

May 30, 2023

Vivriti Asset Management Private Limited: Rating reaffirmed

Summary of rating action

Trust Name	Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Vivriti Alpha Debt Fund – Enhanced	Class A ¹	231.25	231.25	[ICRA]A+(SO); reaffirmed

*Instrument details are provided in Annexure I; Rating is indicative of the capital protection available to the investors and should not be construed as an indication of the expected returns

¹ Class A represents Class A1 and Class XA1 units

Rationale

ICRA has reaffirmed the rating of [ICRA]A+(SO) for the Class A unitholders in Vivriti Alpha Debt Fund – Enhanced, a scheme of Vivriti Vihaan Trust. The trust has been organised in India and is registered with the Securities and Exchange Board of India (SEBI) as a Category II Alternative Investment Fund (AIF). The AIF has been sponsored and would be managed by Vivriti Asset Management Private Limited (VAMPL; the asset management company or AMC). This is a close-ended scheme with a fund size of Rs. 250 crore and a greenshoe option of Rs. 250 crore. While Class A units account for 92.5% of the fund size, Class B units account for 7.5%. The fund comprises Class A1, Class XA1 and Class B units. Class A collectively means Class A1 and Class XA1 units. The scheme's terms underwent a change such that the capital commitment can now be raised till six months after the final closing date, i.e. September 2023. However, the total term of the fund remains unchanged, i.e. till September 2026.

The rating represents the credit risk associated with the underlying debt instruments and the adequacy of the cash flows from the debt instruments to repay the principal to the investors while covering the operating expenses for managing the scheme. It is thus indicative of the capital protection available to the investors. For this analysis, the cash flows available to the investors from the fund, which could be in the form of distribution proceeds (including interest, cash dividends, premium, capital gains, prepayment penalties or other forms of cash receivable as permitted) gross of taxes and redemption proceeds (principal repayments, capital repayments, prepayments and redemption from one or more portfolio investments), are considered to be available for principal or capital redemption for the investors.

The rating does not factor in market risks and hence should not be construed as an indication of the expected returns or the prospective performance of the scheme. It is also not a reflection of the quality of the fund's management or its financial performance, reputation and other business practices including investment strategies, pricing, marketing and distribution activities. Furthermore, the rating is not a reflection of the adherence of the fund to the regulatory requirements.

The rating takes into account the support available to the Class A unitholders for capital redemption in the form of subordination of Class B's share in the redemption proceeds (7.5%) and Class A's share in the distribution proceeds. The rating also factors in the expected moderate credit risk profile of the investments and the limited asset-liability mismatch risk supported by the scheme's investment criterion. Adherence to this criterion over the life of the fund would remain critical.

Key rating drivers and their descriptions

Credit strengths

Presence of principal subordination to support servicing of the rated facility – The redemption distribution to Class B unitholders (7.5%) are subordinated to Class A unitholders and provide support to Class A unitholders in case of principal shortfall. Thus, the redemption distribution proceeds would be first utilised to redeem Class A unitholders' cumulative dues as of the date of distribution on a pro-rata basis and the balance would then be used to redeem the Class B unitholders.

The distribution proceeds (viz. returns like interest, cash dividend, premium, capital gains, prepayment penalty or other forms of cash receivables) from investments, as reduced by fund expenses, management fees and reserves for expenses and liabilities, shall be simultaneously allocated and distributed to the Class A and Class B unitholders.

Credit quality of underlying instruments – The scheme is expected to invest in instruments, which are rated investment grade or higher. At least 40% of the investments will be made in instruments rated BBB and above and 10% will be in instruments rated BBB+ and above. The fund has made investments of Rs. 166.2 crore in bonds as of April 2023, of which 5.9% has non-investment grade rating though the average credit rating of the fund's investments would be closer to BBB. ICRA will continue to monitor the developments on the same. Also, the entity-wise concentration is currently elevated as the scheme is in the fund-raising stage. The current assessment has been carried out based on the boundary conditions as prescribed in the investment criterion, which the AMC expects to meet after the closure of the fund-raising stage. Adherence to this criterion over the life of the fund would remain important.

No asset-liability management mismatch – The scheme is not expected to invest in instruments with a maturity date later than its own maturity date. This alleviates the risk of timing mismatches between the redemption of the investments and payout to the unitholders.

Credit challenges

Exposure to concentration risk – As per the investment criterion, the scheme would have a maximum exposure of 10% in any entity and 30% in any sector. Furthermore, each sub-sector of financial services (for instance, asset-class-wise segments for non-banks) would be treated as a sector for this criterion. However, the management has stated its intent to limit the exposure to financial services up to 40%.

Reinvestment risk – Tenure mismatches in the invested instruments and maturity of the fund in addition to any prepayment could lead to reinvestment risk. The scheme has so far invested in market linked debentures (MLDs) and non-convertible debentures (NCDs), which have a maturity date prior to the final maturity of the scheme and the investment manager could reinvest the cashflows till the final maturity of the scheme. The reinvestment rate could be negatively affected if the reinvestments made by the scheme are below the minimum headline yield.

Liquidity position: Not applicable

Rating sensitivities

Positive factors – The rating would be upgraded based on the credit quality and performance of the underlying investments, post full deployment.

Negative factors – Pressure on the rating could emerge due to a deterioration in the credit quality of the underlying investments or non-adherence to the proposed investment criteria and fund structure.

Waterfall Mechanism

Distribution Proceeds

The fund will receive proceeds by way of interest, cash dividends, premium, capital gains, prepayment penalties or other forms of cash receivables from the portfolio investments and returns/yield on temporary investments referred as Proceeds from Gains, however excluding redemption proceeds. Any available proceeds from gain as reduced by amounts attributable to fund expenses, management fees, taxes and reserve for expenses and other liabilities will determine the Distribution Proceeds. The Distribution Proceeds will be distributed in below manner:

- 1. Return to Class A and Class B unitholders:** 100% of the Distribution Proceeds will be simultaneously allocated and distributed to each Class A and Class B unitholder till the yield calculated on a cumulative basis is passed on to the respective unit holders based on their respective hurdle rate on their respective outstanding capital contribution.
- 2. Residual Distribution Proceeds:** The balance Distribution Proceeds after distribution of Class A and Class B Distribution Proceeds, would then be allocated and distributed to each B2 unitholder, at the instance of the Investment Manager, in proportion to their respective Capital Commitment.

Redemption Distribution Proceeds

The fund will receive proceeds by way of principal repayments, capital repayments, pre-payments and redemption from one or more portfolio investments and/or Temporary Investments referred as Redemption Proceeds. The Redemption Distribution proceeds as reduced by amounts attributable to fund expenses, management fees, taxes and reserve for expenses and other liabilities will determine the Redemption Distribution Proceeds. The Redemption Distribution Proceeds will be distributed in below manner:

1. Return of Capital Contribution to Class A unitholder:

100% of the Redemption Distribution Proceeds will be allocated and distributed to each Class A unitholder in proportion to its respective pro-rata share in the Anticipated RDP¹.

Remaining Redemption Distribution Proceeds will be distributed towards any balance outstanding Anticipated RDP² of Class A unitholders, until it becomes nil.

2. Return of Capital Contribution to Class B unitholder:

Balance Redemption Distribution Proceeds will be simultaneously distributed to each Class B unitholders in proportion to their respective pro-rata share in the Anticipated RDP.

Any remaining Redemption Distribution Proceeds will be distributed simultaneously towards any balance outstanding Anticipated RDP of each Class B unitholders, until it becomes nil.

Analytical approach

The rating action is based on the adequacy of cash flows from the debt instruments to repay the principal to the investors while covering the operating expenses for managing the scheme.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Alternative Investment Funds (AIFs) Rating Methodology for Collateralised Debt Obligations
Parent/Group support	Not applicable
Consolidation/Standalone	Not applicable

¹ Anticipated RDP means the aggregate of Anticipated RP³, as reduced by Re-investment and by amounts attributable to fund expenses, management fees, taxes and reserve for expenses and other liabilities.

² Outstanding Anticipated RDP means the difference between the pro rata share in Anticipated RDP of any class of unitholder and cumulative distribution made by the Fund to that respective class of unitholder.

³ "Anticipated RP" for a particular Portfolio Investment or Temporary Investment shall be equal to the RP (that is, the principal utilized for the Portfolio Investment or Temporary Investment) that the Fund is expected to receive (pre-Tax) from a Portfolio Investment or Temporary Investment as per the relevant funding/investment documents.

About the scheme

- Vivriti Alpha Debt Fund – Enhanced is a scheme of Vivriti Vihaan Trust, a trust organised in India and registered with SEBI as a Category II Alternative Investment Fund (AIF).
- The AIF has been sponsored and would be managed by Vivriti Asset Management Private Limited (VMAPL, the AMC).
- The scheme is a close-ended scheme with a total tenure of 3.5 years, post the final closure, and a fund size of Rs. 250 crore with a greenshoe option of Rs. 250 crore.
- Class A units account for 92.5% of the fund size while Class B units account for 7.5% of the fund.
- The scheme targets to invest up to 60% in MLDs and the balance in NCDs.
- The scheme shall not have investment of more than 10% in any entity.
- The scheme shall not have investment of more than 30% in any sector.
- All investments made by the scheme would be in investment grade or above. At least 10% of the investments will be in instruments rated BBB+ or above and at least 40% will be in instruments rated BBB or above.
- The scheme is not expected to invest in instruments with a maturity date later than its own maturity date.
- At least 50% of the commitment shall be deployed within 3 months from the date of final closing and the balance within 6 months of final closing.
- The proposed maturity of the fund is September 30, 2026.

As of April 2023, the scheme had raised a commitment of Rs. 178.7 crore (from Class A and Class B investors) and had deployed Rs. 166.2 crore, distributed across NCDs/ MLDs.

About the AMC

Incorporated in February 2019, Vivriti Asset Management Private Limited (VAMPL), a wholly-owned subsidiary of Vivriti Capital Private Limited (VCPL), manages fixed income funds. It has launched eight funds till date. The company has 52 employees across sales, fund management, credit, products, operations, legal, compliance, and other support functions. Brief details on the seven funds are given below:

1. Samarth Bond Fund (SBF): Category II close-ended fund with a tenor of 6 years. The fund declared its final close in March 2021. It invests in debt instruments issued by companies in the financial services sector, including retail non-banking financial companies (NBFCs).
2. India Impact Bond Fund (IIF): Category II close-ended fund with a tenor of 3 years, investing in causes furthering the UN Sustainable Development Goals (UN SDG)
3. Short Term Bond Fund (STBF): Category II close-ended fund with a tenor of 3 years. The fund declared its final close in March 2022. It invests in debt instruments issued by companies in the financial services sector, including retail NBFCs
4. Vivriti Emerging Corporate Bond Fund (VECBF): Category II close-ended fund with a tenor of 3.5 years. The fund declared its first close in December 2021. It will invest in securities issued by high growth operating companies and is sector agnostic
5. Vivriti Alpha Debt Fund - Enhanced (ADE): Category II close-ended fund with a tenor of 3.5 years. The fund declared its initial close in March 2022. It is targeting superior risk-adjusted returns by investing in debt instruments issued by mid-market corporates in India
6. Vivriti Alpha Debt Fund/Vivriti Wealth Optimizer Fund (VWOF): Category II close-ended fund with a tenor of 3.5 years. The fund declared its initial close in March 2022. It is targeting superior risk-adjusted returns by investing in debt instruments issued by mid-market corporates in India. The fund is bit conservative compared to Vivriti Alpha Debt Fund - Enhanced
7. Promising Lenders Fund (PLF): Category II close-ended fund with a tenor of 3 years. The fund declared its final close in March 2022. It intends to provide credit to micro, small and medium enterprises through investments in financial institutions.
8. Vivriti Fixed Income Fund – Series 3 IFSC LLP/ Vivriti India Retail Assets Fund – Category-III closed-ended fund domiciled in IFSC, Gift City. The Fund declared its initial close in Mar-23.

Key financial indicators of VAMPL (audited)

Particulars	FY2020	FY2021	FY2022	FY2023
Total assets	10.1	27.7	109.69	169.04
Assets under management	45.00	398.00	1,188.28	1,863.60
Total income	0.7	2.8	10.67	35.95
Profit after tax	Negative	Negative	Negative	Positive

Source: Company; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					May 30, 2023	May 26, 2022	-	-	
1	Vivriti Alpha Debt Fund – Enhanced	Class A	231.25	NA	[ICRA]A+(SO)	[ICRA]A+(SO)	-	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Class A	Moderately Complex

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

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Vivriti Alpha Debt Fund – Enhanced	Class A	NA	NA	Sep-26	231.25	[ICRA]A+(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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