CRISIL Mutual Fund Ranking Methodology

Research

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CMFR is the relative ranking of mutual fund schemes within a peer group. The basic criteria for inclusion in the ranking universe are three-year / one-year NAV history and AUM in excess of category cut-off limits, and complete portfolio disclosure. Three-year NAV history is considered across all equity, hybrid, dynamic bond, medium duration, medium to long duration, banking & PSU, corporate bond, credit risk and gilt categories; whereas one-year for liquid, low duration, money market, ultra-short term categories.

Only open-ended schemes are considered. Ranking is based on the following parameters:

Mean return and volatility

Mean return and volatility are considered as separate parameters across all categories. Mean return is the average of daily returns based on the scheme's NAV for the period under analysis and volatility is the standard deviation of these returns. While the period for analysis is three years for equity, hybrid, gilt, dynamic, medium duration, medium to long duration, banking & PSU, corporate bond, credit risk, short duration categories; it is one year for, liquid, low duration, ultra-short and money market categories. The period of analysis is broken into four overlapping periods (latest 36, 27, 18 and 9 months for three-year period, and latest 12, 9, 6 and 3 months for one-year period). Each period is assigned a progressive weight starting from the longest period as follows: 32.5%, 27.5%, 22.5% and 17.5%, respectively.

Outlier returns in debt funds due to recovery are normalised while calculating mean returns and volatility.

Portfolio concentration analysis

Concentration measures the risk arising out of improper diversification. For equity securities, diversity score is used as the parameter to measure industry as well as company concentration. In case of debt schemes, the company concentration is analysed at an individual issuer specific limit. The limit is linked with the credit rating of the issuer; a high rated issuer will have higher limits and as the rating declines the limit is reduced progressively. Exposure to cash and equivalents beyond a defined threshold is also penalized under this parameter.

Exposure to sensitive sectors

In case of debt schemes, industry concentration is analysed for exposure to sensitive sectors which are arrived based on Industry Risk Score (IRS) for various sectors. CRISIL's assessment of IRS quantifies the credit risk associated with an industry on a uniform scale to ensure comparability across industries. The score captures the influence of various industry variables on the debt repayment ability of companies in a particular sector over a 3-4-year horizon.

Liquidity analysis

It measures the ease with which a portfolio can be liquidated. The lower the score, the better. In case of equities, it measures the number of days to liquidate the portfolio. Liquidity is calculated by taking the average portfolio liquidity score of the past three months.

Equity liquidity is computed as follows:

Liquidity score of each stock = No. of shares held / daily average trading volume of past six months

Portfolio liquidity score = Weighted average liquidity score of the above

In case of debt liquidity, T-bills will be treated at par and will be scored better followed by G-sec, then SDL and corporate bonds. All SDLs will be treated at par and scored equal to liquid classified corporate debt. G-sec will be assessed using the security level trade data for the last three months by analysing turnover (volume), the number of days security is traded, and the number of trades. Corporate debt liquidity is computed by classifying each security into three categories - liquid, semi liquid and illiquid based on (best of) spread over benchmark and number of days traded in the past three months.

Asset quality

Asset quality measures the probability of default by the issuer of a debt security to honour the debt obligation in time.

Duration

Modified duration is considered across all the debt categories except liquid to capture the interest rate risk of the portfolio. The lower the value, the better.

Tracking error

This is used only for index schemes. The tracking error is an estimation of the variability in a scheme's performance vis-à-vis the index that it tracks. The lower the tracking error, the better.

Count of Negative Returns

The count of negative returns is used as parameter in arbitrage funds to capture downside risk of the funds.

Eligibility criteria

- Only open-ended funds are considered, both regular and direct plans ranked separately
- NAV history
  - Three years for equity, hybrid, gilt, dynamic, medium to long, medium duration, banking & PSU, corporate bond, credit risk and short duration funds
  - One year for arbitrage, low duration, ultra-short, money market and liquid funds
- AUM cut-off criteria

Broad Investment Type^	AUM Cut-offs (Rs. Crore)
Equity	10
Debt and Hybrid	50
Debt (<1 year)	250
Liquid	1000

^ Each of the broad investment types comprise of the following ranking categories -

Equity: Multi Cap, Flexi Cap, Large Cap, Large & Midcap, Midcap, Small Cap, Focused, Value/Contra, ELSS, Index/ETF

Hybrid: Aggressive Hybrid, Conservative Hybrid, Arbitrage

Debt: Gilt, Dynamic Bond, Medium to Long duration, Medium duration, Banking & PSU, Credit Risk, Corporate Bond, Short duration
Debt (<1 year): Money market, Low duration, Ultra short duration, Liquid

** Cut-off to be met by funds during all the month-ends in the respective quarter, along with Quarterly Average AUM*

If a fund is not ranked on basis of AUM in the preceding quarter meets the AUM criteria, it will be reviewed and included in the subsequent quarter based on the fortnightly and monthly AUM trend of the fund in the subsequent quarter.

- Complete portfolio disclosure for all three months in the last quarter
- For debt funds fortnightly portfolios are also considered.

- Below mentioned SEBI-defined categories are currently excluded from the rankings:
- Equity: Dividend yield funds, sectoral/thematic funds

  Debt: Overnight funds, long duration funds, 10-year constant maturity gilt funds, floater funds

  Hybrid: Dynamic asset allocation/balanced advantage funds, multi asset allocation funds, equity savings funds

  Others: Solution-oriented funds, fund of funds, index/ETFs (other than ones replicating Nifty or Sensex)

  Exclusion criteria for having excess cash and equivalent in debt funds: Funds with average cash and equivalent exposure (in 1 year or 3 years depending on category) more than below mentioned thresholds are excluded

Cash and equivalent exposure threshold %	Categories
>= 35%	Liquid, ultra-short term, low duration, money market, dynamic bond
>= 25%	For rest of the debt categories (excluding gilt)

Miscellaneous:

- Index schemes that are benchmarked to indices other than S&P BSE Sensex and Nifty 50.
- Not pure arbitrage funds by mandate, have option to take some net equity exposure
- Funds which are slated to merge, funds which have discontinued/suspended fresh subscriptions, funds for which new category has not been disclosed.

Parametric weights

Equity categories:

Parameters	Large cap, large & mid cap, multi cap, flexi cap, mid cap, value/contra, focused, small cap, ELSS	Index / ETFs
Mean return (%)	55	-
Tracking error (%)	-	100
Volatility (%)	25	-
Company concentration (%)	5	-
Industry concentration (%)	10	-
Equity - liquidity (%)	5	-
Time (years)	3	3

Hybrid categories:

Parameters	Aggressive hybrid	Conservative hybrid	Arbitrage
Mean return (%)	50	50	60
Volatility (%)	25	10	25
Company concentration (%)	5	5	
Industry concentration / exposure to sensitive sector (%)*	10	5	
Equity - liquidity (%)	10%*K	7.5%*K	
Debt - asset quality (%)	5%* (100-K)	17.5	
Debt liquidity (%)	5%* (100-K)	7.5%* (100-K)	
Modified duration (%)	-	5	
Count of Negative Returns (%)			15
Time (years)	3	3	1

K = Equity component in hybrid schemes

** Industry concentration for equity and exposure to sensitive sectors for debt portion of the portfolio*

Debt categories:

Parameters	Gilt	Dynamic, medium to long, medium duration	Banking and PSU, corporate bond, credit risk, short duration	Low duration, money market, ultra short term	Liquid
Mean return (%)	50	50	50	50	50
Volatility (%)	25	10	10	10	10
Company concentration (%)	-	5	5	5	5
Exposure to sensitive sector (%)	-	5	5	5	5
Debt - asset quality (%)	-	17.5	10	10	15
Debt liquidity (%)	15	7.5	15	15	15
Modified duration (%)	10	5	5	5	-
Time (years)	3	3	3	1	1

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