

Exposure of Tata Mutual Fund to DHFL - Update

Event

Tata Mutual Fund had an exposure of Rs.196 crs Market Value as on 3rd June 2019 towards Dewan Housing Finance Ltd.'s (DHFL's) secured NCDs. DHFL defaulted on its debt servicing on 4th June 2019. DHFL defaulted on their interest payment due to us on 4th June 2019 on one of the below three securities held by us. We have a pari-pasu charge on the floating assets of the company.

DHFL (Sr.-IA) 9.05% NCD

DHFL (Sr.-IB) 9.10% NCD

DHFL (Sr.-I) 8.90% NCD*

(*Security which defaulted on debt servicing on 4th June 2019)

As per regulation all securities are required to be marked down.

Further, rating agencies downgraded Dewan Housing Finance Limited (DHFL) to default 'D' on 5th June 2019

Brief Update on DHFL

In the last few months, DHFL has been downgraded by several notches by rating agencies on account of weakening of liquidity owing to delays in the sale of the project loan book and proposed capital infusion. With limited visibility on fresh funding coupled with higher than anticipated debt repayments, DHFL's liquidity profile got further stretched during this period leading to a default on its debt servicing.

We note DHFL's plans to raise equity capital and onboard a strategic investor while reorganising its business and management. The stake sale of non-core assets is also underway. We also note stable asset quality of the housing book which comprised ~57% of DHFL's AUM as on December 2018. We would be continuously monitoring the developments with regards to DHFL.

Exposure of our funds towards DHFL securities

Scheme Names	Asset Name	Maturity Date	Scheme AUM as of 3rd June 2019	Pre default Exposure Value of DHFL (Rs crs)	% of AUM	Scheme AUM as of 4th June 2019	Post default Exposure Value of DHFL (Rs crs)	% of AUM	% absolute impact on NAV of 4th June 2019
TATA CORPORATE BOND FUND	DHFL (Sr.-IA) 9.05% NCD	9-Sep-19	137.66	52	37.77%	96.25	13.25	13.77%	(29.69%)
	DHFL (Sr.-IB) 9.10% NCD	9-Sep-19							
TATA FIXED MATURITY PLAN-SERIES 55 SCHEME - E 29/07/2021	DHFL (Sr.-I) 8.90% NCD	4-Jun-21	101.63	8	7.87%	95.55	2.15	2.25%	(5.94%)
TATA FIXED MATURITY PLAN-SERIES 55 SCHEME - F 19/08/2021	DHFL (Sr.-I) 8.90% NCD	4-Jun-21	90.76	8	8.81%	85.22	2.15	2.52%	(6.06%)
TATA HYBRID EQUITY FUND	DHFL (Sr.-I) 8.90% NCD	4-Jun-21	4728.72	31	0.66%	4,670.87	8.75	0.19%	(0.50%)
TATA MEDIUM TERM FUND	DHFL (Sr.-I) 8.90% NCD	4-Jun-21	55.03	9	16.35%	47.86	2.5	5.22%	(12.30%)
TATA RETIREMENT SAVINGS FUND-MODERATE PLAN	DHFL (Sr.-IA) 9.05% NCD	9-Sep-19	1109.54	27	2.43%	1,087.35	6.75	0.62%	(1.87%)
TATA TREASURY ADVANTAGE FUND	DHFL (Sr.-IA) 9.05% NCD	9-Sep-19	1192.56	61	5.12%	1141.19	17.2	1.51%	(4.08%)
	DHFL (Sr.-I) 8.90% NCD	4-Jun-21							
Total	NA	NA	7415.9	196	NA	7224.29	52.75	NA	NA

Implications

- Our exposure to DHFL would be bucketed as financial sector secured instruments. Basis AMFI Valuation committee's confirmation on the applicability of SEBI's Standard Haircut Matrix for sub-investment grade debt securities, our entire DHFL holdings across three securities have been marked down by 75% on Face Value on 4th June 2019 in view of the missing coupon.
- The security whose coupon was due on 4th June 2019 and suffered default, 100% of the accrued coupon was written off. Balance 25% holding value of the security will also stop accruing Coupon from the day of the credit event.
- In the case of other two securities where the coupon was not due on 4th June 2019, 75% of the accrued coupon was written off. Balance 25% holding value of the security will continue to accrue Coupon.

Segregated Portfolio of DHFL Securities in case of Tata Corporate Bond fund, Tata Medium Term fund and Tata Treasury Advantage Fund

In order to ensure fair treatment to all investors in case of a credit event and to deal with liquidity risk, SEBI vide circular dated December 28, 2018 has allowed mutual funds to create segregated portfolio of debt and money market instruments subject to certain conditions.

As DHFL has been downgraded to below investment grade, Tata AMC proposes to create a segregated portfolio of securities of DHFL held by captioned schemes immediately after expiry of mandatory load free exit period of 30 days'. The 30 days' load free exit period will expire on 14th June 2019.

Impact on the investors on account of Segregated portfolio

- Ongoing subscription in the captioned schemes has already been suspended.
- Investors redeeming their units will get redemption proceeds based on the NAV of main portfolio and will continue to hold the units of segregated portfolio.
- All investors in the scheme as on the day of creation of segregated portfolio shall be allotted equal number of units in the segregated portfolio as held in the main portfolio.
- Upon recovery of money from the segregated portfolio, whether partial or full, it will be distributed to the investors in proportion to their holding in the segregated portfolio.
- AMC will disclose separate NAVs of segregated and main portfolios from the date of creation of segregated portfolio.
- Once the segregated portfolio is created, no subscription and redemption will be allowed in the segregated portfolio of the captioned schemes.

We will keep you apprised of our funds on a regular basis.

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.