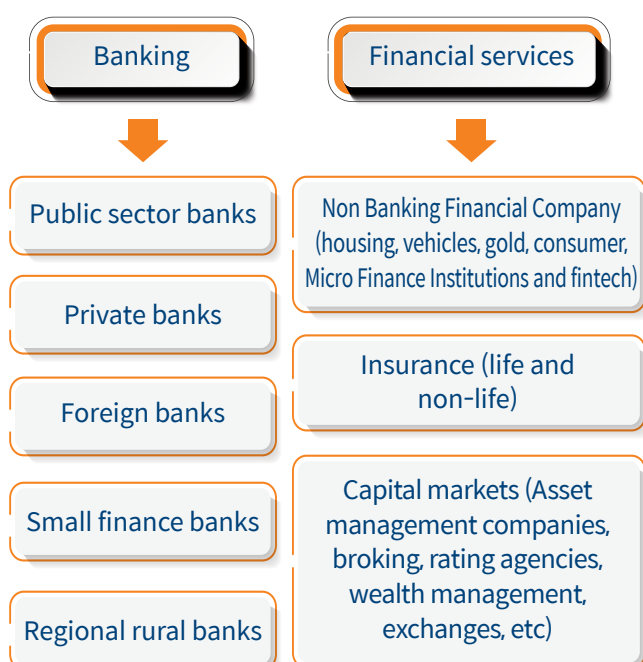


# Banking and Financial Services Funds: May be a good long-term opportunity for informed investors



Everyone wants to milk maximum returns from their investments, but high returns come with high risks. The key to maximise your returns and minimise the risks is in diversifying your portfolio and recognising the winners and losers in the current environment. In the milieu of India’s promising growth as a developing economy and the government’s thrust on financial inclusion, the banking and financial services sector has emerged as a long term winning strategy. In this article, we explore why the sector can be a good investment opportunity via mutual funds.

## Components of banking and financial services sector

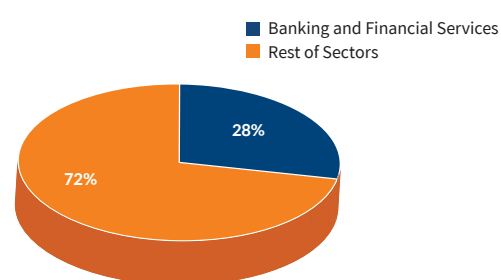


For illustration purposes

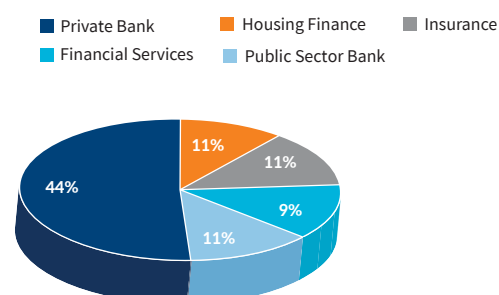
## What makes the sector tick?

The rising popularity of financial companies is evident in the fact that these account for nearly 30% of the total market capitalisation of the top 250 companies as per the latest list released by the Association of Mutual Funds of India (AMFI). While private banks account for 44% of the market cap, public sector banks, insurance and housing finance constitute ~11% each, whereas financial services make up 9%.

## Share of banking and financial services sector in the top 250 companies’ market cap



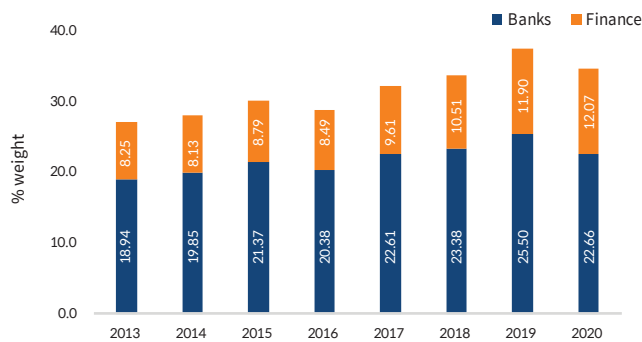
## Sub-sector break-up of banking and financial services



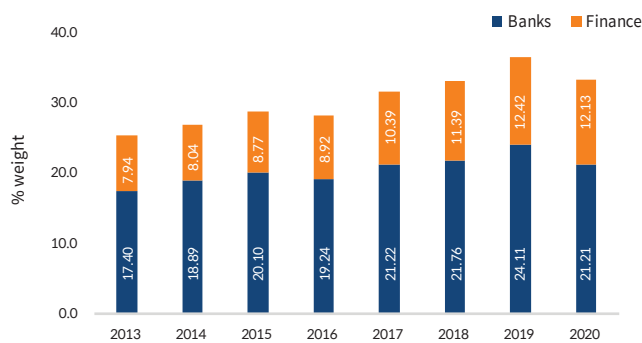
Source : AMFI, data as on 31<sup>st</sup> October 2020

The high share of banking and financial services in terms of market capitalisation is not a one-off or a drastic change. The sector has seen steady growth in terms of market capitalisation. For instance, the combined share of the banking and financial services sector has grown from ~27% in 2013 to ~35% in 2020 in the Nifty 100 index, whereas its share has grown from ~25% to ~33% over the same period in the Nifty 200 index.

### Nifty 100 - Banks & finance weightage trend



### Nifty 200 - Banks & finance weightage trend

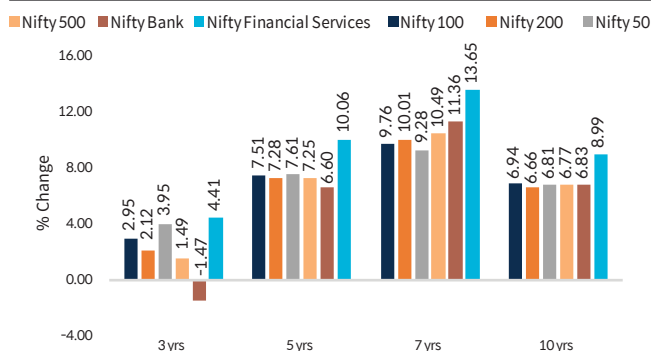


Source : NSF, data as on 31<sup>st</sup> October 2020

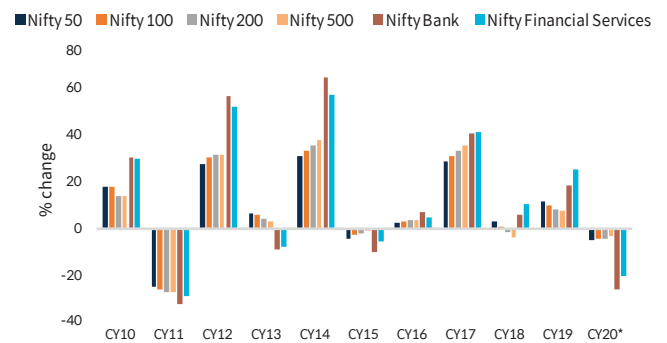
## Performance versus the broad benchmark

The banking and financial services sector has fared well compared with the broader market. The performance of this sector as measured by point-to-point returns, calendar year returns and risk adjusted returns (represented by Sharpe ratio) against the broader market has been encouraging as seen below. In terms of point-to-point returns, these indices have beaten the broader market in the long-term period. On the risk-adjusted returns front, Nifty Financial Services has been at the forefront in the long-term period.

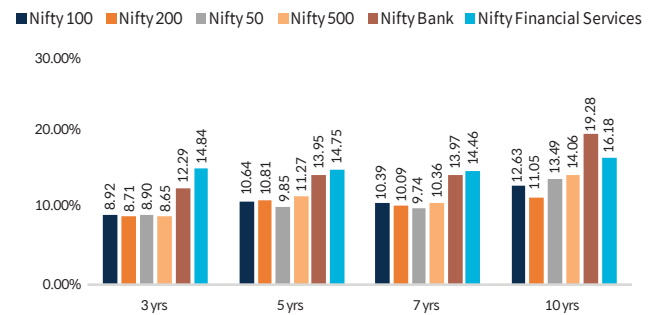
### Point-to-point returns



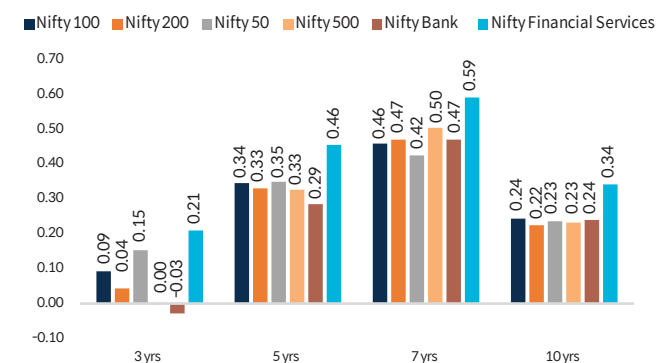
## Calendar year returns



## Rolling returns



## Risk adjusted returns



Source: NSE, CRISIL Research. \*CY 20 returns is ending October 31, 2020

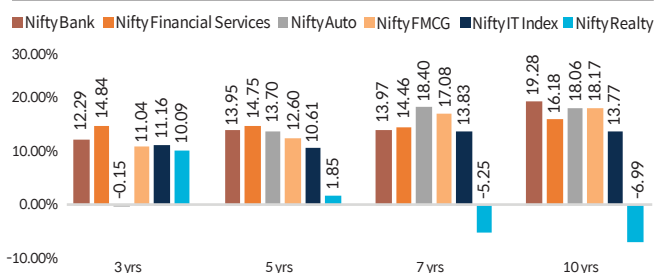
Note: Data based on average daily rolling returns for the period ended October 31, 2020

Past performance may or may not be sustained in future.

## Performance versus other sectors

The performance of the banking and financial services sector vis-à-vis some of the important sectors such as auto, Fast Moving Consumer Goods (FMCG), Information Technology (IT) and realty has been encouraging in the long-term periods for rolling returns parameters.

### Rolling returns



Source: NSE, CRISIL Research.

Note: Data based on average daily rolling returns for the period ended October 31, 2020

Past performance may or may not be sustained in future.

The number of times Nifty Bank and Nifty Financial Services have given positive returns calendar year since the year 2010 is higher than most sectors analysed, with only Nifty FMCG ranking higher than banking and financial services – with nine positive instances. In rolling returns too, banking and financial services have performed well against other indices in most time periods analysed.

## Calendar year returns

Indices	% Change											
	CY10	CY11	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20*	
Nifty Bank	30.59	-31.48	56.54	-8.73	64.57	-9.68	7.42	40.50	6.35	18.41	-25.69	
Nifty Financial Services	29.91	-28.19	51.96	-7.32	57.34	-5.41	4.93	41.42	10.60	25.65	-20.07	
Nifty Auto	34.86	-18.80	42.47	9.41	56.69	-0.32	10.75	31.37	-23.10	-10.69	-5.94	
Nifty FMCG	30.56	9.07	48.53	12.18	18.22	0.33	2.78	29.38	13.65	-1.29	-2.30	
Nifty IT Index	28.75	-18.19	-1.86	57.97	17.84	-0.03	-7.25	12.18	23.78	8.39	33.63	
Nifty Realty	-25.54	-50.41	52.71	-34.38	10.02	-15.02	-4.20	109.80	-33.02	28.49	-23.56	

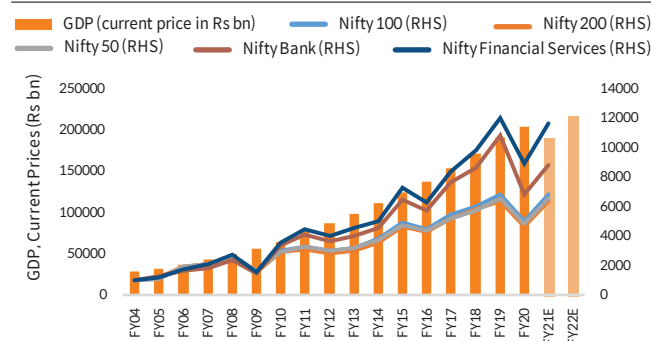
Source: NSE, CRISIL Research. \*CY 20 returns is ending October 31, 2020

Past performance may or may not be sustained in future.

## Investors can benefit from growth in the capital market and the country's GDP

Investing in the banking and financial services sector also provides investors with direct exposure to the capital market players, which gives them the opportunity to grow with the country's GDP. Historically, money invested in the banking and financial services sector has grown higher than the broad market benchmarks.

### Banking, financial services versus broad market and India GDP



Source: NSE, IMF, Bloomberg

Note: The indices are rebased to 1000 for better comparison, and ending October 31, 2020. The shaded portion in the chart reflects estimates for those years.

An investor education initiative by Mirae Asset Mutual Fund.

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