

**April 12, 2019**

**Dear Investors**

There have been certain apprehensions around the FMP Maturities of Kotak MF. While we have communicated with the FMP Investors at large, we would like to elaborate the same as such incidents are likely to create queries in the mind of our esteemed investors.

We would like to bring the following facts to your kind attention.

- FMP Series 192 matured on April 4, 2019 where the initial corpus was Rs 194 crores. On Maturity we have repaid Rs 244 crores.
- FMP Series 127 matured on April 8, 2019 where the initial corpus was Rs 340 crores. On Maturity we have repaid Rs 371 crores
- FMP Series 183 matured on April 10, 2019 where the initial corpus was Rs 457 crores. On Maturity we have repaid marginally less than initial corpus at Rs 455 crores.

To begin first with the issues around the investment in Essel group:

For FMP Series 183 and 127 we had invested in debentures of Essel Group Companies viz. Konti Infrapower and Multiventures Private Limited and Edisons Utility Works Private Limited. These debentures were secured by the pledge of equity shares of Zee Entertainment Enterprise Limited with minimum security cover of 1.50 times the value of exposure. The said debentures carried maturity date of April 8, 2019. The external rating of the instrument at the time of investment was A+(SO).

On 25<sup>th</sup> January 2019 there was a sharp correction in share price of Zee whereby it crashed from Rs 434 per share from the previous day closing price to Rs 319 per share. It later became evident that sale of minuscule percentage of Zee shares by some lenders because of margin call, which led to sharp correction in share price of Zee. Post this correction of more than 25%, issuer was unable to top-up share collateral.

On 26<sup>th</sup> Jan, 2019, lenders to Essel group got together to discuss the way forward to recover dues. Majority of lenders, reached a conclusion that, if all the lenders were to invoke pledge of shares and liquidate the security, it would have resulted in erosion of collateral value and led to sub-optimal recovery of dues. The promoters of Essel Group disclosed that they had initiated the process of strategic stake sale in Essel group companies including Zee Entertainment Enterprises Limited. They needed some time to conclude the strategic sale process. They also needed assurance on non-enforcement of security which was required for prospective buyers to remain engaged with them.

As lenders we had two choices:

- (i) to invoke the pledge, enforce the security, sell the shares and risk sub-optimal recovery of our dues. This would have converted notional loss into an actual loss

or

- (ii) to provide additional time to promoters to complete the strategic sale process to enable them to pay us all our dues along with interest.

We in the interest of our unitholders along with majority of lenders chose the second option of providing time upto 30<sup>th</sup> September 2019 to the promoters of Essel Group to conclude the stake sale.

We sought better terms for our unitholders by way of additional security in the form of Personal Guarantee of Shri Shubash Chandra (promoter of Essel Group) and a potential upside sharing from the proceeds of strategic stake sale in Zee Entertainment Enterprises Limited. The debentures will

carry the same coupon rate of 11.1% as contracted originally in 2016 till the date of repayment. We are working with Essel group promoters to ensure optimal recovery of our dues.

This exposure remains only in 6 FMPs viz. Series 127, 183, 187, 189, 193, 194 and in Kotak Credit Risk Fund merely to an extent of 0.37% of its AUM. None of our other open or close-ended debt schemes have any exposure to Essel group promoter entities.

We would like to reiterate that our overall portfolio quality remains robust as can be seen from the table below:

Category	% of debt schemes AUM (As on 10-Apr-2019)
SOVEREIGN	12.83%
AAA	22.89%
A1+	49.84%
<b>Sub-total</b>	<b>85.56%</b>
AA+	2.30%
AA	5.60%
AA-	2.29%
<b>Sub-total</b>	<b>10.19%</b>
A+	2.49%
A1	0.10%
A	1.51%
<b>Sub-total</b>	<b>4.10%</b>
Corp Bond Repo	0.59%
Net Current Assets	-0.54%
Unrated	0.10%
Total	100.00%

We would also like to share the following details regarding the investments in IL&FS Transportation Networks Limited (ITNL), in FMP series 183, 192, 193,194;

- We had invested in NCDs issued by ITNL in May-2016 which had credit enhancement in the form of parent support agreement from Infrastructure Leasing & Financial Service Limited (IL&FS). At the time of investment the instrument had an external credit rating of AAA (SO) by CARE Ratings.
- Due to liquidity issues at IL&FS Group, Govt. of India through National Company Law Tribunal (NCLT) ruling took control of management of IL&FS and constituted seven members professional board. The group is in resolution under NCLT supervision. The new Board has classified the group entities in three categories i.e. red, amber and green in terms of ability of these companies to repay their debt. Both ITNL and IL&FS have been classified as ‘red entities’ wherein these entities cannot meet their payment obligations towards even senior secured financial creditors.

- We made a 100% provision by February 12, 2019, for this investment as the recovery was uncertain in terms of time, and would be dependent on resolution plan achieved by new board / NCLT.

While we regret that we had to withhold certain part of units in 6 FMPs viz. Series 127, 183, 187, 189, 193, 194, represented by portfolio investment in Essel Group companies for now, we believe that our actions are in the interest of our unitholders. Rest assured that we are working very hard to recover balance dues and the same will be distributed to the unitholders on realization.

Kotak Mutual Fund remains committed to its unit holders. We thank you for reposing your faith in us since the last 20 years.

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