Sharp rise in concentration risks for debt funds on IL&FS, DHFL crisis

Radhika Merwin BL Research Bureau | Updated on February 12, 2019 Published onFebruary 12, 2019

Several funds, with relatively lower corpus, have been witnessing a steep increase in DHFL bond holdings

What began as a singular event, with IL&FS defaulting on its dues, has snowballed into a liquidity crisis for many NBFCs since October last year. The sharp rise in the yield of certain debt papers issued by Dewan Housing Finance Company (DHFL) in the secondary market, shortly after the IL&FS episode broke out, increased the concern over the liquidity issues at NBFCs. While bonds of DHFL were not downgraded until recently, the ongoing turmoil has led to a peculiar predicament for many debt funds.

Persistent redemption pressures and outflows have led to holdings of many debt funds in DHFL bonds shooting up over the past four months. As funds have been forced to exit the relatively better-rated debt papers (for which there is appetite in the market) to meet redemption pressures, they have been stuck with a higher concentration of DHFL bonds in their portfolios.

Increase in DHFL bond holdings

	Sep-18			Jan-19		
	DHFL bonds holdings (% of assets)	Value of DHFL bond holdings (₹ cr)	Total fund corpus (₹ cr)	DHFL bonds holdings (% of assets)	Value of DHFL bond holdings (₹ cr)	Total fund corpus (₹ cr)
Axis Corp Debt Fund	5.62	17.8	315.8	7.25	17.8	245.0
BNP Paribas Medium Term Fund	8.60	22.0	255.3	12.30	21.5	174.6
BOI AXA Ultra Short Duration Fund	9.93	60.7	611.2	14.39	46.3	321.8
Edelweiss Corporate Bond Fund	8.83	23.9	270.7	12.12	23.3	192.5
JM Income	10.63	3.0	27.8	21.65	3.0	13.6
JM Low Duration Fund	9.27	28.1	302.9	21.67	28.1	129.5
Tata Corp Bond Fund	10.70	52.2	484.5	19.17	52.1	272.1
DHFL Pramerica Medium Term Fund	10.39	39.0	375.3	20.19	13.5	67.0
DHFL Pramerica Short Maturity Fund	8.28	93.0	1,124.2	14.93	92.3	618.4
DHFL Pramerica Ultra ST	10.21	145.3	1,423.3	34.73	124.6	358.8

Source: ACE MF. factsheets *List is not exhaustive

JM Income and JM Low Duration Fund, for instance, have seen their holdings in bonds issued by DHFL increase from 9-10 per cent of assets in September 2018 (when DHFL-related concerns broke out) to 21-22 per cent as of January 2019.

Funds such as BNP Paribas Medium Term Fund, BOI AXA Ultra Short Duration and Edelweiss Corporate Bond Fund have also seen holdings in DHFL bonds go up 4-5 percentage points over the past four months, increasing the concentration risk in their portfolio.

Funds with relatively lower corpus are the ones that have been impacted the most. For most of the above funds, the already small corpus has shrunk significantly owing to outflows, further heightening the risk of concentration.

Other funds

Three funds, under DHFL Pramerica Asset Managers (Pramerica to acquire DHFL's 50 per cent stake in the asset management company), have seen a sharp rise in their holdings in DHFL bonds. DHFL Pramerica Ultra Short Term Fund has seen its DHFL bond holdings spike to 34 per cent as of January 2019, from 10.2 per cent in September last year.

The fund's corpus is now one-fourth of its September 2018 corpus. DHFL Pramerica Medium Term's corpus is now a fifth of what it was four months ago, and its holdings in DHFL bonds has shot up to 20 per cent from 10 per cent in September 2018. DHFL Pramerica Short Maturity Fund is another fund that has seen a significant rise in its DHFL bond holdings, and a sharp fall in corpus.

A spokesperson from DHFL Pramerica Mutual Fund, said: "The increase in percentage exposure to bonds of DHFL has primarily been because of the fall in AUMs of the debt schemes concerned, in the wake of adverse market developments after September 2018. We have not taken any fresh exposure to DHFL bonds after August 2018. Since August to December 2018, in fact, we have cumulatively reduced the exposure to DHFL bonds by ₹85 crore."

Rating agency CARE downgraded ratings for DHFL's debentures, bonds and fixed deposit on February 3 from AAA to AA+. Last week, when bonds of DHFL still enjoyed the highest rating of 'AAA', they were quoting at a yield-to-maturity (YTM) of 11-12 per cent for a 5-7 year residual maturity. This implies a steep premium to other AAA-rated bonds in the market. According to FIMMDA, AAA-rated bonds of 5-year tenure trade at a YTM of 8.4-odd per cent, while AA-rated bonds trade at 8.9 per cent.

YTM is the internal rate of return earned by an investor who buys the bond today at the market price, assuming the bond will be held until maturity and that all coupon and principal payments are made on schedule.

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Dewan Housing Finance Corporation Ltd IL&FS

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