

CARE/HO/RL/2016-17/1039

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April 12, 2016

Confidential

Dear Sir,

Credit Quality Rating of Indiabulls Income Fund

Please refer to your request for credit quality rating of Indiabulls Income Fund managed by Indiabulls Asset Management Company Ltd.

2. The following rating has been assigned by our Rating Committee:

Fund Scheme	Credit Quality Rating¹	Remarks
Indiabulls Income Fund	CARE AAAMfs (CARE Triple A mfs)	Assigned

3. CARE's credit quality rating is not opinion on AMC's ability or willingness to make timely payments to investors. Also the ratings do not comment on the stability of the NAV, since this could vary with market developments.
4. Please ensure adequate disclosure of limitations of such ratings.
5. CARE's fund credit quality ratings are opinions on the overall credit quality of specific Debt Mutual Fund scheme. The rating captures fund's overall exposure to default risk. CARE uses the concept of credit scores, assigned to individual securities, as per credit scoring matrix developed by CARE. The score is essentially a function of the credit quality /rating of the security and its residual maturity. CARE's credit scores are arrived at using historical data on defaults adjusted for data limitations. The aggregate of such scores (i.e. the fund credit score) reflects the credit quality rating of the fund. The credit score of a rating category is weighted by the proportion of exposure to that rating

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

category. In order to retain the scheme's credit quality rating, the fund credit score has to be maintained within the benchmark fund score of the rating category. The current fund credit quality rating is based on the portfolio of the scheme as on a given date. CARE reviews the rated mutual fund scheme on an ongoing basis to support its published rating opinions. In case the benchmark score is breached, CARE provides one month to the AMC to realign the score. If the fund credit score is not corrected in that period, CARE would consider revising the rating opinion. A detailed criterion for rating debt mutual fund is provided in **Annexure I**.

6. The rationale for this rating will be communicated to you separately.
7. The AMC is required to submit monthly reports to CARE about the status of the fund and its portfolio details.
8. CARE reserves the right to suspend / withdraw / revise the rating assigned on the basis of new information or in the event of failure on the part of the AMC to furnish such information, material or clarifications as may be required by CARE. CARE shall also be entitled to publicise / disseminate such suspension / withdrawal / revision in the assigned rating in any manner considered appropriate by it, without reference to you.
9. Please note that in case of any modification to investment policy or any other changes that would affect the fund credit quality rating, you need to inform CARE at the earliest.
10. CARE ratings are not recommendations to buy, sell, or hold any security or fund scheme.
11. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

C.H. Satra
[Chintan Satra]
Analyst

chintan.satra@careratings.com

Yours faithfully,
V.V. Sanghavi
[Vishal Sanghavi]
Senior Manager

vishal.sanghavi@careratings.com

Encl.: As above

CREDIT ANALYSIS & RESEARCH LTD.

Annexure I

CARE's Fund Credit Quality Rating Criteria

Introduction

CARE's fund credit quality ratings are opinions on the overall credit quality of specific Debt Mutual Fund schemes. The ratings capture funds overall exposure to default risk.

The need for fund credit quality ratings

Mutual funds have of-late gained considerable prominence in India. A large variety of mutual fund schemes with different investment styles and objectives are now available in the Indian Market. Fund managers today have a variety of options to construct their portfolios from plain vanilla bonds to more complex derivatives. In this context, CARE's fund credit quality ratings, seek to enhance the understanding of fund credit risks to investors. Fund ratings would provide an independent opinion on funds credit quality to enable investors to evaluate such fund schemes. Investors can then examine the fund risk vis-à-vis their risk appetite. Fund managers would use such ratings for communicating their target level of credit risk of their schemes to investors to enable them to make informed decisions.

Rating Methodology

CARE's fund credit quality ratings are based on evaluation of funds investment strategy and portfolio credit risk. It also involves evaluation of credit quality of individual assets, diversification of portfolio, management quality and operational policies. CARE uses the concept of credit scores, assigned to individual securities, as per credit scoring matrix developed by CARE.

CARE's credit scoring matrix

In CARE's credit scoring matrix, a credit score is assigned to each rating category. The score is essentially a function of the credit quality/rating of the security and its residual

maturity. CARE's credit scores are arrived at using historical data on defaults adjusted for data limitations. Credit score is lower for higher rating categories and vice versa.

The credit score of a rating category is weighted by the proportion of exposure to that rating category. The aggregate of such scores (i.e. the fund credit score) reflects the credit quality rating of the fund. In order to retain the rating, the fund credit score has to be maintained within the benchmark fund score of the rating category.

Qualitative factors

Qualitative factors also play an important role in arriving at the final rating. The qualitative factors examined by CARE are:

Management Quality

CARE assesses the asset management company (AMC) in terms of organization setup, qualifications/ experience of senior management team. AMCs track record in fund management is also examined.

CARE also examines the credentials of AMC sponsors and the board of trustees.

Operations & Risk Management Systems

CARE examines MIS (management information systems) and risk management systems in various operational areas. Systems for regular monitoring of the portfolio as well as transactions with custodian and registrars are examined. The accounting systems, disclosure levels and the regulatory compliance record of the AMC as well as systems to ensure such compliance are also studied. The qualities of trading and back office systems, control systems for segregation of trading and back office operations are also examined.

Ongoing Review, Monitoring / Surveillance and Withdrawal of Rating

CARE reviews the rated mutual fund scheme on an ongoing basis to support its published rating opinions. As such, monthly reports of the fund are examined. In addition, detailed annual review of the fund is also undertaken. While the fund has to maintain the fund credit score with the benchmark fund scores, in a particular month, if the fund credit

score breaches the benchmark, CARE provides one month to the AMC to realign the score. If the fund credit score is not corrected in that period, CARE would consider revising the rating opinion. CARE would withdraw the rating of a mutual fund on request by the AMC with a notice period of one year.

What fund ratings are not?

CARE's fund quality rating is **not a recommendation to purchase, sell, or hold a security/ fund**. It neither comments on the current market price, suitability for a particular investor nor on the prospective performance of the fund with respect to appreciation, volatility of net asset value (NAV), or yield of the fund. The ratings do not address the funds ability to meet the payment obligations to the investors.

Disclaimer

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The ratings are based on current information furnished to CARE by the issuer or obtained by CARE from sources it considers reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE does not perform an audit in connection with any rating and may, on occasion, rely on unaudited information. The ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances. Funds rated by CARE have paid a rating fee.