June 14, 2022

Vivriti Asset Management Private Limited: [ICRA]A-(SO) assigned to Class A unit holders in Vivriti Emerging Corporate Bond Fund

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Vivriti Emerging Corporate Bond Fund	Class A[1]	250.00	[ICRA]A-(SO); Assigned

**Instrument details are provided in Annexure-1; The 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

ICRA has assigned a rating of [ICRA]A-(SO) to Class A unit holders in Vivriti Emerging Corporate Bond Fund, scheme of Vivriti Vihaan Trust, 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 would be managed by Vivriti Asset Management Private Limited (VAMPL; the asset management company or 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. 500 crore, with a green shoe option of Rs. 500 crore. The fund comprises of Class A1, Class A2, Class XA1, Class XA2, Class O and Class S units. Class A collectively means Class A1, Class A2, Class XA1 and Class XA2 units.

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 the 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, all 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, net of expenses) 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 factors in the support available to the Class A unitholders for capital redemption, in the form of their share in distribution proceeds, 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 documents, the distribution proceeds (which includes 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 would be simultaneously allocated and distributed to all classes of unit holders (A, O and S) on a half yearly or higher frequency. The redemption proceeds would also be simultaneously allocated and distributed to unitholders no later than at the end of the fund. While determining the capital protection, all cashflows, 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 distribution proceeds.

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 quality of the underlying instruments – As per the investment criterion, the scheme would have atleast 80% of the investments in instruments rated BBB- and above, out of which 20% of the investments would be in instruments rated BBB or above. Investments in un-rated / BB / BB+ rated instruments will be capped at 20% where no investment in an entity would exceed 5% of the overall investments; investments in unrated instruments, however, would be capped at 10%. Adherence to this criterion over the life of the fund would remain critical.

Credit challenges

Exposure to concentration risk – As per the investment criterion, the scheme would have a maximum exposure of 10% in any entity (but only 5% if the entity is rated BB or BB+ or is unrated) and 30% in 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 financial sector would be capped at 60% as per the investment criterion. However, the management has stated its intent to limit the exposure to financial services up to 50%, and single investment exposure is expected to be around 7.5% on full deployment.

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 targets to invest predominantly in Non-Convertible Debentures (NCDs). While the investment horizon for the instruments would be planned in line with the scheme 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 – 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 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 to as proceeds from gains, however 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:** 100% of the 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 unit holders based on their respective hurdle rate on their respective outstanding capital contribution[1]. These distributions would be made at a half yearly or 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 unit holders as follows:

    - 60% of the residual distribution proceeds will be simultaneously allocated and distributed to each Class A unitholder and Class O unitholder in proportion to their respective capital commitment.

    - 40% 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, 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 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: 100% of the 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 Capital Protection Oriented Funds Rating Methodology for Collateralised Debt Obligations
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the scheme

- Vivriti Emerging Corporate Bond Fund, scheme of Vivriti Vihaan Trust, 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 (AMC).
- The scheme is close-ended scheme with a total tenure of 3.5 years post the final closure, and fund size of Rs. 500 crore, with a green shoe option of Rs. 500 crore.
- The scheme targets to invest predominantly in NCDs.
- The scheme shall not have investment more than 10% in any entity.
- The scheme shall not have investment more than 30% in any sector.

[1] Capital contribution means the portion of capital commitment contributed by a contributor to the fund, in accordance with the contribution agreement

- The scheme would have atleast 80% investments in instruments rated BBB- and above, out of which 20% of the investments would be in instruments rated BBB or above.
- The scheme would have investments in un-rated 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, however, would be capped at 10%.
- The scheme is not expected to invest in instruments with a maturity date later than its 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 9 months of the 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 non-banking financial companies (NBFCs).
2. India Impact Bond Fund (IIF): Category-II closed-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 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	FY2022
Total Assets (Rs. crore)	10.1	27.7	109.69
Assets under Management (Rs. crore)	45.00	398.00	1,188.28
Total Income (Rs. crore)	0.7	2.8	10.67
Profit after Tax (Rs. crore)	Negative	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
					June 14, 2022	-	-	-
1	Vivriti Emerging Corporate Bond Fund	Class A	250.00	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 Emerging Corporate Bond Fund	Class A	NA	NA	Sep-26	250.00	[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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