

March 31, 2020

Update on DSP Credit Risk Fund

DSP Credit Risk Fund ('Scheme') is an open ended debt scheme predominantly investing in AA and below rated corporate bonds (excluding AA+ rated corporate bonds).

As per the asset allocation as mentioned in the Scheme Information Document

"The Scheme shall invest minimum 65% in corporate bonds which are AA and below rated instruments. In case of any deviation, the same has to be rebalanced within 30 days."

In the event of any deviations, the Investment Manager shall rebalance the portfolio within 30 days from the date of said deviation. Where the portfolio is not rebalanced within 30 Days, justification for the same shall be placed before the Investment Committee ('Committee') and reasons for the same shall be recorded in writing. The Investment Committee shall then decide on the course of action."

The exposure to AA and below rated Corporate Bonds is below 65% since July 4, 2019.

The Scheme continuous to witness redemptions / switch out (AUM as on March 30, 2020 is Rs. 1128 crores). However, the pace of redemptions has marginally reduced, although liquidity conditions of the Scheme will continue to deteriorate even at the current pace of redemptions over the next quarter.

The Key statistic of the Scheme as on March 30, 2020 is as follows:

CREDIT RISK FUND	(Amt in Cr)
Day End	30-03-2020
AUM	1,128
Redemption	0
Switch Out	0
Net AUM	1,128
Cash in Hand (T+0)	189
Sell (T+1)	0
Redemption + Switch Out	0
Net Cash	189
CDs	0
AAA Saleable	54
Cash + Liquid Assets	243

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Further, the following securities have been downgraded below investment grade since September 2018:

Issuer	Face Value (Rs. crore)	Maturity	Rating action	Haircut/Mark Down
IL&FS Transportation Networks Limited	Rs. 176.50 crore NCD	23-Mar-19	- Downgraded to BB (SO) by CARE (from AA+(SO)) on 10-Sep-18 - Downgraded to D by CARE on 28-Sep-18	Exposure marked down to 0 in Dec-18
IL&FS Energy Development Company Limited	Rs. 177 crore NCD	07-Jun-19 and 28-Jun-19	- Downgraded to BB- by CARE (from A+) on 06-Sep-18 - Downgraded to D by CARE on 05-Oct-18	Exposure marked down to 0 in Dec-18
Dewan Housing Finance Corporation Limited	Rs. 6 crore NCD	08-Aug-19	Downgraded from AAA/A1+ by various rating agencies to D since February 2019	Exposure marked down by 75% in Jun-19
	Rs. 38 crore CP	25-Jun-19	- NCDs were downgraded to D by CARE and Brickwork on 05-Jun-19 - CP was downgraded to D by CRISIL and ICRA on 05-Jun-19	Exposure marked down to 0 in Jun-19. However, the maturity proceed due from the issuer has been received.
Sintex-BAPL Limited	Rs. 100 crore NCD	31-Dec-20, 31-Dec-21 and 31-Dec-22	- Downgraded to BB+ by CARE (from BBB+) on 10-May-19 - Downgraded to C by Brickworks (from A) on 14-Jun-19 - Downgraded to C by CARE (from BB+) on 17-June-19 - Downgraded to D by Brickworks (from C) on 21-Aug-19 - Downgraded to D by CARE (from C) on 29-Aug-19	- Exposure marked down by 55% in Jun-19 - As per valuation provided by valuation agencies after applying haircut of 75% on maturity value from August 21, 2019.
Coffee Day Natural Resources Pvt. Ltd.	Rs. 69 crore NCD	23-Dec-2019	- Downgraded to BBB (SO) by Brickwork from A-(SO) on 31-July-19 - Downgraded to BB-(SO) by Brickwork	- Exposure marked down by 50% in Jul-19 - As per valuation provided by valuation agencies

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			from BBB(SO) on 23-August-19 • Downgraded to C (SO) by Brickwork from BB- (SO) on 10-September-19 • Downgraded to D (CE) by Brickwork from C (CE) on 24-September-19	after applying haircut of 50% on maturity value from August 16, 2019.
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Accordingly, in the interest of investors, the Committee had in its meeting held on July 31, 2019 provided dispensation from maintaining 65% in AA and below rated bonds for a quarter i.e. till September 30, 2019. Since, the Scheme was continuously receiving redemptions; the Committee in its meeting held on September 27, 2019 had provided extension till December 31, 2019 for rebalancing the asset allocation.

The Committee in its meeting held on January 1, 2020, keeping in mind the higher concentration in illiquid assets that will mature through the January 2020 – March 2020 quarter, has provided a further extension till March 31, 2020.

The Committee further at its meeting held on March 25, 2020 has extended this dispensation for one more quarter i.e. till June 30, 2020. This will allow the Scheme to maintain higher liquidity profile. The Scheme will seek to maintain higher allocation in cash and highly liquid AAA / money markets assets so as to meet the desired liquidity requirement. The Scheme will continue to reduce exposure to AA & below rated assets to maintain a healthy liquidity profile of the portfolio. Further, the Scheme will witness redemption of KKR bonds amounting to INR 75 crores of face value on April 10, 2020. Whilst this will help to the exposure of KKR bond in the Scheme, the proportion of AA exposure will also reduce to that extent.