

Update on DHFL

10th Sep 2019

This is with reference to our earlier communication (see Annexure) pertaining to Investment in Non-Convertible Debentures (NCDs) of Dewan Housing Finance Corporation Ltd (DHFL).

We had DHFL NCDs due for maturity (Principal and interest) on September 9, 2019, in certain schemes of Principal Mutual Fund (see Table below). DHFL has defaulted on same and has not made any payment. The exposure of various schemes to the NCDs maturing on September 9, 2019 is as follows:

As on August 31, 2019 Fund Name	% of AUM	Face Value (in Rs. Crores)	Market Value (in Rs. Crores)
Principal Low Duration Fund	3.74	24.3	6.06
Principal Hybrid Equity Fund	0.20	14	3.19
Principal Short -Term Debt Fund	4.22	26.6	6.62
Principal Balanced Advantage Fund	0.22	2	0.46
Principal Credit Risk Fund	3.35	8.1	1.96

Earlier we had DHFL NCDs maturing on 16th August 2019 in two schemes of Principal Mutual Fund where also the company defaulted in payment. We continue to value all the NCDs held by various schemes at 25% of face value, in accordance with prices provided by the valuation agencies, i.e. CRISIL and ICRA. This value is based on the haircut matrix provided by AMFI which includes matured securities.

Further, the Debenture Trustee, Catalyst Trusteeship Limited, had sent a written communication asking for consent of NCD holders for acceding to the Inter Creditor Agreement (ICA) in terms of Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019. The deadline for the same was 4th Sept 2019. Pursuant to the framework for resolution of stressed assets as provided by SEBI for Inter Creditor Agreements (ICA) consent to the Debenture Trustee for the ICA was not provided. We would be monitoring further updates from the Debenture Trustee.

We have initiated legal proceedings to recover the monies due to Principal Mutual Fund. Legal notices have been served on DHFL as part of the process. We continue to monitor the company closely and engage with their management to ascertain the further developments in this situation.

DISCLAIMER: The information provided in this material is publicly available information and is dated, hence may not be relevant in future. Information gathered and used in this material is believed to be from reliable sources. It should be noted that the value of investments in mutual fund schemes and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Past performance may or may not be sustained in the future. There is no assurance of any capital protection/capital guarantee to the investors in the Scheme. 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

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

Further Update on DHFL

12th June 2019

This is with reference to our previous communication (see Annexure) pertaining to Investment in NCDs of Dewan Housing Finance Corporation Ltd (DHFL).

Please note that on 11th June 2019, INR 4.45 Crores was received towards interest amount from DHFL in respect of ISIN INE202B07IY2 (8.90% DEWAN HOUSING FINANCE LTD -M-04-JUN-2021) that was due as on 4th June, 2019. The scheme wise break-up is as follows:

Scheme Name	Net Amount (Rs. in Crs)
Principal Hybrid Equity Fund	1.513
Principal Dynamic Bond Fund	0.178
Principal Low Duration Fund	2.225
Principal Balanced Advantage Fund	0.534

The rating of the securities of DHFL continues to be D as on date and the NCDs of DHFL held in various schemes of Principal Mutual Fund continues to be marked down by 75% as per the valuation provided by the valuation agencies.

We continue to monitor developments around the Company and will keep investors updated of any further material development.

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Annexure

Investment in NCDs of Dewan Housing Finance Corporation Ltd (DHFL)

The NCD's and other debt instruments issued by DHFL have been downgraded by the Credit Rating Agencies over the last few months. Various schemes of Principal Mutual Fund have invested in the NCDs of DHFL. At the time of investment, these debentures were rated AAA by the respective Credit Rating Agencies. The investments were made in the respective schemes in accordance with the extant regulatory guidelines and limits specified therein.

On June 4 2019, DHFL has defaulted on their interest servicing obligations. Consequent to this non-payment of interest due, the valuation agencies have marked down the DHFL debentures by 75% on June 4 2019. Further, the credit rating agencies also downgraded the debt issuances to "D" on 5th June 2019.

The interest payment due for certain debentures of DHFL was also not received by the schemes of Principal Mutual Fund. The mark down of the debentures and non-receipt of interest has negatively impacted the NAVs of the following schemes:

Schemes with Exposure to DHFL	% of Net Assets held in DHFL	Market Value (Crores)
Principal Balanced Advantage Fund	3.11	6.92
Principal Credit Risk Fund	8.76	7.82
Principal Dynamic Bond Fund	10.97	6.53
Principal Hybrid Equity Fund	1.87	32.53
Principal Low Duration Fund	20.48	44.26
Principal Short-Term Debt Fund	11.49	25.70
Total		123.77

Data as on May 31, 2019

The NCD's are maturing in August 2019, September 2019 and June 2021. We do not have any exposure to any other group companies of DHFL. The NCDs are Senior and Secured in Nature. We continue to monitor the company closely and engage with their management to ascertain the further developments in this situation.

Additionally, the Management of DHFL has publicly spoken of monetizing its non-core assets to meet its debt obligations – repaying loans through sell down / securitization of its assets. DHFL has also filed a statement with the Exchanges stating that the action by the rating agencies is extremely surprising as the Company has been making & continues to make substantial efforts in ensuring no defaults on any bonds, repayment of its financial obligations.