



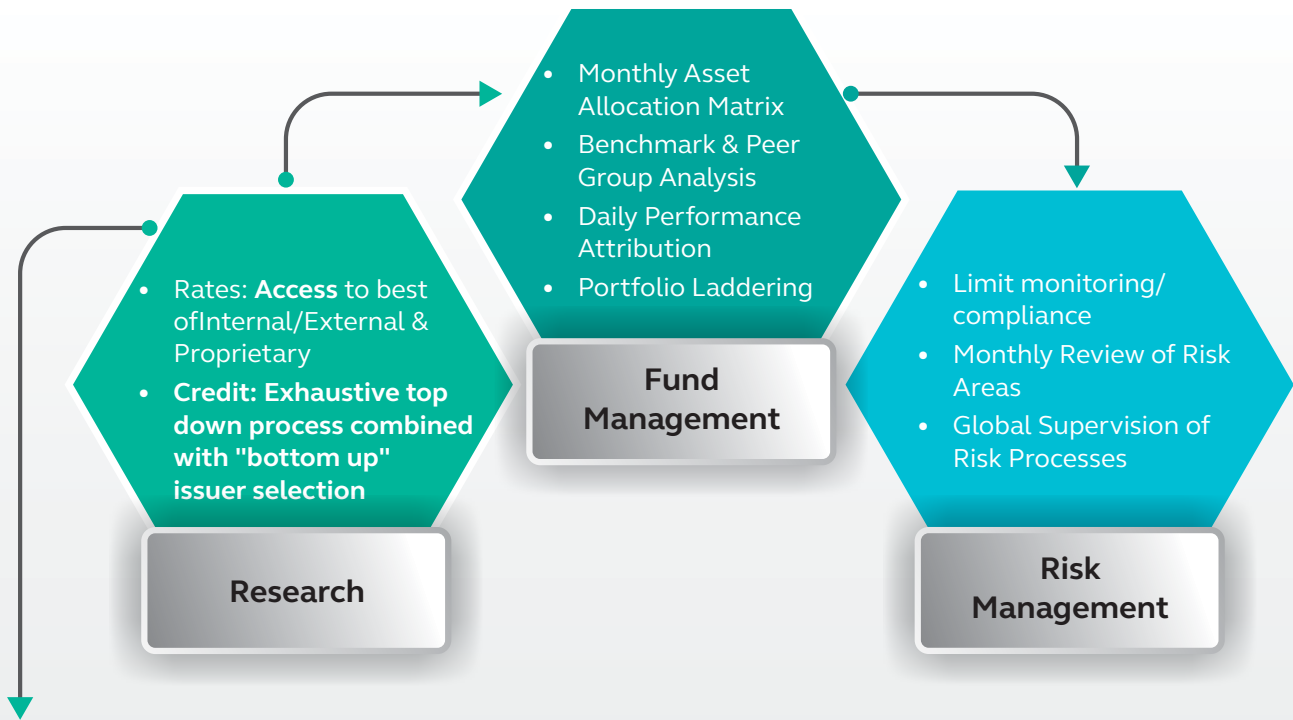
CREDIT INSIGHT

July 2020

Monthly Credit Update



Fixed Income: Investment Process



Highlights of the Credit Research Process



Board approved Internal Credit Risk Assessment Policy



"Credit Tracker" list of approved Credits: LT & ST: Bottom Up Approach



Inclusion and sustainability of a credit in the record/list is determined by the established credit process, which includes two broad areas :

- Approval for new credits (through credit note)
- Review and monitoring of existing credits



"Early in- Early Exit" Identify new promising credits early on, take shorter exposures



Access to in house Equity Team expertise on sector/stock coverage where we take exposure



HINDALCO INDUSTRIES LTD.

Rating: CRISILAA (Stable), CARE AA+ (neg)

Rating change in last month: No change

Sector: Metals

About: Hindalco, the flagship company of the Aditya Birla group, commenced operations in 1962 with an aluminium unit at Renukoot, Uttar Pradesh. It has become the largest integrated aluminium manufacturer in India, with capacity to produce 1,300 kilo tonne per annum (ktpa) of aluminium and 2,900 ktpa of alumina. The company also has a custom smelter in the copper business. The company made a consolidated PAT at ₹ 5495cr for FY19 compared to ₹ 4518cr in FY18 and the consolidated Net Debt to EBITDA was at 2.48 times as at 31st Mar 2019 compared to 2.82 times as on 31st Mar 2018. CRISIL has revised its rating outlook on long-term debt instruments of Hindalco Industries Limited (Hindalco) to 'Stable' from 'Positive', while reaffirming the rating at 'CRISIL AA'. The rating on the commercial paper has been reaffirmed at 'CRISILA1+'.

The revision in outlook factors in likely increase in company's financial leverage post debt-funded USD 2.8 billion acquisition of Aleris Corporation (Aleris) by its subsidiary Novelis Inc (Novelis, rated 'BB-/Stable' by Standard & Poors). This coupled with moderation in operating profits in the wake of challenges in aluminium markets amidst the Novel Coronavirus (Covid-19) pandemic may moderate the consolidated net debt to EBITDA (earnings before interest, tax, depreciation, and amortization) to above 3.5 times in fiscal 2021. This is higher than our previous expectations.

With most of the capital expenditure (capex) at Hindalco and Novelis behind, Hindalco may continue to generate positive free operating cash flow in the next two fiscals. This may improve financial leverage (net debt to EBITDA ratio) to below 3 times by end of fiscal 2022. CARE has reaffirmed ratings but have assigned neg outlook. CARE currently rates it at AA+ whereas our exposure is mainly based on CRISIL rating which is already at AA (stable)

ULTRATECH CEMENT LTD

Rating: CRISIL AAA (stable)/A1+, India Ratings Ltd AAA(stable),A1+

Rating change in last month: No change

Sector: Cement & Cement Products

About: Ultratech Cement Ltd ('UCL') is India's largest manufacturer of grey cement, ready mix concrete and white cement in India. It has 12 integrated plants, one clinker plant, 20 grinding units, seven bulk terminals, and two white cement and putty plants. Its operations span across India, the UAE, Bahrain, Bangladesh and Sri Lanka. UCL has a market share of 24% in India with 113.35 million tonne per annum (mtpa) capacity. Operating efficiency is superior, driven by strong consumption norms, efficient logistics (because of pan-India presence), and captive power capability. As on Sep 30, 2019, Grasim (the flagship company of the Aditya Birla group) held 60.2% equity stake in UltraTech, the other promoter group held 1.49%, and financial institutions and the public held the rest. During fiscal 2020, UCL, on a consolidated basis, had a net profit of ₹ 5800 cr with operating income of ₹ 42100 crore, against a net profit of ₹ 2,400 crore with operating income of ₹ 41600 crore in fiscal 2019. Net debt/EBITDA was down to 1.55x in Mar'20 from 2.83x in Mar'19

RELIANCE INDUSTRIES LTD

Rating: CRISIL AAA (stable)/A1+, ICRA AAA (stable)/A1+, India Ratings AAA (stable)/A1+, CARE AAA (stable)/A1+

Rating change in last month: No change

Sector: Energy

About: Reliance Industries Limited (RIL) is one of India's largest private sector companies (market cap > 8 lakh crores as on 30th Sep 2019), with diverse interests, including petrochemicals, oil refining, and upstream oil and gas E and P.. In the recent past, RIL has diversified into newer businesses which includes organized retail and digital services. RIL operates one of the most complex refineries globally which improves its flexibility in terms of crude sourcing resulting in relatively high Gross Refining Margins (GRMs). RIL's strength in the petrochemicals business has also grown following large-scale capacity expansions, including the refinery off-gas cracker, in the previous fiscal and healthy ramp up of operations. The company's digital services venture, where it has made sizeable investments, has been gaining subscribers at a healthy pace since inception and has achieved a subscriber base of 331.3 million as on June 30, 2019. On August 12, 2019, Reliance Industries Limited (RIL) announced that it has signed a non-binding Letter of Intent (LoI) with Saudi Aramco¹ for the sale of 20% stake in the former's Oil to Chemicals (O2C) division to Saudi Aramco. RIL's O2C division includes its refining and petrochemicals business along with RIL's 51% stake in its recently announced petroleum marketing JV with British Petroleum Plc (BP). As a part of the deal, Saudi Aramco would supply 500,000 barrels per day (equivalent to ~25 million metric tonnes per annum) of crude oil to RIL's refinery in Jamnagar on a long-term basis. The deal values RIL's O2C division at an Enterprise Value of US\$ 75 billion which translates to an investment of US\$ 15 billion from Saudi Aramco. The transaction is subject to due diligence, regulatory and other approvals. The investment proceeds from Saudi Aramco along with another US\$ 1 billion from BP for the latter's 49% stake in RIL's fuel retail business would help RIL achieve significant deleveraging. Moreover, the company announced the sale of its telecom tower business in July 2019 to Brookfields Asset Management Company, that was already transferred to an investment infrastructure trust (InvIT) as of March 31, 2019, for ₹ 25,215 crore. Reliance Industries Limited (RIL) announced signing of a binding agreement for an investment of ₹ 43,574 crore by Facebook, Inc. in Jio Platforms Limited (JPL) on April 22, 2020. Facebook's investment will translate into a 9.99% equity stake in JPL on a fully diluted basis. The deal values Jio Platforms Limited (JPL) at an enterprise value of ₹ 4.6 lakh crore. Multiple announcements to strengthen balance sheet (1) rights issue of ₹ 531 bn (1:15, at ₹ 1,257, 25% upfront); (2) further stake sale in Jio Platforms Ltd., similar to the Facebook deal; (3) Saudi Aramco's due diligence is on track and Oil to Chemicals business is carved out into a separate subsidiary

HOUSING DEVELOPMENT FINANCE CORPORATION LTD

Rating: CRISIL AAA (stable)/A1+, ICRA AAA (stable)/A1+, CARE AAA (stable)/A1+

Rating change in last month: No change

Sector: Financial Services

About: Housing Development Finance Corporation Limited (HDFC), India's premier housing finance entity, is in existence for over 40 years. With a presence in banking, insurance and asset management, the HDFC Group is an important part of the Indian financial services sector. HDFC's has a strong franchise and has demonstrated ability to grow in the competitive mortgage finance market, its focus on prime salaried customers within the home loan segment and its good asset quality indicators over credit cycles. HDFC has a strong capitalization, moderate gearing and good profitability indicators. During FY2020, HDFC reported an asset base of ₹ 5,16,800 compared to an asset base of ₹ 4,58,776 crore in FY2019. HDFC reported Profit After Tax (PAT) of ₹17,769 crore during the year ended March 31, 2020 compared to ₹ 9,632 crore during the year ended March 31, 2019

LIC HOUSING FINANCE LTD

Rating: CRISIL AAA (stable)/A1+, ICRA A1+, CARE AAA (stable)

Rating change in last month: No change

Sector: Financial Services

About: LIC is the single-largest shareholder in LIC Housing with a stake of 40.31% as on Mar 30, 2020. It is India's second-largest housing finance company, with 9 regional offices, 23 back offices, and 273 marketing units in India, and 2 overseas representative offices (1 each in Dubai and Kuwait), as on March 31, 2020. LIC Housing benefits from LIC's strong brand equity, access to its agency network for origination of loans, and funding support. LICHF reported 4Q20 Net Income of Rs4.2bn (down 39% y/y; ROE: 9.5%) on lower margins and higher operating cost with a positive offset on credit costs. Operating profit at ₹ 8.9B was down 18% y/y. Asset quality worsened slightly with Stage 3 Assets rising to 2.8% (+10bps q/q). AUM growth was 8% y/y with individual loan growth at 9.4% y/y. High leverage (~12x) and relatively low Tier 1 capital vs. peer group (Tier 1: 12.5%) are the key negatives. These get offset by Stage 2 assets which declined ~100bps QoQ to 4.7% and LICHF's access to diverse funding sources remains robust as seen in almost ₹ 270B capital raising (48% of incremental borrowings) done via debt markets in F20 given the parentage

GODREJ AGROVET LTD ('GAVL')

Rating: ICRA AA (Stable)

Rating change in last month: No change

Sector: Consumer goods

About: Godrej Agrovet Limited is a part of the Godrej Group, which has diverse business interests spanning home appliances, fast moving consumer goods, consumer products, industrial products, oleo chemicals, animal feed, real estate development, crop protection, and oil palm plantation through various Group companies. GAVL's product segments primarily cater to the rural sector and agricultural community. On a standalone basis, the company has three major business segments-animal feed, vegetable oil (palm oil) and crop protection (agri inputs). The company is one of the largest organised animal feed manufacturers in India. It offers cattle, layer, broiler, shrimp and fish feed in its product portfolio. As on March 31, 2019, GAVL had around 68,400 hectares of palm tree plantations across nine states for producing crude palm oil, palm kernel oil and palm kernel cake. It is also a niche player in select agri-inputs like insecticides, fungicides, soil conditioners and organic manure, with a pan India network of ~6,500 distributors. GAVL is a subsidiary of Godrej Industries Limited (GIL, rated [ICRA]AA (Stable) / [ICRA]A1+, which held a 58.15% stake in GAVL as on June 30, 2019), the flagship company of the Godrej Group, a large and established business house in the country. This imparts strong financial flexibility to GAVL, as it helps it to maintain good access to capital markets and enjoy healthy relationships with the banks. In FY2020, GAVL reported a profit after tax (PAT) of ₹306 crore on an operating income (OI) of ₹ 6829 crore, as compared to a PAT of ₹ 329.0 crore on an OI of ₹ 5900cr crore in FY2019.

THE RAMCO CEMENTS LTD.

Rating: CRISILA1+, ICRA AA+ (stable)/A1+

Rating change in last month: No change

Sector: Cement & Cement Products

About: The Ramco Cements Ltd. is a leading cement player with capacity of 16.5 million ton spread across Tamil Nadu, Andhra Pradesh, Karnataka and West Bengal. Established in 1957, it manufactures, and markets cement under the Ramco brand predominantly in South India. The company also has windmill capacity of 125.95 megawatt (MW; post the transfer of 33.23 MW to a newly formed subsidiary, Ramco Windfarms Ltd, in fiscal 2014) and captive thermal power plants with capacity of 175 MW.

The company generated net cash accruals of close to ₹ 3,000cr over FY2017-H1 FY2020. The company's gearing was 0.5 times as of September 30, 2019, while its interest coverage was 22.9 times for H1 FY2020. With comfortable accrual levels, we expect the financial profile to remain healthy over the medium term, despite the proposed capex and debt funding, some moderation expected in coverage metrics in FY2020 and FY2021. The company made a net profit of ₹ 507cr in FY 2019 (556 crore in FY 18) on an operating income of ₹ 5,060cr in FY 2019 (₹4,330cr in FY2018) Post COVID 19 interaction with the management has summarized the following : i) the company has partially resumed operations at all its plants ii) expects rural/semi-urban housing demand and government spend to remain strong; iii) industry is expected to maintain pricing discipline owing to lower volumes; iv) Odisha and Vizag grinding units are likely to get commissioned in Q1FY21 while clinker lines at Jayanthipuram and Kurnool may get delayed; iv) company has incurred nearly 2/3rd of planned capex (of ₹35bn) till date; net debt is likely to peak out at ₹35bn; and v) lower fuel prices, new grinding units and WHRS to provide cost savings. Despite a challenging year in South, Ramco volumes saw 0.7% yoy growth driven by market share gains, with 3% realisations and 1% cost increase. Hence, EBITDA/t +12.6% yoy to ₹982 driving overall EBITDA growth at 10% to ₹11.4bn and 18.5% PAT growth to ₹6.1bn

ICICI SECURITIES LTD

Rating: CRISILA1+/AAA (Stable) ICRA A1+/AAA (stable)

Rating change in last month: No change

Sector: Financial Services

About: ICICI Securities Limited (I Sec), majority owned subsidiary of ICICI Bank (79.22% stake), offers broking services to institutional and retail clients in the cash equity and derivatives markets. ICICI Bank have infused capital aggregating ₹100 crore into I-Sec in the past years.. The company also distributes public issues to corporates and high net worth individuals, and has a strong presence in investment banking. It has a large client base in the online retail broking segment. The company is also growing its wealth management business. ISec distributes many financial market products, including insurance, mutual funds, and loans, for the ICICI group. In addition, ISec also distributes mutual fund products of other players in the market.

For fiscal 2020, I-Sec reported a PAT of ₹ 536 crore on a total income of ₹ 1705 crore, against a PAT of ₹ 491 crore on a total income of ₹1727 crore for the previous fiscal.

LARSEN AND TOUBRO LIMITED

Rating: CRISILA1+/AAA (Stable) ICRA A1+/AAA (stable) India Ratings A1+/AAA (stable)

Rating change in last month: No change

Sector: Construction

About: L&T is the largest company in the engineering and construction sector in India, with interest in projects, infrastructure, real estate development, manufacturing, IT and financial services. It provides EPC services in all major segments such as buildings & factories, transportation and civil infrastructure, power (generation – thermal, hydro and nuclear, transmission and distribution), water and related, oil & gas and material handling. The company also undertakes infrastructure development project (roads, metro rail, power and transmission lines) through special purpose vehicles L&T IDPL, L&T Power Development and LTMRHL. We factor in the strong financial risk profile characterized by healthy cash accruals supported by its diversified revenue profile, stable operating profitability, and strong balance sheet marked by low net-gearing, strong liquidity position, and healthy financial flexibility arising from its exchange-listed subsidiaries. The liquidity position, thus, remains strong with cash and cash balances of ~

20,000 crore and unutilized working capital limits of ~₹ 4,500 crore as on May 31, 2020. The capital structure of the company remains comfortable with gearing (Total Debt / Tangible Net-worth) of 0.49 times as on March 31, 2020 at a standalone level. L&T reported total operating income of ₹ 83,589cr in FY20 vs 86,988cr in FY19 and PAT of ₹8,330cr vs 6,678cr in the previous year

Issuer wise Holding as on June 30, 2020

Issuer	Principal Cash Management Fund	Principal Credit Risk Fund	Principal Dynamic Bond Fund	Principal Low Duration Fund	Principal Short Term Debt Fund	Principal Ultra Short Term Fund
Axis Bank Ltd	✓			✓		✓
Bank Of Baroda	✓					✓
Export Import Bank Of India					✓	
Godrej Agrovet Ltd.	✓	✓		✓		✓
Hindalco Industries Ltd.		✓				
Housing Development Finance Corporation Ltd.	✓		✓	✓	✓	✓
ICICI Bank Ltd	✓			✓	✓	✓
ICICI Securities Limited	✓					✓
Indian Railway Finance Corporation Ltd.				✓	✓	✓
Larsen And Toubro Limited	✓			✓		✓
LIC Housing Finance Ltd				✓	✓	✓
National Bank For Agriculture And Rural Development		✓	✓	✓	✓	✓
National Housing Bank				✓	✓	
NTPC Limited					✓	
Power Finance Corporation Ltd					✓	✓
Power Grid Corporation Of India Ltd				✓		✓
REC Limited				✓		✓
Reliance Industries Ltd	✓		✓	✓	✓	✓
The Ramco Cements Ltd.				✓	✓	
Ultratech Cement Ltd					✓	✓

DISCLAIMER

Disclaimer:

The investment strategy stated above may change from time to time without any notice and shall be in accordance with the strategy as mentioned in the Scheme Information Document of the scheme. The views contained herein are not to be taken as an advice or recommendation to buy or sell any investment or interest thereto. Diversification does not guarantee investment returns and does not eliminate the risk of loss. They are considered to be reliable at the time of writing, may not necessarily be all-inclusive and are not guaranteed as to accuracy. They may be subject to change without reference or notification to you. It should be noted that the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Past performance may or may not be sustained in future. The views and strategies described may not be suitable for all investors. Furthermore, whilst it is the intention to achieve the investment objective of the investment product(s), there can be no assurance that those objectives will be met. Investors are advised to consult their Investment advisors for determining their risk appetite and Tax Advisor before taking any investment decision.

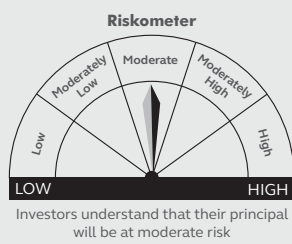
The data/statistics/ comments are given to explain general market trends in the securities market, it should not be construed as any research report/research recommendation.

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

Principal Credit Risk Fund (An open ended debt scheme predominately investing in AA and below rated corporate bonds (excluding AA+ rated corporate bonds))

This Product Is Suitable For Investors Who Are Seeking~

- Income over a Medium to long term investment horizon.
- Investment in AA and below Rated Corporate Debt & other Debt and Money Market Instruments.

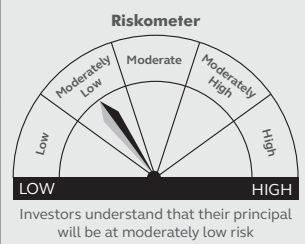


~ Investors should consult their financial advisors if in doubt about whether the product is suitable for them.

Principal Ultra Short Term Fund (An open ended ultra-short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months and 6 months)

This Product Is Suitable For Investors Who Are Seeking~

- Income over a short term investment horizon.
- Investment in Debt & Money Market instruments.

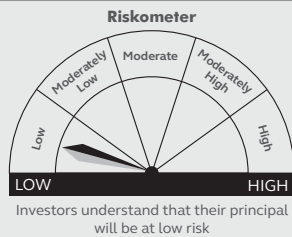


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Principal Cash Management Fund (An Open-ended Liquid Scheme)

This Product Is Suitable For Investors Who Are Seeking~

- Income over a short term investment horizon.
- Investment in debt & Money Market Instruments, with maturity not exceeding 91 days.

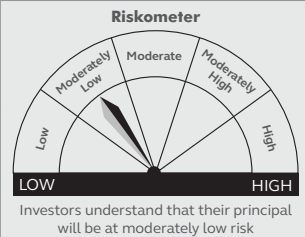


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Principal Low Duration Fund (An open ended low duration debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 6 months and 12 months)

This Product Is Suitable For Investors Who Are Seeking~

- Income over a short term investment horizon.
- Investment in Debt & Money Market Instruments.

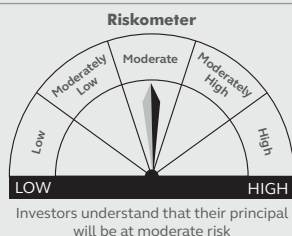


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Principal Short Term Debt Fund (An open ended short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 1 year and 3 years)

This Product Is Suitable For Investors Who Are Seeking~

- Income over a medium term investment horizon.
- Investment in Debt & Money Market Instruments.

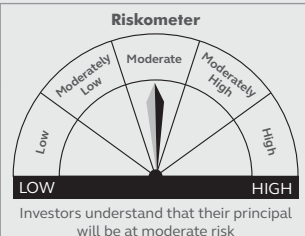


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Principal Dynamic Bond Fund (An open ended dynamic debt scheme investing across duration)

This Product Is Suitable For Investors Who Are Seeking~

- Income over a long term investment horizon.
- Investment in Debt & Money Market Instruments.



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