

# CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

Volume – 88 August 2018

## Investment thoughts

### Achieve financial independence with prudent planning

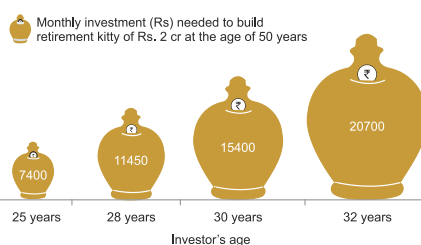
As our country celebrates the 72<sup>nd</sup> year of independence, investors should look forward to financial independence, as the economy gathers its pace of growth. It has become imperative for Indian investors to secure financial independence, as the society gives way to nuclear families amid rising life expectancy and cost of living.

Investors should focus on the below to achieve financial freedom.

**Risk mitigation:** An investor should mitigate risks from various exigencies, such as sudden hospitalisation, demise of the breadwinner or a job loss. Even a well-planned financial plan can go for a toss due to such risks. Hence, it is imperative to secure with insurance (mediclaim and term insurance) and contingency fund.

**Risk profile:** An investor should understand his/her own risk profile well before drawing up a financial plan. Despite a higher proportion of young population in the country, the investment pattern of households shows that the majority still prefer physical assets and valuables (58%)<sup>1</sup>. Even in financial savings, the major pie belongs to banks' fixed deposits (62%) and only 10% of it is invested in capital market products (shares, mutual funds and debentures). As young investors have the benefit of time (age), they can make good use of the power of compounding, by investing in equity on a long-term basis. Consider this. Equity (represented by S&P BSE Sensex) has given on an average 14% annualised return<sup>2</sup> on a rolling basis for a 20-year holding period. Mutual funds can be a good platform to invest in equity, as they are professionally managed and a diversified product. Investors who don't have higher risk appetite can even explore hybrid and debt oriented mutual funds, which give optimum risk-adjusted returns versus traditional investment products.

#### Cost of delay



**Act now:** Procrastination is a hindrance on the path towards financial independence. For instance, a 25-year old investor wants to retire early by the age of 50 and has earmarked a retirement kitty of Rs 2 crore. He/she can achieve this dream by starting a monthly systematic investment plan (SIP) of Rs 7,400 for the next 25 years (refer chart). However, if the investor delays starting the investments for three years (at the age of 28 years), his/her monthly investments would rise to Rs 11,450. A delay of five years (at the age of 30 years) would double the monthly investment to Rs 15,400.

**Augmenting investments:** To achieve financial independence sooner, an investor should increase the investments over time. It is prudent for the investor to increase investments along with rising income. Let us consider a couple of scenarios: (A) the investor invests Rs 1 lakh annually but does not increase his investments; and (B) the investor increases investments by 10% annually. The result is, by increasing investments by 10% per annum, the investor will be able to garner Rs 11 lakh more (refer table).

#### Benefit of increasing investments over the investing period

Year	Scenario A		Scenario B		Difference (B-A)
	Regular yearly investments (Rs lakh)	Value at the end of the period (Rs lakh)	Increase in investments by 10% annually	Value at the end of the period (Rs lakh)	
1	1.00	2.14	1.00	2.24	0.10
2	1.00	3.44	1.10	3.76	0.32
3	1.00	4.92	1.21	5.62	0.70
4	1.00	6.61	1.33	7.87	1.26
5	1.00	8.54	1.46	10.59	2.05
6	1.00	10.73	1.61	13.84	3.11
7	1.00	13.23	1.77	17.72	4.49
8	1.00	16.09	1.95	22.35	6.26
9	1.00	19.34	2.14	27.84	8.50
10	1.00	23.04	2.36	34.33	11.28

Calculation based on assuming returns of 14% CAGR (S&P BSE Sensex's average returns for a 20-year holding period on a rolling basis since 1979)

- **Systematic transfer plan (STP):** This feature allows investor to regularly transfer a fixed sum from one scheme to another. It is prudent to decrease the allocation towards riskier asset classes and move towards safer asset classes as investment goals near. This can be done efficiently with the help of STP, wherein a fixed sum can be transferred from equity- to debt-oriented funds, as the retirement goals near.
- **Systematic withdrawal plan (SWP):** This feature helps investor gets a fixed sum by redeeming units at regular intervals. Retirees can park their retirement kitty in liquid or any other debt-oriented funds and withdraw a fixed sum regularly, simultaneously growing wealth by staying invested.

With apt investment planning, an investor can achieve financial independence, and in this journey, mutual funds can be a handy investment tool.

<sup>1</sup> Data as of FY17 (RBI)

<sup>2</sup> Data since 1979

<sup>3</sup> CRISIL AMFI Mutual Fund Factbook 2018 titled "Digital evolution"

## Market - Overview

Indices	% Change in July 2018	% Change in June 2018
Nifty 50	5.99	-0.20
S&P BSE Sensex	6.16	0.29

Indicators	July 31, 2018	June 30, 2018
10-year Gsec	7.77%	7.90%
Monthly CPI Inflation	4.17%	4.92%

## Mutual fund - Overview

### Top Stock Exposures – July 2018

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

### Top Sector Exposures – July 2018

- Banks
- Computers - Software
- Pharmaceuticals
- Refineries/marketing
- NBFC
- Engineering, designing, construction
- Passenger/utility vehicles
- Housing finance
- Cigarettes
- Cement

### New Stocks Entries and Exits in Mutual Fund Portfolios – July 2018

**Entries**

HDFC Asset Management Company Ltd.
TCNS Clothing Company Ltd.
International Paper APPM Ltd.

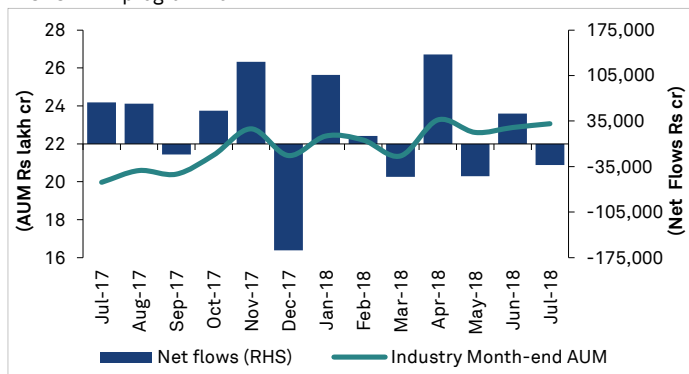
**Exits**

Max Ventures and Industries Ltd.
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Category returns	Absolute Monthly Returns%	
	July-18	June-18
Large Cap Funds	5.24	-1.22
Large Cap and midcap Funds	4.62	-3.10
Multicap Equity	4.99	-2.26
Focused	4.69	-2.07
Value-Contra	4.11	-3.36
Mid Cap	4.01	-4.64
Small Cap	2.27	-7.28
Infrastructure	3.99	-7.87
ELSS	4.35	-2.67
Index	6.16	0.05
Aggressive Hybrid	3.37	-1.71
Conservative Hybrid	1.76	-0.49
Gilt	0.99	0.13
Dynamic	0.89	0.28
Medium to Long	0.92	0.21
Medium	0.92	0.49
Short duration	0.84	0.52
Corporate	0.86	0.54
BPSU	0.88	0.54
Credit Risk	0.86	0.53
Low Duration	0.72	0.65
Money Market	0.65	0.63
Ultra short duration funds	0.67	0.66
Liquid	0.63	0.62

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

- Domestic equity benchmarks S&P BSE Sensex and Nifty 50 recorded impressive performance in July 2018 and ended the month at fresh record highs of 37,607 and 11,357 points, respectively, up 6% each.
- Key domestic boosters were sharp rise in the index heavyweights amid quarterly earnings announcements, reduction in the Goods & Services Tax (GST) rates on more than 50 items and ease of domestic political jitters after the government won the trust vote in the Parliament.
- Positive global developments, including fall in crude oil prices and easing of trade tensions between the US and European Union, also supported the local indices.
- Further gains were, however, capped as investors remained cautious ahead of the policy meetings of the RBI, Bank of Japan and the US Federal Reserve. Nifty indices ended mostly higher in July 2018. Nifty PSU Bank index was the top gainer - up 14.14% after the government unveiled the SASHAKT programme.



- The mutual fund industry's assets under management (AUM) increased 0.84% in July driven by inflows in equity and balanced funds. Resultantly, the industry's assets rose by Rs 19,137 crore, or 0.84%, to Rs 23.06 lakh crore in July from Rs 22.86 lakh crore in June.
- After seeing the equity category's asset base dwindle over the past couple of months, strong inflows in July helped the category push past the Rs 8 lakh crore mark again. Inflows amounting to Rs 10,585 crore (28th straight month of inflows) and mark-to-market (MTM) gains helped equity funds' AUM rise by Rs 42,495 crore, or 5.40%, to Rs 8.29 lakh crore. The equity market, represented by the Nifty 50, gained around 6% in the month.
- Balanced funds witnessed a rise in assets in July, reversing the trend seen in the previous two months, with the category's AUM rising by Rs 5,910 crore, or 3.38%, to Rs 1.81 lakh crore from Rs 1.75 lakh crore a month earlier. Inflows continued for the 50th consecutive month at Rs 287 crore in July compared with Rs 1,482 crore in June.
- Investor interest in debt funds remained muted, with the category recording outflows worth Rs 7,950 crore in July compared with outflows of Rs 23,119 crore in the previous month. Weighed by outflows, the category's AUM declined by Rs 1,236 crore, or 0.16%, to Rs 7.59 lakh crore from Rs 7.61 lakh crore in the previous month.
- Gilt funds recorded outflows worth Rs 396 crore in July against Rs 506 crore in June. Aided by MTM gains, the category's AUM declined by Rs 297 crore, or 3.11%, to Rs 9,244 crore in July.
- Reversing June's trend, liquid funds witnessed outflows amounting to Rs 31,141 crore in July against inflows of Rs 52,104 crore in June. As a result of outflows, the category's assets reduced by Rs 29,274 crore, or 6.39%, to Rs 4.29 lakh crore in July.
- Gold ETFs saw outflows amounting to Rs 50 crore in July against outflows of Rs 54 crore in June. The category's AUM, however, declined by a higher Rs 159 crore, or 3.48%, to Rs 4,408 crore, as a result of MTM losses.
- Among regulatory developments, Sebi plans to cap mutual fund distributor commissions to curb mis-selling.
- Sebi pulled up the mutual fund industry over the practice of distributing dividends without the consent of trustees.
- Sebi is mulling the prospect of allowing mutual funds to make use of covered calls as part of their equity strategy.

## Fund News

- The Association of Mutual Funds in India plans to add at least 1 crore potential investors from the north-eastern states into the mutual fund industry.
- The Bombay Stock Exchange said its mutual fund distribution platform has seen an over two-fold rise in the number of transactions with a total value of Rs 50,400 crore in the first four months of the current fiscal.

# CRISIL Fund Rank 1 Schemes - Equity

## 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					
<b>Large Cap Equity</b>											
Axis Bluechip Fund	5.71	8.97	11.86	21.63	12.87	13.08	5-Jan-10	2030.25		12.93	0.53
HSBC Large Cap Equity Fund	5.21	2.79	0.50	8.51	11.26	21.56	10-Dec-02	685.33		13.94	0.39
<b>Large &amp; Mid Cap</b>											
Sundaram Large and Mid Cap Fund	4.37	0.72	1.59	12.94	13.10	11.35	27-Feb-07	369.16		11.87	0.58
Canara Robeco Emerging Equities	5.70	-0.84	0.10	9.84	14.51	18.41	11-Mar-05	3486.11		15.37	0.57
<b>Multi Cap</b>											
UTI Equity Fund	5.28	4.59	9.67	17.54	11.44	15.82	1-Aug-05	6857.20		12.68	0.43
Principal Multi Cap Growth Fund	4.15	-3.90	-5.24	7.15	13.23	16.21	25-Oct-00	666.90		15.67	0.48
<b>Focused</b>											
Axis Focused 25 Fund	6.72	5.87	9.88	20.53	16.51	19.26	29-Jun-12	3943.08		13.92	0.74
<b>Value / Contra</b>											
Invesco India Contra Fund	5.87	0.72	0.81	18.29	14.58	15.02	11-Apr-07	1558.27		14.19	0.60
<b>Mid Cap</b>											
L&T Midcap Fund	4.25	-5.06	-5.13	4.81	15.11	20.84	9-Aug-04	2723.69		14.26	0.64
Axis Midcap Fund	5.56	0.22	7.75	17.60	9.26	18.71	18-Feb-11	1394.17		13.82	0.26
<b>Small Cap</b>											
HDFC Small Cap Fund	3.20	-7.02	-2.45	17.25	18.22	15.58	3-Apr-08	3775.75		14.84	0.80
<b>Infrastructure</b>											
L&T Infrastructure Fund	6.21	-4.89	-8.70	6.67	13.69	5.07	27-Sep-07	2034.40		16.09	0.50
<b>ELSS</b>											
Invesco India Tax Plan	4.66	3.11	2.70	15.62	12.02	15.30	29-Dec-06	545.72		12.82	0.47
Motilal Oswal Long Term Equity Fund	3.63	-1.42	-0.81	7.99	16.04	18.49	21-Jan-15	1037.96		13.80	0.71
<b>Index</b>											
SBI - ETF SENSEX	6.34	7.61	5.36	16.86	11.51	14.65	15-Mar-13	10593.60		12.79	0.44

CRISIL Mutual Fund Ranks as of June 2018

Point to Point Returns are as on July 31, 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 6.54% - 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 2018

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

## Average Assets under Management - A Bird's Eye View

Mutual Fund Name	Apr-Jun 2018 (Rs.Crore)	Jan-Mar 2018 (Rs.Crore)	Change (Rs.Crore)	% Change	Mutual Fund Name	Apr-Jun 2018 (Rs.Crore)	Jan-Mar 2018 (Rs.Crore)	Change (Rs.Crore)	% Change
ICICI Prudential Mutual Fund	310166	305739	4427	1.45	Baroda Pioneer Mutual Fund	12240	13022	-782	-6.00
HDFC Mutual Fund	306841	300549	6292	2.09	JM Financial Mutual Fund	12073	16365	-4292	-26.23
Aditya Birla Sun Life Mutual Fund	249254	247514	1740	0.70	HSBC Mutual Fund	10622	10261	361	3.52
Reliance Mutual Fund	240445	244904	-4458	-1.82	IDBI Mutual Fund	10540	10760	-220	-2.04
SBI Mutual Fund	233114	217649	15465	7.11	BNP Paribas Mutual Fund	8060	8159	-100	-1.22
UTI Mutual Fund	153183	154939	-1756	-1.13	Indiabulls Mutual Fund	7992	10714	-2722	-25.40
Kotak Mahindra Mutual Fund	127635	124691	2944	2.36	PRINCIPAL Mutual Fund	7418	7201	217	3.01
Franklin Templeton Mutual Fund	104416	103152	1264	1.23	BOI AXA Mutual Fund	5692	5802	-110	-1.90
DSP Mutual Fund	89404	86326	3078	3.57	Union Mutual Fund	4433	4305	128	2.97
Axis Mutual Fund	79201	77325	1876	2.43	Mahindra Mutual Fund	3961	3368	592	17.59
L&T Mutual Fund	71118	65932	5187	7.87	Essel Mutual Fund	1790	1540	250	16.23
IDFC Mutual Fund	69591	69919	-328	-0.47	IL&FS Mutual Fund (IDF)	1473	1274	199	15.64
Tata Mutual Fund	49221	46977	2243	4.78	IIFL Mutual Fund	1257	793	464	58.47
Sundaram Mutual Fund	32789	34306	-1517	-4.42	Quantum Mutual Fund	1209	1203	6	0.53
Invesco Mutual Fund	24919	26203	-1285	-4.90	PPFAS Mutual Fund	1099	1010	88	8.74
DHFL Pramerica Mutual Fund	23137	23595	-458	-1.94	IIFCL Mutual Fund (IDF)	646	650	-5	-0.71
LIC Mutual Fund	20411	20118	294	1.46	Taurus Mutual Fund	452	509	-57	-11.28
Motilal Oswal Mutual Fund	19264	17735	1528	8.62	Quant Mutual Fund	176	231	-55	-23.96
Mirae Asset Mutual Fund	19178	15756	3422	21.72	Sahara Mutual Fund	59	64	-4	-6.98
Canara Robeco Mutual Fund	13334	12496	838	6.71	Shriram Mutual Fund	47	43	5	10.66
Edelweiss Mutual Fund	12502	12100	401	3.32	Grand Total	2340362	2305202	35160	1.53

AUM is the quarterly average number and excludes Fund of Funds

## Fund Focus

### Axis Focused 25 Fund (CRISIL Fund Rank 1)

Launched in June 2012, Axis Focused 25 Fund has been ranked in the top 10 percentile (rank 1) in the quarter ended June 2018 under the focused funds category of CRISIL Mutual Fund Ranking (CMFR). The fund was ranked 2 (next 20 percentile) in the preceding three quarters. The fund's average assets under management (AUM) totalled Rs 3,943 crore at the quarter ended June 2018.

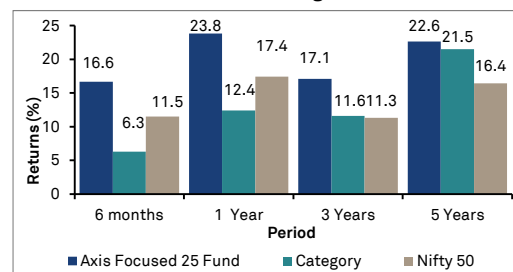
### Investment approach

The fund's investment objective is to generate long-term capital appreciation by investing in a concentrated portfolio of equity and equity-related instruments of up to 25 companies across market capitalisation spectrum.

### Performance

The fund has outperformed both its benchmark (Nifty 50) and its peer group (the focused funds category as per CMFR - June 2018) across the time periods analysed (Chart 1). Since the scheme's inception in 2012, the fund has given unit-holders returns of around 19% compared with the benchmark's 14%.

Chart 1: Performance as on August 20, 2018



Note: Returns above one year are annualised

### Risk-adjusted returns

The fund has performed better than the category and its benchmark on a risk-adjusted basis as measured by the Sharpe ratio over the three years ended August 20, 2018. The fund's Sharpe ratio is 1.12 against 0.70 each for its benchmark and the category over this period.

### SIP returns performance

If an investor had set aside Rs 1,000 every month under the SIP for three years ended August 20, 2018, his investment of Rs 36,000 would have grown to Rs 51,422 at an annualised growth rate of 24.62%. A similar investment in the benchmark would have grown to Rs 46,549 at 17.45%.

### Portfolio analysis

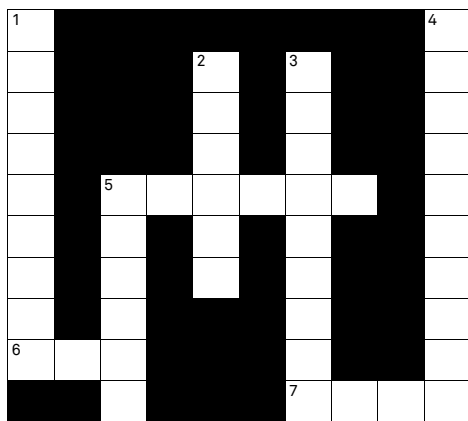
During the three years ended July 2018, the fund has maintained average exposure of 94% to equities. Banks, finance, software, auto ancillaries and auto have been the five most preferred sectors for investment. Exposure has averaged 18% in banks and 8% in auto over the previous 36 months. Six scrips have been held consistently over the past three years. Among the consistently held stocks, exposure to HDFC Bank was the highest, averaging 8%.

### Fund manager

Mr Jinesh Gopani is an equity fund manager with 17 years of experience. He graduated with a Bachelor's in Commerce and holds Master's in Management Studies.

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

## Crossword Corner – boost your financial knowledge



### Horizontal

- 5) The total amount of money invested by all unit holders of a scheme (6)
- 6) The period during which a scheme is open to subscription by investors (1,1,1)
- 7) A diversified equity scheme, with tax advantages, that is suitable for investors with a long investment horizon (1,1,1,1)

### Vertical

- 1) An increase in aggregate price levels throughout the economy (9)
- 2) This type of fund invests in both equities and debt instruments (6)
- 3) This provides financial protection and is intended as a safeguard against adverse events (9)
- 4) An offer document through which a mutual fund invites investors to subscribe to the fund (10)
- 5) The stated interest rate on a bond at the time of its issuance (6)

### Answers

**Vertical:** 1) Inflation 2) Hybrid 3) Insurance 4) Prospectus 5) Coupon

**Horizontal:** 6) Corpus 7) NFO (New Fund Offer) 8) ELSS (Equity Linked Savings Scheme)

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