HDFC Asset Management Company Limited

January 21, 2019

Summary of rating action

Instrument*	Current Rated Amount(Rs. crore)	Rating Action
HDFC Short Term Debt Fund	-	[ICRA]AAAmfs@; placed on rating watch with negative implications
HDFC Banking and PSU Debt Fund	-	[ICRA]AA-mfs@; placed on rating watch with negative implications
HDFC Low Duration Fund	-	[ICRA]AA+mfs; outstanding
HDFC Corporate Bond Fund	-	[ICRA]AAAmfs; outstanding
HDFC Floating Rate Debt Fund	-	[ICRA]A1+mfs; outstanding
HDFC Liquid Fund	-	[ICRA]A1+mfs; outstanding
HDFC Money Market Fund (erstwhile HDFC Cash Management Fund – Savings Plan)	-	[ICRA]A1+mfs; outstanding
HDFC Fixed Maturity Plan 97D May 2018 (1) Series 40	-	[ICRA]A1+mfs; outstanding
Total	-	

@ denotes under rating watch with negative implications
**Instrument details are provided in Annexure-1*

Rating action

ICRA has placed the ratings of [ICRA]AAAmfs on HDFC Short Term Debt Fund (HDFC-STDF) and [ICRA]AA-mfs on HDFC Banking and PSU Debt Fund (HDFC-BPSU) on Rating Watch with Negative Implications (RWN) and will take an appropriate rating action once the fund manager rebalances the portfolio with assigned rating category within a month. Schemes with [ICRA]AAAmfs rating are considered to have the highest degree of safety regarding timely receipt of payments from the investments that they have made. Schemes with [ICRA]AAmfs rating are considered to have the high degree of safety regarding timely receipt of payments from the investments that they have made.

ICRA has a rating outstanding of [ICRA]AA+mfs on HDFC Low Duration Fund and [ICRA]AAAmfs on HDFC Corporate Bond Fund. ICRA also has a rating outstanding of [ICRA]A1+mfs on HDFC Floating Rate Debt Fund, HDFC Liquid Fund, HDFC Money Market Fund (erstwhile HDFC Cash Management Fund – Savings Plan) and HDFC Fixed Maturity Plan 97D May 2018 (1) Series 40. Schemes with [ICRA]A1 rating are considered to have very strong degree of safety regarding timely receipt of payments from the investments that they have made. The ratings indicate ICRA's opinion on the credit quality of the portfolios held by the funds; they do not indicate the AMC's willingness, or ability, to make timely payments to the funds' investors. The ratings should not be construed as an indication of expected returns, prospective performance of the mutual fund scheme, NAV or volatility in its returns.

Rationale and key rating drivers

The rating action takes into account the deterioration in the credit quality of the underlying investments of these schemes driven by their exposure to special purpose vehicle (SPV) of IL&FS Limited. ICRA notes that two HDFC Asset Management Company Limited's schemes – HDFC-STDF and HDFC-BPSU have exposures to IL&FS SPV, namely, Hazaribagh Ranchi Expressway Limited (HREL). The default risks by various SPVs of IL&FS have increased given the recent communication by their management to trustees expressing to stop future repayments citing their interpretation of an order given by National Company Law Appellate Tribunal (NCLAT) on October 15, 2018. Further, in January 2019, two SPVs of IL&FS demanded a refund of the debt payment executed by them post October 15, 2018 from their trustees. Despite a ringfenced structure and adequate cash flows to service the debt obligations, the SPVs have asked the trustees to stop debiting the SPVs escrow account towards its future obligations. As on December 31, 2018, the exposure to HREL as a percentage of AUM stood at 0.55% and 0.29% for HDFC-STDF and HDFC-BPSU respectively. In case of delays in honouring its obligations by SPVs, the ratings for these SPVs are likely to be downgraded, thereby impacting the credit score of the mutual fund schemes having exposure to these SPVs. The ability to rebalance the portfolios for these schemes within a month of rating action will remain a key rating driver. ICRA will continue to monitor the portfolios of these schemes regularly and take appropriate rating action as and when required.

ICRA's mutual fund rating methodology is based on evaluating the inherent credit quality of the fund's portfolio. As a measure of the credit quality of a debt fund's assets, ICRA uses the concept of "credit scores". These scores are based on ICRA's estimates of the credit risk associated with each exposure of the portfolio taking into account its maturity. To quantify the credit risk scores, ICRA uses its database of historical default rates for various rating categories and maturity buckets. The credit risk ratings incorporate ICRA's assessment of a debt fund's published investment objectives and policies, its management characteristics, and the creditworthiness of its investment portfolio. ICRA reviews relevant fund information on an ongoing basis to support its published rating opinions. If the portfolio credit score meets the benchmark of the assigned rating during the review, the rating is retained. In an event that the benchmark credit score is breached, ICRA gives a month's time to the debt fund manager to bring the portfolio credit score within the benchmark credit score. If the debt fund manager is able to reduce the portfolio credit score within the benchmark credit score, the rating is retained. If the portfolio still continues to breach the benchmark credit score, the rating is revised to reflect the change in credit quality.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA- Mutual Fund Credit Risk Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	Standalone

About the company:

HDFC Asset Management Company Limited

The above schemes are mutual fund schemes of HDFC Mutual Fund (HDFC MF), managed by HDFC Asset Management Company Limited (a joint venture with Standard Life Investments). The average Assets Under Management (AUM) of schemes of HDFC Mutual Fund during quarter ended December 2018 was Rs. 3,34,964 crore.

HDFC Short Term Debt Fund

Launched in June 2010, HDFC-STDF is an open-ended short-term debt scheme investing in instruments such that the Macaulay Duration of the portfolio is between 1 year and 3 years. The fund's AUM stood at Rs. 8,985 crore as on December 31, 2018 with average maturity of ~1.49 years on that date.

HDFC Banking and PSU Debt fund

Launched in March 2014, HDFC -BPSU is an open-ended debt scheme predominantly investing in debt instruments of banks, public sector undertakings, public financial institutions and municipal bonds. The scheme's AUM stood at Rs. 2,803 crore as on December 31, 2018 with average residual maturity of ~2.78 years on that date.

Key financial indicators: Not applicable

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Sr. No.	Scheme	Current Rating (FY2019)				Chronology of Rating History for the past 3 years									
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)		FY2019			FY2018		FY2017			FY2016	
					Jan-19	Jun-18	Jun-18	Apr-18	Jun-17	Apr-17	Nov-16	Jun-16	Apr-16	Jun-15	May-15
1	HDFC Short Term Debt Fund	Long Term	-	-	[ICRA]AAAmfs @	[ICRA]AAAmfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs
2	HDFC Banking and PSU Debt Fund	Long Term	-	-	[ICRA]AA-mfs@	[ICRA]AA-mfs	[ICRA]AA -mfs	[ICRA]AA-mfs	[ICRA]AA-mfs	[ICRA]AA +mfs	[ICRA]AA +mfs	[ICRA]AA Amfs	[ICRA]AA Amfs	-	-
3	HDFC Fixed Maturity Plan 97D May 2018 (1) Series 40	Short-term	-	-	[ICRA]A1+mfs	[ICRA]A1+mfs	[ICRA]A1 +mfs	-	-	-	-	-	-	-	-
4	HDFC Low Duration Fund	Long Term	-	-	[ICRA]AA+mfs	[ICRA]AA+mfs ; revised from [ICRA]AAAmfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs
5	HDFC Corporate Bond Fund	Long Term	-	-	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs
6	HDFC Floating Rate Debt Fund	Short-term	-	-	[ICRA]A1+mfs	[ICRA]A1+mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs
7	HDFC Liquid Fund	Short-term	-	-	[ICRA]A1+mfs	[ICRA]A1+mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs
8	HDFC Money Market Fund	Short-term	-	-	[ICRA]A1+mfs	[ICRA]A1+mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs

@ denotes under rating watch with negative implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details: Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Neha Parikh
+91 22 6114 3426
neha.parikh@icraindia.com

Parvathy S
+91 22 6114 3428
parvathy.s@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91- 124- 2866928 (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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 020 6606 9999