May 26, 2022

Vivriti Asset Management Private Limited: [ICRA]A+(SO) assigned to Class A unit holders in Vivriti Alpha Debt Fund – Enhanced

Summary of rating action

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

**Instrument details are provided in Annexure-1; Rating is indicative of the capital protection available to the investors and should not be construed as an indication of the expected returns.*

Rationale

ICRA has assigned rating of [ICRA]A+(SO) to Class A unit holders in Vivriti Alpha Debt Fund – Enhanced, 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 (VAMPL, the Asset Management Company or AMC). The scheme is close-ended scheme with a total tenure of 3.5 years post the final closure and fund size of Rs. 250 crore, with a green shoe option of Rs. 250 crore. The fund comprises of Class A units attributing to 92.5% of the fund size, and class B units aggerating to 7.5% of the fund.

The assigned rating represents the credit risk associated with the underlying debt instruments and the adequacy of cash flows from the debt instruments to repay principal to the investors while covering the operating expenses for managing the scheme, and thus is indicative of the capital protection available to the investors. For this analysis, cashflows 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, pre-payments and redemption from one or more portfolio investments) are considered to be available for principal or capital redemption for 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. 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.

The rating takes into account the support available to the class A unitholders for capital redemption in the form of subordination of class B share in redemption proceeds (7.5%) and class A's share in distribution proceeds. The rating also factors in the expected moderate credit risk profile of investments and 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: Redemption Distribution to Class B unit holders (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 due as of the date of distribution on a pro-rata basis, and the balance would then be used to redeem 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 Class A and Class B unit holders.

Credit quality of the underlying instruments: The scheme is expected to invest in instruments which are rated investment grade or higher. Atleast 40% of the investments will be made in instruments rated BBB and above and 10% of the investments will be in instruments rated BBB+ and above. Adherence to this criterion over the life of the fund would remain critical.

No asset liability management (ALM) Mismatch: The scheme is not expected to invest in instruments with maturity date later than the maturity date of the scheme. This alleviates the risk of timing mismatch between the redemption of 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 upto 50%.

Reinvestment risk: Tenure mismatch in the invested instruments and maturity of the fund in addition to the prepayment which may happen could give rise to reinvestment risk. The scheme is likely to invest up to 85% in Market Linked Debentures (MLDs) and 15% in Non-Convertible Debentures (NCDs). The scheme has so far invested in MLDs and NCDs which have maturity date prior to the final maturity of the scheme where the investment manager could reinvest the cashflows 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 – Rating would be upgraded based on the credit quality and performance of the underlying investments post full deployment.

Negative factors – Pressure on the ratings could emerge due to 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:

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.

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 RDP[1].

Remaining Redemption Distribution Proceeds will be distributed towards any balance outstanding Anticipated RDP[2] 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 principal to the investors while covering the operating expenses for managing the scheme.

Analytical Approach	Comments
Applicable Rating Methodologies	Methodology for Rating Capital Protection-Oriented Funds Methodology for Collateralised Debt Obligations
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the Scheme

- Vivriti Alpha Debt Fund – Enhanced, 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 Asset Management Company or AMC).
- The scheme is close-ended scheme with a total tenure of 3.5 years post the final closure, and fund size of Rs. 250 crore, with a green shoe option of Rs. 250 crore.
- The fund comprises of Class A units attributing to 92.5% of the fund size, and class B units aggerating to 7.5% of the fund.
- The scheme targets to invest upto 85% in MLDs and balance in NCDs.
- The scheme shall not have investment more than 10% in any entity.

[1] Anticipated RDP means the aggregate of Anticipated RP[3], 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.

- The scheme is not expected to invest in instruments with maturity date later than the maturity date of the scheme.
- Atleast 50% of the commitment shall be deployed within 3 months from the date of final closing and balance within 6 months of final closing.

About the AMC

Incorporated in February 2019, Vivriti Asset Management Private Limited (VAMPL), a wholly-owned subsidiary of Vivriti Capital Private Limited (VCPL), is engaged in managing fixed income funds. The company has launched seven 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 closed-ended fund with tenor of 6 years. The fund declared its final close in Mar-21. The fund invests in debt instruments issued by companies in the financial services sector, including retail NBFCs.
2. India Impact Bond Fund (IIF): Category-II closed-ended fund with tenor of 3 years, investing in causes furthering UN Sustainable Development Goals (UN SDG).
3. Short Term Bond Fund (STBF): Category-II closed-ended fund with tenor of 3 years. The fund declared its final close in Mar-22. The fund invests in debt instruments issued by companies in the financial services sector, including retail NBFCs.
4. Vivriti Emerging Corporate Bond Fund (VECBF): Category -II closed-ended fund with tenor of 3.5 years. The fund declared its first close in Dec-21. The fund will invest in securities issued by high growth operating companies and is sector agnostic.
5. Vivriti Alpha Debt Fund - Enhanced (ADE): Category-II closed-ended funds with tenor of 3.5 years. The fund declared its initial close in Mar-22. The fund is targeting superior risk adjusted return from investing in debt instruments issued by mid-market corporates in India.
6. Vivriti Alpha Debt Fund/Vivriti Wealth Optimizer Fund (VWOF): Category-II closed-ended funds with tenor of 3.5 years. The fund declared its initial close in Mar-22. The fund is targeting superior risk adjusted return from investing in debt instruments issued by mid-market corporates in India. The fund is bit conservative as compared to Vivriti Alpha Debt Fund - Enhanced.
7. Promising Lenders Fund (PLF)- Category-II closed-ended fund with tenor of 3 years. The fund declared its final close in Mar-22. The fund intends to provide credit to MSMEs through investments in Financial Institutions.

Key financial indicators of VAMPL (audited)

Particulars	FY2020	FY2021
Total Assets (Rs. crore)	10.1	27.7
Assets Under Management (Rs. crore)	45.00	398.00
Total Income (Rs. crore)	0.7	2.8
Profit After Tax (Rs. crore)	Negative	Negative

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 26, 2022	-	-	-
1	Vivriti Alpha Debt Fund – Enhanced	Class A	231.25	NA	[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: www.icra.in

Annexure-1: 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-2: List of entities considered for consolidated analysis

Not Applicable

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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