

April 03, 2024

HDFC Asset Management Company Limited: Ratings reaffirmed

Summary of rating action

Instrument Name	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; reaffirmed
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 reaffirmed the ratings for various debt mutual fund (MF) schemes of HDFC Asset Management Company Limited (the asset management company; AMC). 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.

MF ratings incorporate ICRA's assessment of the creditworthiness of a debt MF 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 MF schemes. The ratings do not indicate the AMC's 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 MF 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 MF schemes is guided by the credit ratings of the individual investments, the relative share of the investments in the overall assets under management (AUM) of the scheme and the maturity schedule of such investments. ICRA's MF 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 MF 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-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 an MF 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 MF 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. The average AUM of HDFC MF’s schemes during the quarter ended December 31, 2023 (including Fund of Fund Overseas schemes but excluding Domestic Fund of Fund schemes) was Rs. 5,51,521¹ crore.

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. 14,612 crore as on February 29, 2024.

¹ Quarterly average excluding Funds of Funds Domestic but including Funds of Funds Overseas; <https://www.amfiindia.com/research-information/aum-data/average-aum>

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, public sector undertakings, public financial institutions, municipal corporations and other such bodies. The scheme's AUM stood at Rs. 6,068 crore as on February 29, 2024.

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 the stated objective of generating income/capital appreciation through investments predominantly in corporate bonds rated AA+ and above. The fund's AUM stood at Rs. 28,269 crore as on February 29, 2024.

HDFC Overnight Fund

Launched in February 2002, the open-ended debt scheme invests in overnight securities. The scheme's AUM stood at Rs. 9,602 crore as on February 29, 2024.

HDFC Money Market Fund

Launched in November 1999, HDFC Money Market Fund is an open-ended debt scheme with the stated objective of generating income/capital appreciation by investing in money market and debt instruments. The fund's AUM stood at Rs. 17,645 crore as on February 29, 2024.

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. 12,661 crore as on February 29, 2024.

HDFC Liquid Fund

Launched in October 2000, HDFC Liquid Fund is an open-ended liquid mutual fund scheme with the 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. 62,569 crore as on February 29, 2024.

HDFC Floating Rate Debt Fund

Launched in October 2003, HDFC Floating Rate Debt Fund is an open-ended income fund with the 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. 14,765 crore as on February 29, 2024.

HDFC Low Duration Fund

Launched in November 1999, HDFC Low Duration Fund is an open-ended income scheme with the 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. 15,464 crore as on February 29, 2024.

Key financial indicators: 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 (FY2025)		Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Apr 03, 2024	Apr 21, 2023	Apr 29, 2022	May 17, 2021
1 HDFC Low Duration Fund	Long term	-	-	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs
2 HDFC Short Term Debt Fund	Long term	-	-	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AA+mfs
3 HDFC Banking and PSU Debt Fund	Long term	-	-	[ICRA]AAAmfs	[ICRA]AAAmfs; upgraded from AA+mfs	[ICRA]AA+mfs	[ICRA]AAmfs
4 HDFC Corporate Bond Fund	Long term	-	-	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs
5 HDFC Floating Rate Debt Fund	Long term	-	-	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs	[ICRA]AAAmfs
6 HDFC Liquid Fund	Short term	-	-	[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
8 HDFC Overnight Fund	Short term	-	-	[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

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:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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