

Kotak Mahindra Mutual Fund

January 05, 2021

Ratings

Facility	Amount (Rs. crore)	Ratings ¹	Rating Action
Short-term bank facilities*	1,500 (Rs. One Thousand Five Hundred Crore only)	CARE A1+ [A One Plus]	Reaffirmed

*Facility is extended to four debt schemes of Kotak Mahindra Mutual Fund

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Kotak Mahindra Mutual Fund (KMMF) factors in the high credit quality of the underlying assets of the schemes, comfortable asset coverage for the bank facilities and low duration of the majority of the schemes. The rating also factors in the sponsorship from Kotak Mahindra Bank Ltd. and the experience of the fund management team. The maintenance of the high credit quality of the underlying assets of the schemes and asset coverage for the bank facility are the key rating sensitivities.

Rating Sensitivities

Negative Sensitivities

- Significant deterioration in the asset quality of AUM
- Decline in asset coverage for the debt scheme

Detailed description of the key rating drivers

Key Rating Strengths

High credit quality of underlying assets

The rated facility is used against the four debt schemes (Kotak Dynamic Bond Fund, Kotak Liquid Fund, Kotak Money Market Fund and Kotak Savings Fund). As on November 30, 2020 the credit quality for the portfolio of all the 4 schemes was high with around 48% of the total AUM of the four schemes covered under the bank facility invested in Government securities (G-Sec), Treasury Bills (T-Bills) and Tri party Repo (TREPS). Around 42% of the AUM was invested in Sovereign rated papers, 46% in AAA rated papers, 4% in AA+ rated papers, around 4% in AA rated papers and around 4% in AA- and below rated papers.

High asset coverage

As on November 30, 2020 the total facility rated was Rs.1,500 crore against the total AUM of Rs.58,174.98 crore of the four schemes which has led to the coverage being affected at around 39 times. Further, the bank facility utilization is primarily to meet liquidity mismatches/ redemption requirements of the fund and is thus short term in nature.

Sponsors strength with strong brand linkages to Kotak Group

Kotak Mahindra Asset Management Company Ltd., the investment manager of Kotak Mahindra Mutual Fund, is a wholly owned subsidiary of Kotak Mahindra Bank Ltd. (KMBL). Kotak Mahindra Mutual Fund also benefits from the linkages along with synergies in the financial services business and brand equity of Kotak Group.

Experienced management

The board and senior management comprises senior representative from the Kotak group indicating strong group representation. The senior management and the fund management team consist of professionals with extensive experience in the investment management industry.

Low market risk and liquidity risk

The average maturity of all the four schemes as on November 30, 2020, was more than a year on account of the average maturity of the Dynamic Bond Fund being the highest. The other 3 schemes had an average duration of less than a year and formed 96.44% of the total AUM of the 4 schemes.

However, as majority of the investment is in Certificate of Deposits (CDs), Commercial Paper (CPs), and Triparty Repos (TREPS) any change in interest rate would have limited impact on any movement of price. Moreover, the schemes invest in high credit quality debt instruments which should further limit market risk and liquidity risk.

¹ Complete definition of the ratings assigned are available at www.careratings.com

Liquidity Profile: Strong

As on November 30, 2020, 48% of the investment was in G-Sec, T-Bills and TREPS and 40% of the investment was in CPs and CDs of the total AUM. Further the AMC also has a backup line of a bank facility from Kotak Mahindra Bank. Further, around 2% of the AUM is held as cash balance with the AMC.

Analytical approach- CARE has analysed standalone credit profile of Kotak Mahindra Asset Management Pvt. Ltd. along with its operational and managerial linkages with its parent Kotak Mahindra Bank and underlying credit quality of the debt schemes covered under the bank facility.

Applicable Criteria

[CARE's policy on default recognition](#)

[CARE's Fund Credit Quality rating Criteria](#)

[Rating of Short term instruments](#)

[Factor Linkages in Ratings](#)

About the Company

Kotak Mahindra Asset Management Company Limited (KMAMC), a wholly owned subsidiary of Kotak Mahindra Bank Limited (KMBL), is the asset manager for Kotak Mahindra Mutual Fund (KMMF). KMAMC started operations in December 1998 and has approximately 74 Lac investors in various schemes. KMMF offers schemes catering to investors with varying risk - return profiles and was the first fund house in the country to launch a dedicated gilt scheme investing only in government securities. The company is present in 82 cities and has 85 branches. For the quarter ended September 30, 2020 the average assets under management stood at Rs.1,91,598 crore for Kotak Mahindra Mutual Fund. Mr. Nilesh Shah is the managing director of KMAMC and he is supported by a team of experienced professionals.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-Term loan	-	-	-	1500.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - ST-Term loan	ST	1500.00	CARE A1+	-	1)CARE A1+ (30-Mar-20)	1)CARE A1+ (18-Mar-19) 2)CARE A1+ (04-Apr-18)	1)CARE A1+ (26-Apr-17)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - ST-Term loan	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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