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Debt funds with Jindal Steel & Power securities take a hit

By *Prashant Mahesh*, ET Bureau | Feb 18, 2016, 02.21 AM IST

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MUMBAI: Debt schemes which held Jindal Steel & Power (JSPL) securities took a hit as the fund houses were forced to mark down the value of their holdings after Crisil downgraded its ratings on the company.

Select debt schemes of Franklin Templet on Mutual Fund, which has the highest exposure to JSPL papers among domestic asset managers, saw their net asset value (NAV) dip by 0.75-1.5% on Wednesday. ICICI Prudential's fixed maturity plans (FMPs), which held JSPL securities, saw their NAVs dip by up to 3% on Tuesday.

Mutual funds have been busy meeting distributors, asking them to assuage investor concerns. Franklin Templeton, in a note emailed to all distributors, defended its investments

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in JSPL, "Investors may note that it is a performing debt security and the impact on price is solely driven by the recent rating action. We continue to take comfort from the operating track record of management and promoter. In our view, some of the prudent measures like refinancing under 5/25 and cost optimisation along with imposition of minimum import prices and increase in domestic coal supply will significantly benefit the company in medium term and improve its debt servicing ratios and credit profile."

Franklin said it held commercial paper of JSPL aggregating to Rs 1,300 crore in their funds and the company has made the repayments on time so far. Given the weak operating environment locally and the uncertain global environment, wealth managers are advising investors to follow a measured approach and not go overweight on any category of debt funds.

"Investors who build a portfolio of only credit opportunity funds on hopes of improvement in the economy leading to higher upgrades must take a relook at their debt portfolios," says Anup Bhaiya, MD and CEO, Money Honey Financial Services, a Mumbai-based distributor. Others believe, if these funds are only a small part of your portfolio, one should continue to hold on, and not panic.

"Credit opportunity funds are more suited for aggressive allocations to fixed income within a client's portfolio and should constitute a small portion of a client's portfolio," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.