

CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

Volume – 96 April 2019

Investment thoughts

Tax planning – invest holistically and year-round

Same story, another year. The same hurry-scurry by investors to save on taxes, as they infamously do in March. This seems to have become par for the course for the investment community – waiting for the last fiscal quarter (January-March) to make earnest tax-saving investments. And then, setting the tax alarm clock for the same season next year! Does this make sense?

A rational mind would disagree: first, last-minute investments can be indiscriminate, oblivious to one’s own risk-return profile and long-term investment objectives; second, one may not have sufficient funds to invest at that time, resulting in higher tax outflows. Tax planning should ideally be a disciplined part of year-round investments. In this article, we have highlighted the benefits of systematic and holistic tax planning through the year.

Planned investments – Planning, after evaluating different investment options, leads to well-thought-out monetary outflows. Distribution of outflows across a period is easier on the wallet as well. Last-minute action often results in short savings or no investments at all; thus, increasing the investor’s tax outflow. Among the various tax-saving investment options available under the Income Tax Act in India, most investors invest in traditional and safe bet (fixed returns) investments such as Public Provident Fund (PPF) and National Savings Certificate (NSC). This is, however, not wise as risk-return profiles vary. For instance, investors willing to take some market risk may look at tax-saving mutual funds such as equity-linked saving scheme (ELSS). While the minimum lock-in period for ELSS funds to avail tax benefits is three years, investors with the risk appetite and investment horizon can invest for longer periods (chart 1) to derive optimum returns from the investment avenue. The ELSS category has returned 18% CAGR, on average, in the 10-year rolling period since June 2001.

Disciplined investments – Investing throughout the year inculcates discipline in investors, adhering to one of the key fundamental rules of financial planning. Regular investments allow investors to take advantage of compounding from the start of the year for fixed income investments. In case of investments in equity-linked tax-saving instruments such as ELSS, regular investments reduce the risk of timing the market (rupee cost averaging), while helping generate optimum returns from the asset class in the long term. This can be done by opting for systematic investment plan (SIP) or systematic transfer plan (STP). SIP allows an investor to invest money in small lots at regular intervals. If an investor has lump sum money at any point of time during the year, he / she can deploy money in liquid funds and transfer a fixed amount via STP to the ELSS scheme at regular intervals.

Integrate with holistic financial planning – While most investors look at tax planning independently, it would be good if this tax planning can also be integrated with holistic financial planning for the individual. For instance, investments made through tax planning can be looked at achieving some financial goals. Thus by doing so, you are able to meet dual goal of both tax saving as well as meeting your goal while not putting higher pressure on the overall resources available with the individual. By investing year-around, an individual can avoid haphazard investments at the end of the year, and rather look at integrating it holistic with his / her overall financial planning.

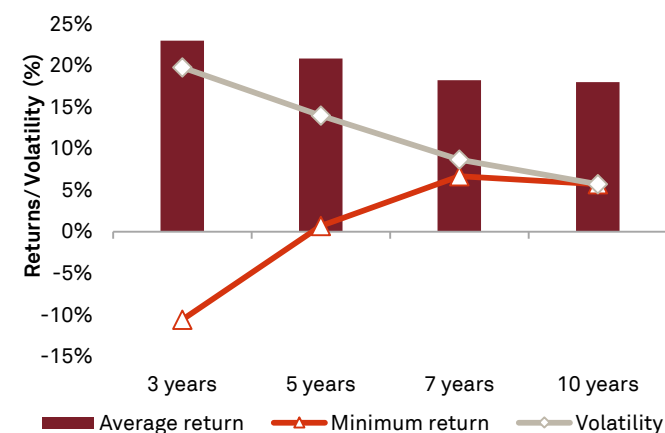
Summing up

Since there is no escape from taxes in today’s world, it is important to adopt the best practices to reduce the tax outflow while generating the best returns from tax-saving instruments. Invest as per your risk-return profile and make tax saving a year-long process. Also look at inflows/outflows holistically to generate the optimum balance and meet your long-term financial objectives.

Advantages of tax planning year-around



Risks and returns of ELSS across different time frames



Notes: ELSS data represented by index consisting of CRISIL-ranked ELSS funds; volatility represented by standard deviation; returns are annualised and calculated on a daily rolling basis since June 2001 for all holding periods; data until March 31, 2019

Market - Overview

Indices	% Change in March 2019	% Change in February 2019
Nifty 50	7.70	-0.36
S&P BSE Sensex	7.82	-1.07

Indicators	March 29, 2019	February 28, 2019
10-year Gsec	7.35%	7.41%
Monthly CPI Inflation	2.86%	2.57%

Mutual fund - Overview

Top Stock Exposures – March 2019	Top Sector Exposures – March 2019
1. HDFC Bank Ltd.	1. Banks
2. ICICI Bank Ltd.	2. Computers - Software
3. Infosys Ltd.	3. Refineries/marketing
4. State Bank of India	4. Pharmaceuticals
5. Reliance Industries Ltd.	5. Engineering, Designing, Construction
6. Larsen & Toubro Ltd.	6. NBFC
7. ITC Ltd.	7. Housing finance
8. Axis Bank Ltd.	8. Cigarettes
9. Housing Development Finance Corporation Ltd.	9. Power
10. Kotak Mahindra Bank Ltd.	10. Cement

New Stocks Entries and Exits in Mutual Fund Portfolios – March 2019

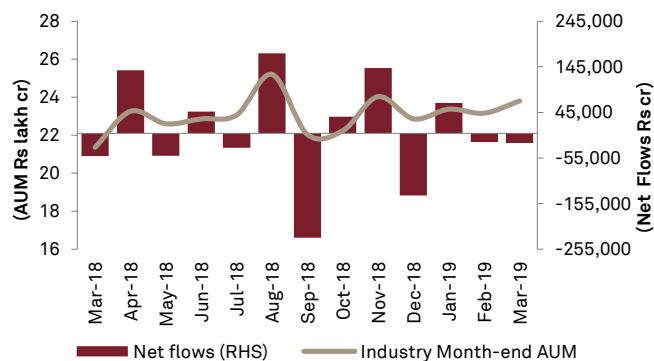
Entries	Exits
Embassy Office Parks REIT	Den Networks Ltd.
Excel Crop Care Ltd.	Steel Strips Wheels Ltd.
Hathway Cable & Datacom Pvt. Ltd.	Vakrangee Ltd.

Category returns	Absolute Monthly Returns %	
	Mar-19	Feb-19
Large Cap Funds	7.18	-0.72
Large Cap and midcap Funds	8.01	-0.86
Multicap Equity	7.77	-0.84
Focused	8.22	-0.10
Value-Contra	7.98	-0.47
Mid Cap	8.06	-0.33
Small Cap	10.15	-1.70
Arbitrage funds	0.47	0.34
Infrastructure	11.62	-0.58
ELSS	7.54	-0.73
Index	7.75	-0.50
Aggressive Hybrid	6.07	-0.58
Conservative Hybrid	2.82	0.07
Gilt	1.57	0.26
Dynamic	1.82	0.18
Medium to Long	1.92	0.16
Medium	1.54	0.01
Short duration	1.27	0.44
Corporate	1.54	0.22
BPSU	1.59	0.53
Credit Risk	1.18	0.26
Low Duration	0.95	0.51
Money Market	0.82	0.57
Ultra short duration funds	0.81	0.54
Liquid	0.61	0.53

Category returns represented by average of CRISIL ranked funds – December 2018

- Indian equity indices ended March 2019 on a strong note. Benchmarks S&P BSE Sensex and Nifty 50 rallied around 8% each in the month.
- Major boosters were easing of the Indo-Pakistan tensions, strength in the rupee against the dollar and encouraging domestic service sector data. Buying in some index heavyweights and robust inflows by foreign institutional investors also contributed to the upside.
- Further gains were, however, capped due to profit booking, selling by domestic institutional investors and renewed fears of global economic slowdown amid release of weak economic cues from the US and Europe.
- Nifty sectoral indices' performance was impressive in March 2019. Strong buying in banking stocks resulted in Nifty PSU Bank index and Nifty Bank index surging around 21% and 14%, respectively.

Mutual fund AUM and net flows trend



- The domestic mutual fund industry's assets under management (AUM) rose 2.73% to Rs 23.80 lakh crore in March 2019 aided by inflows in income and equity funds, even though liquid and balanced funds saw outflows.
- Marking the 36th consecutive month of inflows into the category, equity funds witnessed inflows of Rs 7,758 crore in March, higher than inflows of Rs 4,640 crore in February, aided by mark-to-market (MTM) gains. The category's AUM advanced by a strong Rs 62,919 crore in March, or 7.59%, to Rs 8.92 lakh crore.
- The balanced funds category witnessed strong outflows in March, amounting to Rs 3,181 crore (the third consecutive month of outflows) and compared with outflows of Rs 1,077 crore in February. Aided by MTM gains, however, the category's asset base expanded by Rs 7,865 crore, or 4.55%, to Rs 1.81 lakh crore in March from Rs 1.73 lakh crore in February.
- Debt funds (excluding liquid and gilt funds) witnessed inflows amounting to Rs 13,856 crore in March, the highest monthly inflow figure since October 2017, which recorded inflows of Rs 40,845 crore. Aided by MTM gains, debt funds recorded an AUM increase of Rs 23,139 crore, or 3.33%, to Rs 7.19 lakh crore in March.
- Gilt funds witnessed inflows of Rs 38 crore in March against outflows of Rs 149 crore in February and Rs 89 crore in January. As a result, the category's assets increased by Rs 165 crore, or 2.08%, to Rs 8,099 crore in March.
- Liquid funds saw outflows totalling Rs 51,343 crore in March compared with outflows of Rs 24,509 crore in February. Resultantly, the category's assets declined by Rs 51,756 crore, or 10.61%, to Rs 4.36 lakh crore in March.
- Among regulatory developments, SEBI clarified that trail commissions can be upfronted for systematic investment plans of up to Rs 3,000 per month, per scheme, for first-time investors in mutual fund schemes.
- SEBI asked mutual fund houses to share details of all the exposures where promoters have got funding by placing their shares as collateral or through other complex structures.
- SEBI directed asset management companies to constitute a technology committee to review the cyber security and resilience framework of the mutual fund industry.

Fund News

- Reliance Mutual Fund in partnership with Google introduced voice-based financial transactions for its customers.
- Essel Finance signed a pact to sell its mutual fund business to Srei Mutual Fund.

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					
Gilt											
Edelweiss Government Securities Fund	1.77	1.85	6.91	7.78	7.30	8.79	13-Feb-14	126.60		2.25	0.41
Reliance Gilt Securities Fund	1.90	2.10	7.41	8.97	9.06	8.95	22-Aug-08	925.04		4.01	0.66
Dynamic Bond											
DHFL Pramerica Dynamic Bond Fund	1.87	2.36	6.78	8.03	8.33	8.27	12-Jan-12	68.16		3.18	0.60
Quantum Dynamic Bond Fund	1.68	2.92	5.38	6.68	8.37	8.56	19-May-15	57.61		3.08	0.59
Medium to Long Duration											
Reliance Income Fund	2.64	2.37	7.06	8.08	7.31	8.75	1-Jan-98	279.40		3.62	0.27
Medium Duration											
IDFC Bond Fund - Medium Term Plan	1.74	2.47	5.60	7.35	7.21	7.50	8-Jul-03	1957.60		1.25	0.64
Axis Strategic Bond Fund	1.54	2.56	5.30	7.34	8.63	8.91	28-Mar-12	1242.68		1.49	1.39
Short Duration											
L&T Short Term Bond Fund	1.37	2.61	5.37	7.49	7.30	8.30	27-Dec-11	3230.16		0.94	0.71
IDFC Bond Fund - Short Term	1.43	2.81	5.78	7.65	7.29	7.58	14-Dec-00	5391.53		1.13	0.78
Corporate Bond											
L&T Triple Ace Bond Fund	2.86	2.73	7.02	7.03	6.58	7.22	31-Mar-97	547.88		2.50	0.10
IDFC Corporate Bond Fund	1.15	2.52	5.27	7.10	7.75	7.80	12-Jan-16	12451.89		1.00	0.33
Banking & PSU											
Axis Banking & PSU Debt Fund	1.72	3.25	6.84	8.96	8.17	8.54	8-Jun-12	3091.24		1.65	1.32
IDFC Banking & PSU Debt Fund	2.20	3.44	7.37	8.98	7.33	8.14	7-Mar-13	2843.30		1.74	1.26
Credit Risk											
Sundaram Short Term Credit Risk Fund	0.91	2.11	4.31	7.37	7.04	6.18	31-Jul-02	420.56		0.54	1.13
Principal Credit Risk Fund	1.04	2.15	4.34	6.59	7.44	7.60	14-Sep-04	78.65		0.75	-0.18
Low Duration											
DSP Low Duration Fund	0.92	2.28	4.65	7.81	7.49	7.86	10-Mar-15	3209.39		0.53	1.94
IDFC Low Duration Fund	1.00	2.26	4.63	7.60	7.66	7.66	17-Jan-06	3383.72		0.52	1.66
Money Market											
HDFC Money Market Fund	0.93	2.23	4.29	7.98	7.22	7.26	19-Nov-99	4719.39		0.37	3.38
Ultra Short Term											
L&T Ultra Short Term Fund	0.84	2.08	4.36	7.70	7.49	7.48	10-Apr-03	1612.37		0.39	2.33
Liquid											
Indiabulls Liquid Fund - Existing Plan	0.62	1.79	3.67	7.38	7.20	8.34	25-Oct-11	3178.09		0.29	2.38
Kotak Liquid - Regular Plan	0.63	1.77	3.68	7.40	7.12	7.44	4-Nov-03	24878.42		0.27	2.64
DHFL Pramerica Insta Cash Fund	0.65	1.84	3.79	7.56	7.21	7.93	4-Sep-07	2033.66		0.28	3.07

CRISIL Mutual Fund Ranks as of December 2018

Point to Point Returns are as on March 31, 2019

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

Risk Ratios are annualised

Risk ratios for Short Duration, Corporate Bond, Banking & PSU, Credit Risk, Low Duration, Money Market, Ultra Short Term and Liquid categories are for a period of 1 year; risk free rate: 6.6% (average T-bill auction cut off rate during the period)

Risk ratios for Gilt, Dynamic Bond, Medium to Long Duration & Medium Duration categories are for a period of 3 years; risk free rate: 6.41% (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 2019

CREDIT QUALITY			High	Medium	Low
High	Medium	Low			
			High	Medium	Low
			INTEREST RATE SENSITIVITY		

Average Assets under Management - A Bird's Eye View

Mutual Fund Name	Jan-Mar 2019	Oct-Dec 2018	Change (Rs.Crore)	% Change	Mutual Fund Name	Jan-Mar 2019	Oct-Dec 2018	Change (Rs.Crore)	% Change
	(Rs.Crore)	(Rs.Crore)				(Rs.Crore)	(Rs.Crore)		
HDFC Mutual Fund	342525	335196	7329	2.19	Baroda Mutual Fund	11320	12257	-938	-7.65
ICICI Prudential Mutual Fund	321281	308166	13115	4.26	IDBI Mutual Fund	8980	8631	350	4.05
SBI Mutual Fund	284124	264668	19455	7.35	JM Financial Mutual Fund	8712	11364	-2652	-23.34
Aditya Birla Sun Life Mutual Fund	246696	242561	4135	1.70	DHFL Pramerica Mutual Fund	7627	10756	-3129	-29.09
Reliance Mutual Fund	234293	236885	-2593	-1.09	BNP Paribas Mutual Fund	7209	7398	-189	-2.55
UTI Mutual Fund	159694	157586	2108	1.34	Principal Mutual Fund	7091	6940	151	2.18
Kotak Mahindra Mutual Fund	150271	139562	10709	7.67	Indiabulls Mutual Fund	4808	3728	1080	28.98
Franklin Templeton Mutual Fund	119933	110521	9412	8.52	Mahindra Mutual Fund	4748	3756	992	26.42
Axis Mutual Fund	89768	81670	8098	9.91	Union Mutual Fund	4259	4208	51	1.21
DSP Mutual Fund	78363	79245	-882	-1.11	BOI AXA Mutual Fund	3626	4173	-546	-13.09
L&T Mutual Fund	70944	69080	1864	2.70	YES Mutual Fund	2000	NA	NA	NA
IDFC Mutual Fund	69576	64811	4765	7.35	PPFAS Mutual Fund	1805	1576	230	14.58
Tata Mutual Fund	54194	49293	4900	9.94	IIFL Mutual Fund	1640	1400	240	17.15
Sundaram Mutual Fund	30497	30800	-303	-0.98	IL&FS Mutual Fund (IDF)	1593	1554	39	2.52
Mirae Asset Mutual Fund	24191	21035	3157	15.01	Quantum Mutual Fund	1424	1344	79	5.91
Invesco Mutual Fund	24003	23883	120	0.50	Essel Mutual Fund	1416	1759	-342	-19.47
Motilal Oswal Mutual Fund	19122	18606	516	2.78	IIFCL Mutual Fund (IDF)	580	595	-15	-2.55
LIC Mutual Fund	15240	13378	1862	13.92	Taurus Mutual Fund	424	421	3	0.70
Canara Robeco Mutual Fund	14620	13693	928	6.78	Quant Mutual Fund	196	195	1	0.56
Edelweiss Mutual Fund	11665	11894	-229	-1.93	Shriram Mutual Fund	124	101	23	23.08
HSBC Mutual Fund	11553	11257	296	2.63	Grand Total	2452192	2365599	86193	3.64

Fund Focus

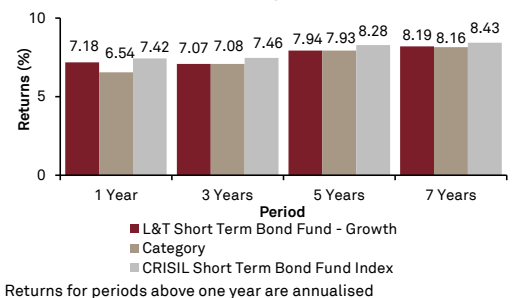
L&T Short Term Bond Fund (CRISIL Fund rank 1)

Launched in December 2011, L&T Short Term Bond Fund aims to generate returns and capital appreciation by investing in debt, and government and money market securities. To achieve this objective, the fund takes exposure across the curve depending on the fund manager's underlying interest rate view. The scheme's consistent performance is reflected in its ranking – the open-ended fund has been ranked CRISIL Fund Rank 1 (top 10 percentile of its peer group) for the four quarters ended December 2018 in the short duration category. Its average assets under management totalled Rs 3,230 crore in the quarter ended March 2019.

Performance

The fund's performance has been nearly on par with its category (represented by CRISIL-ranked short duration funds as of December 2018) and the benchmark (CRISIL Short Term Bond Fund Index) across three, five and seven years. Since inception, the fund has returned 8.3%, almost matching the benchmark's returns. In the past one year, the fund managed to outperform its peer group, returning 7.18% against peers' 6.54%.

Chart 1: Performance as on April 15, 2019



Duration management

The fund has actively managed its portfolio's interest rate risk over the three years ended March 2019. For instance, it reduced the modified duration from 2.08 years in December 2018 to 1.43 years in February 2019 when the average monthly yield of the 10-year benchmark bond hardened from 7.40% to 7.57%. When yield fell from 7.95% in October 2018 to 7.49% in March 2019, the modified duration of the portfolio was increased from 0.92 years to 1.63 years to increase gains as a result of the rise in bond prices.

Portfolio analysis

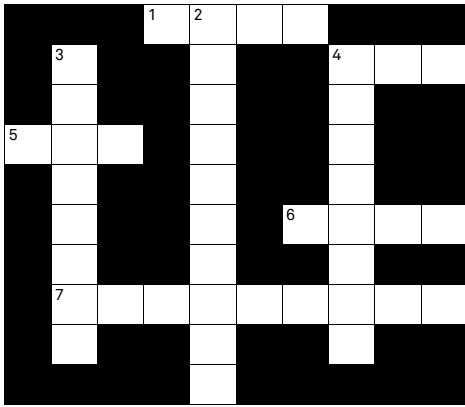
In the three years ended March 2019, the fund has invested mainly in NCDs and bonds, averaging around 82% of the portfolio. In the same period, exposure to gilts was 6%, and to CPs and CDs 5% and 2%, respectively.

On the credit risk front, the fund's exposure to highly rated papers (AAA, A1+, gilts and T-bills) has averaged around 99% of the portfolio over the three years ended March 2019.

Fund managers

The fund is managed by Mr Shriram Ramanathan and Mr Jalpan Shah. Mr Ramanathan – Head - Fixed Income, holds PG Diploma in Business Management and an engineering degree. He has over five years of experience in the fixed income market. Mr Shah, Portfolio Manager – Fixed Income, holds B.E. (Mechanical) degree and PG Diploma in Management. He has an experience of 14 years.

Crossword Corner – boost your financial knowledge



Horizontal

- 1) Government securities issued by the Centre that have high credit quality (4)
- 4) Periodic investment in stocks via mutual funds can be availed through this facility (1,1,1)
- 5) A source of information regarding the investment objective and risk factors associated with investing in a scheme (1,1,1)
- 6) A tax saving mutual fund (1,1,1,1)
- 7) A fund which tries to exploit price differences in different segments of the market to enhance return (9)

Vertical

- 2) A tax benefit that debt fund investors who've remained invested for atleast three years can avail (10)
- 3) A charge levied on investors to discourage early exit from a scheme (4,4)
- 4) A fund which invests a minimum of 65% of its asset in stocks which is below 251th rank in terms of market capitalization (5, 3)

Answers

Vertical: 3) Exit load 2) Indexation 4) Small cap

Horizontal: 1) Gilt 4) SIP (Systematic Investment Plan) 5) SID (Scheme Information Document) 6) ELSS (Equity Linked Savings Scheme) 7) Arbitrage

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