

Update on Investment in Dewan Housing Finance Corporation Limited (DHFL)

Date: 6th June 2019



As per media reports, Dewan Housing Finance Corporation Limited (“DHFL” or “the Company”), has delayed servicing of their obligations with respect to some of Non-Convertible Debentures (NCDs) to certain entities on June 04, 2019. This has resulted in downgrade of external rating of the issuer to D by CRISIL, ICRA, CARE and Brickworks on June 05, 2019.

Kotak Mutual Fund had no interest /principal payment due on that day.

Kotak Mutual Fund currently has an exposure (face value) of Rs. 140 crore to NCDs of DHFL in two schemes viz. Kotak Low Duration Fund and Kotak Medium Term Fund.

The independent Scrip Level Valuation (SLV) Agencies i.e. CRISIL & ICRA, marked down the secured NCD exposures of DHFL by 75% (of face value) on June 04, 2019 as per AMFI’s matrix on “Standard haircut for sub investment grade debt securities”

The scheme wise holding of DHFL NCDs and impact is as follows:

Scheme Name	Face Value (Rs Crs)*	Market Value (% of Scheme AUM)*	NAV Impact on 4 th June, 2019 (%)	Exposure post haircut (% of Scheme AUM)	Maturity Date
Kotak Low Duration Fund	40.00	0.75%	0.54%	0.19%	10 crs – 16 th Aug’19 30 crs – 9 th Sept’19
Kotak Medium Term Fund	100.00	2.46%	1.85%	0.65%	100 crs - 9 th Sept’19
Total	140.00				

* As on June 03, 2019

The above NCDs are secured, with security in the form of first ranking pari-passu charge on present and future receivables of the Company with security cover of 1.10 times.

DHFL is a large housing finance company with a track record of more than 30 years. The company had Assets under Management (AUM) of ~ 1,26,700 crores, a Networth of ~ Rs 10,750 crores and total capital adequacy ratio (CAR) of 17.74% as on Dec’18.

The Company reported net profit of Rs 1,187 crores for nine months ended on Dec 31, 2018. The NCDs were rated AAA by CARE at the time of our investment

Kotak Mutual Fund will continue to monitor the developments on the liquidity front as also the strategic sale of various business segments of the company

Investors and distributors are requested to take note of the same.

In accordance with Section 60 of SEBI (Mutual Fund) Regulations, 1996, the investment by Kotak Low Duration Fund and Kotak Medium Term Fund in the aforementioned securities of DHFL may have adverse bearing on the investments made by the investors in each scheme.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.