

CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

Volume – 117 January 2021

Investment thoughts

MF industry on cusp of quantum growth

“Volatility is greatest at turning points, diminishing as a new trend becomes established.” billionaire investor and philanthropist George Soros once said. The quote is apt for the situation we are in – on one side, the pandemic has caused economic losses, but on the other, the financial markets have seen a sharp upside. It is against this backdrop that CRISIL held its first ‘India Investment Research Conclave’ to celebrate the completion of 20 years of CRISIL Mutual Fund Ranking (CMFR) and discuss the growth of wealth management industry in the country.

The webinar had the who’s who of the mutual fund and wealth management industry as part of a star studded panel (*details in postscript*), and the discussions that followed were insightful and engaging. The event also had Ashu Suyash, CEO and MD, CRISIL, present her views on the future of the capital and mutual fund market, while Nagarajan Narasimhan, Senior Director and Business Head, CRISIL Research, spoke about what has gone into making CMFR the veritable beacon it has been for mutual fund research in the country.

There was consensus among the panelists that the mutual fund industry in India has a bright future and will scale up significantly from here, riding on a strong regulatory framework and close linkages built with its distributor network over the years. It can potentially cater to 250 million customers, up from 25 million today. The potential is underlined by the unhindered surge in money flow through the systematic investment plan (SIP) route despite market volatility. In a lighter vein, some even suggest that ‘SIP’ is a more popular term than ‘mutual funds’. CRISIL estimates the industry to cross the Rs 50 lakh crore mark by 2025, from Rs 31 lakh crore as of December 2020, which works out to a compound annual growth rate of ~14%.

The country is also seeing a change in the traditional fixed-income orientation of investment, with investors – especially younger generations – increasingly preferring equity (including direct equity), and high networth individuals (HNIs) gravitating towards alternative assets.

The recent underperformance of equity funds may have given rise to doubts in some quarters on its potential, but it is likely cyclical and caused by sharp market volatility.

CRISIL estimates asset allocation in the mutual fund industry to move towards equity, with its share rising from 42% currently to 47% by 2025 – in line with global peers – benefiting the young demography, which has a longer term investment horizon. That said, asset allocation based on the investor’s risk-return profile and investment horizon would be the right way for individuals to participate in the financial markets. The young investing audience also needs to be educated about retirement planning, as it tends to focus on short-term or non-essential needs such as a fancy phone, a car, or a vacation.

As for the HNIs, environmental, social and corporate governance, or ESG, is gaining interest, offering the asset management industry a new growth avenue.

From CRISIL’s vantage point, passive funds as a category will gain prominence in near future, backed by investment from institutional investors (primarily provident funds) and evolved investors. Going forward, however, active funds will continue to garner major share of the industry.

For this growth to sustain, the industry will need close linkages with its distribution network and also adopt technology. Feet on the street would be as important as technology for penetration into the hinterland. The case of insurance is a pointer here – it has 10 times the number of distributors compared with mutual funds.

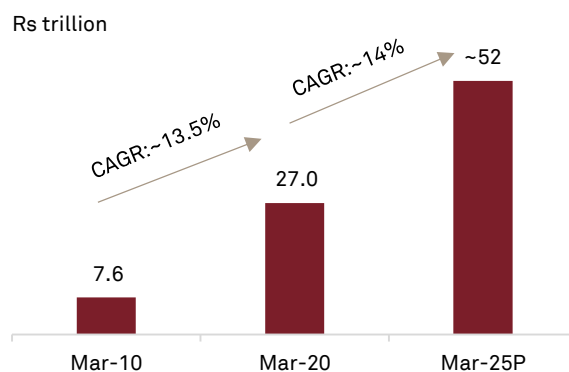
The development of advisory model of business in a developing country like India will also need some technological solution to bring regularity of cash flows and make it sustainable.

Alongside this, it is imperative that independent research, as epitomised by CMFR, continues to be the cornerstone as investors from various facet and segments of the society enter the industry. The key is to have data, analytics, research and technology solutions that incorporate various aspects of research – from macro to micro – in investment solutions through in-house models and for all asset classes. This improves and sustains investor confidence over the long run.

For a video recording of the entire event, along with the presentations and the report released to mark the 20 years of CMFR, [here](#).

P.S. Event moderated by Amish Mehta, COO and President, CRISIL. Eminent panelists in no specific order – Nilesh Shah, Group President & MD, Kotak Mahindra AMC Ltd, A Balasubramanian, MD & CEO, Aditya Birla Sun Life AMC Ltd, Sharad Mohan, Country Head – Retail Banking, Citibank India, Karan Bhagat, Founder, MD & CEO, IIFL Wealth & Asset Management Nithin Kamath, Founder & CEO, Zerodha and Manoj Nagpal, MD & CEO, Outlook Asia Capital.

Mutual fund industry expected to channel individual savings



Note: AUM is the average of the last quarter for each fiscal. P – projected
 Source: AMFI, CRISIL Research

Market – Overview

Indices	% Change in December 2020	% Change in November 2020
Nifty 50	7.81	11.39
S&P BSE Sensex	8.16	11.45

Indicators	December 31, 2020	November 27, 2020
10-year Gsec	5.89%	5.91%
Monthly CPI Inflation	4.59%	6.93%

Mutual fund - Overview

Top Stock Exposures – Dec 2020

- HDFC Bank Ltd.
- ICICI Bank Ltd.
- Infosys Ltd.
- Reliance Industries Ltd.
- HDFC Ltd.
- Bharti Airtel Ltd.
- Axis Bank Ltd.
- Kotak Mahindra Bank Ltd.
- State Bank of India
- Tata Consultancy Services Ltd.

Top Sector Exposures – Dec 2020

- Banks
- Computers - Software
- Pharmaceuticals
- Refineries/Marketing
- NBFC
- Housing Finance
- Engineering, Designing, Construction
- Telecom - Services
- Cement
- Passenger/Utility Vehicles

New Stocks Entries and Exits in Mutual Fund Portfolios – Dec 2020

Entries

- Burger King India Ltd.
- Antony Waste Handling Cell Ltd.
- Mrs. Bectors Food Specialities Ltd.
- Fineotex Chemical Ltd.
- Responsive Industries Ltd.
- Xelpmoc Design and Tech Ltd.

Exits

- Balaji Telefilms
- Bodal Chemicals Ltd.
- Infibeam Avenues Ltd.
- Jindal Drilling and Industries Ltd.
- Parag Milk Foods Ltd.
- PC Jeweller Ltd.
- Kirloskar Industries Ltd.

Category returns

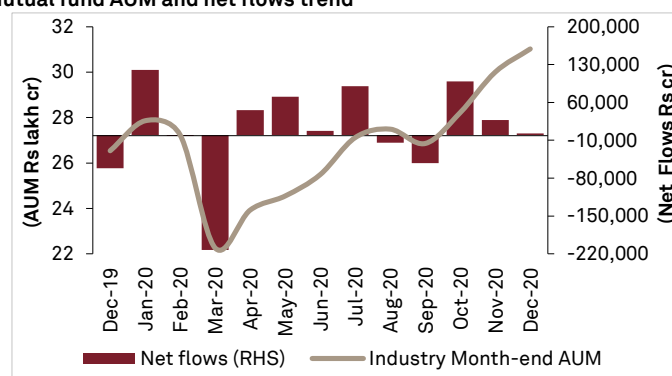
Absolute monthly returns %

	December	November
Large cap funds	7.55	10.63
Large cap and mid-cap funds	6.31	11.73
Multi cap equity funds	7.06	11.72
Focused funds	7.50	11.92
Value – Contra funds	6.94	12.14
Mid-cap funds	5.28	12.53
Small cap funds	6.82	12.16
Arbitrage funds	0.38	0.06
Sector/thematic – Infra funds	8.36	13.17
ELSS	7.20	11.21
Index funds	7.91	11.36
Aggressive hybrid funds	5.54	9.18
Conservative hybrid funds	2.05	3.22
Gilt funds	0.51	0.54
Dynamic funds	0.42	0.54
Medium-to-long term funds	0.44	0.54
Medium term funds	0.52	1.03
Short-duration funds	0.30	0.74
Corporate funds	0.31	0.81
Banking and PSU debt fund	0.29	0.76
Credit risk funds	0.52	0.78
Low duration funds	0.29	0.49
Money market funds	0.27	0.31
Ultra-short duration funds	0.27	0.36
Liquid funds	0.24	0.26

Category returns represented by average of CRISIL ranked funds – September 2020

- Benchmarks S&P BSE Sensex and Nifty 50 rallied to record highs and rose 8% each on-month in December 2020. Though the year was highly volatile, indices ended on a firm note. Optimism surrounding the Covid-19 vaccine, the US stimulus package and the UK-European Union (EU) Brexit deal helped minimise the initial losses caused by the surge in Covid-19 cases and the ensuing lockdown. S&P BSE Sensex and Nifty 50 gained 16% and 15%, respectively, in 2020.
- The domestic equity indices rose after the RBI decided to maintain the interest rate at 4% and raise its domestic growth forecast to -7.5% from -9.5% for fiscal 2021. Strong buying by the foreign institutional investors further supported the benchmarks.
- Globally, optimism on economic recovery amid rollout of a Covid-19 vaccine and signing of a \$2.3 trillion stimulus package by US President Donald Trump boosted the domestic markets.
- Some gains were capped on profit booking and worries about new strain of the virus in the UK.
- Nifty sectoral indices ended higher in the month. Nifty Realty, Nifty PSU Bank, Nifty IT Index and Nifty Metal indices gained 11-20%.

Mutual fund AUM and net flows trend



- A buoyant run-up in the underlying equity market and firm inflows into open-ended debt funds and equity exchange traded funds (ETFs) helped the Indian mutual fund industry's assets under management (AUM) cross the Rs 31-lakh crore mark for the first time ever in December. The industry not only recovered the losses incurred in March due to a sharp erosion in the equity market and outflows from debt funds, but also added a whopping Rs 4.5 lakh crore over the rest of the year to close at Rs 31.02 lakh crore.
- Investors continued to pull out of open-ended equity funds in December, with the large-cap, multi-cap, and value/ contra schemes bleeding the most. Cumulative outflows for these categories was Rs 9,058 crore. In contrast, dividend yield funds attracted inflows of Rs 1,490 crore. At the aggregate level, equity schemes recorded net outflows of Rs 10,147 crore in December. For the full year, the category saw net inflows of Rs 9,100 crore, aided primarily by market gains.
- Equity ETFs saw inflows of Rs 6,832 crore in December, higher than November's inflows of Rs 641 crore. Gold ETFs, which track the price of the yellow metal, attracted net inflows of ~Rs 431 crore in December. For the full year, equity ETFs saw inflows of over Rs 51,000 crore, while gold ETFs recorded net inflows of over Rs 6,600 crore, taking their asset tally to Rs 2.56 lakh crore and Rs 14,000 crore, respectively.
- The corporate bond and overnight categories recorded the highest net inflows among open-ended debt schemes in December, at a cumulative Rs 16,020 crore. Even liquid schemes attracted net inflows of Rs 5,102 crore during the month, despite it being the quarter-end. At an aggregate level, the asset base of open-ended debt funds expanded by ~Rs 18,913 crore on-month, or ~1.4%, to settle at a new record high of Rs 14.06 lakh crore. For the full year, the category gained ~Rs 2.77 lakh crore, or nearly 25% of year-end 2019 assets.
- On the regulatory front, the SEBI exempted fund managers from placing orders for passive and arbitrage trades, in a partial relaxation to its ruling on trade allocation and execution that became applicable on January 1, 2021.
- SEBI revised the format of monthly reports submitted by portfolio managers, with an aim to broaden the information obtained under such filings.

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	0.51	3.51	4.76	13.62	10.31	9.79	13-Feb-14	72.15		4.69	2.03
Dynamic Bond											
DSP Strategic Bond Fund	0.53	2.81	3.12	12.32	9.66	7.35	9-May-07	1775.99		6.24	1.40
SBI Dynamic Bond Fund	0.27	2.63	2.84	10.37	9.34	6.22	9-Feb-04	2388.12		4.44	1.85
Medium to Long Duration											
IDFC Bond Fund - Income Plan	0.68	3.03	3.11	11.78	9.54	8.57	14-Jul-00	697.83		4.73	1.79
Medium Duration											
IDFC Bond Fund - Medium Term Plan	0.49	2.72	3.33	10.94	8.73	7.75	8-Jul-03	4030.37		2.87	2.53
Short Duration											
BNP Paribas Short Term Fund	0.24	2.47	3.97	10.14	7.85	7.95	23-Apr-09	414.42		3.82	2.80
Principal Short Term Debt Fund	0.26	2.26	10.20	10.31	4.75	7.26	9-May-03	143.65		11.24	1.02
Corporate Bond											
Aditya Birla Sun Life Corporate Bond Fund	0.39	2.67	4.32	11.89	9.45	9.43	3-Mar-97	23609.37		3.58	3.64
Sundaram Corporate Bond Fund	0.24	2.39	3.76	10.98	8.97	7.36	30-Dec-04	1257.69		4.37	2.71
Banking & PSU											
DSP Banking & PSU Debt Fund	0.29	2.44	3.51	10.90	9.01	8.97	14-Sep-13	3983.08		4.49	2.61
Nippon India Banking & PSU Debt Fund	0.21	2.36	3.56	10.93	9.23	8.79	15-May-15	7200.53		4.68	2.52
Credit Risk											
Invesco India Credit Risk Fund	0.17	1.55	2.89	7.98	2.37	5.96	4-Sep-14	140.70		2.51	3.07
Low Duration											
IDFC Low Duration Fund	0.25	1.26	2.40	6.94	7.48	7.62	17-Jan-06	6988.03		2.04	3.07
Invesco India Treasury Advantage Fund	0.22	1.27	2.59	7.09	7.66	8.04	18-Jan-07	2813.09		2.11	3.05
Money Market											
Invesco India Money Market Fund	0.25	0.91	1.85	5.77	6.74	7.90	28-Aug-09	604.79		1.40	3.29
Ultra Short Term											
IDFC Ultra Short Term Fund	0.26	0.94	1.86	5.63	NA	7.07	20-Jul-18	5207.44		1.35	3.24
Liquid											
Canara Robeco Liquid	0.24	0.76	1.55	3.68	5.78	7.38	15-Jul-08	1438.91		0.19	8.54
Motilal Oswal Liquid Fund	0.21	0.70	1.41	3.36	NA	4.43	21-Dec-18	820.36		0.18	6.44
Quantum Liquid Fund	0.23	0.74	1.48	3.58	5.37	5.48	1-Apr-17	511.10		0.22	6.73

CRISIL Mutual Fund Ranks as of September 2020

Point to Point Returns are as on December 31, 2020

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: 3.78% (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: 5.39% (average T-bill auction cut off rate during the period)

Average AUM is 3-months average number as disclosed by AMFI for the period October-December 2020

CREDIT QUALITY

	High	Medium	Low	
High				INTEREST RATE SENSITIVITY
Medium				
Low				

Average Assets under Management - A Bird's Eye View

Mutual Fund Name	Oct-Dec 2020	Jul-Sep 2020	Change (Rs.Cr)	% Change	Mutual Fund Name	Oct-Dec 2020	Jul-Sep 2020	Change (Rs.Cr)	% Change
	(Rs.Cr)	(Rs.Cr)				(Rs.Cr)	(Rs.Cr)		
SBI Mutual Fund	457355	422123	35232	8.35%	BNP Paribas Mutual Fund	7331	6786	544	8.02%
HDFC Mutual Fund	390489	376379	14109	3.75%	Principal Mutual Fund	6855	6283	572	9.11%
ICICI Prudential Mutual Fund	389321	368698	20623	5.59%	PPFAS Mutual Fund	6632	5065	1567	30.94%
Aditya Birla Sun Life Mutual Fund	255851	239029	16822	7.04%	Mahindra Manulife Mutual Fund	5058	5036	22	0.44%
Kotak Mahindra Mutual Fund	217077	192311	24766	12.88%	PGIM India Mutual Fund	4847	4103	744	18.14%
Nippon India Mutual Fund	214416	201302	13114	6.51%	Union Mutual Fund	4613	4019	594	14.79%
Axis Mutual Fund	177752	156494	21259	13.58%	IDBI Mutual Fund	4370	4724	-354	-7.49%
UTI Mutual Fund	165359	155190	10169	6.55%	JM Financial Mutual Fund	3700	4182	-482	-11.53%
IDFC Mutual Fund	121293	114519	6774	5.92%	BOI AXA Mutual Fund	2351	2071	280	13.51%
DSP Mutual Fund	89487	82286	7201	8.75%	IIFL Mutual Fund	1885	1669	216	12.97%
Franklin Templeton Mutual Fund	82109	80007	2103	2.63%	Quantum Mutual Fund	1735	1586	149	9.42%
L&T Mutual Fund	68976	63104	5872	9.30%	IL&FS Mutual Fund (IDF)	1730	1768	-38	-2.16%
Tata Mutual Fund	59263	56458	2805	4.97%	Indiabulls Mutual Fund	921	906	16	1.72%
Mirae Asset Mutual Fund	58154	50317	7838	15.58%	ITI Mutual Fund	845	708	137	19.32%
Edelweiss Mutual Fund	45909	37432	8478	22.65%	Essel Mutual Fund	670	687	-16	-2.40%
Invesco Mutual Fund	32790	27147	5643	20.79%	IIFCL Mutual Fund (IDF)	603	612	-9	-1.47%
Sundaram Mutual Fund	30467	28070	2397	8.54%	Quant Mutual Fund	454	281	173	61.44%
Motilal Oswal Mutual Fund	24185	21659	2526	11.66%	Taurus Mutual Fund	435	409	27	6.55%
Canara Robeco Mutual Fund	23209	19856	3353	16.88%	Shriram Mutual Fund	189	182	7	3.93%
LIC Mutual Fund	15744	18080	-2336	-12.92%	YES Mutual Fund	129	84	45	52.78%
HSBC Mutual Fund	10131	9479	652	6.87%					
Baroda Mutual Fund	8286	7646	639	8.36%	Grand Total	2992976	2778746	214230	7.71%

Fund Focus

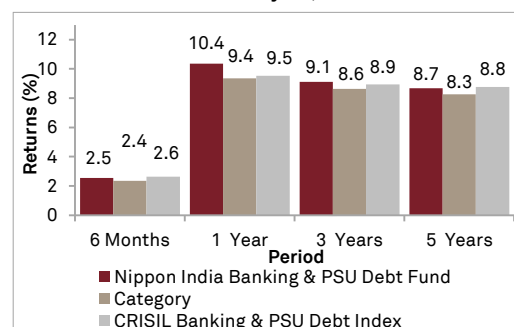
Nippon India Banking & PSU Debt Fund (CRISIL Fund Rank 1)

Launched in May 2015, Nippon India Banking & PSU Debt Fund ranked CRISIL Fund Rank 1 & 2 (top 30 percentile of its peer group) in the banking and PSU debt fund category in the past four quarters, ending September 2020. Its average assets under management were Rs 7,200 crore in the quarter ended December 2020.

Performance

The fund has outperformed its peers and the benchmark (CRISIL Banking & PSU Debt Index), as of December 2020, in most periods analysed. The fund has clocked around 9% returns since its inception.

Performance as on January 15, 2021



Note: Returns above one year are annualized

Duration management

The fund managed its interest rate risk well by altering its modified duration. For instance, when the 10-year government security (G-sec) benchmark yield fell to 5.91% in November 2020 from 6.65% in October 2019, the fund increased its modified duration to 3.35 years in November 2020 from 2.55 years in October 2019.

Portfolio analysis

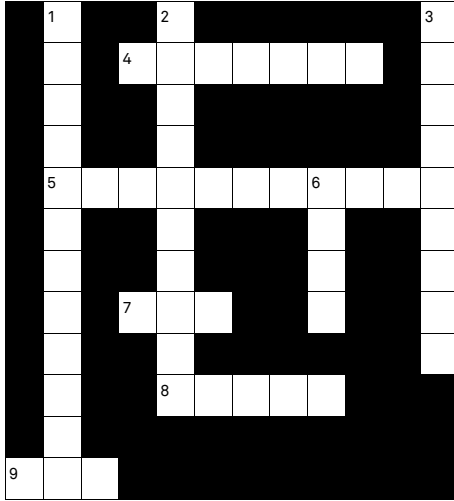
In the three years ended December 2020, the fund invested predominantly in non-convertible debentures (NCDs) and bonds, to the tune of 78.8%. In the same period, average exposure to Government Securities (G-Sec) was 10%.

On the asset quality front, top-rated papers (AAA and A1+) averaged ~82% of the portfolio over the past three years.

Fund manager

The fund is managed by Prashant Pimple and Vivek Sharma. Pimple, BCom, MMS, CTM, has over 19 years of experience in the capital markets, while Sharma, BE (Electronics Engineering), PGDBM (Finance), has 13 years of experience.

Crossword Corner – boost your financial knowledge



Horizontal

- 4) The holding period of an investment (7)
- 5) An entity that sells mutual funds to investors on behalf of fund management companies (11)
- 7) A fixed amount invested periodically in a mutual fund (1,1,1)
- 8) A measure of return generated by an investment (5)
- 9) A passively managed scheme (1,1,1)

Vertical

- 1) A commonly used method offered by banks to channel savings in India (5, 7)
- 2) Investment risk represented by the variability in daily returns of a mutual fund (10)
- 3) A way to safeguard against unexpected adverse events that have monetary ramifications (9)
- 6) Ownership in a mutual fund is conveyed by this measure (4)

Answers

Vertical: 1) Fixed Deposit 2) Volatility 3) Insurance 6) Unit

Horizontal: 4) Horizon 5) Distributor 7) SIP (Systematic Investment Plan) 8) Yield 9) ETF (Exchange Traded Fund)

Contact Details

Kruti Rawal : +91 22 3342 3361; Kruti.Rawal@crisil.com
 Dinesh Agarwal: +91 22 3342 3440; Dinesh.Agarwal@crisil.com
 Ankur Nehra: +91 124 6722 418; Ankur.Nehra@crisil.com
 Pradeep Nair: +91 22 3342 3539; Pradeep.Nair@crisil.com

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint. It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore. It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our large network sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

CRISIL Privacy

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com/privacy.

Disclaimer

CRISIL Research, a division of CRISIL Limited (CRISIL) has taken due care and caution in preparing this Report based on the information obtained by CRISIL from sources which it considers reliable (Data). However, CRISIL does not guarantee the accuracy, adequacy or completeness of the Data / Report and is not responsible for any errors or omissions or for the results obtained from the use of Data / Report. This Report is not a recommendation to invest / disinvest in any entity covered in the Report and no part of this report should be construed as an investment advice. CRISIL especially states that it has no financial liability whatsoever to the subscribers/ users/ transmitters/ distributors of this Report. CRISIL Research operates independently of, and does not have access to information obtained by CRISIL's Ratings Division / CRISIL Risk and Infrastructure Solutions Limited (CRIS), which may, in their regular operations, obtain information of a confidential nature. The views expressed in this Report are that of CRISIL Research and not of CRISIL's Ratings Division / CRIS. No part of this Report may be published / reproduced in any form without CRISIL's prior written approval. CRISIL or its associates may have commercial transactions with the company/entity.