



FINANCIAL ANALYSIS

Mark to market and NAV

How a mutual fund prices what it holds every day, and why that price reaches the investor through the NAV

Rules as on 12 October 2026

For training and education only. Not investment advice.

A fund values what it holds at today's price, not at the price it paid.

That is mark to market. Because it is done every business day, a rise or fall in the price of a share or bond shows up in the NAV the same day.

Four terms to know



Mark to market

Valuing a holding at its current market price, or the closest estimate of it, each time the books are drawn up.



NAV

Value of the scheme's investments plus other assets, minus what it owes, divided by the number of units.



Amortisation

Moving a bond's book value from cost to face value in equal daily steps, whatever the market does. No longer used.



Fair value

An estimate of the price a holding would fetch when no usable traded price exists. It follows a written method.

NAV is rounded to four decimals for debt schemes and index funds, and to at least two for others.

Source: SEBI Master Circular for Mutual Funds, 20 March 2026, paragraphs 9.1.2 and 9.1.3.

One day in the life of a NAV

A SMALL HYBRID SCHEME

Monday: shares ₹58 crore, bonds ₹40 crore, cash and receivables ₹3 crore. It owes ₹1 crore. Units issued: 10 crore.

Tuesday: its shares close 2% lower. Its bonds are priced 0.4% higher.

- 1 Monday: $58 + 40 + 3 - 1 = ₹100$ crore of net assets. $₹100 \text{ crore} \div 10 \text{ crore units} = \text{a NAV of } ₹10.00$.
- 2 Tuesday, shares: ₹58 crore less 2% = ₹56.84 crore. Bonds: ₹40 crore plus 0.4% = ₹40.16 crore.
- 3 Tuesday: $56.84 + 40.16 + 3 - 1 = ₹99$ crore. $₹99 \text{ crore} \div 10 \text{ crore units} = \text{a NAV of } ₹9.90$.
- 4 Nothing was bought or sold. The NAV moved 1% because the holdings were priced again.

The NAV changed with no trade by the fund. Repricing the holdings alone moved it from ₹10.00 to ₹9.90.

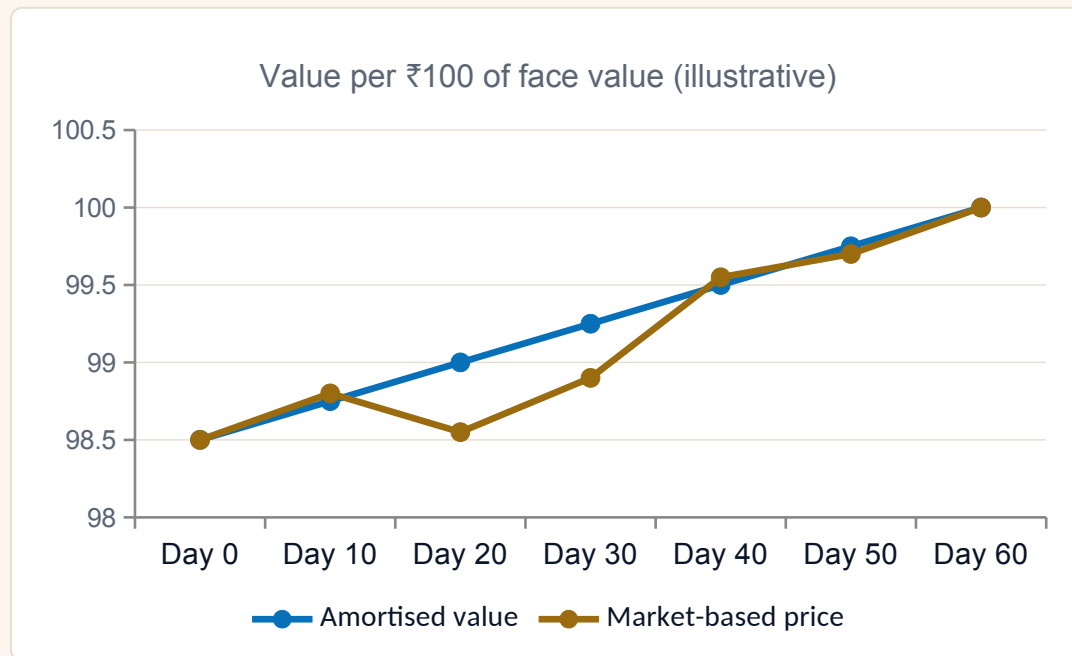
Illustration with an invented scheme and assumed figures. Units and other items held constant.

How each holding is priced

Holding	Price used	Point to note
Listed shares that trade	Last quoted closing price on the exchange where the share mainly trades.	With no trade that day, a price up to 30 calendar days old may be used.
Bonds and money market paper	Average of the security-level prices given by valuation agencies.	Whatever the time left to maturity. Government securities too.
Repos longer than overnight	Marked to market, with prices from valuation agencies.	From 1 January 2025. Earlier: cost plus accrual up to 30 days.
Short-term bank deposits	Cost plus the interest accrued so far.	Money parked until it is invested. Not marked to market.
Shares that do not trade	Fair value 'in good faith', on SEBI principles approved by the AMC's board.	Such illiquid shares are capped at 15% of a scheme's assets.

Source: SEBI Master Circular, 20 March 2026, Chapter 10 (10.2, 10.5 to 10.7); SEBI circular, 26 November 2024 (repos).

Two ways to carry a 60-day paper



Read the chart

- Bought at ₹98.50, repaid at ₹100 after 60 days. Amortisation adds the same ₹0.25 every 10 days.
- The market-based price moves with interest rates and with news about the borrower.
- On day 20 the market-based price is ₹98.55. The amortised value is ₹99.00, which is ₹0.45 more.

Illustration with an invented paper and assumed prices. Not market data.

Why the gap matters: who leaves first

IF BOOKS IGNORE MARKET

A scheme has 1,000 units. Its paper stands in the books at ₹1,00,000, so the NAV is ₹100.

The paper would fetch only ₹98,000 in the market.

An investor redeems 500 units.

- 1 The redeeming investor is paid $500 \times ₹100 = ₹50,000$.
- 2 To pay, the scheme sells paper at market prices. Paper worth ₹98,000 – ₹50,000 = ₹48,000 is left.
- 3 The 500 units that remain are backed by ₹48,000: ₹96 a unit. The whole ₹2,000 gap now sits with them.
- 4 With mark to market the NAV would have been $₹98,000 \div 1,000 = ₹98$ for both groups.

Books above market price favour whoever redeems first. Marking to market treats both groups alike.

Illustration with an invented scheme and assumed figures. Costs of selling are ignored.

The rules in numbers

Four figures from SEBI's rules on NAV and valuation, as in force on 12 October 2026.

NAV DECLARED BY

11 PM

On the same business day for most schemes. Some declare the next morning.

DECIMALS IN NAV

4

For debt schemes and index funds. At least 2 for other schemes.

NO TRADE FOR

30 days

A share not traded for 30 calendar days is treated as non-traded.

CAP ON ILLIQUID SHARES

15%

Of a scheme's total assets. Anything held above it is valued at zero.

Source: SEBI Master Circular for Mutual Funds, 20 March 2026, paragraphs 9.1.3, 9.3.4, 10.2.2 and 10.7.1.

If you learnt this from older material

Amortisation was allowed for short-dated debt paper for years. SEBI narrowed it in steps, then ended it.

What older material says

- Debt paper with under 182 days left was amortised in 2008.
- The limit was cut to 91 days in 2010 and to 60 days in February 2012.
- It was cut to 30 days in 2019. Repos of up to 30 days stayed at cost plus accrual.

What holds now

- Since 1 April 2020 no debt or money market paper is amortised.
- Such paper is valued at agency prices, whatever the time left to maturity.
- Since 1 January 2025 repos are marked to market too, with agency prices beyond overnight.

Sources: SEBI board memorandum on valuation, March 2019; SEBI circulars of 24 Sep 2019 and 26 Nov 2024; Master Circular, 20 Mar 2026.

Four things people get wrong



'A liquid fund's NAV cannot fall.'

Its paper is marked to market like other debt holdings. Moves are usually small because the paper is short-dated, but a fall on a day is possible.



'A fall in NAV is only on paper.'

For the scheme, nothing was sold. But an investor who redeems that day is paid at that NAV, so for that investor it is real.



'A bond's price is quoted like a share's.'

Many bonds do not trade daily. Agencies work out a price from trades in that bond or in similar ones. It is an estimate, made by a set method.



'NAV shows what the fund paid.'

NAV uses current prices. What the fund paid for a holding does not enter the NAV calculation.

Explaining a one-day fall in NAV

1

Say what NAV is

The value of the scheme's holdings at that day's prices, less what it owes, for each unit.

2

Find what was repriced

Share prices, bond yields or a change in a borrower's credit rating. The fund's factsheet and portfolio show what it holds.

3

Separate price from default

A lower bond price is not the same as a borrower failing to pay. Say which of the two has happened.

4

Stop at the facts

Do not predict a recovery and do not suggest a switch or a redemption. Returns are not assured.

We explain how the NAV was arrived at. We do not forecast where it goes next.

Check yourself

Q1

A scheme's investments are worth ₹206 crore, other assets are ₹6 crore and it owes ₹2 crore. It has 20 crore units. What is the NAV?

Q2

A paper bought at ₹98.80 is repaid at ₹100 after 30 days. What is its amortised value after 10 days? May a mutual fund carry it at that value today?

Q3

A client says: 'My liquid fund's NAV dipped yesterday. I thought that could not happen.' What do you explain?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- NAV formula, rounding and declaration times: SEBI Master Circular for Mutual Funds, 20 March 2026, paragraphs 9.1.2, 9.1.3 and 9.3.4.
- Valuation of shares, debt and money market securities, government securities, deposits and illiquid shares: same Master Circular, Chapter 10.
- End of amortisation from 1 April 2020: SEBI circular SEBI/HO/IMD/DF4/CIR/P/2019/102, 'Valuation of money market and debt securities', 24 Sep 2019.
- Repos marked to market from 1 January 2025: SEBI circular SEBI/HO/IMD/IMD-I PoD-1/P/CIR/2024/163, 26 Nov 2024.
- Earlier amortisation limits (182, 91, 60 and 30 days) and the first-mover point: SEBI board memorandum 'Valuation of money market and debt securities by Mutual Funds', March 2019.
- The schemes, the paper and all figures in the worked examples and the chart are invented for illustration. They are not market data.

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