

May 04, 2023

Kotak Mahindra Asset Management Company Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Kotak Bond Short Term Fund	-	-	[ICRA]AAAmfs; reaffirmed
Kotak Dynamic Bond Fund	-	-	[ICRA]AAAmfs; reaffirmed
Kotak Savings Fund	-	-	[ICRA]A1+mfs; reaffirmed
Kotak Corporate Bond Fund	-	-	[ICRA]AAAmfs; reaffirmed
Kotak Bond Fund	-	-	[ICRA]AAAmfs; reaffirmed
Kotak Banking and PSU Debt Fund	-	-	[ICRA]AAAmfs; reaffirmed
Kotak Money Market Fund	-	-	[ICRA]A1+mfs; reaffirmed
Kotak Floating Rate Fund	-	-	[ICRA]AAAmfs; reaffirmed
Kotak Liquid Fund	-	-	[ICRA]A1+mfs; reaffirmed
Kotak Overnight Fund	-	-	[ICRA]A1+mfs; reaffirmed
Kotak Low Duration Fund	-	-	[ICRA]AAAmfs; reaffirmed
Total	-	-	

*Instrument details are provided in Annexure I

Rationale and key rating drivers

ICRA has reaffirmed the ratings of various debt schemes of Kotak Mahindra Asset Management Company Limited (the asset management company; AMC). The ratings have been reaffirmed following ICRA's monitoring of the credit risk profile of the month-end portfolio position of these schemes. The credit risk scores for these schemes were comfortably within the benchmark limits for their current rating levels.

Mutual fund ratings incorporate ICRA's assessment of the creditworthiness of a debt mutual fund scheme's investment portfolio. These ratings are a symbolic representation of the credit risk in the underlying investments or the degree of safety regarding the timely receipt of payments from the investments made by the mutual fund schemes. The ratings do not indicate the AMC's and/or any of its scheme's willingness and/or ability to make timely redemptions to its investors. The ratings do not address market risks and hence should not be construed as an indication of the expected returns, prospective performance of the mutual fund scheme, and the ability to redeem investments at the reported net asset value (NAV) or volatility in its past returns, as all these are influenced by market risks.

ICRA's assessment of debt mutual fund schemes is guided by the credit ratings of the individual investments and the relative share of the schemes' allocation towards the investments, besides the maturity schedule of such investments. ICRA's mutual fund ratings are not a reflection on the quality of the management of the AMC or its financial performance, reputation and other business practices including investment strategies, pricing, marketing and distribution activities. Furthermore, the ratings are not a reflection of whether the AMC or the fund is compliant with the applicable regulatory requirements.

The credit matrix is a tool used by ICRA for analysing the investment portfolio of the debt mutual fund schemes by assessing the portfolio's aggregate credit quality while reviewing the credit quality of each underlying debt security. The portfolio's weighted average credit quality is compared with a benchmark credit score corresponding to the higher of the weighted average maturity of the scheme's portfolio or the maturity predefined by ICRA for the scheme category. The rating outcome corresponds to the rating level for which the portfolio's weighted average credit score is less than the benchmark credit score associated with the rating level. Further, the lowest rating of the investments of the scheme acts as the floor for its rating.

Once a mutual fund scheme is rated and the rating is accepted, ICRA reviews the underlying investment portfolios for the credit scores on an ongoing basis. To this end, ICRA relies on the information provided by the AMC and/or publicly available sources. ICRA reviews the mutual fund ratings on a monthly basis or earlier, if required, which involves an evaluation of the rating corresponding to the portfolio credit score in relation to the existing rating outstanding. If the portfolio credit score meets the benchmark score for the existing rating, the rating is retained. If the portfolio credit score has a negative breach from the benchmark credit score for the existing rating, ICRA communicates the same to the fund manager/product manager or other officials of the concerned AMC and may provide a month’s time to bring the portfolio credit score within the benchmark credit score for maintaining the existing rating level. If the investment composition of the fund is realigned to bring the portfolio credit score within the benchmark credit score, the rating is retained. However, if the portfolio continues to breach the benchmark credit score for the existing rating level, the rating is revised to reflect the change in the portfolio’s credit quality.

In case of sharp breaches of the benchmark credit score (for instance due to a multi-notch downgrade in the underlying investment) and/or if ICRA believes that the breach may not get rectified within a month of the ongoing review, the rating is generally corrected immediately without giving a month’s time for rebalancing the portfolio. If the AMC corrects its portfolio, post the rating downgrade of the scheme, or the credit score improves in any manner subsequent to the downgrade, making the scheme eligible for an upgrade, ICRA may consider a rating upgrade only if the credit score is maintained consistently for a period of at least three months.

Liquidity position: Not applicable

Rating sensitivities

Positive factors – Not applicable

Negative factors –

For Kotak Overnight Fund – ICRA could downgrade the rating of the scheme if the credit quality of the underlying investment deteriorates, leading to a breach in the threshold for the rating level.

For other debt mutual fund schemes – ICRA could downgrade the ratings of the schemes if the credit quality of the underlying investment deteriorates or if there is an increase in the share of lower rated investments on account of a decline in the AUM or otherwise, leading to a breach in the threshold for the rating level.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA – Mutual Fund Credit Risk Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Not applicable

About the company

Kotak Mahindra Asset Management Company Limited, the AMC for the mutual fund schemes of Kotak Mahindra Mutual Fund (KMMF), is a wholly-owned subsidiary of Kotak Mahindra Bank Limited {rated [ICRA]AAA (Stable)}. The AMC’s average AUM was around Rs. 2,89,344¹ crore for the quarter ended March 31, 2023.

¹ Source: <https://www.amfiindia.com/research-information/aum-data/average-aum>

Kotak Low Duration Fund is an open-ended debt fund. Its main objective is to generate income by primarily investing in low duration debt and money market securities. The scheme's AUM stood at Rs. 7,436 crore as on March 31, 2023.

Kotak Floating Rate Fund is an open-ended debt scheme predominantly investing in floating rate instruments. Its main objective is to generate income by primarily investing in floating rate debt instruments, fixed rate debt instruments swapped for floating rate returns, and money market instruments. The scheme's AUM stood at Rs. 4,235 crore as on March 31, 2023.

Kotak Money Market Fund is an open-ended debt scheme investing in money market instruments. Its investment objective is to generate returns by investing in money market instruments with a maturity of up to one year. The scheme's AUM stood at Rs. 14,557 crore as on March 31, 2023.

Launched in May 2002, **Kotak Bond Short Term Fund** is an open-ended debt scheme. Its investment objective is to provide reasonable returns and reasonably high levels of liquidity by investing in debt instruments such as bonds, debentures and Government securities as well as money market instruments such as Treasury bills, commercial papers, certificates of deposit, including repos in permitted securities of different maturities, with a view to spread the risk across different kinds of issuers in the debt markets. The scheme's AUM stood at Rs. 12,360 crore as on March 31, 2023.

Kotak Dynamic Bond Fund is an open-ended debt scheme. Its investment objective is to maximise returns through the active management of a portfolio of debt and money market securities. The scheme's AUM stood at Rs. 2,357 crore as on March 31, 2023.

Launched in 2004, **Kotak Savings Fund** is an open-ended debt scheme. Its investment objective is to generate returns through investments in debt and money market instruments with a view to reduce the interest rate risk. The scheme's AUM stood at Rs. 9,449 crore as on March 31, 2023.

Launched in 2015, **Kotak Corporate Bond Fund** is an open-ended debt scheme. Its investment objective is to generate returns through investments in debt and money market instruments. The scheme's AUM stood at Rs. 9,616 crore as on March 31, 2023.

Kotak Bond Fund is an open-ended debt scheme. Its investment objective is to create a portfolio of debt instruments such as bonds, debentures, Government securities and money market instruments, including repos in permitted securities of different maturities, with a view to spread the risk across different kinds of issuers in the debt markets. The scheme's AUM stood at Rs. 1,621 crore as on March 31, 2023.

Launched in 1998, **Kotak Banking and PSU Debt Fund** is an open-ended debt scheme. Its investment objective is to generate income by predominantly investing in debt and money market securities issued by banks, public sector undertakings (PSUs), public financial institutions (PFIs), municipal bonds and reverse repos in such securities, sovereign securities issued by the Central Government and state governments, and/or any security unconditionally guaranteed by the Government of India. The scheme's AUM stood at Rs. 6,036 crore as on March 31, 2023.

Kotak Liquid Fund is an open-ended debt scheme. Its investment objective is to provide reasonable returns and a high level of liquidity by investing in debt and money market instruments of different maturities with a view to spread the risk across different kinds of issuers in the debt markets. The scheme's AUM stood at Rs. 26,795 crore as on March 31, 2023.

Kotak Overnight Fund is an open-ended debt scheme, which gives the opportunity to invest in securities maturing in one business day with low interest rate risk and high liquidity. The scheme's AUM stood at Rs. 7,191 crore as on March 31, 2023.

Key financial indicators: Not applicable

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S No	Name of Scheme	Type	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years							
			Amount Rated (Rs. crore)	Amount Outstanding as of Apr 30, 2023 (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021	
					May 04, 2023	Dec 02, 2022	Aug 02, 2022	Oct 04, 2021	Apr 02, 2021	Nov 17, 2020	Apr 01, 2020	
1	Kotak Bond Short Term Fund	Long term	-	-	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs
2	Kotak Dynamic Bond Fund	Long term	-	-	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs
3	Kotak Savings Fund	Short term	-	-	[ICRA]A1+mfs	[ICRA]A1+mfs ²	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs
4	Kotak Corporate Bond Fund	Long term	-	-	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs
5	Kotak Bond Fund	Long term	-	-	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs
6	Kotak Banking and PSU Debt Fund	Long term	-	-	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs
7	Kotak Money Market Fund	Short term	-	-	[ICRA]A1+mfs	[ICRA]A1+mfs ³	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs
8	Kotak Floating Rate Fund	Long term	-	-	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs
9	Kotak Low Duration Fund	Long term	-	-	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	-
10	Kotak 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
11	Kotak Overnight 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

² Rating of [ICRA]AAAmfs has been withdrawn and rating of [ICRA]A1+mfs has been simultaneously assigned

³ Rating of [ICRA]AAAmfs has been withdrawn and rating of [ICRA]A1+mfs has been simultaneously assigned

Complexity level of the rated instrument

Instrument	Complexity Indicator
Kotak Bond Short Term Fund	Not applicable
Kotak Dynamic Bond Fund	Not applicable
Kotak Savings Fund	Not applicable
Kotak Corporate Bond Fund	Not applicable
Kotak Bond Fund	Not applicable
Kotak Banking and PSU Debt Fund	Not applicable
Kotak Money Market Fund	Not applicable
Kotak Floating Rate Fund	Not applicable
Kotak Liquid Fund	Not applicable
Kotak Overnight Fund	Not applicable
Kotak Low Duration Fund	Not applicable

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Kotak Bond Short Term Fund	NA	NA	NA	NA	[ICRA]AAAmfs
NA	Kotak Dynamic Bond Fund	NA	NA	NA	NA	[ICRA]AAAmfs
NA	Kotak Savings Fund	NA	NA	NA	NA	[ICRA]A1+mfs
NA	Kotak Corporate Bond Fund	NA	NA	NA	NA	[ICRA]AAAmfs
NA	Kotak Bond Fund	NA	NA	NA	NA	[ICRA]AAAmfs
NA	Kotak Banking and PSU Debt Fund	NA	NA	NA	NA	[ICRA]AAAmfs
NA	Kotak Money Market Fund	NA	NA	NA	NA	[ICRA]A1+mfs
NA	Kotak Floating Rate Fund	NA	NA	NA	NA	[ICRA]AAAmfs
NA	Kotak Liquid Fund	NA	NA	NA	NA	[ICRA]A1+mfs
NA	Kotak Overnight Fund	NA	NA	NA	NA	[ICRA]A1+mfs
NA	Kotak Low Duration Fund	NA	NA	NA	NA	[ICRA]AAAmfs

Annexure II: 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.

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