July 12, 2024

Vivriti Asset Management Private Limited: Update on Entity

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures (NCDs)	30.00	30.00	[ICRA]A- (Stable); outstanding
Total	**30.00**	**30.00**	

** Instrument details are provided in Annexure I*

Rationale

The rating takes into consideration the managerial and funding support received by Vivriti Asset Management Private Limited (VAM) from its parent – Vivriti Capital Limited {VCL; rated [ICRA]A+ (Stable)}. VAM, incorporated in 2019, operates as an asset management company (AMC), managing Securities and Exchange Board of India (SEBI)/International Financial Services Centres Authority (IFSCA) regulated alternative Investment Funds (AIFs) domiciled in India/GIFT City. The company has a limited track record of operations in the fund management business, with its first fund launched in 2020. It currently has nine live schemes with assets under management (AUM) of Rs. 2,752 crore and fund commitment from investors of ~Rs. 4,267 crore as of March 2024.

VAM, 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, VCL, Hari and Company Investments Madras Private Limited (HCIMPL), Vivriti Next Private Limited (VNPL), 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.
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. In addition, 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.

ICRA notes that the demerged NBFC business would continue to provide funding support to the demerged AMC business, in line with its previously stated support position. As such, the demerged AMC would continue to receive funding support up to 10% of the net worth of the demerged NBFC. In addition, any capital raise at VNPL would be available of infusion into the AMC without any limitations. Overall, ICRA is of the view that the credit profile of the demerged AMC business would remain unchanged as a result of the implementation of the proposed scheme.

VAM's AUM grew by about 38% in FY2024; however, financial performance was subdued, with a loss {profit after tax (PAT)/operating income (OI)} of -4.1% in FY2024 vis-à-vis 0.7% in FY2023 as it expanded its operating base (employees and other infrastructure) significantly for future growth. The company closed fund raise for three category II funds as well as launched and scaled up commitments for its first international fund at GIFT city. However, the dampened fund inflow in the schemes in H2 FY2024 following the Reserve Bank of India's (RBI) circular regarding AIF investments by regulated entities (REs) resulted in a lower-than-anticipated operating leverage in FY2024. As the AUM increases, better economies of scale would support the profitability metrics in the medium term. VAM had modest borrowings (gearing of 0.2 times) as of March 2024.

ICRA expects the funding from VCL as well as the improvement in VAM's profitability to support its debt-servicing requirements in the near-to-medium term.

ICRA notes that AIFs represent an evolving segment in the overall fund management business and regulations for this segment are expected to change over time. Adverse developments (as witnessed in FY2024), which could affect the scale-up or profitability of these asset management companies, would remain key monitorables.

Key rating drivers and their description

Credit strengths

Support from VCL – VAM is a critical part of VCL's overall long-term growth strategy in the mid-market enterprises segment. VAM and VCL are expected to complement each other for access to capital as well as providing the target segment with alternative products. They also enjoy synergies on market insights, relationships, and fund-raising strategies. VAM has built a managerial and operational team covering various key functions including credit, investments, sales, product management, fund accounting, etc. ICRA notes that two of the three members of VAM's Investment Committee are from VCL.

ICRA also notes that VCL has provided funding and capital support to VAM in the past. In FY2024, VAM received equity of Rs. 47 crore from VCL. ICRA expects the parent to continue providing funding support to its Group entities (including VAM) in the form of equity and debt (total funding support from VCL to its Group entities would be restricted to 10% of its net worth; as of March 2024, this stood at 9.2%[1]). However, given VCL's planned demerger process as well as its own capital-raising plans, ICRA expects it to have additional buffer to support VAM's funding requirement vis-à-vis the current position.

Improving scale of operations – VAM was incorporated in 2019 and commenced operations in FY2020 by launching three CAT-II funds during the year. Subsequently, it launched six more schemes, of which four have substantially returned investor capital. It currently has nine live schemes with an AUM of Rs. 2,752 crore as of March 2024 compound annual growth rate (CAGR) of 90% since March 2021). ICRA notes that the growth was negatively impacted in H2 FY2024 following the RBI's circular regarding AIF investments by REs. Investors were cautious following the issuance of the circular, which resulted in a slowdown in fund inflow and AUM growth during this period. Nevertheless, ICRA notes that VAM had total investor fund commitment of ~Rs. 4,267 crore[2] as of March 2024, which is expected to support the AUM growth in the near term.

The schemes predominantly invest in operating companies with proven business models and high vintage, ranging across different yield buckets from 11-16% (gross). Investments through these funds were mainly towards investment grade entities and above, with the proportion of such investments at ~94% of the total investments as of March 2024. One of the funds – VFIF3[3] (incorporated in GIFT City) – has a leveraged strategy with a mandate to invest in senior category pass-through certificates. In FY2024, growth was largely supported by two funds, VECBF[4] and VFIF3, which contributed about 51% to the AUM as of March 2024 compared to 18% in March 2023. Going forward, VAM expects its AUM to be supported by the launch of innovative products and diversification of its investor base.

Credit challenges

Subdued financial profile – VAM's operating margin deteriorated to -7.0% in FY2024 from -3.1% in FY2023. The company had significantly expanded its operating base (employees and other infrastructure) for future growth; however, the same could not be achieved, given the dampened fund inflow in H2 FY2024 following the RBI's circular regarding AIF investments by REs. This resulted in a lower-than-anticipated operating leverage in FY2024. Thus, the net profitability (PAT/OI) deteriorated to -

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[1] *VCL's standalone net worth was Rs. 1,893.9 crore as of March 2024*
[2] *Including investor funds raised already*
[3] *Vivriti Fixed Income Fund Series 3*
[4] *Vivriti Emerging Corporate Bond Fund*

4.1% in FY2024 from 0.7% in FY2023. Nevertheless, as the company increases its AUM, ICRA expects better economies of scale, which would support an improvement in the profitability metrics and debt coverage metrics over the medium term.

As of March 2024, the outstanding debt stood at Rs. 38 crore vis-à-vis Rs. 14 crore in March 2023. However, total debt/net worth was minimal at 0.2 times as of March 2024 compared to 0.1 times as of March 2023, supported by the capital infusion from VCL.

Risk of adverse regulatory developments – The AIF industry is a relatively new segment in the overall fund management business in India. The permitting regulations were notified in 2012. While this segment witnessed significant fund inflow during the last 10 years, with the total AUM of Category I-III AIFs at Rs. 4.3 lakh crore as of December 2023, it remains significantly smaller than the traditional fund management business (including debt and equity mutual funds). Further, the target asset segment and investee companies in the AIF industry are significantly different from traditional funds. As such, the AIF industry is yet to establish their track record over multiple market cycles; accordingly, the regulations for this segment are also expected to evolve over time. In December 2023, the RBI released its circular regarding investments in AIFs by REs. This restricted the ability of the REs to make investments in AIFs, which would have downstream investments in a debtor company of the RE. This impacted the fund inflows for AIFs as various investors (who are also REs) turned cautious. Any other adverse regulatory developments, which could affect the scale-up or profitability of such AIFs, would remain key monitorables.

Liquidity position: Adequate

The company had cash and liquid investments of Rs. 13.0 crore and Rs. 8.6 crore of fixed deposits as of March 2024 against debt repayment obligations (including interest) of Rs. 4.8 crore during April 2024 to September 2024. Additionally, the expected funding support from VCL on an ongoing basis aids VAM's liquidity profile.

Rating sensitivities

Positive factors – The rating could be positively impacted if VAM is able to demonstrate a steady scale-up in its AUM and a sustained improvement in its earnings profile while maintaining an adequate liquidity profile.

Negative factors – The rating could be negatively impacted in case of lower-than-expected support from VCL or a significant increase in VAM's debt in comparison to the funding support from VCL.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[ICRA's Corporate Credit Rating Methodology](#)
Parent/Group support	Not applicable
Consolidation/Standalone	To arrive at the rating, ICRA has considered the standalone financials of VAM while factoring in the ongoing funding support available from its parent (VCL), in line with ICRA's limited consolidation approach.

About the company

VAM was set up in February 2019 as a wholly-owned subsidiary of VCL. It seeks to develop innovative performing credit funds that take diversified exposures within the mid-market enterprises segment. VAM started its operations in FY2020 and currently manages nine AIFs with total AUM of Rs. 2,752.2 crore as of March 2024 (March 2023 – Rs. 1,993.6 crore; March 2022 – Rs. 1,270.5 crore). The funds invest in operating companies with proven business models and high vintage and have funds in different yield buckets ranging from 11-16% (gross). As of March 2024, VCL had a 70.0% stake (fully-diluted basis) in VAM.

Key financial indicators (audited) – IndAS

Vivriti Asset Management Private Limited (standalone)	FY2022	FY2023	FY2024
Operating income	10.2	32.0	50.1
PAT	(25.8)	0.2	(2.1)
OPBDITA/OI	-50.9%	-3.1%	-7.0%
PAT/OI	-254.2%	0.7%	-4.1%
Total outside liabilities/Tangible net worth (times)	0.2	0.4	0.5
Total debt/OPBDITA (times)	-	-14.1	-10.8
Interest coverage (times)	-13.8	-0.9	-0.7

Source: Company, ICRA Research; Amount in Rs. crore; Operating income excluding gain on fair valuation of investments

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Instrument	Current Rating (FY2025)					Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
			(Rs. crore)	(Rs. crore)	Jul-12-2024	Jun-14-2024	Jun-16-2023	-	-
1	NCD	Long term	30.00	24.80	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible debenture	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
INE0BXI07010	**NCD**	Sep-20-2023	11.00%	Jan-15-2027	24.80	[ICRA]A- (Stable)
Unutilised	**NCD**	NA	NA	NA	5.20	[ICRA]A- (Stable)

Source: Company

Annexure II: List of entities considered for limited consolidated analysis

NA

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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.

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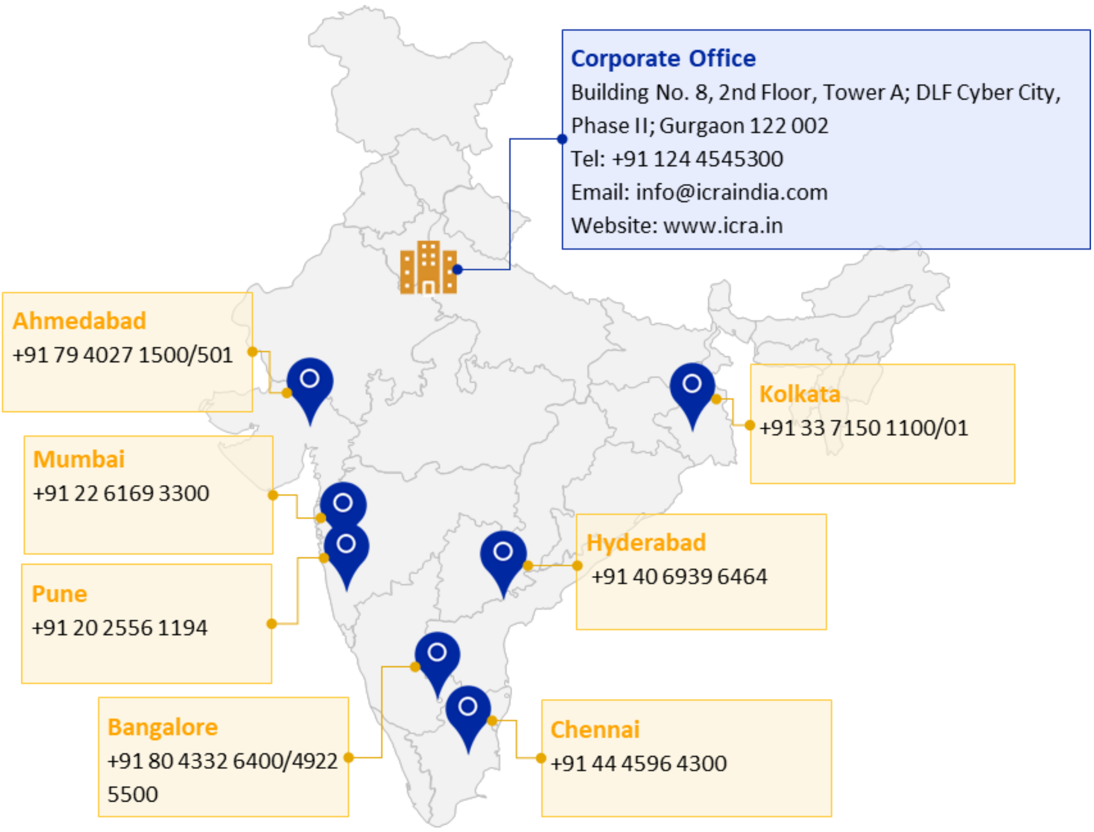

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