

CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

Volume – 137 September 2022

Investment thoughts

Debt mutual funds go conservative versus their declared risk capacity.

Six months since the potential risk class (PRC) norms issued by the Securities and Exchange Board of India (SEBI) were implemented, mutual funds appear to be using the matrix to take buffer in terms of their risk capacity rather

than align to the reported PRCs.

The norms, issued by the capital market regulator in June 2021 and implemented in December, were aimed at improving risk disclosures in a bid to obviate the credit and liquidity crises that have plagued debt mutual funds in recent years. With those crises still fresh in mind, investors remain wary of higher risk in debt funds. And though corporate balance sheets have improved since then, mutual funds continue to shy away from taking higher risk. From the funds' point of view, playing conservative ensures they can invest as and when an opportunity emerges. For investors, however, it becomes imperative to look at both reported PRCs and actual PRCs.

PRC thresholds as defined by SEBI

Maximum weighted average interest rate risk of the scheme (measured in terms of Macaulay duration or MD):	Maximum weighted average credit risk of the scheme (measured in terms of credit risk value or CRV*)
1. Class I: MD ≤ 1 year	1. Class A: CRV ≥ 12
2. Class II: MD ≤ 3 years	2. Class B: CRV ≥ 10
3. Class III: Any Macaulay duration	3. Class C: CRV < 10

*Higher the score, better the CRV Source: SEBI

Debt fund portfolios reflective conservative trend

CRISIL Research analysis of 218 debt mutual fund schemes shows their actual risk profiles are conservative compared with their reported PRCs. The analysis considered debt mutual funds ranked in the CRISIL Mutual Fund Ranking of June 2022 and analysed portfolio during the six month period (January 2022 – June 2022) to calculate average PRCs scores for the period. The analysis showed that only 27% (58 schemes) have their portfolio aligned to their reported PRCs. While the reported PRC of most funds falls in the Class B bucket in terms of CRV, they have taken a more conservative approach in the past six months and now form part of the Class A bucket. Similarly, in terms of duration, most funds have reported themselves in the Class III bucket, but as per the 6-month MD average, most funds are falling in the Class I or II bucket. To understand the distribution of funds better, the analysis tried to further break up the PRC matrix findings of funds based on credit risk and interest rate risk.

Calculated CRV versus reported CRV

Final calculated CRV				Total
Reported CRV	A	B	C	
A	53	-	-	53
B	92	48	-	140
C	2	20	3	25
Total	147	68	3	218

Source: CRISIL Research

Note - While CRV is to be calculated on dirty price, CRISIL considered portfolios disclosed by asset management companies that are based on clean price. The analysis ignored exposure to the Bills Rediscounting Scheme, fixed deposits, interest rate swaps, infrastructure investment trusts, mutual fund units, and preference shares as the circular does not mention anything about their treatment. The numbers in each cell denote the number of schemes plotting under specific bucket.

Calculated IRV versus reported IRV

Final calculated IRV/MD				Total
Reported IRV/MD	I	II	III	
I	62	-	-	62
II	12	11	-	23
III	11	86	36	133
Total	85	97	36	218

Source: CRISIL Research

Note - The analysis ignored exposure to the Bills Rediscounting Scheme, fixed deposits, interest rate swaps, infrastructure investment trusts, mutual fund units, and preference shares as the circular does not mention anything about their treatment. The numbers in each cell denote the number of schemes plotting under specific bucket.

The CRV analysis shows that 92 schemes place themselves in the Class B bucket, but form part of the Class A bucket as per the past 6-month average. Similarly, 20 schemes reported their CRV in the Class C bucket, but their 6-month average placed them in Class B. This indicates the conservative credit stance that funds are leaning towards based on the current market scenario. That said, reporting in the most aggressive CRV bucket does lend the funds more flexibility. This trend was visible across all categories, especially in credit risk. For calculation of interest rate risk value (IRV), the average of past six months' MD (January-June 2022) was considered. The IRV analysis shows that, while 86 schemes place themselves in the Class III bucket, they all form part of the Class II bucket as per the past 6-month average. It is however important to note that the conservative IRV could also be an outcome of the volatility seen in interest rates in the first six months of 2022.

Meanwhile, the category-wise analysis of IRV and CRV shows that categories that do not have a duration mandate, such as banking and PSU, corporate bond, dynamic bond, credit risk, and gilt funds, show a huge deviation in their six-month actual IRV and reported IRV. In the case of CRV, a huge deviation was evident in categories other than gilt, money market, and ultra-short duration.

Summing up

The analysis shows clearly that debt mutual funds are conservative in their risk profile. This gives them the leeway to increase risk in the portfolio if an opportunity arises.

For investors, however, it is important to look at the reported PRCs to gauge the maximum risk within debt funds and map it to their risk-return profiles. They need to monitor the mutual fund portfolios on a regular basis to understand the risk being taken by the fund manager and whether it aligns with their risk profile.

Market – Overview

Indices	% Change in August 2022	% Change in July 2022
Nifty 50	3.42	8.58
S&P BSE Sensex	3.50	8.73

Indicators	August 31, 2022	July 31, 2022
10-year Gsec	7.19%	7.32%
Monthly CPI Inflation	7.00%	6.71%

Mutual fund - Overview

Top Stock Exposures – August 2022	Top Sector Exposures – August 2022
1. ICI Bank Ltd.	1. Banks
2. HDFC Bank Ltd.	2. Computers - Software
3. Reliance Industries Ltd.	3. Refineries/Marketing
4. Infosys Ltd.	4. Pharmaceuticals
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. Tata Consultancy Services Ltd.	10. Telecom - Services

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

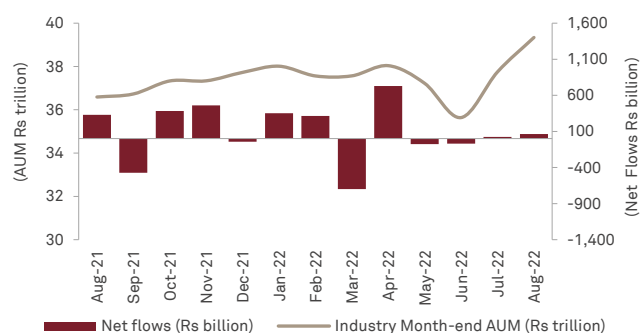
Entries	Exits
Dreamfolks Services Ltd.	Apcotex Industries Ltd.
HP Adhesives Ltd.	Indian Terrain Fashions Ltd.
Piramal Pharma Ltd.	Maithon Alloys Ltd.
Syrra SGS Technology Ltd.	

Category returns	Absolute monthly returns %	
	Aug	Jul
Large cap funds	3.76	9.10
Large cap and mid-cap funds	4.26	9.53
Multi cap equity funds	4.51	9.46
Flexi cap funds	4.18	9.51
Focused funds	4.08	9.09
Value – Contra funds	4.13	9.07
Mid-cap funds	4.73	10.59
Small cap funds	5.09	8.81
Arbitrage funds	0.46	-0.04
ELSS	3.95	9.34
Index funds	3.64	8.80
Aggressive hybrid funds	3.30	6.88
Conservative hybrid funds	1.43	2.73
Gilt funds	0.95	0.88
Dynamic funds	0.88	1.00
Medium-to-long term funds	1.14	0.97
Medium term funds	0.76	2.20
Short-duration funds	0.58	0.67
Corporate funds	0.67	0.73
Banking and PSU debt fund	0.66	0.70
Credit risk funds	0.70	0.93
Low duration funds	0.53	0.46
Money market funds	0.48	0.39
Ultra-short duration funds	0.46	0.37
Liquid funds	0.46	0.38

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

- Indian equity indices extended gains in August, with both the benchmarks S&P BSE Sensex and Nifty 50 rising ~3.5% on-month as deceleration in domestic and global inflation eased concerns over faster rate hikes by global central banks.
- Sentiment got a further boost on upbeat local manufacturing data and after the Reserve Bank of India's (RBI) policy rate hike was in line with expectations
- Further, upbeat quarterly earnings reports of major companies for the second quarter of this fiscal and persistent buying foreign institutional investors (FIIs) also elevated the market mood.
- Among global cues that aided the domestic market were intermittent fall in global crude oil prices and easing inflation worries in the US.
- However, gains were capped after investors booked profits at higher level and due to weak global cues, including hawkish stance of Fed Chair Jerome Powell at the Jackson Hole symposium.
- Nifty sectoral indices ended mostly lower, with Nifty Metal (~8.2%), Nifty Energy (~8%) and Nifty Bank (~5.5%), gaining the most.

Mutual fund AUM and net flows trend



Source: CRISIL Research

- Assets under management (AUM) of the domestic mutual fund industry increased ~4% (Rs 1.6 lakh crore in absolute terms) on-month in August to a record high of Rs 39.34 lakh crore, driven by net inflow into debt-oriented funds and mark-to-market (MTM) gains in equity-oriented funds.
- Assets of open-ended equity funds increased 4.4% (~Rs 62,391 crore) on-month in August to a record high of Rs 14.78 lakh crore.
- Within the category, flexi-cap schemes recorded the highest net inflow of ~Rs 2,100 crore, compared with ~Rs 1,382 crore in July, followed by strong inflows in mid-cap and small-cap, while sectoral/thematic funds and equity-linked savings schemes (ELSSs) witnessed outflow.
- Collections via SIP stood at a record high of Rs 12,693 crore compared with Rs 12,140 crore in July.
- Assets of hybrid funds rose to a fresh high of ~Rs 4.9 lakh crore, up ~1% on-month, or by Rs 4,767 crore. However, the category recorded net outflow for the third straight month.
- Among hybrid funds, balanced advantage funds witnessed net inflow for the 20th consecutive month — at ~Rs 851 crore compared with ~Rs 554 crore in July. Meanwhile, arbitrage funds saw the highest net outflow of ~Rs 8,548 crore compared with ~Rs 6,408 crore in July.
- The passive strategy continued to attract investors during August. Exchange-traded funds or ETFs (excluding gold) and index schemes cumulatively saw a net inflow of ~Rs 15,205 crore compared with ~Rs 14,414 crore in July.
- AUM of open-ended debt funds rose ~5% on-month to ~Rs 13.03 lakh crore, supported by a net inflow of ~Rs 49,164 crore in August compared with ~Rs 4,930 crore in July.
- Within the category, liquid funds saw the highest net inflow of ~Rs 50,096 crore, compared to net outflow of ~Rs 7,693 crore seen in July, followed by liquid, ultra-short and short duration funds, while overnight funds and corporate bond funds saw outflows.
- In the closed-ended debt category, fixed-term plans witnessed net inflow of ~Rs 1,514 crore compared with ~Rs 599 crore in July.
- SEBI issued new norms for Alternative Investment Funds (AIFs) and Venture Capital Funds (VCFs) for making investment abroad.

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	3.66	6.99	5.87	8.32	18.65	14.30	23-May-08	30651.02	19.63	0.51
Nippon India Large Cap Fund	4.06	10.01	11.51	12.57	19.20	11.79	8-Aug-07	10826.68	22.24	0.73
HDFC Top 100 Fund	4.16	8.19	9.65	11.62	16.38	18.02	11-Oct-96	20567.19	20.72	0.71
Large & Mid Cap										
ICICI Prudential Large & Mid Cap Fund	3.91	8.17	10.54	16.92	23.00	18.18	9-Jul-98	4680.32	21.25	1.02
Quant Large and Mid Cap Fund	4.52	7.83	12.56	15.88	26.43	13.11	9-Jan-07	120.63	26.97	0.81
Flexi Cap										
HDFC Flexi Cap Fund	4.59	10.02	13.04	19.32	20.74	18.49	1-Jan-95	27209.97	21.41	1.16
PGIM India Flexi Cap Fund	4.33	8.03	2.49	-1.28	26.71	13.33	4-Mar-15	4161.25	21.49	-0.17
Multi Cap										
Quant Active Fund	5.26	9.18	10.48	12.39	36.36	19.23	4-Apr-01	2273.64	26.81	0.64
Focused										
HDFC Focused 30 Fund	5.09	10.00	14.96	22.95	21.38	15.19	17-Sep-04	1371.06	20.30	1.43
Quant Focused Fund	7.13	9.29	13.27	10.50	24.06	13.49	29-Aug-08	96.04	26.16	0.55
Value / Contra										
IDFC Sterling Value Fund	4.33	7.62	7.40	13.39	27.21	16.47	7-Mar-08	4429.68	22.48	0.77
SBI Contra Fund	4.20	10.18	13.59	19.51	31.16	16.12	6-May-05	4476.78	18.99	1.29
Mid Cap										
PGIM India Midcap Opportunitie Fund	4.72	12.94	10.39	11.73	41.01	18.77	2-Dec-13	5011.87	22.84	0.67
Quant Mid Cap Fund	5.21	8.39	14.11	19.57	36.82	12.69	21-Mar-01	471.59	26.62	0.99
Small Cap										
Canara Robeco Small Cap Fund	3.99	9.51	10.15	21.09	41.16	29.18	15-Feb-19	2485.72	23.56	1.17
Quant Small Cap Fund	5.67	8.51	6.46	9.02	51.59	10.98	30-Oct-96	1757.44	31.05	0.44
ELSS										
IDFC Tax Advantage (ELSS) Fund	4.29	7.17	6.48	10.52	25.07	18.25	26-Dec-08	3571.93	23.54	0.59
PGIM India ELSS Tax Saver Fund	3.40	6.51	5.35	8.73	20.62	13.94	11-Dec-15	377.61	20.25	0.52
Quant Tax Plan	6.27	9.93	13.67	17.20	39.92	15.18	31-Mar-00	1314.93	27.86	0.85
Index										
HDFC S&P BSE Sensex ETF	3.58	7.09	6.81	5.99	7.35	18.03	9-Dec-15	186.38	21.83	0.33
Kotak S&P BSE Sensex ETF	3.56	7.02	6.68	5.73	17.78	10.96	6-Jun-08	20.29	21.86	0.31
SBI S&P BSE Sensex ETF	3.58	7.09	6.81	5.95	18.05	14.00	15-Mar-13	66644.03	21.87	0.32
UTI S&P BSE Sensex ETF	3.58	7.09	6.81	5.96	18.06	14.07	1-Sep-15	20931.05	21.87	0.32

CRISIL Mutual Fund Ranks as of June 2022
Point to Point Returns are as on August 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 3.96% - 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 April-June 2022

Average Assets under Management - A Bird's Eye View

Mutual Fund (MF) Name	Apr-Jun 2022 (Rs. Cr)	Jan-Mar 2022 (Rs. Cr)	Change (Rs.Cr)	% Change	Mutual Fund (MF) Name	Apr-Jun 2022 (Rs. Cr)	Jan-Mar 2022 (Rs. Cr)	Change (Rs.Cr)	% Change
SBI Mutual Fund	648641	648199	442	0.07%	PGIM India Mutual Fund	17206	16492	714	4.33%
ICICI Pru Mutual Fund	484873	486424	-1552	-0.32%	HSBC Mutual Fund	13532	12789	742	5.80%
HDFC Mutual Fund	418852	435537	-16685	-3.83%	Mahindra Manulife MF	9223	8805	418	4.75%
Kotak Mahindra MF	283897	286414	-2517	-0.88%	Quant Mutual Fund	8788	6506	2282	35.08%
ABSL Mutual Fund	282183	296390	-14206	-4.79%	Union Mutual Fund	8122	8147	-25	-0.30%
Nippon India MF	281440	285196	-3757	-1.32%	NJ Mutual Fund	4979	5247	-268	-5.11%
Axis Mutual Fund	246127	260335	-14209	-5.46%	IIFL Mutual Fund	4538	4264	273	6.41%
UTI Mutual Fund	224279	223842	438	0.20%	IDBI Mutual Fund	3903	4161	-258	-6.21%
IDFC Mutual Fund	117110	121230	-4119	-3.40%	JM Financial MF	3057	2318	739	31.87%
DSP Mutual Fund	106682	107911	-1229	-1.14%	Bank of India MF	2948	2750	198	7.20%
Mirae Asset MF	102384	102757	-373	-0.36%	ITI Mutual Fund	2706	2718	-13	-0.46%
Edelweiss Mutual Fund	93687	88713	4975	5.61%	Quantum Mutual Fund	1954	1978	-25	-1.25%
Tata Mutual Fund	88392	86713	1679	1.94%	IL&FS MF (IDF)	1394	1338	56	4.20%
L&T Mutual Fund	71571	75592	-4021	-5.32%	Navi Mutual Fund	1353	1039	313	30.16%
Franklin Templeton MF	60017	64123	-4107	-6.40%	Trust Mutual Fund	1034	1218	-184	-15.08%
Canara Robeco MF	49253	47956	1298	2.71%	IIFCL Mutual Fund (IDF)	625	625	0	0.06%
Invesco Mutual Fund	40218	43916	-3698	-8.42%	Samco Mutual Fund	590	367	224	61.04%
Sundaram Mutual Fund	39954	43107	-3153	-7.31%	Indiabulls Mutual Fund	524	544	-20	-3.70%
Motilal Oswal MF	32303	34948	-2645	-7.57%	Taurus Mutual Fund	498	511	-13	-2.49%
PPFAS Mutual Fund	24790	23114	1676	7.25%	Shriram Mutual Fund	208	220	-12	-5.42%
Baroda BNP Paribas MF	21896	21393	503	2.35%	WhiteOak Capital MF	127	105	22	21.09%
LIC Mutual Fund	17344	17817	-473	-2.66%	Grand Total	3823199	3883769	-60569	-1.56%

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

Fund Focus

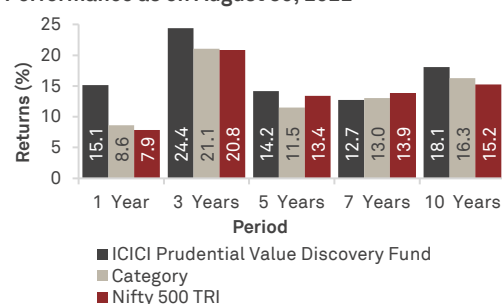
ICICI Prudential Value Discovery Fund

Launched in August 2004, ICICI Prudential Value Discovery Fund is categorised as a value fund according to CRISIL Mutual Fund Ranking, June 2022. The fund has been ranked in the top 30 percentile (CRISIL Fund Rank 2) for the past six quarters. Its average assets under management (AUM) totalled Rs 23,289 crore for the quarter ended June 2022.

Performance

The fund has outperformed its benchmark (Nifty 500 TRI) and the category (represented by value funds under CRISIL Mutual Fund Ranking) across most timeframes (see Chart 1). For instance, in the past three years, the fund returned 24.4% annually, compared with the category's 21.1% and the benchmark's 20.8%.

Performance as on August 30, 2022



Note: Returns above one year are annualised

A monthly systematic investment plan (SIP) of Rs 1,000 for five years (on a principal of Rs 60,000) in the fund would have grown to Rs 98,148 as on August 30, 2022, delivering an annualised return of 19.8%. A similar investment in the benchmark would have grown at 17.2% to Rs 92,155. The fund has also performed well on a risk-adjusted basis. For the past three years ended August 30, 2022, its Sharpe ratio has been 1.33, higher than the category's 1.07 and benchmark's 1.04.

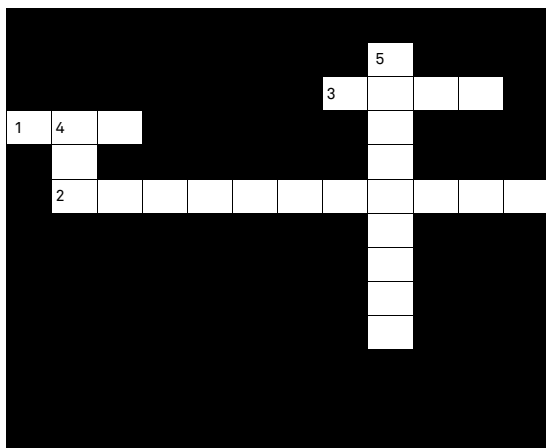
Portfolio analysis

Over the past three years, the fund has maintained, on average, ~72% exposure to large cap stocks in its equity portfolio. It has also had consistent exposure to 14 companies, the highest being to Sun Pharmaceutical Industries Ltd (~9% average exposure). Software, pharmaceuticals and banks are the top three sectors covered comprised 32.18% of the three-year portfolio ended August 30, 2022.

Fund manager

Sankaran Naren, a PGDM degree holder, manages the equity portfolio. He has 30 years of experience in practically the entire spectrum within the financial services industry. Dharmesh Kakkad, a CFA charter holder, also manages the equity portfolio. He has over 13 years of experience. Sharmila D'mello is the fund manager - equity. She is a certified CA and joined the company in 2016.

Crossword Corner – boost your financial knowledge



Horizontal

- 1) Risk-o-Meter which dynamically captures the actual risk in the portfolio taken by the fund manager (1,1,1)
- 2) An evaluation of an individual's willingness and ability to take risks (4,7)
- 3) Regulatory body for securities and commodity market under the ownership of Ministry of Finance (1,1,1,1)

Vertical

- 4) A numeric value to debt instruments based on the credit risk associated with them (1,1,1)
- 5) Invest in short-term or long-term bonds, securitized products, money market instruments or floating rate debt (4, 5)

Answers

Vertical: 4) Credit risk value (CRV) 5) Debt funds

Horizontal: 1) Potential risk class (PRC) 2) Risk profile 3) Securities and Exchange Board of India (SEBI)

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