

CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

Volume – 84 April 2018

Investment thoughts

Total Returns Index, a more accurate benchmark for mutual fund investors

In keeping with its aim to institute best practices in the Indian mutual fund industry, the regulator Securities and Exchange Board of India (Sebi) has mandated that with effect from February 1, 2018, all mutual funds must

benchmark the performance of their schemes to total return indices instead of the simple price return indices that they have traditionally followed. This article explains what is a total return index (TRI) and looks at how its use as a benchmark will increase transparency for investors and the mutual fund industry.

What is a TRI?

Mutual funds in India have traditionally benchmarked their schemes to a simple Price Return Index (PRI), which captures only the changes in the prices of the securities that constitute the index. For instance, the popular S&P BSE Sensex is based on the shares of 30 companies and hence, its returns are measured on the price movements of these constituent stocks.

To enable investors to better assess the performance of a mutual fund scheme versus its chosen benchmark, Sebi has mandated that fund houses must now benchmark all schemes against a TRI. Unlike a PRI, the TRI captures both the capital gains as well as the dividend receipts from the index's constituent securities. It is assumed that the dividend receipts are reinvested into the index.

Since a mutual funds' net asset value (NAV) reflects both the capital gains and losses in its portfolio as well as the dividends received from its portfolio holdings, the TRI is a more appropriate and accurate benchmark of its performance. Globally, mutual funds are benchmarked against a TRI as best practices. India will now follow suit. Thus, if a scheme was benchmarked against the S&P BSE Sensex earlier, it will be benchmarked against the S&P BSE Sensex TRI now as per the Sebi mandate.

The TRI variants have been observed to deliver higher returns average over their PRI variants, as seen in the table 1.

Table 1 : Performance (%)

Indices	3 years			5 years			7 years			10 years		
	TRI	PRI	Difference	TRI	PRI	Difference	TRI	PRI	Difference	TRI	PRI	Difference
S&P BSE SENSEX	9.43	7.92	1.51	13.83	12.19	1.64	10.05	8.42	1.63	8.82	7.25	1.57
S&P BSE 100	10.68	9.14	1.54	14.81	13.16	1.65	10.84	9.21	1.62	9.15	7.61	1.53
S&P BSE 200	11.78	10.27	1.51	15.97	14.33	1.64	11.40	9.79	1.61	9.64	8.10	1.54
S&P BSE 500	12.49	11.03	1.46	16.64	15.03	1.61	11.62	10.03	1.59	9.62	8.10	1.52
S&P BSE MidCap	18.57	17.14	1.43	23.24	21.58	1.66	14.33	12.75	1.58	10.60	9.05	1.55
S&P BSE SmallCap	19.02	18.03	0.99	25.82	24.49	1.33	12.04	10.68	1.36	9.02	7.57	1.44

Point to point annualised returns as of April 25, 2018

What does benchmarking against the TRI mean for investors?

Dividend-yielding companies have always been an important part of the investing strategy of investors. Thus, by capturing both the dividends and capital gains, the TRI reflects the gains from dividends for investors and also drives home the benefits of investing in equities for the long term.

Mutual fund investors look at a scheme's returns as one of the most important criteria for investing. They look for outperformance on returns versus the scheme's peers in the same fund category as well as against the benchmark index when it comes to active mutual funds. Since the TRI index's returns are generally higher than the PRI index's returns, a scheme's outperformance or the alpha generated by the fund manager against the traditional PRI index would come down to that extent.

What should investors do?

However, investors should not take any hasty decisions following the transition to the TRI benchmark by Indian mutual funds. Instead, they should wait and consider the scheme's performance against the new benchmark and also its performance over the long term before taking any investment decision.

The transition to the TRI index follows the reclassification and standardisation of fund categories by Sebi and is part of the larger move to increase transparency in the Indian mutual fund industry. This greater transparency and comparability will help investors to take more informed investment decisions by providing a better picture of a scheme's returns and performance. Thus, investors will benefit from the adoption of the TRI benchmark in the long run.

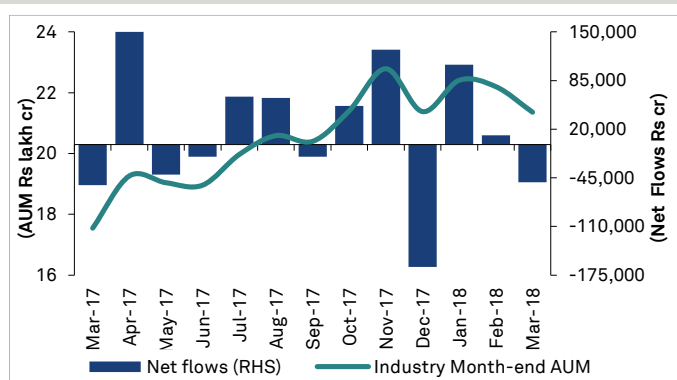
Market - Overview

Indices	% Change in Mar 2018	% Change in Feb 2018
Nifty 50	-3.61	-4.85
S&P BSE Sensex	-3.56	-4.95

Indicators	Mar 28, 2018	Feb 28, 2018
10-year Gsec	7.40%	7.73%
Monthly CPI Inflation	4.28%	4.44%

- Indian equities remained in the negative terrain for the second consecutive month. Benchmarks S&P BSE Sensex and Nifty 50 fell around 4% each in March, but they ended fiscal 2018 with gains of 11.30% and 10.25%, respectively.
- Disappointing developments at home related to the banking sector, political uncertainty and widening of the current account deficit in the December quarter weighed on the market.
- Local indices also emulated the turmoil in global equities, which fell on worries of interest rate hike by the US Federal Reserve amid positive US domestic economic cues, US-China trade concerns, and rising diplomatic tension between Britain and Russia.
- Further fall was, however, curbed owing to positive economic indicators, announcement of lower-than-expected borrowing programme for the first half of fiscal 2019, and buying by foreign institutional investors.
- All the Nifty indices ended lower in March. Nifty Metal was the top laggard – down 12% owing to the imposition of tariffs by the US on steel and aluminum imports from China. Nifty Realty fell 10% owing to profit booking.

Mutual Fund – Overview



Category returns	Absolute Monthly Returns%	
	Mar-18	Feb-18
CRISIL – AMFI Large Cap Fund Performance Index	-3.60	-4.75
CRISIL – AMFI Diversified Equity Fund Performance Index	-3.23	-3.96
CRISIL – AMFI Small & Midcap Fund Performance Index	-3.73	-2.43
CRISIL – AMFI ELSS Fund Performance Index	-3.95	-4.22
CRISIL – AMFI Balance Fund Performance Index	-2.55	-3.49
CRISIL – AMFI MIP Fund Performance Index	0.45	-1.57
CRISIL – AMFI Gilt Fund Performance Index	2.31	-0.71
CRISIL – AMFI Income Fund Performance Index	1.82	-0.50
CRISIL – AMFI Short Term Debt Fund Performance Index	1.13	0.16
CRISIL – AMFI Ultra Short Fund Performance Index	0.87	0.44
CRISIL – AMFI Liquid Fund Performance Index	0.61	0.50
Gold Funds (ETFs and FoFs)	1.11	0.87

- The mutual fund industry's assets under management (AUM) declined 3.80% in March, led by outflows in liquid and income funds. As a result, the industry AUM fell by Rs 84,290 crore to Rs 21.36 lakh crore at the end of March compared with Rs 22.20 lakh crore in February.
- Equity funds witnessed inflows for the 24th straight month in March. However, inflows were sharply lower at Rs 6,657 crore compared with Rs 16,268 crore in February. This dip could be an outcome of equity market volatility and profit booking ahead of the implementation of the long-term capital gains (LTCG) tax for equity mutual funds from the new financial year (2018-19). Market volatility, represented by Nifty 50 (down 3.6% in the month), led to mark-to-market (MTM) losses for the category. AUM fell 3.48%, or by Rs 27,052 crore, to Rs 7.50 lakh crore at the end of the month.
- Balanced funds' assets declined for the second consecutive month. AUM fell 1.33%, or by Rs 2,317 crore, to Rs 1.72 lakh crore from Rs 1.74 lakh crore recorded a month earlier. The category recorded inflows worth Rs 6,754 crore in March against Rs 5,026 crore in February.

Top Stock Exposures – Mar 2018

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

Top Sector Exposures – Mar 2018

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

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

Entries

- Bandhan Bank Ltd.
- ICICI Securities Ltd.
- Hindustan Aeronautics Ltd.
- Sandhar Technologies Ltd.
- Lemon Tree Hotels Ltd.
- India Nippon Electricals Ltd.
- Sona Koyo Steering Systems Ltd.
- Bharat Dynamics Ltd.
- Macpower CNC Machines Ltd.
- Jindal Drilling & Industries Ltd.
- Mishra Dhatu Nigam Ltd.
- GMM Pfaudler Ltd.
- KRBL Ltd.
- Balaji Telefilms Ltd.
- Central Bank of India

Exits

- Avadh Sugar & Energy Ltd.
- Hexa Tradex Ltd.
- Jay Bharat Maruti Ltd.
- Kesoram Industries Ltd.
- MBL Infrastructures Ltd.
- Shreyas Shipping & Logistics Ltd.
- Texmaco Infrastructure & Holdings Ltd.
- Welspun Corp Ltd.
- Gayatri Bioorganics Ltd.

- Debt funds recorded outflows for the fourth straight month to the tune of Rs 13,719 crore in March compared with outflows of Rs 9,799 crore in February. As a result, the category's AUM declined by Rs 5,941 crore, or 0.75%, to Rs 7.86 lakh crore in March.
- Gilt funds recorded outflows worth Rs 475 crore in March, lower than outflows of Rs 1,621 crore in February. March marked the fourth consecutive month of outflows, even as MTM gains propped up investor sentiment. The category's AUM declined by Rs 221 crore, or 1.90%, to Rs 11,404 crore in March.
- Liquid funds' outflows totalled Rs 54,979 crore in March against inflows of Rs 1,223 crore in February. Weighed by outflows, the category's assets fell by Rs 51,744 crore, or 13.36%, to Rs 3.36 lakh crore.
- The Sebi board has approved the proposal to reduce the maximum additional expense allowed for a mutual fund to 5 basis points (bps) from 20 bps.
- Sebi has asked mutual funds to disclose the weighted average performance of the new and old schemes to standardise performance disclosure of schemes once they have been merged.

Fund News

- HDFC Asset Management Company has filed draft papers with Sebi for an IPO.
- Investment platform Groww has launched direct plan mutual funds for its customers.
- BSE said 40 banks have been enabled for the e-mandate facility on the StAR MF platform.

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	1.89	2.19	1.25	6.36	8.96	9.91	20-Jan-10	2989.35		3.52	0.60
Kotak Flexi Debt	1.29	1.56	1.75	6.21	8.56	8.48	27-May-08	1063.11		2.61	0.72
Aditya Birla Sun Life Treasury Optimizer Plan	1.26	1.78	2.13	6.50	8.49	8.35	2-May-08	7206.25		1.94	0.89
Debt Short											
Aditya Birla Sun Life Floating Rate Fund - Long Term	0.88	1.83	3.11	7.11	8.33	8.73	30-Mar-09	7005.44		0.44	1.79
Kotak Corporate Bond Fund	0.89	1.81	3.00	6.83	7.98	8.15	21-Sep-07	1245.99		0.48	1.28
UTI-Banking & PSU Debt Fund	1.05	1.74	2.79	6.69	8.74	8.87	3-Feb-14	1192.58		0.80	0.49
HDFC Short Term Opportunities Fund	1.01	1.86	2.79	6.74	8.02	8.75	25-Jun-10	9897.52		0.57	0.77
Gilt											
Reliance Gilt Securities Fund	2.56	1.60	-0.50	4.21	8.25	8.96	22-Aug-08	1283.15		4.01	0.37
SBI Magnum Gilt Fund - Long Term	2.02	0.63	-1.14	3.21	8.05	8.05	23-Dec-00	2707.97		3.86	0.32
Credit Opportunities Fund											
L&T Short Term Income Fund	0.87	1.66	2.79	7.52	8.85	8.90	4-Dec-10	1220.33		0.56	1.85
Franklin India Low Duration Fund	1.14	2.23	3.63	8.34	9.21	9.43	26-Jul-10	5644.67		0.55	3.59
Liquid											
DSP BlackRock Liquidity Fund	0.67	1.74	3.37	6.72	7.35	7.60	23-Nov-05	17431.58		0.27	1.87
Indiabulls Liquid Fund	0.64	1.72	3.36	6.78	7.53	8.49	25-Oct-11	7171.65		0.27	2.08
Reliance Liquidity Fund	0.67	1.73	3.34	6.69	7.36	7.77	15-Jun-05	4981.98		0.27	1.73
Ultra Short Term											
Motilal Oswal Ultra Short Term Fund	0.66	1.55	2.84	5.82	6.15	6.66	6-Sep-13	998.99		0.28	-1.55
L&T Ultra Short Term Fund	0.88	1.83	3.21	6.91	7.81	7.47	10-Apr-03	2311.15		0.37	1.59
SBI Ultra Short Term Debt Fund	0.88	1.90	3.26	6.85	7.78	7.85	27-Jul-07	10749.03		0.36	1.58
UTI Treasury Advantage Fund	0.79	1.79	3.23	6.99	8.13	8.31	23-Apr-07	10411.59		0.34	2.01

CRISIL Mutual Fund Ranks as of December 2017

Point to Point Returns are as on March 31, 2018

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: 6.19% (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: 6.68% (average T-bill auction cut off rate during the period)

Average AUM is 3-months average number as disclosed by AMFI for the period January-March 2018

CREDIT QUALITY

	High	Medium	Low	
High				INTEREST RATE SENSITIVITY
Medium				
Low				

Average Assets under Management - A Bird's Eye View

Mutual Fund Name	Jan-Mar 2018 (Rs.Crore)	Oct-Dec 2017 (Rs.Crore)	Change (Rs.Crore)	% Change	Mutual Fund Name	Jan-Mar 2018 (Rs.Crore)	Oct-Dec 2017 (Rs.Crore)	Change (Rs.Crore)	% Change
ICICI Prudential Mutual Fund	305739	293338	12402	4.23	Canara Robeco Mutual Fund	12496	12256	240	1.96
HDFC Mutual Fund	300549	289168	11381	3.94	Edelweiss Mutual Fund	12100	10000	2100	21.00
Aditya Birla Sun Life Mutual Fund	247529	241107	6423	2.66	IDBI Mutual Fund	10760	10653	106	1.00
Reliance Mutual Fund	244904	243594	1310	0.54	Indiabulls Mutual Fund	10714	11100	-386	-3.47
SBI Mutual Fund	217649	205273	12376	6.03	HSBC Mutual Fund	10261	11252	-991	-8.81
UTI Mutual Fund	154939	153364	1575	1.03	BNP Paribas Mutual Fund	8159	7499	660	8.80
Kotak Mahindra Mutual Fund	124691	119800	4891	4.08	PRINCIPAL Mutual Fund	7196	6625	571	8.62
Franklin Templeton Mutual Fund	103152	99804	3348	3.35	BOI AXA Mutual Fund	5802	5255	547	10.41
DSP BlackRock Mutual Fund	86326	87141	-816	-0.94	Union Mutual Fund	4305	3938	367	9.32
Axis Mutual Fund	77325	73372	3954	5.39	Mahindra Mutual Fund	3368	2821	548	19.42
IDFC Mutual Fund	69919	71388	-1470	-2.06	Essel Mutual Fund	1540	1147	393	34.30
L&T Mutual Fund	65932	60314	5618	9.31	IL&FS Mutual Fund (IDF)	1274	1114	160	14.37
Tata Mutual Fund	46977	48907	-1929	-3.95	Quantum Mutual Fund	1203	1182	21	1.80
Sundaram Mutual Fund	34306	36267	-1961	-5.41	PPFAS Mutual Fund	1010	925	86	9.25
Invesco Mutual Fund	26203	24122	2081	8.63	IIFL Mutual Fund	793	731	62	8.44
DHFL Pramerica Mutual Fund	23595	23493	102	0.43	IIFCL Mutual Fund (IDF)	650	642	9	1.33
LIC Mutual Fund	20118	22114	-1997	-9.03	Taurus Mutual Fund	509	597	-88	-14.69
Motilal Oswal Mutual Fund	17735	15762	1974	12.52	Escorts Mutual Fund	231	245	-14	-5.62
JM Financial Mutual Fund	16365	16633	-268	-1.61	Sahara Mutual Fund	64	67	-3	-4.28
Mirae Asset Mutual Fund	15756	13467	2289	17.00	Shriram Mutual Fund	43	43	0	-0.68
Baroda Pioneer Mutual Fund	13022	11085	1938	17.48	Grand Total	2305212	2237603	67608	3.02

AUM is the quarterly average number and excludes Fund of Funds

Fund Focus

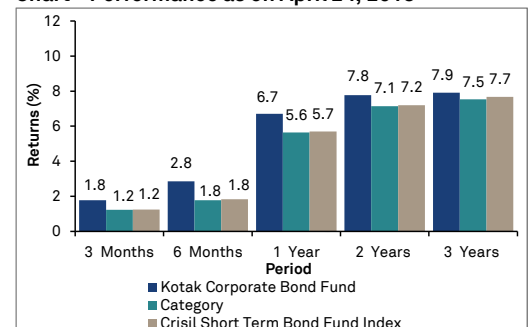
Kotak Corporate Bond Fund (CRISIL FUND RANK 1)

Launched in September 2007, Kotak Corporate Bond Fund is an open-end debt scheme, seeking to generate income and capital appreciation largely through a focus on investments in corporate debt securities. It has been ranked CRISIL Fund Rank 1 (top 10 percentile of its peer group) for the past two quarters ended December 2017 as per CRISIL Mutual Fund Rankings under short-term debt funds category. Its average assets under management totalled Rs 1,246 crore in the quarter ended March 2018.

Performance

The fund has outpaced its category benchmark (CRISIL Short Term Bond Fund Index) and the category (represented by CRISIL ranked short-term debt funds as of December 2017) in all the periods analysed. The fund has returned 8% since its inception.

Chart - Performance as on April 24, 2018



Returns above one year are annualised

Duration management

The fund has actively managed the interest rate risk in the periods under analysis. For instance, in August 2017, when 1-2-year government security (G-sec) yield was low at 6.45%, the fund maintained modified duration of 1.18 years. Conversely, in March 2018, when G-sec yield hardened to 6.98%, the fund reduced its modified duration to 0.59 years. Lower modified duration than peers (averaging 1.96 years) during the same period placed the fund at an advantage.

Portfolio analysis

In the three years ended March 2018, the fund had 79% of its portfolio, on average, in non-convertible debentures (NCDs) and bonds, and the remaining in cash and cash equivalents. However, since January 2018 the fund has been steadily increasing its exposure to CPs and CDs in line with the rise in interest rates.

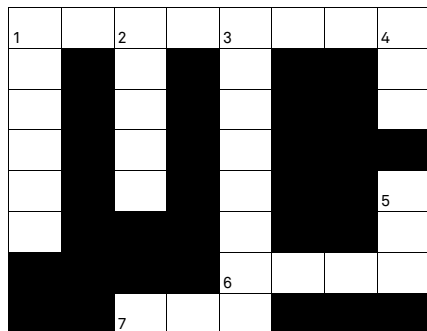
On the credit risk front, the fund manager has been cautious with the fund having 90% of its debt holdings, on average, invested in top rated papers (AAA and A1+) and G-secs over the three years ended March 2018.

Fund manager

The fund is managed by Mr Deepak Agrawal, a debt fund manager at the fund house. He is a CA and CS, and has an experience of around 16 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 fund which invests in smaller companies that are considered riskier (5,3)
- 6) India's mutual fund industry body (1,1,1,1)
- 7) Regular periodic investments made in equity schemes which help tide over volatility (1,1,1)

Vertical:

- 1) A broad domestic market benchmark consisting of 30 scrips (6)
- 2) Excess returns generated by the fund manager over the scheme's benchmark (8)
- 3) A fund which invests in the largest and financially strongest companies (5,3)
- 4) A type of index that captures only the changes in the prices of securities comprising the index (1,1,1)
- 5) A type of index that captures both capital gains and dividend receipts of index's underlying securities (1,1,1)

Answers

Vertical: 1) SENSEX 2) Alpha 3) Large cap 4) PRI (Price Return Index) 5) TRI (Total Return Index)

Horizontal: 1) Small cap 6) AMFI (Association of Mutual Funds of India) 7) SIP (Systematic Investment Plan)

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