

# CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

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## Investment thoughts

### Window to the world opens wider

For mutual fund investors, opportunities to diversify by investing abroad has increased

For mutual fund (MF) investors, the diversification opportunity just got bigger with the Securities and

Exchange Board of India (SEBI) hiking the overseas investment limit of domestic fund houses by 65% to \$1 billion (overall industry limit remains at \$7 billion). Each MF can also invest up to \$300 million in overseas exchange-traded funds (ETFs; overall limit remains \$1 billion). The windows to the world have been opening rapidly. Just six months back, the fund house cap was doubled to \$600 million and the ETF limit quadrupled to \$200 million.

Fund houses have been quick on the uptake. As many as 16 of the 53 international schemes in the market today were launched after March 2020. So why should you consider diversification?

Because winners change every year. For instance, in the bear run of 2020, the Nasdaq Composite of the US gave an astounding return of ~44%. In stark contrast, it has gained just ~8% so far this year. See historical calendar year performance table to understand things better.

Diversification helps investors ride volatility better and weather different market seasons.

For better understanding, let us look at the correlation of Indian and overseas equity markets over the past 10 years. A CRISIL Research analysis shows a weak positive correlation that varies across markets. A correlation above 0.80 is deemed strong, whereas the correlation of the S&P BSE Sensex ranges from 0.05 (versus the Shanghai Composite) to 0.53 (vis-a-vis the Straits Times Index).

Lack of strong correlation implies another index is doing well when Indian indices are not, which means investors can ride the other market's rally as long as it lasts.

#### How you can take exposure to foreign equities

A resident Indian can invest in foreign equities either by buying those directly or taking indirect exposure through mutual funds. The direct route has an investment limit of \$250,000 per annum in foreign equities under the Reserve Bank of India's Liberalised Remittance Scheme.

The indirect route is more convenient as domestic funds take exposure to funds managed or stocks listed on exchanges outside India. This route allows investors to participate in themes such as energy, mining and commodities – so far unavailable in India.

#### But two things bear close watching

- Currency movement:** Performance of international funds is impacted by currency as well as mark-to-market (MTM) movements of underlying constituents. It is positively impacted by depreciation of the domestic currency. For instance, if an investor put Rs 1 lakh in an international fund on March 1, 2018, when the rupee conversion rate was Rs 65.16 per US dollar (1,000 units @1 unit per US dollar) and exited on May 31, 2021, when the conversion rate was Rs 72.62 per US dollar, he/ she would have gained Rs 7,460 [1,000 units\* (72.62-65.16)] on account of the conversion factor, assuming there were no MTM gains/ losses from the investment. The exact opposite is likely, too. For instance, between April 23 and May 28, the rupee appreciated 3.4% versus the dollar – in this case, an investor's assets would have depreciated in proportion to currency appreciation.
- Taxation:** Although international funds invest in different asset classes including equities, capital gains arising out of these are treated similar to those of debt funds and taxed accordingly. Capital gains for a holding period of less than three years are treated as short-term capital gains, added to the income of the investor and taxed according to the applicable tax bracket. On the other hand, gains over a holding period of more than three years are classified as long-term gains and taxed at 20% after indexation.

#### And never, ever lose sight of the basics

The euphoria around international funds isn't without reason. These funds sure help spread the risk and enable participation across geographies, currencies and varying market conditions.

One should not forget the basics, however. The commandments, therefore: invest as per your risk profile, investment objectives and time horizon; ignore greed and fear; and conduct essential due-diligence before taking the leap.

#### Calendar-year performance of global equity indices

Indices	Calendar year returns (%)										
	2021*	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
India - S&P BSE Sensex	8.78	15.75	14.38	5.91	27.91	1.95	-5.03	29.89	8.98	25.70	24.39
US - Dow Jones	12.55	7.25	22.34	-5.63	25.08	13.42	-2.23	7.52	26.50	7.26	5.80
UK - FTSE 100	9.60	14.34	12.10	-12.48	7.63	14.43	-4.93	-2.71	14.43	5.84	-6.68
Hong Kong - Hang Seng Index	5.55	-3.40	9.07	-13.61	35.99	0.39	-7.16	1.28	2.87	22.91	-19.85
US - Nasdaq Composite	7.94	13.64	35.23	-3.88	28.24	7.50	5.73	13.40	38.32	15.91	-2.17
Japan - Nikkei	5.16	16.01	18.20	-12.08	19.10	0.42	9.07	7.12	35.72	22.39	-17.34
US - S&P 500 International	12.34	16.26	28.88	-6.24	19.42	9.54	-0.73	11.39	29.60	13.41	-0.02
Singapore - Straits times	10.89	-11.76	10.02	-9.82	18.13	-0.07	4.94	6.24	0.01	3.10	-17.62
Brazil - Bovespa index	9.15	2.92	31.58	15.02	26.86	38.33	-13.31	28.31	11.93	7.40	-18.11
China - Shanghai Composite	13.41	13.87	22.30	25.25	12.31	14.41	-11.37	-6.75	3.17	-21.68	

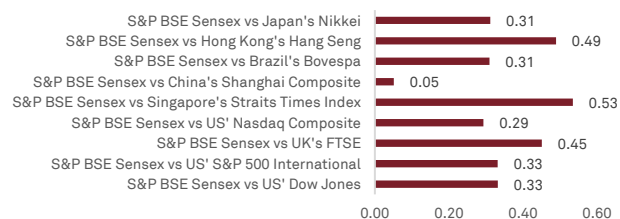
Source: CRISIL Research

Notes: Returns in green cell denote maximum returns in that year

Returns in red cell denote minimum returns in that year

\*2021 – Year till date returns till June 9, 2021

#### Correlation of Indian and global equity markets



Source: CRISIL Research

Note: Correlation considered between S&P BSE Sensex and the respective global indices for daily returns between January 3, 2011 and June 9, 2021.

## Market – Overview

Indices	% Change in May 2021	% Change in April 2021
Nifty 50	6.50	-0.41
S&P BSE Sensex	6.50	-1.47

Indicators	May 31, 2021	April 30, 2021
10-year Gsec	6.02%	6.03%
Monthly CPI Inflation	6.30%	4.23%

## Mutual fund - Overview

### Top Stock Exposures – May 2021

1. ICICI Bank Ltd.
2. HDFC Bank Ltd.
3. Infosys Ltd.
4. Reliance Industries Ltd.
5. Axis Bank Ltd.
6. State Bank Of India
7. HDFC Ltd.
8. Bharti Airtel Ltd.
9. Tata Consultancy Services Ltd.
10. Larsen & Toubro Ltd.

### Top Sector Exposures – May 2021

1. Banks
2. Computers - Software
3. Pharmaceuticals
4. Refineries/Marketing
5. NBFC
6. Cement
7. Engineering, Designing, Construction
8. Housing Finance
9. Telecom - Services
10. Passenger/Utility Vehicles

### New Stocks Entries and Exits in Mutual Fund Portfolios – May 2021

#### Entries

Shakti Pumps (India) Ltd.
Parag Milk Foods Ltd.
Shree Renuka Sugars Ltd.

#### Exits

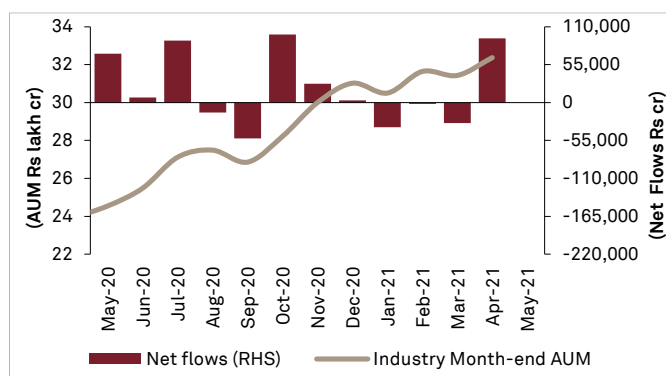
CL Educate Ltd.
Gravita India Ltd.
HPL Electric Power Ltd.
Indian Metals & Ferro Alloys Ltd.
Kolte-Patil Developers Ltd.
Meghmani Organics Ltd.
Poddar Pigments Ltd.
Salzer Electronics Ltd.
Sanghvi Movers Ltd.
Zuari Global Limited.

Category returns	Absolute monthly returns %	
	May	April
Large cap funds	6.50	-0.12
Large cap and mid-cap funds	6.41	0.81
Multi cap equity funds	8.07	2.10
Flexi cap funds	6.53	0.17
Focused funds	6.49	0.25
Value – Contra funds	7.27	0.78
Mid-cap funds	5.81	1.09
Small cap funds	8.22	3.93
Arbitrage funds	0.39	0.40
ELSS	6.45	0.56
Index funds	6.63	-0.79
Aggressive hybrid funds	5.17	0.91
Conservative hybrid funds	1.83	0.60
Gilt funds	0.41	0.89
Dynamic funds	0.45	0.76
Medium-to-long term funds	0.46	0.75
Medium term funds	0.62	0.77
Short-duration funds	0.42	0.67
Corporate funds	0.48	0.72
Banking and PSU debt fund	0.48	0.68
Credit risk funds	0.69	0.76
Low duration funds	0.31	0.41
Money market funds	0.27	0.34
Ultra-short duration funds	0.26	0.31
Liquid funds	0.26	0.26

Category returns represented by average of CRISIL ranked funds – March 2021

- S&P Sensex and Nifty 50, the Indian benchmark indices, rose 6.5% each in May 2021 – their biggest May month gain since 2014. The rise in both these indices was led by a decline in daily Covid-19 cases in India and positive global cues
- Investors also cheered as a slew of relief measures announced by the Reserve Bank of India (RBI) to support the domestic economy. Persistent buying by the Domestic institutional investors also aided the market.
- Domestic market was also supported by similar gains seen in global markets after release of strong United States (US) labour data, indicating an uptick in employment and economic activity. Further, the US gross domestic product (GDP) grew 6.4% in the first quarter of 2021, in line with the previous estimate, and higher than the 4.3% growth observed in the last quarter of 2020 also added to gains.
- However, further market gains were capped as investors remained cautious ahead of the US Federal Reserve (Fed)'s monetary policy meeting in June and also because the foreign institutional investors (FIIs) continued to sell domestic equities in May.
- Nifty sectoral indices ended on a positive note, with Nifty PSU Bank, Nifty Media and Nifty PSE gaining ~18%, ~14% and ~11%, respectively.

### Mutual fund AUM and net flows trend



- The Indian mutual fund industry's assets under management (AUM) grew for the second consecutive month in May to a record Rs 33.06 lakh crore, on mark-to-market (MTM) gains in equities and net inflows into categories such as equity funds, exchange-traded funds (ETFs) and hybrid schemes.
- Open-ended equity schemes witnessed net inflows for the third straight month at ~Rs 10,083 crore. Mid cap and small cap funds rose 5.81% and 8.22%, respectively.
- Equity-linked savings scheme was the only category recording net outflows as investors pulled out Rs 290 crore.
- MTM gains pushed up open-ended equity funds' AUM in May by ~Rs 76,537 crore, or 7.7% on-month, to a lifetime high of Rs 10.68 lakh crore.
- Within the open-ended debt fund category, liquid funds saw the highest net outflows of ~Rs 45,447 crore in May, followed by overnight funds at ~Rs 11,573 crore. Short duration funds witnessed outflows of Rs 1,034 crore, along with corporate bond funds (Rs 1,468 crore), and gilt schemes (Rs 944 crore). Weakness in banking and PSU funds persisted and recorded net outflows for the fourth consecutive month at ~Rs 1,340 crore.
- Low duration, money market, and ultra-short duration funds attracted the highest net inflows within the category at ~Rs 7,823 crore, ~Rs 4,334 crore and Rs 2,924 crore, respectively.
- In the closed-ended debt category, fixed-term plans saw redemptions totalling to ~Rs 18,802 crore.
- Hybrid schemes witnessed cumulative net inflows of ~Rs 6,217 crore in May. Within the category, arbitrage funds recorded the highest net inflows of ~Rs 4,521 crore, followed by dynamic asset allocation funds with ~Rs 1,363 crore, conservative hybrid schemes with ~Rs 395 crore, and equity savings schemes with ~Rs 382 crore.
- Equity ETFs posted net inflows for the seventh consecutive month, at ~Rs 5,380 crore. Net inflows in gold ETFs stood at ~Rs 288 crore, marking the sixth straight month of inflows into the category.
- AMFI restarted the online registration facility for obtaining fresh AMFI registration number (ARN) and employee unique identification number (EUIIN) for mutual fund distributors

# CRISIL Fund Rank 1 Schemes - Hybrid

## 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>Aggressive Hybrid</b>											
BOI AXA Mid & Small Cap Equity & Debt Fund	5.38	15.57	26.25	72.73	10.11	14.10	20-Jul-16	306.90		19.72	0.59
Kotak Equity Hybrid	5.11	7.45	22.13	62.13	13.92	11.32	3-Nov-14	1339.73		20.07	0.84
<b>Arbitrage</b>											
L&T Arbitrage Opportunities Fund	0.36	1.19	2.04	3.17	5.33	6.12	30-Jun-14	3217.00		1.37	2.12
Tata Arbitrage Fund	0.40	1.28	2.10	3.19	NA	5.38	18-Dec-18	3681.19		1.42	2.08
<b>Conservative Hybrid</b>											
Canara Robeco Conservative Hybrid Fund	1.48	3.25	6.06	18.18	10.66	10.07	3-Apr-01	427.75		6.24	1.69
LIC MF Debt Hybrid Fund	1.31	2.23	3.57	10.88	7.67	7.75	2-Jun-03	80.72		5.47	1.17

CRISIL Mutual Fund Ranks as of March 2021

Point to Point Returns are as on May 31, 2021

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 4.98% - 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

January-March 2021

Credit quality			Interest rate sensitivity	
High	Medium	Low		
				High
				Medium
			Low	

(For cons. Hybrid schemes)

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

Mutual Fund Name	Jan-Mar 2021	Oct-Dec 2020	Change (Rs.Cr)	% Change	Mutual Fund Name	Jan-Mar 2021	Oct-Dec 2020	Change (Rs.Cr)	% Change
	(Rs. Cr)	(Rs. Cr)				(Rs. Cr)	(Rs. Cr)		
SBI Mutual Fund	505373	457355	48018	10.50%	PPFAS Mutual Fund	8720	6632	2089	31.49%
HDFC Mutual Fund	416670	390489	26181	6.70%	BNP Paribas Mutual Fund	7837	7331	507	6.91%
ICICI Prudential Mutual Fund	416198	389321	26878	6.90%	Principal Mutual Fund	7768	6855	913	13.32%
Aditya Birla Sun Life Mutual Fund	269700	255851	13849	5.41%	PGIM India Mutual Fund	6527	4847	1680	34.66%
Kotak Mahindra Mutual Fund	234743	217077	17665	8.14%	Mahindra Manulife Mutual Fund	5271	5058	213	4.21%
Nippon India Mutual Fund	230222	214416	15806	7.37%	Union Mutual Fund	5240	4613	628	13.61%
Axis Mutual Fund	196862	177752	19110	10.75%	IDBI Mutual Fund	4162	4370	-208	-4.77%
UTI Mutual Fund	182853	165359	17494	10.58%	JM Financial Mutual Fund	2389	3700	-1311	-35.43%
IDFC Mutual Fund	122328	121293	1034	0.85%	IIFL Mutual Fund	2370	1885	485	25.72%
DSP Mutual Fund	97386	89487	7899	8.83%	BOI AXA Mutual Fund	2289	2351	-62	-2.63%
Franklin Templeton Mutual Fund	83525	82109	1415	1.72%	Quantum Mutual Fund	1942	1735	207	11.91%
L&T Mutual Fund	72728	68976	3752	5.44%	IL&FS Mutual Fund (IDF)	1679	1730	-51	-2.92%
Mirae Asset Mutual Fund	69773	58154	11619	19.98%	ITI Mutual Fund	1179	845	334	39.50%
Tata Mutual Fund	62078	59263	2815	4.75%	Quant Mutual Fund	722	454	268	59.09%
Edelweiss Mutual Fund	52415	45909	6505	14.17%	Essel Mutual Fund	698	670	27	4.10%
Invesco Mutual Fund	36841	32790	4051	12.36%	Indiabulls Mutual Fund	664	921	-258	-27.96%
Sundaram Mutual Fund	32052	30467	1585	5.20%	Trust Mutual Fund	625	0	625	NA
Canara Robeco Mutual Fund	28273	23209	5064	21.82%	IIFCL Mutual Fund (IDF)	588	603	-16	-2.58%
Motilal Oswal Mutual Fund	27993	24185	3808	15.75%	Taurus Mutual Fund	475	435	40	9.15%
LIC Mutual Fund	16927	15744	1184	7.52%	Shriram Mutual Fund	203	189	13	7.02%
HSBC Mutual Fund	10552	10131	421	4.16%	YES Mutual Fund	110	129	-19	-14.97%
Baroda Mutual Fund	9641	8286	1355	16.36%	<b>Grand Total</b>	<b>3236590</b>	<b>2992976</b>	<b>243614</b>	<b>8.14%</b>

## Fund Focus

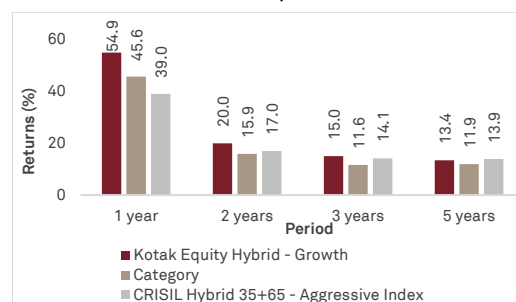
### Kotak Equity Hybrid – Growth (CRISIL Fund Rank 1)

Launched in November 1999, Kotak Equity Hybrid Fund is featured in the top-10 percentile of the aggressive hybrid fund category of CRISIL Mutual Fund Ranking (CMFR), for the quarter-ended March 2021.

#### Performance

The fund has outdone the category benchmark (CRISIL Hybrid 35+65 - Aggressive Index). It has surpassed the category (represented by funds ranked under the aggressive hybrid category in CMFR – March 2021) in all the periods analysed. The fund has returned 11% since its inception.

#### Performance as on June 21, 2021



Note: Returns above 1 year are annualised

#### Better risk-adjusted returns

The fund outperformed its category on a risk-adjusted basis, as measured by the Sharpe ratio (higher the better), over three years ended June 21, 2021. The fund's Sharpe ratio was 0.91, as against the category benchmark of 0.71.

#### SIP performance

If an investor had set aside Rs 1,000 every month under the systematic investment plan (SIP) for three years ended June 21, 2021, the investment of Rs 36,000 would have grown to Rs 51,106 at a compounded annualised growth rate (CAGR) of 24.48%. While, similar investments in the benchmark for the same period would have grown to Rs 48,087 at a CAGR of 20.02%.

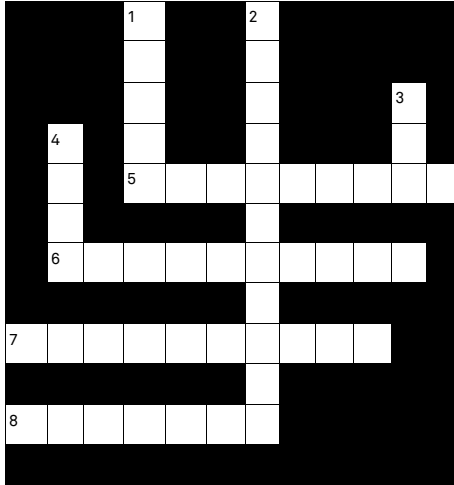
#### Portfolio analysis

During the three years ended May 2021, the fund's exposure to equities averaged 78% of total assets. The debt portfolio mainly comprised commercial papers (average three-year exposure 6%), government securities (~6%) and non-convertible debentures and bonds (~10%).

#### Fund manager

Pankaj Tibrewal, MBA (Finance), with more than 17 years' experience, manages the fund's equity portion. Abhishek Bisen, MBA (Finance), with around 14 years' experience, manages the debt portion.

## Crossword Corner – boost your financial knowledge



### Horizontal

- 5) A risk management strategy that involves investment in different asset classes (9)
- 6) The process of revising the purchase price of a security to account for change in inflation over a period (10)
- 7) The weakening of one currency relative to another (10)
- 8) The holding period of an investment (7)

### Vertical

- 1) One of the emotions that can influence investment decisions (5)
- 2) A statistical metric to indicate the extent to which two global indices may move in the same direction (11)
- 3) The units of such schemes are listed on stock exchanges (1,1,1)
- 4) India's securities market regulator (1,1,1,1)

### Answers

**Vertical:** 1) Greed 2) Correlation 3) ETF (Exchange Traded Fund) 4) SEBI (Securities and Exchange Board of India)  
**Horizontal:** 5) Diversify 6) Indexation 7) Depreciate 8) Horizon

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