

CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

Volume – 131 March 2022

Investment thoughts

Passive play gains with target maturity funds

Target maturity funds have gained popularity in recent times because of the style consistency the category offers — a guarantee that the fund will stick to the quality criteria specified in index and predictable maturity as stated. Let us take a close look at target maturity funds and what endears them to investors.

Understanding target maturity funds

These are passively managed funds with, as the name suggests, a target date to mature. Globally, these funds invest in multiple asset classes including equity and are primarily used in long-term financial planning, especially retirement, with a glide path from risky to safe assets as they near maturity dates. In India, however, the current crop of target maturity funds invests only in the debt market. These funds follow a simple methodology at present. The fund house decides a benchmark index to mirror basis its analysis of yield, risk and strategy, and then creates an investment portfolio of the investor's money basis the underlying allocation of the portfolio/ index.

So, how are these different from the erstwhile fixed maturity plans (FMPs), which were popular and had a similar premise of investing in securities for the duration of the fund and strategy? The answer lies in their structure, which provides ease of liquidity to investors. FMPs are closed ended funds and, despite being listed on stock exchanges, are scarcely traded, thus restricting liquidity. However, target maturity funds are open-ended offered either through ETFs or index funds and their units can be bought or sold any time after their launch and before their maturity.

Reasons for their rising popularity

Several factors are at work here including success of the Bharat Bond ETF series, though not the first in the target maturity funds space, showed that investors are comfortable investing in these top-rated/ government-backed funds. AMC's have launched a flurry of these funds; of the 30 funds launched in the past one year¹, as many as 16 are target maturity funds. This has pushed the assets of the category to ~Rs 71,000 crore as of February 2022 — almost six times the ~Rs 12,000 crore mark at the end of December 2019 — increasing their share of open-ended debt funds to 4.8% from 1% over the period. Currently, these funds predominantly invest in government securities (G-secs), treasury bills (T-bills), state development loans (SDLs) and AAA-rated corporate bonds, which entail a high degree of safety. The safe play is in line with the investor sentiment in recent years, following a number of credit and liquidity events that have roiled the debt market.

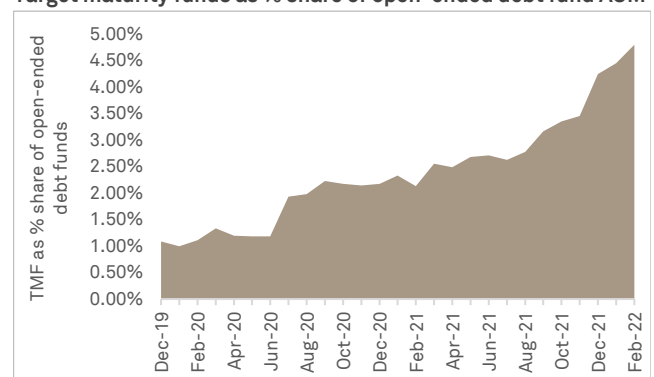
The investment opportunity

Target maturity funds offer investors an opportunity to invest in government securities and top-rated papers, and thereby lock their money at the prevalent yields, thus providing some predictability in returns. Investors tend to benefit in such roll-down maturity (also called held-to-maturity or HTM) portfolios when interest rates are higher, thus boosting the return. The current funds in the market have been structured to ride the yield curve, with most of the maturity dates in the 3-5 year bucket, which has seen steepness of curve compared with the 1-3 year maturity bucket. The steepness of the 4-year PSU AAA and SDL categories compared with 1-year peers is 1.07%-1.52% currently, vs., 0.40%-0.88% two years back. Meanwhile, after falling from a high of ~6.70% pre-pandemic to ~5.70% post-lockdown, high inflation, reduction of excess liquidity from the system and large government borrowing program has pushed up the yield on the 10-year G-sec closer to 7%. CRISIL expects the Reserve Bank of India (RBI) to continue withdrawing liquidity in the banking system in a calibrated manner as more certain signs of economic recovery become visible. The expectation, though, is predicated on growth staying on track. But pressures on inflation have begun to mount, mostly from the external front as price of oil and other commodities soar. Under the assumption that oil prices average \$85-90 per barrel in fiscal 2023, we expect the consumer price inflation to remain almost as firm as in the current year. The RBI is therefore expected to raise the repo rate by ~75 bps in the coming fiscal as it reacts to inflationary pressures. Monetary policy tightening by systemically important global central banks, especially the US Fed, will also exert pressure to raise rates here in India. This, and the large government borrowing program, will push domestic yields upward to settle around 7.1% in March 2023. The ongoing geopolitical tensions and any faster-than-expected rate hikes by the US Fed impose upside risks on this forecast. Going forward, therefore, elevated interest rates will provide investors an opportunity to lock in their investments.

The final word

To reiterate, the current funds in the market have been structured to ride the yield curve, with most of the maturity dates in the 3-5 years bucket, where the curve has steepened, thus locking in the 'sweet spots' through duration mapping. The investment horizon of more than 3-years also benefits investors in terms of post-tax returns for investors due to indexation benefits. That said, investors need to note that rising interest rates and the impact of fresh flows in the category on potential returns are all-too-real risks. Also, the liquidity of the funds — in terms of both, ingress and egress — impacts the overall yield of the portfolio and thus could dilute yield for existing investors.

Target maturity funds as % share of open-ended debt fund AUM



Source: CRISIL Research

¹ March 2021 to February 2022

Market – Overview

| Indices | % Change in Feb 2022 | % Change in Jan 2022 |
|----------------|-------------------------|-------------------------|
| Nifty 50 | -3.05 | -0.08 |
| S&P BSE Sensex | -3.15 | -0.41 |

| Indicators | Feb 28, 2022 | Jan 31, 2022 |
|-----------------------|--------------|--------------|
| 10-year Gsec | 6.77% | 6.68% |
| Monthly CPI Inflation | 6.07% | 6.01% |

Mutual fund - Overview

Top Stock Exposures – Feb 2022

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

Top Sector Exposures – Feb 2022

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

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

| Entries | Exits |
|------------------------------|----------------------------------|
| Vedant Fashions Ltd. | Collabera Solutions Pvt. Ltd. |
| Forbes Enviro Solutions Ltd. | Forbes & Company Ltd. |
| TCPL Packaging Ltd. | Gufic Biosciences Ltd. |
| Expleo Solutions Ltd. | Himadri Speciality Chemical Ltd. |
| Shanthi Gears Ltd. | Huhtamaki PPL Ltd. |
| Ambika Cotton Mills Ltd. | India Nippon Electricals Ltd. |
| Lyka Labs Ltd. | Indian Terrain Fashions Ltd. |
| Eureka Forbes Ltd. | |

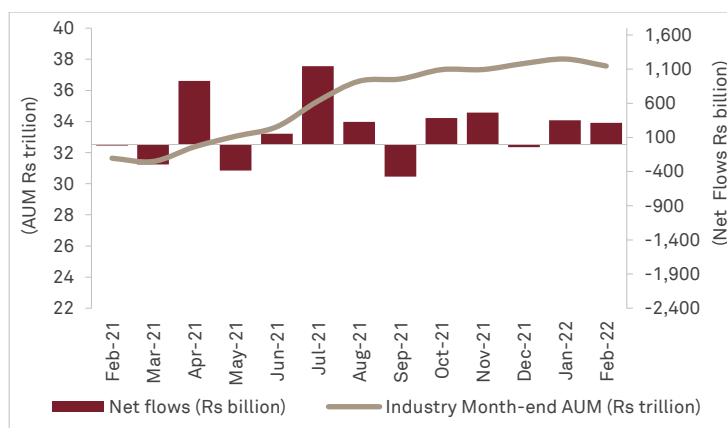
Category returns

| | Absolute monthly returns % | |
|-----------------------------|----------------------------|-------|
| | Feb | Jan |
| Large cap funds | -4.05 | -0.48 |
| Large cap and mid-cap funds | -5.24 | -0.31 |
| Multi cap equity funds | -5.79 | -0.20 |
| Flexi cap funds | -4.53 | -1.06 |
| Focused funds | -4.50 | -0.61 |
| Value – Contra funds | -4.96 | 1.11 |
| Mid-cap funds | -5.51 | -0.84 |
| Small cap funds | -7.10 | -1.11 |
| Arbitrage funds | 0.41 | 0.36 |
| ELSS | -4.79 | -0.34 |
| Index funds | -2.98 | -0.19 |
| Aggressive hybrid funds | -3.37 | -0.54 |
| Conservative hybrid funds | -0.69 | 0.19 |
| Gilt funds | 0.18 | -0.19 |
| Dynamic funds | 0.29 | -0.13 |
| Medium-to-long term funds | 0.28 | -0.24 |
| Medium term funds | 0.69 | 0.09 |
| Short-duration funds | 0.32 | 0.21 |
| Corporate funds | 0.40 | 0.16 |
| Banking and PSU debt fund | 0.41 | 0.09 |
| Credit risk funds | 0.46 | 0.33 |
| Low duration funds | 0.25 | 0.30 |
| Money market funds | 0.29 | 0.30 |
| Ultra-short duration funds | 0.27 | 0.30 |
| Liquid funds | 0.27 | 0.28 |

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

- Indian equity indices declined in February with benchmarks S&P BSE Sensex and Nifty 50 falling 3% each owing to weakness in global equity after Russia attacked Ukraine and fears of a rate hike by the US Federal Reserve.
- Selling by Foreign institutional investors (FIIs) also weighed on the benchmark indices.
- However, sharp losses in the markets were cut off after the Union Budget 2022-23 stepped up capital expenditure allocation by 35% for fiscal 2022. Gains were added after Economic Survey 2022 projected India's gross domestic product growth in real terms at 8.0-8.5% in fiscal 2023. Upbeat macroeconomic data that showed core sector growth and GST collection rose, elevated market sentiment
- Nifty sectoral indices mostly ended lower, with Nifty PSU Bank (~11%), Nifty Media (~10%) and Nifty Realty (~9%) falling the most.

Mutual fund AUM and net flows trend



Source: CRISIL Research

- The 10-month growth trend in assets under management (AUM) of the domestic mutual fund industry reversed in February as their assets declined to close below Rs 38 lakh crore (excluding domestic fund of funds or FoFs).
- The fall was led by equity-oriented funds, which witnessed mark-to-market (MTM) losses in underlying equities, although the category continued to witness net inflows.
- Assets of open-ended equity funds fell 3.3% to ~Rs 12.95 lakh crore in February. Within the category, flexi-cap schemes recorded the highest net inflows of ~Rs 3,874 crore. Sectoral/thematic funds, equity-linked savings schemes (ELSSs) and large-cap funds also witnessed inflow.
- Compared with January's record high of Rs 11,517 crore, collection in February came in slightly lower at Rs 11,438 crore.
- Hybrid schemes recorded net inflows for the 14th straight month at ~Rs 3,177 crore. Within the category, balanced advantage funds (BAFs) recorded the highest net inflows ~Rs 2,118 crore.
- Exchange traded funds, or ETFs, (excluding gold) and index schemes cumulatively saw ~Rs 16,539 crore net inflows compared with ~Rs 8,923 crore in January.
- Further, FoFs that invest overseas saw net inflows at Rs 230 crore compared with Rs 389 crore in the previous month.
- Open ended debt schemes saw net outflow of ~Rs 8,274 crore in February, as against net inflow of ~Rs 5,088 crore in January. Within the category, liquid funds witnessed the highest net inflow of ~Rs 40,273 crore.
- Meanwhile, overnight funds, short duration funds, floater funds and corporate bond funds witnessed outflows.
- In the close-ended debt category, fixed-term plans saw net inflow of ~Rs 203 crore through fresh fund mobilisations. In comparison, in January they saw net inflow of ~Rs 227 crore.
- SEBI issued guidelines for asset management companies with respect to following Indian Accounting Standards (Ind AS).
- SEBI directed asset management companies to set up audit committees which will be responsible for oversight of financial reporting process, audit process and compliance with laws and regulations, among others.

CRISIL Fund Rank 1 Schemes - Hybrid

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 | | | | | | | | | | |
| Quant Absolute Fund | -2.90 | -3.56 | 2.87 | 32.93 | 27.66 | 16.95 | 11-Apr-01 | 116.10 | 21.44 | 1.57 |
| BOI AXA Mid & Small Cap Equity & Debt Fund | -5.42 | -3.47 | 1.48 | 33.64 | 22.08 | 15.05 | 20-Jul-16 | 355.74 | 20.57 | 1.28 |
| PGIM India Hybrid Equity Fund | -4.39 | -8.04 | -5.60 | 8.16 | 11.38 | 12.86 | 05-Feb-04 | 192.75 | 20.60 | 0.60 |
| Arbitrage | | | | | | | | | | |
| Kotak Equity Arbitrage Fund | 0.46 | 1.00 | 1.97 | 4.31 | 4.77 | 6.96 | 29-Sep-05 | 25075.86 | 1.27 | 2.20 |
| SBI Arbitrage Opportunities Fund | 0.50 | 0.99 | 2.19 | 4.49 | 4.51 | 6.76 | 03-Nov-06 | 5220.56 | 1.38 | 1.73 |
| Conservative Hybrid | | | | | | | | | | |
| Canara Robeco Conservative Hybrid Fund | -0.31 | -0.14 | 1.35 | 8.00 | 11.00 | 9.93 | 03-Apr-01 | 982.22 | 6.33 | 1.74 |
| Kotak Debt Hybrid | -1.09 | -0.87 | 2.94 | 10.66 | 12.38 | 8.23 | 02-Dec-03 | 1183.16 | 7.39 | 1.71 |

CRISIL Mutual Fund Ranks as of December 2021
Point to Point Returns are as on February 28, 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 4.14% - 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 2021

Average Assets under Management - A Bird's Eye View

| Mutual Fund (MF) Name | Oct-Dec 2021 (Rs. Cr) | Jul-Sep 2021 (Rs. Cr) | Change (Rs.Cr) | % Change | Mutual Fund (MF) Name | Oct-Dec 2021 (Rs. Cr) | Jul-Sep 2021 (Rs. Cr) | Change (Rs.Cr) | % Change |
|-----------------------|-----------------------|-----------------------|----------------|--------------|------------------------|-----------------------|-----------------------|----------------|----------|
| SBI Mutual Fund | 628766 | 579318 | 49448 | 8.54% | Baroda Mutual Fund | 12769 | 11953 | 816 | 6.83% |
| ICICI Pru Mutual Fund | 483519 | 461289 | 22230 | 4.82% | HSBC Mutual Fund | 12606 | 11476 | 1131 | 9.85% |
| HDFC Mutual Fund | 450385 | 441852 | 8533 | 1.93% | Principal Mutual Fund | 9547 | 8930 | 617 | 6.91% |
| ABSL Mutual Fund | 299282 | 300773 | -1491 | -0.50% | BNP Paribas MF | 9117 | 8745 | 372 | 4.25% |
| Kotak Mahindra MF | 286883 | 270615 | 16268 | 6.01% | Union Mutual Fund | 8100 | 7300 | 800 | 10.96% |
| Nippon India MF | 282416 | 267213 | 15203 | 5.69% | Mahindra Manulife MF | 7911 | 6687 | 1224 | 18.31% |
| Axis Mutual Fund | 253906 | 238575 | 15331 | 6.43% | Quant Mutual Fund | 4664 | 3301 | 1363 | 41.29% |
| UTI Mutual Fund | 224671 | 208971 | 15700 | 7.51% | IDBI Mutual Fund | 4472 | 4384 | 89 | 2.02% |
| IDFC Mutual Fund | 125352 | 126560 | -1209 | -0.95% | IIFL Mutual Fund | 3750 | 3128 | 622 | 19.87% |
| DSP Mutual Fund | 110614 | 107290 | 3324 | 3.10% | NJ Mutual Fund | 3697 | 0 | 3697 | NA |
| Mirae Asset MF | 101218 | 91802 | 9416 | 10.26% | BOI AXA Mutual Fund | 2727 | 2494 | 234 | 9.37% |
| Tata Mutual Fund | 83554 | 77010 | 6545 | 8.50% | ITI Mutual Fund | 2407 | 1983 | 424 | 21.37% |
| L&T Mutual Fund | 79550 | 78274 | 1277 | 1.63% | Quantum Mutual Fund | 2052 | 2012 | 39 | 1.96% |
| Edelweiss Mutual Fund | 79285 | 69188 | 10097 | 14.59% | JM Financial MF | 2020 | 2089 | -69 | -3.30% |
| Franklin Templeton MF | 66988 | 64587 | 2402 | 3.72% | IL&FS MF (IDF) | 1280 | 1385 | -105 | -7.56% |
| Invesco Mutual Fund | 45155 | 42930 | 2224 | 5.18% | Trust Mutual Fund | 1137 | 1033 | 103 | 10.01% |
| Canara Robeco MF | 45049 | 39344 | 5705 | 14.50% | Navi Mutual Fund | 930 | 867 | 62 | 7.20% |
| Motilal Oswal MF | 35645 | 33544 | 2101 | 6.26% | Indiabulls Mutual Fund | 653 | 655 | -2 | -0.28% |
| Sundaram Mutual Fund | 34362 | 33377 | 985 | 2.95% | IIFCL MF (IDF) | 618 | 612 | 6 | 1.04% |
| PPFAS Mutual Fund | 21684 | 15943 | 5741 | 36.01% | Taurus Mutual Fund | 538 | 539 | -1 | -0.21% |
| LIC Mutual Fund | 19354 | 18040 | 1314 | 7.28% | Shriram Mutual Fund | 227 | 217 | 10 | 4.42% |
| PGIM India MF | 14702 | 11185 | 3517 | 31.45% | WhiteOak Capital MF | 139 | 46 | 93 | 203.15% |
| Grand Total | 3863703 | 3657517 | 206186 | 5.64% | | | | | |

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

Fund Focus

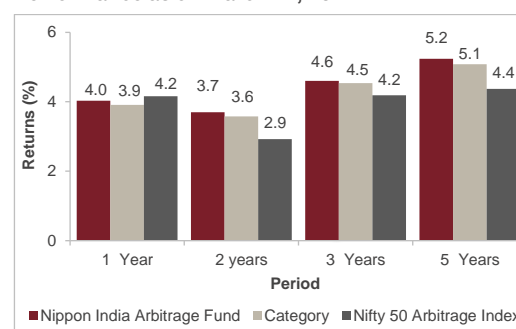
Nippon India Arbitrage Fund - Growth (CRISIL Fund Rank 2)

Nippon India Arbitrage Fund - Growth, launched in October 2010, featured in the top 30 percentile of the arbitrage fund category of CRISIL Mutual Fund Ranking (CMFR) during the two quarters ended December 2021. The fund's average assets under management in the quarter ended December was Rs 12,198 crore.

Performance

The fund has outdone its benchmark (Nifty 50 Arbitrage Index) and the category (represented by funds ranked under the arbitrage funds category in CMFR – December 2021) across most periods analysed, returning 7% since inception.

Performance as on March 17, 2022



Note: Returns above one year are annualised

SIP returns

If an investor had set aside Rs 1,000 every month under the systematic investment plan (SIP) for five years ended March 17, 2022, the cumulative investment of Rs 60,000 would have grown to Rs 67,416, which is an annualised growth rate of 4.7%. Similar investments in the benchmark over the period would have grown to Rs 66,448, or 4.1%.

Portfolio analysis

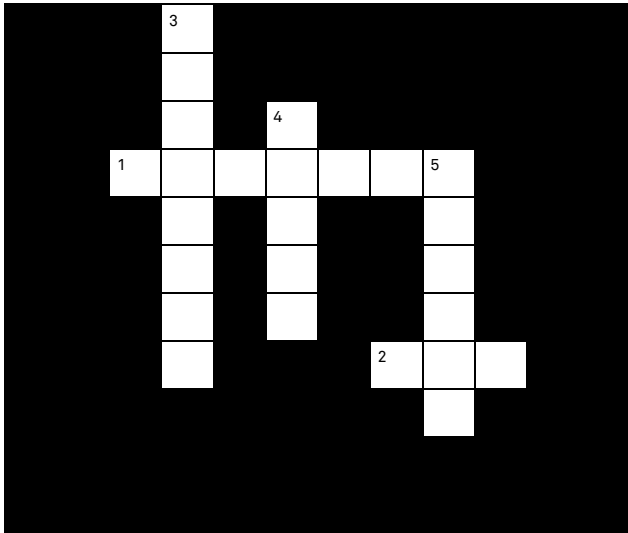
During the three years ended February 2022, the fund's average exposure to equities was 68% of total assets. The debt portfolio comprises non-convertible debentures and bonds, and certificates of deposit/ commercial papers, with three-year average exposure at 3.5% and 1.8%, respectively.

On the asset quality front, the debt portfolio comprises highly rated instruments (A1+ and AAA) and government securities (G-secs). Higher-rated debt instruments and G-secs as percentage of total debt averaged 50% and 37%, respectively, over the three years of analysis

Fund managers

The fund's debt portfolio is managed by Anju Chhajer, a chartered accountant, with over 25 years of experience, and Anand Gupta, who has a post graduate diploma in business analytics, with over 28 years of experience

Crossword Corner – boost your financial knowledge



Horizontal

- 1) A type of investment strategy that attempts to mirror an index or broad market benchmark (7)
- 2) The units of such schemes are traded on stock exchanges (1,1,1)

Vertical

- 3) The sensitivity of a bond's price to changes in yield (8)
- 4) Debt paper issued by RBI, on behalf of the Government of India or state governments (1,4)
- 5) An asset class that is volatile over the short term and is therefore intended for risk takers (6)

Answers

Vertical: 3) Duration 4) G-Secs 5) Equity

Horizontal: 1) Passive 2) ETF (Exchange Traded Fund)

Contact Details

Amit Bhardwaj: +91 22 6172 3189; Amit.Bhardwaj@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.