

October 30, 2019

Reliance Nippon Life Asset Management Limited: Rating downgraded and placed on notice for withdrawal for Nippon India Ultra Short Duration Fund; rating placed on notice for withdrawal for Nippon India Strategic Debt Fund

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Nippon India Ultra Short Duration Fund	-	-	[ICRA]A4mfs@; downgraded from [ICRA]A2+mfs@ and placed on notice for withdrawal for 1 month
Nippon India Strategic Debt Fund	-	-	[ICRA]A-mfs@; placed on notice for withdrawal for 1 month
Nippon India Capital Protection Fund II - Plan A	-	-	Provisional [ICRA]AAA (SO); outstanding
Nippon India Capital Protection Fund II - Plan B	-	-	Provisional [ICRA]AAA (SO); outstanding
Nippon India Gilt Securities Fund	-	-	[ICRA]AAA mfs; outstanding
Nippon India Low Duration Fund	-	-	[ICRA]AA+mfs@; outstanding
Nippon India Prime Debt Fund	-	-	[ICRA]AA-mfs@; outstanding
Nippon India Overnight Fund	-	-	[ICRA]A1+mfs; outstanding
Nippon India Banking & PSU Debt Fund	-	-	[ICRA]AAA mfs; outstanding
Nippon India Dynamic Bond Fund	-	-	[ICRA]AAA mfs; outstanding
Nippon India Floating Rate Fund	-	-	[ICRA]AAA mfs; outstanding
Nippon India Income Fund	-	-	[ICRA]AAA mfs; outstanding
Nippon India Liquid Fund	-	-	[ICRA]A1+mfs; outstanding
Nippon India Money Market Fund	-	-	[ICRA]A1+mfs; outstanding
Nippon India Short Term Fund	-	-	[ICRA]AAA mfs; outstanding
Nippon India Interval Fund – Quarterly Interval Fund – Series III	-	-	[ICRA]A1+mfs; outstanding
Nippon India Interval Fund – Monthly Interval Fund – Series I	-	-	[ICRA]A1+mfs; outstanding
Nippon India Interval Fund – Monthly Interval Fund – Series II	-	-	[ICRA]A1+mfs; outstanding
Nippon India Interval Fund - Quarterly Interval Fund - Series II	-	-	[ICRA]A1+mfs; outstanding
Total	-	-	

@Under rating Watch with Negative Implications

*Instrument details are provided in Annexure-1

Rationale and Key Rating Drivers

ICRA has downgraded the rating on Nippon India Ultra Short Duration Fund of Reliance Nippon Life Asset Management Limited from [ICRA]A2+mfs to (pronounced ICRA A two plus m f s) to [ICRA]A4mfs (pronounced ICRA A four m f s). Schemes with this rating are considered to have minimal degree of safety regarding timely receipt of payments from the

investments that they have made. The rating action considers the deterioration in the credit quality of the underlying investments of the scheme. Schemes-wise AUM and lower rated exposures¹ details are given below,

- Nippon India Strategic Debt Fund's AUM has decreased to Rs. 3,472 crore as on September 30, 2019 from Rs. 4,434 crore in June 30, 2019 which resulted in increase in share of lower rated investments namely Dewan Housing Finance Corporation Limited (DHFL) (4.03% as on September 2019), Reliance Home Finance Limited (RHFL) (7.33%) and Indian Receivable Trust 18 (IRTRUST, PTCs with RHFL as originator) (10.82%). This scheme also has exposures towards AT1 bonds of Yes Bank Limited (14.27% of AUM as on September 2019), rating on the AT1 bonds of Yes Bank was downgraded in July 2019 to BBB+ (from A).
- Nippon India Ultra Short Duration Fund has exposure to Altico Capital India Limited (Altico) (5.44%) which was downgraded in September 2019 to D by India Ratings, which has impacted the credit quality of the fund negatively. Also, size of AUM of Nippon India Ultra Short Duration Fund has decreased to Rs. 2,759 crore as on September 30, 2019 from Rs. 4,447 crore in June 30, 2019 which resulted in an increase in share of lower rated investments namely RHFL (4.50%), DHFL (2.07%) and IRTRUST (2.93%).

ICRA has also put the credit risk rating of Nippon India Ultra Short Duration Fund and Nippon India Strategic Debt Fund on notice for withdrawal for one month, at the request of the fund house. The ratings for the above two schemes remained on rating watch negative as further decline in AUM could result into increase in share of lower rated papers in the overall AUM, which can result in a rating downgrade. ICRA will continue to monitor the portfolios of these schemes regularly and take appropriate rating action as and when required.

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

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's 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 the credit quality.

Liquidity position: Not applicable

¹ RHFL, DHFL and Altico's gross exposure has been considered excluding the write-offs

Rating sensitivities:

Positive triggers –ICRA could upgrade rating of schemes on the improvement in the credit quality of underlying investment resulting in an enhanced credit quality of the portfolio.

Negative triggers – ICRA could downgrade the rating of schemes if the credit quality of the underlying investment deteriorates or the size of assets under management (AUM) declines, which results 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

Reliance Nippon Life Asset Management Limited (RNAM) is the asset manager of Nippon India Mutual Fund. As on September 30, 2019, Reliance Capital Limited and Nippon Life Insurance Company (promoters of the company) hold 4.28% and 75% respectively of the total issued and paid-up equity share capital of RNAM. In Q2 FY2020, RNAM's average assets under management (AUM) stood at Rs. 2,02,649.49 crores².

Nippon India Strategic Debt Fund

Launched in June 2014, Nippon India Strategic Debt Fund is an open-ended medium-term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 and 4 years. The fund's month-end AUM stood at Rs. 3,472 crore as on September 30, 2019 and had an average maturity of around 4-5 years.

Nippon India Ultra Short Duration Fund

Launched in December 2001, Nippon India Ultra Short Duration Fund is an open-ended ultra-short-term debt scheme investing in debt and money market instruments such that the Macaulay duration of the portfolio is between 3 and 6 months. The fund invests in debt and money market instruments with a portfolio duration between 165 and 180 days. The fund aims to generate higher gross yields through a portfolio across credit categories. The carry will protect against volatility. The fund's month-end AUM stood at Rs. 2,759 crore as on September 30, 2019 and had an average maturity of around 6 months.

Key financial indicators: Not applicable

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

² Source: Reliance Nippon Life Asset Management Limited

Rating history for past three years

S. No.	Name of Scheme	Type	Rating	Current Rating (FY2020)					FY2019		FY2018			FY2017			
				30-Oct-19	26-Sep-19	13-Sep-19	07-Jun-19	17-May-19	17-Dec-18	30-Aug-18	09-Mar-18	19-Feb-18	27-Jul-17	17-Oct-16	15-Sep-16	03-Aug-16	12-Apr-16
1	Nippon India Ultra Short Duration Fund	Short Term	-	ICRA]A4 mfs@; downgraded from A2+mfs @ and placed on notice for withdrawal for 1 month	[ICRA]A2 +mfs@	[ICRA]A2 +mfs@	[ICRA]A1 mfs@;	[ICRA]A1mfs@; downgraded from [ICRA]A1+mfs and placed on rating watch with negative implications	[ICRA]A 1+mfs	[ICRA]A 1+mfs	[ICRA]A 1+mfs	[ICRA] A1+mfs	[ICRA] A1+mfs	[ICRA] A1+mfs	[ICRA] A1+mfs	[ICRA] A1+mfs	[ICRA] A1+mfs
2	Nippon India Strategic Debt Fund	Long Term	-	[ICRA]A-mfs@; placed on notice for withdrawal for 1 month	[ICRA]A-mfs@	[ICRA]A-mfs@; downgraded from [ICRA]A+mfs@	[ICRA]A mfs@; downgraded from [ICRA]A+mfs@	[ICRA]A+mfs@; downgraded from [ICRA]AAmfs and placed on rating watch with negative implications	[ICRA]A Amfs	[ICRA]A Amfs	[ICRA]A Amfs	[ICRA]A Amfs	[ICRA]A Amfs	[ICRA]A Amfs assigned	[ICRA]A Amfs assigned	-	-
3	Nippon India Capital Protection	Long Term	-	Provisional [ICRA]A AA (SO)	Provisional [ICRA]A AA (SO); assigned	-	-	-	-	-	-	-	-	-	-	-	

	Fund II - Plan A																
4	Nippon India Capital Protection Fund II - Plan B	Long Term	-	Provisional [ICRA]A AA (SO)	Provisional [ICRA]A AA (SO); assigned	-	-	-	-	-	-	-	-	-	-	-	-
5	Nippon India Gilt Securities Fund	Long Term	-	[ICRA]A AAmfs	[ICRA]A AAmfs	[ICRA]A AAmfs	[ICRA]AA Amfs; assigned	-	-	-	-	-	-	-	-	-	-
6	Nippon India Low Duration Fund	Long Term	-	[ICRA]A A+mfs@	[ICRA]A A+mfs@	[ICRA]A A+mfs@	[ICRA]AA +mfs@; downgraded from [ICRA]AA Amfs and placed on rating watch with negative implications	[ICRA]AAAmfs	[ICRA]A AAmfs	[ICRA]A AAmfs	[ICRA]A AAmfs	[ICRA]A AAmfs	[ICRA]A AAmfs	[ICRA]A AAmfs	[ICRA]A AAmfs	[ICRA]A 1+mfs	[ICRA]A 1+mfs
7	Nippon India Low Duration Fund	Long Term	-	[ICRA]A	[ICRA]A	[ICRA]A	[ICRA]AA	[ICRA]AA-	[ICRA]A	[ICRA]A	[ICRA]A	[ICRA]A	[ICRA]A	[ICRA]A	[ICRA]A	[ICRA]A	[ICRA]A

				A-mfs@	A-mfs@	A-mfs@	-mfs@	mfs@; downgraded from [ICRA]AAmfs and placed on rating watch with negative implications	AAmfs	AAmfs	AAmfs	AAmfs	AAmfs	AAmfs	AAmfs	AAmfs
8	Nippon India Overnight Fund	Short Term	-	[ICRA]A1+mfs	[ICRA]A1+mfs	[ICRA]A1+mfs	[ICRA]A1+mfs	[ICRA]A1+mfs	[ICRA]A1+mfs	-	-	-	-	-	-	-
9	Nippon India Interval Fund - Quarterly Interval Fund - Series III	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	-	-	-	-	-
10	Nippon India Interval Fund - Mont	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	-	-	-	-	-

1	hly Inter val Fund - Serie s I																	
1	Nipp on India Inter val Fund - Mont hly Inter val Fund - Serie s II	Sh ort Te rm	-	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1 +mfs	[ICRA]A1+mfs	[ICRA]A 1+mfs	[ICRA]A 1+mfs	[ICRA]A 1+mfs	-	-	-	-	-	-	-
1	Nipp on India Inter val Fund - Quart erly Inter val Fund - Serie s II	Sh ort Te rm	-	[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]A 1+mfs; assigne d	-	-	-	-	-	-

13	Nippon India 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	[ICRA]A1+mfs	[ICRA]A1+mfs
14	Nippon India 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	[ICRA]A1+mfs	[ICRA]A1+mfs
15	Nippon India Banking & PSU Debt Fund	Long Term	-	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]A1+mfs	[ICRA]A1+mfs	[ICRA]A1+mfs	[ICRA]A1+mfs
16	Nippon India Income Fund	Long Term	-	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs*	[ICRA]AAmfs*	[ICRA]AAmfs*	[ICRA]AAmfs*
17	Nippon India Floating Rate Fund	Long Term	-	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs
18	Nippon India Floating Rate Fund	Long Term	-	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs

India Short Term Fund	Term																
19	Nippon India Dynamic Bond Fund	Long Term	-	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs	[ICRA]AAmfs

@Under rating watch with negative implications

Amount in Rs. Crore

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 [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	NA	NA	NA	NA	NA	NA

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

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