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Article rank | 17 Apr 2019 | *mint ePaper* | *Neil Borate neil.b@livemint.com MUMBAI*

HDFC AMC moves to deal with FMPs exposed to Essel

Asset manager issues note on how it will handle the schemes at maturity

HDFC Asset Management Co. Ltd, which has a series of Fixed Maturity Plans (FMPs) exposed to Essel Group, on Monday issued a note on how it will handle them at maturity. HDFC AMC, India's largest asset manager, said it will choose one of two options. In the first option, it will distribute proceeds of the FMP on due date of maturity after excluding the value of debt exposures to the Essel Group. The residual amount of the maturity proceeds would be paid on receipt of dues from Essel. The same approach was followed by Kotak Asset Management Co. with its Essel-exposed FMPs. In the second option, HDFC AMC will rollover the scheme (extend the maturity date) thereby extending the time for possible repayment. Investors must give their consent in writing to such a rollover. Investors who don't consent to the rollover will get their money back at the prevailing NAV. If the Essel papers have been marked at a lower valuation by the AMC to account for the repayment uncertainty, this will be incorporated in the NAV. Also, investors who fail to consent to the rollover and exit at this stage will not benefit from future recoveries in the troubled paper. FMPs are close-ended funds with a fixed maturity period. They invest in debt instruments, with maturity matching the tenure of the scheme.

Schemes under scrutiny

HDFC AMC's fixed maturity schemes that have an exposure of greater than 10% to Essel Group firms and are maturing between 16 April and 30 September.

HDFC fixed maturity plan-regular

Exposure to Essel Group In ₹ cr

1,161 days ■ Feb 2016–30 Apr 2019	163.11 (19.35%)
1,148 days ■ Feb 2016–25 Apr 2019	70.96 (17.46%)
1,140 days ■ Mar 2016–30 Apr 2019	59.68 (16.9%)
1,190 days ■ Mar 2016–25 Jun 2019	93.29 (14.7%)
1,153 days ■ Apr 2016–1 Jul 2019	13.99 (14.52%)
1,127 days ■ May 2016–1 Jul 2019	15.09 (12.48%)
1,128 days ■ Jun 2016–31 Jul 2019	9.61 (11.96%)
1,161 days ■ Feb 2016–30 Apr 2019	

1,168 days

■ Jul 2016–30 Sep 2019

6.86 (11.26%)

■ Tenor of the fixed maturity plan.

The numbers in brackets are a percentage of FMP assets.

Data as on 28 Feb 2019

Source: Value Research

PARAS JAIN/MINT

Nine AMC's have exposure to Essel Group firms across 87 schemes, including FMPs and open-ended debt funds. The mutual funds have lent a combined ₹7,000 crore against debt securities.

HDFC AMC has already rolled over one of its FMPs before this note was released. HDFC Fixed Maturity Plan—1,168 days— February 2016 (1) - Regular Plan was due for maturity on 15 April 2019. It was rolled over to 29 April 2020.

The scheme had a roughly 20% exposure to Essel firms. The AMC has another eight FMPs up for maturity between Tuesday and 30 September 2019 with more than 10% exposure to Essel companies.

HDFC AMC's note has added uncertainty to the woes of investors in debt mutual funds. This is because the AMC has not explained on what basis it will choose one of the two options. The divergent paths chosen by Kotak AMC also lays open the possibility of widely differing approaches of mutual funds hit by the crisis at Essel.

In case of a rollover, investors have to decide whether or not to consent to it. However, there is little information available to unit holders on how the troubled securities are being valued and how they would affect the prevailing NAV. Sebi rules dictate debt securities to be valued by two independent valuation agencies. However, what value has been assigned to the specific securities in question is not disclosed to investors on a day-to-day basis. "For investors who have liquidity requirements, there is no choice. They should take what is on offer now. For those without any liquidity requirements, the chance of the Essel promoter completing a strategic sale and being able to return the money within the next six months is relatively higher based on current news flow. Such investors should give their consent to a rollover," said Vishal Dhawan, founder and CEO, Plan Ahead Wealth Advisors.

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