

CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

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Investment thoughts

Size doesn't matter, long-term performance of the MF is what counts

STRAP: Investing or exiting based on short-term performance, seen during bull and bear phases, is best avoided. Also consider the portfolio, as the outperformance may be due to investments in risky bets.

A surge in inflows has increased the size of mutual funds (MF) across categories in recent years, taking the assets under management (AUM) of the industry to within striking distance of Rs 40 lakh crore.

As the following table shows, the size of the largest funds in key categories — large-cap, mid-cap, small-cap, and flexi-cap — has grown as much as 1.5-3 times in the past five years.

Size comparison of funds between 2018 and 2022

Category	Size of largest fund as of Mar'18	Size of largest fund as of Sep'22
Large cap	19,373	35,822
Mid-cap	19,339	34,158
Small cap	7,007	22,158
Flexi cap	20,381	35,933

Data represented by month-end AUM in Rs crore

Source: AMFI, CRISIL Research

But does the large size of a fund denote better performance, or does a smaller fund mean superior agility and performance? A CRISIL Research study throws up valuable pointers.

Small- and mid-size funds generate superior returns

To analyse how large, mid-size, and small funds have performed over the years, the study collated the AUM data for four categories — large-cap, mid-cap, small-cap and flexi-cap funds — for the period starting post re-categorisation of funds (i.e., January 2018), to September 2022, on a quarterly frequency.

Funds were classified as large-size, mid-size, and small-size in terms of quarterly AUM, following a percentile approach — the top 60 percent were classified as large, the bottom 10 percent as small, and those in the 60-90 percent range as mid-size.

Next, the average performance of all the schemes within each fund-size group was calculated separately on a daily basis.

The universe of schemes was revised on a quarterly basis, based on the quarterly average AUM as discussed above. Based on this data, CRISIL Research evaluated what will be the value of Rs 100 invested in large-size, mid-size and small-size funds, for each of the four categories.

The analysis shows that mid-size and small-size funds gave superior returns across the categories analysed:

- Mid-size funds gave the best returns in the large cap and small cap category, of 10.9 percent and 11.2 percent, respectively
- Small-size funds gave the best returns in the mid-cap and flexi-cap fund category at 11.4 percent and 10.2 percent, respectively.
- Large-size funds were the worst performers in the large-cap, mid-cap and small-cap categories, and came second in terms of returns in the flexi-cap category

The superior returns given by mid-size and small-size funds indicates they are more agile. Large funds tend to be dragged down by their higher concentration in liquid stocks or securities that can take in their large quantum of investments.

Prudence required in fund selection

The study shows that the size of a fund is no guarantee of its performance. Indeed, the performance of small- and mid-size funds was better compared to large-size funds in the period analysed.

Large size does have its benefits, though. For instance, a large corpus helps a fund handle a short-term liquidity crisis better than a smaller fund. The SEBI (Securities & Exchange Board of India) mandate to lower the expense ratio of funds as they increase in size is also a positive for investors as it reduces their total cost and improves their overall return. Further, we have also seen that there is a higher incidence of mergers / closures in case of mid- and small-size funds.

That said, asset size should not be the only deciding factor while selecting funds. It is equally important for investors to look at factors such as performance, particularly long-term performance. Investing or exiting based on short-term performance, typically seen during bull and bear phases in the market, is best avoided. Investors should also look at consistency of outperformance across market phases and calendar years to understand the real performance of a fund.

Investors should also consider the portfolio, as the outperformance may be due to investments in some risky bets, or due to concentrated holdings, which might unravel when the tide turns

Performance of Rs 100 invested in schemes across fund sizes and categories as on 30th September, 2022

Category of Funds	Large Size		Mid Size		Small Size	
	Value of Rs.100 invested on 1st Jan'18	CAGR	Value of Rs.100 invested on 1st Jan'18	CAGR	Value of Rs.100 invested on 1st Jan'18	CAGR
Large cap	150.4	9.0	163.2	10.9	155.5	9.7
Mid cap	156.4	9.9	162.5	10.8	166.9	11.4
Small cap	155.3	9.7	165.7	11.2	163.7	10.9
Flexi cap	155.3	9.7	147.9	8.6	158.9	10.2

Note: The colour of the cell shows the relative performance of a specific fund size in a category, with green denoting the top-performing and red the worst-performing size segment within the mutual fund category.

Market – Overview

Indices	% Change in October 2022	% Change in September 2022
Nifty 50	5.37	3.74
S&P BSE Sensex	5.78	3.54

Indicators	October 31, 2022	September 30, 2022
10-year Gsec	7.45%	7.43%
Monthly CPI Inflation	6.77%	7.41%

Mutual fund - Overview

Top Stock Exposures – Oct 2022	Top Sector Exposures – Oct 2022
1. ICICI Bank Ltd.	1. Banks
2. HDFC Bank Ltd.	2. Computers - Software
3. Infosys Ltd.	3. Pharmaceuticals
4. Reliance Industries Ltd.	4. Refineries/Marketing
5. State Bank Of India	5. NBFC
6. Axis Bank Ltd.	6. Passenger/Utility Vehicles
7. HDFC Ltd.	7. Engineering, Designing, Construction
8. Larsen & Toubro Ltd.	8. Housing Finance
9. Bharti Airtel Ltd.	9. Cement
10. ITC Limited	10. Telecom - Services

New Stocks Entries and Exits in Mutual Fund Portfolios – Oct 2022

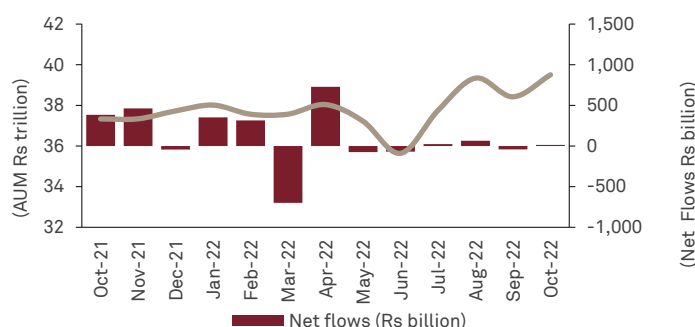
Entries	Exits
Electronics Mart India Ltd.	Meghmani Finechem Ltd.
NMDC Steel Ltd.	Muthoot Capital Services Ltd.
Aarti Pharmalabs Ltd.	Swiss Galscoat Equipments Ltd.
Indus Towers Ltd.	
DCX Systems Ltd.	
Tracxn Technologies Private Ltd.	
J T L Infra Ltd.	
Punjab Alkalies & Chemicals Ltd.	
Global Health Ltd.	
HLE Glasscoat Ltd.	
Spandana Sphoorty Financial Ltd.	

Category returns	Absolute monthly returns %	
	Oct	Sep
Large cap funds	4.56	-2.94
Large cap and mid-cap funds	3.32	-1.75
Multi cap equity funds	3.05	-0.70
Flexi cap funds	3.42	-2.28
Focused funds	3.82	-2.26
Value – Contra funds	4.60	-2.10
Mid-cap funds	1.62	-0.80
Small cap funds	1.17	0.63
Arbitrage funds	0.34	0.41
ELSS	4.11	-2.20
Index funds	5.59	-3.71
Aggressive hybrid funds	3.10	-1.75
Conservative hybrid funds	1.20	-0.66
Gilt funds	0.28	-0.13
Dynamic funds	0.31	-0.18
Medium-to-long term funds	0.27	-0.27
Medium term funds	0.36	-0.17
Short-duration funds	0.38	0.01
Corporate funds	0.39	-0.04
Banking and PSU debt fund	0.38	-0.07
Credit risk funds	0.41	0.09
Low duration funds	0.39	0.28
Money market funds	0.43	0.33
Ultra-short duration funds	0.41	0.32
Liquid funds	0.50	0.42

Category returns represented by average of CRISIL ranked funds – Sep 2022

- Indian equity indices posted the biggest monthly gain since July in October, with benchmarks S&P BSE Sensex and Nifty 50 rising 6% and 5%, respectively, buoyed by the RBI's rate hike decision, upbeat corporate earnings, and hopes of a less hawkish policy stance by major global central banks.
- Markets also rose after foreign institutional investors (FIIs) bought Indian equities.
- However, sharp gains were capped after the International Monetary Fund (IMF) and the World Bank hinted at a global recession citing aggressive rate hikes by global central banks due to inflationary pressures.
- Back home, a spike in retail inflation, measured by the Consumer Price Index (CPI), also dented investor sentiment.
- Nifty sectoral indices ended mostly higher, with Nifty Bank (~7%), Nifty information technology (~6.5%) and Nifty financial services (~6%), gaining the most.

Mutual fund AUM and net flows trend



Source: CRISIL Research

- Assets under management (AUM) of the domestic mutual fund (MF) industry increased ~3% (~Rs 1 lakh crore in absolute terms) on-month in October to ~Rs 39.50 lakh crore, led by net inflows and mark-to-market (MTM) gains in equity-oriented and passive funds (index/exchange-traded funds), respectively.
- Assets of open-ended equity funds gained 4% on-month to Rs 15.22 lakh crore in October, due to MTM gains in underlying equities. The category witnessed the 20th straight month of net inflow at ~Rs 9,390 crore.
- Within the category, sectoral/thematic funds saw the highest net inflow of ~Rs 2,686 crore (vs ~Rs 4,419 crore in September), followed by strong inflows in small-cap, mid-cap and large and mid-cap.
- Investor enthusiasm for systematic investment plans (SIPs) continued unabated. Collections stood at a record high of Rs 13,041 crore (vs Rs 12,976 crore).
- Assets of hybrid funds rose to ~Rs 4.9 lakh crore, up ~2% on-month, or by Rs 8,940 crore, supported by MTM gains in underlying equities. However, the category recorded net outflows for the fifth straight month at ~Rs 2,819 crore.
- Among hybrid funds, balanced advantage funds witnessed a net outflow of ~454 crore, after posting inflows for 21 consecutive months.
- Passive strategy continued to attract investors during the month. Exchange-traded funds (ETFs), excluding gold, and index schemes, cumulatively saw ~Rs 9,920 crore in net inflow (~Rs 13,125 crore in September).
- The AUM of open-ended debt funds rose 0.25% on-month to ~Rs 12.45 lakh crore. However, net outflow was slower at ~Rs 2,818 crore, compared with ~Rs 65,372 crore in September.
- Within the category, liquid funds saw the highest net inflow of ~Rs 19,084 crore, reversing the net outflow of ~Rs 59,970 crore in September.
- In the closed-ended debt category, fixed-term plans witnessed net inflow of ~Rs 52 crore (vs net outflow of ~Rs 956 crore).
- SEBI introduced a regulatory framework to facilitate providers of online bond platforms that are selling listed debt securities.

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				
Aggressive Hybrid										
ICICI Prudential Equity & Debt Fund	4.74	6.67	6.50	10.59	20.79	14.83	03-Nov-99	19779.26	20.59	1.29
Kotak Equity Hybrid Fund	2.60	4.64	4.97	4.95	16.82	11.27	03-Nov-14	2810.17	20.08	1.07
Quant Absolute Fund	2.89	9.37	8.26	15.57	28.98	17.24	11-Apr-01	553.70	21.38	1.71
Arbitrage										
Invesco India Arbitrage Fund	0.43	1.44	2.25	4.52	4.09	6.46	30-Apr-07	1502.76	1.24	1.63
SBI Arbitrage Opportunities Fund	0.38	1.34	2.01	3.92	3.82	6.63	03-Nov-06	7330.83	1.34	1.22
Conservative Hybrid										
Kotak Debt Hybrid Fund	1.31	3.23	3.51	3.58	10.63	8.18	02-Dec-03	1545.95	7.39	1.55
SBI Conservative Hybrid Fund	1.15	3.07	3.81	5.24	10.52	8.25	23-Mar-01	6438.04	6.86	1.65

CRISIL Mutual Fund Ranks as of September 2022

Point to Point Returns are as on October 31, 2022

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 4.02% - 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 July-September 2022

Average Assets under Management - A Bird's Eye View

Mutual Fund (MF) Name	Jul-Sep 2022 (Rs. Cr)	Apr-Jun 2022 (Rs. Cr)	Change (Rs.Cr)	% Change	Mutual Fund (MF) Name	Jul-Sep 2022 (Rs. Cr)	Apr-Jun 2022 (Rs. Cr)	Change (Rs.Cr)	% Change
SBI Mutual Fund	683776	648641	35135	5.42%	LIC Mutual Fund	17879	17344	535	3.08%
ICICI Prudential MF	497269	484873	12397	2.56%	HSBC Mutual Fund	13761	13532	229	1.70%
HDFC Mutual Fund	432895	418852	14043	3.35%	Quant Mutual Fund	11155	8788	2368	26.94%
Nippon India MF	287078	281440	5638	2.00%	Union Mutual Fund	9390	8122	1268	15.61%
Kotak Mahindra MF	284018	283897	121	0.04%	Mahindra Manulife MF	9171	9223	-52	-0.56%
ABSL Mutual Fund	283257	282183	1074	0.38%	NJ Mutual Fund	4962	4979	-17	-0.34%
Axis Mutual Fund	248992	246127	2865	1.16%	IIFL Mutual Fund	4691	4538	153	3.37%
UTI Mutual Fund	233595	224279	9316	4.15%	IDBI Mutual Fund	3802	3903	-101	-2.59%
IDFC Mutual Fund	120051	117110	2940	2.51%	Bank of India MF	3054	2948	106	3.61%
DSP Mutual Fund	111341	106682	4659	4.37%	JM Financial MF	3030	3057	-26	-0.85%
Mirae Asset MF	110975	102384	8591	8.39%	ITI Mutual Fund	2927	2706	221	8.18%
Edelweiss Mutual Fund	104112	93687	10424	11.13%	Quantum Mutual Fund	2017	1954	63	3.23%
Tata Mutual Fund	91315	88392	2923	3.31%	Navi Mutual Fund	1736	1353	383	28.32%
L&T Mutual Fund	71703	71571	133	0.19%	IL&FS MF (IDF)	1421	1394	27	1.93%
Franklin Templeton MF	62480	60017	2463	4.10%	Trust Mutual Fund	967	1034	-67	-6.48%
Canara Robeco MF	55149	49253	5896	11.97%	WhiteOak Capital MF	662	127	535	422.85%
Sundaram Mutual Fund	42422	39954	2468	6.18%	Samco Mutual Fund	647	590	57	9.62%
Invesco Mutual Fund	42331	40218	2113	5.25%	IIFCL Mutual Fund (IDF)	631	625	6	0.97%
Motilal Oswal MF	33160	32303	857	2.65%	Indiabulls Mutual Fund	581	524	57	10.92%
PPFAS Mutual Fund	28411	24790	3621	14.61%	Taurus Mutual Fund	518	498	19	3.85%
Baroda BNP Paribas MF	22895	21896	1000	4.57%	Shriram Mutual Fund	254	208	45	21.75%
PGIM India Mutual Fund	19333	17206	2128	12.37%	Grand Total	3959813	3823199	136614	3.57%

AAUM is the quarterly average number and includes domestic fund of funds

Fund Focus

Invesco India Arbitrage Fund - Growth (CRISIL Fund Rank 1)

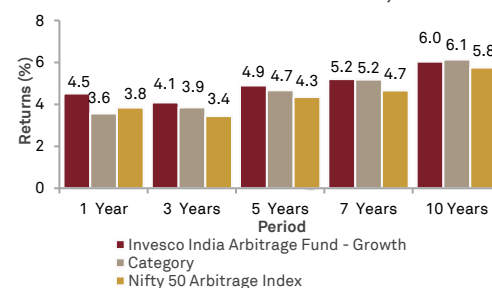
Invesco India Arbitrage Fund — Growth was launched in April 2007. It has featured in the top 10 percentile of the arbitrage fund category of CRISIL Mutual Fund Ranking (CMFR) over the past two quarters ended September 2022. The average assets under management of the fund was Rs 1,503 crore for the quarter ended September 2022.

The main objective of the fund is to generate income through arbitrage opportunities emerging from the difference in pricing between the cash and derivatives markets and by deploying surplus cash in fixed-income instruments.

Performance

The fund has outperformed its benchmark (Nifty 50 Arbitrage Index) in all the analysed periods and the category (represented by funds ranked under the arbitrage funds category in CMFR – September 2022) in most periods, returning ~7% since its inception.

Chart 1: Performance as on October 31, 2022



Note: Returns above 1 year are annualised

SIP returns

If an investor had set aside Rs 1,000 every month under the systematic investment plan (SIP) for the three years ended October 31, 2022, the investment of Rs 36,000 would have grown to Rs 38,184 at an annualised growth rate of 4.07%. Over seven years, an investment of Rs 84,000 in the scheme would have grown to Rs 99,101 at an annualised growth rate of 4.76%. Similarly, investments in the benchmark for the same periods would have grown to Rs 37,948 at 3.6% and Rs 97,270 at 4.2%, respectively.

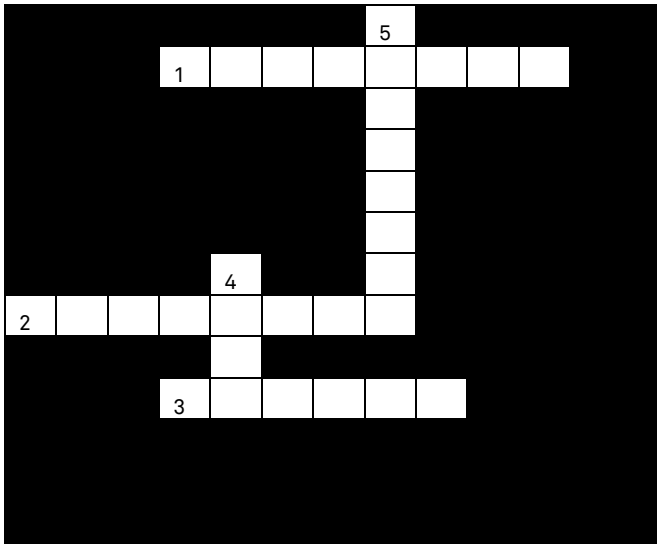
Portfolio analysis

During the three years ended October 2022, the fund's gross average exposure to equities was 66.4% of total assets. The debt portfolio comprises government securities, and non-convertible debentures (NCDs) and bonds, with the three-year average exposure amounting to 5.9% and 4.1%, respectively.

Fund managers

Kuber Mannadi has been managing the fund since March 11, 2011. He holds an MBA and PGDSM, and has more than 17 years of experience. Deepak Gupta, a Chartered Accountant, also manages the fund and has more than 16 years of experience.

Crossword Corner – boost your financial knowledge



Horizontal

- 1) Fund that invest at least 65% investment in small cap stocks (5,3)
- 2) Fund that invest at least 80% of investment in large cap stocks (5,3)
- 3) Fund that invest at least 65% investment in mid cap stocks (3,3)

Vertical

- 4) Regulatory body for securities and commodity market under the ownership of Ministry of Finance (1,1,1,1)
- 5) Fund that invest across companies of any market capitalizations (5,3)

Answers

Vertical: 4) Securities and Exchange Board of India (SEBI) 5) Flexi Cap

Horizontal: 1) Small Cap 2) Large Cap 3) Mid Cap

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