

Debt Funds & Picks

February 2017



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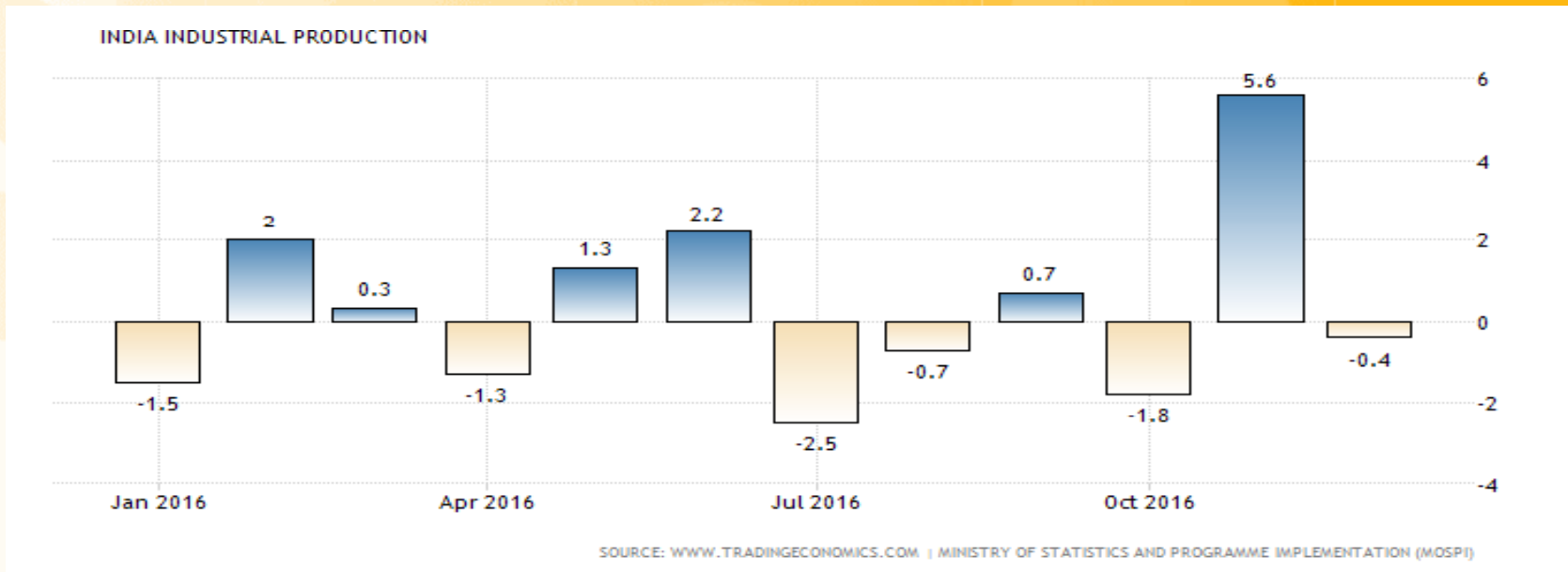
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Macro wrap: India inflation



- Consumer prices in India increased by 3.17% YoY in January 2017, easing from a 3.41% rise in December and below consensus expectation of 3.22%.
- It is the lowest inflation rate since the series began due to a sharp fall in food prices.
- A year ago, the consumer inflation rate was higher at 5.69%.
- The cost of Food & Beverages rose 1.29% YoY (1.98% YoY in December), provisional estimates showed. The Food index alone edged up by 0.53% compared to a 1.37% increase in the previous month.
- Inflation also eased for Clothing & Footwear (4.71% YoY vs 4.88% in Dec 2016) and Fuel & Light (3.42% vs 3.77% in Dec 2016), but accelerated slightly for Housing (5.02% vs 4.98% in Dec 2016).

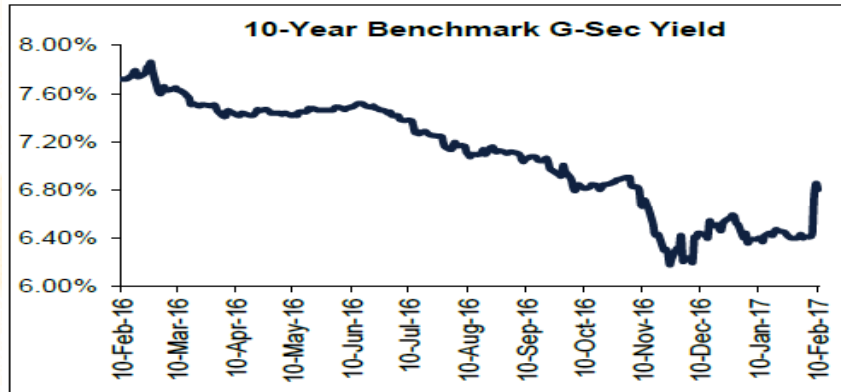
Macro wrap: industrial production



- India's industrial production fell by 0.4% YoY in December 2016, following a downwardly revised 5.6% growth in the previous month, as Manufacturing output shrank by 2% (+5.5% in November).
- By contrast, Electricity production rose by 6.3% in December 2016 (+8.9% in November 2016) and Mining output increased by 5.2% (+3.7%).
- During April to December 2016, industrial production expanded by 0.3% compared with a 3.2% growth in the same period a year earlier.

10-year bond movement

10-year benchmark G-Sec movement



Source: CRISIL Fixed Income Database

Indian debt market indicators

Indicators	Feb 10	Previous Week	Trend
Call Rate	6.25%	5.80%	↑
3 M CP	7.10%	6.95%	↑
1 Yr CP	7.65%	7.50%	↑
3 M CD	6.40%	6.34%	↑
1 Yr CD	6.55%	6.46%	↑
5 Yr AAA	7.27%	7.05%	↑
1 Yr G-Sec	6.41%	6.20%	↑
5 Yr G-Sec	6.81%	6.51%	↑
10 Yr G-Sec	6.81%	6.41%	↑
Forex Reserves	\$ 363.15 bn (Feb 3)	\$ 361.56 bn (Jan 27)	↑

Source: CRISIL Fixed Income Database, RBI

Corporate bond spreads over G-Sec

Spreads		AAA	AA+	AA	AA-	A+
Feb 1 st 2017	3 Yr	0.56%	0.86%	1.13%	1.45%	1.74%
	5 Yr	0.63%	0.99%	1.28%	1.61%	1.90%
	10 Yr	0.65%	0.99%	1.47%	1.87%	2.21%
Previous Week	3 Yr	0.44%	0.74%	1.01%	1.33%	1.62%
	5 Yr	0.43%	0.79%	1.08%	1.41%	1.70%
	10 Yr	0.74%	1.08%	1.56%	1.96%	2.30%

Source: CRISIL Fixed Income Database

Currencies vs Rs

Currency	Feb 10	Week ago	3 months ago	1 year ago
USD	66.88	67.31	66.63	67.86
GBP	83.77	84.32	82.51	98.29
Euro	71.33	72.44	72.71	76.65
100 Yen	58.89	59.60	63.02	59.21

Source: RBI, Financial websites

Debt Market Wrap

Liquidity

- The inter-bank call money rate settled at 6.25% on February 10 as against 6.05% on January 13.
- As liquidity remained mostly in surplus mode during the week, the RBI conducted several reverse repo auctions to drain excess funds .
- A total of 16 reverse repo auctions were held by the RBI for a total notified amount of Rs5,40,000 crore. The central bank also disbursed funds worth Rs41,000 crore via 14-day and 13-day term repo auction.
- Intra-week, the call rate rose on demand for funds from banks to make indirect tax payments.

Debt Market Wrap

Bond market movement

- Government bond prices weakened sharply post the RBI monetary policy announcement. The yield on the benchmark 10-year 6.97% 2026 paper settled at 6.81% on February 10 as against 6.42% on January 13.
- In the first few sessions, prices moved in a tight range, as market players awaited cues from the RBI Monetary Policy Committee's review.
- Prices plunged following the announcement, as the central bank's interest rate setting committee decided to maintain status quo.
- Further, the MPC also shifted its stance from an "accommodative" mode to "neutral", thereby dashing hopes of an interest rate cut in the coming months.
- Appetite for dated securities remained weak ahead of the domestic bond sale (the last scheduled gilt auction for FY2017). In the bond auction, the RBI sold the 6.84% 2022 paper, the 6.97% 2026 paper, the 7.73% 2034 paper, and the 7.06% 2046 paper for a total notified amount of Rs11,000 crore.
- Intermittent decline in the US benchmark treasury yields, firm global crude oil prices and sporadic value buying lent support to Indian bonds.

Debt Market Outlook

- The RBI's MPC shifted from an "accommodative" stance to a "neutral" one, thereby denting hopes of an interest rate cut in the coming months
- The yield curve could steepen and hence we are likely to see value at the shorter end of the curve. Further, low credit off-take due to low capacity utilisation could augur well for spread compression in the sub-AAA segment. Therefore, we continue to remain positive on corporate bonds and accrual strategies.
- We would suggest a mix of 80:20 between short-term/accrual and duration funds.
- We would prefer funds with a modified duration up to two years, and the allocation to duration funds could be made through Dynamic Bond Funds, which would proactively manage duration based market conditions.

Recommendations & performance - Accrual funds

Scheme Name	Category	Exit Load	Simple Annualised (%)					CAGR(%)		
			14D	1M	3M	6M	1Yr	2Yr	3Yr	5Yr
Accrual/Corporate Credit										
DSP BlackRock Income Opportunities Fund - Reg - Growth	Accrual	Less than 1 Year Exit Load is 1%	-5.5	1.6	5.8	8.6	10.7	9.8	10.3	9.6
Kotak Income Opportunities Fund - Reg - Growth		Less than 1 Year Exit Load is 1%	-4.3	2.0	5.3	8.8	10.6	9.7	10.2	9.4
Birla Sun Life Medium Term Plan - Reg - Growth		Less than 1 Year Exit Load is 1%	-24.8	-7.2	3.0	7.1	10.5	9.6	10.4	10.5
Birla Sun Life Short Term Fund - Reg - Growth	Short Term	Exit Load is Nil	-7.2	0.4	5.0	8.3	10.0	9.3	10.0	9.7
Axis Short Term Fund - Growth		Exit Load is Nil	-4.9	1.2	6.1	8.2	9.9	8.7	9.2	9.0
BNP Paribas Short Term Income Fund - Growth		Exit Load is Nil	-6.5	0.8	4.7	7.7	9.3	8.3	9.0	8.9
Indices										
Crisil Short Term Bond Fund Index			-10.0	-0.9	4.5	7.6	9.5	8.9	9.5	9.1

Performance as on February 15,2017

Recommendations & Performance- Duration funds

Scheme Name	Exit Load	Simple Annualised (%)				CAGR(%)			
		1M	3M	6M	1Yr	2Yr	3Yr	5Yr	
Duration Fund									
SBI Dynamic Bond Fund - Growth	Less than 1 Month Exit Load is 0.25%	-8.3	4.9	10.2	14.6	8.8	11.0	9.2	
UTI Dynamic Bond Fund - Reg - Growth	Less than 1 Year Exit Load is 1%	-11.2	5.4	11.1	14.5	9.5	11.7	10.5	
IDFC Dynamic Bond Fund - Reg - Growth	Exit Load is Nil	-6.5	1.8	9.9	12.5	8.1	11.1	9.8	
Indices									
Crisil Composite Bond Fund Index		-17.3	-1.0	7.3	11.9	9.5	11.4	9.3	

* Less than 1 year simple annualized returns, greater than 1 year compound annualized returns

Performance as on February 15, 2017

Fund picks: Across categories

Ultra Short Term Funds

Scheme Name	Exit Load	Simple Annualised (%)						CAGR(%)		
		7D	14D	1M	3M	6M	1Yr	2Yr	3Yr	5Yr
Ultra Short Term										
Birla Sun Life Savings Fund - Reg - Growth	Exit Load is Nil	10.9	0.2	4.3	6.5	7.9	9.3	9.0	9.2	9.4
ICICI Prudential Flexible Income Plan - Reg - Growth	Exit Load is Nil	12.9	3.6	5.6	6.9	8.3	9.3	8.9	9.1	9.3
IDFC Ultra Short Term Fund - Reg - Growth	Exit Load is Nil	9.2	4.8	6.0	6.6	7.6	8.9	8.7	8.9	9.3
Index										
Crisil Liquid Fund Index		7.0	6.4	6.5	6.2	6.6	7.4	7.7	8.2	8.4

Liquid Funds

Scheme Name	Exit Load	Simple Annualised (%)						CAGR(%)		
		7D	14D	1M	3M	6M	1Yr	2Yr	3Yr	5Yr
Liquid Fund										
Axis Liquid Fund - Growth	Exit Load is Nil	6.6	6.6	6.6	6.6	6.8	7.5	7.9	8.3	8.7
BNP Paribas Overnight Fund - Growth	Exit Load is Nil	6.5	6.5	6.6	6.6	6.8	7.4	7.8	8.2	8.7
HDFC Liquid Fund - Growth	Exit Load is Nil	6.6	6.4	6.4	6.4	6.7	7.4	7.8	8.2	8.7
Index		--	--	--	--	--				
Crisil Liquid Fund Index		7.0	6.4	6.5	6.2	6.6	7.4	7.74	8.21	8.4

Performance as on 15th Feb.,2017

Annexure: criteria for scheme selection

- Selection among the top rated AMC's with a proven track record in Debt MF.
- Selection out of this lot, unless a strategy is compelling based on interaction with a AMCs outside of this universe.
- Track record of at least two years of existence for the fund, though there could be some exceptions at times.
- Threshold AUM of at least Rs200 crore and above, though at times strategy would merit consideration as an exception.
- Superior risk-adjusted returns.

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