

CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

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Investment thoughts

A year of records

Mutual funds (MFs) on a high, but need sustained thrust

The MF industry continued to make new highs on multiple counts in 2022, riding a shift in the preference of Indian investors for traditional debt products such as fixed deposits.

Among others, the assets under management (AUM) of the industry crossed a record Rs 40 lakh crore. The number of folios or accounts, a proxy for investors, also hit a record high, just shy of 14 crore. Further, systematic investment plan (SIP) accounts were at a record 6.05 crore as of November 2022.

MF penetration also increased, catalysed by incentivisation and efficient use of technology.

The industry's share of household savings increased to nearly 10%¹ in March 2022 from ~7% in June 2018. And as of end-March 2022, B-30 (beyond top 30) cities accounted for nearly 27%² of the industry assets.

That said, there is plenty of headroom for growth, and more needs to be done to achieve sustained and inclusive development of the industry. A look at the key trends reveals the imperatives.

Industry growing, SIP by SIP

The proliferation of SIPs for investing in MFs has continued unabated through the Covid-19-led crash of March 2020, the global geopolitical situation, and the current spike in inflation.

That said, any prolonged disruption in the financial markets or liquidity conditions can impact investor experience.

That is because investors who entered in recent years have not experienced a prolonged market downturn such as the one seen during the 2008-09 financial crisis.

Therefore, handholding of the investor will be all the more important to cement growth through SIPs or otherwise.

Investment horizon expanding

An analysis of individual investor investment in equity MFs by age reveals that the maturity horizon among investors holding funds for more than two years has increased to 44% as of September 2022 from under 40% five years ago.

The number of investors in the less-than-one-year horizon bracket remains high at nearly 40% due to the large influx of fresh investments in funds.

Going forward, expanding the investment horizon will play a critical role in providing a fillip to the industry.

Debt-side largely untapped

Individual investors in MFs have mostly preferred the equity side (86% of their investments) and shied away from the debt segment due to lack of understanding and competition from traditional fixed-income products.

Therefore, it is important for the MF industry to educate investors about the opportunities on the debt side.

Product innovation in terms of simple predictable return avenues — as seen in the success of target maturity mutual funds recently — can help bring in individual investors to the debt flank.

Investor awareness on the rise

Investor awareness programmes such as the 'Mutual fund sahi hai' campaign have played an important role in attracting new investors. Between March 2017, when the campaign was launched, and the end of fiscal 2022, the industry had seen a total inflow of Rs 9.23 lakh crore — 30% higher than the inflows seen in the previous five years.

At this stage, continued thrust to spreading deeper awareness about the products, beyond the vanilla kind, can go a long way in speeding up growth.

Steps such as leveraging intermediation channels, introducing investments and savings in the academic curriculum, and gamification could help in this cause.

Intermediation

While the industry is making inroads into the hinterland, there needs to be much more feet on the street in terms of distributors and use of infrastructure of banks, small finance banks, self help groups, and India Post to ensure last mile integration with investors of the B-30 cities.

The usage of technology is also resulting in a rising number of do-it-yourself investors opting for this cheaper route of investment. Sufficient guard rails should be provided in the technology platforms to direct the investors to suitable products based on their risk-return profile and investment horizon.

Summing up

MFs are on a strong footing, and we have plenty of reason to believe the products and services offered by the industry would see rapid uptake in coming years.

All this, however, would depend on how the key drivers pan out and how the challenges are handled. Holistic development of the industry by meeting the needs of the investors would ensure a win-win situation for all stakeholders.

Note: This article was first published in mint

¹ Outstanding position of financial assets and liabilities of households, RBI
² AMFI

Market – Overview

Indices	% Change in December 2022	% Change in November 2022
Nifty 50	-3.58	4.14
S&P BSE Sensex	-3.48	3.87

Indicators	December 30, 2022	November 30, 2022
10-year Gsec	7.33%	7.28%
Monthly CPI Inflation	5.72%	5.88%

Mutual fund - Overview

Top Stock Exposures – Dec 2022

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

Top Sector Exposures – Dec 2022

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

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

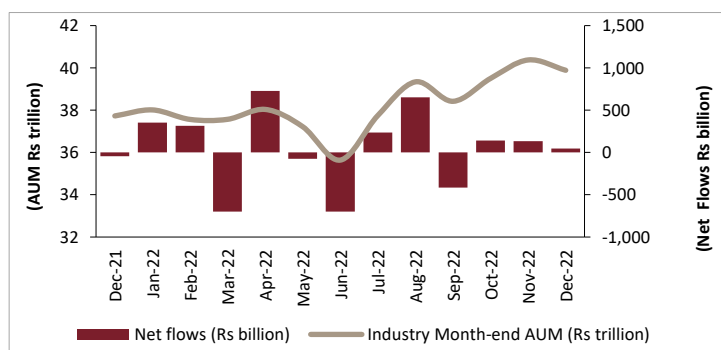
Entries	Exits
Landmark Cars Ltd.	Exxaro Tiles Ltd.
Radiant Cash Management Services Pvt Ltd.	Mindtree Ltd.
Elin Electronics Ltd.	PTC India Ltd.
South Indian Bank Ltd.	Shriram City Union Finance Ltd.
Sula Vineyards Ltd.	SpiceJet Ltd.
Usha Martin Ltd.	Vakrangee Ltd.
Apollo Micro Systems Ltd.	Bajaj Hindusthan Sugar Ltd.
Confidence Petroleum India Ltd.	
Nagarjuna Agrichem Ltd.	
Lloyds Metals & Engineers Ltd.	

Category returns	Absolute monthly returns %	
	Dec	Nov
Large cap funds	-3.25	2.92
Large cap and mid-cap funds	-2.71	2.21
Multi cap equity funds	-2.49	2.31
Flexi cap funds	-3.00	2.06
Focused funds	-3.09	2.07
Value – Contra funds	-2.29	3.22
Mid-cap funds	-1.99	1.12
Small cap funds	-1.52	1.42
Arbitrage funds	0.66	0.40
ELSS	-2.83	2.43
Index funds	-3.53	4.07
Aggressive hybrid funds	-2.11	2.24
Conservative hybrid funds	-0.46	1.23
Gilt funds	0.26	0.98
Dynamic funds	0.37	0.95
Medium-to-long term funds	0.26	1.12
Medium term funds	0.36	0.94
Short-duration funds	0.39	0.75
Corporate funds	0.43	0.74
Banking and PSU debt fund	0.40	0.77
Credit risk funds	0.45	0.71
Low duration funds	0.50	0.58
Money market funds	0.57	0.57
Ultra-short duration funds	0.53	0.53
Liquid funds	0.56	0.53

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

- Domestic equities fell in December after rising for two consecutive months, with benchmarks S&P BSE Sensex and Nifty 50 each closing nearly 4% lower on-month, on global economic recession worries and rising Covid-19 cases in China. Meanwhile, in the calendar year, the benchmark indices rose 4% each on-year
- Investors' worries over slow economic growth recovery and recessionary risks increased after domestic and global central banks chose to continue with their rate hike journey citing inflationary pressure.
- Markets also fell after foreign institutional investors (FIIs) sell off Indian equities after buying it for the two consecutive months.
- However, losses were cut short by improved domestic macroeconomic data.
- Buying by domestic institutional investors (DIIs) also caused rally in the market.
- Nifty sectoral indices ended mostly lower, with Nifty Media (~6), Nifty information technology (~5.8%) and Nifty Energy (~5.4%), falling the most.

Mutual fund AUM and net flows trend



Source: CRISIL Research

- Assets under management (AUM) of the domestic mutual fund (MF) industry decreased ~1.2% (~Rs 48,825 crore in absolute terms) on-month in December to Rs 39.89 lakh crore, led by net outflows in debt funds.
- Assets of open-ended equity funds declined 2% on-month (~Rs 32,990 crore) to Rs 15.25 lakh crore in December, due to mark-to-market (MTM) losses in underlying equities.
- Within the category, small cap funds recorded the highest net inflow of ~Rs 2,245 crore (vs ~Rs 1,378 in November), followed by mid-cap schemes, and large- and mid-cap schemes.
- Investor enthusiasm for systematic investment plans (SIPs) continued unabated. Collections added to a record high of Rs 13,573 crore compared with Rs 13,306 crore in November. Meanwhile, the number of SIP accounts rose to 6.12 from 6.05 crore.
- Assets of hybrid funds fell ~0.55% on-month, or by Rs 2,725 crore, to ~Rs 4.91 lakh crore, dragged down by MTM losses in underlying equities. However, the category broke its six-month long trend of net outflows, and reported net inflow of ~Rs 2,255 crore compared with net outflow of ~Rs 6,477 crore in November.
- All hybrid funds — barring dynamic asset allocation/ balanced advantage funds and equity savings funds, which saw minor net outflows — witnessed net inflows.
- The passive strategy continued to attract investors during the month. Exchange-traded funds (ETFs, excluding gold) and index schemes cumulatively recorded net inflow of ~Rs 15,525 crore compared with net inflow of ~Rs 10,569 crore in November.
- AUM of open-ended debt funds fell 1.2% on-month to ~Rs 12.42 lakh crore. These funds witnessed net outflow of ~Rs 21,947 crore compared with net inflow of Rs 3,669 crore in November, primarily due to quarter-end outflows in open-ended debt funds.
- In the closed-ended debt category, fixed-term plans' net inflows slowed to ~Rs 1,214 crore (vs ~Rs 3,274 crore).
- SEBI rolled out regulatory framework for an execution only platforms for direct plans of mutual fund schemes.

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										
ICICI Prudential Bluechip Fund	-2.78	6.43	15.27	7.76	15.87	14.21	23-May-08	34674.59	19.08	0.46
Nippon India Large Cap Fund	-2.97	4.85	17.97	12.39	15.43	11.72	8-Aug-07	12515.88	21.39	0.73
Taurus Largecap Equity Fund	-3.29	0.40	19.06	7.59	11.21	14.50	2-Dec-02	34.52	23.39	0.41
Large & Mid Cap										
ICICI Prudential Large & Mid Cap Fund	-1.71	5.74	16.69	12.74	20.90	18.10	9-Jul-98	6052.38	19.82	0.79
SBI Large & Midcap Fund	-3.25	1.93	18.17	8.55	20.05	17.39	25-May-05	8690.69	18.85	0.53
Flexi Cap										
Franklin India Flexi Cap Fund	-3.02	5.13	17.60	6.47	19.54	17.74	29-Sep-94	10455.65	20.81	0.36
HDFC Flexi Cap Fund	-2.46	8.16	20.27	19.18	19.60	18.47	1-Jan-95	31676.98	20.12	1.20
Multi Cap										
Quant Active Fund	-1.69	5.31	23.17	11.49	34.99	19.23	4-Apr-01	3325.94	26.18	0.59
HDFC Flexi Cap Fund	-2.46	8.16	20.27	19.18	19.60	18.47	1-Jan-95	31676.98	20.12	1.20
Focused										
HDFC Focused 30 Fund	-2.44	6.13	20.67	19.35	19.85	15.24	17-Sep-04	2799.84	19.14	1.26
Nippon India Focused Equity Fund	-4.25	2.85	13.36	8.81	19.42	13.98	26-Dec-06	6306.78	21.56	0.50
Value / Contra										
SBI Contra Fund	-1.92	5.59	18.72	13.66	30.05	16.11	6-May-05	6942.17	17.75	0.93
IDFC Sterling Value Fund	-1.66	3.18	16.34	3.98	24.96	16.23	7-Mar-08	5097.19	20.95	0.19
Mid Cap										
Quant Mid Cap Fund	-0.26	5.82	23.47	18.52	35.63	12.80	21-Mar-01	1111.51	26.03	0.95
Motilal Oswal Midcap Fund	-2.94	-2.24	19.70	11.49	23.44	20.09	24-Feb-14	3586.50	22.31	0.65
Small Cap										
Canara Robeco Small Cap Fund	-1.79	0.94	13.84	7.68	37.24	26.26	15-Feb-19	4204.75	21.19	0.43
Quant Small Cap Fund	1.71	9.00	26.53	10.50	53.91	11.25	30-Oct-96	2490.47	29.52	0.51
ELSS										
HDFC Tax Saver Fund	-3.22	5.42	17.25	11.62	16.40	17.89	2-Apr-96	10003.58	18.94	0.74
IDFC Tax Advantage (ELSS) Fund	-2.56	4.02	15.93	4.91	22.49	17.98	26-Dec-08	3977.18	21.99	0.25
Parag Parikh Tax Saver Fund	-3.19	3.97	13.51	6.33	22.32	22.07	24-Jul-19	869.76	17.06	0.38
Quant Tax Plan	-2.67	3.15	21.40	13.34	37.99	15.14	31-Mar-00	2234.24	26.57	0.68
Index										
HDFC S&P BSE Sensex ETF	-3.58	6.12	15.24	6.60	14.75	14.76	9-Dec-15	296.26	21.37	0.36
Kotak S&P BSE Sensex ETF	-3.59	6.08	15.14	6.35	14.52	10.87	6-Jun-08	22.35	21.40	0.34
SBI S&P BSE Sensex ETF	-3.59	6.12	15.26	6.56	14.76	13.76	15-Mar-13	83381.91	21.41	0.36
UTI S&P BSE Sensex ETF	-3.59	6.12	15.26	6.57	14.77	13.75	1-Sep-15	26337.84	21.41	0.36

CRISIL Mutual Fund Ranks are as of September 2022
 Point to Point Returns are as on December 30, 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 4.09% - 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 2022

Average Assets under Management - A Bird's Eye View

Mutual Fund (MF) Name	Oct-Dec 2022 (Rs. Cr)	Jul-Sep 2022 (Rs. Cr)	Change (Rs.Cr)	% Change	Mutual Fund (MF) Name	Oct-Dec 2022 (Rs. Cr)	Jul-Sep 2022 (Rs. Cr)	Change (Rs.Cr)	% Change
SBI Mutual Fund	713542	683776	29766	4.35%	LIC Mutual Fund	17978	17879	99	0.55%
ICICI Prudential MF	510365	497269	13096	2.63%	Quant Mutual Fund	15013	11155	3857	34.58%
HDFC Mutual Fund	448494	432895	15599	3.60%	Union Mutual Fund	9808	9390	418	4.45%
Nippon India MF	294874	287078	7796	2.72%	Mahindra Manulife MF	9277	9171	106	1.16%
Kotak Mahindra MF	288634	284018	4616	1.63%	NJ Mutual Fund	4770	4962	-192	-3.87%
Aditya Birla Sun Life MF	282441	283257	-816	-0.29%	IIFL Mutual Fund	4684	4691	-7	-0.14%
Axis Mutual Fund	248929	248992	-62	-0.02%	IDBI Mutual Fund	3907	3802	106	2.78%
UTI Mutual Fund	240890	233595	7294	3.12%	Bank of India MF	3362	3054	308	10.08%
IDFC Mutual Fund	119075	120051	-976	-0.81%	ITI Mutual Fund	3298	2927	371	12.67%
Mirae Asset MF	116910	110975	5935	5.35%	JM Financial MF	3256	3030	226	7.45%
DSP Mutual Fund	116096	111341	4755	4.27%	Navi Mutual Fund	2184	1736	449	25.84%
Edelweiss Mutual Fund	111419	104112	7307	7.02%	Quantum Mutual Fund	2104	2017	87	4.31%
Tata Mutual Fund	94564	91315	3249	3.56%	WhiteOak Capital MF	1644	662	981	148.25%
HSBC Mutual Fund	85979	13761	72218	524.80%	IL&FS MF (IDF)	1455	1421	34	2.36%
Franklin Templeton MF	65191	62480	2711	4.34%	Trust Mutual Fund	1097	967	130	13.45%
Canara Robeco MF	60547	55149	5398	9.79%	Samco Mutual Fund	735	647	88	13.55%
Invesco Mutual Fund	45907	42331	3577	8.45%	IIFCL Mutual Fund (IDF)	634	631	3	0.47%
Sundaram Mutual Fund	44657	42422	2236	5.27%	Indiabulls Mutual Fund	593	581	12	1.99%
Motilal Oswal MF	33273	33160	113	0.34%	Taurus Mutual Fund	535	518	17	3.37%
PPFAS Mutual Fund	31332	28411	2921	10.28%	Shriram Mutual Fund	296	254	43	16.80%
Baroda BNP Paribas MF	23744	22895	848	3.71%					
PGIM India Mutual Fund	21116	19333	1782	9.22%	Grand Total	4084610	3959813	124797	3.15%

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

Fund Focus

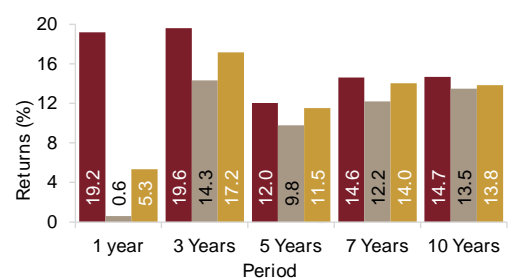
HDFC Flexi Cap Fund

HDFC Flexi Cap Fund, launched in January 1995, was ranked in the top-10 percentile of flexicap funds under CRISIL Mutual Fund Ranking (CMFR) for the past two quarters ended September 2022. It had assets under management (AUM) of Rs 31,677 crore on average for the quarter ended December 2022.

Performance

As on December 30, 2022, the fund had outperformed its benchmark (Nifty 500 TRI) and peers (represented by the flexicap fund category in CMFR – September 2022) across all periods analysed, returning ~18% annually since its inception.

Chart 1: Performance as on December 30, 2022



■ HDFC Flexi Cap Fund - Growth ■ Category ■ Nifty 500 TRI

Note: Returns above 1 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, over three years ended December 30, 2022. Its Sharpe ratio was 0.96 compared with 0.75 for its category and 0.88 for the benchmark

SIP returns

If an investor had set aside Rs 1,000 every month under the fund's systematic investment plan (SIP) for the five years ended December 30, 2022, the investment of Rs 60,000 would have risen to Rs 96,050, logging a CAGR of ~19%. A similar investment in the benchmark would have grown to Rs 88,147, at a CAGR of ~16%.

Portfolio analysis

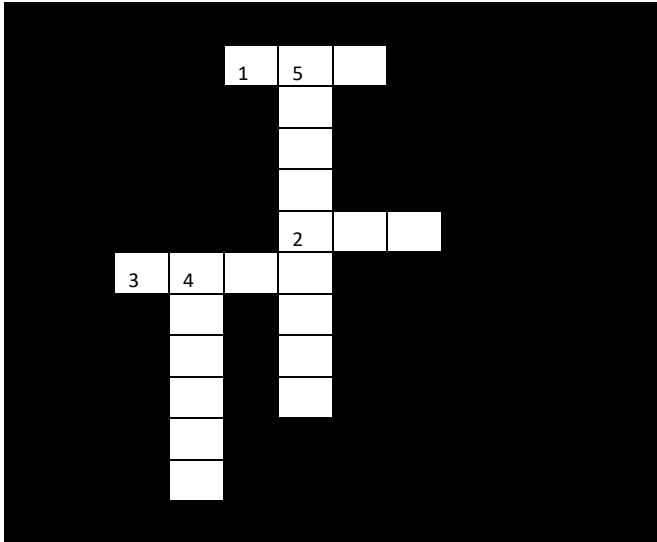
The fund has consistently held 23 stocks in the three years ended December 30, 2022. State Bank of India, ICICI Bank Ltd, Infosys Ltd, Larsen & Toubro Ltd, and NTPC Ltd were the top five holdings.

The top three sectors accounted for ~43% of the portfolio, on average, for the past three years. The fund had the highest exposure to banking (25.5%), followed by power (9.1%), and finance (8.7%).

Fund managers

The fund is managed by Roshi Jain, who has a Post Graduate Diploma in Management (PGDM). She is a chartered accountant and chartered financial analyst with over 18 years of experience in equity and derivative research, and sales.

Crossword Corner – boost your financial knowledge



Horizontal

- 1) A facility offered by mutual funds to the investors to invest in a disciplined manner (1,1,1)
- 2) Total cumulative investment sum of a particular Mutual Fund (1,1,1)
- 3) Invest in short-term or long-term bonds, securitized products, money market instruments or floating rate debt (4)

Vertical

- 4) An asset class that is volatile over the short term and is therefore intended for risk takers (6)
- 5) An economy wide increase in the price of goods and services at an aggregate level over a period of time (9)

Answers

Vertical: 4) Equity 5) Inflation
Horizontal: 1) SIP (systematic investment plan) 2) AUM (assets under management) 3) Debt

Contact Details

Amit Bhardwaj: Amit.Bhardwaj@crisil.com
Abhishek Dhirdeb: Abhishek.dhirdeb@crisil.com
Ankur Nehra: Ankur.Nehra@crisil.com
Pradeep Nair: Pradeep.Nair@crisil.com

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