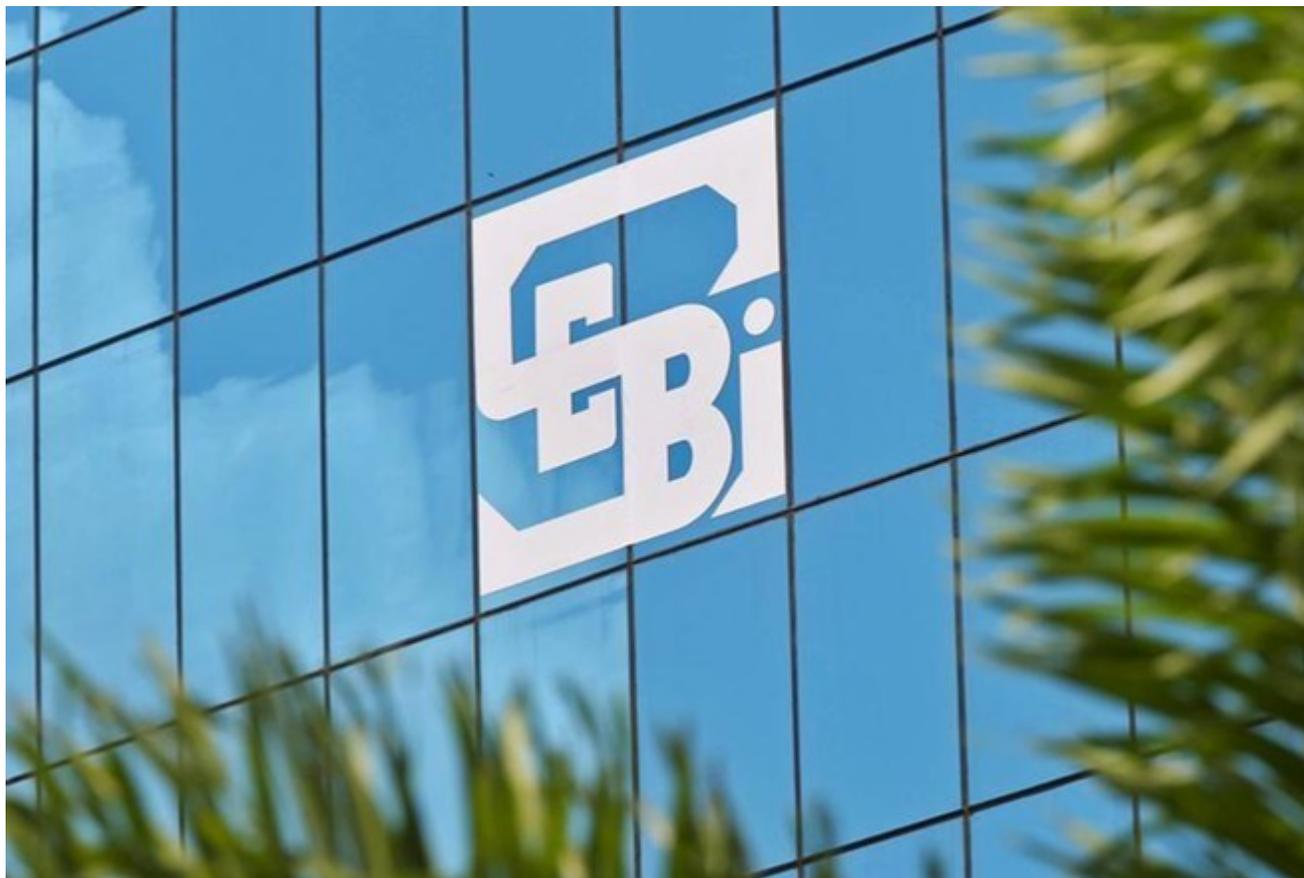


# Sebi's enhanced borrowing limits didn't help MFs

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Credit risk funds have been seeing redemptions over the last one year. Between March 2019 and March 2020, most credit risk funds had seen outflows barring ICICI Prudential Credit Risk Funds, IDFC Credit Risk Fund and Mahindra Credit Risk Yojana.



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Mutual funds can borrow up to 20% of their assets under management (AUM) to meet with the redemption pressure.

**By Malini Bhupta**

In a bid to help mutual funds meet with increased redemption pressure, the Securities and Exchange Board of India (Sebi) in late March had allowed mutual funds to borrow more than the 20% limit. However, while some fund houses availed of it, it has not helped much as banks are wary of lending against AA rated and below assets. As of April 23, only four mutual funds out of 42 MFs had aggregate borrowings of Rs 4,427.68 crore.

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Mutual funds can borrow up to 20% of their assets under management (AUM) to meet with the redemption pressure. The regulator had asked fund houses to approach the regulator for enhancing this limit. Permission for the same would be granted on a case to case basis. FE has learned that at least four fund houses sought approval from the regulator for enhanced borrowing limits.

Credit risk funds have been seeing redemptions over the last one year. Between March 2019 and March 2020, most credit

risk funds had seen outflows barring ICICI Prudential Credit Risk Funds, IDFC Credit Risk Fund and [Mahindra](#) Credit Risk Yojana. Bol Axa Credit Risk Fund AUM declined 76.97% to Rs 167.42 crore in the period, while UTI Credit Risk Fund saw its AUM decline 85.48% to Rs 711 crore.

FE has learned that several mutual funds availed of the facility and enhanced their borrowing limits in March, but some of them did not have to avail of them. Arvind Chari, Head of Fixed Income at Quantum Advisors, said, "Sebi did allow for a higher borrowing limit for exceptional case to case basis liquidity in March but banks would evaluate lending against the portfolio and its underlying assets. If redemptions continue in credit risk funds today too then the [RBI](#)'s special liquidity window may not help much as the banks may still not be willing to lend against these securities."

Fund managers believe that banks do not have appetite for AA-rated papers and below. The risk aversion is apparent from the response to the LTRO 2.0. Hence the new liquidity window too may not have much of an impact as banks may not be keen to acquire such assets from mutual funds.



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