

CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

Volume – 81 January 2018

Investment thoughts

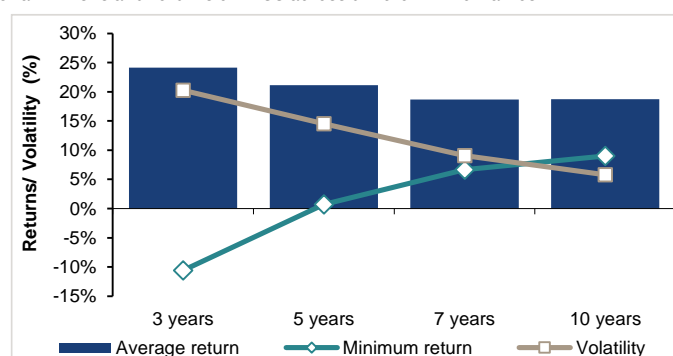
ELSS – an optimum way to save tax and build wealth over the long term

The equity asset class has been in a sweet spot in recent years with the S&P BSE Sensex returning nearly 13% CAGR in the past four years ended January 15, 2018. On the other hand, interest rates on fixed income tax-savings instruments have been declining in recent years. For instance, the interest on the popular public provident fund (PPF) has fallen from 8.7% in 2014 to 7.6% today. The real or inflation-adjusted return on these instruments is barely enough to meet an individual’s wealth-creation needs. Hence, when it comes to tax planning, it is remunerative to choose equity instead of traditional debt-based tax-saving products in the long term. Equity-Linked Saving Schemes (ELSS) that are eligible for Section 80C deductions not only help to save tax but also build wealth.

ELSS helps in harnessing power of equity

Equity is one of the best wealth creation avenues available to investors over the long term. The asset class as represented by the market benchmark S&P BSE Sensex has returned, on average, 15% CAGR for a 15-year holding period since its inception (1979). ELSS allows investors to harness this power of equity. However, investors should note that despite the fact that this product has the lowest lock-in period among tax-saving products under Section 80 C, it would be optimum for investors to retain their investments over the long term. This not only reduces the volatility associated with the asset class but also provides an optimum return solution for investors (chart). The ELSS category as represented by the CRISIL – AMFI ELSS Fund Performance Index has returned 19% CAGR, on average, in the 10-year rolling period since June 2001 (inception date of the index).

Chart - Risks and returns of ELSS across different time frames



Notes: ELSS data represented by CRISIL-AMFI ELSS Fund Performance Index; volatility represented by standard deviation; returns are annualised calculated on a daily rolling basis since June 2001 (inception of CRISIL-AMFI ELSS Fund Performance Index) for all holding periods; data until December 29, 2017

Table – Comparison of major investment products available under section 80C of income tax act

Characteristics	Equity-based		Debt-based		
	ELSS	ULIP	PPF	NSC	Tax saving FDs
Returns	Linked to equity market returns	Market-linked based on investment chosen (equity / debt)	7.6%*, compounded annually	7.6%*, compounded half-yearly	6-25-6.50%^
Lock-in period/tenure	Full amount can be withdrawn after three years from date of allotment	Lock-in period of five years; no surrender charges after five years	Lock-in period of 15 years; partial withdrawal permitted after six years	Lock-in period of five years; no withdrawal prior to maturity, but investments can be used as collateral to avail loans from banks	No premature exits permitted
Tax treatment	As per Budget 2018, the long term capital gains (LTCG) for holding period of more than one-year will be taxed at 10% for income over Rs 1 lakh. The budget has also proposed a 10% dividend distribution tax (DDT) on dividend option	Tax-free after the minimum lock-in period of five years (tax-free at event of death of policy holder)	Tax exempt at contribution, accumulation and withdrawal	Interest income taxed at income tax slabs	Interest income taxed at income tax slabs

*For January-March 2018 ^for maturity of five years and above (Source: RBI)

Sync it with your long term goals

Tax planning is not just about saving your tax outgo. The aim should also be to ingrain it holistically in your lifecycle investing. By investing in ELSS, you not only save tax but you can also attain various long term goals like building a retirement kitty, funding your children’s education expenses etc. ELSS is especially relevant as India has a young population with a median age of under 30 years, which can afford to take a long-term investment horizon and allocate a higher sum to the equity asset class to meet its wealth creation needs for the sunset years. However, it is imperative that investors do the necessary due diligence and invest as per his/her risk profile.

Meticulous tax planning also means avoiding the last-minute rush to save taxes. It should be a throughout-the-year process rather than an year-end activity as even in ELSS, investing on a lump-sum basis can be a risky proposition. Hence, it is better to invest regularly, and an investor can do so with the help of a systematic investment plan (SIP). Investors can refer to the CRISIL Mutual Fund Rankings to choose the best ELSS fund for their investments.

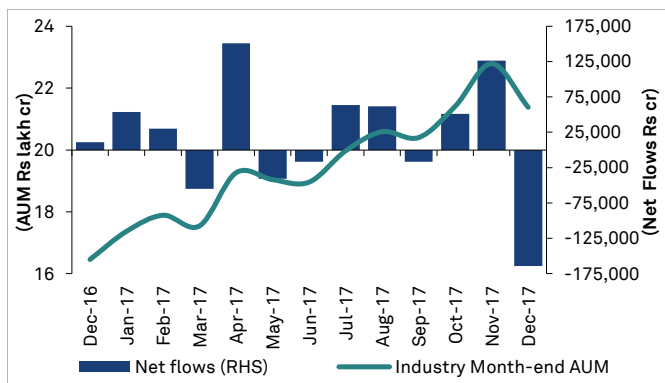
Market - Overview

Indices	% Change in	
	Dec 2017	Nov 2017
Nifty 50	2.97	-1.05
S&P BSE Sensex	2.74	-0.19

Indicators	Dec 29, 2017	
	Dec 29, 2017	Nov 30, 2017
10 year Gsec	7.33%	7.06%
Monthly CPI Inflation	5.21%	4.88%

- Domestic equities put up an impressive performance in 2017. Benchmarks S&P BSE Sensex and Nifty 50 index rose 28% and 29%, respectively, in the year. In the last month of 2017, both indices gained around 3% each.
- The equity market drew support from the ruling party's victory in Gujarat and Himachal Pradesh assembly elections, rebound in domestic gross domestic product in Q2 FY18, hopes of a good Union Budget scheduled on February 1, 2018, and persistent buying by domestic institutional investors.
- Globally, upbeat US economic data, coupled with passage of the US tax-cut bill, induced more buying in the domestic market.
- Further gains were, however, capped owing to heightened anxiety about the government not being able to meet its fiscal deficit target for 2017-18.
- Disappointing Goods and Services Tax revenue collection for November 2017, weak inflation and industrial output data also chipped off some gains.
- Nifty Metal index was the top gainer – up 7%, as commodity prices remained firm globally. Buying spree continued in realty stocks; Nifty Realty gained 6.5%.
- Among the laggards, Nifty PSU Bank index fell the most - down 4% after Reserve Bank of India (RBI) data showed that bad loans of public sector banks tallied at Rs 7.34 lakh crore by the end of Q2 FY18.

Mutual Fund – Overview



Category returns	Absolute Monthly Returns%	
	Dec-17	Nov-17
CRISIL – AMFI Large Cap Fund Performance Index	2.97	-0.12
CRISIL – AMFI Diversified Equity Fund Performance Index	3.49	0.97
CRISIL – AMFI Small & Midcap Fund Performance Index	4.50	2.88
CRISIL – AMFI ELSS Fund Performance Index	3.97	0.91
CRISIL – AMFI Balance Fund Performance Index	2.00	0.51
CRISIL – AMFI MIP Fund Performance Index	0.29	-0.01
CRISIL – AMFI Gilt Fund Performance Index	-0.85	-0.38
CRISIL – AMFI Income Fund Performance Index	-0.61	-0.23
CRISIL – AMFI Short Term Debt Fund Performance Index	-0.10	0.20
CRISIL – AMFI Ultra Short Fund Performance Index	0.27	0.44
CRISIL – AMFI Liquid Fund Performance Index	0.50	0.51
Gold Funds (ETFs and FoFs)	-0.21	-0.02

- Cyclical quarter-end month outflows from liquid funds and outflows from debt funds, owing to a sharp rise in yields, capped the mutual fund industry's gains at 30% in 2017 (highest growth in the past eight years). Assets under management (AUM) fell 6%, or by Rs 1.41 lakh crore, to Rs 21.38 lakh crore in December 2017 even as equity funds continued to lend support to the industry.
- Investor interest in equities was intact with equity funds attracting inflows of Rs 16,087 crore in December 2017, marking inflows for the 21st consecutive month. The category's AUM rose to a new high of Rs 7.71 lakh crore with gain of 5.2% or Rs 37,968 crore.
- Balanced funds recorded inflows of Rs 9,756 crore in December, higher than the previous month's Rs 7,614 crore. Aided by inflows for the 43rd straight month, the category's AUM rose by Rs 12,280 crore, or 7.9%, to Rs 1.67 lakh crore.
- Debt and gilt funds saw outflows in December as investors redeemed their money owing to cautiousness amid rise in bond yields.

Top Stock Exposures – Dec 2017

- HDFC Bank Ltd.
- ICICI Bank Ltd.
- State Bank of India
- Larsen & Toubro Ltd.
- Infosys Ltd.
- ITC Ltd.
- Housing Development Finance Corporation Ltd.
- Maruti Suzuki India Ltd.
- Reliance Industries Ltd.
- Kotak Mahindra Bank Ltd.

Top Sector Exposures – Dec 2017

- Banks
- Pharmaceuticals
- Computers - Software
- Engineering, designing, construction
- Refineries/marketing
- Passenger/Utility Vehicles
- NBFC
- Housing Finance
- Cement
- Power

New Stocks Entries and Exits in Mutual Fund Portfolios – Dec 2017

Entries	Exits
Future Supply Chain Solutions Ltd.	BLS International Services Ltd.
Kesoram Industries Ltd.	Dena Bank
LT Foods Ltd.	Gammon India Ltd.
N R Agarwal Industries Ltd.	Indraprastha Medical Corporation Ltd.
Shalby Ltd.	Jayaswal Neco Industries Ltd.
Weizmann Forex Ltd.	Kesar Petroproducts Ltd.
Kridhan Infra Ltd.	Rashtriya Chemicals & Fertilizers Ltd.
TIL Ltd.	Sree Jayalakshmi Autospin Ltd.
Shaily Engineering Plastics Ltd.	Swiss Galscoat Equipments Ltd.
Gayatri Projects Ltd.	Uniply Industries Ltd.
One Point One Solutions Ltd.	Zee Learn Ltd.
Alembic Ltd.	
Ultramarine & Pigments Ltd.	
GVK Power & Infrastructure Ltd.	
Indiabulls Ventures Ltd.	

- Yield of the 10-year benchmark g-sec bond rose from 7.06% in November-end to 7.33% in December-end owing to concerns over fiscal slippage and as rise in inflation dashed hopes of rate cut by the RBI in the near term.
- Debt funds saw largest outflows of Rs 60,151 crore since June 2010; resultantly, AUM fell 6.9%, or by Rs 59,484 crore, to Rs 8.08 lakh crore. Gilt funds saw outflows of Rs 470 crore and AUM fell 3.9% or by Rs 597 crore.
- Liquid funds' AUM fell 30.7%, or by Rs 1.32 lakh crore, to Rs 2.97 lakh crore owing to record outflows of Rs 1.28 lakh crore in the month. Sharp outflows followed withdrawals from banks and corporates as part of their quarter-end reporting and advance tax requirement.
- Among regulatory developments, Sebi has asked mutual fund houses to adopt total return index (TRI) to benchmark schemes.
- Sebi has decided to put a 10% cross shareholding cap on mutual funds.
- The Association of Mutual Funds in India has issued a list of stocks based on their market capitalisation for mutual funds.

Fund News

- The National Stock Exchange has enabled e-mandate facility on its mutual fund platform.
- Punjab National Bank has signed an agreement with Principal Financial Group to sell its stake in their mutual fund joint venture for an undisclosed sum.

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					
Debt Long											
ICICI Prudential Long Term Plan	-0.29	-0.60	0.38	5.35	9.28	9.97	20-Jan-10	3615.20		3.52	0.64
SBI Dynamic Bond Fund	-0.89	-1.02	-0.39	4.04	8.42	5.56	9-Feb-04	3890.44		3.18	0.45
UTI-Dynamic Bond Fund	-1.11	-1.14	-0.17	4.24	8.65	9.44	24-Jun-10	1774.24		3.13	0.55
Debt Short											
HDFC Medium Term Opportunities Fund	-0.17	0.56	2.55	6.65	8.61	8.91	29-Jun-10	13537.48		1.21	0.32
IDFC Money Manager Fund - Investment Plan	-0.43	0.18	2.09	5.64	7.76	7.54	9-Aug-04	1784.42		0.84	-0.65
IDFC Super Saver Income Fund - Medium Term	-0.43	0.08	1.55	5.25	7.67	7.54	8-Jul-03	4520.73		1.05	-0.89
Kotak Corporate Bond Fund	0.20	1.16	2.98	7.00	8.51	8.17	21-Sep-07	1087.65		0.63	1.19
Gilt											
Reliance Gilt Securities Fund	-1.20	-1.67	-0.99	3.58	8.92	9.06	22-Aug-08	1568.34		3.79	0.50
UTI Gilt Advantage Fund - Long Term Plan	-1.22	-1.81	-1.28	4.37	8.72	8.66	14-Jan-02	741.66		3.83	0.44
Credit Opportunities Fund											
Franklin India Low Duration Fund	0.31	1.42	3.55	8.36	9.28	9.44	26-Jul-10	5448.10		0.53	3.94
Reliance Corporate Bond Fund	-0.13	0.54	2.36	7.09	9.04	9.56	26-Jun-14	8224.40		1.46	0.53
Liquid											
BARODA PIONEER Liquid Fund	0.55	1.63	3.27	6.69	7.60	7.82	5-Feb-09	5545.70		0.26	1.99
Indiabulls Liquid Fund	0.55	1.62	3.29	6.74	7.67	8.55	25-Oct-11	6569.34		0.26	2.13
JM High Liquidity Fund	0.54	1.62	3.27	6.74	7.62	7.99	31-Dec-97	3967.52		0.26	2.16
Ultra Short Term											
DHFL Pramerica Short Term Floating Rate Fund	0.26	1.24	3.01	6.86	7.80	8.03	9-Oct-09	951.69		0.46	1.44
JM Money Manager Fund - Super Plus Plan	0.36	1.35	3.10	6.77	7.90	8.21	28-Sep-06	731.39		0.42	1.39
Motilal Oswal MOSt Ultra Short Term Bond Fund	0.35	1.27	2.69	5.53	6.18	6.68	6-Sep-13	1028.04		0.24	-2.49
UTI Treasury Advantage Fund	0.39	1.43	3.15	7.09	8.25	8.33	23-Apr-07	11864.59		0.36	2.52

CRISIL Mutual Fund Ranks as of September 2017

Point to Point Returns are as on December 29, 2017

Returns are annualised for periods above 1-year, other wise actualised

Risk Ratios are annualised

Risk ratios for Debt Short, Credit Opportunities, Liquid and Ultra Short Term categories are for a period of 1 year; risk free rate: 6.14% (average T-bill auction cut off rate during the period)

Risk ratios for Debt Long and Gilt categories are for a period of 3 years; risk free rate: 6.84% (average T-bill auction cut off rate during the period)

Average AUM is 3-months average number as disclosed by AMFI for the period October-December 2017

CREDIT QUALITY

	High	Medium	Low
High			
Medium			
Low			

INTEREST RATE SENSITIVITY

Average Assets under Management - A Bird's Eye View

Mutual Fund Name	Oct-Dec 2017 (Rs.Crore)	Jul-Sep 2017 (Rs.Crore)	Change (Rs.Crore)	% Change	Mutual Fund Name	Oct-Dec 2017 (Rs.Crore)	Jul-Sep 2017 (Rs.Crore)	Change (Rs.Crore)	% Change
ICICI Prudential Mutual Fund	293338	279066	14271	5.11	HSBC Mutual Fund	11252	10179	1073	10.54
HDFC Mutual Fund	289168	269781	19387	7.19	Indiabulls Mutual Fund	11100	10577	523	4.94
Reliance Mutual Fund	243594	231425	12169	5.26	Baroda Pioneer Mutual Fund	11085	11138	-54	-0.48
Aditya Birla Sun Life Mutual Fund	241107	224650	16457	7.33	IDBI Mutual Fund	10653	9531	1123	11.78
SBI Mutual Fund	205273	188030	17243	9.17	Edelweiss Mutual Fund	10000	8129	1871	23.01
UTI Mutual Fund	153364	150669	2695	1.79	BNP Paribas Mutual Fund	7499	6680	819	12.26
Kotak Mahindra Mutual Fund	119800	110630	9170	8.29	PRINCIPAL Mutual Fund	6625	5826	799	13.71
Franklin Templeton Mutual Fund	99804	94747	5057	5.34	BOI AXA Mutual Fund	5255	4325	930	21.51
DSP BlackRock Mutual Fund	86255	77819	8435	10.84	Union Mutual Fund	3938	3811	127	3.33
Axis Mutual Fund	73372	69088	4284	6.20	Mahindra Mutual Fund	2821	2241	579	25.84
IDFC Mutual Fund	71388	66361	5027	7.58	Quantum Mutual Fund	1182	1124	58	5.16
L&T Mutual Fund	60314	52749	7564	14.34	Essel Mutual Fund	1147	980	167	17.03
Tata Mutual Fund	48907	44897	4009	8.93	IL&FS Mutual Fund (IDF)	1114	1074	40	3.76
Sundaram Mutual Fund	36267	33150	3117	9.40	PPFAS Mutual Fund	925	821	104	12.64
Invesco Mutual Fund	24122	25167	-1045	-4.15	IIFL Mutual Fund	731	754	-23	-3.04
DHFL Pramerica Mutual Fund	23493	25191	-1698	-6.74	IIFCL Mutual Fund (IDF)	642	633	8	1.31
LIC Mutual Fund	22114	22871	-756	-3.31	Taurus Mutual Fund	597	575	22	3.85
JM Financial Mutual Fund	16633	13952	2681	19.22	Escorts Mutual Fund	245	247	-2	-0.84
Motilal Oswal Mutual Fund	15762	12967	2795	21.55	Sahara Mutual Fund	67	66	1	1.87
Mirae Asset Mutual Fund	13467	11044	2423	21.94	Shriram Mutual Fund	43	42	1	0.50
Canara Robeco Mutual Fund	12256	11845	411	3.47	Grand Total	2236717	2094852	141865	6.77

AUM is the quarterly average number and excludes Fund of Funds

Fund Focus

Franklin India Low Duration Fund (CRISIL fund rank 1)

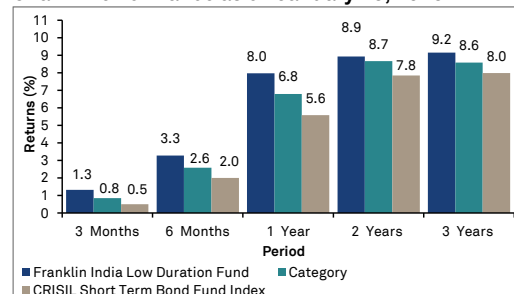
Launched in July 2010, Franklin India Low Duration Fund features in the credit opportunities fund category of CRISIL Mutual Fund Ranking. It has been ranked CRISIL Fund Rank 1 (top 10 percentile of its peer group) for three quarters ended September 2017 as per CRISIL Mutual Fund Rankings. Its average assets under management totalled Rs 5,448 crore in the quarter ended December 2017.

Performance

The fund has outpaced its category (represented by CRISIL ranked credit opportunities funds as of September 2017) and its benchmark (CRISIL Short Term Bond Fund Index) in all the periods analysed. It has returned 9.4% since inception.

A systematic investment plan (SIP) is a disciplinary approach for financial investing through which investors can invest in mutual funds in a fixed amount at regular intervals. A monthly SIP of Rs 1,000 over seven years (an investment of Rs 84,000) would have grown to around Rs 1.17 lakh, returning 9.4% p.a. A similar investment in the benchmark would have grown to Rs 1.13 lakh at 8.4%.

Chart - Performance as on January 18, 2018



Returns above one year are annualised

Portfolio analysis

The fund's modified duration has been on the lower side compared with peers. It varied from 0.80 year to 1.56 years in the past three years. The category's modified duration averaged 2.16 years over the same period.

The fund's portfolio had around 77% exposure to NCDs and bonds, 2.5% to T-bills, 20.4% to CPs and CDs, and the remaining to cash and cash equivalents.

During the same period, the fund had average 73% of debt holdings in sub-AAA rated papers as it hunted for higher yields across the credit spectrum. And, 23% of its debt holdings were in top rated papers (AAA and A1+) and G-secs.

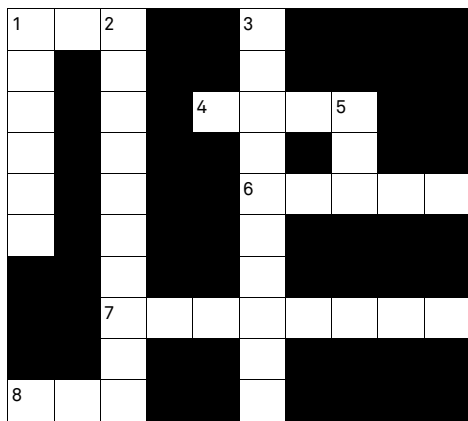
Fund manager

Santosh Kamath, CIO - Fixed Income, has an experience of over 22 years.

Kunal Agrawal, co-fund manager - fixed income, has an experience of 14 years.

Every month, Fund Focus will feature one of the CRISIL Mutual Fund Rank 1 or 2 Schemes

Crossword Corner – boost your financial knowledge



Horizontal:

- 1) A section 80C fixed-income based instrument that has a lock-in period of five years (1,1,1)
- 4) A tax saving mutual fund investment that has a lock-in period of three years to claim tax benefits (1,1,1,1)
- 6) The practice of increasing the SIP amount in line with rise in income (3,2)
- 7) A periodic disbursement of funds that are made by mutual fund houses to investors (8)
- 8) A document that conveys critical information about a scheme to investors such as objective and risks (1,1,1)

Vertical:

- 1) A type of scheme that does not charge investors when they enter or exit from the scheme (2,4)
- 2) A type of mutual fund scheme that has a fixed maturity (5,5)
- 3) A risk factor in mutual funds that makes returns more unpredictable (10)
- 5) A mutual fund feature that enables investors to negate equity market volatility (1,1,1)

Answers

Horizontal: (1) NSC (National Savings Certificate) 4) ELS (Equity Linked Savings Scheme) 6) Top-up 7) Dividend 8) SID (Scheme Information Document)

Vertical: (1) No-load 2) Close-ended 3) Volatility 5) SIP (Systematic Investment Plan)

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