

CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

Volume – 124 August 2021

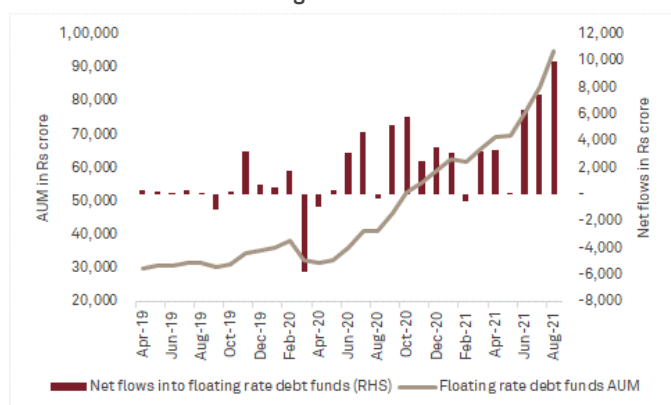
Investment thoughts

Floater funds in the zone as interest rates rise

With interest rates slowly tracing their way back to pre-pandemic levels, floating rate debt funds – also referred to as floater funds – are in the limelight of late. CRISIL's analysis shows that in the six months ended August 31, 2021, a period that saw flat or rising interest rates, floating rate funds have generated the best returns of 3.40% compared with 1.66-3.10%¹ for other categories of similar tenure and composition. Not surprisingly, investor interest has

surged, with August witnessing net flows of Rs 9,991 crore. This is the highest monthly net flows for the category on record since April 2019, when the Association of Mutual Funds in India (AMFI) started detailed disclosure. What's more, flows into existing funds and new fund launches, coupled with accrual gains, have taken the assets under management (AUM) of the category to a record Rs 94,751 crore at the latest count.

Net flows and AUM of floating rate debt funds



Source: AMFI, CRISIL Research

The constrained FRB market in India drives fund managers to use derivative instruments such as OIS to convert the fixed-coupon bonds of varying tenures into synthetic floating positions and thereby meet the regulator's holding requirement.

What exactly is fuelling growth of floating rate funds?

Floating rate debt funds fare better than comparable categories in interest rate scenarios such as the current one because they invest a chunk of their monies in instruments such as floating rate bonds (FRBs) or derivatives converting fixed rate-coupon bonds into synthetic floating positions.

Today, though the RBI continues to maintain interest rates at all-time lows, its soft interest rate regime seems to be on its last legs as high inflation, a large fiscal deficit, and talk of monetary policy normalisation from major central banks loom large on the horizon. For now, the RBI is taking baby steps towards the exit. CRISIL expects this calibrated withdrawal of liquidity to continue and gain momentum as more certain signs of economic recovery become visible. The expectation, though, is predicated on growth staying on track. A two-stage signalling is expected by the end of this fiscal: a change in stance from accommodative to neutral, followed by a hike in the repo rate by 25 bps to 4.25%. This, in turn, will push domestic yields upward from current levels. After falling from a high of nearly 6.70% pre-pandemic to near 5.70% post-lockdown, yield on the 10-year government security (G-sec) has risen again to trade around 6.20% levels. By March 2022, we expect this yield to firm up to 6.50%.

Interest rates and bond prices have an inverse relationship – rising interest rates beat down the prices of bonds and shore up their yields — and this holds especially for long-maturity papers. However, OIS swaps provide market-linked returns as their rates are reset periodically based on prevailing interest rates. An OIS can be categorised into a fixed leg (where the investor pays fixed coupon) and a floating leg (where a daily compounded OIS return is received). OIS rates have been on an uptrend over the period of the study between January and August 2021. These increased OIS rates, coupled with spreads, have lifted the swap value and, in turn, buoyed the returns of floating rate fund schemes.

An investment opportunity, but tread with caution

Among other advantages, because of their structure, floating rate debt funds provide investors a hedge against rising interest rates. Also, akin to other debt mutual fund categories, a holding period greater than three years provides indexation benefit, thus reducing the overall tax liability on investment gains.

Investors should, however, note that the performance of FRBs is subject to factors such as timing of entry, reset dates and liquidity of these instruments.

These funds are also vulnerable to the risks – of credit, interest and liquidity – typically associated with fixed-income instruments, which can result in capital losses in the short term. A sharp rise in yields and/ or delay in roll-back of loose monetary policy by the central bank could impact returns.

What do floating rate funds invest in?

According to SEBI definition, these funds need to invest a minimum of 65% of their investments in floating rate instruments. In practice, a chunk of these funds consist of synthetic exposures in the form of interest rate swaps such as overnight index swaps (OIS).

A portfolio analysis of floating rate debt funds for August shows that allocation of FRBs in floater funds currently ranges from 0% to ~56% of the schemes' net asset value, with the rest of the corpus being parked in short- and medium-duration fixed-coupon bonds that are then converted into synthetic floating positions through swaps.

The primary reason for such synthetic exposure is the limited supply of FRBs in India. As of June, there were Rs 1.74 lakh crore corporate floating bonds outstanding in the market, which accounted for a mere 4.81% of the total outstanding corporate bond issuances. Similarly, the share of RBI-issued FRBs during last fiscal stood at only 6.5% of total government issuances.

¹ Direct plans have been considered for the performance analysis

Market – Overview

Indices	% Change in July 2021	% Change in June 2021
Nifty 50	0.26	1.05
S&P BSE Sensex	0.20	0.89

Indicators	July 31, 2021	June 30, 2021
10-year Gsec	6.20%	6.05%
Monthly CPI Inflation	5.59%	6.26%

Mutual fund - Overview

Top Stock Exposures – July 2021

1. ICICI Bank Ltd.
2. HDFC Bank Ltd.
3. Infosys Ltd.
4. Reliance Industries Ltd.
5. State Bank Of India
6. Axis Bank Ltd.
7. HDFC Ltd.
8. Bharti Airtel Ltd.
9. Larsen & Toubro Ltd.
10. Tata Consultancy Services Ltd.

Top Sector Exposures – July 2021

1. Banks
2. Computers - Software
3. Pharmaceuticals
4. Refineries/Marketing
5. NBFC
6. Cement
7. Engineering, Designing, Construction
8. Housing Finance
9. Telecom - Services
10. Steel

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

Entries

- Avantel Softech Ltd.
- Expleo Solutions Ltd.
- G R Infraprojects Ltd.
- India Glycols Ltd.
- Jai Balaji Industries Ltd.
- Kaya Ltd.
- KSE Ltd.
- Nahar Spinning Mills Ltd.
- Pricol Ltd.
- Religare Enterprises Ltd.
- Rico Auto Industries Ltd.
- Rolex Rings Private Ltd.
- Tatva Chintan Pharma Chem Ltd.
- Vimta Laboratories Ltd.
- Zomato Ltd.

Exits

- Arihant Superstructures Ltd.
- Atul Auto Ltd.
- CMI Ltd.
- Gayatri Projects Ltd.
- Nucleus Software Exports Ltd.
- Orissa Cement Ltd.
- Skipper Ltd.
- USG Tech Solutions Ltd.
- Monnet Ispat & Energy Ltd.
- PG Electroplast Ltd.

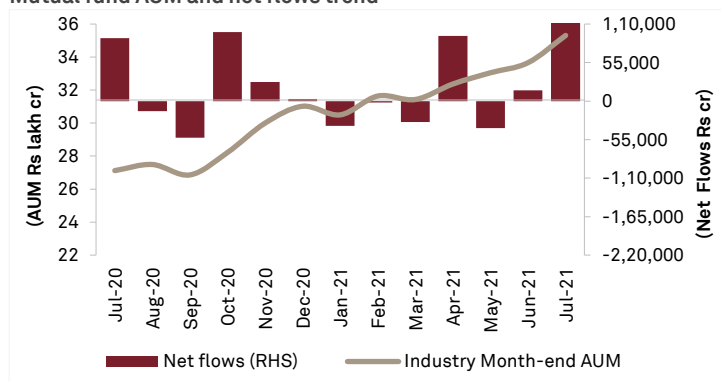
Category returns

	Absolute monthly returns %	
	July	June
Large cap funds	1.82	1.74
Large cap and mid-cap funds	3.58	3.69
Multi cap equity funds	5.37	3.41
Flexi cap funds	2.93	2.95
Focused funds	2.29	2.23
Value – Contra funds	3.56	2.68
Mid-cap funds	5.25	5.18
Small cap funds	7.23	5.90
Arbitrage funds	0.35	0.40
ELSS	3.01	2.87
Index funds	0.38	1.15
Aggressive hybrid funds	2.41	2.42
Conservative hybrid funds	1.12	0.73
Gilt funds	0.29	0.02
Dynamic funds	0.29	0.31
Medium-to-long term funds	0.32	0.01
Medium term funds	1.63	0.11
Short-duration funds	0.58	0.08
Corporate funds	0.61	0.07
Banking and PSU debt fund	0.54	0.09
Credit risk funds	1.24	0.32
Low duration funds	0.42	0.25
Money market funds	0.34	0.27
Ultra-short duration funds	0.45	0.32
Liquid funds	0.28	0.27

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

- Indian equities extended its monthly gain for the third straight month on positive corporate earnings, improved domestic macro-economic data and strong global cues. The benchmark indices S&P BSE Sensex and Nifty 50 rose around 0.2% each in July 2021.
- Markets sentiment was further boosted by domestic institutional investors (DIIs) and mutual funds continuing to be net buyers in July. DIIs bought equities worth Rs 172 billion in July 2021 compared to Rs 70.44 billion in June 2021.
- Positive global cues, including strong US economic growth data and Chinese export numbers, buoyed the market, while continued support from global central banks to aid the recovery from the pandemic cheered investors.
- However, further gains were constrained by domestic growth worries after the International Monetary Fund (IMF) cut India's GDP growth forecast to 9.5% for fiscal 2022 from the 12.5% growth forecast earlier, citing the impact of the second wave of the pandemic on economic recovery.
- Nifty sectoral indices ended on a mixed note, with Nifty Realty (~16%), Nifty Metal (~11%) and Nifty IT (~5%) gaining the most.

Mutual fund AUM and net flows trend



- The industry AUM advanced ~4.9% on-month, or ~Rs 1.65 lakh crore, the highest monthly gain in aggregate AUM since November 2020. Industry assets grew across the board with inflows in most categories, further aided by mark-to-market (MTM) gains in equity assets.
- Open-ended equity schemes registered inflows for the fifth consecutive month at ~Rs 22,584 crore. Meanwhile, flows into SIPs stood at Rs 9,609 crore in July compared with Rs 9,156 crore in the June 2020.
- Within the category, flexi cap funds recorded the highest monthly net inflows since AMFI began disseminating data in January 2021 of ~Rs 11,508 crore. Sectoral/thematic schemes and small cap funds registered fifth consecutive month of net inflows at ~Rs 5,729 crore and ~Rs 1,779 crore, respectively.
- Value/contra and ELSS were the only categories within the open-ended equity segment that registered net outflows.
- Hybrid schemes' net monthly inflows accelerated for the seventh consecutive month to a fresh high of ~Rs 19,481 crore in July, surpassing June's ~Rs 12,361 crore.
- Within the category, only arbitrage funds and aggressive hybrid fund recorded inflows of ~Rs 14,924 crore and ~Rs 674 crore respectively.
- In July, equity exchange traded funds (ETFs), FoFs investing overseas and index funds saw net inflows of ~Rs 6,500 crore, ~Rs 2,500 crore and ~Rs 1,100 crore, respectively.
- However, gold ETFs recorded monthly net outflows for the first time since November 2020 at ~Rs 61 crore in July.
- Within the open-ended debt category, liquid funds recorded the highest monthly net inflows at ~Rs 31,740 crore.
- In the closed-ended debt category, fixed-term plans saw redemptions totalling ~Rs 9,779 crore in July, only marginally less than June's ~Rs 10,536 crore.
- SEBI is looking to tweak the risk management framework for mutual funds (MFs).

CRISIL Fund Rank 1 Schemes - Equity

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				
Large Cap										
Canara Robeco Bluechip Equity Fund	1.37	9.75	17.60	44.28	16.13	13.09	20-Aug-10	2706.39	24.49	0.84
Franklin India Bluechip Fund	1.72	10.60	22.37	59.49	12.76	20.10	1-Dec-93	6127.84	26.84	0.63
IDBI India Top 100 Equity Fund	2.40	12.90	22.24	48.61	13.68	14.88	15-May-12	442.85	25.30	0.70
Large & Mid Cap										
Mirae Asset Emerging Bluechip Fund	3.73	14.32	28.09	66.41	22.26	22.09	9-Jul-10	17282.46	26.12	1.10
UTI Core Equity Fund	3.67	16.65	32.99	69.17	13.93	12.75	30-Jul-05	987.04	25.28	0.71
Flexi Cap										
PGIM India Flexi Cap Fund	6.05	17.46	33.03	68.86	23.09	15.29	4-Mar-15	1044.96	25.56	1.17
UTI Flexi Cap Fund	3.95	13.73	23.52	64.96	18.40	16.26	1-Aug-05	17843.29	23.84	0.98
Multi Cap										
Quant Active Fund	7.27	17.79	45.69	93.06	28.43	19.64	18-Apr-01	498.67	26.02	1.40
Focused										
IIFL Focused Equity Fund	5.67	16.05	23.25	60.36	23.11	16.32	24-Oct-14	1754.59	25.66	1.17
Principal Focused Multicap Fund	1.59	11.43	25.52	54.45	16.80	15.86	11-Nov-05	557.66	25.03	0.86
Value / Contra										
SBI Contra Fund	5.38	17.86	31.21	86.79	17.99	15.99	6-May-05	2083.10	24.61	0.95
IDFC Sterling Value Fund	6.52	19.54	44.93	104.93	14.03	16.85	7-Mar-08	3473.54	26.16	0.70
Mid Cap										
BNP Paribas Mid Cap Fund	5.77	17.98	38.30	77.23	20.09	11.95	2-May-06	898.14	22.46	1.12
PGIM India Midcap Opportunities Fund	7.63	20.45	42.31	96.75	26.43	19.57	2-Dec-13	1498.67	25.60	1.32
Small Cap										
Kotak Small Cap Fund	6.47	21.52	47.78	121.70	26.15	17.78	24-Feb-05	4029.90	22.40	1.46
ELSS										
BOI AXA Tax Advantage Fund	5.08	15.73	33.75	71.12	19.29	19.83	25-Feb-09	442.38	23.43	1.04
Canara Robeco Equity Tax Saver	2.93	13.02	23.53	57.23	19.43	20.49	2-Feb-09	2138.92	24.67	1.01
IDFC Tax Advantage (ELSS) Fund	2.95	14.03	33.82	77.48	15.67	18.88	26-Dec-08	3156.57	25.51	0.80
Quant Tax Plan	7.07	21.73	49.81	108.13	30.87	15.28	31-Mar-00	182.32	26.36	1.49
Index										
HDFC Sensex ETF	0.35	8.41	14.44	40.76	13.15	15.49	9-Dec-15	99.73	27.97	0.63
Kotak Sensex ETF Fund	0.33	8.35	14.30	40.48	12.92	10.78	6-Jun-08	17.66	28.00	0.62
SBI - ETF SENSEX	0.35	8.41	14.42	40.77	13.15	14.08	15-Mar-13	44699.48	28.00	0.63
UTI SENSEX Exchange Traded Fund	0.35	8.41	14.42	40.77	13.17	14.19	1-Sep-15	13809.94	28.01	0.63

CRISIL Mutual Fund Ranks are as of June 2021
Point to Point Returns are as on July 31, 2021
Returns are annualised for periods above 1-year, other wise actualised
Risk Ratios are annualised
Period for Risk Ratios is three years
For Sharpe Ratio the risk free rate is 4.82% - the average 91-day T-Bill auction cut-off rate for three years
Average AUM is 3-months average number as disclosed by AMFI for the period April-June 2021

Average Assets under Management - A Bird's Eye View

Mutual Fund Name	Apr-Jun 2021	Jan-Mar 2021	Change (Rs.Cr)	% Change	Mutual Fund Name	Apr-Jun 2021	Jan-Mar 2021	Change (Rs.Cr)	% Change
	(Rs. Cr)	(Rs. Cr)				(Rs. Cr)	(Rs. Cr)		
SBI Mutual Fund	524316	505373	18943	3.75%	Baroda Mutual Fund	10645	9641	1004	10.41%
ICICI Prudential Mutual Fund	429229	416198	13030	3.13%	BNP Paribas Mutual Fund	8122	7837	285	3.63%
HDFC Mutual Fund	418947	416670	2277	0.55%	PGIM India Mutual Fund	8110	6527	1583	24.26%
Aditya Birla Sun Life Mutual Fund	275904	269700	6204	2.30%	Principal Mutual Fund	8038	7768	269	3.47%
Kotak Mahindra Mutual Fund	247750	234743	13007	5.54%	Union Mutual Fund	5916	5240	676	12.90%
Nippon India Mutual Fund	242102	230222	11880	5.16%	Mahindra Manulife Mutual Fund	5664	5271	393	7.45%
Axis Mutual Fund	208505	196862	11643	5.91%	IDBI Mutual Fund	4295	4162	133	3.21%
UTI Mutual Fund	187210	182853	4358	2.38%	IIFL Mutual Fund	2591	2370	221	9.33%
IDFC Mutual Fund	126268	122328	3940	3.22%	BOI AXA Mutual Fund	2211	2289	-78	-3.43%
DSP Mutual Fund	104026	97386	6640	6.82%	JM Financial Mutual Fund	2135	2389	-254	-10.65%
Mirae Asset Mutual Fund	78139	69773	8366	11.99%	Quantum Mutual Fund	1945	1942	3	0.16%
L&T Mutual Fund	75531	72728	2803	3.85%	IL&FS Mutual Fund (IDF)	1686	1679	7	0.40%
Tata Mutual Fund	66999	62078	4921	7.93%	Quant Mutual Fund	1642	722	920	127.42%
Franklin Templeton Mutual Fund	61636	83525	-21888	-26.21%	ITI Mutual Fund	1562	1179	384	32.56%
Edelweiss Mutual Fund	61256	52415	8842	16.87%	Trust Mutual Fund	858	625	233	37.29%
Invesco Mutual Fund	39016	36841	2175	5.90%	Navi Mutual Fund	728	698	31	4.39%
Canara Robeco Mutual Fund	32541	28273	4268	15.10%	Indiabulls Mutual Fund	632	664	-32	-4.78%
Sundaram Mutual Fund	32151	32052	99	0.31%	IIFCL Mutual Fund (IDF)	596	588	8	1.44%
Motilal Oswal Mutual Fund	29428	27993	1435	5.13%	Taurus Mutual Fund	496	475	21	4.35%
LIC Mutual Fund	17642	16927	715	4.22%	Shriram Mutual Fund	208	203	5	2.47%
PPFAS Mutual Fund	11343	8720	2622	30.07%	YES Mutual Fund	81	110	-28	-25.73%
HSBC Mutual Fund	10815	10552	263	2.49%	Grand Total	3348915	3236590	112325	3.47%

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

Fund Focus

Nippon India Focused Equity Fund - Growth

Launched in December 2006, Nippon India Focused Equity Fund has been ranked in the top 30 percentile of its peer group (CRISIL Fund Rank 1 and 2) for the past two consecutive quarters ended June 2021. The fund's AAUM stood at Rs 5,050 crore for the quarter ended June 2021.

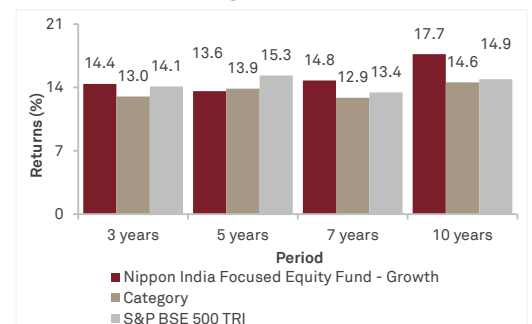
Investment approach

The fund invests in a concentrated portfolio of maximum 30 stocks in the multi-cap space.

Performance

The fund has outdone its benchmark (S&P BSE 500 TRI) and peers (represented by the focused funds category as per the CMFR - June 2021) in most of the periods analysed.

Performance as of August 24, 2021



Note: Returns are annualized

Better risk-adjusted returns

The fund almost outperformed its category and the benchmark on a risk-adjusted basis, as measured by the Sharpe ratio (higher the better) over the three years ended August 24, 2021. The fund's Sharpe ratio was around 0.72, in line with that of the benchmark, but higher than around 0.67 for the category over the period.

SIP returns performance

If an investor had set aside Rs 1,000 every month under the systematic investment plan (SIP) for three years ended August 24, 2021, the investment of Rs 36,000 would have grown to Rs 54,446, at a 29.1% compound annual growth rate. A similar investment in the benchmark would have grown to Rs 53,150 at 27.3%.

Portfolio analysis

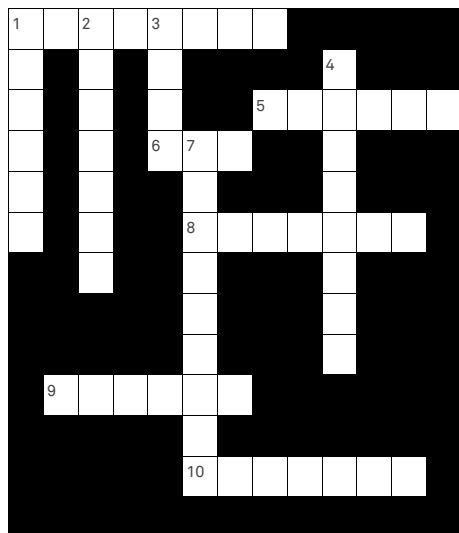
The fund has consistently held 10 stocks over the past three years ended July 2021, with the highest exposure to the State Bank of India (7.6%), followed by HDFC Bank (7.1%), ICICI Bank (7.0%), ITC (5.5%) and Honeywell Automation India (3.4%).

Over the past three years ended July, the top five sectors, on average, formed 55.8% of the portfolio. The fund had the highest exposure to banks (27%).

Fund manager

The fund is managed by Prateek Poddar, a Chartered Accountant and Vinay Sharma, a PGDCM.

Crossword Corner – boost your financial knowledge



Horizontal

- 1 The principal and interest if any is expected to be repaid by the bond issuer at this time (8)
- 5 The periodic interest payments receivable by a bond holder are determined by this (6)
- 6 A type of interest rate swap (1,1,1)
- 8 A fund which invests in a portfolio of securities that offer interest rates that vary based on the underlying market scenario (7)
- 9 The risk that a bond issuer may not be able to repay the principal / interest on time and in full (6)
- 10 A monetary policy stance that is neither accommodative nor restrictive (7)

Vertical

- 1 A fund that invests in companies that are expected to grow at a faster rate than the most well established companies (3,3)
- 2 This entity is tasked with protection the interests of unitholders (7)
- 3 A policy interest rate applicable in India (4)
- 4 A measure of sensitivity of a bond's price to change in market interest rates (8)
- 7 An economy wide increase in the price of goods and services at an aggregate level over a period of time (9)

Answers

Vertical: 1) Midcap 2) Trustee 3) Repo 4) Duration 7) Inflation

Horizontal: 1) Maturity 5) Coupon 6) OIS (Overnight Index Swap) 8) Floater 9) Credit 10) Neutral

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