

Sharekhan

by BNP PARIBAS

Debt Funds & Picks
September 2017

Index

- Macro Wrap
- Debt Market Wrap
- Debt Market View
- Fund Recommendations
- Selection Criteria

Macro wrap: India Inflation



- Consumer prices in India grew 3.36 percent in August of 2017 up from 2.36 percent in July and above expectations of 3.2 percent
- It is the highest inflation rate since March, due to a rebound in food prices. The Reserve Bank of India expects inflation at 2 percent - 3.5 percent in the first half of this fiscal year (April to September 2017) and at 3.5 percent - 4.5 percent in H2
- Prices went up at a faster pace for food and beverages (1.96 percent compared to 0.43 percent in July). The food index alone jumped 1.52 percent, recovering from a 0.29 percent drop in July. Prices surged for vegetables (6.16 percent compared to -3.57 percent) and fruits (5.29 percent compared to 2.83 percent) while cost of pulses fell slightly less (-24.43 percent compared to -24.75 percent). In addition, prices went up faster for housing (5.58 percent from 4.98 percent); fuel and light (4.94 percent compared to 4.86 percent in July) and clothing and footwear (4.58 percent compared to 4.22 percent)

Macro wrap: Industrial Production



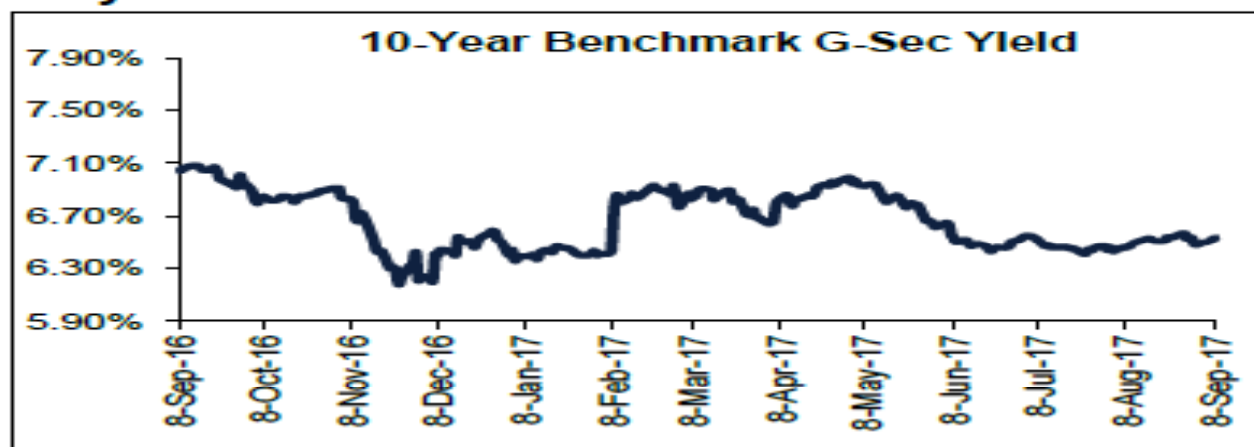
- India's industrial production increased 1.2 percent in July 2017, in line with market consensus and following an upwardly revised 0.2 percent drop in the previous month
- Industrial production during the April-July period grew 1.7 per cent against a growth of 6.5 per cent in the same period last fiscal
- Manufacturing production grew slightly by 0.1 percent after a 0.5 percent contraction in June, and output expanded further for both electricity (6.5 percent from 2.1 percent in June) and mining (4.8 percent from 0.4 percent)

Key Indicators

Corporate Bond spreads over G-Sec						
Spreads		AAA	AA+	AA	AA-	A+
Sept 6th 2017	3Yr	0.34%	0.64%	0.91%	1.23%	1.52%
	5 Yr	0.43%	0.79%	1.08%	1.41%	1.70%
	10 Yr	0.74%	1.08%	1.56%	1.96%	2.30%
Previous Week	3Yr	0.38%	0.68%	0.95%	1.27%	1.56%
	5 Yr	0.47%	0.83%	1.12%	1.45%	1.74%
	10 Yr	0.71%	1.05%	1.53%	1.93%	2.27%

Indian debt market Indicators			
Indicators	Sep-08	Previous week	Trend
Call Rate	5.85%	5.80%	↑
3 M CP	6.62%	6.53%	↑
1Yr CP	7.10%	7.10%	↔
3 M CD	6.13%	6.15%	↓
1 Yr CD	6.48%	6.47%	↑
3 Yr AAA	6.83%	6.81%	↑
5 Yr AAA	7.04%	7.02%	↑
1 Yr. G-sec	6.26%	6.27%	↓
3 Yr. G-sec	6.39%	6.38%	↑
5 Yr. G-sec	6.51%	6.48%	↑
10 Yr. G-sec	6.54%	6.48%	↑

10-year benchmark G-Sec movement



Currencies vs The Rupee				
Currency	Sep-08	Week ago	3 months ago	1 year ago
USD	63.78	64.02	64.21	66.41
GBP	83.88	82.66	83.43	88.61
Euro	77.04	76.1	72.51	74.77
100 Yen	59.28	58.1	58.76	65.33

Source: RBI

Debt Market Wrap

Liquidity – remains comfortable; call rate stable

- Systemic liquidity remained comfortable. The call rate settled at 5.85% on September 8 unchanged from August 11
- Reversals of reverse repo auctions brought funds into the banking system and kept the borrowing rate low
- Three reverse repo auctions were held in every session of the week, through which the central bank drained away a daily average amount of Rs 47,000 crore. Cumulatively, the RBI provided opportunities for banks to invest up to Rs 2,35,000 crore via reverse repo auctions.

Bond Yields: yields on 10-year bond range bound

- Yield of the 10-year benchmark 6.79% 2027 paper settled at 6.54% on September 8 as against 6.50% on August 11
- Though bond prices were put under pressure by global volatility and expected supply of bonds to hit the market via weekly gilt and open market sales, the buying interest at lower levels limited the decline in prices.

Debt Market Outlook

View: Yields expected to be Range bound

- Though the inflation reading was higher than expectations, the weak industrial activity and ample domestic and global liquidity to keep bond prices in a narrow range of 6.45-6.65% in the near future.

Strategy: Prefer Short term Funds & Corporate bond Funds

- We would suggest a mix of 80:20 allocation mix between short term/corporate Fund (80%) and Gilt/long term Fund (20%; play through dynamic bond fund)
- Long dated Fixed Maturity Plans could also be considered as an alternative for a part of the allocation in the Short Term Fund category

Recommendations & Performance- Corporate Bond Fund

Scheme Name	Exit Load	Simple Annualised (%)					CAGR(%)		
		14D	1M	3M	6M	1Yr	2Yr	3Yr	5Yr
Corporate Bond									
Aditya Birla Sun Life Medium Term Plan - Reg - Growth	Less than 1 Year Exit Load is 1%	7.3	6.2	7.9	11.7	8.9	10.0	10.3	10.3
ICICI Prudential Regular Savings Fund - Growth	Less than 1 Year Exit Load is 1%	8.1	6.7	8.0	9.4	8.6	9.0	9.3	9.1
DSP BlackRock Income Opportunities Fund - Reg - Growth	Less than 1 Year Exit Load is 1%	7.8	6.8	7.6	9.4	8.4	9.6	9.9	9.5
Kotak Income Opportunities Fund - Reg - Growth	Less than 1 Year Exit Load is 1%	6.6	5.9	6.7	8.8	8.2	9.5	9.5	9.3
Short Term									
Aditya Birla Sun Life Short Term Fund - Reg - Growth	Exit Load is Nil	6.9	6.7	7.9	9.5	8.4	9.3	9.5	9.4
Reliance Medium Term Fund - Growth	Exit Load is Nil	7.4	7.0	7.6	8.0	7.8	8.5	8.7	8.7
BNP Paribas Short Term Income Fund - Growth	Exit Load is Nil	6.2	5.4	6.9	8.4	7.7	8.3	8.6	8.6
Indices									
Crisil Short Term Bond Fund Index		7.0	6.7	7.4	8.9	8.1	8.8	9.1	9.0

Performance as on 12th September,2017

Recommendations & Performance- Gilt Funds (play thru dynamic bond funds)

Scheme Name	Exit Load	Simple Annualised (%)				CAGR(%)		
		1M	3M	6M	1Yr	2Yr	3Yr	5Yr
Gilt Fund (Dynamic Bond)								
SBI Dynamic Bond Fund - Growth	Less than 1 Month Exit Load 0.25%	3.2	3.8	11.1	10.4	11.0	11.2	9.3
IDFC Dynamic Bond Fund - Reg - Growth	Exit Load is Nil	4.2	4.4	11.0	10.2	10.2	11.1	9.8
Reliance Dynamic Bond Fund - Growth	Less than 1 Year Exit Load is 1%	3.6	5.2	12.8	8.2	10.2	10.8	9.6
Indices								
Crisil Composite Bond Fund Index		5.8	7.4	12.8	9.0	10.5	10.9	9.5

Performance as on 12th September,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										
ICICI Prudential Flexible Income Plan - Reg - Growth	Exit Load is Nil	5.2	6.7	6.4	7.5	8.1	8.1	8.6	8.7	9.0
Aditya Birla Sun Life Savings Fund - Reg - Growth	Exit Load is Nil	4.4	6.5	6.7	7.8	8.5	8.0	8.7	8.9	9.1
IDFC Ultra Short Term Fund - Reg - Growth	Exit Load is Nil	5.2	6.8	6.5	7.3	7.9	7.8	8.3	8.6	8.9
Index										
Crisil Liquid Fund Index		6.2	6.4	6.3	6.6	6.7	6.7	7.3	7.7	8.2

Liquid Funds

Scheme Name	Exit Load	Simple Annualised (%)						CAGR(%)		
		7D	14D	1M	3M	6M	1Yr	2Yr	3Yr	5Yr
Liquid Fund										
ICICI Prudential Liquid - Reg - Growth	Exit Load is Nil	6.2	6.2	6.3	6.4	6.6	6.8	7.3	7.8	8.3
BNP Paribas Overnight Fund - Growth	Exit Load is Nil	6.2	6.2	6.2	6.4	6.5	6.7	7.3	7.7	8.3
HDFC Liquid Fund - Growth	Exit Load is Nil	6.1	6.2	6.2	6.3	6.5	6.7	7.3	7.7	8.3
Index										
Crisil Liquid Fund Index		6.2	6.4	6.3	6.6	6.7	6.7	7.3	7.7	8.2

Performance as on 12th September, 2017

Annexure: Criteria for scheme selection

- Selection among the top-rated AMC's with a proven track record in debt
- Selection out of this lot, unless a strategy is compelling based on interaction with an AMC outside 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 Rs.200 crore and above, though at times strategy would merit consideration as an exception
- Superior risk-adjusted returns

Disclaimer

This document has been prepared by Sharekhan Limited (Sharekhan) and is meant for sole use by the recipient and not for circulation. The information contained in this report is intended for general information purposes only. The information published should not be used as a substitute for any form of investment advertisement, investment advice or investment information. The information in this report has not been prepared taking into account specific investment objectives, financial situations and needs of any particular investor, and therefore may not be suitable for you. You should verify all scheme related information before relying on it. Further, the selection of the Mutual Funds for the purpose of including in the indicative portfolio does not in any way constitute any recommendation by Sharekhan Limited with respect to the prospects or performance of these Mutual Funds. We recommend investors to seek advice from professional financial advisors.

- Mutual funds, like securities investments, are subject to market and other risks and there can be no assurance that the objectives of any of the schemes of the Fund will be achieved. Please read the Offer Document carefully in its entirety prior to making an investment decision
- The NAV of units issued under the Schemes of mutual funds can go up or down depending on the factors and forces affecting capital markets and may also be affected by changes in the general level of interest rates. The NAV of the units issued under the scheme may be affected, inter-alia by changes in the interest rates, trading volumes, settlement periods, transfer procedures and performance of individual securities. The NAV will inter-alia be exposed to Price / Interest Rate Risk and Credit Risk.
- Past performance of any scheme of the Mutual fund do not indicate the future performance of the Schemes of the Mutual Fund. Sharekhan shall not responsible or liable for any loss or shortfall incurred by the investors.
- Investors are not being offered any guaranteed or assured rate of return through this document.

Sharekhan and/or its associates receive commission for distribution of Mutual Funds from various Asset Management Companies (AMCs) and the details of the commission rates earned from various Mutual Fund houses is available on our website. Sharekhan or its associates may have received commission from AMCs whose funds are mentioned in the report during the period preceding twelve months from the date of this report for distribution of Mutual Funds. Sharekhan also provides stock broking services to institutional clients including AMCs and hence may have received brokerage for security transactions done by any of the above AMCs during the period preceding twelve months from the date of this report.

Compliance Officer: Ms. Namita Amod Godbole; Tel: 022-61150000; e-mail: compliance@sharekhan.com • Contact: myaccount@sharekhan.com