

September 13, 2024

## UTI Asset Management Company Limited: [ICRA]AAA (Stable)/[ICRA]A1+ assigned to bank facilities

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund-based/Non-fund based bank facilities – Others <sup>^</sup>	17,150.00	[ICRA]A1+; assigned
Long-term fund-based bank facilities	2,000.00	[ICRA]AAA (Stable); assigned
<b>Total</b>	<b>19,150.00</b>	
Long-term interchangeable <sup>#</sup>	(2,000.00)	[ICRA]AAA (Stable); assigned

\*Instrument details are provided in Annexure I; <sup>^</sup> Intraday liquidity facility for managing redemptions of schemes of the asset management company

<sup>#</sup> Sub-limit towards overdraft against securities and within the intraday limit

### Rationale

ICRA has assigned [ICRA]AAA (Stable)/[ICRA]A1+ ratings to the bank lines of UTI Asset Management Company Limited (UTI AMC). The rated facilities are used for the asset management company's (AMC) schemes to bridge the intraday timing mismatches between redemption payouts to unitholders and cash inflows through fresh subscription and/or sale/redemption of securities in the schemes during the day. Further, the need for availing overnight bank borrowings may arise to plug cashflow mismatches during periods of sustained redemptions. However, such mismatches are expected to be temporary and only for a few days.

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 TREPS<sup>1</sup> 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 expected in the scheme, maturity of underlying investments in the scheme, the liquidity of the underlying investments (sale) and the ability of the schemes to raise funds by pledging securities {primarily TREPS of Government securities (G-Secs)/Treasury bills (T-bills)}. Hence, the ability of the OEDS to repay the intraday liquidity 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 assets<sup>2</sup> 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 critical 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 usually have a high share of investments in sovereign and/or AAA-rated instruments (~85% on average), which provides comfort regarding 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. Instances of borrowing at the AMC in its OEDS have also remained limited, reflecting its ability to manage intraday liquidity.

<sup>1</sup> Treasury Bills Repurchase (TREPs) is a proprietary product offered by The Clearing Corporation of India (CCIL), an institution authorised by the Reserve Bank of India (RBI). Through TREPS, entities can lend and borrow funds against G-Secs. The settlement of TREPs is guaranteed by CCIL

<sup>2</sup> OEDS are required to maintain 10% of the AUM in liquid assets (cash, T-bills and G-Secs). The minimum threshold is higher at 20% of AUM for liquid schemes and overnight schemes

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.

The Stable outlook reflects ICRA's expectation that UTI AMC's open-ended debt schemes would continue to maintain the credit quality of the underlying investments and raise funds by selling or pledging securities in a timely manner in order to ensure efficient liquidity management.

## 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. On average, ~85% of the investments 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. Instances of consecutive days of borrowings have also been limited to ~11 with two consecutive working days of borrowings in schemes across the OEDS in the last 24 months (July 2022 to June 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.

### Environmental and social risks

UTI AMC does not directly face material environmental risks as its operations are primarily focused on managing the AUM across multiple schemes in order to achieve the relevant schemes' objective in terms of returns, risk mitigation, etc. However, financial institutions like UTI AMC are exposed to environmental risks indirectly through their portfolio of underlying investments. Nonetheless, such risk is mitigated by virtue of investment diversification and the ability to readjust the portfolio, if a need arises.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for financial institutions as material lapses could be detrimental to their reputation and invite regulatory censure. UTI AMC has not faced such major lapses over the years. Additionally, it is noted that customer preferences are increasingly shifting towards the digital mode of transacting, necessitating more investments in technology. These social trends not only necessitate an increase in upfront investments, they also put a greater onus on being more sensitive to data leaks. At the same time, these trends provide an opportunity to grow business and reduce operating costs.

## Liquidity position: Superior

As of June 30, 2024, UTI AMC had access to sanctioned bank facilities of Rs. 18,725 crore comprising Rs. 4,000-crore fund-based facilities, Rs. 14,650 crore of intraday facilities and a Rs. 75-crore non-fund based facility. The peak utilisation of fund-based facilities during the 24-month period of July 2022 to June 2024 was Rs. 4,000 crore, largely utilised in UTI Liquid Fund, which has relatively short-tenor assets. During this period, the AMC borrowed on ~48 days on overnight basis with 11 instances of borrowings for two consecutive working days. Further, the quantum of borrowings was negligible (except for two instances of Rs. 4,000-crore borrowings in the liquid fund), 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	<a href="#">Mutual funds</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

## About the company

UTI Asset Management Company Limited (UTI AMC) was incorporated on November 14, 2002 to render investment management services to the schemes of UTI Mutual Fund (the fund). The company is registered with the Securities and Exchange Board of India (SEBI) under the SEBI (Mutual Funds) Regulations, 1996, as amended (SEBI Regulations). The company also provides portfolio management services to clients under the SEBI (Portfolio Managers) Regulations, 1993, as amended, pursuant to a certificate granted by SEBI. UTI AMC's equity shares are listed on the National Stock Exchange of Limited and BSE Limited.

UTI AMC has four wholly-owned subsidiaries, viz. UTI Venture Funds Management Company Private Limited, UTI Retirement Solutions Limited, UTI Capital Private Limited and UTI International Limited. It also has investments in UTI Structured Debt Opportunities Fund II (UTI SDOF II) and UTI Structured Debt Opportunities Fund III (UTI SDOF III).

The average quarterly AUM of the fund was Rs. 3.11 lakh crore for the quarter ended June 30, 2024 compared to Rs. 2.91 lakh crore for the quarter ended March 31, 2024. The AMC's total AUM was Rs. 18.48 lakh crore as of March 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

Instrument	Current (FY2025)					Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Sep 13, 2024	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Short-term fund-based/Non-fund based bank facilities – Others <sup>^</sup>	Short term	17,150.00	[ICRA]A1+	-	-	-	-	-	-	-	-
Long-term fund-based bank facilities	Long term	2,000.00	[ICRA]AAA (Stable)								
Long-term interchangeable <sup>#</sup>	Long term	(2,000.00)	[ICRA]AAA (Stable)								

<sup>^</sup>Intraday liquidity facility for managing redemptions of schemes of the AMC; <sup>#</sup>Sub-limit towards overdraft against securities and within the intraday limit

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term fund-based/Non-fund based bank facilities – Others <sup>^</sup>	Very Simple
Long-term fund-based bank facilities	Very Simple
Long-term Interchangeable <sup>#</sup>	Very Simple

<sup>^</sup>Intraday liquidity facility for managing redemptions of schemes of the AMC; <sup>#</sup> Sub-limit towards overdraft against securities and within the intraday limit

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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short-term fund-based/non-fund based bank facilities – others <sup>^</sup>	NA	NA	NA	17,150.00	[ICRA]A1+
	Long-term fund-based bank facilities	NA	NA	NA	2,000.00	[ICRA]AAA (Stable)
	Long-term Interchangeable <sup>#</sup>	NA	NA	NA	(2,000.00)	[ICRA]AAA (Stable)

Source: Company; <sup>^</sup>Intraday liquidity facility for managing redemptions of schemes of the AMC; <sup>#</sup> Sub-limit towards overdraft against securities and within the intraday limit

[Please click here to view details of lender-wise facilities rated by ICRA](#)

#### Annexure II: List of entities considered for consolidated analysis

Not applicable

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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.

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