

CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

Volume – 119 March 2021

Investment thoughts

No AMC has over 10% exposure in AT1, Basel III tier 2 bonds, but 36 schemes do

SEBI move to mitigate risk in debt portfolios positive

The Securities and Exchange Board of India (SEBI)'s latest directive to restrict the exposure of mutual funds (MFs) to additional Tier I (AT1) and Basel III tier 2 bonds is a risk mitigation measure to reduce portfolio risk in debt MF portfolios.

It comes after write-offs hit investors in such bonds issued by two banks in the past year.

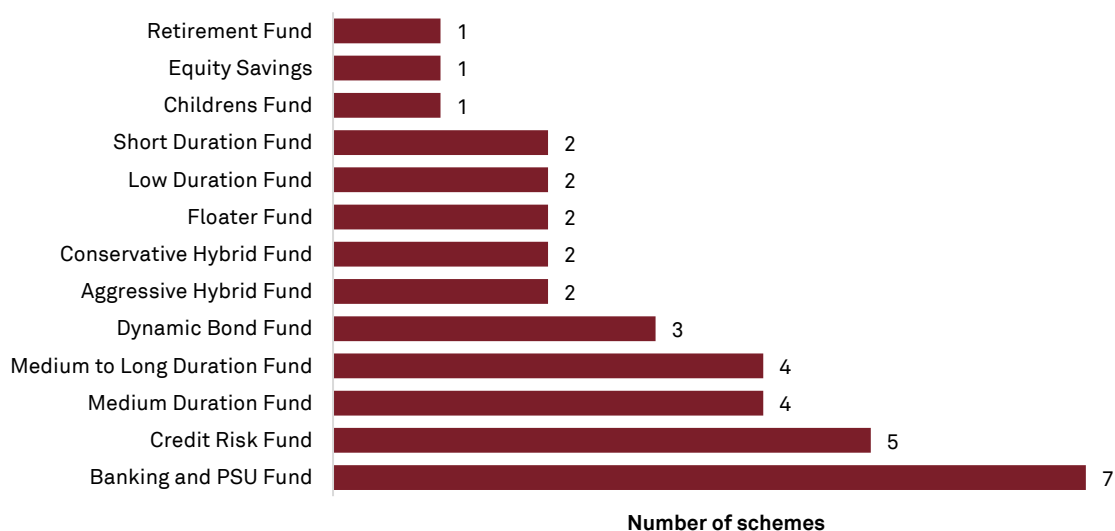
Interestingly, CRISIL's analysis of February 2021 MF portfolios shows that none of the fund houses cross the threshold of 10% of such instruments at the asset management company (AMC) level. However, 36 schemes spread across 13 fund houses breach the cap of 10% per scheme in securities.

SEBI's circular of March 10, 2021, caps investments by a mutual fund house under all its schemes in bonds with such special features (primarily AT1 and Basel III tier 2) to not more than 10% from one issuer. It also specifies that no MF scheme can hold more than 10% of its net asset value (NAV) of its debt portfolio in such bonds, and not more than 5% of the NAV of the debt portfolio should be due to such bonds from one issuer.

The CRISIL analysis also finds that banking and public sector undertaking (PSU) fund category has the highest number of schemes (seven) exceeding the 10% cap in such securities. It is followed by the credit risk fund (five), medium duration fund (four), medium to long duration funds (four), and dynamic bond fund (three) categories.

Says Piyush Gupta, Director, CRISIL Funds Research, "The regulator's move to 'grandfather' limits previously held is a positive move. In the medium to long term, with the restrictions in place, it could reduce appetite among MFs for these securities, thus limiting the risk for investors. This is also prudent given the advent of hordes of individual investors in to debt funds. They may not have the ability to understand MF portfolios and gauge risk, especially in such type of bonds – we saw how they were caught unaware by the recent write-offs."

Category-wise break-up of schemes with exposure of more than 10% in AT1 and Basel III tier 2 bonds



Source: CRISIL Research

SEBI has also directed MFs to value perpetual bonds (AT1) based on a 100-year maturity – a change from the current methodology where the call option date of the bond was considered for calculation.

This could cause volatility in pricing, especially of securities trading at a discount. It could also impact the portfolio maturity/duration considering the change of maturity date of securities to 100 years, and cause volatility in the categorisation of schemes within the specific maturity dates.

The Department of Financial Services had written to SEBI to withdraw the guidelines related to the change in valuation norms.

From an investor's perspective, the latest move to limit exposure to these types of securities reduces the portfolio risk. Investors should continue to monitor their portfolios on a regular basis and invest as per their risk-return profiles to meet financial goals.

Market – Overview

Indices	% Change in February 2021	% Change in January 2021
Nifty 50	6.56	-3.07
S&P BSE Sensex	6.08	-2.48

Indicators	February 26, 2021	January 29, 2021
10-year Gsec	6.22%	5.95%
Monthly CPI Inflation	5.03%	4.06%

Mutual fund - Overview

Top Stock Exposures – Feb 2021

- HDFC Bank Ltd.
- ICICI Bank Ltd.
- Infosys Ltd.
- Reliance Industries Ltd.
- State Bank Of India
- Axis Bank Ltd.
- HDFC Ltd.
- Bharti Airtel Ltd.
- Larsen & Toubro Ltd.
- Tata Consultancy Services Ltd.

Top Sector Exposures – Feb 2021

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

New Stocks Entries and Exits in Mutual Fund Portfolios – Feb 2021

Entries

Railtel Corporation of India Ltd.
MTAR Technologies Ltd.
Nureca Ltd.
Jubilant Ingrevia Ltd.
Suryoday Small Finance Bank Ltd.
Heranba Industries Ltd.
Garware Polyester Ltd.
Safari Industries (India) Ltd.

Exits

Hindustan Media Ventures Ltd.
Precision Camshafts Ltd.
Ultramarine & Pigments Ltd.
Fairchem Organics Ltd.
Kanchi Karpooram Ltd.

Category returns

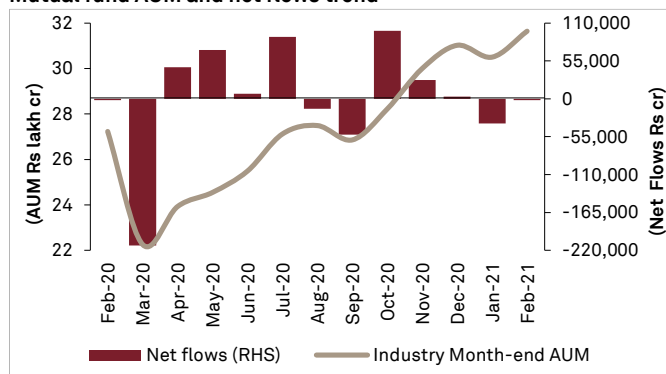
Absolute monthly returns %

	February	January
Large cap funds	6.74	-1.98
Large cap and mid-cap funds	9.07	-0.76
Multi cap equity funds	8.12	-1.38
Focused funds	7.56	-1.67
Value – Contra funds	9.04	0.10
Mid-cap funds	10.73	-0.20
Small cap funds	11.43	0.07
Arbitrage funds	0.29	0.12
ELSS	7.96	-1.38
Index funds	6.33	-2.71
Aggressive hybrid funds	6.21	-0.94
Conservative hybrid funds	0.94	-0.18
Gilt funds	-1.67	-0.18
Dynamic funds	-1.42	-0.13
Medium-to-long term funds	-1.66	-0.10
Medium term funds	-0.60	0.04
Short-duration funds	-0.41	-0.15
Corporate funds	-0.54	-0.15
Banking and PSU debt fund	-0.67	-0.10
Credit risk funds	0.18	0.44
Low duration funds	0.17	0.12
Money market funds	0.28	0.19
Ultra-short duration funds	0.26	0.16
Liquid funds	0.25	0.24

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

- Indian equity indices ended February on an upbeat note with the S&P BSE Sensex and Nifty 50 surging 6.1% and 6.6%, respectively.
- The market got a major boost from several measures announced in the Union Budget 2021-22. The Reserve Bank of India's (RBI's) decision to keep its policy rate unchanged, maintain an accommodative stance and ensure ample liquidity in the banking system cheered investors.
- Positive macroeconomic cues, including a fall in retail inflation in January 2021; upbeat domestic services activity in January 2021; and growth in the Index of Industrial Production in December 2020 lifted the market.
- Uptrend in the global equities, driven by optimism about the Covid-19 vaccine rollout and hopes of additional stimulus in the US, aided local indices. The US House of Representatives approved a \$1.9-trillion pandemic relief bill on February 27, 2021.
- However, gains were somewhat offset due to a resurgence in Covid-19 cases back home and globally. Most of the Nifty indices advanced with the Nifty PSU Bank rising 16%, the Nifty Metal 24% and the Nifty Energy 32%.

Mutual fund AUM and net flows trend



- Indian mutual fund industry's AUM rose 3.7% to settle at the all-time high of Rs 31.6 lakh crore as of end-February. The previous high recorded was ~Rs 31.02 lakh crore in December 2020. Inflow into the open-ended debt and hybrid categories and mark-to-market gains in the domestic equities were the main factors that contributed to the rise even as outflow from equity funds capped gains. Fund flow remained negative at ~Rs 1,844 crore.
- At ~Rs 2,006 crore, net inflow into dynamic asset allocation schemes in February was the highest for the category since April 2019, as the flexibility in these plans offer attracted investors. Interest in arbitrage schemes also remained firm, with net inflow at ~Rs 5,033 crore as market participants looked to take advantage of the volatility in the underlying equity market. The hybrid category recorded net inflow of ~Rs 4,703 crore, higher than January's Rs 2,142 crore.
- At ~Rs 1,735 crore, net inflow into the open-ended debt fund category was the lowest since the AMFI changed its format of dissemination in April 2019. Liquid funds saw net inflow of ~Rs 17,302 crore. In fact, the category, which had seen outflow in January, led the inflow tally among debt funds. Short duration funds recorded the highest net outflow within the category at ~Rs 10,286 crore, followed by corporate bond funds at ~Rs 6,752 crore. The asset base of open-ended debt funds ended flat at ~Rs 13.74 lakh crore.
- The trend in fund flow within the open-ended equity category showed no signs of abating, with net outflow at ~Rs 10,468 crore, higher than January's ~Rs 9,253 crore. The introduction / re-categorisation of flexi- and multi-cap funds had a major impact on flows into the category for the second consecutive month. The flexi-cap category recorded the highest net outflow within the category at ~Rs 10,431 crore, while multi-cap funds saw the highest net inflow of Rs 4,078 crore. As per the AMFI's disclosure, in February, nine multi-cap funds were re-categorised as flexi-cap funds.
- Mark-to-market gains in the underlying equity market helped the open-ended equity category notch up gains of ~8.1%, or approximately Rs 71,959 crore, in February. The overall open-ended equity asset base settled at a fresh record high of Rs 9.63 lakh crore.
- SEBI came out with guidelines on votes cast by mutual funds to further improve transparency and encourage them to diligently exercise their voting rights in the best interest of unitholders. The regulator made it mandatory for domestic fund houses to vote on resolutions of companies in which they have investment.

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											
Aggressive Hybrid																	
BNP Paribas Substantial Equity Hybrid Fund	3.54	12.72	20.45	18.98	13.23	12.56	7-Apr-17	473.51		18.60	0.83						
Canara Robeco Equity Hybrid Fund	2.01	8.93	18.39	19.90	12.16	16.23	20-Mar-98	3800.34		17.57	0.79						
Arbitrage																	
L&T Arbitrage Opportunities Fund	0.30	0.86	1.75	4.21	5.39	6.18	30-Jun-14	2148.05		1.40	1.91						
Tata Arbitrage Fund	0.29	0.83	1.80	4.36	NA	5.41	18-Dec-18	2417.21		1.47	1.83						
Conservative Hybrid																	
Canara Robeco Conservative Hybrid Fund	0.67	2.94	7.11	11.47	9.82	10.03	3-Apr-01	321.59	<table border="1"><tr><td>High</td><td>Medium</td><td>Low</td></tr><tr><td>High</td><td>Medium</td><td>Low</td></tr></table>	High	Medium	Low	High	Medium	Low	6.19	1.49
High	Medium	Low															
High	Medium	Low															
LIC MF Debt Hybrid Fund	-0.76	1.28	4.92	6.80	6.59	7.73	2-Jun-03	80.67	<table border="1"><tr><td>High</td><td>Medium</td><td>Low</td></tr><tr><td>High</td><td>Medium</td><td>Low</td></tr></table>	High	Medium	Low	High	Medium	Low	5.39	0.87
High	Medium	Low															
High	Medium	Low															

CRISIL Mutual Fund Ranks as of December 2020

Point to Point Returns are as on February 26, 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 5.23% - 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

October-December 2020

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	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

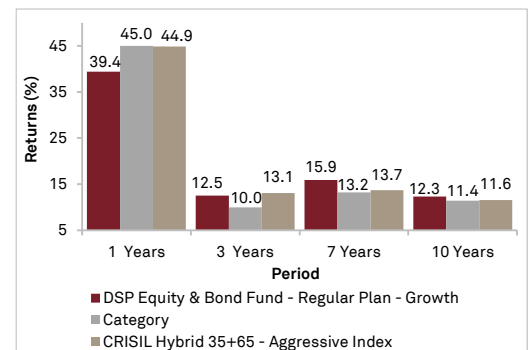
DSP Equity & Bond Fund - Regular Plan - Growth (CRISIL Fund Rank 2)

Launched in May 1999, the DSP Equity & Bond Fund featured in the top 30 percentile of the aggressive fund category of the CRISIL Mutual Fund Ranking (CMFR) in the past four quarters ended December 2020.

Performance

The fund has outperformed its benchmark (CRISIL Hybrid 35+65 - Aggressive Index) and category (funds under the aggressive hybrid category in the CMFR - December 2020) in most periods analysed. It has returned 15% since inception.

Performance as on March 16, 2021



Note: Returns above one year are annualized

SIP returns

If an investor had set aside Rs 1,000 every month under the systematic investment plan (SIP) for the three years ended March 16, 2021, the investment of Rs 36,000 would have grown to Rs 47,526 at an annualised growth rate of 19.4%. Similar investments in the benchmark would have grown to Rs 46,718 at 18.19%.

Portfolio analysis

The fund maintained nearly 74% exposure to equities during the three years ended February, while exposure to non-convertible debentures and bonds stood at nearly 18%. It invested 48% in large-caps, 26% in mid- and small-caps and the rest in the debt and cash segment in the month ended February 2021.

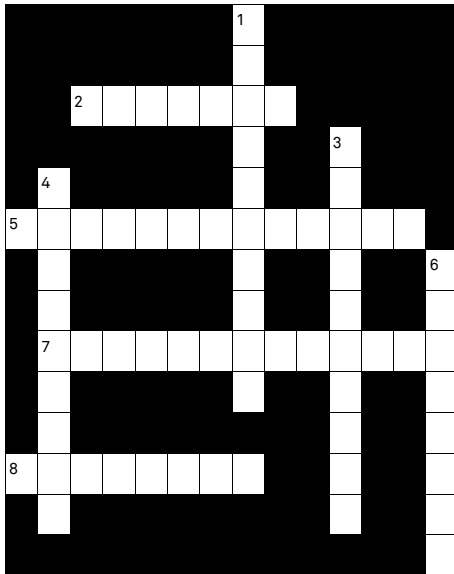
The fund consistently held 16 stocks in its portfolio in the past three years ended February, with 13 of them outperforming the benchmark. Bajaj Finance, ICICI Bank, HDFC Bank, and Tata Consultancy Services were consistently held and have been top contributors to the fund's returns during the period.

Over the past three years, the fund had the highest exposure to finance (21%), followed by banking (20%) and consumer non-durables (6.3%).

Fund managers

Atul Bhole, a senior fund manager, has been managing the fund since June 2016. He is an MMS (Finance JBIMS), CA and BCom, and has over 13 of experience.

Crossword Corner – boost your financial knowledge



Horizontal

- 2) A scheme that invests a majority of its assets in bonds that offer variable interest rates (7)
- 5) This represents the cost to purchase one unit of a mutual fund (3,5,5)
- 7) A type of scheme within the hybrid category (6,7)
- 8) The principal amount of the bond is typically repaid at this time (8)

Vertical

- 1) A fund which typically invests in lower rated papers (6,4)
- 3) The variation in daily returns that may be seen in a scheme (10)
- 4) A bond which typically has no maturity date (9)
- 6) A bond that is trading at below its face value (8)

Answers

Vertical: 1) Credit Risk 3) Volatility 4) Perpetual 5) Discount
Horizontal: 2) Floater 5) Net Asset Value 7) Equity Savings 8) Maturity

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