

May 1, 2020

Update on the Valuation of Matured NCDs of DHFL

This is with reference to our [earlier communication](#) (dated September 10, 2019) pertaining to investments in Non-Convertible Debentures (NCDs) of Dewan Housing Finance Corporation Ltd (DHFL).

Certain schemes of Principal Mutual Fund (PMF) hold DHFL NCDs that matured on August 16, 2019 and September 09, 2019. DHFL had defaulted on payment of both principal and interest. We continued to value all the NCDs at 25% of face value, in accordance with prices provided by the valuation agencies, CRISIL and ICRA.

To recover monies due to Principal Mutual Fund, we had initiated legal proceedings before Mumbai High Court. However, the matter was adjourned sine die considering the moratorium order passed by NCLT basis Insolvency petition filed by RBI. Based upon the RBI petition, a Committee of Creditors had been formed and Corporate Insolvency Resolution Process is underway.

Subsequently, the financial markets throughout the world and in India have been facing severe volatility due to the spread of the COVID-19 pandemic. Liquidity conditions in the fixed income markets in India have been very tight since the end of March 2020, especially for lower rated corporate bonds. Yields on such bonds have gone up and their trading has been severely impacted. Recent developments in the debt markets have led to a further deterioration in the market for corporate bonds, especially lower rated papers. Further, during the week, there has been a sharp spike in yields of certain dollar bonds of investment grade NBFCs. This reduces the potential bidding prospects of distressed debt like DHFL.

On April 30, 2020, RBI announced further extension of truncated market timings 'till further notice' adding to uncertainty around restoration of normal market trading hours in the foreseeable future. Moreover, continuation of lockdown in parts of the country will lead to continued dislocation of businesses and erode the value of the residual business of DHFL. This will also likely have an impact on the bankruptcy proceedings as the lockdown delays the proceedings of the Committee of Creditors, referred above. Added to this, trading in deactivated ISINs of matured NCDs is not possible currently.

Hence, in light of the continued uncertain environment in the fixed income markets since March 2020, deterioration in liquidity since last week, large redemption in fixed income funds this week faced by the industry, rapid rise in yields/ spreads of lower rated debt, the likely impact on the residual business of DHFL due to the slowdown in the economy, the likelihood of the resolution process being delayed and the relatively low possibility of realizing value in the current market environment, the effect of which is likely to continue for a prolonged period, continuing redemption in PMF's fixed income funds leading to a risk of potentially higher concentration of DHFL in the portfolio, we have marked down the value of the receivables of DHFL to zero on April 30, 2020 in the interest of Investors.

The impact of marking down of the receivables from DHFL on the various PMF schemes is as follows:

Fund Name	Impact on AuM (Rs.)	Impact as % to NAV
Principal Low Duration Fund	6.06 Crore	6.1%
Principal Short-Term Debt Fund	6.62 Crore	6.1%
Principal Credit Risk Fund	1.96 Crore	6.8%
Principal Dynamic Bond Fund	1.25 Crore	4.5%
Principal Hybrid Equity Fund	4.44 Crore	0.4%
Principal Balanced Advantage Fund	0.46 Crore	0.3%

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For scheme specific risk factors, asset allocation and more details, please read the SID, Statement of Additional Information and Key Information Memorandum of the schemes available on www.principalindia.com