

April 29, 2022

HDFC Asset Management Company Limited: Ratings upgraded for two debt schemes and reaffirmed for seven debt schemes

Summary of rating action

Scheme Name*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
HDFC Low Duration Fund	-	-	[ICRA]AAAmfs; reaffirmed
HDFC Short Term Debt Fund	-	-	[ICRA]AAAmfs; upgraded from [ICRA]AA+mfs
HDFC Banking and PSU Debt Fund	-	-	[ICRA]AA+mfs; upgraded from [ICRA]AAmfs
HDFC Corporate Bond Fund	-	-	[ICRA]AAAmfs; reaffirmed
HDFC Floating Rate Debt Fund	-	-	[ICRA]AAAmfs; 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	-	-	

*Instrument details are provided in Annexure-1

Rationale and key rating drivers

ICRA has upgraded the mutual fund ratings for HDFC Banking and PSU Debt Fund to [ICRA]AA+mfs from [ICRA]AAmfs and HDFC Short Term Debt Fund to [ICRA]AAAmfs from [ICRA]AA+mfs. The ratings have been upgraded as the credit risk scores for the schemes are comfortable for the upgraded rating levels. ICRA has reaffirmed the [ICRA]AAAmfs rating for HDFC Floating Rate Debt Fund, HDFC Low Duration Fund and HDFC Corporate Bond Fund, and the [ICRA]A1+mfs rating for HDFC Liquid Fund, HDFC Money Market Fund, HDFC Overnight Fund and HDFC Ultra Short Term Fund. The reaffirmation of the ratings follows 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 asset management company's (AMC) and/or any of its scheme's willingness and/or ability to make timely redemptions to its investors. The ratings do not address the market risks and hence should not be construed as an indication of the expected returns, the prospective performance of the mutual fund scheme, and the ability to redeem the investments at the reported net asset value (NAV) or the 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, the relative share of the investments in the overall assets under management (AUM) of the scheme and the maturity schedule of such investments. 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 then measured against the appropriate benchmark credit score in the credit matrix.

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. If the portfolio credit score meets the benchmark of the existing rating, the rating is retained. If the portfolio credit score breaches the benchmark credit matrix score for the current 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 the current 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.

Liquidity position: Not applicable

Rating sensitivities

Positive factors

For HDFC Banking and PSU Debt Fund – ICRA could upgrade the rating if the credit quality of the underlying investment improves or the size of the AUM increases significantly, resulting in a decrease in the share of lower rated investments and enhancing the credit quality of the portfolio.

For other schemes – Not applicable

Negative factors

For HDFC 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 schemes – ICRA could downgrade the ratings of the schemes if the credit quality of the underlying investment deteriorates or the size of the AUM declines, which may result in an increase in the share of lower rated investments, 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

The above schemes are the 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 2022 (including Fund of Fund Schemes) was Rs. 4,32,085¹ crore (Rs. 4,15,566 crore for the quarter ended March 2021).

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. 14,636 crore as on March 31, 2022.

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 (SCBs), public sector undertakings (PSUs), public financial institutions (PFIs), municipal corporations and other such bodies. The scheme's AUM stood at Rs. 6,793 crore as on March 31, 2022.

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 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. 23,610 crore as on March 31, 2022.

HDFC Overnight Fund

Launched in February 2002, the open-ended debt scheme invests in overnight securities. The scheme's AUM stood at Rs. 12,085 crore as on March 31, 2022.

HDFC Money Market Fund

Launched in November 1999, HDFC Money Market Fund is an open-ended debt scheme with a stated objective of generating income/capital appreciation by investing in money market and debt instruments. The fund's AUM stood at Rs. 12,111 crore as on March 31, 2022.

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. 12,385 crore as on March 31, 2022.

HDFC Liquid Fund

Launched in October 2000, HDFC Liquid Fund is an open-ended liquid mutual fund scheme with a stated objective of enhancing the 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. 42,935 crore as on March 31, 2022.

¹ Quarterly average, excluding Fund of Funds Domestic, but including Fund of Funds Overseas, Source: AMFI

HDFC Floating Rate Debt Fund

Launched in October 2007, 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, fixed rate debt instruments swapped for floating rate returns and money market instruments. The fund's AUM stood at Rs. 17,379 crore as on March 31, 2022.

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 AUM stood at Rs. 17,182 crore as on March 31, 2022.

Key financial indicators: Not applicable

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sl. No.	Name of Scheme	Current Rating (FY2023)				Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021			Date & Rating in FY2020	
					Apr 29, 2022	May 17, 2021	Sep 24, 2020	Jul 31, 2020	May 29, 2020	Jun 27, 2019	May 27, 2019
1	HDFC Low Duration Fund	Long Term	-	-	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AA+mfs
2	HDFC Short Term Debt Fund	Long Term	-	-	[ICRA]AAAmfs	[ICRA]AA+mfs	[ICRA]AA+mfs	[ICRA]AA+mfs	[ICRA]AA+mfs	[ICRA]AA+mfs@	[ICRA]AA+mfs@
3	HDFC Banking and PSU Debt Fund	Long Term	-	-	[ICRA]AA+mfs	[ICRA]AAmfs	[ICRA]AA-mfs	[ICRA]AA-mfs	[ICRA]AA-mfs	[ICRA]AA-mfs@	[ICRA]AA-mfs@
4	HDFC Corporate Bond Fund	Long Term	-	-	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs
5	HDFC Floating Rate Debt Fund	Long Term	-	-	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs/ [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
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
8	HDFC 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
9	HDFC Ultra Short Term Fund	Short Term	-	-	[ICRA]A1+mfs	[ICRA]A1+mfs	[ICRA]A1+mfs	[ICRA]A1+mfs	[ICRA]A1+mfs	[ICRA]A1+mfs	[ICRA]A1+mfs

[^] the rating was withdrawn on Sep 24, 2020, [@] Denotes under rating Watch with Negative Implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
HDFC Low Duration Fund	Not Applicable
HDFC Short Term Debt Fund	Not Applicable
HDFC Banking and PSU Debt Fund	Not Applicable
HDFC Corporate Bond Fund	Not Applicable
HDFC Floating Rate Debt Fund	Not Applicable
HDFC Liquid Fund	Not Applicable
HDFC Money Market Fund	Not Applicable
HDFC Overnight Fund	Not Applicable
HDFC Ultra Short Term 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: www.icra.in

Annexure-1: Instrument details: Not applicable

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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