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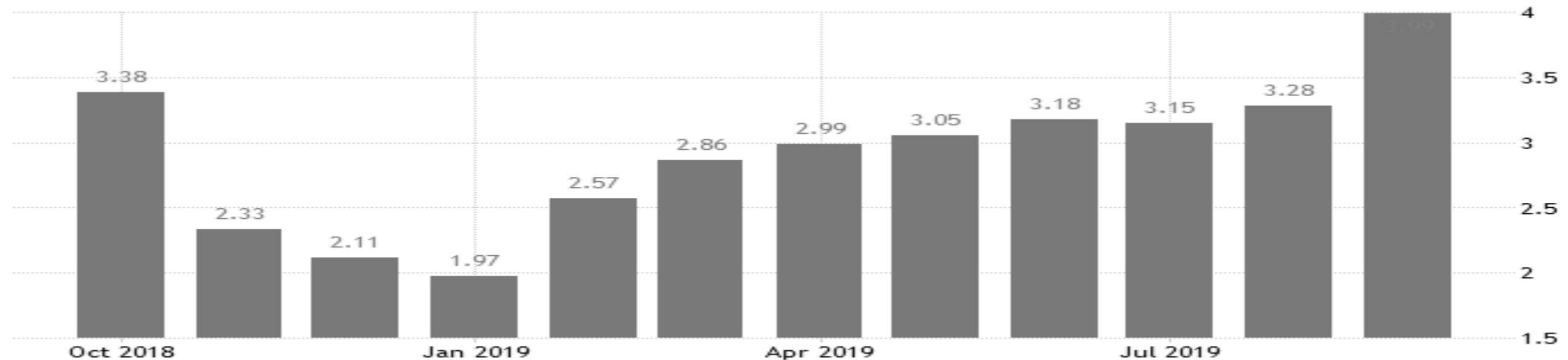
by BNP PARIBAS

Debt Funds & Picks
October 2019

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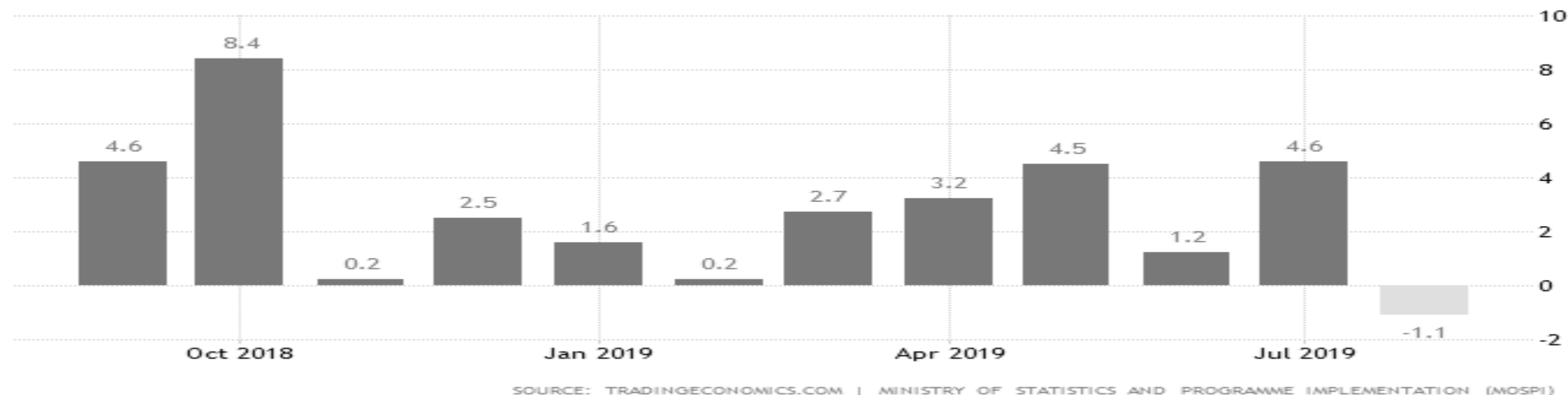
Macro wrap: Inflation@ RBI's Medium Term Target



SOURCE: TRADINGECONOMICS.COM | MINISTRY OF STATISTICS AND PROGRAMME IMPLEMENTATION (MOSPI)

- India's retail price inflation rate rose to 3.99% in September 2019 from an upwardly revised 3.28% in the previous month and above market expectations of 3.7%. It was the highest inflation rate since July last year and is almost touching the central bank's medium-term target of 4%, as food prices rose to an over 3-year high level.
- Food prices increased 5.11% from a year earlier in September 2019, the largest gain since August 2016.
- Among non-food products, prices increased for housing (4.75%); miscellaneous (4.45%); and clothing and footwear (0.96%). Meantime, prices of fuel & light fell 2.18 percent.

Macro wrap: Industrial Production Weak



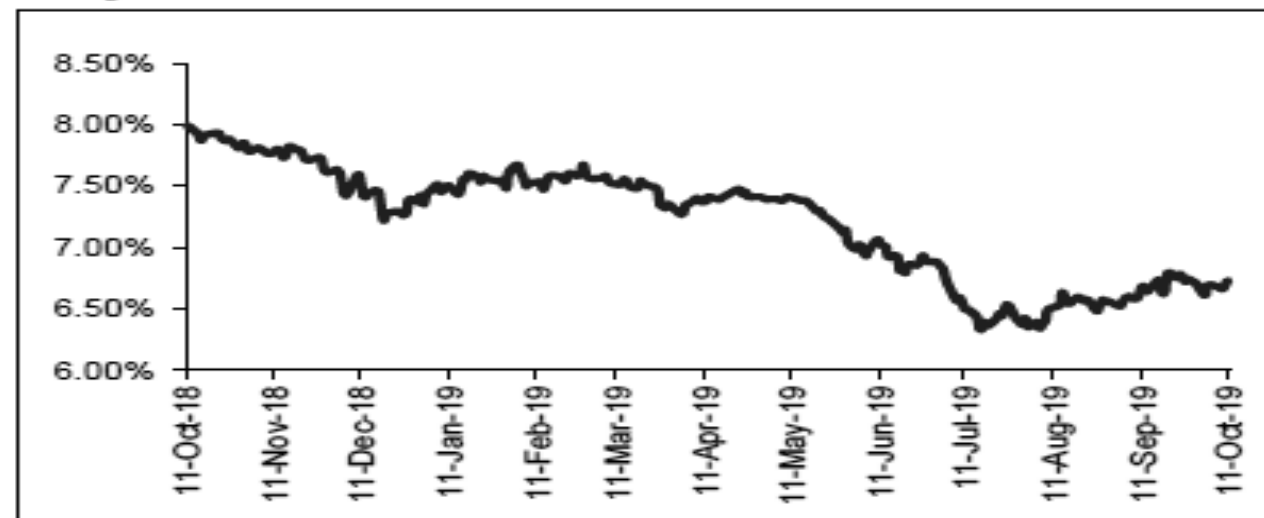
- India's industrial production fell 1.1% in August 2019, following an upwardly revised 4.6% gain in the previous month but below market expectations of 1.8% rise; thus reinforcing fears of a slowing economy and deteriorating consumer sentiment
- It was the sharpest decline in industrial output since February 2013, as production dropped in manufacturing (-1.2% compared to 4.5% in July) and electricity production (-0.9% compared to 4.8%). Additionally, mining output rose 0.1%, slowing from 4.8% increase in the prior month largely due to strike by workers in Coal India
- The factory output for April-August grew at 2.4% well below the 5.3% for the same period last year

Key Indicators

Corporate bond spreads over G-Sec						
Spreads		AAA	AA+	AA	AA-	A+
11th October 2019	3 Year	0.90%	1.09%	1.45%	1.73%	2.02%
	5 Year	0.71%	0.98%	1.34%	1.63%	2.02%
	10 Year	0.87%	1.23%	1.62%	2.08%	2.42%
Previous Week	3 Year	0.90%	1.09%	1.45%	1.73%	2.02%
	5 Year	0.82%	1.09%	1.45%	1.74%	2.13%
	10 Year	0.94%	1.30%	1.69%	2.15%	2.49%

Indian debt market Indicators			
Indicators	11-Oct-19	Previous week	Trend
Call Rate	4.90%	5.10%	↓
3 M CP	6.20%	6.20%	↔
1 yr CP	7.15%	7.15%	↔
3 M CD	5.40%	5.63%	↓
1 YR CD	6.30%	6.30%	↔
3 YR AAA	6.97%	7.03%	↓
5 YR AAA	7.20%	7.25%	↓
1 YR G-SEC	5.67%	5.64%	↑
3 YR G-SEC	5.98%	6.03%	↓
5 YR G-SEC	6.38%	6.33%	↑
10 YR G-SEC	6.73%	6.69%	↑

10-year benchmark G-Sec movement



Currencies vs The Rupee				
Currency	11-Oct-19	Week ago	3 months ago	1 year ago
USD	71.02	70.88	68.43	74.11
GBP	89.82	87.51	85.98	98.01
Euro	78.53	77.88	77.1	85.8
100 Yen	65.53	66.53	63.32	66.11

Debt Market Wrap

Liquidity – Surplus and at comfortable level; overnight rates ease out further

- The interbank call money rate settled at 4.90% on October 11 as against 5.20% on September 13
- Systemic liquidity continued to be in surplus and the RBI held reverse repo auctions to drain away the same

Bond Prices & other Updates

- Yield of the 10-year 7.26% 2029 paper settled at 6.73% as on October 11 against 6.64% on September 13. Bonds gave up some gains ahead of the commencement of the trade talks between the US and China.
- Domestically, RBI in its monetary policy meeting reduced the repo rate by 25bps to 5.15%. The MPC also decided to continue with an accommodative stance as long as it is necessary to revive growth, while ensuring that inflation remains within the target. RBI has revised the inflation figures slightly upwards for Q2 2019-20 while projections are retained at the same level for H2 2019-20 and the growth projection for FY20 was reduced to 6.1% from 6.9% earlier.
- India's wholesale price-based index eased to 0.33% in September against 1.08% in August and 5.22% in September 2018, due to a dip in prices of non-food articles. India's forex reserves rose by \$4.24 bn to a record high of \$437.83 bn in the week ended October 4. World Bank cut India's GDP forecast for FY20 to 6% from its April estimates of 7.5% raising concerns over broad based slowdown, but said growth may recover to 6.9% in FY21 and 7.2% in FY22

Debt Market Outlook

View: Inflation firms up but rate cuts to still follow

- India's retail price inflation rate rose to 3.99% year-on-year in September 2019 from an upwardly revised 3.28% in the previous month and above market expectations of 3.7%. It was the highest inflation rate since July last year, almost touching the central bank's medium-term target of 4%, as food prices rose to an over 3-year high level
- Despite the rise in inflation there could be another interest rate cut in December given the subdued domestic growth outlook and global slowdown.

Strategy: Prefer Short Term /Accrual Funds

The risk reward would continue to be favourable in the 1-4 year segment of the yield curve and on spread assets. Short Term and Accrual funds could be considered as they provide higher accrual income opportunities and a cushion against the volatility

Recommendations & Performance- Corporate Bond/Short Duration Fund

Scheme Name	Category	Exit Load	Simple Annualised (%)				CAGR(%)		
			1M	3M	6M	1Yr	2Yr	3Yr	5Yr
Corporate Bond Fund									
Aditya Birla Sun Life Corporate Bond Fund - Reg - Growth	Corporate Bond	Exit Load is Nil	5.9	7.9	10.0	10.6	7.7	7.7	8.6
Kotak Corporate Bond Fund - Std - Growth	Corporate Bond	Exit Load is Nil	6.6	9.5	9.9	10.1	8.1	7.9	9.2
ICICI Prudential Corporate Bond Fund - Reg - Growth	Corporate Bond	Exit Load is Nil	5.4	8.2	9.7	10.0	7.4	7.4	8.3
IDFC Corporate Bond Fund - Reg - Growth	Corporate Bond	Exit Load is Nil	6.5	8.4	8.4	9.5	6.8	7.0	--
Short Duration Fund									
IDFC Bond Fund - Short Term Plan - Reg - Growth	Short Duration Fund	Exit Load is Nil	6.1	9.5	9.9	10.7	7.4	7.3	8.0
L&T Short Term Bond Fund - Reg - Growth	Short Duration Fund	Exit Load is Nil	6.3	9.3	9.7	10.1	7.3	7.2	7.9
SBI Short Term Debt Fund - Growth	Short Duration Fund	Exit Load is Nil	5.7	8.8	10.2	10.1	7.0	7.1	8.1
ICICI Prudential Short Term Fund - Growth	Short Duration Fund	Exit Load is Nil	4.6	8.0	9.5	9.8	6.8	7.1	8.3
Indices									
Nifty Short Duration Debt Index	--	--	5.7	9.5	9.6	10.3	7.4	7.4	8.2

Performance as on 14th Oct ,2019

Fund picks: Across categories

Scheme Name	Category	Exit Load	Simple Annualised (%)				CAGR(%)		
			1M	3M	6M	1Yr	2Yr	3Yr	5Yr
Ultra Short Duration & Low Duration Fund									
SBI Magnum Ultra Short Duration Fund - Growth	Ultra Short Duration	Exit Load is Nil	6.9	8.0	8.0	8.5	7.9	7.5	7.8
L&T Ultra Short Term Fund - Growth	Ultra Short Duration	Exit Load is Nil	6.4	7.5	7.7	8.3	7.4	7.3	7.9
ICICI Prudential Savings Fund - Reg - Growth	Low Duration Fund	Exit Load is Nil	6.6	8.2	8.8	9.0	7.7	7.7	8.3
IDFC Low Duration Fund - Reg - Growth	Low Duration Fund	Exit Load is Nil	6.5	8.4	8.5	8.9	7.6	7.5	8.1
Index									
ICRA Liquid Index	--	--	5.8	6.1	6.6	7.1	7.1	6.9	7.4
Liquid Fund									
Axis Liquid Fund - Growth	Liquid Fund	Exit Load is Nil	5.7	6.0	6.6	7.2	7.2	7.0	7.5
BNP Paribas Liquid Fund - Growth	Liquid Fund	Exit Load is Nil	5.9	6.1	6.6	7.2	7.1	7.0	7.4
ICICI Prudential Liquid Fund - Reg - Growth	Liquid Fund	Exit Load is Nil	5.7	6.0	6.6	7.1	7.1	7.0	7.5
IDFC Cash Fund - Reg - Growth	Liquid Fund	Exit Load is Nil	5.5	5.7	6.3	6.8	7.0	6.9	7.4
Index									
ICRA Liquid Index	--	--	5.8	6.1	6.6	7.1	7.1	6.9	7.4

Performance as on 14th Oct,2019

Debt Funds with Roll Down Strategy

Debt funds come with interest rate risk which means if the interest rates increase then the prices of the bonds go down which affects the returns of existing investors. Higher the maturity of the debt portfolio, higher the interest rate risk.

Some debt schemes follow 'roll down' strategy to reduce interest rate risk. These categories of schemes are passively managed and therefore with the passage of time, the residual maturity of these schemes comes down which helps to reduce interest rate risk. After reaching low residual maturity, the scheme revises its portfolio as per the interest rate scenario.

Before investing in these schemes, the investor's investment tenure should match with the residual maturity of the scheme to reduce the interest rate impact. E.g. if the scheme's residual maturity is 2 years then an investor with an investment tenure of 2 years should go with this type of scheme.

Scheme Name	Expense Ratio Current (%)	Corpus (Rs. Cr)	Residual Maturity	6 Months	1 Year	2 Years	3 Years
IDFC Banking & PSU Debt Fund - Reg - Growth	0.64	9,715	3.3	5.8	13.0	8.5	7.9
DSP Corporate Bond Fund - Reg - Growth	0.49	724	2.6	5.5	12.4	--	--
Axis Banking & PSU Debt Fund - Growth	0.59	8,803	2.5	5.4	12.1	8.7	8.4
HDFC Money Market Fund - Growth	0.35	8,276	0.4	4.2	8.6	7.8	7.4
Corporate Bond Category average	--	--	--	4.7	10.3	7.0	7.0

Performance as on 14th Oct, 2019

Returns less than 1 year are absolute

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

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- 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.
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