

December 08, 2023

Vivriti Asset Management Private Limited: Rating reaffirmed; Rated amount enhanced

Summary of rating action

Trust Name	Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Vivriti Emerging Corporate Bond Fund	Class A ¹	500.00	922.00	[ICRA]A-(SO); assigned/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, Class A2, Class XA1 and Class XA2 units

Rationale

Vivriti Emerging Corporate Bond Fund (VECBF), a scheme of Vivriti Vihaan Trust, is a trust organised in India and registered with the Securities and Exchange Board of India (SEBI) as a Category II – Alternative Investment Fund (AIF). The AIF has been sponsored and managed by Vivriti Asset Management Private Limited (VAMPL or the asset management company (AMC); rated [ICRA]A- (Stable)). VECBF is a close-ended scheme with a total tenure of 3.5 years, post the final closure. The fund comprises Class A1, Class A2, Class XA1, Class XA2 and Class S units¹. Class A collectively means Class A1, Class A2, Class XA1 and Class XA2 units.

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, all 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, net of expenses), 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 to the investors.

The rating does not factor in the 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 fund has raised a capital commitment of Rs. 927 crore, including Rs. 922 crore from Class A investors and Rs. 5 crore from Class S investors. As on October 31, 2023, it had invested Rs. 580 crore, in line with its investment criteria. The rating factors in the support available to the Class A unitholders for capital redemption in the form of their share in the distribution proceeds, the expected moderate credit risk profile of the investments and the limited cash flow mismatch supported by the scheme's investment criterion. Adherence to this criterion over the life of the fund would remain critical. Nonetheless, the rating remains constrained by the issuer-level concentration risks and the reinvestment risks in the fund.

¹ The fund documents had another category of proposed investors as well (Class O) but no capital has been raised from such set of investors

Key rating drivers and their descriptions

Credit strengths

Support available for capital redemption – As per the scheme’s documents, the distribution proceeds (which include returns like interest, cash dividend, premium, capital gains, prepayment penalty or other forms of cash receivables) from the investments, as reduced by fund expenses, management fees and reserves for expenses and liabilities, would be simultaneously allocated and distributed to all classes of unitholders on a quarterly basis or a higher frequency. The redemption proceeds would also be simultaneously allocated and distributed to the unitholders no later than at the end of the fund. While determining the capital protection, all cash flows, be it in the form of distribution or redemption proceeds, are considered to be available for the purpose of capital redemption. Class A unitholders, thus, have support available for capital redemption in the form of their share in the distribution proceeds. As on September 30, 2023, Class A unitholders had received Rs. 41 crore as distribution proceeds.

No cash flow mismatch – VECBF is not expected to invest in instruments with a maturity date later than its own maturity date. This alleviates the risk of timing mismatch between the redemption of investments and payout to the unitholders.

Credit quality of underlying instruments – As per the investment criterion, at least 80% of the investments in the scheme should be in instruments rated BBB- and above, of which 20% would be in instruments rated at least BBB. Investments in unrated/BB/BB+ rated instruments will be capped at 20% with no investment in an entity exceeding 5% of the overall investment; investments in unrated instruments would be capped at 10%². The credit quality of the scheme’s underlying portfolio, so far, is in adherence to the prescribed parameters. Adherence to the criteria over the life of the fund would remain critical.

Credit challenges

Exposure to concentration risk – As per the investment criteria, the scheme would have a maximum exposure of 10% to any entity (but only 5% if the entity is rated BB or BB+ or is unrated) and 30% to any sector. Each subsector of financial services (for instance, asset class-wise segments for non-banks) would be treated as a sector for this criterion and the total exposure to the financial sector would be capped at 60% as per the investment criterion. However, the management has stated their intent to limit the exposure to financial services to 50% while single investment exposure is expected to be 7.5% on full deployment. Although the current concentration risk is lower than the prescribed boundary condition, it would have to be reassessed at the time of full deployment of the capital.

Reinvestment risk – Tenure mismatch in the invested instruments and the maturity of the fund in addition to any prepayment could lead to reinvestment risk. The scheme targets to invest predominantly in non-convertible debentures (NCDs). While the investment horizon for the instruments would be planned in line with the scheme’s life and objectives, factors such as amortisation or early redemption of the investments or a possible maturity mismatch could expose the scheme to reinvestment risks. The reinvestment rate could be negatively affected when the reinvestments are made by the scheme below the minimum headline yield.

Liquidity position

Not applicable

Rating sensitivities

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

² The fund has made investments in unrated NCDs with the total exposure at ~12%, the said entities already have issuer ratings in the investment grade category and are in the process of getting the instruments rated

Negative factors – Pressure on the rating could emerge on 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’s investments and returns/yield on temporary investments, referred to as proceeds from gains, but excluding redemption proceeds. Any available proceeds from gains, as reduced by the 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 the following manner:

1. **Return to Class A and Class S unitholders:** The entire distribution proceeds will be simultaneously allocated and distributed to each unitholder till the yield calculated on a cumulative basis is passed on to the respective unitholders based on their respective hurdle rate on their respective outstanding capital contribution³. These distributions would be made on a quarterly basis or a higher frequency.
2. **Residual distribution proceeds:** The residual distribution proceeds, after meeting the hurdle rate, shall be allocated and distributed simultaneously to all classes of unitholders in the following manner:
 - 90% of the residual distribution proceeds will be simultaneously allocated and distributed to each Class A unitholder and Class S unitholder in proportion to their respective capital commitment.
 - 10% of the residual distribution proceeds will be simultaneously allocated and distributed to each Class S unitholder in proportion to their respective capital commitment.

Redemption distribution proceeds

The fund will receive proceeds by way of principal repayments, capital repayments, prepayments and redemption from one or more portfolio investments and/or temporary investments referred to as redemption proceeds. The redemption distribution proceeds, as reduced by the 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 the following manner:

- **Return of capital contribution to Class A and Class S unitholders:** The entire redemption distribution proceeds will be allocated and distributed to each unitholder in proportion to their respective outstanding capital contribution until each unitholder has received an amount equal to 100% of their respective outstanding capital contribution on a cumulative basis.

Analytical approach

The rating action is based on 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.

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

³ Capital contribution means the portion of capital commitment given by a contributor to the fund, in accordance with the Contribution Agreement

About the scheme

Vivriti Emerging Corporate Bond Fund (VECBF) is a scheme of Vivriti Vihaan Trust, which is a trust organised in India and registered with SEBI as a Category II-AIF. The AIF has been sponsored and would be managed by VAMPL, the AMC. VECBF is a close-ended scheme with a total tenure of 3.5 years, post the final closure. It targets to invest predominantly in NCDs. It shall not invest more than 10% in any entity and more than 30% in any sector. At least 80% of the scheme's investments would be in instruments rated BBB- and above, of which 20% would be in instruments rated at least BBB. The scheme would have investments in unrated or BB/BB+ rated instruments, which will be capped at 20% where no investment in an entity would exceed 5% of the investments; investments in unrated instruments would, however, be capped at 10%.

VECBF 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 three months from the date of final closing and the balance within nine months of the final closing. The proposed maturity of the fund is September 30, 2026.

As of October 31, 2023, the scheme had raised a commitment of Rs. 927 crore (from Class A and Class S investors) and had deployed Rs. 580 crore, distributed across NCDs/market linked debentures (MLDs)/commercial papers (CPs).

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. The company has launched seven funds till date. It has 52 employees across sales, fund management, credit, products, operations, legal, compliance, and other support functions. Brief details on the nine funds are given below:

1. Samarth Bond Fund (SBF): This is a Category-II close-ended fund with a tenor of six 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): This is a Category-II close-ended fund with a tenor of three years, investing in causes furthering the UN Sustainable Development Goals (UN SDG).
3. Short Term Bond Fund (STBF): This is a Category-II close-ended fund with a tenor of three 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: This is a 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): This is a 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): This is a 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 a bit conservative compared to Vivriti Alpha Debt Fund - Enhanced.
7. Promising Lenders Fund I (PLF I): This is a Category-II close-ended fund with a tenor of three years. The fund declared its final close in March 2022. The fund intends to provide credit to micro, small and medium enterprises (MSMEs) through investments in financial institutions.
8. Promising Lenders Fund II (PLF II): Category-II closed-ended fund with 45 month tenor from initial close. The fund declared its initial close in Mar-23. The fund intends to provide credit to MSMEs through investments in Financial Institutions.
9. Vivriti India Retail Asset Fund: This is a Category III close ended fund set up in IFSCA, GIFT city with a tenor of 10 years. It seeks to provide superior risk-adjusted returns by investing predominantly in pass-through certificates issued in India.

Key financial indicators of VAMPL (audited)

Vivriti Asset Management Private Limited (standalone)	FY2021	FY2022	FY2023
Operating income	2.79	10.16	32.05
PAT	(5.81)	(25.82)	0.24
OPBDITA /OI	-206.4%	-50.9%	-3.1%
PAT/OI	-208.6%	-254.2%	0.7%
Total outside liabilities/Tangible net worth (times)	0.35	0.17	0.36
Total debt/OPBDITA	-	-	-14.08
Interest coverage ratio (times)	-2.85	-13.84	-0.90

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

Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
				Dec 08, 2023	Mar 13, 2023	June 14, 2022	-	-
1 Vivriti Emerging Corporate Bond Fund	Class A	922.00	922.00	[ICRA]A-(SO)	[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 Emerging Corporate Bond Fund	Class A	NA	NA	Sep-26	922.00	[ICRA]A-(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Sumit Pramanik

+91 22 6114 3462

sumit.pramanik@icraindia.com

Priya Gounder

+91 22 6114 3464

priya.gounder@icraindia.com

Rushabh Gohel

+91 22 6114 3420

rushabh.gohel@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6169 3304

shivakumar@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

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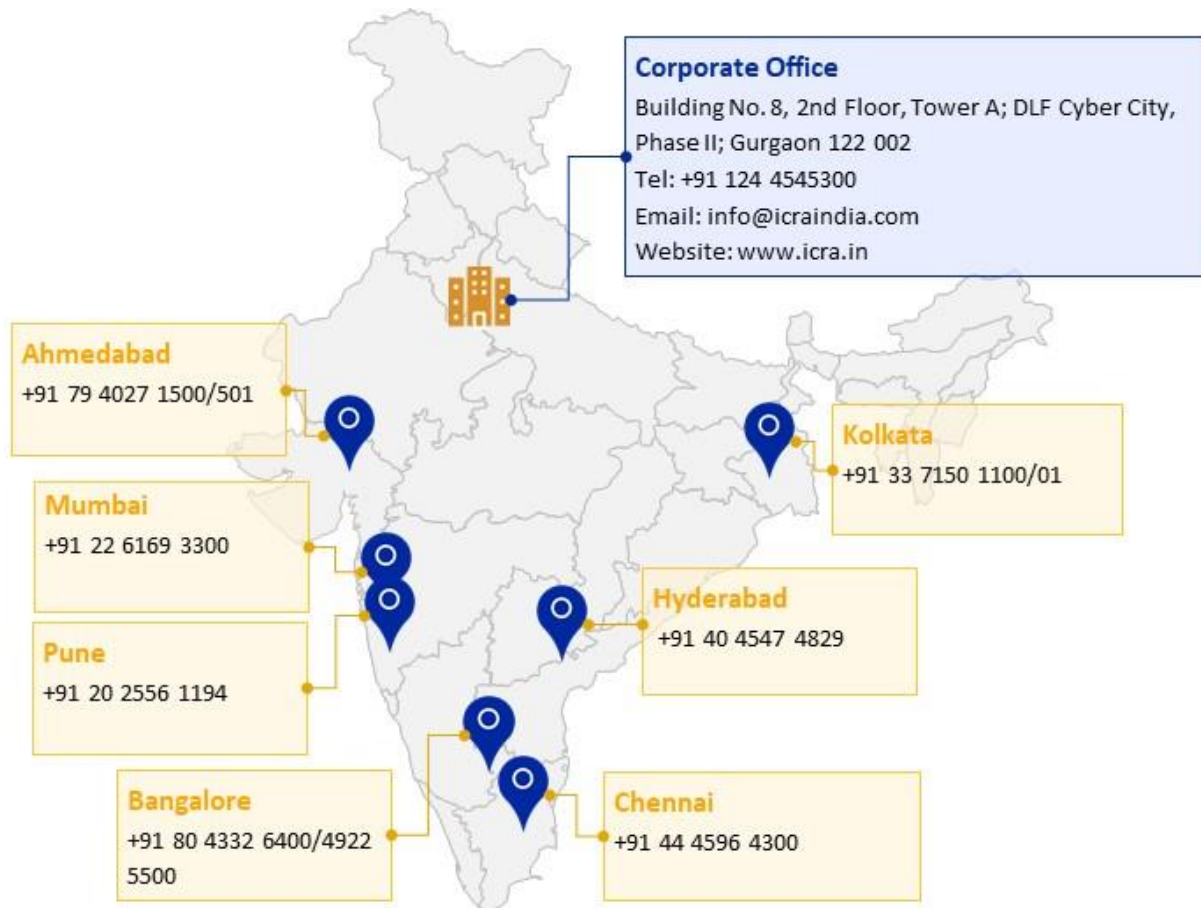
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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