

May 17, 2021

## HDFC Asset Management Company Limited: Rating upgraded for one debt scheme and reaffirmed for eight 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]AA+mfs; reaffirmed
HDFC Banking and PSU Debt Fund	-	-	[ICRA]AAmfs; upgraded from [ICRA]AA-mfs
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
<b>Total</b>	-	-	

### Rationale and key rating drivers

ICRA has upgraded the mutual fund rating for HDFC Banking and PSU Debt Fund to [ICRA]AAmfs (pronounced ICRA double A m f s) from [ICRA]AA-mfs (pronounced ICRA double A minus m f s). The rating upgrade is basis the credit risk scores for the scheme being comfortable for the upgraded rating level. ICRA has reaffirmed the [ICRA]AAAmfs (pronounced ICRA triple A m f s) rating for HDFC Floating Rate Debt Fund, HDFC Low Duration Fund and HDFC Corporate Bond Fund, the [ICRA]AA+mfs (pronounced ICRA double A plus m f s) rating for HDFC Short Term Debt Fund and the [ICRA]A1+mfs (pronounced ICRA A one plus m f s) 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 are 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 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 and HDFC Short Term Debt Fund** – ICRA could upgrade the ratings 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 leading to an enhanced 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	<a href="#">ICRA- Mutual Fund Credit Risk Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

### About the company

The above schemes are 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 during the quarter ended March 2021 (including Fund of Fund Schemes) was Rs. 4,16,670<sup>1</sup> crore (Rs. 3,70,113 crore during the quarter ended March 2020).

<sup>1</sup> Source: [www.amfiindia.com](http://www.amfiindia.com)

### **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. 16,805 crore as on March 31, 2021. The scheme had a gross exposure of ~Rs. 49.5 crore to the debt instruments of Hazaribagh Ranchi Expressway Limited (HREL) as on March 31, 2021. However, post markdown, the net exposure stood at ~Rs. 25.8 crore (0.15% of AUM).

### **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 (PSU), public financial institutions (PFIs), municipal corporations and other such bodies. The scheme's AUM stood at Rs. 9,899 crore as on March 31, 2021. It had a gross exposure of ~Rs. 8.5 crore to the debt instruments of HREL as on March 31, 2021. However, post markdown, the net exposure stood at ~Rs. 4.4 crore (0.04% of AUM).

### **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. 29,880 crore as on March 31, 2021.

### **HDFC Overnight Fund**

Launched in February 2002, the open-ended debt scheme invests in overnight securities. The scheme's AUM stood at Rs. 12,982 crore as on March 31, 2021.

### **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. 11,249 crore as on March 31, 2021.

### **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. 17,221 crore as on March 31, 2021.

### **HDFC Liquid Fund**

Launched in October 2000, HDFC Liquid Fund is an open-ended liquid mutual fund scheme with a stated objective of enhancing 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. 50,852 crore as on March 31, 2021.

### **HDFC Floating Rate Debt Fund**

Launched in October 2003, 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. 16,559 crore as on March 31, 2021.

### **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. 19,554 crore as on March 31, 2021.

**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	Type	Current Rating (FY2022)		Chronology of Rating History for the Past 3 Years									
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019				
						May 17, 2021	Jul 31, 2020	May 29, 2020	Jun 27, 2019	May 27, 2019	Mar 22, 2019	Jan 21, 2019	Jun 15, 2018	Jun 06, 2018 Apr 19, 2018
1	HDFC Low Duration Fund	Long Term	-	-	[ICRA]AAAmps	[ICRA]AAAmps	[ICRA]AAAmps	[ICRA]AAAmps	[ICRA]AA+mfs	[ICRA]AA+mfs	[ICRA]AA+mfs	[ICRA]AA+mfs	[ICRA]AA+mfs	[ICRA]AAAmps
2	HDFC Short Term Debt Fund	Long Term	-	-	[ICRA]AA+mfs	[ICRA]AA+mfs	[ICRA]AA+mfs	[ICRA]AA+mfs@	[ICRA]AA+mfs@	[ICRA]AAAmps@	[ICRA]AAAmps@	[ICRA]AAAmps@	[ICRA]AAAmps@	[ICRA]AAAmps
3	HDFC Banking and PSU Debt Fund	Long Term	-	-	[ICRA]AAmfs	[ICRA]AA-mfs	[ICRA]AA-mfs	[ICRA]AA-mfs@	[ICRA]AA-mfs@	[ICRA]AA-mfs@	[ICRA]AA-mfs@	[ICRA]AA-mfs@	[ICRA]AA-mfs	[ICRA]AA-mfs
4	HDFC Corporate Bond Fund	Long Term	-	-	[ICRA]AAAmps	[ICRA]AAAmps	[ICRA]AAAmps	[ICRA]AAAmps	[ICRA]AAAmps	[ICRA]AAAmps	[ICRA]AAAmps	[ICRA]AAAmps	[ICRA]AAAmps	[ICRA]AAAmps
5	HDFC Floating Rate Debt Fund	Long Term	-	-	[ICRA]AAAmps	[ICRA]AAAmps / [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
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	[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	[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 September 24, 2020; @ Denotes under rating Watch with Negative Implications*

## Complexity level of the rated instrument

### Not applicable for mutual fund schemes

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](http://www.icra.in)

**Annexure-1: Instrument details: Not applicable**

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

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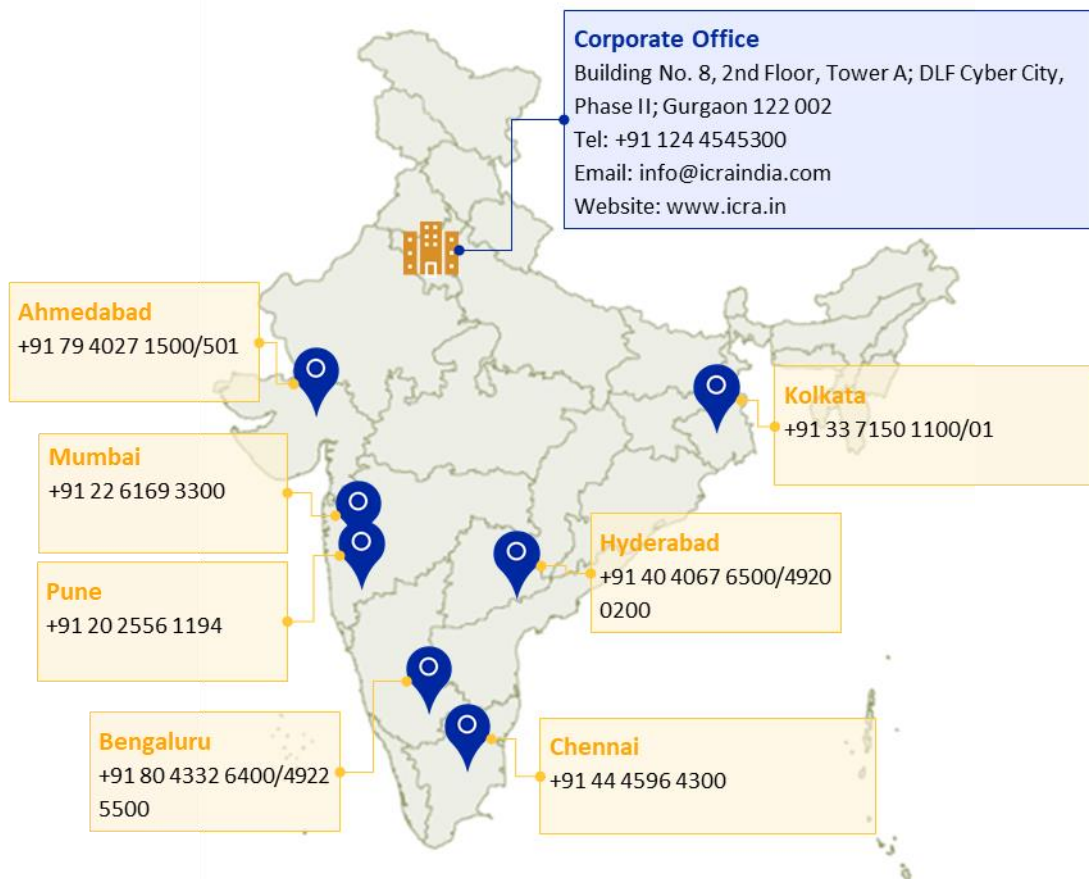
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