

CRISIL FUND *INSIGHTS*

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Investment thoughts

Two-tier rule to help investors gauge funds better

Tier-1 benchmark will show the risk matrix being followed by the debt fund, tier-2 the investment style.

The two-tier benchmarking structure mandated for mutual funds by the Securities and Exchange Board of India (SEBI) recently will lend force to the potential risk class (PRC) matrix introduced last December, and help investors compare funds better before investing.

While the new benchmarking guideline is applicable to all mutual fund categories, it would be particularly useful in capturing the granular risk elements of debt mutual funds.

To understand the changes, let us start with a brief look at the PRC matrix.

The PRC is a 3x3 matrix that showcases the maximum risk a debt mutual fund will take in terms of credit and interest rates. The credit risk is classified into three buckets – class A, B and C – basis the weighted risk value of each instrument accorded by the regulator. The interest rate risk, on the other hand, is measured in three blocks – class I, II and III – using the Macaulay duration.

Asset management companies are required to place their schemes on the PRC grid for investors to understand the maximum risk associated with these. If a scheme takes a higher risk than that signified by the PRC bucket it is placed into, it would mean a change in its fundamental attribute, thereby allowing investors to exit the scheme without incurring an exit load.

Following those guidelines, mutual funds started including a risk-o-meter to showcase the risk associated with the scheme and the PRC to showcase the maximum risk.

However, mutual funds also continued to benchmark their schemes to indices representing the category of that scheme. For example, a short duration fund was benchmarked against CRISIL Short Term Bond Fund Index, which may not have the credit allocation similar to the scheme or to the PRC of the scheme.

The new two-tier benchmarking rules help address this. The tier-1 benchmarking index tells the investor which risk matrix is being followed by the debt fund, while the tier-2 index reveals the strategy adopted by it vis-à-vis the category definition, thereby highlighting any style deviation. Further the comparison with tier-1 benchmark will help investors gauge the effectiveness of the strategy adopted by the fund manager within the category and the PRC bucket. Tier-2 benchmark that is expected to have the strategy of the fund more closely represented can help investors gauge alpha vis-a-vis focused strategy adopted by the fund.

So far, only a small number of schemes in the domestic mutual fund industry have declared their tier-2 benchmarks as they are not mandatory. However, the benefits are for all to see.

For instance, a fund in the ultra-short term fund category that is following a more liquid portfolio strategy aligned with liquid funds and has identified the liquid fund benchmark as its tier-2 benchmark.

Similarly, some funds in the corporate bond fund category have identified AAA short duration bond index as their tier-2 index in line with their investment strategy to invest in top-rated short-term papers.

Another fund in the banking and PSU fund category has selected the roll-down strategy benchmark index in line with its strategy.

To reiterate, therefore, the two-tier benchmarking index structure is expected to further enhance disclosures in the mutual fund industry. Mapping of the risk of debt funds with the PRC will also enable better comparison of the funds within the same category, instead of comparing all funds in the peer set on the same parameter – grouping can now be done basis tier-1 and tier-2 benchmarks.

That being said, individual spadework remains critical as ever for investors. For instance, while the PRC matrix will showcase the maximum risk a scheme could take, the fund manager may choose not to invest till the thresholds. Thus, the matrix-based classification serves only as a guidance. It is important that investors look at these parameters in conjunction with their own due diligence on the scheme's portfolio.

Market – Overview

Indices	% Change in Mar 2022	% Change in Feb 2022
Nifty 50	4.13	-3.05
S&P BSE Sensex	3.99	-3.15

Indicators	March 31, 2022	Feb 28, 2022
10-year Gsec	6.84%	6.77%
Monthly CPI Inflation	6.95%	6.07%

Mutual fund - Overview

Top Stock Exposures – Mar 2022

1. ICI 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. Bharti Airtel Ltd.
9. Tata Consultancy Services Ltd.
10. Larsen & Toubro Ltd.

Top Sector Exposures – Mar 2022

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

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

Entries	Exits
Gufic Biosciences Ltd.	Asian Granito India Ltd.
Huhtamaki PPL Ltd.	Future Retail Ltd.
Indian Terrain Fashions Ltd.	Godawari Power and Ispat Ltd.
Zybus Lifesciences Ltd.	National Fertilizers Ltd.
Gulshan Polyols Ltd.	S Chand And Company Ltd.
Oriental Aromatics Ltd.	The Jammu & Kashmir Bank Ltd.
Rosell India Ltd.	MSTC Ltd.
RattanIndia Infrastructure Ltd.	Sahajanand Medical Technologies Ltd.
Swiss Galscoat Equipments Ltd.	

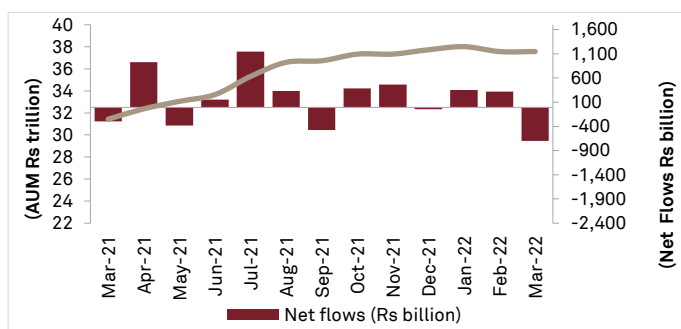
Category returns

	Absolute monthly returns %	
	Mar	Feb
Large cap funds	3.12	-4.06
Large cap and mid-cap funds	3.86	-5.24
Multi cap equity funds	5.62	-5.79
Flexi cap funds	3.06	-4.53
Focused funds	3.43	-4.50
Value – Contra funds	3.58	-4.99
Mid-cap funds	4.04	-5.44
Small cap funds	5.05	-6.92
Arbitrage funds	0.06	0.41
ELSS	3.61	-4.81
Index funds	4.00	-2.98
Aggressive hybrid funds	2.84	-3.37
Conservative hybrid funds	0.99	-0.69
Gilt funds	0.18	0.18
Dynamic funds	0.25	0.29
Medium-to-long term funds	0.21	0.28
Medium term funds	0.28	0.69
Short-duration funds	0.33	0.32
Corporate funds	0.35	0.39
Banking and PSU debt fund	0.31	0.42
Credit risk funds	0.99	0.46
Low duration funds	0.38	0.25
Money market funds	0.40	0.29
Ultra-short duration funds	0.36	0.27
Liquid funds	0.31	0.27

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

- Indian equity indices snapped two-month fall in March with Benchmarks S&P BSE Sensex and Nifty 50 rising ~4% each on month, while the Sensex and Nifty surged to 18% and 20%, respectively, for fiscal 2022. Markets rose on hopes Russia-Ukraine peace talk, interest rate hiked by the Fed and results of state elections.
- However, sharp rise in crude oil prices, disappointing domestic inflation data, lower-than-expected domestic manufacturing data and weak auto sales data curtailed gains in the market.
- Markets also absorbed weak cues from China, as the country witnessed resurgence of Covid-19 cases and decided to implement lockdown in a phased manner.
- Selling by foreign institutional investors also weighed on the benchmark indices
- Nifty sectoral indices mostly ended higher, with Nifty Media (~18%), Nifty Metal (~8%), and Nifty Information Technology (~7%) gaining the most.

Mutual fund AUM and net flows trend



Source: CRISIL Research

- The domestic mutual fund industry's month-end assets under management (AUM) rose 0.01% on-month or by Rs 387 crore in March led by net inflows in equity-oriented funds and mark-to-market (MTM) gains in underlying equities.
- In fiscal 2022, month-end asset base expanded ~20% aided by sharp MTM in equity markets and inflows in the equity funds and passive funds categories
- Assets of open-ended equity funds surged 5.5% on-month to settle at a new record high of ~Rs 13.65 lakh crore in March, primarily buoyed by MTM gains in underlying equities
- Within the category, multi cap funds recorded the highest net inflows of ~Rs 9,695 crore, followed by strong inflows in flexi-cap funds, sectoral/thematic funds and equity-linked savings schemes (ELSSs).
- Collection via SIPs reached a fresh record high of Rs 12,328 crore in March compared with Rs 11,438 crore collected in February
- Strong performance in the underlying equity market propelled hybrid funds' assets to a new record high of ~Rs 4.8 lakh crore.
- Exchange traded funds, or ETFs, (excluding gold) and index schemes cumulatively saw a record ~Rs 19,220 crore in net inflows compared with ~Rs 16,539 crore in February.
- Open-ended debt funds recorded highest net outflows of ~Rs 1.15 lakh crore in March 2022, highest since ~Rs 1.95 lakh crore of outflows seen in March 2020.
- Within the category, liquid funds witnessed the highest net outflows of ~Rs 44,604 crore in March compared to net inflows of ~Rs 40,273 crore in February. Further, overnight funds, short duration funds and corporate bond funds.
- In the close-ended debt category, fixed-term plans saw net inflow of ~Rs 798 crore mainly owing to fresh fund mobilisations.
- SEBI relaxed its earlier norms on one-time mandate for mutual fund transactions and permitted one-time mandates of the existing holders to continue as of now.
- SEBI revamped rules governing collective investment schemes (CIS), bringing them on a par with the mutual fund regulations.
- SEBI issued timelines for rebalancing of portfolios of mutual fund schemes to bring uniformity.

CRISIL Fund Rank 1 Schemes - Debt

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				
Gilt										
DSP Government Securities Fund	0.17	0.07	0.47	4.07	8.71	9.44	30-Sep-99	419.99	4.65	1.82
Edelweiss Government Securities Fund	0.02	0.27	0.41	4.99	8.85	8.81	13-Feb-14	113.77	4.52	1.92
Dynamic Bond										
IDFC Dynamic Bond Fund	0.41	0.91	1.43	4.52	7.96	8.06	3-Dec-08	2777.56	4.59	1.63
Quantum Dynamic Bond Fund	0.26	0.69	1.08	3.98	7.17	7.95	19-May-15	86.39	3.62	1.72
Medium to Long Duration										
IDFC Bond Fund - Income Plan	0.30	0.59	0.94	3.76	7.15	8.15	14-Jul-00	613.66	4.49	1.41
Medium Duration										
IDFC Bond Fund - Medium Term Plan	0.38	0.79	1.37	4.19	6.83	7.39	8-Jul-03	2619.32	3.02	1.92
Short Duration										
IDFC Bond Fund - Short Term	0.36	0.85	1.59	4.05	6.86	7.48	14-Dec-00	12943.47	1.08	2.29
UTI Short Term Income Fund - Institutional	0.41	0.87	1.73	9.14	4.37	6.67	19-Sep-07	3422.95	3.75	2.60
Corporate Bond										
Sundaram Corporate Bond Fund	0.36	1.01	1.63	4.25	7.76	7.08	30-Dec-04	1072.51	0.81	3.42
Nippon India Corporate Bond Fund	0.37	1.13	1.98	5.26	6.86	7.51	25-Sep-00	3357.70	0.70	6.06
Banking & PSU										
Axis Banking & PSU Debt Fund	0.37	0.95	1.66	3.95	6.99	8.06	8-Jun-12	15777.50	0.51	4.54
PGIM India Banking & PSU Debt Fund	0.33	0.76	1.25	4.57	7.42	7.84	8-Mar-13	76.50	0.82	3.97
Credit Risk										
Baroda BNP Paribas Credit Risk Fund	0.26	1.38	2.41	14.19	7.53	8.28	23-Jan-15	205.76	6.40	2.61
Low Duration										
Canara Robeco Savings Fund	0.36	0.92	1.66	3.39	5.38	7.47	4-Mar-05	1111.34	0.27	5.61
UTI Treasury Advantage Fund	0.43	1.03	2.10	9.20	3.46	7.27	23-Apr-07	3592.22	3.84	2.56
Money Market										
Nippon India Money Market	0.42	1.09	2.02	3.92	5.56	7.41	15-Jun-05	8787.91	0.23	10.10
UTI Money Market Fund	0.42	1.08	1.99	3.90	5.52	7.35	9-Jul-09	8073.10	0.22	10.48
Ultra Short Duration										
Baroda BNP Paribas Ultra Short Duration Fund	0.38	1.05	2.01	3.89	5.14	5.82	1-Jun-18	273.89	0.27	8.44
L&T Ultra Short Term Fund	0.39	0.98	1.83	3.53	5.08	7.09	10-Apr-03	1878.46	0.23	7.33
Liquid										
Canara Robeco Liquid	0.30	0.86	1.70	3.33	4.09	7.00	15-Jul-08	2032.20	0.16	8.86
Parag Parikh Liquid Fund	0.30	0.84	1.66	3.22	3.94	4.50	11-May-18	1460.92	0.16	7.98

CRISIL Mutual Fund Ranks as of March 2022

Point to Point Returns are as on March 31, 2022

Returns are annualised for periods above 1-year, other wise actualised

Risk Ratios are annualised

Risk ratios for Short Duration, Corporate Bond, Banking & PSU, Credit Risk, Low Duration, Money Market, Ultra Short Term and Liquid categories are for a period of 1 year; risk free rate: 3.51% (average T-bill auction cut off rate during the period)

Risk ratios for Gilt, Dynamic Bond, Medium to Long Duration & Medium Duration categories are for a period of 3 years; risk free rate: 4.09% (average T-bill auction cut off rate during the period)

Average AUM is 3-months average number as disclosed by AMFI for the period January-March 2022

Average Assets under Management - A Bird's Eye View

Mutual Fund (MF) Name	Jan-Mar 2022 (Rs. Cr)	Oct-Dec 2021 (Rs. Cr)	Change (Rs.Cr)	% Change	Mutual Fund (MF) Name	Jan-Mar 2022 (Rs. Cr)	Oct-Dec 2021 (Rs. Cr)	Change (Rs.Cr)	% Change
SBI Mutual Fund (MF)	648199	628766	19432	3.09%	LIC Mutual Fund	17817	19354	-1537	-7.94%
ICICI Prudential MF	486424	483519	2905	0.60%	PGIM India Mutual Fund	16492	14702	1790	12.18%
HFDC Mutual Fund	435537	450385	-14848	-3.30%	HSBC Mutual Fund	12789	12606	183	1.45%
ABSL Mutual Fund	296390	299282	-2893	-0.97%	Mahindra Manulife MF	8805	7911	894	11.30%
Kotak Mahindra MF	286414	286883	-469	-0.16%	Union Mutual Fund	8147	8100	47	0.58%
Nippon India MF	285196	282416	2781	0.98%	Quant Mutual Fund	6506	4664	1842	39.50%
Axis Mutual Fund	260335	253906	6429	2.53%	NJ Mutual Fund	5247	3697	1550	41.91%
UTI Mutual Fund	223842	224671	-830	-0.37%	IIFL Mutual Fund	4264	3750	514	13.72%
IDFC Mutual Fund	121230	125352	-4122	-3.29%	IDBI Mutual Fund	4161	4472	-311	-6.96%
DSP Mutual Fund	107911	110614	-2702	-2.44%	BOI AXA Mutual Fund	2750	2727	23	0.84%
Mirae Asset MF	102757	101218	1539	1.52%	ITI Mutual Fund	2718	2407	311	12.93%
Edelweiss Mutual Fund	88713	79285	9427	11.89%	JM Financial MF	2318	2020	298	14.73%
Tata Mutual Fund	86713	83554	3159	3.78%	Quantum Mutual Fund	1978	2052	-73	-3.56%
L&T Mutual Fund	75592	79550	-3959	-4.98%	IL&FS MF (IDF)	1338	1280	58	4.52%
Franklin Templeton MF	64123	66988	-2865	-4.28%	Trust Mutual Fund	1218	1137	81	7.13%
Canara Robeco MF	47956	45049	2906	6.45%	Navi Mutual Fund	1039	930	110	11.81%
Invesco Mutual Fund	43916	45155	-1239	-2.74%	IIFCL Mutual Fund (IDF)	625	618	6	1.02%
Sundaram Mutual Fund	43107	43909	-802	-1.83%	Indiabulls Mutual Fund	544	653	-108	-16.60%
Motilal Oswal MF	34948	35645	-698	-1.96%	Taurus Mutual Fund	511	538	-27	-5.05%
PPFAS Mutual Fund	23114	21684	1430	6.59%	Samco Mutual Fund	367	0	367	NA
Baroda BNP Paribas MF	21393	21886	-493	-2.25%	Shriram Mutual Fund	220	227	-7	-2.96%
					WhiteOak Capital MF	105	139	-34	-24.77%
Grand Total	3883769	3863703	20066	0.52%					

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

Fund Focus

SBI Magnum Gilt Fund (CRISIL Fund Rank 1)

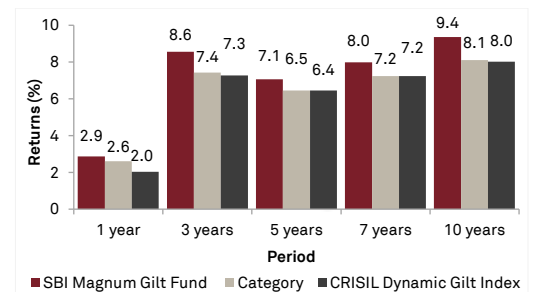
Launched in December 2000, SBI Magnum Gilt Fund is an open-ended scheme that generates returns through investments in government securities (G-secs). It has been at CRISIL Fund Rank 1 and 2 (top 30 percentile of its peer group) for the four quarters through December 2021 (source: CRISIL Mutual Fund Rankings or CMFR). Its average assets under management (AUM) totalled Rs 3,578 crore in the quarter ended March 2022.

Performance

The fund has outperformed its benchmark (CRISIL Dynamic Gilt Index) and the category (represented by funds ranked under the gilt fund category in CMFR – December 2021) in all the periods analysed and has returned 8% since its inception for the period ended April 19, 2022 (Chart 1).

The fund's Sharpe ratio, which is a measure of its risk-adjusted returns, is 1.95 (the higher the better), as against the category's 1.60 and benchmark's 1.62 for the three years ended April 19, 2022.

Performance as on April 19, 2022



Note: Returns above one year are annualised

Portfolio analysis

The fund has actively managed interest rate risk. It increased the average maturity of its portfolio when interest rates were expected to fall and vice versa. For instance, in September 2021, when the 10-year G-sec yield was 6.22%, the fund's average maturity was 8.94 years. Conversely, in March 2022, when 10-year G-sec yield rose to 6.82%, the fund's average maturity declined to 1.34 years. Funds with a longer maturity average benefit more than those with a shorter average maturity in a falling interest rate scenario and vice versa.

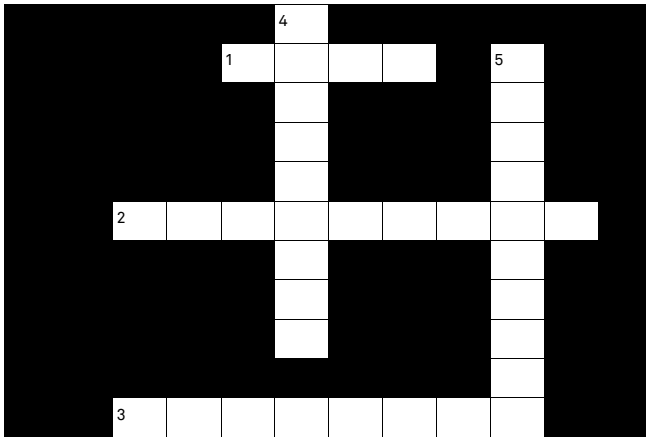
Asset allocation

In the three years ended March 2022, G-secs accounted for 92% of the fund's assets, with cash and cash equivalents constituting the remaining 8%.

Fund managers

Dinesh Ahuja, Masters in Management Studies (MMS), is the fund manager. He has over 22 years of experience in Indian financial services, capital markets, and fund management

Crossword Corner – boost your financial knowledge



Horizontal

- 1) Regulatory body for securities and commodity market under the ownership of Ministry of Finance (1,1,1,1)
- 2) Useful in capturing the granular risk elements of debt mutual funds (1,1,1,6)
- 3) Funds which generate returns by investing in bonds and other fixed income securities (5,6)

Vertical

- 4) A measure used to compare the performance of a mutual fund or portfolio of securities (9)
- 5) Fund which invest in debt and money market securities with maturity of upto 91 days only (5, 5)

Answers

Vertical: 4) Benchmark 5) Liquid Fund

Horizontal: 1) SEBI 2) Potential Risk Class (PRC) matrix 3) Debt Fund

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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