

Now, IL&FS heat singes mutual fund industry

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6 schemes under ICRA's 'rating watch' for exposure to SPVs.

Contrary to claims by the mutual fund industry that its investments in the debt-ridden IL&FS are safe, action by rating agency ICRA on Tuesday indicated negative implication for the sector.

The rating agency has downgraded one scheme of Aditya Birla Mutual Fund and put five other schemes of HDFC Mutual Fund and UTI Mutual Fund under rating watch due to their exposure to the special purpose vehicles (SPVs) of the troubled IL&FS.

“The rating action takes into account the deterioration in the credit quality of the underlying investments of these schemes driven by their exposure to the special purpose vehicle (SPV) of IL&FS Ltd,” ICRA said in a statement.

Plea to stop future payments

ICRA noted that the schemes have exposure to Hazaribagh Ranchi Expressway Ltd or Jharkhand Road Projects Implementation Company Ltd or Jorabat Shillong Expressway Ltd. The default risks of the various SPVs have increased given the recent communication by their management to the trustees of these schemes, seeking stoppage of future repayments based on an order of the National Company Law Appellate Tribunal (NCLAT) dated October 15, 2018, the rating agency said. The NCLAT had passed an interim order on October 15, granting a moratorium on all creditor actions against IL&FS and its group companies.

Further, in January 2019, two SPVs of IL&FS demanded a refund of the debt payment executed by them post October 15, 2018, from their trustees. Despite a ring-fenced structure and adequate cash flows to service the debt obligations, the SPVs have asked the trustees to stop debiting the escrow account towards future obligations.

ICRA has downgraded Aditya Birla Sun Life Short Term Opportunities Fund to 'AA' from 'AAplus' due to exposure of 1.15 per cent of the scheme's AUM to Jharkhand Road Projects Implementation Company.

Among other schemes that have been put on rating watch, HDFC Short Term Debt Fund and HDFC Banking and PSU Debt Fund have an exposure of 0.55 per cent and 0.29 per cent to Hazaribagh Ranchi Expressway (HRE), respectively.

The exposure of UTI Banking and PSU Debt Fund, UTI Bond Fund and UTI Dynamic Bond Fund to Jorabat

Shillong Expressway (JSEL) was 6.87 per cent, 5.98 per cent and 6.25 per cent, respectively.

May hit credit score

In case of delay in honouring obligations, the ratings of these SPVs are likely to be downgraded, thereby impacting the credit score of the mutual fund schemes, ICRA added. The crisis has come at a time when the industry is trying to promote debt schemes as an alternative to bank fixed deposits.

Aashish P Sommaiya, Managing Director & CEO, Motilal Oswal Asset Management, said the development would not have much impact on the overall inflow into the industry's debt fund schemes as investment decisions are made on the individual portfolio of a particular scheme.

Independent of the IL&FS crisis, the inflows into money market and liquid schemes have been volatile in the last few months. For instance, the AUM of the industry dipped five per cent last month to ₹22.85 lakh crore against ₹24.03 lakh crore in November.

Under the lens

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