

Mutual Fund



Important Update

July 6, 2020

Fair Valuation of receivables from matured Non-Convertible Debentures (NCDs) of M/s. Dewan Housing Finance Limited (DHFL)

Post our decision to Fair Value the securities effective April 30, 2020 (refer annexure), SEBI has issued a circular on June 23, 2020 on the Operational Framework for transactions in defaulted debt securities post maturity date/ redemption date.

We have sold our holdings of 9.05% Dewan Housing Finance Corporation Ltd. Tranche IA matured on September 9, 2019 (INE202B07IJ3). However, since the market for matured securities is yet to stabilize and there are not many buyers for matured securities, we continue to value the remaining receivables of DHFL at 0.

Since there is no change in the value of receivables from matured securities, 9.10% Dewan Housing Finance Corporation Limited matured on August 16, 2019 (ISIN INE202B07HQ0) and 9.10% Dewan Housing Finance Corporation Limited matured on September 9, 2019 (ISIN INE202B07IK1), the NAV of the funds are not impacted on account of this valuation.

Annexure: Communication dated April 30, 2020

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 end-March, especially for lower rated corporate bonds. Initially due to redemptions and uncertainty of the economic environment, large scale distress sales were seen during 2nd half of March. Yields on such bonds have gone up and trading was severely impacted. Subsequently, RBI on March 27, 2020, announced a series of confidence bolstering measures and massive liquidity injection which helped to bring yields down sharply, particularly at the short and medium end. To a large extent, the market dislocation was eased out.

RBI on April 17, 2020, again took a series of measures including cut in Reverse repo, TLTRO 2.0 for purchase of relatively lower quality credits of NBFCs and HFCs. Markets were relatively stable even while trading was restricted to high quality and few 'AA' rated securities. The national lockdown on account of COVID-19 was in the meanwhile extended to May 3, 2020. Last week, the announcement by a large fund house to close six of its schemes has led to fresh concerns on debt funds. While the announcement by the RBI of a liquidity facility of Rs 50,000 Crore on April 27, 2020, through which banks can onward lend or buy assets from mutual funds through various routes was expected to assuage concerns on redemptions, there have been media reports that debt funds have continued to face substantial redemptions this week, especially in the credit risk category. Corporate bonds have been sold across the rating spectrum and spreads for lower rated bonds have sharply gone up as evidenced in yields of AT1 Bank bonds and other lower rated bonds. Further, during the week, there has been sharp spike in yields of certain dollar bonds of investment grade NBFCs. This reduces the bidding prospects of distressed debt like Dewan Housing Finance Corporation Limited ("DHFL").

The RBI has today announced the further extension of truncated market timings indicating that lockdown is likely to continue at least in parts of the country. The continuation of lockdown in parts of the country will lead to continued dislocation of business 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 CoC. Added to this, we hold matured ISINs of DHFL where the trading is restricted currently.

Further, during the past one week we have received increased redemptions in certain debt schemes, which would passively increase the exposure of DHFL receivables as they are not saleable. To meet the redemptions, better rated securities in the portfolio may have to be liquidated at a distressed price adversely impacting, the remaining investors as the exposure to DHFL receivables would be increased.

Hence, in light of the continued uncertain environment in the fixed income markets since March, deterioration in liquidity since last week, large redemption in fixed income funds this week, rapid rise in yields/ spreads, 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, the Valuation Committee of Principal Asset Management Private Limited had decided to mark down the value of the receivable of DHFL to zero.

Given below the details of the Security and the impact to NAV:

ISIN	Scheme Name	Issuer Name	Security Name	Price as per by Valuation agencies	Valuation Price	Impact of deviation in Value (INR Cr)	% impact to NAV
INE202B07HQ0	Principal Dynamic Bond Fund	Dewan Housing Finance Corporation Ltd.	9.10% DEWAN HOUSING FIN CORP NCD16082019	25	0	1.25	4.5%
INE202B07HQ0	Principal Hybrid Equity Fund	Dewan Housing Finance Corporation Ltd.	9.10% DEWAN HOUSING FIN CORP NCD16082019	25	0	1.25	0.1%
INE202B07IK1	Principal Balanced Advantage Fund	Dewan Housing Finance Corporation Ltd.	9.10% DEWAN HOUSING FIN CORP NCD09092019	25	0	0.46	0.3%
INE202B07IJ3	Principal Low Duration Fund	Dewan Housing Finance Corporation Ltd.	Dewan Housing Fin Corp Ltd. 9.05% 09SEP19 NCD Tranche IA	25	0	6.06	6.1%
INE202B07IK1	Principal Credit Risk Fund	Dewan Housing Finance Corporation Ltd.	9.10% DEWAN HOUSING FIN CORP NCD09092019	25	0	0.68	2.4%
INE202B07IJ3	Principal Credit Risk Fund	Dewan Housing Finance Corporation Ltd.	Dewan Housing Fin Corp Ltd. 9.05% 09SEP19 NCD Tranche IA	25	0	1.27	4.4%
INE202B07IK1	Principal Short Term Debt Fund	Dewan Housing Finance Corporation Ltd.	9.10% DEWAN HOUSING FIN CORP NCD09092019	25	0	0.23	0.2%
INE202B07IJ3	Principal Short Term Debt Fund	Dewan Housing Finance Corporation Ltd.	Dewan Housing Fin Corp Ltd. 9.05% 09SEP19 NCD Tranche IA	25	0	6.39	5.9%
INE202B07IK1	Principal Hybrid Equity Fund	Dewan Housing Finance Corporation Ltd.	9.10% DEWAN HOUSING FIN CORP NCD09092019	25	0	3.19	0.3%

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