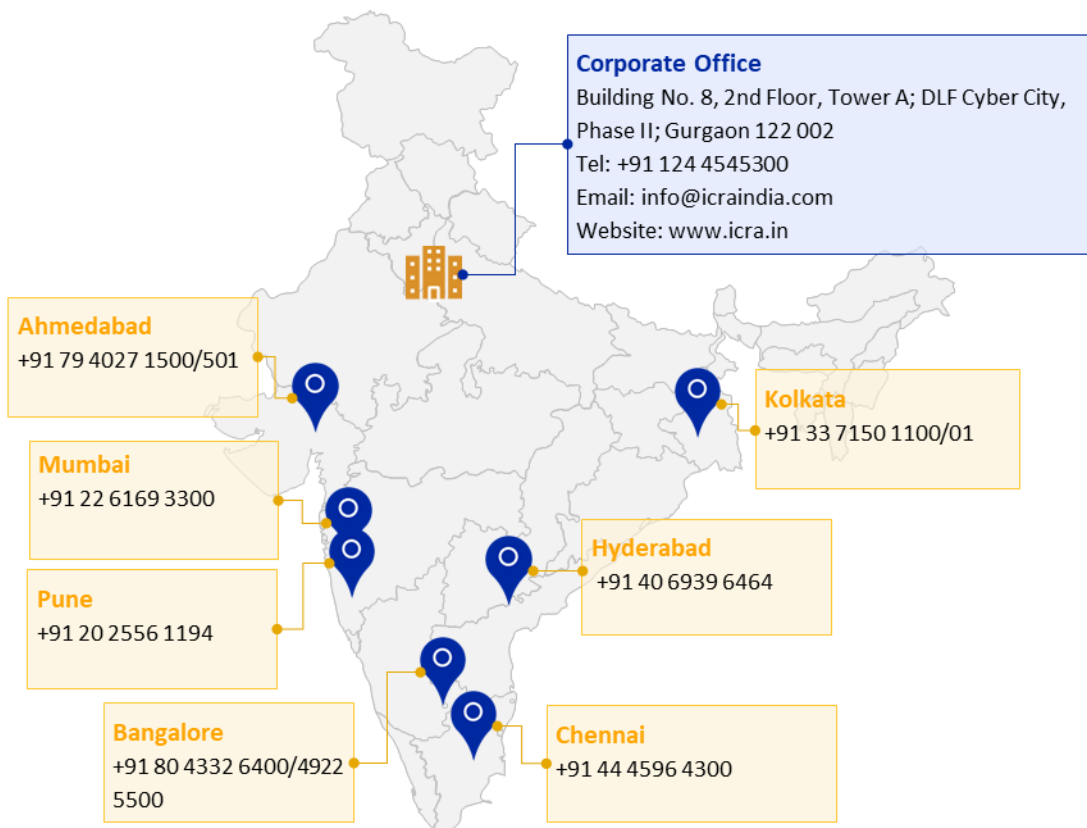
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