

CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

Volume – 92 December 2018

Investment thoughts

ELSS – An opportunity to save tax and generate wealth

Come December and the tax season is on us, and everyone is busy looking at the options available to save tax as part of the annual declaration of income. Most taxpayers tend to look at the usual suspects viz., the traditional fixed income-heavy tax-saving instruments, but these might just save tax and not generate actual (inflation-adjusted) returns for you. Instead, investors especially with a younger age profile and long-term investment horizon would be

better off investing in tax-saving options linked to equity such as equity linked savings scheme (ELSS) to also generate wealth over a longer investment horizon. Let us look at this in detail in this article.

Why equity?

Investors have traditionally preferred debt instruments such as public provident fund (PPF) and national savings certificate (NSC) to save taxes as their principal is protected and the returns are stable and predictable. However, their biggest drawback is that their returns can be disappointing when factoring in inflation.

Equity, as is well known, is among the best wealth creation asset classes in the long term -- the benchmark S&P BSE Sensex has given 15% CAGR on average for a 15-year holding period since its inception (1979). ELSS allows investors to harness this power of equity along with the benefits of professional management by mutual funds and a diversified portfolio.

The category has been known to deliver inflation-beating returns. For instance, CRISIL ranked ELSS funds have given ~18% annualized returns in the past 15 years ended October 31, 2018 compared with ~8% provided by a traditional fixed income product (PPF) while inflation (consumer price index-based inflation for industrial workers) was ~7.0% during the same period.

But invest for the long term

Investors must remember that while ELSS has the shortest lock-in period of three years amongst all tax-saving products, a longer investment horizon can increase the probability of higher risk-adjusted returns. That's because while equities are volatile in the short term, this volatility reduces and the minimum returns increase over time as can be seen in Chart 1.

Year-round rather than year-end activity

Most tax savers consider their tax planning exercise only toward the end of the year. This last-minute planning mostly results in poor investing decision-making. Systematic investment plans (SIP) help investors to invest regularly and in a disciplined manner. This strategy has benefits of rupee cost averaging, ironing out volatility and negating the need to time the market. A lump sum investment towards the end of the financial year at times can be risky.

Table 1: SIP performance

Period	Total amount invested (Rs)	Market value (Rs)	SIP returns (%)
3-Years SIP	36000	40202	7.31
5-Years SIP	60000	76505	9.66
7-Years SIP	84000	133334	12.97
10-Years SIP	120000	239930	13.29

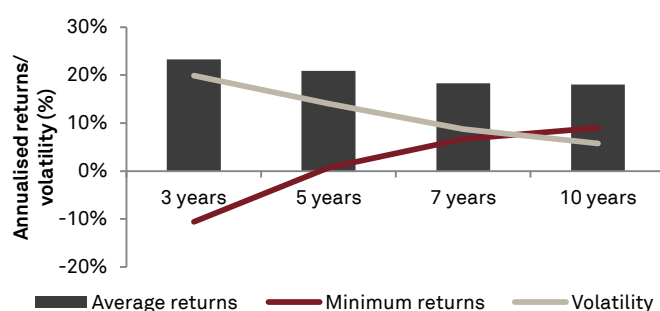
Data pertains to monthly SIP of Rs 1000 in CRISIL ranked funds; SIP returns are annualised
Data as of November 30, 2018

Sync ELSS with financial goals

Saving taxes should not be the sole criteria for investing though. Since equity is suitable for investors with a longer investment horizon and greater risk tolerance, investors can sync their ELSS investments to their financial goals such as building a retirement kitty or saving for their child's education. For instance, Rajeev wants to save Rs 33 lakhs for his child's education in 15 years. He can achieve this goal by investing Rs 5,000 in ELSS on a monthly basis for 15 years, assuming a growth rate of 15% CAGR. Thus, he will be able to both save taxes and meet his financial goal.

Investors must, however, note that the performance of their ELSS investments is linked to the market and does not offer guaranteed returns like fixed income products. Hence, investors should consider their risk profile and conduct due diligence before investing. Investors can refer to independent mutual fund rankings provided at www.crisil.com as a guide to identify the top ELSS performers.

Chart 1: Risks and returns of ELSS across different time frames



Notes: ELSS data represented by CRISIL ranked ELSS funds; volatility represented by standard deviation; returns are annualised calculated on a daily rolling basis for all holding periods; Period considered for analysis is from June 2001 till November 2018

Market - Overview

Indices	% Change in November 2018	% Change in October 2018
Nifty 50	5.09	-4.98
S&P BSE Sensex	4.72	-4.93

Indicators	November 30, 2018	October 31, 2018
10-year Gsec	7.61%	7.85%
Monthly CPI Inflation	2.33%	3.38%

Mutual fund - Overview

Top Stock Exposures – November 2018	Top Sector Exposures – November 2018
1. HDFC Bank Ltd.	1. Banks
2. ICICI Bank Ltd.	2. Computers - Software
3. Infosys Ltd.	3. Pharmaceuticals
4. State Bank of India	4. Refineries/marketing
5. Reliance Industries Ltd.	5. Engineering, Designing, Construction
6. Larsen & Toubro Ltd.	6. NBFC
7. ITC Ltd.	7. Housing finance
8. Housing Development Finance Corporation Ltd.	8. Cigarettes
9. Axis Bank Ltd.	9. Passenger/utility vehicles
10. Tata Consultancy Services Ltd.	10. Cement

New Stocks Entries and Exits in Mutual Fund Portfolios – November 2018

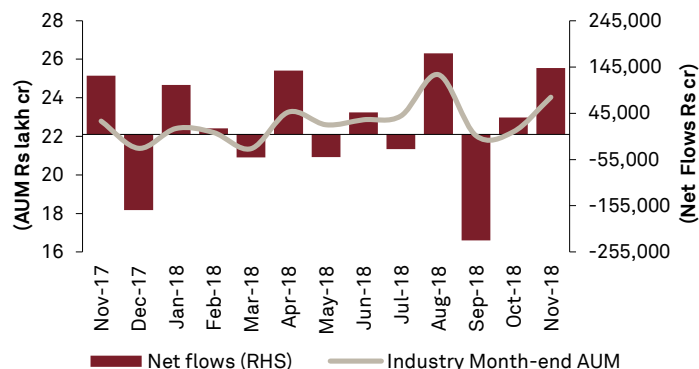
Entries	Exits
Anveshan Heavy Engineering Ltd.	Dalmia Bharat Ltd.
Arvind Fashions Ltd.	Jaiprakash Power Ventures Ltd.
Ocl India Ltd.	Zee Media Corporation Ltd.
The Anup Engineering Ltd.	
Crescent Finstock Ltd.	
Sree Jayalakshmi Autospin Ltd.	

Category returns	Absolute Monthly Returns %	
	Nov-18	Oct-18
Large Cap Funds	4.24	-3.81
Large Cap and midcap Funds	3.29	-2.39
Multicap Equity	3.81	-2.97
Focused	3.19	-3.33
Value-Contra	2.30	-2.78
Mid Cap	2.50	-1.51
Small Cap	1.59	-1.83
Arbitrage funds	0.45	0.64
Infrastructure	3.40	-2.10
ELSS	3.82	-3.26
Index	4.78	-4.88
Aggressive Hybrid	2.80	-2.25
Conservative Hybrid	1.64	-0.23
Gilt	1.66	1.20
Dynamic	1.32	0.78
Medium to Long	1.33	0.86
Medium	1.01	0.62
Short duration	1.02	0.49
Corporate	1.08	0.70
BPSU	1.25	0.69
Credit Risk	0.93	0.12
Low Duration	0.79	0.66
Money Market	0.69	0.23
Ultra short duration funds	0.75	0.67
Liquid	0.61	0.62

Category returns represented by average of CRISIL ranked funds - September 2018

- Indian equity indices recorded impressive performance in November 2018, Benchmarks S&P BSE Sensex and Nifty 50 rose around 5% each in the month owing to several positive domestic and global cues.
- Key domestic drivers were strengthening of the rupee against the dollar and encouraging quarterly earnings of some index heavyweights.
- Globally, easing of crude oil prices and rising hopes of a trade deal between the US and China augured well for the local indices.
- Further gains were capped owing to volatility in global equities led by concerns over slowing global growth and sell-off in US technology stocks.
- Most of the Nifty sectoral indices ended higher in November 2018. Nifty Realty and Nifty Financial Services were top performers – up 8% each.

Mutual fund AUM and net flows trend



- The mutual fund industry's AUM rose in November driven by inflows in equity and liquid funds. As a result, the industry's assets increased by ~Rs 1.80 lakh crore, or 8.08%, to Rs 24.03 lakh crore in November from Rs 22.24 lakh crore the month before. November marked the highest monthly increase in overall AUM since August 2018, when assets rose to an all-time record high of over Rs 25 lakh crore.
- Equity funds continued to witness firm investor interest in November, with the category recording inflows to the tune of Rs 10,790 crore compared with inflows of Rs 14,783 crore in October. November marked the 32nd consecutive month of inflows for the category. Aided by inflows and mark to market (MTM) gains, equity funds' AUM rose by Rs 31,609 crore, or 3.96%, to Rs 8.31 lakh crore in November.
- Though inflows in the balanced funds category were the lowest since March 2016, November marked the 54th straight month of inflows, to the tune of Rs 215 crore. Aided by inflows and MTM gains, the category's AUM rose by Rs 3,179 crore, or 1.82%, to Rs 1.78 lakh crore in November from Rs 1.75 lakh crore a month ago.
- Debt funds recorded outflows totalling Rs 6,518 crore in November (the seventh consecutive month of outflows) compared with outflows of Rs 37,642 crore in October. Despite the outflows, the category's AUM recorded a marginal rise of Rs 436 crore, or 0.06%, to ~Rs 6.89 lakh crore in November.
- Gilt funds recorded inflows of Rs 61 crore in November compared with outflows worth Rs 291 crore in October. November marked the first time the category recorded inflows since October 2017. As a result of the inflows and MTM gains, the category's AUM advanced by Rs 182 crore, or 2.33%, to Rs 8,002 crore in November.
- Liquid funds saw strong inflows totalling Rs 1.36 lakh crore in November, marking the second consecutive month of inflows and the highest monthly inflow figure since August 2018. Resultantly, the category's assets rose by Rs 1.39 lakh crore, or 30.61%, to Rs 5.94 lakh crore in November compared with Rs 4.54 lakh crore in October.
- After witnessing outflows for 24 straight months, gold ETFs recorded a change in fund flow trend in November. The category saw inflows of Rs 10 crore, marking the first time it has seen inflows since October 2016, and compared with outflows of Rs 16 crore in October.
- SEBI in its board meeting has proposed to allow segregated portfolios with respect to debt and money market instruments subject to various safeguards, the regulator to issue detailed guidelines on this aspect soon.
- Sebi allows mutual funds to enter the commodity derivatives market.

CRISIL Fund Rank 1 Schemes - Hybrid

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					
Aggressive Hybrid											
Principal Hybrid Equity Fund	2.57	-5.74	-1.44	-0.56	13.43	11.23	14-Jan-00	1537.72		10.51	0.68
Sundaram Equity Hybrid Fund	5.03	-5.50	1.13	4.86	11.15	12.30	23-Jun-00	1219.20		8.46	0.57
Conservative Hybrid											
LIC MF Debt Hybrid Fund	1.48	-0.70	1.90	1.29	5.72	7.65	2-Jun-03	88.09		3.09	-0.22
ICICI Prudential Regular Savings Fund	2.13	0.56	2.65	4.46	9.28	10.08	30-Mar-04	1632.06		4.08	0.69

CRISIL Mutual Fund Ranks as of September 2018

Point to Point Returns are as on November 30, 2018

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 6.49% - 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 July-September 2018

Style Box Legend		
Value	Blend	Growth
Large Cap		
Small & Midcap		
Diversified		

Credit quality			Interest rate sensitivity
High	Medium	Low	
			High
			Medium
			Low

Average Assets under Management - A Bird's Eye View

Mutual Fund Name	Jul-Sep 2018 (Rs.Crore)	Apr-Jun 2018 (Rs.Crore)	Change (Rs.Crore)	% Change	Mutual Fund Name	Jul-Sep 2018 (Rs.Crore)	Apr-Jun 2018 (Rs.Crore)	Change (Rs.Crore)	% Change
ICICI Prudential Mutual Fund	310681	310561	119	0.04	Baroda Pioneer Mutual Fund	13564	12240	1324	10.81
HDFC Mutual Fund	306588	307082	-495	-0.16	JM Financial Mutual Fund	12672	12073	599	4.96
Aditya Birla Sun Life Mutual Fund	254451	249507	4943	1.98	HSBC Mutual Fund	12622	11336	1286	11.34
SBI Mutual Fund	254146	233474	20672	8.85	IDBI Mutual Fund	9992	10574	-582	-5.50
Reliance Mutual Fund	245450	241096	4354	1.81	BNP Paribas Mutual Fund	8523	8060	464	5.75
UTI Mutual Fund	165946	153183	12763	8.33	Indiabulls Mutual Fund	8008	7992	16	0.19
Kotak Mahindra Mutual Fund	134583	127830	6753	5.28	PRINCIPAL Mutual Fund	7793	7418	375	5.06
Franklin Templeton Mutual Fund	111403	105403	6000	5.69	BOI AXA Mutual Fund	5872	5692	180	3.15
DSP Mutual Fund	95457	89404	6053	6.77	Union Mutual Fund	4910	4433	477	10.77
Axis Mutual Fund	87678	79252	8426	10.63	Mahindra Mutual Fund	4336	3961	375	9.47
L&T Mutual Fund	73753	71118	2634	3.70	Essel Mutual Fund	2256	1790	466	26.02
IDFC Mutual Fund	69723	69841	-118	-0.17	IL&FS Mutual Fund (IDF)	1514	1473	41	2.75
Tata Mutual Fund	54824	49221	5604	11.38	IIFL Mutual Fund	1506	1257	249	19.80
Sundaram Mutual Fund	33103	32789	314	0.96	PPFAS Mutual Fund	1376	1099	278	25.28
Invesco Mutual Fund	27568	24932	2636	10.57	Quantum Mutual Fund	1295	1261	34	2.72
DHFL Pramerica Mutual Fund	22700	23137	-437	-1.89	IIFCL Mutual Fund (IDF)	639	646	-7	-1.10
Mirae Asset Mutual Fund	20569	19178	1391	7.25	Taurus Mutual Fund	454	452	2	0.43
LIC Mutual Fund	20426	20411	14	0.07	Quant Mutual Fund	184	176	8	4.83
Motilal Oswal Mutual Fund	20305	19264	1041	5.41	Sahara Mutual Fund	58	59	-2	-3.12
Edelweiss Mutual Fund	14161	12502	1660	13.28	Shriram Mutual Fund	54	47	7	14.33
Canara Robeco Mutual Fund	14082	13375	707	5.29	Grand Total	2435225	2344600	90625	3.87

AAUM is the quarterly average number and excludes Fund of Funds

Fund Focus

Principal Hybrid Equity Fund (CRISIL Fund Rank 1)

Launched in January 2000, Principal Hybrid Equity Fund has been in operation for nearly two decades. A consistent performer, the scheme has been ranked 1 for the past three quarters as per CRISIL Mutual Fund Ranking (CMFR), which indicates performance in the top 10 percentile. The fund's average assets under management (AUM) have risen steadily from Rs 643 as of the December 2017 quarter to Rs 1,538 crore as of the quarter ended September 2018.

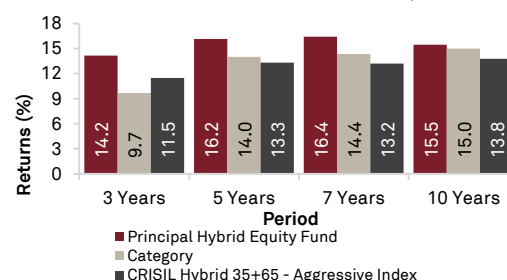
Investment objective

The fund's investment objective is to provide long-term appreciation and current income by investing in a portfolio of equity-related instruments and fixed income securities.

Outperformance over the long term

The fund has beaten both its benchmark (CRISIL Hybrid 35+65 - Aggressive Index) and its peer group (the aggressive hybrid funds category as per CMFR - September 2018) across the short term (three years) as well as the long term (seven and 10 years).

Chart 1: Performance as on December 17, 2018



Note: Returns are annualised

SIP returns

If an investor had set aside Rs 1,000 every month under the systematic investment plan (SIP) for five years ended December 17, 2018, his investment of Rs 60,000 would have grown to Rs 81,872 at an annualised growth rate of 12.77%. A similar investment in the benchmark would have grown to Rs 77,327 at 10.40%.

Over 10 years, an investment of Rs 1.2 lakh in the scheme would have grown to Rs 2.39 lakh at an annualised growth rate of 13.41%. An investment in the benchmark over this period would yield Rs 2.13 lakh at 11.24%.

Portfolio analysis

During the three years ended November 2018, the fund's exposure to equities has ranged from 64% to 69%, and averaged around 67% of total assets.

The debt portfolio comprises mainly NCDs, bonds and government securities. Exposure to NCDs and bonds averaged around 10% over the three years ended November, and gilt holdings averaged around 7%. Exposure to gilts, NCDs and bonds increased in the previous 36 months.

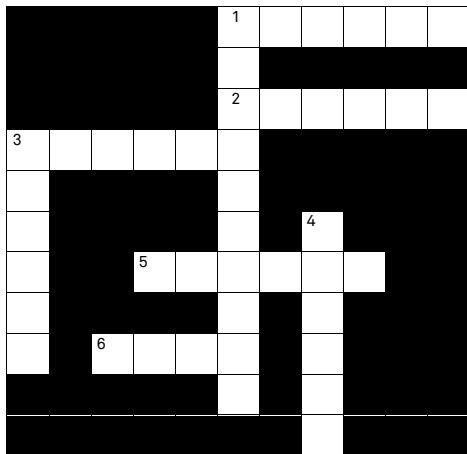
On the asset quality front, most of the securities in the debt portfolio comprise highly rated instruments (AAA, A1+, gilts, T-bills). Higher rated debt instruments, as a percentage of total debt, averaged around 78% over the three years of analysis.

Banks, finance, consumer non-durables, software, and auto have been the most preferred sectors, with average exposure to each ranging from 5% to 13% over the past three years.

Fund managers

The fund's equity portfolio is managed by P.V.K Mohan and the debt portfolio by Bekxy Kuriakose. They have a combined experience of over 40 years and hold post graduate diplomas in management.

Crossword Corner – boost your financial knowledge



Horizontal

- 1) The interest rate offered by a bond (6)
- 2) An asset class that offers good long-term returns (6)
- 3) A scheme that has a maturity of up to 91 days
- 5) The difference in yields between a corporate bond and gilt of the same maturity (6)
- 6) A scheme that offers investors tax benefits (1,1,1,1)

Vertical

- 1) The risk that a borrower may not repay the interest and principal to the issuer in a timely manner (6,4)
- 3) A period during which an investor is prohibited from selling units of the scheme (4,2)
- 4) A metric that can be used to assess a borrower's ability to repay loans (6)

Answers

Vertical: 1) Credit Risk 3) Lock in 4) Rating
Horizontal: 1) Coupon 2) Equity 3) Liquid 5) Spread 6) ELSS (Equity Linked Savings Scheme)

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