

April 21, 2023

HDFC Asset Management Company Limited: Rating upgraded for HDFC Banking and PSU Debt Fund; ratings reaffirmed for eight debt schemes

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
HDFC Low Duration Fund	-	-	[ICRA]AAAmfs; reaffirmed
HDFC Short Term Debt Fund	-	-	[ICRA]AAAmfs; reaffirmed
HDFC Banking and PSU Debt Fund	-	-	[ICRA]AAAmfs; upgraded from [ICRA]AA+mfs
HDFC Corporate Bond Fund	-	-	[ICRA]AAAmfs; reaffirmed
HDFC Floating Rate Debt Fund	-	-	[ICRA]AAAmfs; reaffirmed
HDFC Liquid Fund	-	-	[ICRA]A1+mfs; reaffirmed
HDFC Money Market Fund	-	-	[ICRA]A1+mfs; reaffirmed
HDFC Overnight Fund	-	-	[ICRA]A1+mfs; reaffirmed
HDFC Ultra Short-Term Fund	-	-	[ICRA]A1+mfs; reaffirmed
Total	-	-	

*Instrument details are provided in Annexure I

Rationale and key rating drivers

ICRA has upgraded the mutual fund rating for HDFC Banking and PSU Debt Fund of HDFC Asset Management Company Limited (the AMC) to [ICRA]AAAmfs from [ICRA]AA+mfs. The rating has been upgraded as the credit risk score for the scheme has been comfortable for the revised rating level for a period of more than three months.

ICRA has reaffirmed the [ICRA]AAAmfs rating for HDFC Floating Rate Debt Fund, HDFC Low Duration Fund, HDFC Corporate Bond Fund and HDFC Short Term Debt Fund and the [ICRA]A1+mfs rating for HDFC Liquid Fund, HDFC Money Market Fund, HDFC Overnight Fund and HDFC Ultra Short Term Fund. The ratings have been reaffirmed following ICRA's monitoring of the credit risk profile of the month-end portfolio position of these schemes. The credit risk scores for these schemes were comfortably within the benchmark limits for their current rating levels.

Mutual fund ratings incorporate ICRA's assessment of the creditworthiness of a debt mutual fund scheme's investment portfolio. These ratings are a symbolic representation of the credit risk in the underlying investments or the degree of safety regarding the timely receipt of payments from the investments made by the mutual fund schemes. The ratings do not indicate the asset management company's (AMC) and/or any of its scheme's willingness and/or ability to make timely redemptions to its investors. The ratings do not address market risks and hence should not be construed as an indication of the expected returns, prospective performance of the mutual fund scheme, and the ability to redeem investments at the reported net asset value (NAV) or volatility in its past returns, as all these are influenced by market risks.

ICRA's assessment of debt mutual fund schemes is guided by the credit ratings of the individual investments and the relative share of the schemes' allocation towards the investments, besides the maturity schedule of such investments. ICRA's mutual fund ratings are not a reflection on the quality of the management of the AMC or its financial performance, reputation and other business practices including investment strategies, pricing, marketing and distribution activities. Furthermore, the ratings are not a reflection of whether the AMC or the fund is compliant with the applicable regulatory requirements.

The credit matrix is a tool used by ICRA for analysing the investment portfolio of the debt mutual fund schemes by assessing the portfolio's aggregate credit quality while reviewing the credit quality of each underlying debt security. The portfolio's weighted average credit quality is compared with a benchmark credit score corresponding to the higher of the weighted average maturity of the scheme's portfolio or the maturity predefined by ICRA for the scheme category. The rating outcome corresponds to the rating level for which the portfolio's weighted average credit score is less than the benchmark credit score associated with the rating level. Further, the lowest rating of the investments of the scheme acts as the floor for its rating.

Once a mutual fund scheme is rated and the rating is accepted, ICRA reviews the underlying investment portfolios for the credit scores on an ongoing basis. To this end, ICRA relies on the information provided by the AMC and/or publicly available sources. ICRA reviews the mutual fund ratings on a monthly basis or earlier, if required, which involves an evaluation of the rating corresponding to the portfolio credit score in relation to the existing rating outstanding. If the portfolio credit score meets the benchmark score for the existing rating, the rating is retained. If the portfolio credit score has a negative breach from the benchmark credit score for the existing rating, ICRA communicates the same to the fund manager/product manager or other officials of the concerned AMC and may provide a month’s time to bring the portfolio credit score within the benchmark credit score for maintaining the existing rating level. If the investment composition of the fund is realigned to bring the portfolio credit score within the benchmark credit score, the rating is retained. However, if the portfolio continues to breach the benchmark credit score for the existing rating level, the rating is revised to reflect the change in the portfolio’s credit quality.

In case of sharp breaches of the benchmark credit score (for instance due to a multi-notch downgrade in the underlying investment) and/or if ICRA believes that the breach may not get rectified within a month of the ongoing review, the rating is generally corrected immediately without giving a month’s time for rebalancing the portfolio. If the AMC corrects its portfolio, post the rating downgrade of the scheme, or the credit score improves in any manner subsequent to the downgrade, making the scheme eligible for an upgrade, ICRA may consider a rating upgrade only if the credit score is maintained consistently for a period of at least three months.

Liquidity position: Not applicable

Rating sensitivities

Positive factors – Not applicable

Negative factors –

For HDFC Overnight Fund – ICRA could downgrade the rating of the scheme if the credit quality of the underlying investment deteriorates, leading to a breach in the threshold for the rating level.

For other schemes – ICRA could downgrade the ratings of the schemes if the credit quality of the underlying investment deteriorates or the size of the assets under management (AUM) declines, which may result in an increase in the share of lower rated investments, leading to a breach in the threshold for the rating level.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Methodology for Rating Mutual Fund Schemes
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

The above schemes are mutual fund schemes of HDFC Mutual Fund (HDFC MF), managed by HDFC Asset Management Company Limited (a joint venture with Standard Life Investments). The average AUM of the schemes of HDFC MF during the

quarter ended March 2023 (including fund of fund schemes overseas but excluding domestic fund of fund schemes) was Rs. 4,49,766¹ crore (Rs. 4,32,085² crore during the quarter ended March 2022).

HDFC Short Term Debt Fund

Launched in June 2010, HDFC Short Term Debt Fund is an open-ended short-term debt scheme investing in debt and money market instruments such that the Macaulay duration of the portfolio is between 1 year and 3 years. The fund's AUM stood at Rs. 11,491 crore as on March 31, 2023.

HDFC Banking and PSU Debt Fund

Launched in March 2014, HDFC Banking and PSU Debt Fund is an open-ended debt scheme predominantly investing in securities issued by entities such as scheduled commercial banks (SCBs), public sector undertakings (PSUs), public financial institutions (PFIs), municipal corporations and other such bodies. The scheme's AUM stood at Rs. 5,590 crore as on March 31, 2023.

HDFC Corporate Bond Fund

The fund was launched in June 2010 as HDFC Medium Opportunities Fund. In May 2018, after the merger with HDFC Floating Rate Income Fund – Long Term Plan and HDFC Gilt Fund – Short Term Plan, the fund was renamed HDFC Corporate Bond Fund. It is an open-ended debt scheme with a stated objective of generating income/capital appreciation through investments predominantly in AA+ and above rated corporate bonds. The fund's AUM stood at Rs. 25,404 crore as on March 31, 2023.

HDFC Overnight Fund

Launched in February 2002, the open-ended debt scheme invests in overnight securities. The scheme's AUM stood at Rs. 15,283 crore as on March 31, 2023.

HDFC Money Market Fund

Launched in November 1999, HDFC Money Market Fund is an open-ended debt scheme with a stated objective of generating income/capital appreciation by investing in money market and debt instruments. The fund's AUM stood at Rs. 12,835 crore as on March 31, 2023.

HDFC Ultra Short Term Fund

Launched in September 2018, this is an open-ended short-term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months and 6 months. The scheme's AUM stood at Rs. 11,347 crore as on March 31, 2023.

HDFC Liquid Fund

Launched in October 2000, HDFC Liquid Fund is an open-ended liquid mutual fund scheme with a stated objective of enhancing income consistent with a high level of liquidity through a portfolio mix comprising money market and debt instruments. The fund's AUM stood at Rs. 39,501 crore as on March 31, 2023.

HDFC Floating Rate Debt Fund

Launched in October 2003, HDFC Floating Rate Debt Fund is an open-ended income fund with a stated objective of generating regular income through investments in floating rate debt, fixed rate debt instruments swapped for floating rate returns and money market instruments. The fund's AUM stood at Rs. 14,344 crore as on March 31, 2023.

¹ Monthly average excluding Fund of Funds Domestic but including Fund of Funds Overseas; Source : AMFI

² Quarterly average excluding Fund of Funds Domestic but including Fund of Funds Overseas, Source : AMFI

HDFC Low Duration Fund

Launched in November 1999, HDFC Low Duration Fund is an open-ended income scheme with a stated objective of generating regular income through investment in debt securities and money market instruments such that the Macaulay duration is between 6 months and 12 months. The fund's AUM stood at Rs. 13,555 crore as on March 31, 2023.

Key financial indicators (audited): Not applicable

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Name of Scheme	Type	Current Rating (FY2024)		Rating History for the Past 3 Years						
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021			
				Apr 21, 2023	Apr 29, 2022	May 17, 2021	Sep 24, 2020	Jul 31, 2020	May 29, 2020	
1 HDFC Low Duration Fund	Long term	-	-	[ICRA]AAA mfs	[ICRA]AAA mfs	[ICRA]AAA mfs	[ICRA]AAA mfs	[ICRA]AAA mfs	[ICRA]AAA mfs	[ICRA]AAA mfs
2 HDFC Short Term Debt Fund	Long term	-	-	[ICRA]AAA mfs	[ICRA]AAA mfs	[ICRA]AA+ mfs	[ICRA]AA+ mfs	[ICRA]AA+ mfs	[ICRA]AA+ mfs	[ICRA]AA+ mfs
3 HDFC Banking and PSU Debt Fund	Long term	-	-	[ICRA]AAA mfs; upgraded from AA+ mfs	[ICRA]AA+ mfs	[ICRA]AA mfs	[ICRA]AA- mfs	[ICRA]AA- mfs	[ICRA]AA- mfs	[ICRA]AA- mfs
4 HDFC Corporate Bond Fund	Long term	-	-	[ICRA]AAA mfs	[ICRA]AAA mfs	[ICRA]AAA mfs	[ICRA]AAA mfs	[ICRA]AAA mfs	[ICRA]AAA mfs	[ICRA]AAA mfs
5 HDFC Floating Rate Debt Fund	Long term	-	-	[ICRA]AAA mfs	[ICRA]AAA mfs	[ICRA]AAA mfs	[ICRA]AAA mfs	[ICRA]AAA mfs/ [ICRA]A1+ mfs [^]	[ICRA]A1+ mfs	[ICRA]A1+ mfs
6 HDFC Liquid Fund	Short term	-	-	[ICRA]A1+ mfs	[ICRA]A1+ mfs	[ICRA]A1+ mfs	[ICRA]A1+ mfs	[ICRA]A1+ mfs	[ICRA]A1+ mfs	[ICRA]A1+ mfs
7 HDFC Money Market Fund	Short term	-	-	[ICRA]A1+ mfs	[ICRA]A1+ mfs	[ICRA]A1+ mfs	[ICRA]A1+ mfs	[ICRA]A1+ mfs	[ICRA]A1+ mfs	[ICRA]A1+ mfs
8 HDFC Overnight Fund	Short term	-	-	[ICRA]A1+ mfs	[ICRA]A1+ mfs	[ICRA]A1+ mfs	[ICRA]A1+ mfs	[ICRA]A1+ mfs	[ICRA]A1+ mfs	[ICRA]A1+ mfs
9 HDFC Ultra Short Term Fund	Short term	-	-	[ICRA]A1+ mfs	[ICRA]A1+ mfs		[ICRA]A1+ mfs	[ICRA]A1+ mfs	[ICRA]A1+ mfs	[ICRA]A1+ mfs

[^]The short-term rating was put on notice of withdrawal and subsequently withdrawn vide rating rationale dated September 24, 2020

Complexity level of the rated instruments: Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details: Not applicable

Annexure II: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

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