NVESTELITE RESEARCH
Investment Advisor

BANKING PSU FUND

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Banking and PSU debt funds are often called as the best alternative to bank deposits. These schemes mostly invest in bank certificates of deposits or bonds and debentures of public sector companies. According to the Sebi definition, the banking and PSU debt funds are open-ended debt schemes predominantly investing in debt instruments of banks, public sector undertakings, and public financial institutions.

These schemes generally invest in instruments with reasonably high liquidity and low average maturity. The banking and PSU debt mutual fund category has generated an average return of 10.69 percent in the last year. These schemes have two ways of generating returns. One, the bonds and debentures held in the portfolio provide accrual income from the coupon. Two, the duration investments generate returns in a falling interest rate scenario

Banking and PSU funds face risks from the interest rate movement. In times of hardening or flat interest rates, they might do badly. These schemes are ideal for investors looking for higher returns than bank deposits, with some risk. In the current market situation, these schemes can do very well like the other bond funds.

“These schemes are highly liquid and invest in top-rated instruments. The risk of default is very less in these schemes. However, they can get hit by the interest rate movements. If you are investing for one to three years, you can choose these schemes. They have lower risk, compared to dynamic bond funds, credit risk funds ...,”

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Funds That Qualify To Be Banking & PSU Funds

1. Banking and PSU Funds allocate 80% of total assets in bank certificates of deposits or bonds/debentures of public sector companies.

2. They invest mostly in the AAA-rated category and hence the entire portfolio for most funds is of high credit quality.

3. They also have low average maturity time as they are generally the short term to medium term debentures of companies. The average maturity is about 1-2 years.

4. These funds have high liquidity as they hold PSU bonds that are highly liquid such as that of NABARD, SIDBI, etc.

Benefits

- Banking & PSU Funds are a good alternative to Fixed Deposits if one wants slightly higher returns than FDs in short tenure and can take little risks.

- It can generate stable Mutual Fund returns as PSU bonds are well traded and fund managers can gain from capital appreciation opportunities when rates fall.

- Carries low risk and volatility as it invests in high credit quality funds and for short/mid duration.

- High Liquidity of PSU bonds is an additional benefit for the investors who seek returns in the time-frame of 1-2 years

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Risks

Although Banking and PSU Bond are considered to be less risky, they do face risks from the interest rate movement. They might perform poorly in case of hardening or flat interest rates. They may show negative returns when yields go up as all bonds/debentures are traded and mark-to-market losses are inevitable. However, they have not shown negative returns over the time frame of 3 months or longer. As these funds are quite newly included, not much track record is available to look at for the performance. The annual returns have been around 8.6-8.9 and it is way higher than traditional debt options.

List of Top Performing Banking and PSU Funds in India

Fund Name	Net assets (Rs Cr)	1-Year	3-Year	5-Year
Aditya Birla Sun Life Banking & PSU	6458.93	11.43%	7.98%	9.40%
Axis Banking & PSU	6450.73	12.58%	8.67%	8.70%
IDFC Banking & PSU	6125.9	13.58%	8.14%	8.35%
ICICI Prudential Banking & PSU	5611.6	10.24%	7.80%	9.02%
Reliance Banking & PSU	3934.42	12.12%	8.11%	–