

CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

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Investment thoughts

SEBI's double-benchmark system for mutual funds, and its importance

The Securities and Exchange Board of India (SEBI) has introduced a two-tiered structure for benchmarking of mutual fund schemes. The move, as part of efforts to improve the standardisation and disclosure levels in the fund management industry, will take effect on January 1, 2022.

What the new guidelines prescribe

Most open-ended mutual fund categories will now have two benchmarks. The first one will reflect the broader category, such as the S&P BSE 100 index or NSE 100 index, for large-cap funds.

The second can be a 'bespoke' benchmark, chosen by the asset management company (AMC), according to the investment style/ strategy of the scheme. For instance, for large-cap funds, the AMC can choose the Nifty 50 index as the second benchmark.

The specifications for broad categories of benchmarks are given below.

Category	First tier	Second tier
Income-/ debt-oriented schemes	One broad-market index per index provider for each category	Bespoke
Growth-/ equity-oriented schemes	One broad-market index per index provider for each category	Bespoke
Hybrid and solution-oriented schemes	Single benchmark, i.e. broad-market benchmark wherever available or bespoke to be created for schemes, which would then be applicable across the industry	-
Thematic/ sectoral schemes	Single benchmark, as the characteristics of the schemes are already tapered according to the theme/ sector	-
Index fund and Exchange Traded Funds	Single benchmark to replicate the underlying index	-
Single-fund fund of funds (FoFs)	Single benchmark of the underlying scheme shall be used for the corresponding FoF	-
Multiple-scheme FoFs	A broad market index shall be applied	-
For other schemes	Depending on the underlying asset allocation, a broad market benchmark may be arrived at	-

Source: SEBI

The regulator has advised the Association of Mutual Funds in India (AMFI) to publish the first-tier benchmarks to be used by the AMCs, wherever applicable, as per the potential risk-class matrix, by December 1, 2021. The AMCs will have time until January 1, 2022, to adopt the first- and second-tier benchmarks for their schemes.

CRISIL's take

The regulator's move is a positive development as it will bring in uniformity in terms of performance comparison for schemes within a single mutual-fund category, especially within open-ended equity and debt-oriented schemes.

A CRISIL analysis of major equity and debt-oriented schemes shows that dispersion has remained in terms of benchmarking by funds within a category despite the uniformity of scheme classification brought in by the regulator in 2018.

For instance, even within large-cap funds – which limit their investments to the top-100 listed stocks by market capitalization – there are four unique benchmarks being used by the underlying schemes (table below).

Funds category	Number of unique benchmarks
Large caps	6
Large and mid-caps	4
Flexi caps	4
Multi-caps	4
Mid-caps	4
Small caps	4
ELSS	7
Focussed	7
Value	7

Similarly, on the debt side, gilt or corporate bond funds have six and eight unique benchmarks within the schemes in their categories.

Category	Number of unique benchmarks
Gilts	6
Corporate bond funds	8
Banking and PSUs	3
Liquid funds	2

The applicability of a total return index (TRI) for both, the first- and second-tier benchmarks, is another plus, as it will help accurately compare a scheme's performance. The second-tier benchmark will also enable investors to identify the strategy and style of the underlying scheme, leading to a better comparison of schemes with a similar strategy within a category.

Market – Overview

Indices	% Change in Sep 2021	% Change in Aug 2021
Nifty 50	2.73	9.44
S&P BSE Sensex	2.84	8.69

Indicators	Sep 31, 2021	Aug 31, 2021
10-year Gsec	6.22%	6.22%
Monthly CPI Inflation	4.35%	5.30%

Mutual fund - Overview

Top Stock Exposures – Sep 2021

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

Top Sector Exposures – Sep 2021

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

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

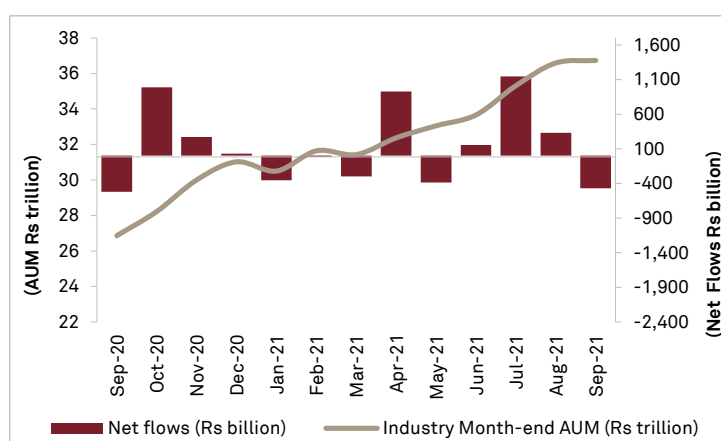
Entries	Exits
Vijaya Diagnostic Centre Ltd.	Asian Granito India Ltd.
Aditya Birla Sun Life AMC Ltd.	Olectra Greentech Ltd.
Sansera Engineering Ltd.	Pricol Ltd.
Man Infraconstruction Ltd.	Manali Petrochemical Ltd.
Ami Organics Ltd.	
Paras Defence and Space Technologies Ltd.	
Ugro Capital Ltd.	
V2 Retail Ltd.	
Hindustan Foods Ltd.	
Fertilisers and Chemicals Travancore Ltd.	
Hinduja Global Solutions Ltd.	
Tata Teleservices (Maharashtra) Ltd.	

Category returns	Absolute monthly returns %	
	Sep	Aug
Large cap funds	2.26	6.90
Large cap and mid-cap funds	3.02	4.16
Multi cap equity funds	3.89	3.33
Flexi cap funds	2.47	5.47
Focused funds	2.36	5.80
Value – Contra funds	3.43	3.58
Mid-cap funds	3.82	1.97
Small cap funds	5.18	-0.29
Arbitrage funds	0.09	0.35
ELSS	2.61	5.05
Index funds	2.81	8.93
Aggressive hybrid funds	2.09	4.25
Conservative hybrid funds	1.18	1.88
Gilt funds	0.67	0.97
Dynamic funds	0.98	0.77
Medium -to- long term funds	1.19	0.79
Medium term funds	0.70	0.74
Short-duration funds	0.84	0.60
Corporate funds	0.27	0.66
Banking and PSU debt fund	0.34	0.59
Credit risk funds	2.06	0.66
Low duration funds	0.87	0.42
Money market funds	0.23	0.34
Ultra-short duration funds	0.38	0.33
Liquid funds	0.24	0.29

Category returns represented by average of CRISIL ranked funds – September 2021

- Indian equities continued its monthly gain for the fifth straight month on optimism over improving domestic growth prospects. The benchmark indices S&P BSE Sensex and Nifty 50 rose around 3% each in September 2021, ending at fresh record highs.
- India's real GDP grew 20.1% in the April-June quarter of fiscal 2022 compared with a 24.4% contraction in the year-ago quarter and 1.6% growth in the fourth quarter of last fiscal. Meanwhile, S&P Ratings retained India's fiscal 2022 growth outlook at 9.5% and said the economic activity is expected to pick up coming quarters due to high-frequency indicators such as goods and services tax (GST) receipts and motor vehicle sales.
- The market got a boost after the government announced a slew of reforms for the telecom and auto sectors. Continued buying from foreign institutional investors (FIIs), domestic institutional investors (DIIs) and easing domestic inflation data also lifted investors' sentiments.
- However, some gains were chipped off on weak global cues, including China's Evergrande debt crisis and rising US Treasury yields.
- Nifty sectoral indices mostly ended higher, with Nifty Realty (~34%), Nifty Media (~30%) and Nifty Energy (~13%) gaining the most.

Mutual fund AUM and net flows trend



- The domestic mutual fund industry's asset base hit a record high in September, rising 0.39% on-month to settle at Rs 36.74 lakh crore. Inflows in open-ended equity and hybrid schemes contributed to the growing asset base, while mark-to-market (MTM) gains in the equity market also helped.
- The open-ended equity fund base advanced 3.77% or Rs 46,505 crore to settle at a record Rs 12.80 lakh crore. Within the category, multi-cap funds led the way with net inflows of Rs 3,569 crore. Both sectoral / thematic schemes and flexi-cap schemes registered net inflows for the seventh month.
- Furthermore, data indicated investor confidence in systematic investment plans (SIP) is growing steadily. For September, the SIP contribution was Rs 10,351 crore, higher than August's Rs 9,923 crore.
- Hybrid schemes recorded net inflows for the ninth straight month at ~Rs 3,588 crore. There were net inflows of Rs 5,234 crore in balanced advantage schemes. Equity savings schemes recorded net inflows Rs 916 crore, while conservative hybrid schemes recorded net inflows for the 11th month in a row, at Rs 426 crore.
- Cumulative net inflows in exchange-traded funds (ETFs) – gold and equity – totalled Rs 8,106 crore in September. While, inflows into index funds and fund of funds (FoFs) that invest overseas totalled Rs 3,514 crore in September.
- Open-ended debt schemes recorded net outflows of Rs 63,910 crore in September owing to redemptions made by corporate houses and institutional investors for making advance tax payments.
- Liquid funds bore the brunt of the net outflows at Rs 48,379 crore. Low duration funds also registered net outflows, at Rs 16,609 crore. While, Overnight and floater funds recorded net inflows of Rs 16,312 crore and Rs 5,871 crore, respectively.
- In the close-ended debt category, redemptions in fixed-term plans totalled Rs 4,980 crore in September compared with August's Rs 6,480 crore.
- SEBI proposed skin-in-the-game rule for junior employees of mutual funds would be implemented in a phased manner from October 1.

CRISIL Fund Rank 1 Schemes - Debt

Mutual Funds' Performance Report

Scheme Name	Point to Point Returns %						Inception Date	Average AUM (Rs. Crore)	Std. Deviation (%)	Sharpe Ratio
	1 Month	3 Month	6 Month	1 Year	3 Years	Since Inception				
Gilt										
IDFC Government Securities Fund - Investment Plan	0.37	1.58	3.25	4.69	11.35	8.46	3-Dec-08	1903.72	5.12	2.23
DSP Government Securities Fund	0.73	2.02	3.57	5.49	11.05	9.65	30-Sep-99	444.89	4.85	2.27
Dynamic Bond										
IDFC Dynamic Bond Fund	0.33	1.44	3.05	4.34	9.95	8.27	3-Dec-08	3619.34	4.73	2.06
Quantum Dynamic Bond Fund	0.76	1.80	2.87	4.98	8.67	8.42	19-May-15	81.59	3.63	2.11
Medium to Long Duration										
IDFC Bond Fund - Income Plan	0.30	1.38	2.82	3.94	9.29	8.30	14-Jul-00	675.41	4.65	1.90
Medium Duration										
IDFC Bond Fund - Medium Term Plan	0.27	1.39	2.82	4.60	8.28	7.52	8-Jul-03	3776.32	2.97	2.49
Short Duration										
Kotak Bond Short Term Plan	0.43	1.66	3.02	5.23	8.35	7.67	2-May-02	16894.27	1.12	3.99
Nippon India Short Term Fund	0.35	1.61	3.21	6.19	8.38	7.94	23-Dec-02	9755.51	1.08	5.41
Corporate Bond										
L&T Triple Ace Bond Fund	1.12	2.36	3.94	6.27	10.77	7.51	31-Mar-97	8275.77	2.61	2.30
IDFC Corporate Bond Fund	0.12	1.69	3.11	6.12	8.56	7.94	12-Jan-16	20691.09	1.57	3.67
Banking & PSU										
Edelweiss Banking and PSU Debt Fund	1.36	2.42	4.11	7.17	10.72	8.86	13-Sep-13	465.24	3.05	2.38
ICICI Prudential Banking & PSU Debt Fund	0.79	1.90	3.42	6.29	8.38	8.41	1-Jan-10	13867.89	1.27	4.68
Credit Risk										
HDFC Credit Risk Debt Fund	0.59	2.00	4.76	10.11	9.37	8.94	25-Mar-14	8204.30	1.21	9.32
Low Duration										
Canara Robeco Savings Fund	0.17	0.90	1.74	3.60	6.33	7.59	4-Mar-05	1425.01	0.30	6.88
ICICI Prudential Savings Fund	0.40	1.54	2.86	5.49	7.63	7.95	27-Sep-02	34159.42	0.65	7.34
Money Market										
Nippon India Money Market	0.26	0.95	1.90	3.92	6.40	7.51	15-Jun-05	9365.02	0.20	12.62
Ultra Short Duration										
Canara Robeco Ultra Short Term Fund	0.17	0.69	1.37	2.72	4.95	7.13	14-Jul-08	672.95	0.16	4.87
L&T Ultra Short Term Fund	0.22	0.85	1.69	3.43	5.94	7.19	10-Apr-03	2582.56	0.20	8.93
Liquid										
Parag Parikh Liquid Fund	0.24	0.78	1.55	3.03	4.46	4.67	11-May-18	1404.22	0.15	8.16
Canara Robeco Liquid	0.26	0.80	1.61	3.15	4.76	7.14	15-Jul-08	1981.47	0.15	9.28
Parag Parikh Liquid Fund	0.24	0.78	1.55	3.03	4.46	4.67	11-May-18	1404.22	0.15	8.16

CRISIL Mutual Fund Ranks as of September 2021

Point to Point Returns are as on September 30, 2021

Returns are annualised for periods above 1-year, other wise 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: 3.29% (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: 4.63% (average T-bill auction cut off rate during the period)

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

Average Assets under Management - A Bird's Eye View

Mutual Fund (MF) Name	Jul-Sep 2021 (Rs. Cr)	Apr-Jun 2021 (Rs. Cr)	Change (Rs. Cr)	% Change	Mutual Fund (MF) Name	Jul-Sep 2021 (Rs. Cr)	Apr-Jun 2021 (Rs. Cr)	Change (Rs. Cr)	% Change
SBI Mutual Fund	579318	524316	55002	10.49%	HSBC Mutual Fund	11476	10815	660	6.11%
ICICI Prudential MF	461289	429229	32060	7.47%	PGIM India Mutual Fund	11185	8110	3075	37.91%
HDFC Mutual Fund	441852	418947	22904	5.47%	Principal Mutual Fund	8930	8038	892	11.10%
Aditya Birla Sun Life MF	299382	275904	23478	8.51%	BNP Paribas Mutual Fund	8745	8122	623	7.67%
Kotak Mahindra MF	270615	247750	22866	9.23%	Union Mutual Fund	7300	5916	1384	23.39%
Nippon India Mutual Fund	267213	242102	25111	10.37%	Mahindra Manulife MF	6687	5664	1023	18.06%
Axis Mutual Fund	238575	208505	30070	14.42%	IDBI Mutual Fund	4384	4295	89	2.07%
UTI Mutual Fund	208971	187210	21761	11.62%	Quant Mutual Fund	3301	1642	1659	101.02%
IDFC Mutual Fund	126560	126268	293	0.23%	IIFL Mutual Fund	3128	2591	537	20.73%
DSP Mutual Fund	107290	104026	3264	3.14%	BOI AXA Mutual Fund	2494	2211	283	12.79%
Mirae Asset Mutual Fund	91802	78139	13663	17.49%	JM Financial Mutual Fund	2089	2135	-45	-2.13%
L&T Mutual Fund	78274	75531	2743	3.63%	Quantum Mutual Fund	2012	1945	67	3.44%
Tata Mutual Fund	77010	66999	10010	14.94%	ITI Mutual Fund	1983	1562	421	26.94%
Edelweiss Mutual Fund	69188	61256	7932	12.95%	IL&FS Mutual Fund (IDF)	1385	1686	-301	-17.83%
Franklin Templeton MF	64587	61636	2950	4.79%	Trust Mutual Fund	1033	858	175	20.39%
Invesco Mutual Fund	42930	39016	3914	10.03%	Navi Mutual Fund	867	728	139	19.06%
Canara Robeco MF	39344	32541	6804	20.91%	Indiabulls Mutual Fund	655	632	23	3.58%
Motilal Oswal Mutual Fund	33544	29428	4116	13.99%	IIFCL Mutual Fund (IDF)	612	596	16	2.63%
Sundaram Mutual Fund	33377	32151	1225	3.81%	Taurus Mutual Fund	539	496	43	8.74%
LIC Mutual Fund	18040	17642	398	2.26%	Shriram Mutual Fund	217	208	10	4.68%
PPFAS Mutual Fund	15943	11343	4600	40.56%	YES Mutual Fund	46	81	-36	-43.71%
Baroda Mutual Fund	11953	10645	1309	12.29%	Grand Total	3656125	3348915	307210	9.17%

AAUM is the quarterly average number and includes domestic fund of funds

Fund Focus

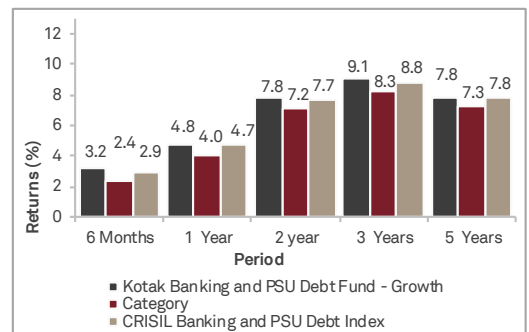
Kotak Banking and PSU Debt Fund - Growth

Kotak Banking and PSU Debt Fund, launched in December 1998, was ranked in the top 30 percentile (CRISIL Fund Rank 2) for the quarter ended June 2021 in the banking and PSU debt fund category. The fund had average assets under management of Rs 9,687 crore in quarter-ended September 2021.

Performance

The fund outperformed its peers and the benchmark, CRISIL Dynamic Debt Index, as of October 20, 2021 in all periods analysed. The fund has clocked ~7.5% returns since its inception.

Performance as on October 20, 2021



Note: Returns for periods over one year are annualised, else absolute

Duration management

The fund managed its interest rate risk well by altering its modified duration. For instance, when the 10-year government security benchmark yield rose to 6.22% in September 2021 from 5.95% in January 2021, the fund reduced its modified duration to 3.1 years in September 2021 from 4.0 years in January 2021.

Portfolio analysis

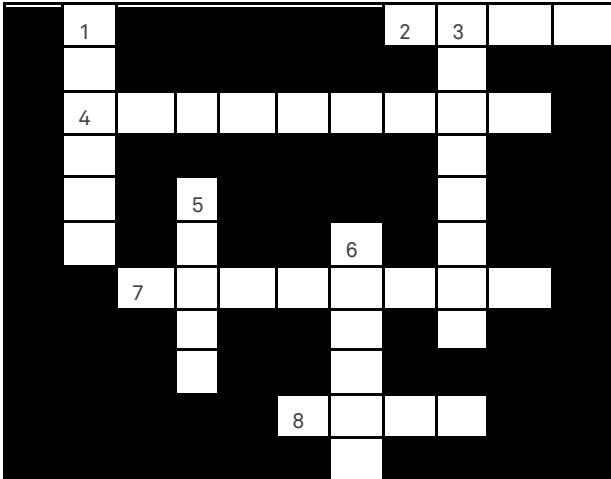
In the three years ended September 2021, the fund invested predominantly in non-convertible debentures and bonds, with average exposure to both totalling 64% share. In the same period, average exposure to government securities was 18%.

On the asset quality front, top-rated papers (AAA and A1+) averaged ~59% of the debt portfolio over the past three years.

Fund manager

The fund is managed by Deepak Agarwal, who is a Post Graduate in Commerce, and a qualified chartered accountant and company secretary, with over 19 years of experience.

Crossword Corner – boost your financial knowledge



Horizontal

1. A fund that has a three year lock-in and offers tax advantages (1,1,1,1)
4. A measure used to compare the performance of a mutual fund or portfolio of securities (9)
7. A category which affords flexibility in allocation across the equity securities of large, mid, and small sized companies so long as there is a minimum allocation of 65% to equities (5,3)
7. Bonds issued by the government of India that carry no credit risk (4)

Vertical

1. A category that comprises schemes that invest in both equity and debt securities (6)
3. A scheme that invests in the equity securities of the financially strongest companies (5,3)
4. A scheme that looks to invest in companies whose share prices are trading at lower than their intrinsic value based on fundamental analysis (5)
5. These schemes follow a graded exit load structure wherein investors are penalised for redemption within seven days of investment (6)

Answers

Vertical: 1) Hybrid 3) Large Cap 5) Value 6) Liquid

Horizontal: 2) ELSS (Equity Linked Savings Scheme) 4) Benchmark 7) Flexi Cap 8) Gilt

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