# FOCUS FUND

# HSBC Corporate Bond Fund (HCBF)

An open ended debt scheme predominantly investing in AA+ and above corporate bonds

November 2021

## View on Corporate Bond segment

### Accommodative but cautious RBI

- Unanimous decision by MPC (Monetary Policy Committee) maintaining Status quo on rates and 5-1 vote in favor of retaining accommodative stance; inflation estimate revised downwards sharply for Q2 and Q3 and overall for FY 23 by 40 bps; FY22 GDP estimate unchanged at 9.5%. However, increased fortnightly 14-day variable rate reverse repo (VRRR) in a gradual manner to up to INR 6 lakh crores by end December 2021 (from current INR 4 lakh crores); this has slowly led to an increase in rates at the ultra-short end of the curve by 20-25 bps over the past month.

### Absence of GSP

- No further GSAP purchases announced in RBI policy. After announcing INR 1tn in Q1 and INR 1.2 tn in Q2, RBI discontinued GSAP in October policy. These are likely to make G-Sec in the belly of the curve and long bonds more volatile. Also, the extent of supply in the near term from G-sec and SDL front is largely towards the duration segment, with H2 borrowing in the 2-5 year segment being lower. 2-5-year segment accounts for only 16% in H2FY 22 v/s 26% in H1 FY 22, while the 10-14-year segment in H2FY 22 accounts for 46% of borrowings v/s 38% in H1 FY 22.

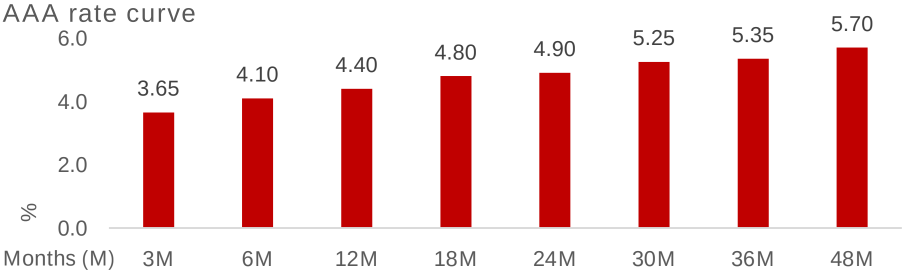
### Steepness in G-Sec and Corporate yield curve offers attractive carry and roll down

- The short and medium part of the corporate curve still remains attractive from carry play point of view and have to a reasonable extent, discounted RBI's calibration in liquidity. 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.

### Corporate spreads expected to be largely well behaved

- Supply in corporate bonds in the short to medium segment remains reasonable. While spreads are tight v/s Government securities, we may not see much expansion in spreads given the supply demand dynamics. While some volatility cannot be ruled out leading into Q4 FY 2022, given, ample liquidity and demand for bonds in the short to medium duration segment, we expect spreads to be well behaved over the medium term.

AAA rate curve




- With overnight and ultra-short trading/pricing over reverse repo of 3.35%, the 24m - 48m segment currently at 4.90% - 5.70% discount likelihood of 20-25 bps hardening at ultra-short end. This is due to VRRR and RBI action over next 6 months. And any excess hardening of say up to 30bps can still be able to generate at par with Ultra short / low duration funds over next 6 - 12m holding period given the steepness of 120 to 130 bps over 1 to 4 year part of the curve.

[1] Pursuant to the circular issued by SEBI on 'Categorization and Rationalization of the Schemes, there has been change in the fundamental attribute(s) of the aforesaid effective from Mar 14, 2018.

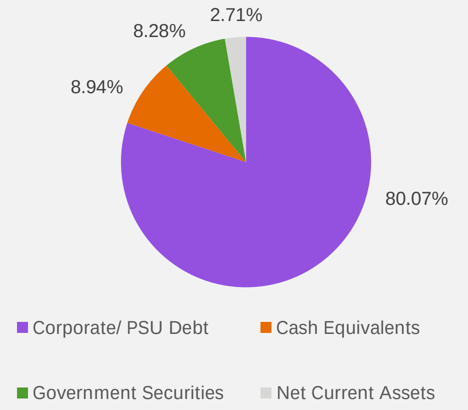
^ The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price. Please refer to the page number 9 of the Offer Document on which the concept of Macaulay's Duration has been explained

## Portfolio

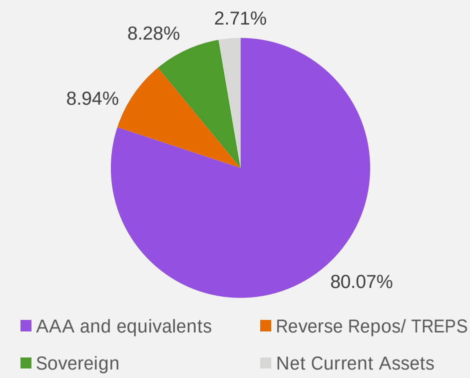
| Issuer | Rating | % to Net Assets |
|---|---|---|
| Corporate/ PSU Debt | | |
| Corporate Bonds / Debentures | | 80.07% |
| REC Top 10 | CRISIL AAA | 10.91% |
| Reliance Industries Top 10 | CRISIL AAA | 10.80% |
| Indian Oil Corporation Top 10 | [ICRA]AAA | 10.58% |
| Indian Railway Finance Corporation Top 10 | CRISIL AAA | 10.47% |
| LIC Housing Finance Top 10 | CRISIL AAA | 10.36% |
| Small Industries Development Bk of India Top 10 | [ICRA]AAA | 10.27% |
| HDB Financial Services Top 10 | CRISIL AAA | 8.48% |
| National Bk for Agriculture & Rural Dev. Top 10 | [ICRA]AAA | 8.20% |
| 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 | | 11.65% |
| TREPS* | | 2.53% |
| Reverse Repos | | 6.41% |
| Net Current Assets | | 2.71% |
| Total Net Assets as on 31-Oct-2021 | | 100.00% |

*TREPS : Tri-Party Repo

### Asset Allocation




### Rating Portfolio




## Current 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 the recent month, 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
- 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.
- As such we intend to maintain a neutral duration versus the index in near term.

## Rationale on existing credit exposures* (Top 5)

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. HDB Financial Services: Shareholding support of HDFC Bank (97.3%), strong liquidity and adequate capitalization bode well for the credit profile. In addition, the strong retail centric portfolio and lower ticket size provide comfort that the portfolio risks will be largely contained. Company's liquidity and balance sheet profile has also been robust with adequate liquidity, healthy capitalization and reasonable leverage. While asset quality has seen an uptick in the recent past, it is expected that adequate capital and conservative recognition will stand positive for them over time. Overall the strength is derived from strong standalone profile, coupled with strong operational and financial linkages with HDFC bank.

4. 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.

5. 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.

Source: HSBC Asset Management, India, Data as of 31 October 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** [3]
Ritesh Jain

**AUM (as on 31.10.21)**
243.60 Cr

**Minimum Investment**

| Lumpsum | SIP | Additional Purchase |
| --- | --- | --- |
| Rs. 5,000 | Rs. 500 | Rs. 1,000 |

| | |
| --- | --- |
| Average Maturity | 2.41 years |
| Modified Duration | 2.09 years |
| Macaulay Duration | 2.20 years |
| Yield to Maturity [2] | 5.11% |

**Benchmark**
NIFTY Corporate Bond Index

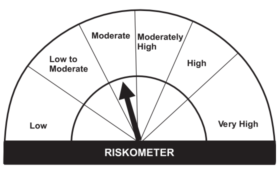
**Inception Date**
30 September 20

**Exit Load**
NIL

[2] YTM Based on invested Amount

**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.

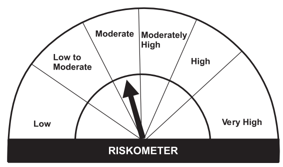
**This product is suitable for investors who are seeking##:**

- Income over medium term.
- Investment predominantly in corporate bond securities rated AA+ and above.

**##Investors should consult their financial advisers in if 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**




Source: HSBC Asset Management, India, (HSBC AMC), Bloomberg. Data as of 31 October 2021

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