

CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

Volume – 120 April 2021

Investment thoughts

Interest rates - an ally as well as adversary to debt fund performance

Debt funds have received increasing attention from individual investors in recent years given the market-linked returns, liquidity, tax benefits and transparency that they offer, and which make these more lucrative compared with traditional fixed investment products such as bank deposits. What these investors need to keep in mind, however, is that like their

equity peers, debt funds too are capital market instruments and therefore prone to short-term volatility. A case in point is the negative returns in some categories of debt funds in the latest 3-month period, as the following table shows.

Point to point performance of debt funds as on March 31, 2021

Period / category	Liquid funds	Short-duration funds	Medium-duration funds	Medium-to long-duration funds	Gilt funds
3M	0.8%	0.1%	0.5%	-0.6%	-0.8%
6M	1.6%	2.6%	3.7%	2.2%	2.0%
1Y	3.6%	7.6%	6.6%	7.5%	7.2%

Note: Performance of funds represented by the weighted average index of CRISIL-ranked funds in the respective category

when interest rates fall, while funds that follow accrual strategies do well when the rates remain flat or are high.

Unravelling the recent volatility

The recent volatility seen in long maturity debt funds is primarily an outcome of the sharp spike in yields in Jan-Mar, which pressured bond prices and, in turn, adversely affected the performance of the funds. The spike in yields was primarily due to wider-than-expected fiscal deficit estimates in the Union Budget 2021-22. Higher supply of government securities (G-secs), rising US Treasury yields and an increase in crude oil price pushed up the domestic yields.

Interest rate movements are one of the factors that influence the performance of debt funds. For instance, long-duration debt funds with higher maturity perform well

Not a one-off event

Debt mutual fund investors should note that such volatilities happen across market cycles and they do have an impact on returns. For instance, during the Global Financial Crisis of 2008, interest rates fell steeply, pulling down the yields. As a result, longer duration funds, such as gilt funds and medium-to long-duration funds, soared. Between December 2016 and January 2019, when the yields were up, shorter maturity funds came up trumps.

Market phase analysis

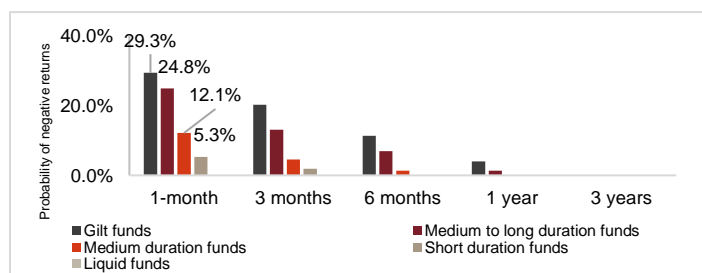
Period	Movement of 10-year g-sec yield during the period in bps	Medium duration funds	Medium to long duration funds	Gilt funds	Liquid funds	Short duration funds
Sharp correction in yields in 2008 (Aug 2008 - Dec 2008)	-400	9.5%	19.5%	25.6%	3.8%	5.1%
Flat or high interest rate period (Jan 2009 - Sep-2014)	322	7.8%	5.7%	3.5%	7.6%	7.9%
Declining yields (Oct 2014 - Nov 2016)	-206	10.1%	13.7%	15.4%	8.1%	10.2%
Increase in yields (Dec 2016 - Jan 2019)	127	5.0%	2.6%	2.7%	7.0%	5.6%
Declining interest rates (Feb 2019 - Jan 2021)	-166	5.1%	10.4%	11.8%	5.2%	8.2%

Returns are annualized for more than 1 year; returns are absolute for less than 1 year period
Yields rose during the market phases highlighted in red

Imperative for investors

An analysis of distribution of returns across categories of funds also shows that higher the investment horizon, lower are the chances for investors to generate negative. The analysis shows that long duration debt categories, such as gilt and medium- to long-duration funds have witnessed negative returns 25-29% of times in the 1-month rolling period. However, as we increased the investment horizon, the percentage of loss instances decreased, and a 3-year daily rolling analysis showed that gilt funds gave negative returns only a fraction of time while all other categories ended positive.

Historic analysis of less than zero returns in major debt MF categories



For the chart above, CRISIL analysed the number of times liquid, short-duration, medium-duration, medium- to -duration and gilt funds gave negative returns across short and long duration of rolling periods for the past 15 years ended March 31, 2021. The fund categories have been represented by weighted average index created from CRISIL-ranked mutual fund schemes in the respective category. While the rolling periods considered are 1 month, 3 months, 6 months, 1 year and 3 years, the analysis has been carried out on a daily basis, thus increasing the number of observations over the period of analysis.

Thus, it is imperative that investors become aware of various debt mutual funds' sensitivity to interest rate movements and accordingly map their portfolio planning with the right fund category. It is also important to review portfolio at regular frequency and as and when market condition changes. This is crucial to successful financial planning. Apart from these, investors should also analyse the overall impact on their costs and taxation.

Lastly, interest rates are just one of the factors that impact debt mutual funds. There are other risks such as credit and concentration of the portfolio. Financial advisors should factor in all such risks while identifying the right kind of funds for their customers.

Market – Overview

Indices	% Change in March 2021	% Change in February 2021
Nifty 50	1.11	6.56
S&P BSE Sensex	0.83	6.08

Indicators	March 31, 2021	February 26, 2021
10-year Gsec	6.16%	6.22%
Monthly CPI Inflation	5.52%	5.03%

Mutual fund - Overview

Top Stock Exposures – Mar 2021

- HDFC Bank Ltd.
- ICICI Bank Ltd.
- Infosys Ltd.
- Reliance Industries Ltd.
- State Bank Of India
- HDFC Ltd.
- Axis Bank Ltd.
- Bharti Airtel Ltd.
- Tata Consultancy Services Ltd.
- Larsen & Toubro Ltd.

Top Sector Exposures – Mar 2021

- Banks
- Computers - Software
- Pharmaceuticals
- Refineries/Marketing
- NBFC
- Cement
- Engineering, Designing, Construction
- Housing Finance
- Telecom - Services
- Passenger/Utility Vehicles

New Stocks Entries and Exits in Mutual Fund Portfolios – Mar 2021

Entries

- Acrysil Ltd.
- Easy Trip Planners Ltd.
- Anupam Rasayan India Ltd.
- Nazara Technologies Ltd.
- Kalyan Jewellers India Ltd.
- Laxmi Organic Industries Ltd.
- Craftsman Automation Ltd.
- Barbeque-Nation Hospitality Ltd.
- Den Networks Ltd.
- Punjab & Sind Bank

Exits

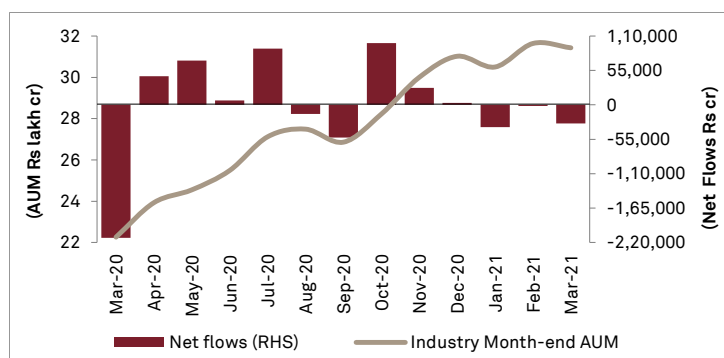
- AksharChem (India) Ltd.
- Plastiblends India Ltd.
- Siti Networks Ltd.
- V2 Retail Ltd.
- Mangalore Chemicals & Fertilisers Ltd.

Category returns	Absolute monthly returns %	
	March	February
Large cap funds	0.46	6.74
Large cap and mid-cap funds	0.85	9.07
Multi cap equity funds	1.12	8.12
Focused funds	0.11	7.56
Value – Contra funds	0.82	9.04
Mid-cap funds	1.45	10.73
Small cap funds	2.87	11.43
Arbitrage funds	0.38	0.29
ELSS	0.90	7.96
Index funds	0.92	6.33
Aggressive hybrid funds	0.80	6.21
Conservative hybrid funds	0.82	0.94
Gilt funds	0.82	-1.67
Dynamic funds	0.93	-1.42
Medium-to-long term funds	0.93	-1.66
Medium term funds	0.80	-0.60
Short-duration funds	0.65	-0.41
Corporate funds	0.84	-0.54
Banking and PSU debt fund	0.81	-0.67
Credit risk funds	1.05	0.18
Low duration funds	0.42	0.17
Money market funds	0.41	0.28
Ultra-short duration funds	0.38	0.26
Liquid funds	0.28	0.25

Category returns represented by average of CRISIL ranked funds – December 2020

- Indian equity indices rose for the second consecutive month in March 2021. Benchmark indices S&P BSE Sensex and Nifty 50 gained almost 1% each in the month due to strong domestic and global cues. Sensex and Nifty surged 68% and 71%, respectively, for fiscal 2021.
- Markets rose following the release of encouraging domestic macroeconomic data, including a marginal increase in gross domestic product (GDP) to 0.4% in the December 2020 quarter, a stable Purchasing Manufacturing Index (PMI), and strong Goods and Services Tax (GST) collections in February 2021. Positive global developments, including an expansion of the Covid-19 vaccination drive, the US Federal Reserve's decision to keep the interest rate unchanged at 0-0.25%, upbeat US jobs data, and improving prospects of a global economic recovery after the passage of a \$1.9 trillion US stimulus bill, also supported the market.
- Some gains were, however, capped by concerns over impending restrictions amidst rising Covid-19 cases, domestically and globally, and their impact on economic recovery. Nifty indices ended mixed - Nifty FMCG, Nifty IT, and Nifty Metal rose ~8%, 6%, and 4%, respectively, while Nifty Realty, Nifty Media, and Nifty PSU Bank fell ~10%, 5%, and 4%, respectively.

Mutual fund AUM and net flows trend



- The Indian mutual fund industry's AUM dipped ~1% on-month in March 2021 because of net outflows from open-ended debt funds. In contrast, open-ended equity funds recorded net inflows for the first time since June 2020. The last month of fiscal 2021 saw net outflows of ~Rs 29,745 crore and the industry's asset base settled at Rs 31.43 lakh crore, coming off the record high of Rs 31.64 lakh crore the month before. In fiscal 2021, inflows equalled Rs 2.09 lakh crore, while the asset base expanded ~41%.
- The open-ended debt fund category saw net outflows of ~Rs 52,528 crore in March 2021, the highest net outflows since ~Rs 1.95 lakh crore in March 2020. Liquid funds witnessed the highest outflows of ~Rs 19,384 crore, followed by low duration funds' Rs 15,847 crore. On the other hand, overnight funds attracted the highest net inflows of ~Rs 5,027 crore.
- In fiscal 2021, corporate bond funds, which invest in an underlying portfolio of top-rated papers, emerged as the biggest attraction in the category – net inflows over the 12 months ended March 2021 were Rs 69,305 crore. Credit risk funds saw the highest net outflows, at ~Rs 28,923 crore, over the same period. At an aggregate level, open-ended debt funds' AUM ended 3.36% lower on-month at Rs 13.28 lakh crore. In fiscal 2021, the category's AUM advanced ~29% or by Rs 2.99 lakh crore.
- Investor interest, based on long-term opportunities in the market, in open-ended equity funds in the last month of fiscal 2021 translated into net inflows of Rs 9,115 crore following net outflows in the previous 8 months. Last-minute tax-saving investments also favoured equity funds, with ELSS recording net inflows of Rs 1,552 crore in March 2021 – the second highest net inflows in the broad segment.
- In fiscal 2021, sectoral/ thematic funds recorded the highest net inflows of Rs 9,801 crore, aided by new theme launches in the category, while large cap funds recorded the highest net outflows of Rs 10,587 crore, as investors fretted about costly valuation after the recent sharp run-up in the market. Mark-to-market gains in the underlying equity market and net inflows helped the open-ended equity fund category's assets hit a fresh record high in March 2021 – AUM settled 1.66% or Rs 16,009 crore higher at Rs 9.79 lakh crore. For the financial year, assets rose ~69% or by Rs 4.01 lakh crore.
- Among regulatory developments, the SEBI tweaked its framework pertaining to contribution of asset management companies (AMCs) for setting up of limited purpose clearing corporation by mutual funds.

CRISIL Fund Rank 1 Schemes - Debt

Mutual Funds' Performance Report

Scheme Name	Point to Point Returns %						Inception Date	Average AUM (Rs.Crore)	Style Box	Std. Deviation (%)	Sharpe Ratio
	1 Month	3 Month	6 Month	1 Year	3 Years	Since Inception					
Gilt											
DSP Government Securities Fund	0.76	-0.83	1.84	7.30	10.12	9.70	30-Sep-99	529.09		5.03	1.85
LIC MF Government Securities Fund	0.78	-0.57	1.92	6.19	9.36	7.60	11-Dec-99	62.77		4.26	1.95
Dynamic Bond											
DSP Strategic Bond Fund	1.31	-1.30	1.47	6.69	8.76	7.11	9-May-07	1319.54		6.28	1.21
IDFC Dynamic Bond Fund	0.77	-1.76	1.26	6.86	9.23	8.36	3-Dec-08	3271.72		4.80	1.70
Medium to Long Duration											
IDFC Bond Fund - Income Plan	0.84	-1.86	1.12	6.10	8.58	8.36	14-Jul-00	694.75		4.73	1.54
Medium Duration											
IDFC Bond Fund - Medium Term Plan	0.73	-0.93	1.76	7.04	7.90	7.58	8-Jul-03	4621.07		2.96	2.14
Short Duration											
L&T Short Term Bond Fund	0.60	-0.08	2.06	6.99	7.83	8.25	27-Dec-11	4911.63		1.88	3.62
Principal Short Term Debt Fund	0.76	-0.33	1.93	7.49	4.06	7.13	9-May-03	152.22		10.89	0.74
Corporate Bond											
HDFC Corporate Bond Fund	0.93	-0.04	2.84	8.79	8.85	8.86	29-Jun-10	30319.81		2.54	3.67
L&T Triple Ace Bond Fund	1.68	-0.71	2.28	7.55	9.37	7.50	31-Mar-97	6506.91		4.87	1.58
Banking & PSU											
DSP Banking & PSU Debt Fund	0.86	0.07	2.51	8.02	8.45	8.67	14-Sep-13	3624.24		2.48	3.33
L&T Banking and PSU Debt Fund	0.75	-0.04	2.39	7.89	8.02	8.06	12-Sep-12	5370.82		2.24	3.61
Credit Risk											
HDFC Credit Risk Debt Fund	0.75	1.19	5.15	9.38	8.08	8.89	25-Mar-14	6922.29		2.45	4.14
Low Duration											
ICICI Prudential Savings Fund	0.07	0.40	2.50	7.40	7.66	8.00	27-Sep-02	26943.19		1.08	6.83
IDFC Low Duration Fund	0.53	0.75	2.01	5.87	7.08	7.55	17-Jan-06	6523.66		0.83	6.28
Money Market											
Franklin India Savings Fund	0.38	0.83	1.77	5.21	6.96	7.36	11-Feb-02	1135.03		0.52	8.29
Ultra Short Term											
IDFC Ultra Short Term Fund	0.36	0.75	1.70	4.79	NA	6.70	20-Jul-18	4649.49		0.42	8.72
Liquid											
Canara Robeco Liquid	0.28	0.76	1.53	3.20	5.45	7.30	15-Jul-08	1687.71		0.16	8.95
L&T Liquid Fund	0.28	0.76	1.55	3.52	5.71	7.37	3-Oct-06	7902.20		0.19	9.90

CRISIL Mutual Fund Ranks as of December 2020

Point to Point Returns are as on March 31, 2021

Returns are annualised for periods above 1-year, otherwise actualised

Risk Ratios are annualised

Risk ratios for Short Duration, Corporate Bond, Banking & PSU, Credit Risk, Low Duration, Money Market, Ultra Short Term and Liquid categories are for a period of 1 year; risk free rate: 3.31% (average T-bill auction cut off rate during the period)

Risk ratios for Gilt, Dynamic Bond, Medium to Long Duration & Medium Duration categories are for a period of 3 years; risk free rate: 5.14% (average T-bill auction cut off rate during the period)

Average AUM is 3-months average number as disclosed by AMFI for the period January-March 2021

CREDIT QUALITY

	High	Medium	Low	
High				INTEREST RATE
Medium				RATE
Low				SENSITIVITY

Average Assets under Management - A Bird's Eye View

Mutual Fund Name	Jan-Mar 2021	Oct-Dec 2020	Change (Rs.Cr)	% Change	Mutual Fund Name	Jan-Mar 2021	Oct-Dec 2020	Change (Rs.Cr)	% Change
	(Rs.Cr)	(Rs.Cr)				(Rs.Cr)	(Rs.Cr)		
SBI Mutual Fund	505373	457355	48018	10.50%	PPFAS Mutual Fund	8720	6632	2089	31.49%
HDFC Mutual Fund	416670	390489	26181	6.70%	BNP Paribas Mutual Fund	7837	7331	507	6.91%
ICICI Prudential Mutual Fund	416198	389321	26878	6.90%	Principal Mutual Fund	7768	6855	913	13.32%
Aditya Birla Sun Life Mutual Fund	269700	255851	13849	5.41%	PGIM India Mutual Fund	6527	4847	1680	34.66%
Kotak Mahindra Mutual Fund	234743	217077	17665	8.14%	Mahindra Manulife Mutual Fund	5271	5058	213	4.21%
Nippon India Mutual Fund	230222	214416	15806	7.37%	Union Mutual Fund	5240	4613	628	13.61%
Axis Mutual Fund	196862	177752	19110	10.75%	IDBI Mutual Fund	4162	4370	-208	-4.77%
UTI Mutual Fund	182853	165359	17494	10.58%	JM Financial Mutual Fund	2389	3700	-1311	-35.43%
IDFC Mutual Fund	122328	121293	1034	0.85%	IIFL Mutual Fund	2370	1885	485	25.72%
DSP Mutual Fund	97386	89487	7899	8.83%	BOI AXA Mutual Fund	2289	2351	-62	-2.63%
Franklin Templeton Mutual Fund	83525	82109	1415	1.72%	Quantum Mutual Fund	1942	1735	207	11.91%
L&T Mutual Fund	72728	68976	3752	5.44%	IL&FS Mutual Fund (IDF)	1679	1730	-51	-2.92%
Mirae Asset Mutual Fund	69773	58154	11619	19.98%	ITI Mutual Fund	1179	845	334	39.50%
Tata Mutual Fund	62078	59263	2815	4.75%	Quant Mutual Fund	722	454	268	59.09%
Edelweiss Mutual Fund	52415	45909	6505	14.17%	Essel Mutual Fund	698	670	27	4.10%
Invesco Mutual Fund	36841	32790	4051	12.36%	Indiabulls Mutual Fund	664	921	-258	-27.96%
Sundaram Mutual Fund	32052	30467	1585	5.20%	Trust Mutual Fund	625	0	625	NA
Canara Robeco Mutual Fund	28273	23209	5064	21.82%	IIFCL Mutual Fund (IDF)	588	603	-16	-2.58%
Motilal Oswal Mutual Fund	27993	24185	3808	15.75%	Taurus Mutual Fund	475	435	40	9.15%
LIC Mutual Fund	16927	15744	1184	7.52%	Shriram Mutual Fund	203	189	13	7.02%
HSBC Mutual Fund	10552	10131	421	4.16%	YES Mutual Fund	110	129	-19	-14.97%
Baroda Mutual Fund	9641	8286	1355	16.36%	Grand Total	3236590	2992976	243614	8.14%

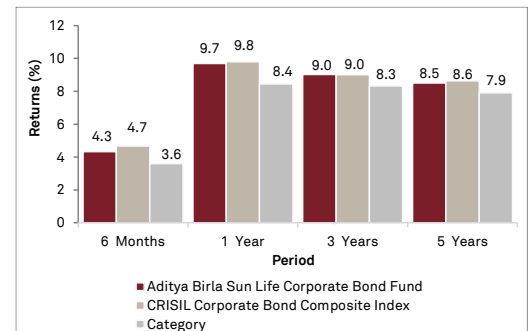
Fund Focus

Aditya Birla Sun Life Corporate Bond Fund (CRISIL Fund Rank 2)

Aditya Birla Sun Life Corporate Bond Fund, which was launched in March 1997, has been ranked either CRISIL Fund Rank 1 or 2 (top 30 percentile of its peer group) in the corporate bond fund category for the past three quarters-ended December 2020. In the quarter-ended March 2021, the fund's asset under management (AUM) was Rs 25,521 crore.

Corporate bond funds are open-ended debt funds that primarily invest in highest-rated non-convertible debentures and bonds. The funds may also invest a small portion in government securities (G-secs). The funds typically follow an accrual strategy, aiming to generate returns via accrual of interest on the bonds, which are mostly of shorter duration, and are held till maturity.

Performance as on April 19, 2021



Note: Returns for all periods are annualised

Performance

The fund has outperformed its peers in all periods analysed - six months, and one, three and five years - as of April 19, 2021. Its performance was close to the benchmark CRISIL Corporate Bond Composite across all time periods. Since inception, the fund has clocked 9.3% returns.

The fund has also performed strongly on risk-adjusted basis, as measured by Sharpe ratio. It posted a Sharpe ratio of 3.44 as compared with 2.55 given by the category in the three years-ended April 19, 2021.

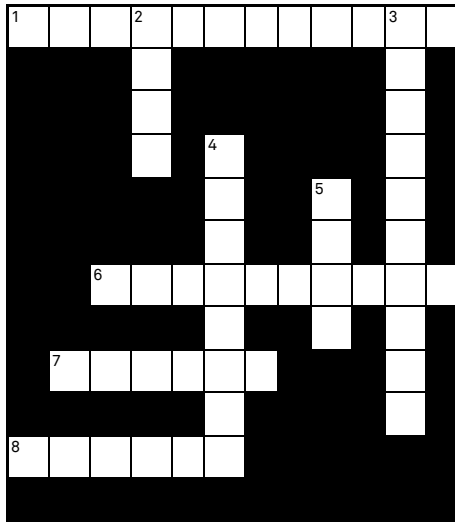
Portfolio analysis

In the three years-ended March 2021, the fund invested mainly in non-convertible debentures and bonds, averaging 76% share of AUM. Over the period, exposure to G-secs was 16% and remaining in cash / cash equivalents. On the asset quality front, exposure to top-rated papers (AAA and A1+) and G-secs averaged 89% of the portfolio over the past three years.

Fund manager

The fund is managed by Kaustubh Gupta, a B.Com and chartered accountant, who has over 15 years of experience in fund management.

Crossword Corner – boost your financial knowledge



Horizontal

- 1) A fixed-income based banking product (5,7)
- 6) The variability in the daily returns offered by a scheme (10)
- 7) A scheme that invests in an underlying portfolio of securities that have a maturity of up to 91 days (6)
- 8) The interest rate offered by a bond

Vertical

- 2) A tax saving mutual fund scheme (1,1,1,1)
- 3) This benefit is offered by debt schemes provided they are held for a period of atleast three years (10)
- 4) A bond price's sensitivity to interest rate changes (8)
- 5) A scheme that invests in an underlying portfolio of government securities (4)

Answers

Vertical: 2) ELSS (Equity Linked Savings Scheme) 3) Indexation 4) Duration 5) Gift
Horizontal: 1) Fixed Deposit 6) Volatility 7) Liquid 8) Coupon

Contact Details

Dinesh Agarwal: +91 22 3342 3440; Dinesh.Agarwal@crisil.com
Ankur Nehra: +91 124 6722 418; Ankur.Nehra@crisil.com
Pradeep Nair: +91 22 3342 3539; Pradeep.Nair@crisil.com

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint. It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore. It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our large network sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

CRISIL Privacy

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com/privacy.

Disclaimer

CRISIL Research, a division of CRISIL Limited (CRISIL) has taken due care and caution in preparing this Report based on the information obtained by CRISIL from sources which it considers reliable (Data). However, CRISIL does not guarantee the accuracy, adequacy or completeness of the Data / Report and is not responsible for any errors or omissions or for the results obtained from the use of Data / Report. This Report is not a recommendation to invest / disinvest in any entity covered in the Report and no part of this report should be construed as an investment advice. CRISIL especially states that it has no financial liability whatsoever to the subscribers/ users/ transmitters/ distributors of this Report. CRISIL Research operates independently of, and does not have access to information obtained by CRISIL's Ratings Division / CRISIL Risk and Infrastructure Solutions Limited (CRIS), which may, in their regular operations, obtain information of a confidential nature. The views expressed in this Report are that of CRISIL Research and not of CRISIL's Ratings Division / CRIS. No part of this Report may be published / reproduced in any form without CRISIL's prior written approval. CRISIL or its associates may have commercial transactions with the company/entity.