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DHFL Pramerica Medium Term Fund suffered a 53% drop in net asset value overnight. **(Ramesh Pathania/Mint)**

DHFL crisis deepens with rating downgrades, write-offs by mutual funds

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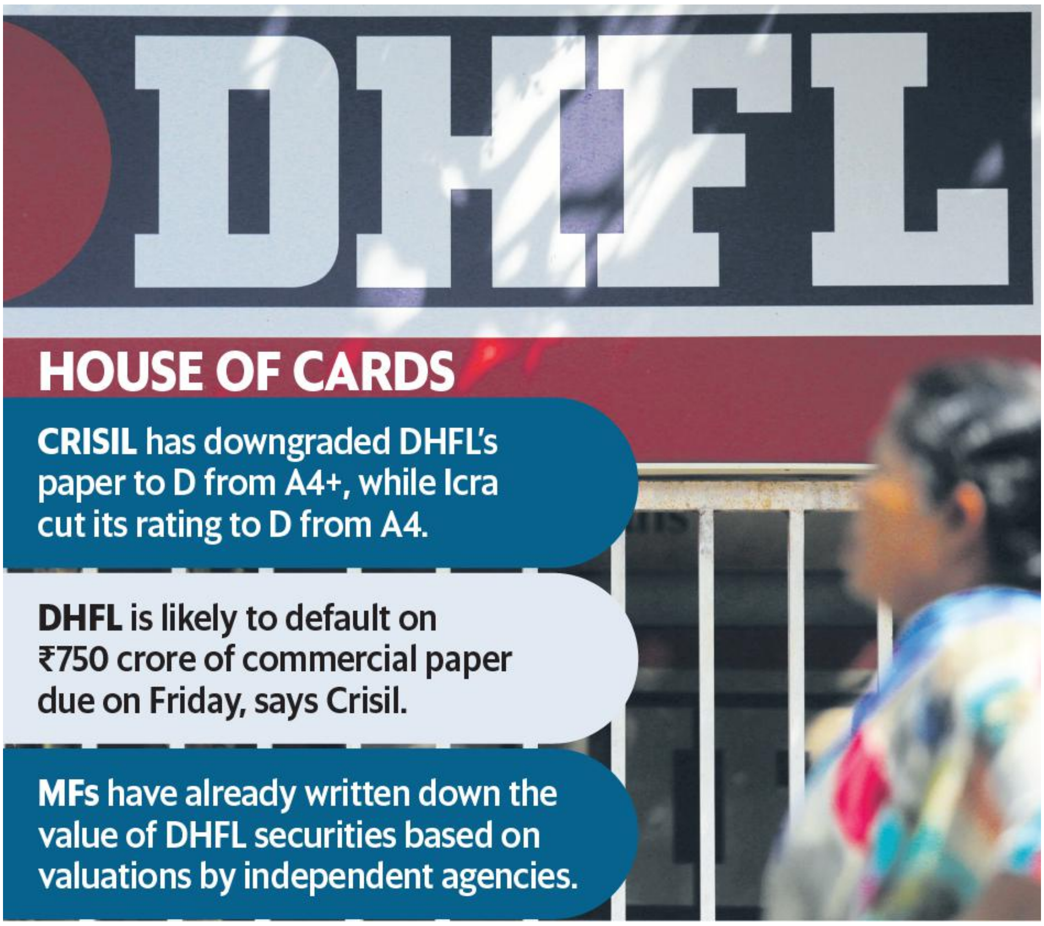
- DHFL Pramerica Medium Term Fund is the worst-hit scheme with a 37.42% exposure
- As many as 165 MFs have some exposure to DHFL as on 30 April. Of this, 106 have an exposure of over 5% of their AUM

Dewan Housing Finance Corp. Ltd's credit rating was downgraded to default by Crisil and Icra after the liquidity-starved home financier missed an interest payment deadline on a set of non-convertible debentures (NCDs).

The current woes of non-bank lenders can be traced to a series of missed payments by Infrastructure Leasing and Financial Services Ltd (IL&FS), one of the biggest non-banks in India. The defaults by IL&FS triggered a funding crunch for other shadow lenders as banks declined to lend to them and opportunities to raise money from the markets dried up.



On Wednesday, Crisil downgraded the commercial paper (CP) of Dewan Housing (DHFL) to D from A4+, while Icra cut its rating on the company's paper to D from A4. DHFL has 850 crore of outstanding CPs of which 750 crore is due in June, Crisil said. The first CP matures on 7 June and with liquidity inadequate as on date to service debt and visibility very low on timely fundraising, Crisil said it expected the CP to be in default on maturity.

A DHFL official said on condition of anonymity that as per the trust deed, in the event that payment of interest on the NCDs was not met on the due date, there was a cure period of seven working days to meet the obligation. The official added that in case the non-payment continued after that cure period, only then the same shall constitute an event of default.

The missed payment, if not cured within the seven-day grace period, may have a significant impact on mutual fund schemes, which have a cumulative exposure of 5,336 crore to securities issued by DHFL. As many as 165 mutual fund schemes, run by 24 asset management firms, have some exposure to the company as on 30 April. Of this, 106 have an exposure of over 5% of their assets under management.

Mutual funds have already written down the value of DHFL securities based on valuations provided by independent agencies, according to a debt fund manager, who spoke on condition of anonymity.

The write-down had been 75% of the value of assets in most cases, but in the case of unsecured bonds, the write-down would have been 100%, said the fund manager.

The worst-affected scheme is DHFL Pramerica Medium Term Fund, with a 37.42% exposure. It is followed by DHFL Pramerica Floating Rate Fund (31.94%), DHFL Pramerica Short Maturity Fund (30.47%), Tata Corporate Bond Fund (28.21%) and JM Equity Hybrid Fund (24.61%). The drop in net asset value (NAV) of these funds are linked to their exposure to DHFL. For instance, Tata Corporate Bond Fund witnessed a 29.69% fall in NAV overnight.

Responding to the steep drop in NAV, DHFL Pramerica Mutual Fund said it would halt fresh inflows into the schemes affected by delays in the interest payments by DHFL (a co-promoter of the asset management company or AMC). In a written reply to Mint, a spokesperson for the AMC said, “We will also further be restricting fresh purchases into the affected schemes in order to safeguard the interests of existing investors in these schemes."

DHFL Pramerica Medium Term Fund suffered a 53% drop in NAV overnight. DHFL Floating Rate Fund’s value dropped 48.5%. Another scheme of the asset manager, DHFL Pramerica Short Term Fund saw a 13.55% drop in NAV. Altogether, 14 open and close-ended schemes of DHFL Pramerica Mutual Fund were exposed to DHFL as of 30 April.

In terms of absolute exposure in rupee terms, UTI Short Term Income Fund leads the pack, with a 354 crore exposure, followed by UTI Treasury Advantage Fund. In some cases, the exposure might have gone up in May due to outflows from the affected schemes.
Chances of AMCs reducing their exposure to DHFL’s debt are low given the illiquidity of the paper. AMCs said side-pocketing was an option, but a decision had not been taken yet.

On 21 May, DHFL stopped fresh deposits and premature withdrawals by the public. DHFL had processed all normal maturity payments, as well as all cases of medical exigencies, an official at the company said, requesting anonymity.

Amandeep Singh Chopra, head of fixed income at UTI Asset Management, said that UTI MF's exposure is secured and the write-down was as per the markets regulator's guidelines. "Sebi would do a complete impact assessment on what sort of an impact the DHFL default has on mutual fund schemes, whether all schemes conform to the Sebi-prescribed investment norms and that securities have been valued fairly," a person familiar with the regulator's thinking said on condition of anonymity.

"In case of schemes that are breaching the 25% exposure limit, Sebi can ask the fund house to refund investors and make good the losses suffered due to the breach in norms and penalty proceedings," the person said. "It is early to say and would depend on the explanations given by fund houses. Sebi has already started a probe in the case of DHFL Pramerica mutual fund for breaching the investment limit. Despite earlier communications they had failed to bring it down."

Dhruv Mehta, chairman of Foundation of Independent Financial Advisors, said Sebi should reconsider the limits set for individual issuers and corporate groups. Vishal Dhawan, founder of Plan Ahead Wealth Advisors, said, "investors should see the concentration risk—how much of the fund is exposed to a particular issuer or group".

Kalpesh Ashar, proprietor of Full Circle Financial Planners and Advisors, said: "Even if AMCs have not halted fresh inflows, I would not advise inflows by fresh investors trying to make a quick buck in case of a recovery. There simply isn't enough information on how big or how bad the problem is."