HSBC Asset Management

HSBC Corporate Bond Fund

An open ended debt scheme predominantly investing in AA+ and above corporate bonds. Moderate interest rate risk and relatively low credit risk.

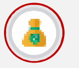
December 2021

Investment Objective:

To seek to generate reasonable income and provide risk-adjusted returns by investing primarily in AA+ and above rated corporate debt securities. However, there can be no assurance or guarantee that the investment objective of the scheme would be achieved.

Fund Details

Fund Manager
Ritesh Jain



AUM (as on 30.11.21)
244.46 Cr

Minimum Investment

Lumpsum	SIP	Additional Purchase
` 5,000	Rs ` 500	Rs ` 1,000

Average Maturity	2.32 years
Modified Duration	2.03 years
Macaulay Duration	2.13 years
Yield to Maturity [1]	5.10%

Benchmark
NIFTY Corporate Bond Index [2]

Inception Date
30 September 20

Exit Load
NIL

[1] YTM Based on invested Amount

[2] SEBI vide its circular no. SEBI/HO/IMD/IMD-II DF3/P/CIR/2021/652 dated October 27, 2021, on 'Guiding Principles for bringing uniformity in Benchmarks of Mutual Fund Schemes' has introduced two-tiered structure for benchmarking of certain categories of schemes. Accordingly, the benchmark has been classified as Tier 1 benchmark. Furthermore , the same is effective from 01 December 2021

Portfolio Strategy

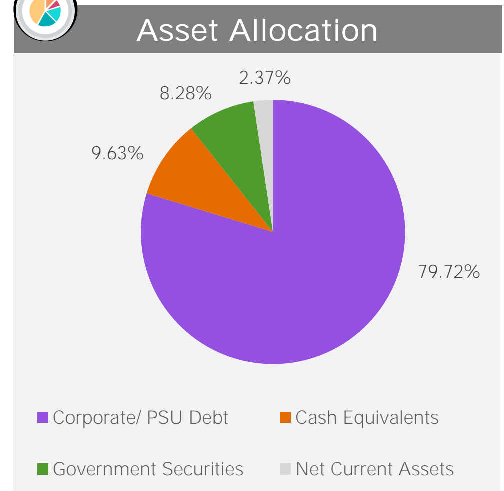
- From medium term perspective, HSBC Corporate Bond Fund is expected to benefit from attractive carry at short and medium part of the curve.
- It offers value for investors at current short-term yields over funding cost in terms of spread.
- In recent months, we have witnessed some volatility in the short to medium segment.
- However, the short and medium part of the curve still remains attractive from carry play point of view and have to a reasonable extent, discounted RBI's calibration in liquidity.
- The current steepness in the 2-3 yr segment will most likely benefit despite firming up of rates.at the ultra-short end of the curve given the steepness in the curve currently.
- We also like the short-medium part of Government securities curve as current three years point over one year and five-seven years point over one/three year offers attractive risk-return tradeoffs.
- The extent of supply in H2 from G-sec and SDL front is largely towards the 10-14yr and 30yr segments and this should keep the pressure contained in the medium part of the segment.
- Overall, the pick-up versus overnight rate is quite attractive in the short-medium segment on the G-sec curve and alongside on the corporate curve.
- Spreads on corporate bonds have remained tight, however given that supply of corporate bonds remains low, there is unlikely to be a major inch up in yields.
- As such we intend to maintain a neutral duration versus the index in near term.

Portfolio

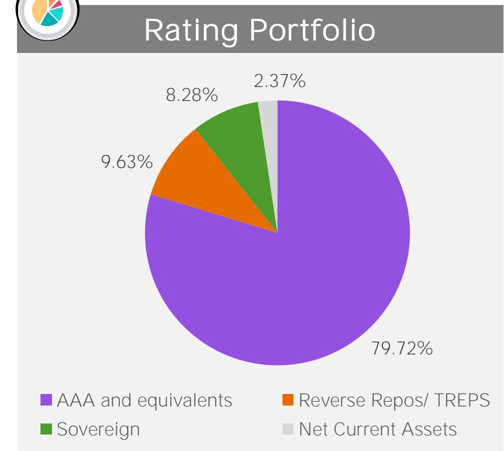
Issuer	Rating	% to Net Assets
Corporate/ PSU Debt		
Corporate Bonds / Debentures		79.72%
REC Top 10	CRISIL AAA	10.85%
Reliance Industries Top 10	CRISIL AAA	10.77%
Indian Oil Corporation Top 10	[ICRA]AAA	10.50%
Indian Railway Finance Corporation Top 10	CRISIL AAA	10.42%
LIC Housing Finance Top 10	CRISIL AAA	10.35%
Small Industries Development Bk of India Top 10	[ICRA]AAA	10.23%
HDB Financial Services Top 10	CRISIL AAA	8.42%
National Bk for Agriculture & Rural Dev. Top 10	[ICRA]AAA	8.18%
Government Securities		8.28%
5.15% GOVT OF INDIA RED 09-11-2025 Top 10	SOVEREIGN	6.08%
8.21% HARYANA SDL RED 31-03-2026 Top 10	SOVEREIGN	2.20%
Cash Equivalent		12.00%
TREPS*		4.17%
Reverse Repos		5.46%
Net Current Assets		2.37%
Total Net Assets as on 30-Nov-2021		100.00%

*TREPS : Tri-Party Repo

Asset Allocation



Rating Portfolio



Ratings allocation –

HSBC Corporate Bond Fund has invested 79.72% AAA and equivalents. Reverse Repos Treps is 9.63%

HSBC Corporate Bond Fund (HCBF) offers multiple advantages

Why HSBC Corporate Bond Fund (HCBF)

- 3 - 5 year duration range has favourable investment scenario as RBI Accommodation & Surplus liquidity have reduced the returns at the very short end of yield curve.
- High credit quality
- Less volatile as compared to longer duration
- HSBC Corporate Bond Fund aims for better risk adjusted performance with stability

Why HSBC Asset Management, India

- A strong credit quality process ensures lower risk in underlying investments
- Strict internal controls and compliance to minimise risk

HSBC Corporate Bond Fund aims for better risk adjusted performance with stability

Source – HSBC Asset Management, India, Refer to the Scheme Information Document (SID) for more details on investment guidelines
^ HSBC Corporate Bond Fund - 80% of the net assets excluding the extent of minimum stipulated liquid assets in terms of SEBI circular dated June 25, 2021.

Rationale on existing credit exposures*

1. Rural Electrification Corporation: REC is a public financial institution under the administrative control of Ministry of Power. Until 2003, REC's primary objective was to provide financial assistance on concession to SPUs for rural electrification. RECs mandate was broadened in 2003 to include financing of all segments of the power sector. It provides financial assistance to state electricity boards (SEBs) for financing transmission, distribution and generation projects. REC's credit profile derives strength from government ownership and support it receives from it. The credit profile is also supported by its good resource profile and adequate capitalization and profitability. Entity's asset quality issues are likely to have bottomed out, similar to case of PFC. Post-acquisition of REC by PFC, rating agencies have reaffirmed both agencies at AAA, taking into account mainly the strategic importance of the company. PFC and REC are expected to continue to be strategically important to the Government of India and will continue to play an important role in funding of power projects, especially those of the state government owned electricity companies. Recent policy actions in terms of liquidity support to discoms which have been have been undertaken through REC and PFC, reiterate its strategic importance.
2. Reliance Industries: The company's large size and established presence in the crude oil refining and leadership position in the domestic petrochemical industries, huge cash and liquid investments and being net cash at a consolidated level, lends a strong financial profile to the name. In addition, the entity has industry leading refining margins, comfortable gearing, low working capital intensity are some of the additional factors which give comfort on the name. Further, the company's capex cycle in-non telecom businesses is nearing its end which gives visibility on free cash flows going forward. Entity has cemented a strong Leadership position in the domestic petrochemical industry and integrated operations across E&P, refining, and petrochemical businesses. It is the industry leading margins in the refining business, healthy profitability of the petchem business which is expected to further improve going forward. It has healthy debt metrics which is expected to improve further with generation of free cash flow post completion of capex cycle. Recent stake sales in Jio, trending the company to a net debt free status is another over-riding comfort on the name. Recently announced demerger is unlikely to have a credit impact as it only strengthens the standalone profile and makes it more attractive for strategic investors in future which should enhance the company's financial standing.
3. Indian Oil Corporation: IOC is the largest oil refining and marketing company. with approx. one third refining market share. IOC also has the largest network of crude oil and petroleum product pipelines in India. In terms of oil marketing and sales, IOCL is again the leader with ~45% petroleum market share with over 42,900 touch points. IOC also meets majority of the requirement of GOI owned organizations such as the Indian Railway and defense forces. Overall, majority GOI ownership, strategic importance, robust liquidity profile and strong balance sheet are the key credit strengths.
4. Indian Railway Finance Corporation: IRFC is is wholly owned by Government of India (GoI) through Ministry of Railways (MoR). The company was set up with the objective of borrowing funds from the market to provide rolling stock to Indian Railways (IR). IRFC leases rolling stock to Indian Railways, which reimburses the company through lease rentals, paid on a half yearly basis in advance. The lease agreement between IR and IRFC is structured in such a way that IRFC's expenses are reimbursed, allowing it to earn an adequate margin. The credit profile of IRFC derives significant comfort from the support it receives from GoI and its strategic importance to IR; IRFC provides market funding to about 25% of IR's rolling stock requirements. Given the large capex requirements of IR, IRFC will continue to play a critical role in mobilizing funds for IR at competitive rates and therefore remain strategically important over long term. The company's importance to IR is further evident from the fact that it also raises market borrowings required by Rail Vikas Nigam Ltd. for execution of projects relating to upgrading railway infrastructure. The underlying risk on this exposure is borne by MoR.
5. LIC Housing Finance: LICHF is the second largest housing finance company in India after HDFC/Individual loan portfolio. Credit strength is derived from the support of the parent (LIC), sound capitalization and healthy resource profile. Asset quality has remained strong and stable in the past few years and given that the book is largely retail and to salaried customers; it is likely that these levels are maintained as the portfolio continues to grow. Company has started to expand the non-housing segment in a calibrated way, which helps improve the yields, and at the same time has been able to maintain low level of overall delinquencies. Retail housing is ~85% of the total book. A large number of LIC Housing's senior management personnel are on deputation from LIC. LIC has also committed to not allowing its stake to fall below 33% which gives a strong support to its rating. Expect continued support over long term in terms of ownership, common branding and managerial inputs.
6. Small Industries Development Bank of India: Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, is the principal financial institution for the promotion, financing and development of the micro, small and medium Enterprise (MSME) sector in India. SIDBI provides finance in two forms viz. indirect finance by way of long term loans, working capital facilities, discounting/rediscounting bills of exchange and refinance to Primary Lending Institutions and Micro Finance Institutions. SIDBI is also among the top 30 Development Banks of the World. SIDBI has 3 subsidiaries: SIDBI Venture Capital, SIDBI trustee Co and the newly created MUDRA. Following an amendment to the SIDBI Act in 2000, the equity held by IDBI was transferred to various PSU banks, government-owned insurance companies and financial institutions. It is held 72.8% by PSU banks, 21.9% by insurance companies and 5.3% by financial institutions. Out of 15 directors, 8 are appointed/ nominated by Central Government which includes 2 whole time directors, 2 government officials and three expertsSIDBI is the nodal agency for government schemes targeted towards the MSME sector and in the past SIDBI has received budgetary support, support from RBI and GOI guarantee of foreign government borrowing suggesting implicit GOI support.

PUBLIC

7. National Bank for Agriculture and Rural Development: Incorporated in 1982 under an Act of the Indian Parliament, NABARD is governed by the NABARD Act, 1981. NABARD shares supervisory functions with RBI in respect of co-operative banks (other than urban and primary co-operative banks) and regional rural banks (RRBs). GoI and Reserve Bank of India own 99.60 percent and 0.40 percent, respectively, of NABARD's equity share capital. The bank is the apex refinancing agency providing short- and long-term refinance to state cooperative agricultural and rural development banks, state cooperative banks, RRBs, commercial banks, and other financial institutions approved by RBI to augment credit flow for production and investment purposes in the agriculture and rural sectors.

*Source: HSBC Asset Management, India, (HSBC AMC), Credit issuer's corporate websites, Data as of 30 November 2021

*The above information has been prepared by HSBC Asset Management (India) Private Limited (HSBC) for general information purposes only and does not constitute any investment research, investment advice or a recommendation to any reader of this content to buy or sell investments. Expressions of opinion are those of HSBC only and are subject to change without any prior intimation or notice. All information mentioned above (including that sourced from third parties), is obtained from sources HSBC, the third party believes to be reliable but which it has not independently verified and HSBC, the third party makes no guarantee, representation or warranty and accepts no responsibility or liability as to the accuracy or completeness of such information.

Market Update

Fixed Income Market Summary for the month of November 2021

- November saw relatively muted action in the markets as yields moved around in a narrow range for most of the month, with a slight positive bias. Early in the month, we saw cut in excise duties on fuel by central government as well as cut in value added taxes on fuel by state governments. The impact on lowering inflation from these measures is expected to be ~30 bps. While there is also likely to be a consequent fiscal impact of ~INR 450 bn on central government finances, the same is likely to be manageable given strong fiscal trends till date. During the latter half of the month, we saw concerns over Omicron variant leading to a risk-off sentiment across global markets and crude prices which were volatile through the month, fell further to ~USD 70/bl. As a result, Indian debt markets continued to trade with a positive bias.
- Overall, 10y closed November 6 bps lower at 6.33 v/s 6.39 at the end of October. 10 yr however underperformed other parts of the curve- benchmark 5 yr was lower by 12 bps closing at 5.64 at the end of November v/s 5.76 in October,14 yr was lower by 11 bps at 6.73 in November. Shorter end of the curve (1 to 3 yr) was largely flattish and the curve overall exhibited a slight bull flattening trend.
- Corporate bonds traded in a narrow range in the month, seeing a flattening of the curve as 10 yr bond yields rallied by ~10 bps, while 2-3 yr segment closed marginally higher. 10Y corporate bond spreads compressed to ~40-42 bps by the end of the month.
- RBI continued calibrating liquidity by absorbing increased quantum through VRRRs, as guided in the previous RBI monetary policy. Overall liquidity remained comfortable with outstanding at liquidity adjustment facility (LAF) averaging at INR 7.59 trn in November (v/s INR 7.48 trn in October) , though a bulk of the same is now absorbed by the RBI through 7-day, 14-day and 28-day VRRRs.

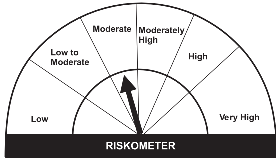
Outlook

Fiscal trends have continued to stay positive through October '21 with fiscal deficit for 7 month FY22, as a proportion of budgeted estimate, the lowest in past several years, as revenue trends have continued to stay positive. High frequency indicators such as PMI continue to reflect the recovering growth impulses, and strong GST collections also reflects the same. GDP numbers released towards the end of November for Q2FY 2022, also confirm the trend of recovery in growth post the second wave.

On the inflation side, sticky core inflation coupled with an uptick in food prices, especially vegetable prices should push inflation towards the higher end of the RBI 4+/-2% band in the next few months, despite the cut in fuel prices, which would have a lowering impact.

Overall, the RBI policy on December 8th will set the tone for markets going forward, as the MPC weighs the incipient growth impulses and stickiness in inflation on one hand, and possible disruption to the recovery from a third wave/new Covid variant. RBI is expected to continue to normalize monetary policy in a vary calibrated manner, while staying accommodative. Further steps towards liquidity normalization and narrowing of the reverse repo/repo rate corridor by a hike in reverse repo rates, are anticipated over monetary policy committee meetings in December and February '21.

On balance, we expect range-bound situation continuing to prevail in terms of G-Sec and corporate bond yields as positives on the fiscal front are offset by elevated global inflation and global central banks starting to taper their bond buying and moderating their accommodation on the monetary front. RBI is also expected to normalize policy in a calibrated manner, however it is expected to step in to support markets to prevent any disorderly increase in yields, whenever required. Overall, the current steepness in the curve will remain. With the attractive carry in the short to medium part of the curve, we would favor this segment to other parts of the curve, both on G-Sec and corporate bond side.

HSBC Corporate Bond Fund Riskometer		
HSBC Corporate Bond Fund  Investors understand that their principal will be at Moderate risk	Corporate Bond Fund - An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. Moderate interest rate risk and relatively low credit risk. This product is suitable for investors who are seeking##: • Income over medium term. • Investment predominantly in corporate bond securities rated AA+ and above. ##Investors should consult their financial advisers if in doubt about whether the product is suitable for them. Please note that the above risk-o-meter is as per the product labelling of the Scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.	Benchmark: NIFTY Corporate Bond Index

Potential Risk Class (HSBC Corporate Bond Fund)

Credit Risk → Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)	All		
Relatively High (Class III)			

"Potential Risk Class ('PRC') matrix indicates the maximum interest rate risk (measured by Macaulay Duration of the scheme) and maximum credit risk (measured by Credit Risk Value of the scheme) the fund manager can take in the scheme. PRC matrix classification is done in accordance with and subject to the methodology/guidelines prescribed by SEBI to help investors take informed decision based on the maximum interest rate risk and maximum credit risk the fund manager can take in the scheme, as depicted in the PRC matrix."

Source: HSBC Asset Management India, Bloomberg. (HSBC AMC), Data as of 30 November 2021

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HSBC Mutual Fund, 9-11th Floor, NESCO - IT Park Bldg. 3, Nesco Complex, Western Express Highway, Goregaon East, Mumbai 400063. Maharashtra.
GST - 27AABCH0007N1ZS, Email: hsbcmf@camsonline.com | Website: www.assetmanagement.hsbc.co/in

Mutual fund investments are subject to market risks, read all scheme related documents carefully.