December 27, 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 Emerging Corporate Bond Fund	Class A[1]	922.00	922.00	[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, 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 units[1]. 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 receivables 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 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 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

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 October 31, 2024, Class A unitholders had received Rs. 137.5 crore as distribution proceeds.

Track record of partial repayment of investor funds – An amount of Rs. 137.5 crore has already been repaid to the investors mainly through the coupon on the investments. The average yield of the book has been 16.1% till October 2024 and hence the fund has displayed a track record of distributing funds to the investors satisfactorily. As per the investment criteria, VECBF is not expected to invest in instruments with a maturity date later than its own maturity date. While the fund holds one investment (8.75% of the assets under management (AUM) as of October 2024) with a part of the principal repayment falling due beyond the maturity date of the fund, ICRA takes note of the inbuilt put option with the exercise date prior to the fund's maturity date. This alleviates the risk of timing mismatches 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. Further, investments in unrated instruments would be capped at 10%. However, the fund has made investments in unrated non-convertible debentures (NCDs) with a total exposure of ~40% of the AUM as of October 2024. Nonetheless, ICRA takes comfort from the fact that of the same, entities with an exposure of ~26% of the AUM have credit ratings in the investment grade category for other debt instruments and are in the process of getting the instruments invested by the fund rated. The credit quality of the scheme's underlying portfolio is expected to be largely in adherence to the prescribed parameters once these instruments are rated. Adherence to the criteria over the life of the fund would remain critical.

Credit challenges

Exposure to credit risk – The fund has an exposure largely in the BBB category rated debt issuances, which make it vulnerable to moderate credit risk. Of its current exposures, one entity has seen a sharp weakening in its credit profile, resulting in the restructuring of its debt, though the same amounts to only 1.5% of the AUM.

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, class-wise asset 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%. The current concentration risk is lower than the prescribed boundary condition and remains a key monitorable.

Reinvestment risk – Tenure mismatches between 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 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 – The rating would be upgraded based on the credit quality and performance of the underlying investments.

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, Class O 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 the respective hurdle rate on their respective outstanding capital contribution[1]. 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, Class O 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.

3. **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, Class O 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

[1] *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 2024, the fund had raised a capital commitment of Rs. 927 crore (from Class A and Class S investors) while the drawdown amount stood at Rs. 904 crore. Of the total drawdown, the fund has deployed Rs. 899 crore across 24 entities, distributed among NCDs/market linked debentures (MLDs)/commercial paper (CP).

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 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 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 enterprises (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 of (audited; Ind-AS)

Vivriti Asset Management Private Limited (standalone)	FY2022	FY2023	FY2024
Operating income	10.2	32.1	48.2
PAT	-25.82	0.2	-2.1
OPBDITA/OI	-50.9%	-3.1%	8.8%
PAT/OI	-254.2%	0.7%	-4.3%
Total outside liabilities/Tangible net worth (times)	0.2	0.4	0.3
Total debt/OPBDITA	-	-14.1	8.8
Interest coverage ratio (times)	-13.8	-0.9	1.0

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	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022
					December 27, 2024	December 08, 2023	Mar 13, 2023	June 14, 2022	-
1	**Vivriti Emerging Corporate Bond Fund**	Class A	250.00	922.00	**[ICRA]A-(SO)**	**[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 Kumar Pramanik
+91 22 6114 3462
sumit.pramanik@icraindia.com

Rushabh Gohel
+91 22 6114 3450
rushabh. gohel@icraindia.com

Abhishek Jena
+91 22 6114 3432
abhishek.jena@icraindia.com

RELATIONSHIP CONTACT

Mr. L. Shivakumar
+91 22 6114 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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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches