May 27, 2019

HDFC Asset Management Company Limited: Rating Revised for HDFC Short Term Debt Fund

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
HDFC Short Term Debt Fund	-	[ICRA]AA+mfs@; downgraded from [ICRA]AAAmfs@
HDFC Banking and PSU Debt Fund	-	[ICRA]AA-mfs@; outstanding
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	-	[ICRA]A1+mfs; outstanding
HDFC Overnight Fund	-	[ICRA]A1+mfs; outstanding
HDFC Ultra Short Term Fund	-	[ICRA]A1+mfs; outstanding
Total	-	

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

Rationale and key rating drivers

ICRA has downgraded the credit risk rating on HDFC Short Term Debt Fund (HDFC-STDF) from [ICRA]AAAmfs@ (pronounced ICRA triple A m f s placed on rating watch with negative implications) to [ICRA]AA+mfs@ (pronounced ICRA double A plus m f s placed on rating watch with negative implications). Schemes with this rating are considered to have the high degree of safety regarding timely receipt of payments from the investments that they have made.

The rating action is on account of the exposures of HDFC-STDF to IL&FS special purpose vehicle (SPV) namely Hazaribagh Ranchi Expressway Limited (HREL). While HREL was not meeting its financial repayment obligations since April 12, 2019, ICRA was awaiting clarity from National Company Law Appellate Tribunal (NCLAT) considering that HREL had been categorised as 'Amber Entity[1]' according to the NCLAT order dated February 11, 2019 and being a SPV, it had a ringfenced payment waterfall mechanism as detailed in the escrow agreement. Subsequently, on its hearing on March 29, 2019, NCLAT directed IL&FS group to submit financials and payables to financial and operational creditor for few entities under Amber category, which were submitted on April 16, 2019. Given the uncertainty over resolution allowing the SPVs to meet its financial obligations, ICRA has downgraded the mutual fund schemes having exposure to IL&FS SPVs.

As on April 30, 2019 the gross exposure to HREL stood at Rs. 49.27 crore (0.64% of gross AUM) and Rs. 8.22 crore (0.27% of gross AUM) for HDFC Short Term Debt Fund and HDFC Banking and PSU Debt Fund (HDFC-BPSU) respectively[2]. While both the schemes have exposures to HREL, the exposure of HDFC-BPSU to HREL is very low at present and has been

[1] *Amber has been defined as entities which are not able to meet all their obligations (financial and operational) but can meet only operational payment obligations and payment obligations to senior secured financial creditors.*

[2] *Based on portfolio as on December 31, 2018. Face value of exposures of HDFC-STDF and HDFC-BPSU to HREL are Rs. 49.50 crore and Rs. 8.50 crore respectively.*

reducing as a % of AUM, with the growth in AUM. Hence the rating for HDFC-BPSU is comfortable at [CRA]AA-mfs@. The ratings continue to be on rating watch negative as a decline in AUM could result into increase in share of HREL in the overall AUM, which can result in a rating downgrade. ICRA will continue to monitor the portfolios of these schemes regularly and take appropriate rating action as and when required.

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.

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.

Liquidity Position: Not applicable

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 March 2019 was Rs. 3,42,525 crore[3].

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. 7,681 crore as on April 30, 2019 with average maturity of ~1.58 years on that date. The scheme has a gross exposure of Rs. 49.27 crore to debt

[3] *Source: www.amfiindia.com*

instruments of HREL as on April 30, 2019. However, post mark down, the net exposure stood at Rs. 18.75 crore (0.24% of AUM).

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. 3,001 crore as on April 30, 2019 with average residual maturity of ~2.59 years on that date. The scheme has a gross exposure of Rs. 8.22 crore to debt instruments of HREL as on April 30, 2019. However, post mark down, the net exposure stood at Rs. 4.25 crore (0.14% of AUM).

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 (FY2020)				Chronology of Rating History for the past 3 years									
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	May-19	FY2019					FY2018		FY2017		
						Mar-19	Jan-19	Jun-18	Jun-18	Apr-18	Jun-17	Apr-17	Nov-16	Jun-16	Apr-16
1	HDFC Short Term Debt Fund	Long Term	-	-	[ICRA]AA+ mfs@; revised from [ICRA]AAA mfs@	[ICRA]AAA mfs@	[ICRA]AAA mfs@	[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 +mfs	[ICRA]AA+ mfs	[ICRA]AA Amfs	[ICRA]AA Amfs
3	HDFC Low Duration Fund	Long Term	-	-	[ICRA]AA+ mfs	[ICRA]AA+ mfs	[ICRA]AA+ mfs	[ICRA]AA +mfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs	[ICRA]AA Amfs
4	HDFC Corporate Bond Fund	Long Term	-	-	[ICRA]AAA mfs	[ICRA]AAA mfs	[ICRA]AAA mfs	[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 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
6	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
7	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

8	HDFC Ultra Short Term Fund	Short Term	-	-	[ICRA]A1+ mfs	[ICRA]A1+ mfs	-	-	-	-	-	-	-	-	-
9	HDFC Overnight Fund	Short Term	-	-	[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

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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.

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