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2019

CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

Investment thoughts

Decade-old journey, paying dividends SIP by SIP

CRISIL Fund Insight celebrates its 100th anniversary this month. We embarked on this journey – to provide lucid information on mutual funds and financial planning in a concise format – about a decade ago. Looking back, we can assuredly say that we have done just that. In our endeavour to educate the readers, we covered a myriad of relevant topics, systematic investment plans (SIPs) being a regular feature. SIPs’ popularity among retail investors has

encouraged us to write about it again in our 100th edition. Record SIP inflows of Rs 2.37 lakh crore from April 2016 (when the Association of Mutual Funds of India started disclosing data) to July 2019, fueled the mutual fund industry’s increase in assets under management (AUM) to ~Rs 12 lakh crore during the period.

Systematic investment has reaped returns

Systematic investments allow investors to eliminate the risk of market timing, average the cost per unit and add discipline to investments over the long term. This investment has paid dividends for investors over the decade. For this analysis, we compared SIP returns with lump sum over various market phases in the past decade and then the final returns at the end of the overall period. We extended the period of analysis to before the start of the financial crisis in January 2008, a time when investors had extended their focus to mutual funds before losing interest due to the ensuing crisis.

Our analysis reveals that investments in SIP have done better than lump sum returns in most bear phases. For instance, during the sub-prime crisis, when the global markets topped ~44%, SIP investors’ negative returns were limited; so also during the European crisis. Even during the bull phase, there have been instances (post European crisis) when the markets went oscillated before trending up, and SIPs benefitted more than lump sum.

Period	SIP returns	Lump sum returns
Sub-prime crisis (Jan 2008-Mar 2009)	-33.28%	-43.71%
Sharp bounce back post Sub-prime crisis (Apr 2009-Dec 2010)	28.67%	51.48%
European crisis (Jan 2011-Jun 2013)	6.33%	-1.84%
Post European Crisis (Jul 2013-Feb 2015)	31.40%	27.55%
Chinese Slowdown (Mar 2015-Feb 2016)	-21.09%	-18.97%
Global liquidity and domestic reforms (Mar 2016-Dec 2017)	18.46%	21.10%
Mixed domestic and global scenario (Jan 2018 till Jul 2019)	2.33%	5.90%
End returns (January 2008-July 2019)	9.65%	4.64%

Note: Monthly SIP of Rs 1,000 and lump sum investment in S&P BSE Sensex considered for analysis. SIP returns are XIRR, while lump sum is an absolute for investment period up to one year and CAGR for holding period of more than one year.

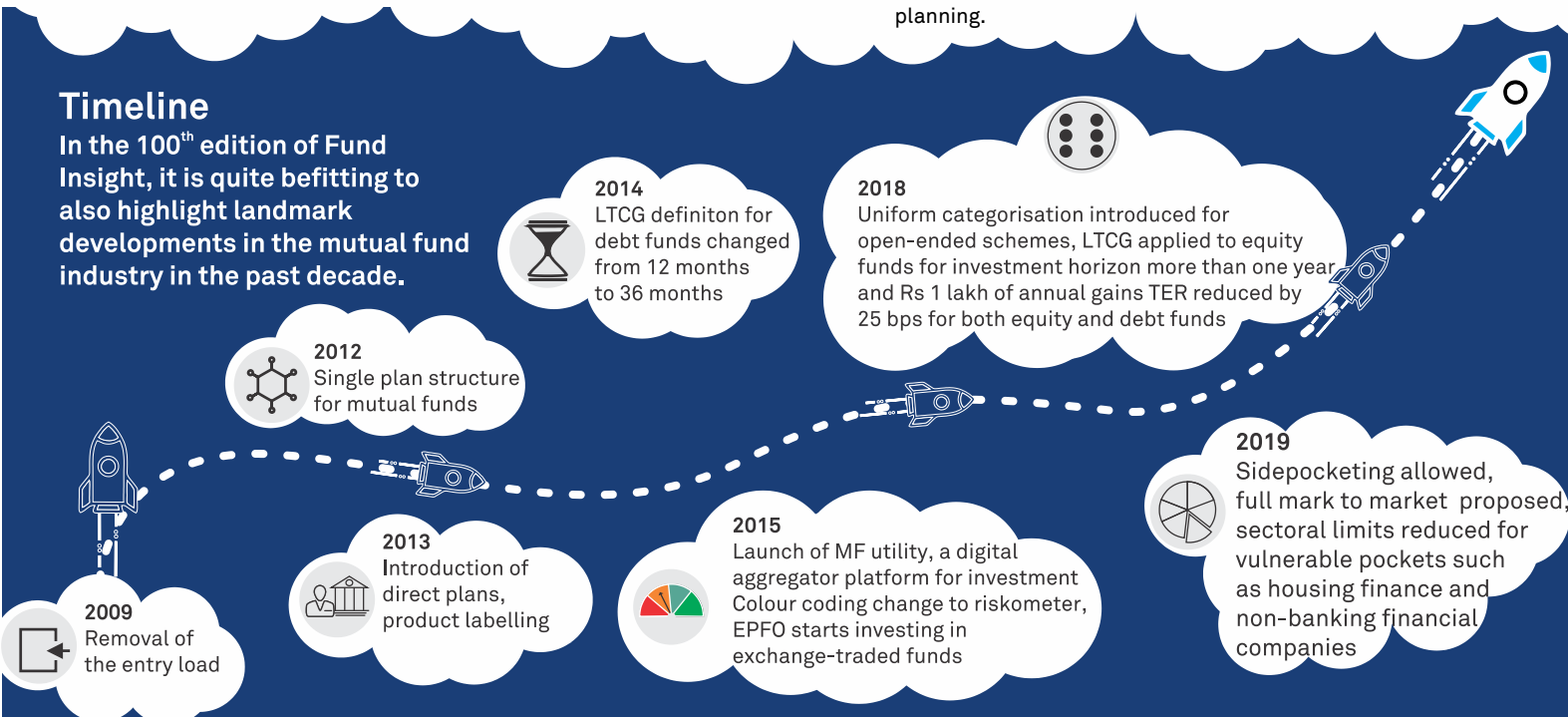
The clinching deal for SIPs came in the cumulative period since 2008 when point-to-point CAGR returns come out just around 5% versus XIRR returns of nearly 10% through the systematic route, thus showcasing the dividend of disciplined and regular investments by investors. Investors can optimise SIPs over the long run, helping reduce risks from volatility in the underlying market and shoring up returns.

Integrated financial planning for wealth creation

While SIPs are a good tool for investment planning, investors should devise an integrated financial plan for wealth creation and achievement of financial goals. This would entail mapping their risk-return profile and investment horizon with their goals, choosing the right product within the mutual fund spectrum, and using other systematic options such as systematic transfer plan (STP) and systematic withdrawal plan (SWP) for holistic financial planning.

Timeline

In the 100th edition of Fund Insight, it is quite befitting to also highlight landmark developments in the mutual fund industry in the past decade.



2012
Single plan structure for mutual funds

2014
LTCG definition for debt funds changed from 12 months to 36 months

2018
Uniform categorisation introduced for open-ended schemes, LTCG applied to equity funds for investment horizon more than one year and Rs 1 lakh of annual gains TER reduced by 25 bps for both equity and debt funds

2013
Introduction of direct plans, product labelling

2015
Launch of MF utility, a digital aggregator platform for investment
Colour coding change to riskometer, EPFO starts investing in exchange-traded funds

2019
Sidepocketing allowed, full mark to market proposed, sectoral limits reduced for vulnerable pockets such as housing finance and non-banking financial companies

2009
Removal of the entry load

Market - Overview

Indices	% Change in July 2019	% Change in June 2019
Nifty 50	-4.86	-1.12
S&P BSE Sensex	-5.69	-0.80

Indicators	July 31, 2019	June 28, 2019
10-year Gsec	6.37%	6.88%
Monthly CPI Inflation	3.15%	3.18%

Mutual fund - Overview

Top Stock Exposures – July 2019

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

Top Sector Exposures – July 2019

- Banks
- Computers - software
- Refineries/marketing
- Pharmaceuticals
- Engineering, designing, construction
- Housing finance
- NBFC
- Power
- Cigarettes
- Cement

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

Entries

Aarti Surfactants Ltd.
Accelya Solutions India Ltd.
IIFL Finance Ltd.
Affle (India) Ltd.
Vaibhav Global Ltd.
Bharat Rasayan Ltd.
Dhampur Sugar Mills Ltd.

Exits

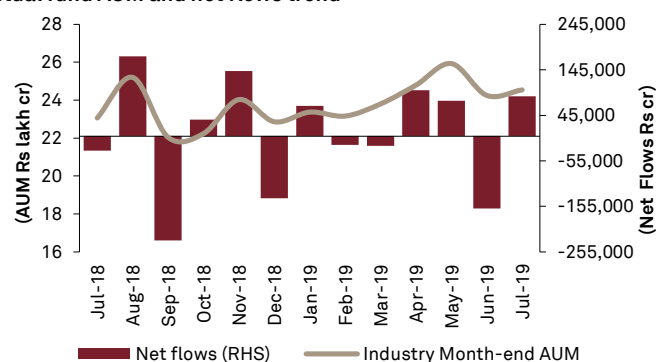
Bhansali Engineering Polymers Ltd.
Bharat Financial Inclusion Ltd.
Easun Reyrolle Ltd.
S S Infrastructure Development Consultants Private Ltd.
Prakash Pipes Ltd.

Category returns	Absolute Monthly Returns %	
	Jul-19	Jun-19
Large Cap Funds	-5.15	-0.52
Large Cap and midcap Funds	-6.48	-0.65
Multicap Equity	-6.07	-0.99
Focused	-6.21	-0.74
Value-Contra	-7.07	-1.83
Mid Cap	-7.68	-1.35
Small Cap	-9.20	-3.03
Arbitrage funds	0.26	0.26
Sector/Thematic	-9.13	-1.36
ELSS	-6.37	-0.85
Index	-5.17	-0.81
Aggressive Hybrid	-3.92	-0.55
Conservative Hybrid	-0.40	-1.44
Gilt	2.76	1.79
Dynamic	2.04	0.41
Medium to Long	2.31	0.38
Medium	1.55	-1.29
Short duration	1.41	-2.30
Corporate	1.47	-3.43
BPSU	1.70	0.48
Credit Risk	1.02	-4.30
Low Duration	0.95	-2.17
Money Market	0.87	0.45
Ultra short duration funds	0.87	-0.01
Liquid	0.56	0.54

Category returns represented by average of CRISIL ranked funds – June 2019

- Turmoil continued in the domestic equity market in July 2019. Benchmark indices fell sharply following weak domestic and global cues. S&P BSE Sensex and Nifty 50 lost 4.86% and 5.69%, respectively.
- Domestic headwinds included disappointment over some proposals announced in the Union Budget on July 5, including tax on share buyback, increase in the surcharge on high net worth individuals and foreign portfolio investors (FPIs), and increase in the minimum public shareholding of listed companies to 35% from 25%.
- The market slid further due to muted domestic corporate earnings announcements and heavy foreign fund outflows. Foreign institutional investors sold equities worth Rs 13,316 crore in July – highest outflows since October 2018 compared with buying of Rs 1,033 crore in June 2019.
- Further fall was, however, capped due to easing concerns over bilateral trade between India and the US, positive domestic current account deficit data, and hopes of a US interest rate cut.
- Nifty indices fell sharply in July 2019. Nifty Auto index plunged 14% as auto stocks skid on weak sales numbers and after the government proposed higher vehicle registration fees for new and old vehicles.

Mutual fund AUM and net flows trend



- Equity mutual fund investors kept faith in July despite volatility in the underlying equity market. The category saw inflows of Rs 8,113 crore in July against Rs 7,663 crore in the previous month even as the market, represented by the Nifty 50, fell 5.69%. Value buying by investors on the recent dip coupled with persistent inflows through systematic investment plans (SIPs) are expected to drive inflows into the category in the month.
- As per the Association of Mutual Funds in India data, nearly 28 lakh SIP accounts were added in the first three months of the current fiscal, with an average ticket size of ~Rs 3,000 per account. SIP contribution amounted to Rs 24,543 crore in the first three months of fiscal 2020, the highest in the June quarter over the past three fiscals. Since the time the association has started disclosing SIP numbers in April 2016, the industry has seen net flows of nearly Rs 2.37 lakh crore through the investment avenue till June 2019.
- Hybrid funds, too, recorded a surge in net flows in July at Rs 7,393 crore, primarily led by net flows of Rs 5,810 crore in arbitrage funds as investors sought to exploit volatility in equities. These funds generate returns by leveraging the differential in the cash and derivatives markets, and tend to benefit during bouts of volatility. Additionally, these funds provide investors the benefit of lower tax incidence due to being taxed as equity mutual funds.
- Liquid funds saw the largest share of net flows at ~Rs 45,400. While this is usual for the category at the start of a new quarter, as corporates and institutions plough back idle funds for short-term investments, the number was lower than most first months of the quarter seen historically. The recent proposal by the Securities Exchange Board of India (SEBI) to make debt security valuation to full mark-to-market compared with the previous rule of 30-day amortisation could have had an impact on the inflows in the category, especially for institutional investors with a short investment horizon.
- Among regulatory developments, SEBI wants fund houses to shift all their investments to listed or to-be-listed equity and debt securities in a phased manner and reduce their exposure to unrated debt instruments from 25% to only 5%.
- Competition Commission of India gave a nod to Nippon Life Insurance to buy up to 75% stake in Reliance Nippon Asset Management.

Fund News

- DHFL has exited the mutual fund business by selling its entire stake in DHFL Pramerica Asset Managers to PGIM Inc., the asset management arm of Prudential Financial Inc. DHFL Pramerica Asset Managers will be now known as PGIM India Mutual Fund.
- Samco Securities got the in-principle nod from the SEBI to start its own mutual fund business.

CRISIL Fund Rank 1 Schemes - Equity

Mutual Funds' Performance Report

Scheme Name	Point to Point Returns %						Inception Date	Average AUM (Rs.Crore)	Std. Deviation (%)	Sharpe Ratio
	1 Month	3 Month	6 Month	1 Year	3 Years	Since Inception				
Large Cap Equity										
Axis Bluechip Fund	-3.60	0.35	7.92	0.73	12.53	11.72	5-Jan-10	5444.55	11.33	0.58
Canara Robeco Bluechip Equity Fund	-4.78	-2.37	3.58	-1.50	9.44	10.42	20-Aug-10	191.41	12.04	0.30
HDFC Top 100 Fund	-7.14	-4.71	2.88	3.24	10.15	18.49	11-Oct-96	16948.83	13.91	0.33
Large & Mid Cap										
Mirae Asset Emerging Bluechip Fund	-5.59	-3.90	3.37	2.07	12.95	19.72	9-Jul-10	7391.19	14.13	0.50
Sundaram Large and Mid Cap Fund	-6.72	-5.11	0.55	-4.13	10.45	10.01	27-Feb-07	639.34	12.04	0.39
Multi Cap										
Canara Robeco Equity Diversified	-6.12	-4.26	1.97	-2.33	10.03	17.47	16-Sep-03	1180.19	12.22	0.34
HDFC Equity Fund	-7.64	-4.11	2.70	2.12	10.04	18.47	1-Jan-95	22620.30	15.13	0.31
Kotak Standard Multicap Fund	-5.97	-4.18	3.92	-1.91	9.87	13.22	11-Sep-09	24651.61	12.13	0.32
Focused										
SBI Focused Equity Fund	-4.17	-1.79	8.85	2.03	10.68	19.44	8-Oct-04	4416.74	11.80	0.42
Value / Contra										
Kotak India EQ Contra Fund	-5.36	-5.36	1.73	-3.85	10.41	12.22	27-Jul-05	822.21	11.84	0.36
Mid Cap										
Axis Midcap Fund	-5.49	-3.87	2.09	-3.18	9.71	15.88	18-Feb-11	2398.76	12.23	0.32
Tata Mid Cap Growth Fund	-9.06	-7.02	0.79	-3.55	5.88	16.40	31-Mar-04	673.23	14.00	0.04
Small Cap										
Axis Small Cap Fund	-5.81	-0.72	5.67	1.92	8.42	19.59	29-Nov-13	369.63	10.94	0.23
Infrastructure										
Franklin Build India Fund	-8.92	-6.96	2.69	-1.77	7.64	14.92	4-Sep-09	1264.58	14.37	0.16
LIC MF Infrastructure Fund	-7.29	-3.75	5.46	0.05	5.24	2.85	24-Mar-08	55.85	13.14	-0.02
ELSS										
Canara Robeco Equity Tax Saver	-7.23	-4.74	1.43	-1.28	9.27	18.61	2-Feb-09	953.41	11.79	0.29
JM Tax Gain Fund	-6.97	-3.45	3.97	-5.03	9.21	4.08	23-Apr-08	31.83	13.39	0.25
Mirae Asset Tax Saver Fund	-4.87	-3.26	3.75	1.62	14.29	16.19	28-Dec-15	2016.24	13.31	0.61
Index										
Kotak Nifty ETF	-5.44	-4.79	3.46	-0.96	10.01	10.37	2-Feb-10	754.21	11.84	0.35
SBI - ETF Nifty 50	-5.44	-4.78	3.50	-0.88	10.12	7.83	22-Jul-15	53396.70	11.85	0.35
SBI - ETF SENSEX	-4.60	-3.34	4.22	0.89	11.41	12.38	15-Mar-13	17105.85	11.59	0.47

CRISIL Mutual Fund Ranks as of June 2019

Point to Point Returns are as on July 31, 2019

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 6.34% - 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 2019

Average Assets under Management - A Bird's Eye View

Mutual Fund Name	Apr-Jun 2019 (Rs.Crore)	Jan-Mar 2019 (Rs.Crore)	Change (Rs.Crore)	% Change	Mutual Fund Name	Apr-Jun 2019 (Rs.Crore)	Jan-Mar 2019 (Rs.Crore)	Change (Rs.Crore)	% Change
HDFC Mutual Fund	362763	342525	20238	5.91	Baroda Mutual Fund	11181	11320	-139	-1.23
ICICI Prudential Mutual Fund	338768	321281	17487	5.44	JM Financial Mutual Fund	7710	8712	-1002	-11.50
SBI Mutual Fund	307841	284124	23718	8.35	Principal Mutual Fund	7280	7091	189	2.67
Aditya Birla Sun Life Mutual Fund	254182	246696	7486	3.03	BNP Paribas Mutual Fund	7244	7209	34	0.48
Reliance Mutual Fund	223272	234293	-11021	-4.70	IDBI Mutual Fund	6486	9297	-2811	-30.23
Kotak Mahindra Mutual Fund	161382	150271	11110	7.39	DHFL Pramerica Mutual Fund	5412	7627	-2216	-29.05
UTI Mutual Fund	157866	159694	-1828	-1.14	Mahindra Mutual Fund	4972	4748	224	4.71
Franklin Templeton Mutual Fund	126034	119933	6102	5.09	Indiabulls Mutual Fund	4530	4808	-278	-5.78
Axis Mutual Fund	102267	89768	12500	13.92	Union Mutual Fund	4307	4259	48	1.13
IDFC Mutual Fund	82493	69576	12917	18.57	BOI AXA Mutual Fund	3128	3626	-499	-13.75
DSP Mutual Fund	77619	78363	-744	-0.95	PPFAS Mutual Fund	2116	1805	311	17.22
L&T Mutual Fund	73497	70944	2552	3.60	IL&FS Mutual Fund (IDF)	1523	1593	-69	-4.36
Tata Mutual Fund	53641	54194	-553	-1.02	IIFL Mutual Fund	1523	1640	-118	-7.18
Sundaram Mutual Fund	31220	30497	723	2.37	Quantum Mutual Fund	1514	1424	90	6.32
Mirae Asset Mutual Fund	29261	24191	5070	20.96	YES Mutual Fund	1421	2000	-579	-28.93
Invesco Mutual Fund	24648	24003	645	2.69	Essel Mutual Fund	1041	1416	-376	-26.54
Motilal Oswal Mutual Fund	19694	19122	572	2.99	IIFCL Mutual Fund (IDF)	563	580	-17	-2.85
LIC Mutual Fund	16294	15240	1054	6.92	Taurus Mutual Fund	435	424	11	2.51
Canara Robeco Mutual Fund	15887	14620	1266	8.66	Quant Mutual Fund	217	196	21	10.47
Edelweiss Mutual Fund	12128	11665	463	3.97	Shriram Mutual Fund	133	124	9	7.15
HSBC Mutual Fund	12040	11553	487	4.21	Sahara Mutual Fund	54	55	-1	-1.47
Grand Total	2555651	2452509	103143	4.21					

Fund Focus

Kotak India EQ Contra Fund (CRISIL Fund Rank 1)

Launched in July 2005, Kotak India EQ Contra Fund has been ranked in the top 10 percentile (CRISIL Fund Rank 1) for the four consecutive quarters to June 2019 under the value/contra funds category of CRISIL Mutual Fund Ranking (CMFR). The fund's average assets under management (AUM) increased from Rs 765 crore in the quarter ended March 2019 to Rs 822 crore during the quarter to June 2019.

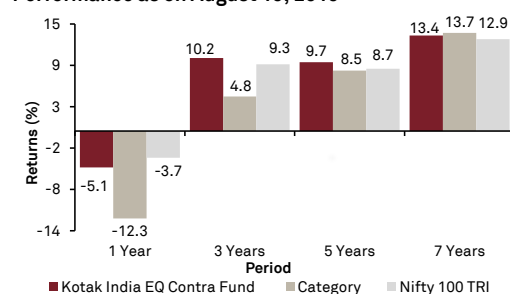
Investment approach

The fund's investment objective is to generate capital appreciation from a diversified portfolio of equity and equity-related instruments.

Performance

The fund outperformed its benchmark (the Nifty 100 TRI) and peers (represented by the value/contra funds category, as per CMFR June 2019) during most of the time periods analysed, especially in the long term. Since the scheme began operations in 2005, it returned an annualised 12.2%.

Performance as on August 19, 2019



Note: Returns above one year are annualised

Better risk-adjusted returns

The fund outperformed its category and the benchmark on a risk-adjusted basis, as measured by the Sharpe ratio (the higher, the better) over three years to the August 19, 2019. The fund's Sharpe ratio was 0.37, as against 0.30 and -0.04, respectively, for its benchmark and the category over this period. Further, the scheme's standard deviation, or volatility, is lower at 11.89%, compared with the category's 13.47% and the benchmark's 12.15%.

Performance of SIP returns

If an investor had set aside Rs 1,000 every month under a systematic investment plan (SIP) for 10 years ended August 19, 2019, his/her investment of Rs 1.2 lakh would have grown to Rs 2.14 lakh, at a compound annualised growth rate (CAGR) of 11.3%. A similar investment in the benchmark would have increased to Rs 2.08 lakh, at a CAGR of 10.8%.

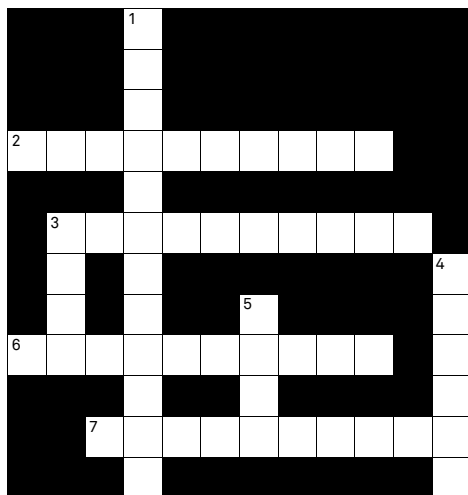
Portfolio analysis

The scheme consistently invested in 11 sectors over the past 36 months. Among these, exposure to software, consumer non-durables, banks, petroleum products and finance was the highest, ranging from 7% to 12%. The scheme invested in 12 scrips consistently over the past three years, with exposure to Rseliance Industries Ltd being the highest, averaging 5%.

Fund manager

The fund is managed by Ms. Shibani Sircar Kurian, Head - Equity Research, at the fund house. She has 19 years of experience in the Indian equity markets, and holds BSc and PGDM degrees.

Crossword Corner – boost your financial knowledge



Horizontal

- 2) Mutual funds that enable investors to make purchases and redemptions directly via the fund house use this plan (6,4)
- 3) A pictorial representation to help investors judge how risky a mutual fund is (10)
- 6) This captures the variability in daily returns of a fund (10)
- 7) A recent SEBI provision wherein distressed debt securities are moved to a separate portfolio to protect investor interests in case of a credit event (4,6)

Vertical

- 1) An indicator of the costs of investing in a mutual fund (7,5)
- 3) A closely watched benchmark interest rate that is revised by the central bank from time to time (4)
- 4) The practice of having taxes paid partially refunded in some cases (6)
- 5) An avenue that offers both investment returns and insurance (1,1,1,1)

Answers

Vertical: 1) Expense Ratio 3) Repo 4) Rebate 5) ULIP (Unit Linked Insurance Plan)

Horizontal: 2) Direct Plan 3) Riskometer 6) Volatility 7) Side Pocket

Contact Details

Kruti Rawal : +91 22 3342 3361; Kruti.Rawal@crisil.com

Deepak Mittal : +91 22 3342 8031; Deepak.Mittal@crisil.com

Dinesh Agarwal: +91 22 3342 3440; Dinesh.Agarwal@crisil.com

Sandeep Tripathi : +91 22 3342 8047; Sandeep.Tripathi@crisil.com

Ankur Nehra: +91 124 6722 418; Ankur.Nehra@crisil.com

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