CRISIL Ratings

Rating Rationale

November 09, 2023 | Mumbai

Vivriti Capital Limited

'CRISIL A+/Stable' assigned to Bank Debt and Non Convertible Debentures; 'CRISIL A1+' assigned to Commercial Paper

Rating Action

Total Bank Loan Facilities Rated	**Rs.525 Crore**
Long Term Rating	**CRISIL A+/Stable (Assigned)**

Rs.100 Crore Non Convertible Debentures	**CRISIL A+/Stable (Assigned)**
Rs.100 Crore Commercial Paper	**CRISIL A1+ (Assigned)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its **'CRISIL A+/Stable/CRISIL A1+'** ratings to the bank facilities, non-convertible debentures (NCDs) and commercial paper programme of Vivriti Capital Ltd (VCL).

The rating is driven by the healthy capitalisation of the company, adequate risk management practices, and improving earnings profile. These strengths are partially offset by the limited track record of lending operations in the retail and non-financial segments, and susceptibility to inherent vulnerability associated with the wholesale segment.

Incorporated in June 2017, VCL offers institutional loans, supply chain financing, retail loans via co-lending and has recently forayed into the leasing and factoring business. Assets under management (AUM, standalone) stood at Rs 5,962 crore as on June 30, 2023, vis-à-vis Rs 537 crore as on March 31, 2019 – posting a 4-year compound annual growth rate of 82%. Of this, 59% comprised institutional lending to both financial sector and non-financial sector entities. The balance portfolio was deployed as retail lending through co-lending partnerships with NBFCs and supply chain financing – the share of which has increased from 5% in March 2019, to 41% as of June 30, 2023. Over the medium term, VCL plans to scale its retail co-lending portfolio and its non-financial sector lending book and, intends to maintain an equal proportion of institutional and retail book in the overall portfolio.

The company has adopted sound risk management practices, which are supported by the underwriting expertise of its leadership – especially within the financial sector lending space. This is also reflected in asset quality metrics with non-performing assets (NPAs) remaining comfortable since inception. Of late, VCL has been diversifying into non-financial sector lending, retail lending via co-lending and supply chain financing, however these portfolios have limited seasoning and the company's ability to profitably scale this business remains to be demonstrated. More so, two-thirds of the AUM still comprises chunky wholesale/institutional loans which makes the overall asset quality susceptible to risks of concentration.

Nonetheless, overall financial risk profile of VCL is supported by its healthy capitalisation metrics with demonstrated ability of VCL to raise capital at regular intervals from high pedigree investors. As on June 30, 2023, the company had a networth of Rs 1,622 crore (including preference shares) with a comfortable overall capital adequacy ratio (CAR) of 26.3% and adjusted gearing of 3.1 times. Since inception, VCL has raised Rs 1,299 crore as equity capital and is in the process of raising further equity in the near term. As per its internal policy, VCL intends to cap its investments in subsidiaries at 10% of its networth. On a steady state basis, the company is likely to maintain an adequate gearing of around 4 times.

VCL's profitability has been improving with reported net profit of Rs 129 crore in fiscal 2023 and Rs 52 crore in first quarter of fiscal 2024, translating in to return on managed assets (RoMA) of 2.2% and 3.0% (annualised), respectively. Adjusting for the gain on sale of shares in associate company (Credavenue Pvt Ltd; Yubi) RoMA stood at 2.0% and 2.1% respectively. Ability to improve margins while keeping credit costs under check will be a monitorable.

Analytical Approach

CRISIL Ratings has assessed the standalone credit profile of VCL to arrive at the ratings. CRISIL Ratings understands that its subsidiary - Vivriti Asset Management Ltd (VAML; 66.8% held by VCL) has fairly independent operations with some shared functions and Yubi (a 50.8% associate of VCL) operates as an independent company altogether. Further, VCL also has no pre-emptive rights to infuse further capital in Yubi and does not exercise oversight on the entity. As per the company's stated policy, VCL's investment in subsidiaries will be capped at 10% of its networth.

Key Rating Drivers & Detailed Description

Strengths:

- **Healthy capitalisation with demonstrated track record of raising capital at regular intervals:** VCL is well-capitalised with regard to its scale and nature of operations and has a demonstrated track record of raising equity at regular intervals. From Rs 8 crore as on March 31, 2018, the company's standalone networth has increased to Rs 1,622 crore as on June 30, 2023. CAR was comfortably above the regulatory requirement at 26.3% as on June 30, 2023, along with a standalone adjusted gearing of 3.2 times.

  VCL has cumulatively raised Rs 1,299 crore as equity, out of which Rs 597 crore was from the LGT group, Rs 480 crore from Creation Investment LLC (Creation), and balance from TVS Capital funds. Capital position benefits from the presence of high pedigree investors, who have demonstrated their support since the company's inception. On a fully diluted basis, Creations holds 52% stake in VCL, followed by the LGT group (24%) as on June 30, 2023.

  In its related entities – VAML and Yubi, VCL has so far invested Rs 78 crore and Rs 50 crore, respectively. Capital requirement in VAML could be low given the nature of business; nevertheless, VCL would extend support, basis growth plans of the subsidiary. In Yubi, VCL would not be participating in further equity rounds and hence, its shareholding would continue to come down. Overall, as per the board policy, investment in subsidiaries and associates will be limited to 10% of networth at all points of time.

  On a steady-state basis, the company intends to operate at a standalone gearing level of 4 times or below. The company does plan to raise further equity over the near to medium term, which would support its growth plans, while ensuring the capitalisation remains healthy. Quantum of capital and timelines allied to it, will be key monitorables.

- **Adequate risk management practices:** Considerable experience of the management team has enabled VCL to set up a diligent risk management framework and post-disbursal risk monitoring process. The company was founded by Mr Vineet Sukumar and Mr Gaurav Kumar, who have extensive experience around institutional lending and debt management – particularly within the financial sector. VCL has put in place an exhaustive framework for due diligence by combining the risk assessment capabilities of external service providers and building models and suitable tech platforms in-house. The company's underwriting process starts with a preliminary risk evaluation by the credit and risk team after which, potential leads are passed on to the business team. Thereafter, the risk and credit team independently evaluate the prospective borrower and make independent recommendations to the credit committee, which takes the final call.

  In terms of other checks and balances, the company follows a single borrower exposure ceiling of Rs 40 crore and a single group borrower ceiling of Rs 60 crore. For sub-sectors, an internal exposure cap of 20% has been set to ensure granularity in the portfolio. The company has brought down the share of the top 20 exposures in its AUM to 14% in June 2023, from 41% in March 2020. In terms of sectoral exposure, small business loans formed 24% (10% from institutional lending and remaining 14% from retail) of the AUM as on June 30, 2023. Lending to microfinance institutions stood at 10% of the overall AUM as of June 2023, reduced from 30% in March 2020.

  Reported NPAs have remained comfortable since inception with gross and net NPAs at 0.5% and 0.2%, respectively as on June 30, 2023, as compared to 0.3% and 0.1%, respectively, as on March 31, 2023.

  Thus far, the company's risk management systems have supported its overall asset quality. However, unlike its proven underwriting capabilities within the financial sector space, VCL's expertise of due diligence in the non-financial segment - as this portfolio scales - is yet to be tested.

- **Improving earnings profile:** RoMA, after remaining sub 1% till fiscal 2020, has been improving since. It stood at 2.2% in fiscal 2023 and 3.0% (annualised) for the first quarter of fiscal 2024. RoMA was buoyed in first quarter of fiscal 2024, due to gain on sale of shares in the associate company and upon adjusting for the same, it would stand at 2.1% (annualised).

  Overall, improvement in profitability was due to scale up in the loan book and credit cost remaining under control. The company has been able to maintain adequate spreads on its loan book while diversifying into different loan categories. VCL has also been able to keep its credit cost [0.2% of average managed assets (AMA) in fiscal 2023 and 0.4% in fiscal 2022] under control with limited slippages. Further, as the company is in the growth phase, its operating expenses (1.7% of AMA in fiscal 2023 and 1.3% in fiscal 2022) are largely allocated towards setting up of team and systems. However, this metric should stabilise along with economies of scale going forward. Ability to sustain improvement in operating margin while keeping credit costs under control, is a monitorable.

Weaknesses:

- **Limited track record of operations; performance of enterprise and retail segment remains a monitorable:** The company commenced operations in fiscal 2019, by extending enterprise loans to financial sector entities. Within the first year of its operations, VCL scaled its portfolio to Rs 537 crore and thereafter, has registered a 4-year CAGR of 82% to attain an AUM size of Rs 5,836 crore as on March 31, 2023 (Rs 5,962 crore as on June 30, 2023). This growth has been a factor of addition of new borrowers and expansion into newer segments.

  As VCL intends to achieve a sub-sector exposure limit of 20%, it started to grow into non-financial segments. In terms of sectoral exposure, around 43% of the AUM is deployed in the financial sector as loans to MFIs and small and mid-sized NBFCs. On the retail side, the company has also expanded into co-lending and supply chain financing. Co-lending has a first loss default guarantee from lending partners while supply chain financing is completely anchor based. VCL recently forayed into factoring and leasing as well. As the company scales its business within these segments, its ability to maintain asset quality metrics will be a key monitorable.

- **Inherent vulnerability associated with the wholesale segment:** Lending exposure to institutional/wholesale segments was around 59% of the AUM as on June 30, 2023. While it has come down from 95% of the AUM in March 2020, it remains high. Further, exposure concentration in terms of top 20 borrowers has improved to 14% in June 2023, from 41% in March 2020. Though VCL has capped single exposure at Rs 40 crore and group exposure at Rs 60 crore, chunkiness of exposures and sectoral concentration makes asset quality vulnerable to shocks in case of slippages. CRISIL Ratings notes that the company has developed an in-house risk management system, supported by adequate underwriting practices and early warning systems. However, as the business scales and the company's exposure to enterprise segment increases, the efficacy of these systems and practices will remain a monitorable.

Liquidity: Adequate
There is no negative gap on a cumulative basis across all buckets till one year as per the asset liability management statement dated June 30, 2023.

As on September 30, 2023, the company had cash and cash equivalent and liquid investments of Rs 311 crore. This along with expected of collections of Rs 1,812 crore over Oct-Dec 2023 are sufficient to take care of the debt repayments of Rs 696 crore during the same period.

Outlook: Stable
VCL is expected to maintain healthy capitalisation , and improve its earnings profile.

Rating Sensitivity factors
Upward factors:
- Sustenance in asset quality with NPAs along with write-offs, remaining below 3% on a steady state, while the company steadily scales its portfolio and forays into newer segments/ sectors
- Significant and sustained improvement in earnings profile

Downward factors:
- Substantial weakening of asset quality, having an adverse impact on profitability for a prolonged period
- Pressure on capitalisation, reflected in adjusted gearing of over above 4 times for a prolonged period

About the Company
VCL is an NBFC-ND-SI registered with the Reserve Bank of India. Founded by Mr Vineet Sukumar and Mr Gaurav Kumar, the company commenced lending operations in fiscal 2019. VCL offers institutional loans, supply chain financing, retail loans via co-lending, and has recently forayed into the leasing and factoring business. Of this, 59% comprised institutional lending to both financial sector and non-financial sector entities. The balance portfolio was deployed as retail lending through co-lending partnerships with NBFCs and supply chain financing – the share of which has increased from 5% in March 2019, to 41% as of June 30, 2023. Its subsidiary, VAML manages assets of alternate investment funds, operating in the mid-market enterprise space. Yubi, an associate of VCL, is a debt solutions platform catering to both, enterprise and retail customers.

As on June 30, 2023, VCPL had an AUM of Rs 5,962 crore comprising term debt (~54%), working capital demand loan (~4%), supply chain financing (~5%), retail loans (~34%) and guarantees and off-book.

Key Financial Indicators

As on / for	Unit	June 30, 2023 / Q1 FY24	March 31, 2023 / FY2023	March 31, 2022 / FY2022
Total managed assets	Rs crore	6,948	6,784	4,828
Total income (net of interest expense)	Rs crore	116	281	153
Profit after tax	Rs crore	52	129	67
Adjusted gearing	Times	3.1	3.2	3.0
Return on average managed assets	%	3.0*^	2.2^	1.9

**annualized*
^including the one-time income realized from diluting stake in the associate company. Excluding the effect of this one-time income, the RoMA was 2.1% (annualised) in Q1FY24 and 2.0% in FY2023

Any other information: Not Applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook

NA	Non-convertible debentures*	NA	NA	NA	100	Simple	CRISIL A+/Stable
NA	Commercial paper*	NA	NA	7-365 days	100	Simple	CRISIL A1+
NA	Proposed long-term bank loan facility	NA	NA	NA	525	NA	CRISIL A+/Stable

**Yet to be placed*

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	525.0	CRISIL A+/Stable		--		--		--		--	--
Commercial Paper	ST	100.0	CRISIL A1+		--		--		--		--	--
Non Convertible Debentures	LT	100.0	CRISIL A+/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	**525**	**Not Applicable**	**CRISIL A+/Stable**

Criteria Details

Links to related criteria
Rating Criteria for Finance Companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for rating short term debt

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