

Important Update: Rating downgrade of Hazaribagh Ranchi Expressway Limited



April 16, 2019

Few scheme(s) of HDFC Mutual Fund (HDFC MF) have invested in Non-Convertible Debentures (“NCDs”) issued by Hazaribagh Ranchi Expressway Limited (“HREL”), a special purpose vehicle (“SPV”) which is a subsidiary of IL&FS Transportation Network Limited (“ITNL”, subsidiary of IL&FS). The exposure to NCDs issued by HREL is backed by annuities from National Highways Authority of India (NHAI, rated AAA).

The current management appointed by Government of India to resolve the ongoing liquidity and payment crisis at Infrastructure Leasing & Financial Services Limited (IL&FS), and as part of the resolution plan classified all the domestic group entities of IL&FS three categories based on “12 month cashflow solvency test” (Testing Period):

- Green: Green companies are fully capable of meeting all obligations of that entity (both operational and financial, both secured and unsecured) during the Testing Period
- Amber: Amber companies are only able to meet payment obligations to operational and secured creditors during the Testing Period
- Red: Red Companies are entities which cannot meet their respective payment obligations towards even the secured financial creditor during the Testing Period

Source: Affidavit filed by IL&FS to NCLAT dated 11th Feb 2019

National Company Law Appellate Tribunal (NCLAT) vide its order dated 11th February 2019 had lifted the moratorium on international entities of IL&FS as well as entities classified as Green, however, in case of other entities especially the Amber entities, NCLAT continues to hear arguments from the concerned lenders. As per the affidavits filed by IL&FS, HREL has been classified as “Amber” category, which means that HREL is capable of servicing its secured obligations, ie the NCD issuance in which HDFC MF has invested. The 13th annuity payment from NHAI, which was scheduled on 15th March 2019, has not been received yet due to operational delays by HREL. However, such operational delays in receipt of annuity have also occurred in the past. The delay in receipt of annuity does not hamper the capability of HREL servicing the payment obligation of ~Rs. 52.7 cr due on 14th April 2019 with the available cash of approximately Rs. 83 cr. HDFC Mutual Fund continues to make legal representations at the NCLAT to lift the moratorium imposed on Amber companies so that the investors’ interest is protected.

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As of 12th April 2019, the following scheme(s) of HDFC Mutual Fund have exposures to NCDs issued by HREL:

(Amount in INR crore)	
Scheme Name	Total exposure to security in the scheme (Face Value)
HDFC Banking and PSU Debt Fund	8.5
HDFC Credit Risk Debt Fund	42.0
HDFC Dynamic Debt Fund	81.0
HDFC FMP 1146D April 2018 (1)	10.5
HDFC Hybrid Debt Fund	41.0
HDFC Short Term Debt Fund	49.5

Out of HREL exposure of Rs. 49.50 crore (face value, FV) in HDFC Short Term Debt fund, principal amount of Rs. 12.00 crore FV was due on 14th April 2019. In addition, all the above schemes were due to receive interest totaling to nearly Rs. 10.00 crore on 14th April 2019. As stated above, despite having adequate cash, HREL has defaulted on its payment obligations triggering a further downgrade in the credit rating of NCDs issued by HREL on April 15, 2019 by India Ratings to 'IND D (SO)' from 'IND C(SO)'.

Considering the default by HREL on its debt obligations, we have taken an additional markdown of 12% effective 15th April 2019 (over and above 25% markdown taken on January 22, 2019), taking the total markdown to 37% on prices provided by valuation agencies for January 24, 2019, the date on which HREL was downgraded to non-investment grade. Additionally, we have also taken a markdown of 37% on the interest accrued till date. Going forward, we shall not be accruing interest on our exposures in HREL.

We continue to believe that a) the structured payment mechanism for the NCD is strong, b) HREL does not require any financial support from IL&FS and c) cashflows generated by HREL would be adequate to service the NCDs. Nevertheless, given that the matter is sub judice, we will continue to monitor the developments around HREL and keep investor informed about the same.

All prior communications with regards to HREL have been appended below.

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

Important Update: Rating downgrade of Hazaribagh Ranchi Expressway Limited



January 25, 2019

Important Update: Scheme holdings in securities issued by Hazaribagh Ranchi Expressway Limited (“HREL”)

In continuation to communication dated January 22, 2019 appended below, the credit rating of NCDs issued by HREL has been downgraded on January 24, 2019 by India Ratings to ‘IND BB(SO)/ Rating Watch Evolving (RWE)’ from ‘IND AAA(SO)/ Rating Watch Negative (RWN)’.

We will continue to monitor the developments around HREL and if required, take suitable measures (including appropriate valuation changes) with a view to protect the interest of Unit holders.

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

Important Update: Rating downgrade of Hazaribagh Ranchi Expressway Limited



January 22, 2019

Important Update: Scheme holdings in securities issued by Hazaribagh Ranchi Expressway Limited

The Scheme(s) of HDFC Mutual Fund have invested in Non-Convertible Debentures (“NCDs”) issued by Hazaribagh Ranchi Expressway Limited (“HREL”), a special purpose vehicle (“SPV”) which is a subsidiary of IL&FS Transportation Network Limited (“ITNL”). The exposure to NCDs issued by HREL is backed by annuities from National Highways Authority of India (NHAI). At the time of issuance the NCDs were rated as AAA/SO by India Ratings and CARE; presently the NCDs are rated by India Rating as ‘AAA/SO/Rating Watch Negative’; and by CARE as ‘AAA/SO/Credit watch with negative implication’.

As of 21st January 2019, the following scheme(s) of HDFC Mutual Fund have exposures to NCDs issued by HREL.

(Amount in INR crore)		
Scheme Name	Rating	Total exposure to security in the scheme (Face Value)
HDFC Short Term Debt Fund	AAA(SO)	49.50
HDFC FMP 1146D April 2018 (1)	AAA(SO)	10.50
HDFC Credit Risk Debt Fund	AAA(SO)	42.00
HDFC Hybrid Debt Fund	AAA(SO)	41.00
HDFC Dynamic Debt Fund	AAA(SO)	81.00
HDFC Banking and PSU Debt Fund	AAA(SO)	8.50

Between 18th - 21st January 2019, the credit ratings on NCDs issued by one of the other SPVs of ITNL, viz Jharkhand Road Projects Implementation Company Limited (**JRPICL**) were downgraded by CRISIL (from CRISIL AA(SO) to CRISIL BB(SO)), CARE (from CARE A+(SO) to CARE BB-(SO)) and India Ratings (from IND AA(SO) to IND BB-(SO)). The press release published by CRISIL, states that “ **the downgrade was due to heightened risk of default due to a reversal in the management's earlier stance of maintaining the integrity of JRPICL's ring-fenced structure and structured payment waterfall**”.

The structured payment obligation of HREL is similar to that of JRPICL, except the annuities are receivable from NHAI . As per the press release issued by India Ratings dated 15th January 2019, the credit ratings of HREL are also exposed to the risk of any move by IL&FS SPVs to stop future debt repayments, like JRPICL.

Considering the recent events and the high likelihood of rating downgrade of HREL to below investment grade, we have decided to take a mark down of 25% on daily prices received from valuation agencies .

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The mark down will be continued to be applied till the NCDs are downgraded below investment grade and/or the valuation agencies stop providing security prices. Thereafter, the valuation of the NCDs would be frozen at the previous day's value.

We will continue to monitor the developments around HREL and if required, take suitable measures (including appropriate valuation changes) with a view to protect the interest of Unit holders.

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