

Debt's it!

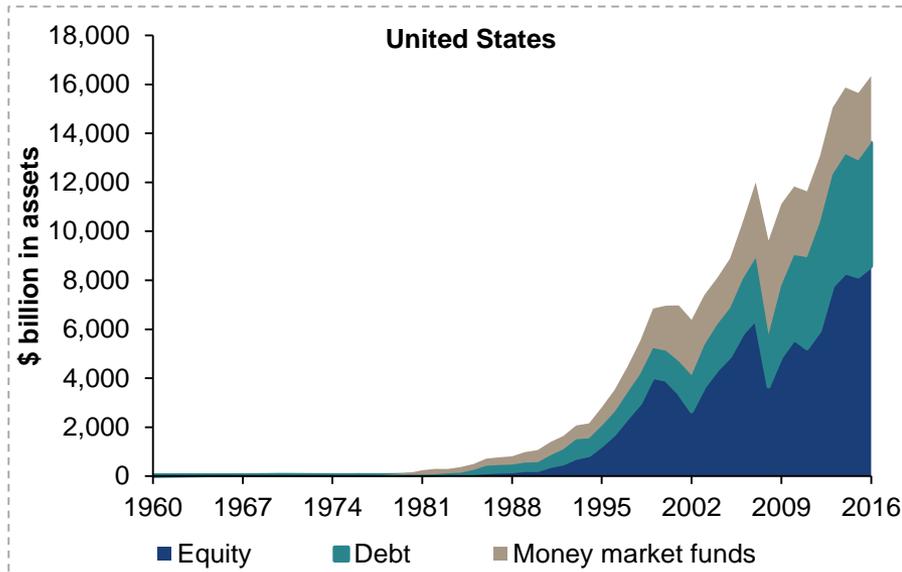
Why debt funds are as good a wealth-creation tool as any, and can also aid in nation building

Key messages

- **Debt funds the next big driver for the Indian MF industry**
- Macro environment, tax efficiencies and stable returns make debt funds an attractive proposition
- But debt has its share of risks, too
- A vibrant MF industry will help fund India's growth needs

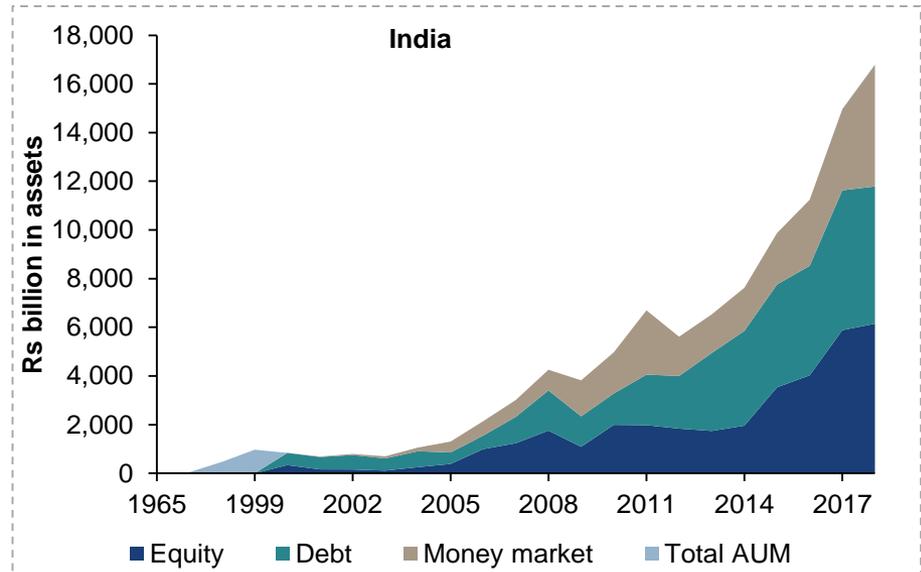
Debt funds the next big driver of growth

But unlike in the US, participation of retail investors has much room to grow



Source: ICI

- In the US, debt funds drove growth until the advent of 401K retirement savings plans, which invest predominantly in equity
- Debt funds today contribute to 47% of US fund AUM; 81% of debt investors are individuals



Source: AMFI

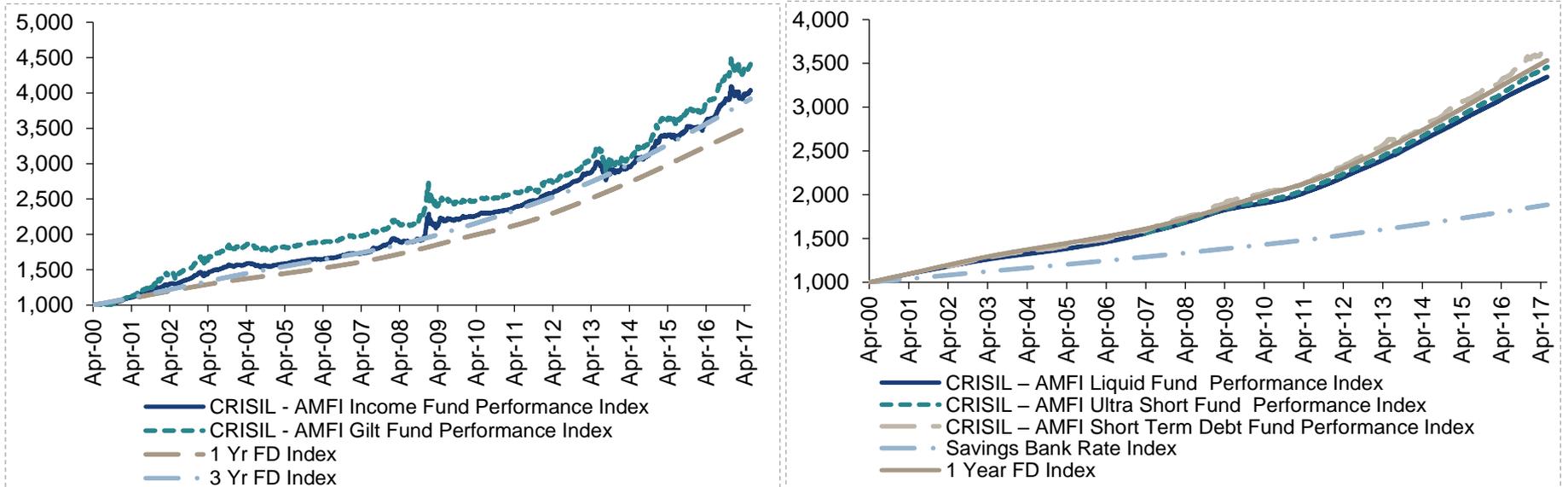
- In India, key drivers for growth so far include the entry of private players in 1993, growth in equity markets, open architecture distribution and favourable tax regime
- Individual participation in debt and money market funds is low at 31%

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Superior returns over comparable options

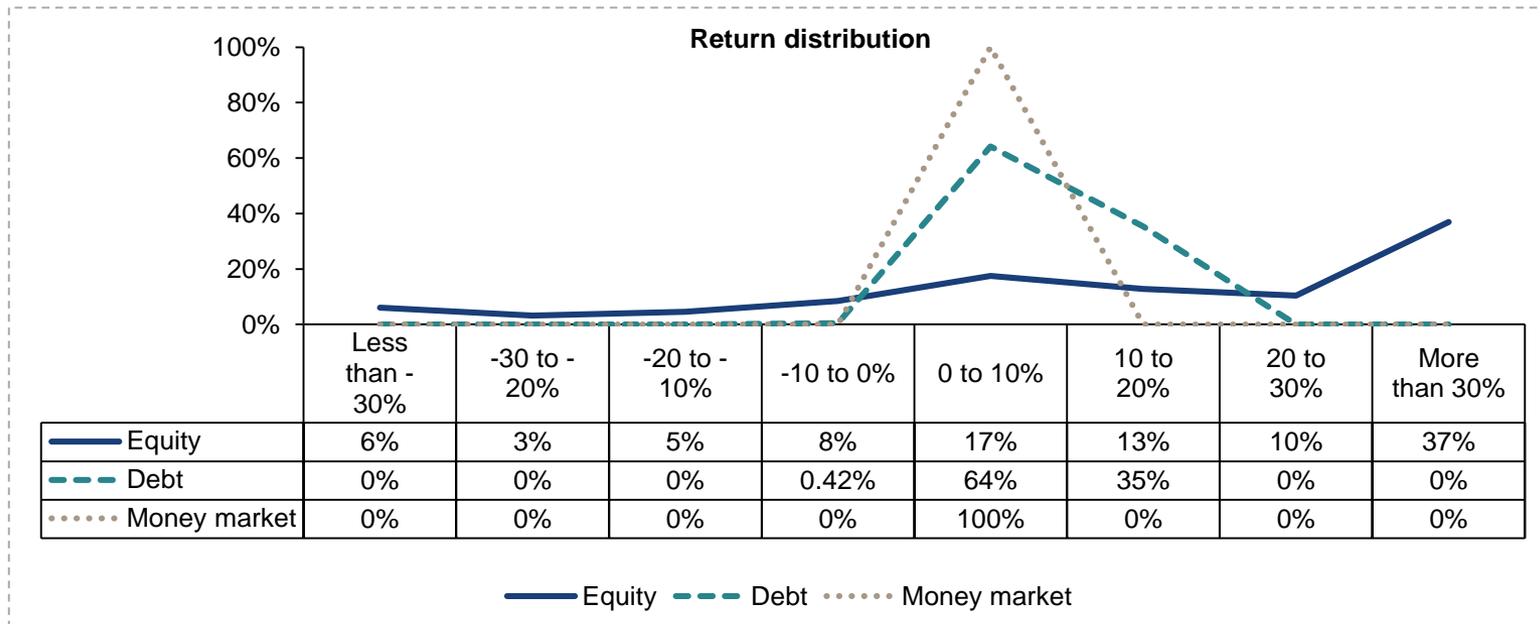


Index	1 year (%)	3 years (%)	5 years (%)	7 years (%)	10 years (%)
CRISIL – AMFI Income Fund Performance Index	10.76	9.81	8.91	8.37	8.73
CRISIL – AMFI Gilt Fund Performance Index	12.59	11.28	9.48	8.37	8.19
CRISIL – AMFI Short Term Debt Fund Performance Index	8.90	8.96	9.07	8.65	8.44
3 Year FD Index	8.39	8.85	8.85	8.67	8.33
1 Year FD Index	7.63	8.39	8.66	8.34	8.06
CRISIL – AMFI Ultra Short Fund Performance Index	8.12	8.46	8.75	8.57	8.11
CRISIL – AMFI Liquid Fund Performance Index	6.93	7.94	8.42	8.28	7.76
Savings Bank Rate Index	4.00	4.00	4.00	3.93	3.80

Returns as on May 31, 2017; Returns for period greater than one year are annualised returns; Green cell refers to highest returns in the period
Source: CRISIL Research

- Indexation benefit an added advantage for debt funds

Returns more predictable, complement asset allocation

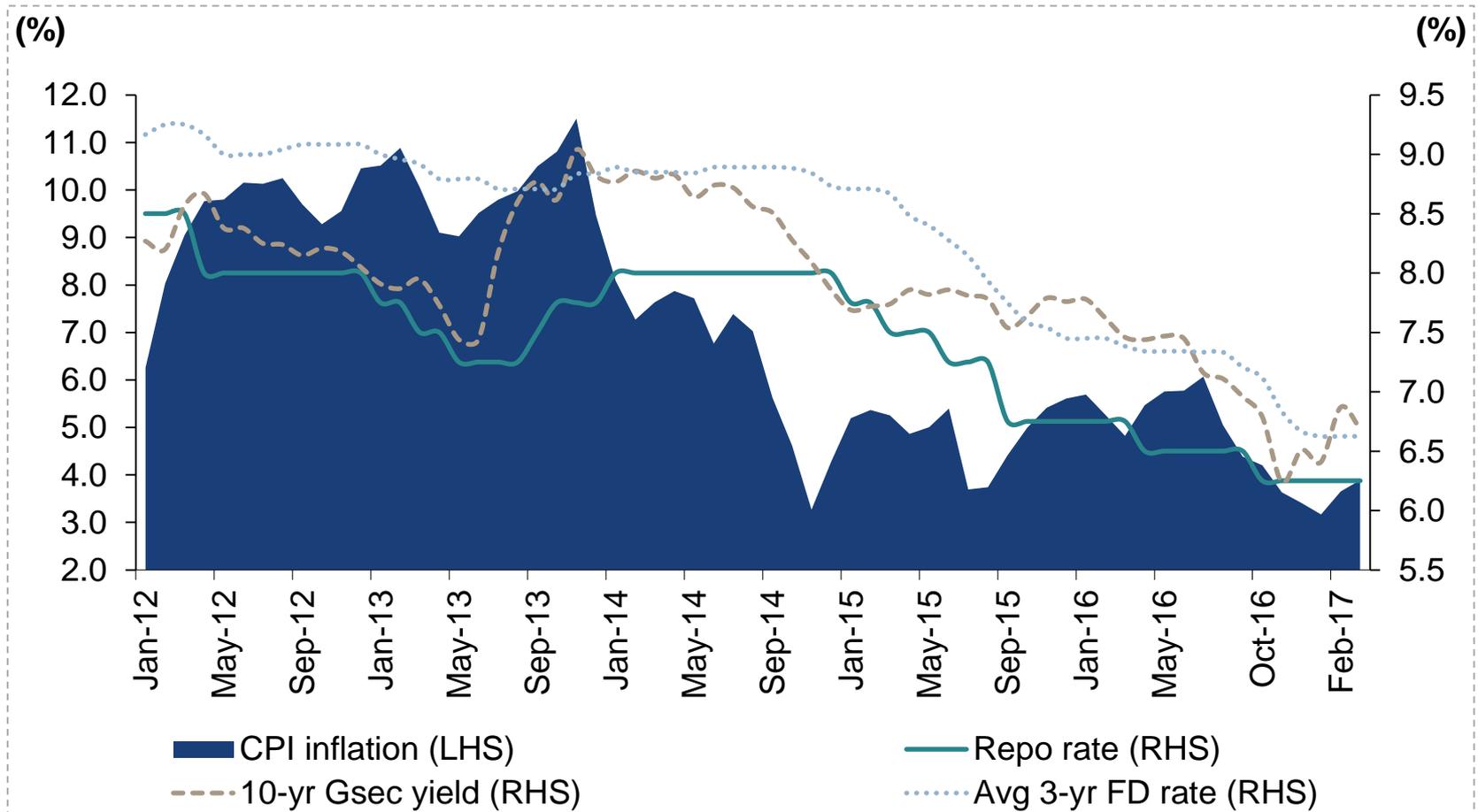


Parameter	Equity	Debt	Money market
Average returns	22.4%	8.5%	7.3%
Standard deviation	34.8%	4.0%	1.6%
Maximum drawdown	-61.7%	-5.8%	-0.3%

Equity, debt and money market represented by CRISIL-AMFI Equity fund performance index, CRISIL-AMFI Debt fund performance index and CRISIL-AMFI Money Market fund performance index respectively
 Analysis based on 1 year rolling returns since March 2000
 Source: CRISIL Research

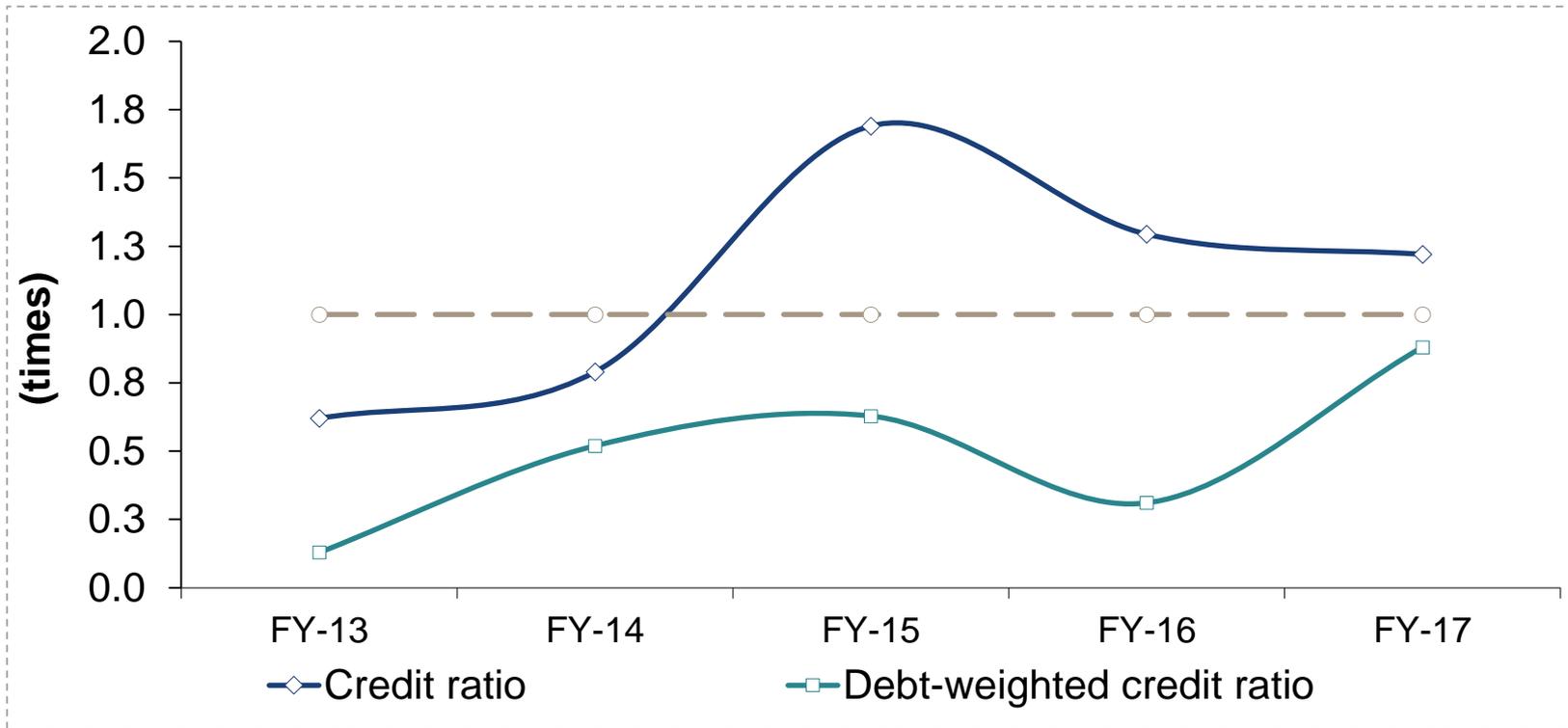
Fixed deposits losing sheen

- Interest rates and inflation are at multi-year lows, which reduces the attractiveness of traditional fixed-income favourites such as bank fixed deposits



Source: RBI, CRISIL Research

Credit quality recovering gradually

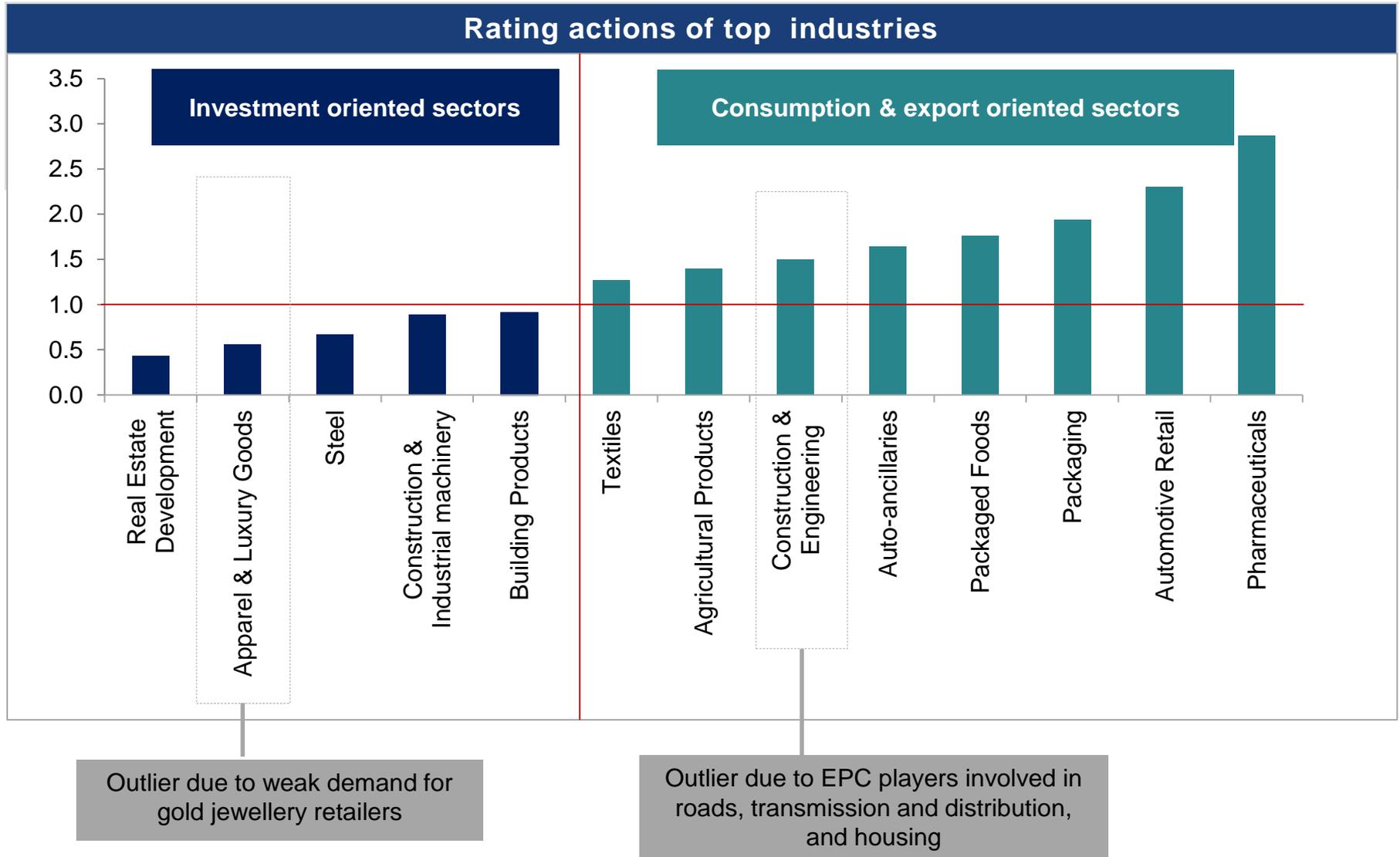


Source: CRISIL Ratings

- **Rating action trends indicate improvement, expected to sustain**

- In fiscal 2017, credit ratio remained largely unchanged from the previous fiscal; debt weighted credit ratio improved to a five-year high, but remained below 1
- Improvement was mainly on account of firm commodity prices, stable macros, improving capital structure, and lower interest costs

Consumption-linked sectors continue to fare better



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Risk adjusted return is a monitorable in credit investing

Rating	Minimum spread*	Average spread*	Maximum spread*	CRISIL CDR (3 yrs)
AAA	0.19%	0.90%	2.89%	0.00%
AA+	0.32%	1.47%	4.49%	0.75%
AA	0.73%	2.19%	4.73%	
AA-	0.83%	2.53%	5.18%	
A+	0.93%	3.15%	7.28%	4.25%
A	1.11%	6.26%	7.76%	
A-	1.29%	5.59%	9.06%	
BBB+	1.19%	5.07%	10.11%	5.07%
BBB	2.20%	6.72%	10.02%	
BBB-	3.62%	7.76%	11.13%	

*Spreads across issuers rated by multiple agencies

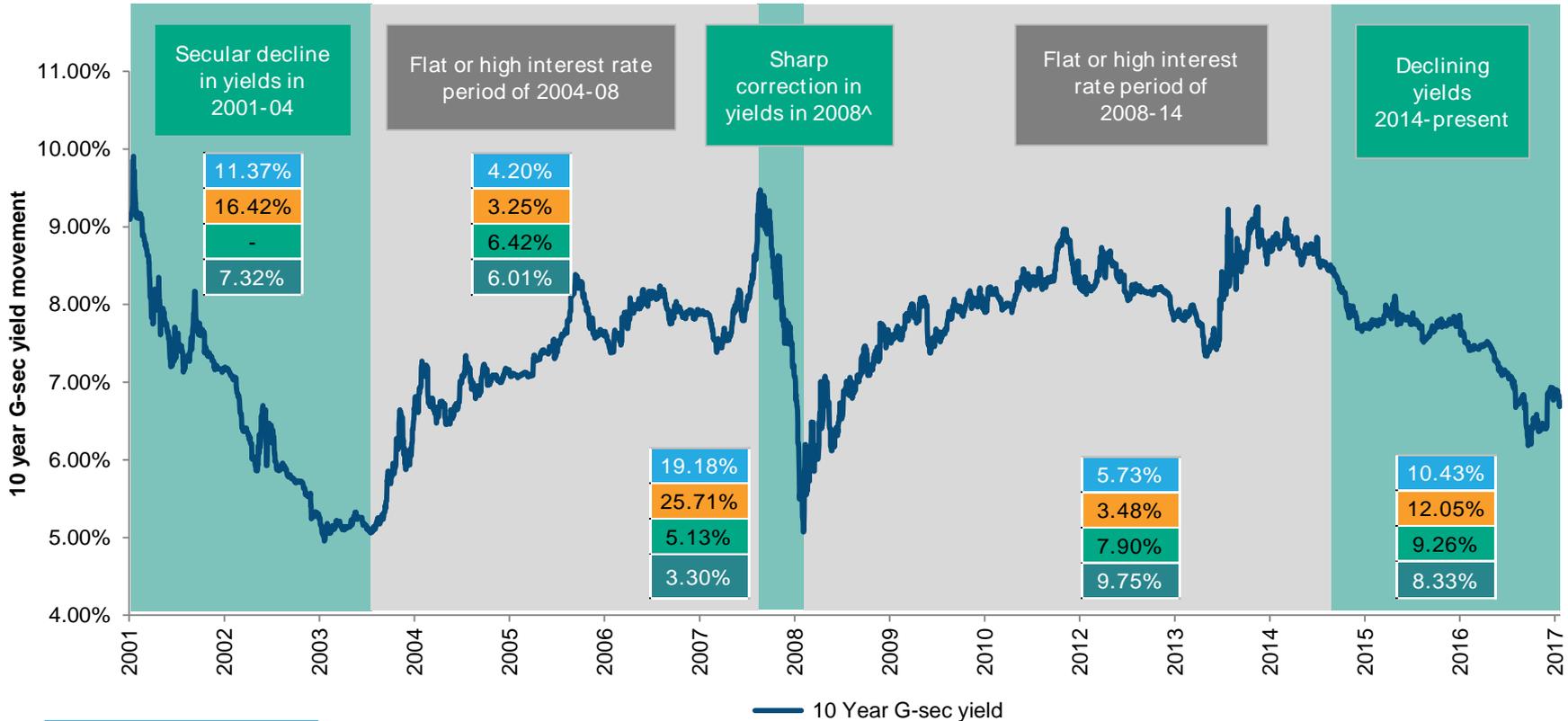
CDRs: Cumulative default rates

Source: CRISIL Ratings, CRISIL Research

- Illiquidity is an added risk with lower credits

Interest rate a risk for duration funds

- Long-term funds gain on declines, short-term funds in uptrends



Income funds
Gilt funds
Short term debt funds
Banks' fixed deposit

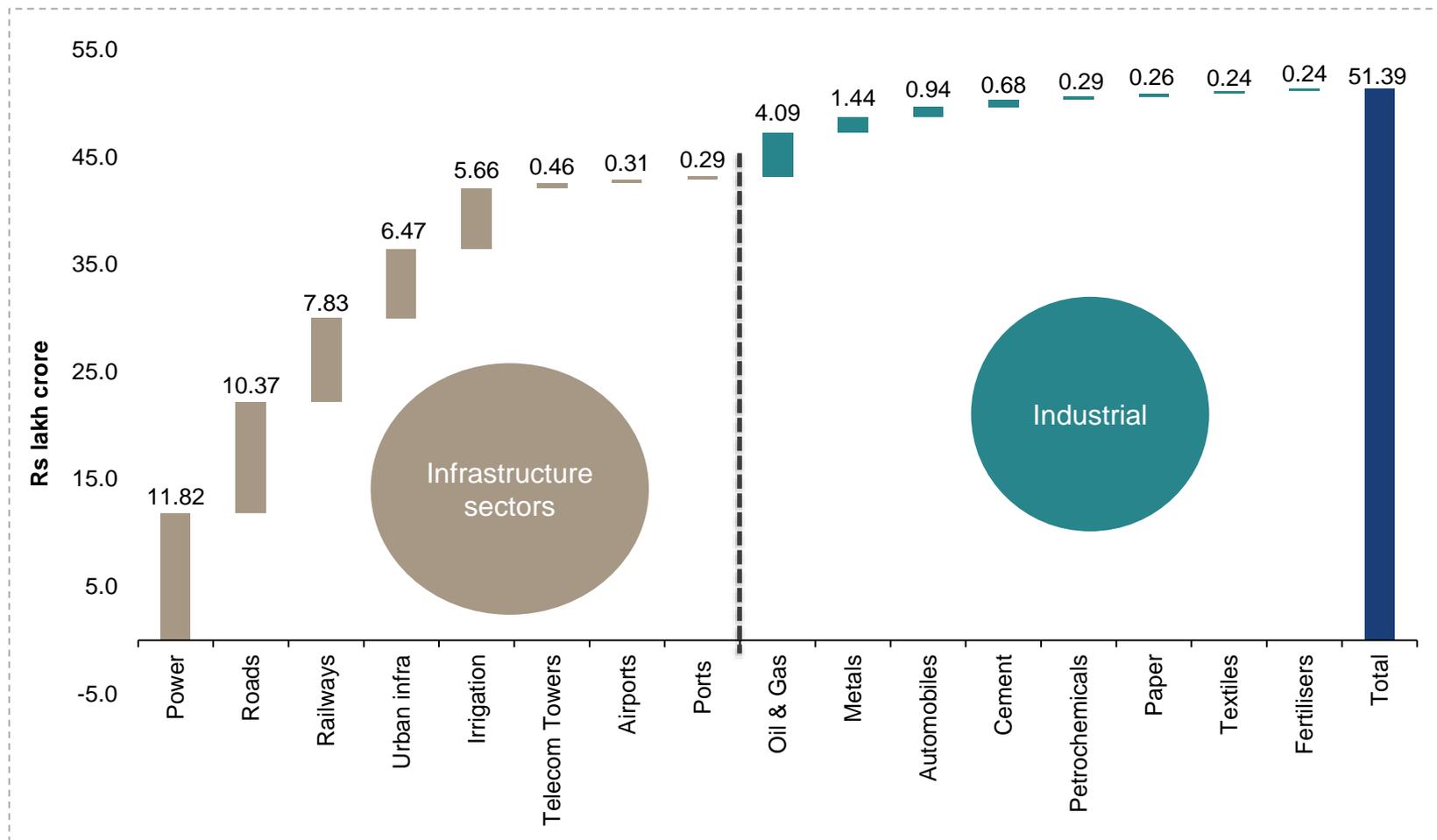
Income, gilt and short term debt funds represented by CRISIL-AMFI Income Fund Performance Index, CRISIL-AMFI Gilt Fund Performance Index and CRISIL-AMFI Short Term Debt Fund respectively
 CRISIL-AMFI Short Term Debt Fund Index is available from April 2002 (inception)
 Banks' effective fixed deposit rates represented by 3 Year and 1 Year FD Rates, for period less than a year, 1 Year FD Rate has been considered
 ^ Absolute Returns
 Returns for period more than one year are annualized

Source: CRISIL Research

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Infrastructure, industry need ~Rs 51 lakh crore in 5 years to 2022; debt funds can help



Source: CRISIL Research

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Debt market development is key to economic growth

Corporate debt market nascent compared with others

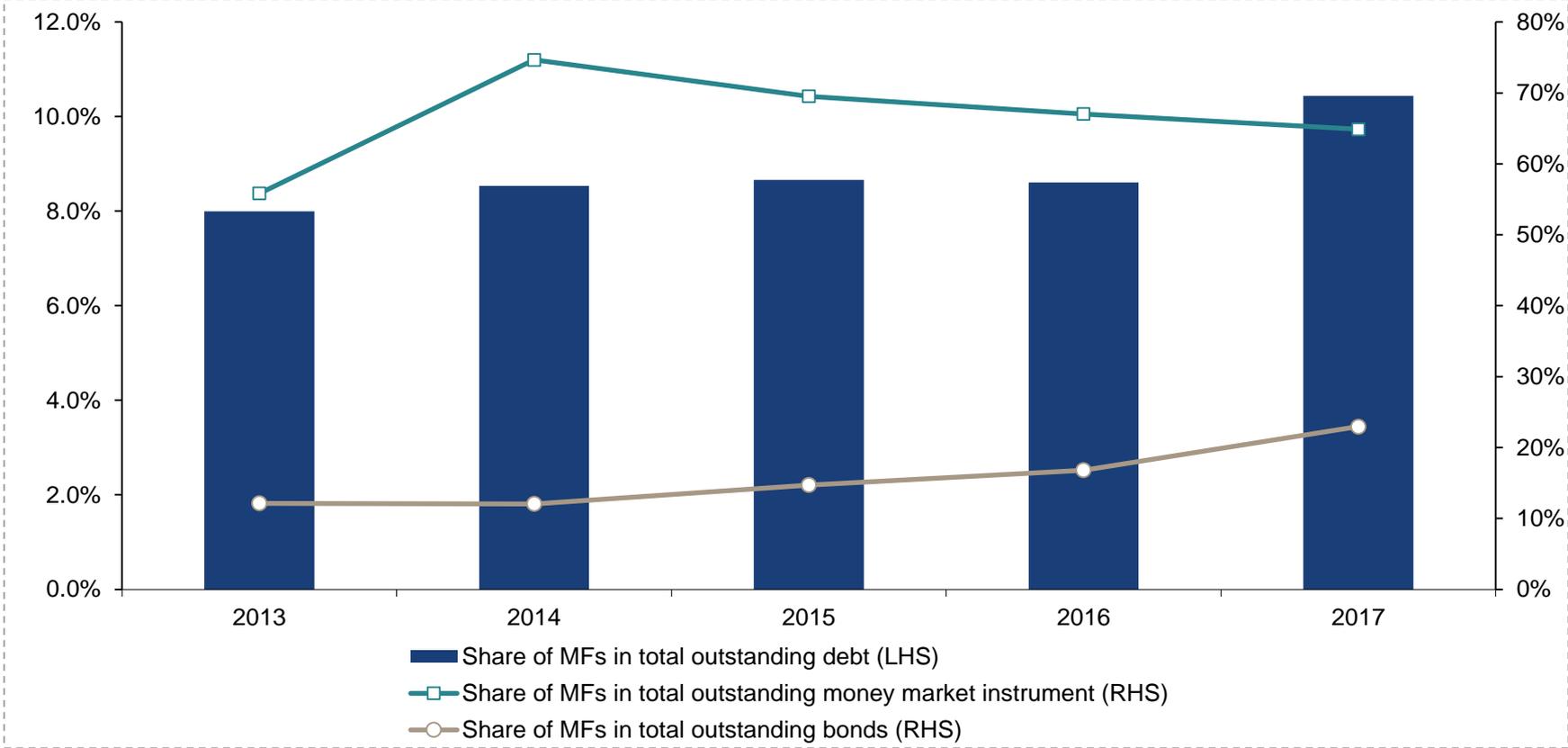
- While banks and equity markets have seen growth, the debt market, especially the corporate bond market, is subdued, despite its many virtues compared with equity

Country	Penetration (outstanding/GDP) – as of Dec 2016	
	G-secs	Corporate bonds
US	83%	123%
China	46%	20%
Japan	195%	15%
South Korea	52%	74%
Singapore	47%	34%
Malaysia	52%	43%
India	43%	19%

Source: SIFMA, ADB Online, CRISIL Research

Mutual funds are the best vehicles to channel retail money into debt

- Significant contributors to CP and CD markets today



Source: RBI, SEBI, AMFI

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