HSBC Medium Duration Fund

Fund strategy and Key exposures

March 2023

HSBC
Asset Management

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Active Duration Management and Accrual Strategy

With interest rates consolidating at a higher level, a strategy combining a prudent mix of strategic Duration calls and Accrual product is well suited for investors with 3 year horizon

Demonstrated ability to strategically manage Duration in periods of volatile interest rates

Key Exposures

Bharti Telecom Limited (BTL)

- BTL is part of the Bharti Group, which has been promoted by Mr. Sunil Bharti Mittal. The company is the holding company of the group for Bharti Airtel Limited (BAL). BTL does not have any operations of its own and derives its income from the dividends from BAL and income from the other investments of surplus funds.
- Bharti Enterprises (Holding) Private Limited (BEHPL) holds a 50.6% stake and the SingTel Group holds a 49.4% stake in BTL. BTL holds around 38.6% stake in BAL.
- BAL is a leading player in the Indian telecommunication industry. BTL's promoters are the Bharti Group and Singapore Telecommunications Limited.
- The market value of its investment is more than ~Rs. 1,63,700 crore (as on March 23, 2022). With its stake being entirely unencumbered, BTL has a healthy financial flexibility as indicated by very low total debt/market value.
- BAL is BTL's only investment, making its operating cash flow dependent on dividends and thus, the performance of this investee company. While BAL did not declare dividends in FY2022, out of the dividend distributed by Bharti Airtel in the current fiscal, BTL received around ~Rs. 600 crore.
- **Rated CRISIL AA+/Stable**

Shriram Finance (erstwhile Shriram Transport Finance Company Limited)

- Shriram Transport Finance Company Limited (STFC), is a deposit accepting non-banking financial company. It is the market leader in pre-owned CV financing with a pan-India presence
- The merger between Shriram group companies is complete. Post-merger the growth should continue with benefits of diversification. Increased diversification should take care of the inherent cyclicality in vehicle finance business.
- Asset quality metrics remained stable reported Gross Stage 3 metrics to 6.29% as on December 31, 2022 (7.07% as of March 31, 2022)
- The company's Tier 1 and total capital adequacy ratio improved to 21.39% and 22.99% respectively as on December 31, 2022 (20.70% and 22.97% respectively as on March 31, 2022), well above the regulatory minimum.
- STFCL reported return on assets (RoA) of 3.04% for first nine months of fiscal 2023 (1.52% for first nine months of fiscal 2022).
- **Rated CRISIL AA+/Stable , ICRA AA+/Stable, CARE AA+/Stable, IND AA+/Stable**

Oriental Nagpur Betul Highway Limited

- Oriental Nagpur Betul Highway Ltd (ONBHL) is a special purpose vehicle promoted to undertake augmentation of two-lane carriageway of existing section of NH-69 from km 3.0 to km 59.3 in Maharashtra and Km 137.0 to Km 257.4 in the state of MP to a four-lane carriageway on DBFOT
- In June 2019, Oriental Structural Engineers Pvt Ltd (OSE) has transferred 5 assets including ONBHL to Oriental Infra Trust (InvIT) and the InvIT now holds 100% stake in the SPV with AIIB, IFC among InvIT investors
- **Annuity based project so no traffic risks undertaken by ONBHL**. In March 2022, NHAI and ONBHL entered into a settlement agreement to settle various claims of ONBHL under the concession agreement. ONBHL had received a settlement amount of ~Rs 582.75 crore (which was passed on to OSE) and the annuity schedule was preponed by 129 days.
- Annuity received from NHAI ➔ **strong counterparty profile as NHAI is GoI's undertaking; rated AAA.**
- Operational nature eliminates construction risks. Watertight cash flow structure & availability of adequate liquidity reserve & cash reserve imparts high visibility on availability of cash flows to NCD investors.
- Performance-related risks are mitigated by ONBHL's fixed-rate O&M contract with OSE with agreed escalation percentages and a full pass-through of any performance deductions.
- One MMR cycle completed so far- done within prescribed timelines and lower than budgeted reserves
- **Rated AAA by CRISIL and CARE**

Patel KNR Heavy Infrastructures Private Limited

- PKHIL operates & maintain a 48 km stretch on NH-7 under annuity-based project awarded by NHAI. Projects have already been completed & operational since June-2010.
- Payments from NHAI have been timely and regular since COD – **24 semi annuities received so far ➔ strong track record of timely receipt of payments from NHAI**
- Annuity receivables credited to a separate escrow account wherein NCD holders have the first charge. Additional liquidity available of Rs 35 cr (~6m DSRA) and free surplus cash of ~Rs 18.69 cr to compensate for any delays / shortages.
- Annuity based project ➔ **no traffic risks undertaken by PKHIL**
- Annuity received from NHAI ➔ **strong counterparty profile as NHAI is GoI's undertaking; rated AAA.**
- Day to day operations managed by KNR Construction Limited, which has vast experience in timely execution and maintenance of roads.
- Watertight cash flow structure & availability of adequate liquidity reserve & cash reserve imparts high visibility on availability of cash flows to NCD investors.
- Latest update: Second MMR cycle completed in May 2021 and 2 semi annuities received subsequently in full (latest in March 2022)
- Rated AA+ by CARE

First Business Receivables Trust

- FBR Trust, is a pass-through certificate (PTC) investment, backed by unconditional and irrevocable service fee receivables from R-MDA group companies- RIL, Rel Jio and Rel Retail -> **effective credit risk is on RIL group companies**
- RIL is one of India's largest private sector companies, with diverse interests, including oil refining, petrochemicals, and upstream oil and gas exploration and production, retail, telecom and digital services.
- Reliance Retail is India's largest retail entity by revenue, while Jio is the India's largest telecom service provider by revenue market share as of Jan 2022. Given the strong strategic importance to RIL, these companies is rated AAA/Stable/A1+ by rating agencies
- **Our PTC is rated AAA(SO) by CRISIL and India Ratings factoring in the cash flows from service users and strong underlying structure.**

Vector Green Energy (6 SPVs)*

- Sembcorp Green Infra Limited (SGIL), part of Sembcorp Industries (SCI) acquired 100% interest in Vector Green Energy Private Limited. Sembcorp Industries, 49.5% owned by Temasek Holdings Pvt Ltd (rated 'AAA/Stable/A-1+' by S&P Global Ratings), is a leading energy, water and urban development group operating across five continents.
- Strong revenue visibility with all of the 256 megawatt (MW)(or 350 MWp) VGRG's projects operational for over 3 years and have 25-year Power Purchase Agreements (PPAs) at fixed pre-determined tariffs
- PPAs are with strong counterparties – NPTC and SECI covering 98% of revenues; NTPC (30 days) and SECI(60 days) as intermediaries have had a very good track record in terms of making timely payments
- Co-obligor structure of SPVs providing cash flow diversity benefit given that the group consists of 8 different solar assets (across 6 companies) spread across different locations.
- VGRG has a comfortable financial risk profile, marked by steady healthy cash flows being generated from its assets resulting in a comfortable projected debt coverage. (projected DSCR>1.4x)
- Healthy and improving PLF level (over P90) has been observed in last few years; Based on cash receipts from counterparties as on March 2022, DSCR cushion remains healthy
- **CRISIL and India Ratings reaffirmed the rating at AAA/Stable and AAA(CE)/Stable respectively.**

**SPVs: Yarrow Infrastructure Private Limited, Malwa Solar Power Generation Private Limited, Sepset Constructions Ltd, Vector Green Prayagraj Solar Pvt Ltd, Citra Real Estate Limited, Priapus Infrastructure Limited*

ONGC Petro Additions Limited (OPAL)

- OPAL benefits from its strong parentage, with ONGC holding 49.36% equity stake and GAIL (India) Limited holding another 49.21%, with same Chairman as ONGC;
- Strong operational, financial and management support from ONGC (rated AAA/Stable by all agencies); ONGC is also in plans of making OPAL its subsidiary in the near term – pending government approvals.
- ONGC has also extended explicit support by subscribing to share warrants and providing Letter of Comfort (LoC) for OPAL's NCDs upto Rs. 3,000 Crore and term debt as well as support for the CCDs
- Strategically aligned with ONGC's business plans - OPAL's petrochemicals complex is part of the forward integration of ONGC. Significant portion of OPAL's feedstock sourced from ONGC.
- Significant scale advantage - as one of the largest integrated petrochemical plants in India, with assured supply of key feedstock;
- Operating profitability and cash accruals moderated due to the increase in raw material prices and narrowing of product/raw material spreads.
- Our comfort on the CE exposure is based on the strength of LoC provided by ONGC which also incorporates a T-1 payment mechanism whereby ONGC has demonstrated a consistent track record of timely support → **Credit comfort derived from strongly worded LoC**
- **ICRA, India Ratings and CARE rate the company at AAA(CE)/Stable. In addition, OPAL also has AA/Stable/A1+ outstanding ratings from these above three agencies as well as from CRISIL.**

The Tata Power Company Limited

- Tata Power Company Limited (TPCL) is India's largest integrated private power utility, with installed generation capacity of 12.121 GW as on Dec 31, 2022 (excluding 1.98 GW through a platform structure). Tata group holds ~47% (majorly Tata Sons at 45.2%) stake as of Dec 22. Majority of the capacity is having long-term PPAs which provides long term revenue visibility. Benefits from stable cash flow from regulated businesses
- Tata Power has lined up large debt-funded capex plans, estimated at Rs. 10,000 crore in FY2024, mainly in the transmission and distribution business.
- On Jan 3, 2023 finally, CERC passed order to compensate adverse financial impact for power supplied under MoP directions for Mundra Power plant.
- The leverage level of the Tata Power Group remains moderately high, with net gearing of 1.23 times and net debt to EBITDA of 3.04 times as on Dec 31, 2022 at a consolidated level. Net Debt has declined with receipt of equity infusion towards dilution of stake in TP Green Company under TPREL.
- Company’s fuel supply agreements (FSAs) with the subsidiaries of Coal India Limited and coal mining companies in Indonesia mitigate the fuel supply risks for its thermal generation projects in Coastal Gujarat Private Limited, TPCL (Mumbai) and Maithon Power Limited.
- The company’s consolidated liquidity is expected to remain adequate with cash balances of Rs 9,529 crore as on Dec 31, 2022, at a consolidated level.
- **Tata Power is rated AA/Stable by CRISIL, ICRA, CARE and India Ratings**.

NIIF Infrastructure Finance Limited

- NIIF II acting through its investment manager NIIFL holds ~39.7% equity share in NIIF IFL, the balance is held by AIFL (~30.8%), HDFC Limited (~4.4%) and GoI (~25.1%).
- Given the strong financial flexibility and quasi sovereign ownership of NIIF, timely growth capital fund raise and liquidity support for NIIF IFL is expected.
- Stable business profile (being a NBFC-IDF with tight regulatory framework - can take exposure only in operational projects with 1 year+ track record) and hence, strong asset quality (nil NPAs/stage 2 assets till date)
- The energy generation segment had the highest share of 62% in the portfolio as on March 31, 2022 followed by transport and logistics (17%), power transmission (11%), communication (7%) and other infrastructure sectors (4%).
- Management experience, sound underwriting, and adequate capitalization mitigates the key risks related to high concentration risk in the portfolio (typical of any wholesale financing NBFC but IDFs are stronger given the regulatory restrictions plus nil exposure to real estate financing)
- Comfortable asset quality marked by Nil Stage 2 and Stage 3 assets as on Dec 2022
- **ICRA and CARE rate the company at AAA/Stable/A1+**

Sikka Ports & Terminals Ltd

- Our comfort is primarily driven by ~100% ownership by Reliance Industries Holding Private Limited (promoter holding company for RIL) and criticality of the company for RIL's operations and expected support from the promoters in case of any shortfall.
- This belief is further reinforced by close operational linkage with RIL's main business of oil & gas production, refining and petrochemicals.
- Sikka Ports & Terminals Ltd (SPTL) provides port, storage, handling and evacuation facilities to RIL in Jamnagar
- SPTL is also engaged in operating and hiring construction equipment and machineries and is also a co-developer of Jamnagar Special Economic Zone. STPL handles a major part of RIL's refining/petrochemicals volumes.
- **Rated CRISIL AAA/Stable and CARE AAA/Stable**

IIFL Home Finance (Part of IIFL Finance group)

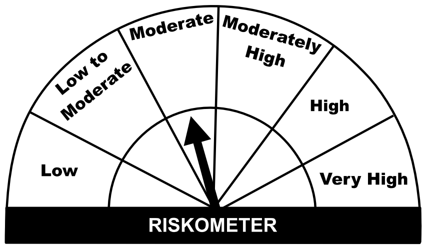
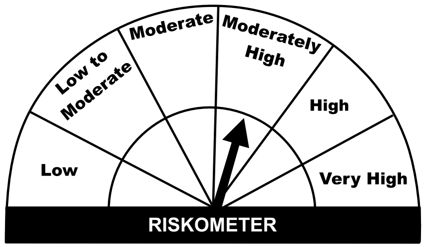
- IIFL Home Finance is a wholly owned subsidiary of IIFL Finance Ltd., and receives strong support from the IIFL Finance group. Primarily engaged in secured lending across retail asset classes. Retail accounts for ~95% of AUM as of Dec 2022 -> **High level of granularity provides comfort (ATS < Rs 1cr).**
- Fairly diversified on-book loans of ~Rs 36,286 cr as of Dec 2022 along with ~Rs 21,655 cr assigned portfolio & Co-lending book- overall AUM of ~Rs 57,941 cr. Home and gold loans account for 35% and 32% respectively.
- Construction and Real estate is now only 5% of the portfolio. In Q1FY22, had transferred real estate assets of Rs 1400 cr to an AIF – (Ares SSG took up 33% stake). Further to this, ADIA funding of Rs 2200 Cr has been received in August 2022 against 20% stake ➔ **Freed up capital, a credit positive**
- Moderate asset quality with Gross NPA asset at 2.08% and Net NPA at 1.06% as of Dec 22
- Healthy balance sheet with group's consolidated net worth of ~Rs 9,911 cr and a moderate net gearing of around 3.2x as of Dec 2022. Strong capitalization with overall CRAR at 49.3% and Tier-1 at 40.7% as of Dec-2022 for IIFL Home; IIFL Finance overall CRAR and Tier-1 remains healthy at 21.5% and 13.8% as of Dec 2022.
- Adequate group level liquidity of ~Rs 8,562 cr (as of Dec 2022) in the form of cash & cash equivalents and committed credit lines from banks and institutions. **Large portion of the portfolio qualifies for priority sector lending which also enhances liquidity.**
- **IIFL Home Finance is rated at AA/Stable by CRISIL, ICRA and CARE.**

Embassy Office Parks REIT

- Embassy REIT is India's first publicly listed Real Estate Investment Trust (REIT).
- Unitholding by Sponsors 36% (24% Blackstone group, 12% Embassy group) and rest public as of Mar 22; Investment manager (IM) of REIT is a 51:49 JV between Blackstone and Embassy groups
- Owns and operates a 43.6 million square feet (msf) portfolio of 12 commercial properties across India (operational 34.3 msf and rest under construction). Present in India's top performing office markets of Bengaluru, Mumbai, Pune, and the National Capital Region
- Strong and sticky tenant profile- 229 blue chip occupiers, Fortune 500 cos account for 47%; Tech and global captive cos account for 70% of occupier base
- Occupancy at a healthy 86% as of Dec 22; Covid impact was minimal on the portfolio with ~100% collection efficiency over the last two years
- Weighted average lease expiry of 7.0 years combined with 17% mark-to-market upside on existing rentals ➔ **strong cash flow visibility over the medium term**
- Comfortable debt protection metrics with Net debt to Gross Asset Value (GAV) of 27% as of Dec 22 ➔ **significant cushion vis-à-vis 49% regulatory cap**
- **Rated AAA/Stable by CRISIL and ICRA**

- Power Finance Corporation (PFC) was established for funding and developing the domestic power sector. GoI remains a majority shareholder in PFC with a stake of ~56%, as of December 31, 2022, and has representation on the company's board.
- As on December 31, 2022, loan book of the company grew by 5.85% y-o-y and stood at Rs 3,93,387 crore.Loan Asset Mix - Generation stood at 45%, Transmission & Distribution stood at 44% , Renewable (including Large Hydro) stood at 10% and Others stood at 1%. Top 10 borrowers constitute 46% of total loan asset.
- The gross stage 3 assets as on December 31, 2022 stood elevated at 4.2%, though, having improved from peak of over 8%. With provision cover of 71%, the net stage 3 assets as of December 31, 2022 stood at 1.2% of total advances. All the NPA's are from private sector.
- Overall CRAR of the company remains adequate and stood at 24.4%. Borrowing costs are competitive and the resource base, though wholesale, is diversified. Debt instruments have wide market acceptability, which is also reflective in its low cost of borrowing compared to peers
- As on December 31, 2022, the company (on a standalone basis) had liquidity cushion of Rs 13,137 crore (Rs 5,791 crore of cash and equivalents and liquid investments and Rs 7,346 crore of unutilised cash credit lines), along with monthly inflows, against debt obligation of Rs 19,157 crore over the three months till March 2023.

Product Label

HSBC Medium Duration Fund (Erstwhile L&T Resurgent India Bond Fund)		
 Investors understand that their principal will be at Moderate risk	**Medium Duration Fund** - An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 years to 4 years (for details on Macaulay's Duration please refer to the SID under the section "Asset Allocation Pattern"). A relatively high interest rate risk and moderate credit risk. **This product is suitable for investors who are seeking*:** • Generation of income over medium term • Investment primarily in debt and money market securities * Investors should consult their financial advisers if in doubt about whether the product is suitable for them. ^ The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price. **Note on Risk-o-meters:** Riskometer is as on 31 Mar 2023, Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular scheme	Benchmark Index: NIFTY Medium Duration Debt Index B-III 

Potential Risk Class (HSBC Medium Duration Fund)			
Credit Risk → **Interest Rate Risk ↓**	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)		**B-III**	
A Scheme with Relatively High interest rate risk and Moderate credit risk.			

All data as of March 31, 2023.

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

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India Fixed Income Credit Research – How do we mitigate credit risk?

Strong and optimum credit process

Balance Risk and Return

Business Risk	Market Risk	Financial Risk	Structure Risk
Robust fundamental research – mitigate downgrade risk	Understand that "less liquidity" and "mispricing" is here to stay	Financial/ratios/Projections	Look for bond covenant protection such as guarantee (from stronger parent)
Monitor existing investments for unpredictable adverse events	Weightage to liquidity of instruments versus credit risk	Profitability	SPV (Special Purpose Vehicle) structures
Identifying investible names is more company specific and not sector specific		Liquidity	DSRA (Debt Service Reserve Account), Escrow, Cash trap
Despite GOI ownership in case of PSU names, fundamentals take precedence		Solvency	Change of control
Markets, business, drivers of growth and risk factors		Capital expenditure/ Working capital	

- Liquidity and downgrade risks managed through strong and optimum credit process [1]
- Interest rate risk managed through active duration management

Source: HSBC Asset Management India. The information above is provided by and represents the opinions of HSBC Global Asset Management and is subject to change without notice
1. Liquidity risks managed through evaluation of issuance / traded volumes, minimum holding of regulator specified liquid assets and stress testing.