



Worried about your debt fund exposure in Vodafone Idea papers? Here's what investors should do

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- It is likely that rating agencies will downgrade Vodafone Idea's debt papers further
- There are total 29 schemes which are invested in debt papers of Vodafone Idea

NEW DELHI : Vodafone Idea posted a quarterly loss of nearly ₹51,000 crore for the quarter ended September 2019. Now, there is a fear among investing community that it may result in rating downgrade of the debt papers of the company which can ultimately impact the returns of the debt fund who are holding such papers.

"Situation is bad for Vodafone Idea. After such bad results it is likely that the rating agencies will downgrade the debt papers further. There is no doubt about that," says Deepak Shenoy, CEO, CapitalMind.

Debt funds have an exposure of ₹2,629 crore to the debt papers of Vodafone Idea as on October 31st, 2019 as per the data provided by Value Research.

There are total 29 schemes (both open and close-ended) across four fund houses- Aditya Birla Sun Life, Franklin Templeton, Nippon India and UTI- which are invested in debt papers of Vodafone Idea. Among the open-end funds two funds UTI Credit Risk and UTI Bond fund have an exposure of 11.23 per cent and 7.53 per cent respectively. Next is Franklin India Low Duration fund with an exposure of 5.08 per cent.

Schemes with exposure to Vodafone Idea debt papers		
Scheme Name	% of assets	Value (₹ cr)
UTI Credit Risk Fund	11.23	252.12
UTI Bond Fund	7.53	41.88
Franklin India Low Duration Fund	5.08	289.95
Franklin India Income Opportunities Fund	4.47	152.33
Franklin India Credit Risk Fund	4.18	276.66
Franklin India Dynamic Accrual Fund	3.87	155.99
Franklin India Short Term Income Plan	3.78	474.46
Franklin India Ultra Short Bond Fund	3.55	708.69
UTI Dynamic Bond Fund	3.18	17.03
UTI Medium Term Fund	1.22	3.41
Aditya Birla Sun Life Medium Term Plan	1.12	67.55
Aditya Birla Sun Life Short Term Opportunities Fund	1.06	33.98
Nippon India Credit Risk Fund	1.02	61.77
Nippon India Strategic Debt Fund	0.55	16.14
<i>Data as on 31 October 2019</i>		
Source: Value Research		

Recently, rating agencies including India Ratings downgraded one of the non-convertible debentures (NCDs) of Vodafone-Idea worth ₹3,500 crore to BBB (a rating just above junk) from its earlier rating of A+ and placed the NCDs on negative watch. In support of its action, the ratings agency cited an adverse Supreme Court ruling and the risk in acceleration of bank loan payment by Vodafone Idea and a delay in asset monetization. However, BBB is an investment grade rating which may not have had any impact on the mutual fund's NAV as the AMFI's downgrade matrix would apply if there is a rating downgrade below BBB.

What should investors do?

In such a situation if you are invested in any of the debt fund having exposure to the debt papers of Vodafone Idea, you should be worried but panic won't help. Whenever there is such news investors should first look at the portfolio exposure of the fund and try to assess the impact it could have on their portfolio, "We would recommend that investors first evaluate the extent of the underlying exposure along with other riskier asset exposure that may be there in the scheme, and then evaluate basis exit load and short term tax implications. Investors need to focus on the impact of such costs on their own portfolios before deciding, rather than general advice as the cost implications could vary from investor to investor," said Vishal Dhawan, founder and CEO of Plan Ahead Wealth Advisors.

However, as a rating downgrade is likely to happen in Vodafone Idea papers as anticipated by experts, investors with high exposure who have stayed long enough to avail the indexation benefit on long-term capital gains may consider exiting the fund. "What investor should do will depend on case to case basis. They should evaluate their exposure to the scheme and cost of exiting (capital gains and exit load) before making the decision," says Shenoy.