June 27, 2019

HDFC Asset Management Company Limited: Rating upgraded for one debt scheme and reaffirmed for eight debt schemes

Summary of rating action

Instrument	Current Rated Amount (Rs. crore)	Rating Action
HDFC Low Duration Fund	-	[ICRA]AAAmfs; upgraded from [ICRA]AA+mfs
HDFC Short Term Debt Fund	-	[ICRA]AA+mfs@; reaffirmed
HDFC Banking and PSU Debt Fund	-	[ICRA]AA-mfs@; reaffirmed
HDFC Corporate Bond Fund	-	[ICRA]AAAmfs; reaffirmed
HDFC Floating Rate Debt Fund	-	[ICRA]A1+mfs; reaffirmed
HDFC Liquid Fund	-	[ICRA]A1+mfs; reaffirmed
HDFC Money Market Fund	-	[ICRA]A1+mfs; reaffirmed
HDFC Overnight Fund	-	[ICRA]A1+mfs; reaffirmed
HDFC Ultra Short Term Fund	-	[ICRA]A1+mfs; reaffirmed
Total	-	

@ Denotes under rating Watch with Negative Implications

Rationale and key rating drivers

ICRA has upgraded its credit risk rating for HDFC Low Duration Fund to [ICRA]AAAmfs (pronounced ICRA triple A m f s) from [ICRA]AA+mfs (pronounced ICRA double A plus m f s). Schemes with a rating of [ICRA]AAAmfs are considered to have the highest degree of safety regarding the timely receipt of payments from the investments that they have made. The credit score of the scheme's portfolio has been comfortable for the past 12 months at the rating level of [ICRA]AAAmfs.

The reaffirmation of the ratings for the debt schemes - HDFC Short Term Debt Fund (HDFC-STDF), HDFC Banking and PSU Debt Fund (HDFC-BPSU), HDFC Corporate Bond Fund, HDFC Floating Rate Debt Fund, HDFC Liquid Fund, HDFC Money Market Fund, HDFC Overnight Fund and HDFC Ultra Short Term Fund - follows ICRA's monitoring of the credit risk profile of the month-end portfolio position of these schemes for the last 12 months. The credit risk scores for these schemes were comfortably within the benchmark limits for their current level of ratings.

The ratings indicate ICRA's opinion on the credit quality of the portfolios held by the funds. The ratings do not indicate the asset management company's (AMC) willingness or ability to make timely payments to the fund's investors. The ratings should not be construed as an indication of expected returns, the prospective performance of the mutual fund scheme, its NAV or volatility in its returns.

As on May 31, 2019, the gross exposure to Hazaribagh Ranchi Expressway Limited (HREL), an IL&FS special purpose vehicle (SPV), stood at Rs. 49.27 crore (0.62% of the gross assets under management (AUM)) and Rs. 8.22 crore (0.26% of gross AUM) for HDFC-STDF and HDFC-BPSU, respectively[1]. While HREL has not been meeting its financial repayment obligations since April 12, 2019, more clarity is awaited from the National Company Law Appellate Tribunal (NCLAT) as

[1] *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*

HREL has been categorised an Amber Entity[2], according to an NCLAT order dated February 11, 2019. Being an SPV, it had a ringfenced payment waterfall mechanism as detailed in the escrow agreement. Further, at a hearing on March 29, 2019, the NCLAT directed the IL&FS Group to submit financials and payables to a financial and operational creditor for a few entities under the Amber category, which were submitted on April 16, 2019. Subsequently, as per the NCLAT's order dated May 29, 2019, Amber Entities, if found viable, may be declared Green Entities[3] and the terms of settlement will be placed before the lenders, for approval, afterwards.

Given the uncertainty regarding the resolution allowing the SPV to meet its financial obligations, ICRA had downgraded the rating on HDFC-STDF to [ICRA]AA+mfs from [ICRA]AAAmfs on May 27, 2019. While both schemes have exposures to HREL, the exposure of HDFC-BPSU to HREL is very low at present and has been reducing, as a percentage of AUM, with the growth in AUM. Hence, the rating for HDFC-BPSU is comfortable at [ICRA]AA-mfs@. The ratings continue to be on rating Watch with Negative Implication as a decline in AUM could result in an increase in the share of HREL in the overall AUM, which can lead to a rating downgrade. 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.

Outlook: Not applicable

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

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

[3] *Green has been defined as entities which can continue to meet all their payment obligations (both financial and operational) as and when they become due*

About the company

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 AUM of the schemes of HDFC MF for the quarter ended March 2019 was Rs. 3,42,525 crore[4].

HDFC Short Term Debt Fund

Launched in June 2010, HDFC Short Term Debt Fund is an open-ended short-term debt scheme investing in debt and money market instruments such that the Macaulay Duration of the portfolio is between 1 year and 3 years. The fund's AUM stood at Rs. 7,956 crore as on May 31, 2019 with average maturity of ~2.08 years on that date. The scheme had a gross exposure of Rs. 49.27 crore to the debt instruments of HREL as on May 31, 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 Banking and PSU Debt Fund is an open-ended debt scheme predominantly investing in securities issued by entities such as scheduled commercial banks (SCB), public sector undertakings (PSU), public financial institutions (PFI), municipal corporations and other such bodies. The scheme's AUM stood at Rs. 3,123 crore as on May 31, 2019 with average maturity of ~2.68 years on that date. The scheme has a gross exposure of Rs. 8.22 crore to the debt instruments of HREL as on May 31, 2019. However, post mark down, the net exposure stood at Rs. 4.25 crore (0.14% of AUM).

HDFC Ultra Short Term Fund

Launched in September 2018, this is an open-ended short-term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months and 6 months. The scheme's AUM stood at Rs. 6,196 crore as on May 31, 2019 with an average maturity of about 6 months (0.48 years) on that date.

HDFC Overnight Fund

Launched in February 2002, the open-ended debt scheme invests in overnight securities. The scheme's AUM stood at Rs. 6,858 crore as on May 31, 2019 with an average maturity of ~2 days on that date.

HDFC Money Market Fund

Launched in November 1999, HDFC Money Market Fund is an open-ended liquid mutual fund scheme with a stated objective of generating optimal returns while maintaining safety and high liquidity by investing in money market and debt instruments. The fund's AUM stood at Rs. 5,745 crore as on May 31, 2019, with average maturity of 260 days on that date.

HDFC Liquid Fund

Launched in October 2000, HDFC Liquid Fund is an open-ended liquid mutual fund scheme with a stated objective of enhancing income consistent with a high level of liquidity, through a portfolio mix comprising money market and debt instruments. The fund's AUM stood at Rs. 87,799 crore as on May 31, 2019 with average maturity of about 41 days on that date.

HDFC Floating Rate Debt Fund

Launched in October 2003, HDFC Floating Rate Debt Fund is an open-ended income fund with a stated objective of generating regular income through investments in floating rate debt and money market instruments, fixed rate debt

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

instruments swapped for floating rate returns and money market instruments. The fund's AUM stood at Rs. 11,084 crore as on May 31, 2019 with average maturity of 306 days on that date.

HDFC Low Duration Fund

Launched in November 1999, HDFC Low Duration Fund is an open-ended income scheme with a stated objective of generating regular income through investment in debt securities and money market instruments, such that the Macaulay Duration is between 6 months and 12 months. The fund's corpus stood at Rs. 15,997 crore as on May 31, 2019 with average maturity of about 351 days on that date.

HDFC Corporate Bond Fund

The fund was launched in June 2010 as HDFC Medium Opportunities Fund. In May 2018, after the merger with HDFC Floating Rate Income Fund – Long Term Plan and HDFC Gilt Fund – Short Term Plan, the fund was renamed to HDFC Corporate Bond Fund. It is an open-ended debt scheme with a stated objective of generating income / capital appreciation through investments predominantly in AA+ and above rated corporate bonds. The fund's AUM stood at Rs. 12,321 crore as on May 31, 2019 with average residual maturity of ~3.89 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 (FY2020)				Chronology of Rating History for the Past 3 Years										
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)		FY2020	FY2019					FY2018		FY2017		
					June-19	May-19	Mar-19	Jan-19	Jun-18	Jun-18	Apr-18	Jun-17	Apr-17	Nov-16	Jun-16	Apr-16
1	HDFC Low Duration Fund	Long Term	-	-	[ICRA]AAAmfs; revised from [ICRA]AA+mfs	[ICRA]AA+mfs	[ICRA]AA+mfs	[ICRA]AA+mfs	[ICRA]AA+mfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs
2	HDFC Short Term Debt Fund	Long Term	-	-	[ICRA]AA+mfs@	[ICRA]AA+mfs@	[ICRA]AAAmfs@	[ICRA]AAAmfs@	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs
3	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+mfs	[ICRA]AAAmfs	[ICRA]AAAmfs
4	HDFC Corporate Bond Fund	Long Term	-	-	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs

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

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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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