

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

Issuer Background

Incorporated in 1984, DHFL was the fourth largest Housing Finance Company (HFC) with an AUM of Rs.1.27 lakh crores as of Dec-18. The company had Assets under Management (AUM) of Rs.1.26 lakh 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.

Recent Event

Sundaram Short Term Debt Fund, Sundaram Low Duration Fund, Sundaram Short Term Credit Risk Fund and Sundaram Debt Oriented Hybrid Fund had invested in the non-convertible debentures of DHFL. On June 4, 2019, DHFL had 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 "Default" on June 5, 2019.

AMFI vide communication dated 30th April 2019 suggested to apply 75% haircut in respect of sub-investment grade debt securities. In line with the AMFI circular, we had applied hair cut of 75% on the value of securities aggregating to Rs.162.82 cr., subsequent to rating down grade on 4th June 2019 and communicated the same to the investors on 7th June 2019.

SEBI vide circular no. SEBI/HO/IMD/DF4/CIR/P/2019/41 dated 22nd March 2019 prescribed valuation of money market and debt securities interalia prescribing securities which are rated below investment grade. The circular states that till such time the valuation agencies compute the valuation of money market and debt securities classified as below investment grade, such securities shall be valued on the basis of indicative haircuts provided by these agencies. SEBI circular also provided that these haircuts shall be updated and refined, as and when there is availability of material information which impacts the haircuts.

Current Update

A total sum of Rs.52.21 cr. was due from DHFL in respect of securities invested by the above schemes of which a sum of Rs.44 cr. plus interest was due on account of maturity on 16th August 2019. DHFL had communicated to stock exchanges on 8th August 2019 that they may not be in a position to meet the payment obligations falling due in the immediate future. Further, the Company had been informed by the custodial bank that they did not receive any amount due on 16th August 2019. Taking this into account, we had written off fully the principal and interest on the DHFL securities aggregating to Rs.52.21 cr., on 16th August 2019, details mentioned elsewhere in this communication. However, our decision to write off fully the principal and interest was not in line with the circulars issued by SEBI and AMFI.

SEBI circular dated 22nd March 2019 also provides that AMCs may deviate from the indicative haircuts and/or the valuation price for money market and debt securities rated below investment grade provided by the valuation agencies subject to the conditions that rationale for deviation shall be disclosed to the Board of AMC and Trustees and also disclose to the investors, rationale along with information about the securities valued and other information set out in the circular.

In compliance with the said requirement, we are providing the following rationale and information about the securities:

I. Rationale:

1. DHFL had communicated to stock exchanges on 8th August 2019 that they may not be in a position to meet the payment obligations falling due in the immediate future.
2. There is a principal amount of Rs.44 cr. of DHFL bonds / debentures matured in respect of two of our schemes which fell due on 16th August 2019. Further, an interest payment of Rs.4 cr. was also due on 16th August 2019 from DHFL in respect of two of our schemes. We have not received these amounts which has been due to us till date.
3. AMC had been informed by the custodians of the schemes not to recognise the interest on the NCDs of DHFL falling due on 16th August 2019.
4. As the chances of recovering the money from DHFL appears to be bleak, the AMC decided to write off the principal and interest aggregating to Rs.52.21 cr., on 16th August 2019.



II. Prescribed information about the securities as on 16th August 2019

Scheme Name	ISIN	Security	Rating	Price at which the security was valued	Price post haircut or the average of the price provided by the valuation agencies	Impact of deviation on scheme NAV	
						Amount (₹ in crore)	%
Sundaram Short Term Debt Fund	INE202B07IJ3	9.05% Dewan Housing Finance Corporation Ltd-NCD-09/09/2019	Default	Nil	Rs.25 per security	11.07	5.12
	INE202B07IK1	Dewan Housing Finance Corporation Ltd-9.10%-09/09/2019					
Sundaram Low Duration Fund	INE202B07IJ3	9.05% Dewan Housing Finance Corporation Ltd-NCD-09/09/2019	Default	Nil	Rs.25 per security	28.31	4.27
	INE202B07IK1	Dewan Housing Finance Corporation Ltd-9.10%-09/09/2019					
	INE202B07HQ0	9.10%-Dewan Housing Finance Corporation Ltd-16/08/2019					
Sundaram Short Term Credit Risk Fund	INE202B07654	11.55%_Prev 11.45%-Dewan Housing Finance Corp Ltd-12/09/2019	Default	Nil	Rs.25 per security	11.48	5.67
	INE202B07HQ0	9.10%-Dewan Housing Finance Corporation Ltd-16/08/2019					
Sundaram Debt Oriented Hybrid Fund	INE202B07654	11.55%_Prev 11.45%-Dewan Housing Finance Corp Ltd-12/09/2019	Default	Nil	Rs.25 per security	1.35	2.46

Place: Chennai
Date: September 06, 2019

For **Sundaram Asset Management Company Ltd**
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