February 17, 2020

Vivriti Capital Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures (NCDs)	392.00	392.00	[ICRA]A-(Stable); reaffirmed
Market Linked Debentures	8.00	8.00	PP-MLD[ICRA]A-(Stable); reaffirmed
NCDs	-	120.00	[ICRA]A-(Stable); assigned
Market Linked Debentures	-	30.00	PP-MLD[ICRA]A-(Stable); assigned
Long Term – Fund-based TL	2.50	252.68	
Long Term – Unallocated	592.50	347.32	[ICRA]A-(Stable); reaffirmed
Long Term – Fund-based CC	5.00	-	
Total	**1,000.00**	**1,150.00**	

**Instrument details are provided in Annexure-1*

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, that is 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

The rating action factors in Vivriti Capital Private Limited's (Vivriti) experienced management team with adequate knowledge in institutional lending, and its prudent underwriting norms, considering the wholesale nature of the exposures and the focus on non-banking financial institutions. Vivriti' exposure concentration moderated, as the portfolio expanded, and it onboarded new clients, it however remains high because of the nature of the target borrower segments. The ratings also consider the company's adequate capitalisation, at present, and its policy of maintaining net worth/assets under management[1] (AUM) above 20% (37.2% as of December 2019) over the near to medium term. ICRA also takes cognizance of the induction of new clients across the financial services and enterprises (non-financial corporate) segments and the continued traction of the proprietary platform (CredAvenue) for business sourcing. Overall, the business volumes (funding arranged for its clients through investors and from own balance sheet) grew by 40% YoY in 9M FY2020 vis-à-vis the corresponding period in the previous fiscal, while the cumulative volumes facilitated stood at Rs. 22,639 crore since inception.

The ratings are, however, constrained by the company's limited track record and moderate scale (AUM stood at about Rs. 883 crore as of December 2019), limited diversity in the funding profile, with 15 lenders by December 2019, and modest profitability, given the significant establishment costs. In line with the business plan, Vivriti envisages raising additional equity capital of Rs.350 crore from a new investor in Q4 FY2020, and is expected to raise further capital in the near term in view of its growth plan. While the equity raise would augment the capital position, it would be essential to

[1] *Includes a) loans, b) investments in NCDs, c) investments in subordinated pass-through certificates (PTCs) arranged by the company and d) off-balance sheet (guarantees and securitized assets)*

tie up adequate funding lines to achieve the steep portfolio growth envisaged during FY2020-2022 and improve its earnings profile significantly.

Key rating drivers and their description

Credit strengths

Experienced senior management team and board profile – Vivriti's Founder-Directors have considerable experience in the institutional lending business, especially in the financial sector. The company has augmented its second line of management comprising members with adequate knowledge of lending to entities in the financial sector including the microfinance, affordable housing, small business credit and vehicle finance segments. Leveraging the management team's established relationship with its clients and investors, Vivriti has achieved a business volume of Rs. 22,639 crore till date (Rs. 9,107 crore in 9M FY2020). It has on-boarded more than 220 clients so far, primarily from the financial services space, and has raised resources from more than 100 investors (for its clients) till date, comprising banks, non-banking finance companies (NBFCs), mutual funds, alternate investment funds and private wealth institutions among others.

Post the capital raise, Vivriti's board is likely to expand to eight members (from six at present) with the induction of one Nominee Director from the new investor, and one independent director. Currently, its board comprises two Founder-Directors, two Nominee Directors (from Creation Investments LLC) and two Independent Directors.

Planned capital raise provides visibility on growth though timelines remain critical – Vivriti has adequate capitalisation with a managed gearing[2] and capital adequacy of 1.8x and 35.2%, respectively, as of December 2019 (1.5x and 36.2%, respectively, as of March 2019), supported by the Rs. 310-crore capital raised from Creation Investments LLC during January-May 2019. In line with the envisaged plan, the company is in the process of raising additional capital to scale up its lending business. It has signed a term sheet to raise Rs. 350 crore by Q4 FY2020, and is in discussion to raise further capital in H1FY2021. Vivriti intends to maintain the leverage (net worth/AUM) at a minimum of 20% over the medium term, while embarking on a steep growth plan over the medium term. The conclusion of the transactions to raise equity within the indicated timelines would be crucial, apart from securing commensurate funding lines, to grow the portfolio as per the envisaged business plan.

Prudent underwriting norms, considering wholesale nature of exposures; proprietary tech platform to support business growth – Vivriti undertakes a detailed due diligence during client on-boarding and monitors their performance on an ongoing basis. Entities in the financial services segment are monitored on a quarterly basis while those in the enterprises segment are monitored more frequently. It undertakes regular field visits to identify early warning signals. In terms of borrower concentration, the top ten exposures accounted for about 28% of AUM in December 2019 (declined from 42% in March 2019), and is expected to reduce further going forward. Vivriti presently has a defined exposure limit, at a borrower, product and sectoral level. ICRA also factors in the credit risks arising from the wholesale nature of the company's exposures, particularly from NBFCs, which have moderate risk profiles and currently face headwinds in raising debt. In 9M FY2020, the company witnessed one slippage (Rs. 5.9 crore), which led to a gross NPA of 0.7% as of December 2019 (nil in March 2019). While Vivriti has created a 65% provision towards the same, in line with its accelerated provisioning norm, it has also taken steps to tighten its internal processes further and has roped in external audit firms to strengthen the accounting/financial due diligence process.

[2] *(Total debt including guarantee)/Net worth*

Vivriti's proprietary platform – CredAvenue™ enables Vivriti' clients, ranging from unrated to high rating category, to raise debt from institutional investors ranging from banks, mutual funds, domestic and international institutions among others. The participants benefit from the platform through real-time price discovery and efficient flow of information, resulting in a lower turnaround time. Besides, CredAvenue enhances Vivriti's own execution capabilities through an automated workflow process. The company has also partnered with external consultants to audit its platform to ensure adequate overall controls. Vivriti's ability to maintain a high level of controls and a strong credit quality would be critical, given the risk profile of the target segments.

Credit challenges

Limited track record; however, Vivriti has steep growth plan – Vivriti has a limited track record as it commenced operations in June 2017. The company received its NBFC licence in January 2018. It has a moderate portfolio with AUM of about Rs. 883 crore as of December 2019 (Rs. 537 crore as of March 2019). Of this, advances to NBFCs and enterprises comprised 78%, followed by investments in NCDs and PTCs (12%) and guarantees & others (10%). While the equity raise has been on track, the debt-raising programme has been slower than expected, given the tight liquidity faced by the NBFC sector. Also, the company slowed down its portfolio growth in view of the credit risks in the target borrower segments. Consequently, Vivriti's balance sheet has not scaled up as anticipated over the past one year. In view of the prevailing conditions, the company has tempered its balance sheet expansion plan vis-à-vis its initial business plan, and envisions to scale up AUM at a compounded annual growth rate of more than 100% over the period FY2020-2022, given the low base. The ability to profitability scale up its balance sheet and maintain a tight control over the asset quality would remain a key monitorable.

In 9M FY2020, the company's business volumes, which contribute to fee income, grew by about 40% YoY to Rs. 9,107 crore. ICRA, however, notes the concentration risks as the top five clients accounted for 42% of the business volumes in 9M FY2020 (43% in FY2019). The ability to broad-base the business over a large set of clients would be critical to ensure the scalability of the business model.

Ability to improve profitability indicators – Vivriti's revenue stream comprises income from the lending business (loans and investments) and fee income from debt syndication/structuring/ extending guarantees. The relatively high cost of funds amid the continued tightness in market liquidity resulted in a thin gross spread in the lending business. However, the fee income witnessed traction backed by the sizeable growth in business volumes (about 40% YoY in 9M FY2020). Operating expenses, though declined, remained elevated at 8.2% of average managed assets (AMA) in 9M FY2020 (11.1% of AMA) due to a sharp ramp-up in the employee base and continued investment in the IT infrastructure. Overall, the operating profit remained moderate at 3.3% in 9M FY2020 (1.5% in FY2019). This, coupled with the relatively high provisions, largely because of one account, resulted in profitability (profit after tax/AMA) of 1.9% in 9M FY2020 vis-à-vis 0.5% in FY2019. Going forward, Vivriti's ability to generate adequate margins on the lending business and scale up its placement business, while keeping a tight control over the credit costs and improving the operating efficiencies, would be critical for incremental profitability.

Ability to secure commensurate funding and diversify lender mix – The company's funding profile currently comprises 15 lenders including banks, mutual funds and NBFCs among others. NBFCs and mutual funds have been the predominant sources of funding, together constituting about 83% of the borrowings as of December 2019, followed by banks (16%) and others (1%). Further, the borrowings are predominantly of a shorter tenure (less than two years) while the majority of the portfolio comprises loans with a maturity of more than two years (about 60% of AUM). Given its steep growth plans and focus on relatively longer-tenure loans, Vivriti's ability to diversify its resources will be crucial.

Liquidity position: Adequate

The company's policy stipulates no cumulative gaps in the asset-liability maturity (ALM) profile in any of the less-than-one- year standard buckets. In line with that, it had a cumulative positive gap of 7% in the less-than-one-year bucket as of December 2019. As of January 2020, it had undrawn sanctions from lenders to the extent of Rs. 110 crore. The company's ability to avail incremental sanctions of a relatively longer tenure (more than two years), given that most of its advances are of a longer tenure, would be critical.

The loan commitments to borrowers (advances) have contracted quite sharply over a period of time, and stood at only ~Rs. 5 crore as of December 2019. Going forward, it would be essential for Vivriti to keep adequate backup facilities while pursuing growth and maintaining an adequate liquidity profile.

Rating sensitivities

Positive triggers – ICRA could upgrade the ratings or revise the outlook to Positive if the company improves its earnings profile (PAT/AMA above 3.0%) on a sustained basis as it scales up its operations, while maintaining net worth/AUM above 20%, and keeps a tight control over its delinquencies.

Negative triggers – 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%) or if there is limited visibility on incremental funding tie-ups in relation to the envisaged business growth. The sustained weakening of the capital (vis-à-vis the expected levels), earnings 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
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of Vivriti

About the company

Promoted by Mr. Vineet Sukumar and Mr. Gaurav Kumar in June 2017, Vivriti Capital Private Limited (Vivriti) provides diverse financing solutions, including loans and structured debt products, to entities providing microfinance, housing finance, vehicle finance, consumer finance and to enterprises (corporates) among others. The company raised Rs. 310 crore from US-based PE fund, Creation Investments LLC, during January-May 2019. It has signed a term sheet to raise about Rs. 350 crore from a new investor with the capital expected to be raised by Q4 FY2020.

Vivriti has a wholly-owned subsidiary, Vivriti Asset Management Private Limited (VAMPL), which provides investment management services to alternative investment funds (AIFs). VAMPL's first fund, Vivriti Samarth Bond Fund, is expected to be launched in February 2020.

In FY2019, the company reported a net profit of Rs. 1.7 crore on an operating income of Rs. 43.7 crore compared to a net profit of Rs. 0.1 crore on an operating income of Rs. 10.2 crore in FY2018. In 9MFY2020, the company' profit after tax stood at Rs. 10.8 crore on an operating income Rs. 108.5 crore.

Key financial indicators (audited)

Vivriti	FY2018	FY2019	9MFY2020 (Provisional)
Total Income	10.2	43.7	108.5
Profit after Tax	0.1	1.7	10.8
Net Worth	8.6	243.0	328.3
AUM	-	536.8	883.0
Total Managed Assets	15.5	613.4	950.0
RoMA	NA	0.5%	1.9%
Return on Net Worth	1.5%	1.4%	5.1%
Gearing	0.2	1.5	1.6
Gross NPA%	0.0%	0.0%	0.7% ^
Net NPA%	0.0%	0.0%	0.3% ^
CAR %	79.6%	36.2%	35.2%

Amount in Rs. Crore; ^ 90+ dpd on AUM

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	FY2019	FY2018	FY2017
					17-Feb-2020	4-Jul-2019	23-Jan-2019	-	-
1	Long Term – Fund-based TL	Long term	252.68	252.68	[ICRA]A- (Stable)	[ICRA]A- (stable)	[ICRA]A- (stable)	-	-
2	Long Term – Unallocated		347.32	347.32					
3	Long Term – Fund-based CC		-	-					
4	NCD	Long term	392.00	392.00	[ICRA]A- (Stable)	[ICRA]A- (stable)	[ICRA]A- (stable)	-	-
5	MLD	Long term	8.00	8.00	PP-MLD[ICRA]A- (stable)	PP-MLD[ICRA]A- (stable)	[ICRA]A- (stable)	-	-
6	NCD	Long term	120.00	120.00	[ICRA]A-(stable)	-	-	-	-
7	MLD	Long term	30.00	30.00	PP-MLD [ICRA]A- (stable)	-	-	-	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	Jul-18 to Jan-20	NA	May-20 to Jul-22	1.90	[ICRA]A- (Stable)
NA	Term Loan 2				17.05	
NA	Term Loan 3				7.08	
NA	Term Loan 4				3.13	
NA	Term Loan 5				15.63	
NA	Term Loan 6				4.93	
NA	Term Loan 7				19.32	
NA	Term Loan 8				7.71	
NA	Term Loan 9				19.44	
NA	Term Loan 10				13.13	
NA	Term Loan 11				5.00	
NA	Term Loan 12				9.17	
NA	Term Loan 13				25.47	
NA	Term Loan 14				25.00	
NA	Term Loan 15				18.75	
NA	Term Loan 16				25.00	
NA	Term Loan 17				10.00	
NA	Term Loan 18				10.00	
NA	Term Loan 19				15.00	
NA	LT – Unallocated	NA	NA	NA	347.32	[ICRA]A- (Stable)
INE01HV07015	NCD	19-Mar-19	11%	19-Mar-21	199.00	[ICRA]A- (Stable)
INE01HV07031	NCD	16-Aug-19	11.5%	16-Aug-21	40.00	[ICRA]A- (Stable)
INE01HV07049	NCD	26-Aug-19	12.12%	26-Aug-22	20.00	[ICRA]A- (Stable)
INE01HV07056	NCD	26-Aug-19	12.12%	26-Aug-22	20.00	[ICRA]A- (Stable)
Unutilised	NCD	NA	NA	NA	233.00	PP-MLD[ICRA]A- (Stable)
INE01HV07023	MLD	27-Jun-19	NIFTY LINKED	27-Sep-20	7.00	PP-MLD[ICRA]A- (Stable)
Unutilised	MLD	NA	NA	NA	31.00	PP-MLD[ICRA]A- (Stable)

Source: Vivriti

Annexure-2: List of entities considered for consolidated analysis: Not applicable

Analyst Contacts

Karthik Srinivasan
+91-22-6114 3444
karthiks@icraindia.com

A M Karthik
+91-44-4596 4308
a.karthik@icraindia.com

Govindaraj Prabhu M
+91-44-4596 4306
govindaraj.m@icraindia.com

Subhashree Ravi
+91-44-4297 4324
subhashree.ravi@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999