

November 2015

## **L&T Resurgent India Corporate Bond Fund**

### *Combining the best of duration and accrual strategies*

Since the launch of the L&T Resurgent India Corporate Bond Fund in January 2015, the Reserve Bank of India has cut interest rates by a cumulative 100 bps as a response to persistent lower inflation and to provide a boost to the slowdown witnessed in the Indian economy. However, the transmission of policy rates in the system has not been adequate as observed by RBI, and the yields are expected to soften further over a period of time as recovery sets in.

In such an environment, while duration funds have the potential to outperform other debt fund categories over the next 6-12 months, over the medium term, return generation through higher accruals is likely to gain importance. As a result investors with investment horizon of over 3 years looking for tax efficient returns are faced with a challenge of choosing the right investment option for their debt allocation. In this edition of **Quick Insights** we discuss why such investors could consider investing in **L&T Resurgent India Corporate Bond Fund** which aims to combine the best of duration and accrual strategies.

### **Investment Approach**

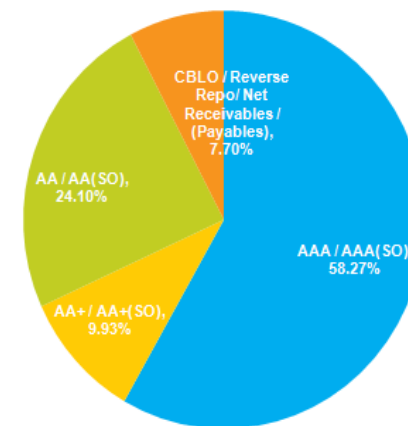
L&T Resurgent India Corporate Bond Fund is a unique fund, which aims to provide investors superior risk adjusted returns over a medium to long term investment horizon. The fund aims to have adequate duration exposure in the portfolio, to capture upside potential in falling interest rate environment and also has the flexibility to cut back duration once rates stabilize. At the same time, the scheme also aims to generate attractive portfolio yields through measured exposure to select credits that are short listed using our strong internal credit selection process.

### **Portfolio Positioning – Focus on High Quality Portfolio**

L&T Resurgent India Corporate Bond Fund is an open ended income fund which aims to combine best of duration and accrual strategy that could deliver superior medium term performance. Since it aims to provide the best of both worlds, it has the

characteristics of both a duration fund as well as that of an accrual fund.

The portfolio average maturity of the fund currently (as at 30-Oct-15) stands at 7.14 years, modified duration stands at 4.78 years whereas the portfolio yield-to-maturity is 9.49%. This kind of positioning which seeks to strike a balance between duration and yield-to-maturity could aid the fund in delivering superior risk adjusted returns over the medium term. A relatively higher average maturity of the fund would help in capitalizing on the opportunities offered in the softening interest rate environment. However, unlike typical duration funds, L&T Resurgent India Corporate Bond Fund aims to maintain attractive portfolio yield by investing in select segments of the debt market which could help the fund to outperform even in a stable rate environment. The funds aims to optimize a balance between yield oriented and accrual oriented strategies without compromising on overall liquidity or credit quality of the portfolio. The fund is currently invested in medium tenor bonds with AA/AAA and equivalent rated papers to ensure that the portfolio credit quality is not compromised.



**Credit Rating Profile**

(Source: icra mfie. Data as on 30-Oct-15)

As on 30<sup>th</sup> October 2015, 66% of portfolio is invested in AAA and equivalent rated papers and 34% of the portfolio is invested in AA+/AA and equivalent rated securities. The scheme has no exposure to papers rated AA- or below. Below is the rationale for select names in the portfolio:

Non Convertible Debenture	Rating	Rationale
Andhra Pradesh Expressway Limited	ICRA AAA(SO)	APEL is a road SPV sponsored by ITNL (49%) and IL&FS (51%). APEL has an NHA1 annuity project that has been operational since September 2009 (no construction risk) and earns fixed revenue in the form of annuity from NHA1 (no traffic risk & no counterparty risk). The cashflows from annuity are escrowed to the NCD (no cash leakage).
Patel KNR Heavy Infrastructures Limited	CARE AAA(SO)	PKHIL is an NHA1 annuity-based road project which has been operational since June 2010 (no construction risk) and earns fixed revenue in the form of annuity from NHA1 (no traffic risk & no counterparty risk). The cashflows from annuity are escrowed to the NCD (no cash leakage).

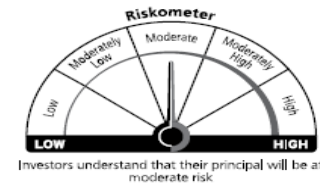
Jhajjar Power Limited	IND AA+(SO)	Jhajjar is a fully operational thermal power plant in Haryana with ~3 years of operational history with full pass through of fuel cost and 100% tie up of PPA. The rating is supported by the credit enhancement provided by its financially strong 100% parent and sponsor CLP India Private Ltd (IND AAA'/Stable) in the form of an unconditional and irrevocable first loss default guarantee for 50% of the NCDs outstanding.
Intime Properties Limited	IND AAA(SO)	Intime is a Commercial Mortgage Backed Securities (CMBS) similar to Lease Rental Discounting. Intime is a part of Raheja Group's Mindspace campus in Hyderabad and has been operational for more than 5 years, thus no real estate construction risk. Occupancy level is 99%+ with marquee MNC tenants. Robust cash flow structure with high DSRA gives high visibility on repayment capabilities.
Inox Air Product Ltd	CRISIL AA	Inox Air is joint venture between Gujarat FluroChemicals Limited and Air Products & Chemicals Ltd (US based entity and one of the top 4 players in air separation business globally). Raw material is air, hence no raw material risk. Significant part of sales is through take or pay contract which lead to stable revenue visibility.
IOT Utkal Energy Services Ltd	CRISIL AAA(SO)/ FITCH AAA(SO)	IOT Utkal was formed to set up crude and product storage tanks on BOOT basis for meeting the requirements of Indian Oil's 15 million tonnes per annum (mtpa) refinery in Paradip, Orissa. Project completion was achieved in November 2013, hence no construction risk. The company receives fixed monthly payment from IOCL as per terms of the contract valid till October 2028. IOT Utkal is strategically important for IOCL and has very close operational linkages with it; hence its ratings are at par with IOCL's rating.

## In Conclusion

L&T Resurgent India Corporate Bond Fund on account of its unique strategy of combining duration and accrual strategy has the potential to offer attractive risk adjusted returns over medium term and investors with over 3 years investment horizon could consider allocation in this fund.

Any reference to the securities/sectors in the document is only for illustration purpose and may or may not form a part of the portfolio of the scheme and is not any indication of the portfolio of the scheme. The portfolio/portfolio strategy indicated is the current portfolio/strategy and may be changed at the discretion of the fund manager. The inclusion of any security in the portfolio should not be construed as a recommendation to buy such securities. Recipient of this article/information should understand that statements made herein regarding future prospects may not be realized and are views of the fund managers. He/She should also understand that any reference to the securities/sectors in the document is only for illustration purpose and are not stock recommendations from the Fund Manager and/or L&T Investment Management Limited, the asset management company of L&T Mutual Fund or any of its associates. Any performance information shown refers to the past should not be seen as an indication of future returns. The value of investments and any income from them can go down as well as up.

**L&T Resurgent India Corporate Bond Fund** - An open-ended income scheme. • Generation of income over medium to long term • Investment primarily in debt and money market securities of fundamentally strong corporates/companies in growth sectors which are closely associated with the resurgence of domestic economy



**Mutual Fund investments are subject to market risks, read all scheme related documents carefully. CL02263**