November 22, 2023

Vivriti Fixed Income Fund- Series 3 IFSC LLP: [ICRA]AA+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount ($ million)	Current Rated Amount ($ million)	Rating Action
Long-term Fund-based – Term loans	NA	5.00@	[ICRA]AA+ (Stable); Assigned

**Instrument details are provided in Annexure I*
@Equivalent to Rs. 42.00 crore

Rationale

ICRA has assigned a rating of [ICRA]AA+ (Stable) to the proposed term loan to be raised by Vivriti Fixed Income Fund – Series 3 IFSC LLP. The vehicle is also known as Vivriti India Retail Assets Fund (VIRAF/the fund). Vivriti Asset Management Private Limited {VAM; rated [ICRA]A- (Stable)} is the sponsor as well as the investment manager of the fund. The close-ended fund's term began in March 2023 (initial closing) and will expire upon the completion of 10 years from the date of initial closing. The initial target fund size for the first 18 months would be $150 million (with $75 million as capital and $75 million as debt) and the target fund size, post 18 months, would be $250 million (with $75 million as equity and $175 million as debt). Till date, an international financial institution has sanctioned a term loan of $30 million in the fund while a global investment manager has provided the fund with the requisite capital commitment of $75 million. Further, the investment manager has committed $1.5 million by way of FME[1] contribution in the fund.

The rating factors in the established track record of Vivriti Group (the Group) in the financial sector. VAM is a ~67% subsidiary of Vivriti Capital Limited {VCL; rated [ICRA]A (Stable)}. Over the last three years, VAM has launched multiple funds and has scaled up its assets under management (AUM) steadily to over Rs. 2,450 crore as of Sep-23. Further, VCL had an AUM of Rs. 6,306 crore as of Sep-23 with exposures to financial service entities, non-financial enterprises finance, co-lending/partnership arrangements, investment in pass-through certificates, purchase of retail asset pools and supply chain finance. At a group level, it enjoys a working relationship with 194 financial institutions and has so far made 122 investments into PTCs, thus demonstrating a proven track record in the successful underwriting of entities in the financial sector.

The rating also considers that the fund would invest at least 80% in senior pass-through certificates (PTCs) while the balance would be invested in senior, secured and rated non-convertible debentures (NCDs). ICRA notes that the Indian securitisation market has been growing at a healthy pace in recent years and has seen limited instances of default to senior investors. Further, the fund has certain guardrails relating to the selection of originators and selection/structuring of PTCs, which cushion the credit quality of the underlying instruments. Additionally, comfort is derived from predefined trigger events, which would lead to the early amortisation of the PTCs in case of a deterioration in the originator's profile. Moreover, the fund envisages to maintain certain required loan-to-value (LTV) ratios during its tenure, the breach of which would result in a stop loss trigger event. The rating also factors in the well-defined waterfall mechanism, which states that the payouts to the investment manager and unitholders are subordinated to that of the lenders. The strong cashflow cover also supports the rating.

The rating remains constrained by the moderate credit risk that would be carried by the fund's investments as the underlying instruments would consist of A-category (at least 70%) and BBB/BBB+ (at most 30%) rated instruments. Further, the originator-level concentration could be high as the maximum possible share of the originator in total investments can go up to 10%. However, the concentration is expected to reduce as the fund scales up in size. Also, at least 80% of the investments would be

[1] *Fund management entity*

in PTCs backed by retail pools. This would limit the role of the originator to that of a servicer which, in an event of default, could be taken over by another entity such that the collections from the pools continue but with some impact.

The fund would be exposed to foreign currency risk since capital would be raised in US dollars while the investments would be in Indian rupee. Further, the debt raised by the fund is linked to the 1-month secured overnight financing rate (SOFR), thereby exposing it to interest rate movements. However, the currency and interest rate risk would be partially mitigated by the hedging strategies which the Fund would undertake to manage the risk. Additionally, the fund will expire upon the completion of 10 years from the date of initial closing while the tenure of the term loan is expected to be around four years, which would result in refinancing risk for the fund. However, the principal repayments for the term loan will be paid in equal instalments over a 15-month period for each drawdown (post a 30-month moratorium period during which only the interest is serviced). ICRA notes that as long as the fund's investments are in debt instruments of similar tenures, the cash flows from the underlying assets would be sufficient to meet the debt repayments.

Key rating drivers and their descriptions

Credit strengths

Track record of the Group in financial sector space: VAM was set up in February 2019 and is a ~67% subsidiary (as of Mar-23, on a diluted basis) of VCL. It manages alternative investment funds (AIFs) for the Group. VAM seeks to develop performing credit funds that take diversified exposures within the mid-market enterprises segment. VAM currently manages nine AIFs with total AUM of over Rs. 2,450 crore as of September 2023 (March 2022: Rs. 1,270.5 crore). The funds invest in operating companies with proven businesses models and high vintage, and across different yield buckets ranging from 11%-16% (gross).

VCL was promoted by Mr. Vineet Sukumar and Mr. Gaurav Kumar in June 2017. It provides diverse debt financing solutions including loans, working capital finance and trade finance to non-banking financial companies (NBFCs) and other enterprises. It has also been expanding its presence in the retail segment through various co-lending partnerships with other NBFCs.. At a group level, it has a working relationship with 118 number of corporates and 194 number of financial institutions. VCL and VAM have invested in 122 PTCs till date amounting to Rs. 1,428 crore, thus demonstrating a proven track record in the successful underwriting of entities in the financial sector.

VAM is a critical part of VCL's overall long-term growth strategy. VAM and VCL are expected to complement each other in access to capital as well as providing mid-market enterprises with alternate products. VAM is expected to receive managerial and financial support from VCL on an ongoing basis. Being part of the Vivriti Group, VAM enjoys synergies on risk management, capital raising, industry networks, support teams, technology & data sciences with VCL that will benefit the underwriting process and portfolio selection as well as monitoring for the Fund.

Credit quality of underlying instruments underpinned by stringent investment criteria – The Fund will predominantly invest in Indian asset-backed securities (ABS) where, as per the fund level investment criteria, at least 80% of the AUM would be invested in senior PTCs while at most 20% would be invested in senior, secured and rated NCDs. The Fund's investments would carry moderate credit risk as it will invest at least 70% of the AUM in instruments rated in the A-category while the balance would be invested in instruments rated BBB/BBB(SO) and BBB+/BBB+(SO). Additionally, the fund has certain guardrails relating to the selection of Originators and selection/structuring of PTCs which aids in mitigating the Originator risk and investment risk. For instance, the total credit enhancement (CE), which shall consist of over-collateralisation (OC) and cash collateral (CC), shall be at least 12% (as a % of the senior tranche of ABS), while the CC (as a % of the senior tranche of ABS) shall be at least 5%. Further, total CE at an average of 15% is expected to be maintained across all the PTCs in the Fund.

The fund will also monitor the performance of the originators, whereby the occurrence of any predefined trigger event would result in a turbo mechanism, i.e. the excess interest spread (EIS) in the PTCs will be used to prepay the PTC principal amount

instead of flowing back to the originator. Further, the fund would maintain an LTV[2] of 50% till the expiry of 18 months from the date of first investment and till the target fund size of $150 million is achieved. However, after the expiry of 18 months and provided that the target fund size has been achieved along with certain additional criteria, the LTV could be increased up to 70%. ICRA notes that if the LTV ratio remains more than the applicable required LTV ratio for a continuous period of 90 days, a stop loss trigger event is deemed to have occurred. This would result in the sale of the investments on a best-effort basis and/or the utilisation of the proceeds from all the investments for the immediate repayment of the loan and/or the cessation of undertaking any new investment.

Limited instances of default in Indian securitisation market – Domestic fresh PTC volumes grew by ~69% YoY to Rs. 90,000 crore in H1 FY2024 from Rs. 54,000 crore in H1 FY2023, with the consistent rise in credit demand in the financial lending space leading to higher funding needs. The domestic securitisation market's growth was underpinned by the healthy pool performance across various asset classes and adequate CE in structures, resulting in minimal downgrades over the past few years. Instances of default on senior tranches were also very low and were limited to macro event-driven risks. ICRA notes that even in such cases, the senior investors have recovered some amounts owing to the presence of a CE in the transaction as well as some collections, given the granular nature of the pools. Thus, the retail pools in the domestic market have witnessed minimal losses owing to market stability and robust performance, driven by the stringent pool selection criteria by the investors.

Strong cashflow cover expected – The fund will follow a well-defined waterfall mechanism for the distribution of proceeds to various stakeholders. As per this mechanism, the payouts to the investment manager and unitholders are subordinated to that of the lenders. While any fund expenses, including hedging expenses and margin costs payable on the debt, would be senior compared to the payments made towards interest and principal payments to the lenders, expenses related to hedging and margin costs on the equity portion would be subordinated to that of the lender payments. The monthly cash inflows are expected to be in the range of 1.50-2.75x[3] of the monthly debt to be serviced during the periods of principal repayments, supported by the staggered nature of the debt repayments and the expected shorter maturity of the investments (~18 months). Further, the fund is required to maintain a liquidity reserve, which is linked to its weighted average monthly collection efficiency, providing a cushion upon the commencement of the principal repayments to the lenders.

Credit challenges

High sectoral and originator-level concentration – The fund would have high sectoral concentration as the investments would be made to lending institutions, though the same will be across different asset classes, namely micro, small and medium enterprises (MSMEs), microfinance institutions (MFIs), two-wheelers (2Ws) and commercial vehicles (CVs). The fund is expected to limit the maximum exposure to a particular sector at 40%. Its investment would carry moderate credit risk as the underlying investments would largely be made in A- category (at least 70%) and BBB/BBB+ (at most 30%) rated instruments. Further, the originator-level concentration could be high as the maximum possible share of the originator in total investments can go up to 10%, though the concentration is expected to decline as the fund scales up in size (viz. 7.5% at fund size of $90 to $150 million, that will gradually reduce to 4.5% at fund size of $250 million). However, at least 80% of the investments would be in retail pools, which would limit the role of the originator to that of a servicer. In the event of default, the servicing role can be taken over by another entity such that the collections from the pools continue but with some impact.

Foreign currency risk – The fund is exposed to foreign currency risk as the funds would be raised in US dollars while the assets invested in would be in Indian rupee. However, the fund has a hedging policy, which establishes guidelines to manage this risk.

---

[2] LTV ratio is defined as the ratio between total outstanding debt of the borrower and total qualifying asset balance. For an investment to be a qualifying asset, it should not have been downgraded by one notch for BBB(SO)/BBB rating and by two notches for BBB+/BBB+(SO) rating since the initial investment

[3] Calculated for leverage of 1x assuming fund size of $150 million; along with assumption of 7.5% interest cost, average investment tenor of 24 months, average yield on investments of ~12.5%; the cover would decline if the leverage increases once the fund scales up beyond $150 million

As per the policy, a combination of derivative products such as forwards, options and swaps would be used to hedge the risk. Also, the fund would keep the principal and interest exposure of the debt component hedged throughout. ICRA also notes that all the hedging transactions will be undertaken after the requisite approvals from the Product Committee, which consists of the Chief Executive Officer (CEO) and the Chief Investment Officer (CIO) of the investment manager. Additionally, the fund envisages diversifying its hedging transactions across multiple banks to reduce any counterparty risk.

Interest rate risk and refinancing risk – The debt raised by the fund is linked to the 1-month SOFR, thereby exposing it to interest rate movements, though it may use hedging strategies such as interest rate swaps to reduce the impact of adverse interest rate movements on its returns. Further, the fund will expire upon the completion of 10 years from the date of initial closing while the tenure of the term loan is expected to be around four years, which would result in refinancing risk. However, the principal repayments for the term loan will be paid in equal instalments over a 15-month period. Additionally, the fund is expected to maintain a shorter average tenure for its investments as the majority of its investments would be in unsecured pools, which would mature in 1.5-2.0 years. Further, the repayments from the investments would be monthly given the nature of the PTCs, which would reduce any cashflow mismatch.

Liquidity position: Adequate

At present, the liquidity position is adequate with a liquidity reserve of ~$51,000. The fund would have limited debt obligations for the next 2.5 years as the principal repayment would commence from the 31st month after each debt drawdown. The expected cashflows from the investments and the buildup in the liquidity reserve would support the debt repayments.

Rating sensitivities

Positive factors – The rating could be upgraded based on the demonstrated track record of the fund performance while ensuring the investment criteria has been maintained.

Negative factors – Pressure on the rating could emerge due to non-adherence to the investment criteria or terms of debt or severe deterioration in the credit quality of the underlying investments.

Analytical approach

The rating action is based on the adequacy of the cashflows from the debt instruments to repay the principal and the interest of the term loan while covering the tax and other non-recurring and non-operating expenses for managing the scheme.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Collateralised Debt Obligations Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the fund

Vivriti Fixed Income Fund – Series 3 IFSC LLP has been set up as a limited liability partnership (LLP) under the Limited Liability Partnership Act, 2008. The LLP vehicle is also known as Vivriti India Retail Assets Fund (VIRAF/the fund), a close-ended fund. The term of the fund will begin from the date of initial closing (March 2023) and expire upon the completion of 10 years from the date of initial closing. It will carry on the activity of a restricted scheme (non-retail scheme) as a Category III AIF under IFSCA FME regulations. The fund has registered itself with the Securities and Exchange Board of India (SEBI) as a Category I foreign portfolio investor under SEBI FPI regulations. As of October 2023, the fund had an AUM of Rs. 305 crore with investments across nine instruments. It has drawn down debt of $10 million and deployed capital of $27 million.

The investment manager, Vivriti Asset Management Private Limited (IFSC branch), is registered as an FME (non-retail) vide a certificate of registration issued by International Financial Services Centre Authority (IFSCA) under FME regulations. The investment manager will select investment opportunities and manage investment decisions on behalf of the fund.

The fund seeks superior risk-adjusted returns by investing primarily in pass-through certificates (PTCs) with the balance in non-convertible debentures (NCDs) or bonds. Its objective is to direct capital towards financial inclusion and small and medium-sized businesses and enable foreign capital to tap into the Indian securitisation market. The fund has elected to invest via the FPI Voluntary Retention Route (VRR) route.

Key financial indicators: Not applicable[4]

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[4] *Fund was incorporated in May 2023*

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated ($ million)*	Amount Outstanding ($ million)*	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Nov 22, 2023	-	-	-
1	Term loans	Long term	5.00	5.00	[ICRA]AA+ (Stable)	-	-	-

** Equivalent to Rs. 42.00 crore*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term loan	Simple

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

ISIN	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated ($ million)	Current Rating and Outlook
Yet to be placed	Term loan	Yet to be sanctioned	To be decided	To be decided	5.00	[ICRA]AA+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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 3454
priya.gounder@icraindia.com

Rushabh Gohel
+91 22 6114 3450
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

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.

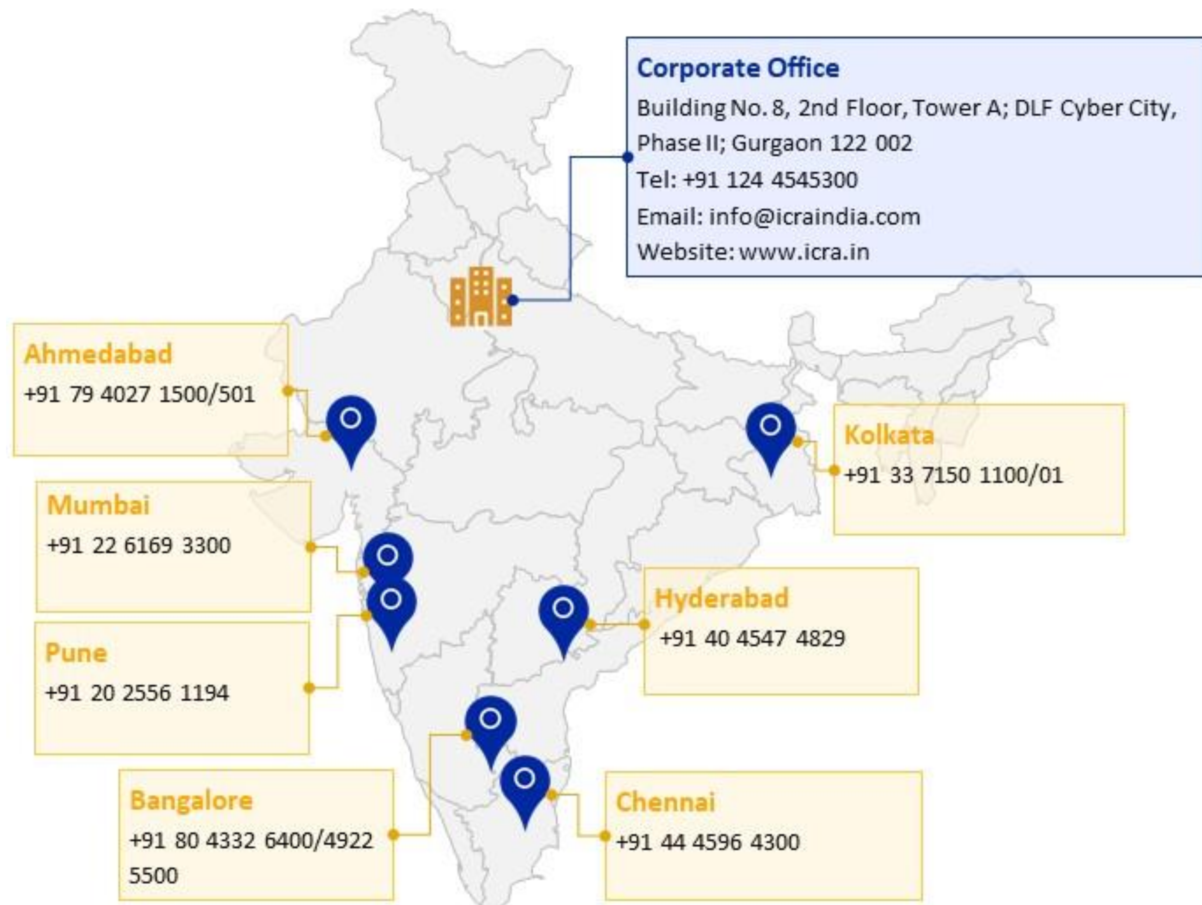
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.