LIC Mutual Fund Asset Management Ltd
Note on exposure of LIC Mutual Fund Savings Fund in DHFL (Dewan Housing Finance Ltd)

June 21, 2019

Company Profile:

DHFL was incorporated in the year 1984 and was the third largest HFC (Housing Finance Company) with an asset size of Rs.1,26,700 Crores as on December 31, 2018. It was primarily engaged in providing home loans to the lower-and-middle-income economic category in Tier II and Tier III cities of India.

The NBFC (Non-banking Financial Company) and HFC (Housing Finance Company) sectors are undergoing a liquidity crisis since September 2018, post default of IL&FS in August 2018. As per publicly available information, DHFL has repaid approximately Rs.40,000 crores to its creditors between September 2018 to June 2019. However, there have been ALM mismatch in the company books due to tight liquidity.

Delay in interest / maturity payments and subsequent rating action:

On 04-June-2019, DHFL failed to honor its interest and principal payment obligations to the tune of Rs.1,100 Crores, resulting in external rating agencies ie. Crisil & ICRA downgrading the rating of the company to “D” (Default) category on 04-June-2019. The same necessitated mutual funds to mark down their investments in DHFL by giving 100% haircut to short-term papers and 75% haircut to long-term papers, as per prevailing valuation norms.

Subsequently, DHFL has reiterated its commitment of repaying it creditors in full and has been re-paying in full/part and with/without delay, since then. The company is still placed under “D” rating by the rating agencies, given the severe liquidity concerns.

Rationale for Valuation:

SEBI Circular Ref: SEBI/HO/IMD/DF4/CIR/P/2019/41 dated March 22, 2019, allows mutual funds to deviate from the indicative haircuts and/or the valuation prices for money market and debt securities rated below investment grade provided by the valuation agencies subject to the following:

- A detailed rationale for deviation from the price post haircuts or the price provided by the valuation agencies shall be recorded by the AMC.
- The rationale for deviation along-with details such as information about the Security (ISIN, issuer name, rating etc) price at which the security was valued vis-à-vis the price post haircuts or the average of the price provided by the valuation agencies (if applicable) and the impact of such deviation on Scheme NAV (in amount and percentage terms) shall be reported to the Board of AMC and Trustees.

- The rationale for deviation along-with details as mentioned above shall also be disclosed to investors. In this regard, all AMCs shall immediately disclose instances of deviations under a separate head on their website. Further, the total number of such instances shall also be disclosed in the monthly and half-yearly portfolio statements for the relevant period along-with an exact link to the website wherein the details of all such instances of deviation are available.

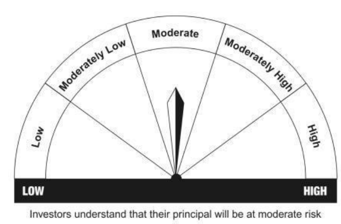
Given the vulnerable & deteriorating cash-flow position of DHFL, we anticipate there could be an enhanced pressure from all creditors, including exercise of early redemption clause and legal options by various lenders. This could result in further delay in recovery efforts of the company in disposal of its assets in an orderly manner. Furthermore, there is virtually no secondary market for such securities in the current scenario. Considering all these factors, by keeping in mind the interest of the investors of the Scheme, we have increased the haircut on the following NCDs (along with accrued interest) from 75% to 100%, as per provisions of the aforesaid SEBI circular.

Scheme: LICMF Savings Fund

Security Description	Nature of instrument	ISIN No.	Maturity	Rating	Price Post haircut of 75% on 04-06-2019	Market Value on 21.06.2019 (Rs. In Cr)	NAV Impact (Rs. In Crs)	NAV Impact %
9.1% DEWAN HSG FIN NCD RED 16-08-2019	NCD	INE202B07HQ0	16/08/2019	CARE D	25	6.25	6.25	-0.52
9.1% DEWAN HSG FIN NCD SR I 09-09-2019	NCD	INE202B07IK1	09/09/2019	CARE D	25	1.25	1.25	-0.10
11.55% DEWAN HSG FIN 12-09-19	NCD	INE202B07654	12/09/2019	CARE D	25	6.25	6.25	-0.52
			Total				**13.75**	**-1.15**
		Accrued Interest Reversal remaining 25%					0.66	-0.06
			Total				**14.41**	**-1.20**

This product is suitable for investors who are seeking*:

- Regular Income for short term
- A fund that focuses on low duration securities.
- **Risk – Moderate**



*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

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