

May 29, 2020

HDFC Asset Management Company Limited: Ratings reaffirmed; two debt schemes removed from Watch with Negative Implications

Summary of rating action

| Instrument | 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; removed from 'rating watch with negative implications' |
| HDFC Banking and PSU Debt Fund | - | - | [ICRA]AA-mfs; removed from 'rating watch with negative implications' |
| HDFC Corporate Bond Fund | - | - | [ICRA]AAAmfs; reaffirmed |
| HDFC Floating Rate Debt Fund | - | - | [ICRA]A1+mfs; 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 | - | - | |

Rationale and key rating drivers

The reaffirmation of the ratings for the debt schemes of HDFC Asset Management Company Limited 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.

ICRA has removed the rating Watch with Negative Implications for the credit risk rating of [ICRA]AA+mfs on HDFC Short Term Debt Fund (HDFC-STDF) and [ICRA]AA-mfs on HDFC Banking and PSU Debt Fund (HDFC-BPSU). The ratings had been placed on Watch with Negative Implications in January 2019 on account of their exposure to Hazaribagh Ranchi Expressway Limited (HREL), an IL&FS special purpose vehicle (SPV). The exposure of HDFC-STDF and HDFC-BPSU to HREL has reduced, as a percentage of the assets under management (AUM), to less than 1% with the growth in AUM. Hence, the ratings have been removed from rating Watch with Negative Implications.

The ratings indicate ICRA's opinion on the credit quality of the portfolios held by the funds. The ratings do not indicate the asset management company's (AMC) willingness or ability to make timely payments to the fund's investors. The ratings should not be construed as an indication of the expected returns, the prospective performance of the mutual fund scheme, its net asset value (NAV) or the 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 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 continues to breach the benchmark credit score, the rating is revised to reflect the change in the credit quality.

Liquidity position: Not applicable

Rating sensitivities

Positive triggers – ICRA could upgrade the ratings of the schemes 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 leading to the enhanced credit quality of the portfolio.

Negative triggers – ICRA could downgrade the ratings of the schemes if the credit quality of the underlying investments 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 | Standalone |

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 for the quarter ended March 2020 (including Fund of Fund Schemes) stood at Rs. 3,70,113 crore¹ (against Rs. 3,42,525 crore for the quarter ended March 2019).

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. 11,000 crore as on April 30, 2020 with an average maturity of ~3.36 years on that date. The scheme has a face value exposure of Rs. 49.5 crore to the debt instruments of HREL as on April 30, 2020. However, post markdown, the net exposure stood at Rs. 24.8 crore (0.23% 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. 5,791 crore as on April 30, 2020 with an average maturity of ~3.37 years on that date. The scheme has a face value exposure of Rs. 8.5 crore to the debt instruments of HREL as on April 30, 2020. However, post markdown, the net exposure stood at Rs. 4.3 crore (0.07% of AUM).

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. 7,167 crore as on April 30, 2020 with an average maturity of ~168 days on that date.

¹ Source: www.amfiindia.com

HDFC Overnight Fund

Launched in February 2002, the open-ended debt scheme invests in overnight securities. The scheme's AUM stood at Rs. 18,087 crore as on April 30, 2020 with an average maturity of ~3 days on that date.

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. 6,575 crore as on April 30, 2020, with an average maturity of about 289 days on that date.

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. 87,870 crore as on April 30, 2020 with an average maturity of about 47 days on that date.

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 and money market instruments, fixed rate debt instruments swapped for floating rate returns and money market instruments. The fund's AUM stood at Rs. 8,933 crore as on April 30, 2020 with an average maturity of 1.40 years on that date.

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 corpus stood at Rs. 11,747 crore as on April 30, 2020 with an average maturity of ~1.17 years on that date.

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. 14,518 crore as on April 30, 2020 with an average residual maturity of ~3.78 years on that date.

Key financial indicators: Not applicable

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

| S. No. | Scheme | Current Rating (FY2021) | | | Chronology of Rating History for the Past 3 Years | | | | | | | | | | |
|--------|--------------------------------|-------------------------|--------------------------|--------------------------------|---|---|----------------|----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | | Type | Rated Amount (Rs. crore) | Amount Outstanding (Rs. crore) | 29-May-20 | FY2020 | | FY2019 | | | | FY2018 | | | |
| | | | | | | 27-Jun-19 | 27-May-19 | 22-Mar-19 | 21-Jan-19 | 15-Jun-18 | 06-Jun-18 | 19-Apr-18 | 28-Jun-17 | 21-Apr-17 | |
| 1 | HDFC Low Duration Fund | Long Term | - | - | [ICRA]AAA mfs | [ICRA]AAA mfs; revised from [ICRA]AA+ mfs | [ICRA]AA+ mfs | [ICRA]AA+ mfs | [ICRA]AA+ mfs | [ICRA]AA+ mfs | [ICRA]AA+ mfs | [ICRA]AAA mfs | [ICRA]AAA mfs | [ICRA]AAA mfs | [ICRA]AAA mfs |
| 2 | HDFC Short Term Debt Fund | Long Term | - | - | [ICRA]AA+ mfs | [ICRA]AA+ mfs@ | [ICRA]AA+ mfs@ | [ICRA]AAA mfs@ | [ICRA]AAA mfs@ | [ICRA]AAA mfs | [ICRA]AAA mfs | [ICRA]AAA mfs | [ICRA]AAA mfs | [ICRA]AAA mfs | [ICRA]AAA mfs |
| 3 | HDFC Banking and PSU Debt Fund | Long Term | - | - | [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 | [ICRA]AA- mfs | [ICRA]AA+ mfs |
| 4 | HDFC Corporate Bond Fund | Long Term | - | - | [ICRA]AAA mfs | [ICRA]AAA mfs | [ICRA]AAA mfs | [ICRA]AAA mfs | [ICRA]AAA mfs | [ICRA]AAA mfs | [ICRA]AAA mfs | [ICRA]AAA mfs | [ICRA]AAA mfs | [ICRA]AAA mfs | [ICRA]AAA mfs |

| | | | | | | | | | | | | | | |
|---|------------------------------|------------|---|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 5 | HDFC Floating Rate Debt 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 |
| 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 Ultra Short Term Fund | Short Term | - | - | [ICRA]A1+ mfs | [ICRA]A1+ mfs | [ICRA]A1+ mfs | [ICRA]A1+ mfs | - | - | - | - | - | - |
| 9 | HDFC Overnight Fund | Short Term | - | - | [ICRA]A1+ mfs | [ICRA]A1+ mfs | [ICRA]A1+ mfs | [ICRA]A1+ mfs | - | - | - | - | - | - |

@ Denotes under rating Watch with Negative Implications

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 www.icra.in

Annexure-1: Instrument details: Not applicable

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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