

Background

The Supreme Court (SC) in its judgement passed on October 24, 2019, had ruled in favour of the Union of India on the longstanding dispute with various telecom operators including Vodafone Idea Limited (VIL) on the definition of Adjusted Gross Revenue (AGR). Operators pay a license fee and spectrum usage charges based on AGR.

As per the VIL's September 2019 quarterly earnings press release, VIL had accounted for liability to the government of ~INR 276.1bn towards underpaid license fees, interest on underpaid license fees, penalties and interest on penalty. In addition to this, VIL had also accounted for INR 165.4bn towards spectrum usage charges. Telecom companies were given a three months' timeline to pay the AGR dues i.e. by January 23, 2020. VIL had filed a review petition against the SC order.

Recent update on VIL

As per a stock exchange filing by VIL dated January 12, 2020, the board approved certain modifications in the utilization of proceeds raised from Rights Issue subscribed in May 2019. (Click for further details: <https://www.bseindia.com/xml-data/corpfiling/AttachHis/a4fdc512-b4e0-40dc-9650-9da2f4047e10.pdf>)

Pursuant to the Honorable Supreme Court (SC) decision on the interpretation of Adjusted Gross Revenue (AGR) for computation of license fee, the financial liabilities of several telecom operators including VIL stand increased significantly. A review petition was filed by VIL before the SC on account of the fast approaching deadline of January 23, 2020 to discharge the dues, and the SC dismissed the review petition on January 16, 2020. The large quantum of AGR dues and the immediate payment timeline is resulting in significant uncertainty with respect to our exposure to VIL. As per news reports, VIL had acknowledged its inability to retain financial solvency in the absence of relief measures from the government. While other relief avenues do exist, the situation remains unclear. Based on the VIL's stock exchange filing, we understand that VIL is exploring further options including filing a curative petition against the SC order.

Key actions

The debt securities of VIL held by schemes of Franklin Templeton Mutual Fund (FTMF) remains rated at investment grade, thus limiting the options available. As a prudent measure, and in order to protect value for existing unitholders in schemes of FTMF, we have taken the following two immediate steps:

1. Debt securities of VIL held in the schemes of FTMF have been marked down to zero. The valuation adjustment only reflects the realizable price of the relevant securities on the date of valuation and does not indicate any reduction or write-off of the amount repayable by VIL. The schemes will continuously monitor the developments in VIL and take appropriate steps to recover the investment proceeds in the best interest of its unitholders.
2. Fresh inflows in the scheme have been limited to INR 2 lacs per day per fund per investor, till further notice. This limit is imposed only on the new applications received after the cut-off time on 16th January 2020.

We will review these decisions on a regular basis and take appropriate actions as clarity emerges on this matter. A limit on purchases will help ensure that once clarity emerges and as resolution takes place, the interest of existing unitholders



has not been significantly diluted in the interim through fresh purchase activity while limiting the inconvenience to retail investors.

We continue to remain engaged with VIL, and closely track developments in this matter.

Rating as on date

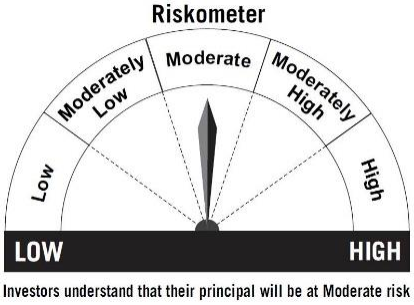
Company	Agency	Rating Outstanding
Vodafone Idea Limited	CRISIL	BBB- (Rating watch with negative implications)
Vodafone Idea Limited	CARE	BBB- (Under credit watch with negative implications)

Scheme wise holdings

Scheme_Name	Market Value as % of AUM (15-Jan-2020)
Franklin India Low Duration Fund	6.5%
Franklin India Dynamic Accrual Fund	4.1%
Franklin India Credit Risk Fund	4.7%
Franklin India Short Term Income Plan	4.4%
Franklin India Ultra Short Bond Fund	4.2%
Franklin India Income Opportunities Fund	4.9%

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

Product Labels:

Fund Name	This product is suitable for investors who are seeking*	
Franklin India Low Duration Fund (FILDF)	<ul style="list-style-type: none"> Regular income for short term A fund that focuses on low duration securities. 	 <p>Investors understand that their principal will be at Moderate risk</p>
Franklin India Short Term Income Plan (FISTIP)	<ul style="list-style-type: none"> Regular income for medium term A fund that invests in short term corporate bonds including PTCs. 	
Franklin India Credit Risk Fund (FICRF)	<ul style="list-style-type: none"> Medium to long term capital appreciation with current income A bond fund focusing on AA and below rated corporate bonds (excluding AA+ rated corporate bonds). 	
Franklin India Dynamic Accrual Fund (FIDA)	<ul style="list-style-type: none"> Medium term capital appreciation with current income A fund that focuses on fixed income securities with high accrual and potential for capital gains. 	
Franklin India Ultra Short Bond Fund (FIUBF)	<ul style="list-style-type: none"> Regular income for short term A fund that invests in short term debt and money market instruments 	
Franklin India Income Opportunities Fund (FIIOF)	<ul style="list-style-type: none"> Medium term capital appreciation with current income A fund that focuses on high accrual securities 	

*Investors should consult their financial distributors if in doubt about whether these products are suitable for them.

Disclaimer: This update is being provided only for select debt schemes of Franklin Templeton Mutual Fund which hold VIL in their portfolios. The information contained in the above commentary is not a complete presentation of every material fact regarding any industry, security or the fund and is neither an offer for units nor an invitation to invest. The information stated above does not constitute investment advice or recommendation to subscribe or transact in VIL. The views expressed herein are based on current market conditions and information currently available and does not constitute investment advice.

We have relied on third party data or information which, we believe to be correct but, we do not offer any assurance as to the accuracy or the correctness of the same and would not accept any liability for any loss or damage arising directly or indirectly from action taken, or not taken, in reliance on material or information contained herein

Statements/opinions/recommendations in this document, which contain words, or phrases such as “will”, “expect”, “should”, “believe” and similar expressions or variations of such expressions, are “forward looking statements”. Actual results may differ materially from those suggested by the forward-looking statements due to risk or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and/or investments.