

August 05, 2024

HSBC Asset Management (India) Private Limited: [ICRA]A1+ assigned to bank facilities

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund-based bank lines – Others#	10,000.00	[ICRA]A1+; assigned
Total	10,000.00	

* Instrument details are provided in Annexure I

Intraday liquidity facility/daylight overdraft facility for managing redemptions of schemes of the asset management company

Rationale

ICRA has assigned a rating of [ICRA]A1+ to the short-term bank lines (intraday liquidity facility) of HSBC Asset Management (India) Private Limited (HSBC AMC). The rated facility is used for the asset management company's (AMC) schemes to bridge the intraday timing mismatch between redemption payouts to unitholders and cash inflows through fresh subscription and/or sale/redemption of securities in the schemes during the day. For the redemptions in the equity schemes, the sale of assets is typically carried out on the day of the redemption request and deployed the next day on TREPS¹ for redemption payout and repayment of the intraday lines on the subsequent day. However, for open-ended debt schemes (OEDS), intraday liquidity management is a combination of the fresh inflows in the scheme, the sale of its investments and the ability of the scheme to borrow (under TREPS) against securities. Hence, the capability of these OEDS to repay the intraday lines is a function of the credit quality of the underlying investments and the ability to raise funds by pledging securities. Since OEDS are required to maintain liquid assets² as per regulations, they can pledge these assets on TREPS to manage redemptions. However, if there is high volatility in the assets under management (AUM) due to redemptions, the sale of the underlying investments or the ability to raise borrowings (under TREPS) against the investments becomes a paramount factor for intraday liquidity management.

Accordingly, ICRA has analysed the OEDS that have displayed high negative volatility in the AUM. ICRA's assessment of the credit quality of these OEDS is guided by the credit ratings of the individual investments and the relative share of the scheme's allocation towards investments, besides the maturity schedule of such investments. These schemes have a high share of investments in sovereign and/or AAA-rated instruments (proportion above 75%), which provides comfort on the AMC's ability to generate liquidity to repay the rated lines in a timely manner. Further, most of these schemes have investments in short-tenor instruments. The instances of borrowing at the AMC in its OEDS have also remained limited, reflecting on its ability to manage intraday liquidity.

The credit profile remains exposed to events of sustained redemption pressure, which could result in the depletion of the liquid investments, exposing the schemes to liquidity risk.

¹ Treasury Bills Repurchase (TREPs) is a proprietary product offered by The Clearing Corporation of India (CCIL), an institution authorised by the RBI. Through TREPS, entities can lend and borrow funds against Government securities; the settlement of TREPs is guaranteed by CCIL

² OEDS are required to maintain 10% of the AUM in liquid assets (cash, Treasury bills and Government securities); the minimum threshold is higher at 20% of AUM for liquid schemes and overnight schemes

Key rating drivers and their description

Credit strengths

Strong credit quality of underlying assets in schemes with relatively high negative volatility – ICRA has analysed the OEDS of the AMC that have exhibited high daily negative volatility in their AUM. The analysis indicates that the credit quality of the underlying investments held in these schemes remains strong with investments in short-tenor instruments. At least 75% of the investments of each of these schemes is in sovereign and AAA-rated instruments, providing comfort regarding the AMC's ability to pledge/sell these investments at short notice to meet its liquidity requirements.

Robust risk management – The AMC maintains strong credit quality of the underlying assets in the OEDS, supporting its ability to sell/borrow against the underlying securities to manage its liquidity. Instances of overnight borrowings to manage intraday liquidity have been limited in the past. Further, as per Securities and Exchange Board of India (SEBI) guidelines, the maximum borrowings cannot exceed 20% of the AUM (including TREPS) of any of the OEDS. The instances of consecutive days of borrowings have also been limited to three with two consecutive working days of borrowings in schemes across the OEDS in the last 25 months (April 2022 to April 2024).

Credit challenges

Market dislocation and/or adverse liquidity events leading to redemption pressure – Though the AMC has managed liquidity across all its schemes, the liquidity of the OEDS remains exposed to events of sustained redemption pressure. Any adverse liquidity event in the market or weakening in macro-economic factors could lead to a sustained increase in redemptions and a reduction in fresh inflows. During such liquidity events, the liquidity of the underlying investments may also decline. Further, investor concentration in many OEDS tends to be high; herd behaviour and bulky redemptions could be witnessed during events of market stress. Sustained redemption pressure can result in a sharp contraction in the liquid investments of the schemes, limiting the AMC's ability to incrementally sell/borrow against these instruments. A combination of these events can hence pose challenges to the liquidity management of such OEDS.

Liquidity position: Superior

As of June 30, 2024, HSBC AMC had access to sanctioned intraday facilities of Rs. 8,750 crore. The peak utilisation during the last 25 months (April 2022 to April 2024) was Rs. 5,353 crore, of which ~54% was from HSBC Liquid Fund, which has relatively short-tenor assets. During this period, the AMC borrowed on 10 occasions on overnight basis with three instances of borrowings for two consecutive working days, reflecting its superior ability to manage liquidity.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A material deterioration in the credit quality of the underlying investments of the OEDS or sustained negative volatility in the AUM of the schemes will increase the liquidity risk.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Mutual Funds
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Incorporated in December 2001, HSBC AMC was appointed the asset management company for the mutual fund business of HSBC Mutual Fund. HSBC Mutual Fund was established as a trust under the Indian Trusts Act, 1882, with HSBC Securities and Capital Markets (India) Private Limited as the sponsor of the AMC HSBC Trustees (India) Private Limited.

HSBC AMC acquired L&T Investment Management Limited (LTIM), the asset management company/mutual fund business of L&T Financial Holdings Limited, in November 2022. The AMC's daily average AUM was Rs. 1,20,479 crore in June 2024.

Key financial indicators: Not applicable

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Name of Scheme	Type	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
			August 05, 2024	-	-	-
1 Short-term fund-based bank lines – Others	Short term	10,000	[ICRA] A1+	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Bank lines	Very 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: Not applicable

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short-term fund-based bank lines – Others*	-	-	-	10,000.00	[ICRA]A1+

*Intraday liquidity facility/daylight overdraft facility for managing redemptions of schemes of the AMC

[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

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

Abhilash Rathi

+91 22 6114 3421

abhilash.rathi@icraindia.com

Bharat Toplani

+91 22 6114 3428

bharat.toplani@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

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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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



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