May 31, 2024

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

Vivriti Alpha Debt Fund – Enhanced, 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, the asset management company or AMC; rated [ICRA]A-(Stable)}. It is a close-ended scheme with a total tenure of 3.5 years after the final closure. The fund comprises Class A units, accounting for 92.5% of the fund size, and Class B units, aggregating 7.5% of the fund size.

The fund has raised a capital commitment of Rs. 259 crore, including Rs. 240 crore from the Class A investors and Rs. 19 crore from Class B investors. As on March 31, 2024, it had invested Rs. 224 crore, in line with the investment criteria. The fund-raising period was closed on September 30, 2023. As on March 31, 2024, Class A units had received Rs. 16.0 crore while Class B units had received Rs. 1.9 crore as distribution proceeds.

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 investors.

The rating considers the support available to the Class A unitholders for capital redemption in the form of the 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 cash flow mismatch, supported by the scheme's investment criterion. Adherence to this criterion over the life of the fund would remain critical. The rating remains constrained by the issuer-level concentration risks and the reinvestment risks in the fund.

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. The rating 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.

Key rating drivers and their descriptions

Credit strengths

Presence of principal subordination to support servicing of the rated facility – The redemption distribution to the Class B unitholders (7.5%) is subordinated to the Class A unitholders and provides support to the Class A unitholders in case of any principal shortfall. Thus, the redemption distribution proceeds would be first utilised to redeem the 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 – As per the investment criteria, at least 40% of the investments should be in instruments rated BBB and above while at least 10% should be in instruments rated BBB+ and above. The fund's investments in market linked debentures (MLDs)and non-convertible debentures (NCDs), as of March 31, 2024, meet the set criteria with a healthy share of investments in A- rated instruments as well, thereby improving the overall quality of the investments vis-à-vis the base expectations. However, due to the rating downgrade of two instruments (of the same issuer) following the fund's investment in the same, about 4% of its overall portfolio is in the non-investment grade category (i.e. rated below BBB-). The deviation from the investment criteria is partially mitigated by the low proportion of the instrument in the overall portfolio as well as the fact that the other investments are rated higher than the boundary conditions. Adherence to the investment criteria over the life of the fund would be an important monitorable.

No cash flow mismatches – 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 their intent to limit the exposure to financial services to 40%. Also, the entity-wise concentration is marginally higher than the prescribed boundary condition, though it is expected to be in line with the investment criterion at the time of full deployment of capital.

Reinvestment risk – Tenure mismatches between the invested instruments and the maturity of the fund along with prepayments could lead to reinvestment risk. The scheme has, so far, invested in MLDs and NCDs, which have a maturity date before the final maturity of the scheme. Thus, the investment manager can reinvest the cash flows till the final maturity of the scheme. 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 – 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's investments and returns/yield on temporary investments referred to as proceeds from gains, but excluding redemption proceeds. The available proceeds from gains, 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 dispersed in the following manner:

1. **Return to Class A and Class B unitholders:** The entire distribution proceeds will be simultaneously allocated and given to each Class A and Class B unitholder till the yield calculated on a cumulative basis is passed on to the respective unitholders based on the respective hurdle rate on their respective outstanding capital contribution.

2. **Residual distribution proceeds:** The balance, after Class A and Class B distribution proceeds are given, 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, 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. This will be distributed in the following manner:

1. Return of capital contribution to Class A unitholders:

The entire redemption distribution proceeds will be allocated and given to each Class A unitholder in proportion to their respective pro-rata share in the anticipated RDP[1].

The balance will be distributed towards any balance outstanding anticipated RDP[2] of the Class A unitholders until it becomes nil.

2. Return of capital contribution to Class B unitholders:

The balance redemption distribution proceeds will be simultaneously given to each Class B unitholder 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 unitholder 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 RP[3], as reduced by reinvestment 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 (i.e. the principal utilised 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, a scheme of Vivriti Vihaan Trust, is a trust organised in India and registered with SEBI as a Category II Alternative Investment Fund (AIF). The AIF has been sponsored and managed by Vivriti Asset Management Private Limited (VAMPL). It is a close-ended scheme with a total tenure of 3.5 years after the final closure. The fund comprises Class A units, accounting for 92.5% of the fund size, and Class B units, aggregating 7.5% of the fund size. The scheme shall invest up to 60% in MLDs and the balance in NCDs. All investments made by the scheme would be in the investment grade category or above. At least 10% of the investments will be in instruments rated BBB+ or above while at least 40% will be in instruments rated BBB or above. The scheme shall not invest more than 10% in any entity. It shall not have an investment of more than 30% in any sector.

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

As of March 31, 2024, the scheme had raised a commitment of Rs. 259 crore (from Class A and Class B investors) and had deployed Rs. 224 crore across NCDs and 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. The company has launched nine funds till date. It has 100 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): 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 targets 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 enterprise (MSMEs) through investments in financial institutions.
8. Promising Lenders Fund II (PLF II): This is a Category II close-ended fund with a 45-month tenor. The fund declared its final close in March 2024. It 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 with a 10-year tenor. It seeks to provide superior risk-adjusted returns by investing predominantly in pass-through certificates (PTCs) issued in India.

Key financial indicators (audited)

Vivriti Asset Management Private Limited (standalone)	FY2022	FY2023	FY2024
Operating income	10.16	32.05	48.19
PAT	(25.82)	0.24	(2.06)
OPBDITA /OI	-50.9%	-3.1%	8.8%
PAT/OI	-254.2%	0.7%	-4.3%
Total outside liabilities/Tangible net worth (times)	0.17	0.36	0.32
Total debt/OPBDITA (times)	-	(14.08)	8.84
Interest coverage ratio (times)	(13.84)	(0.90)	1.03

Source: Company; Amount in Rs. crore; Operating income excludes 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.	Trust Name	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					May 31, 2024	May 30, 2023	May 26, 2022	-
1	**Vivriti Alpha Debt Fund – Enhanced**	Class A	231.25	NA	**[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 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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About ICRA Limited:

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