Sakthi Financial Services

Weekly Newsletter

VERSION 24.25.23 / DECEMBER 21 / 2024

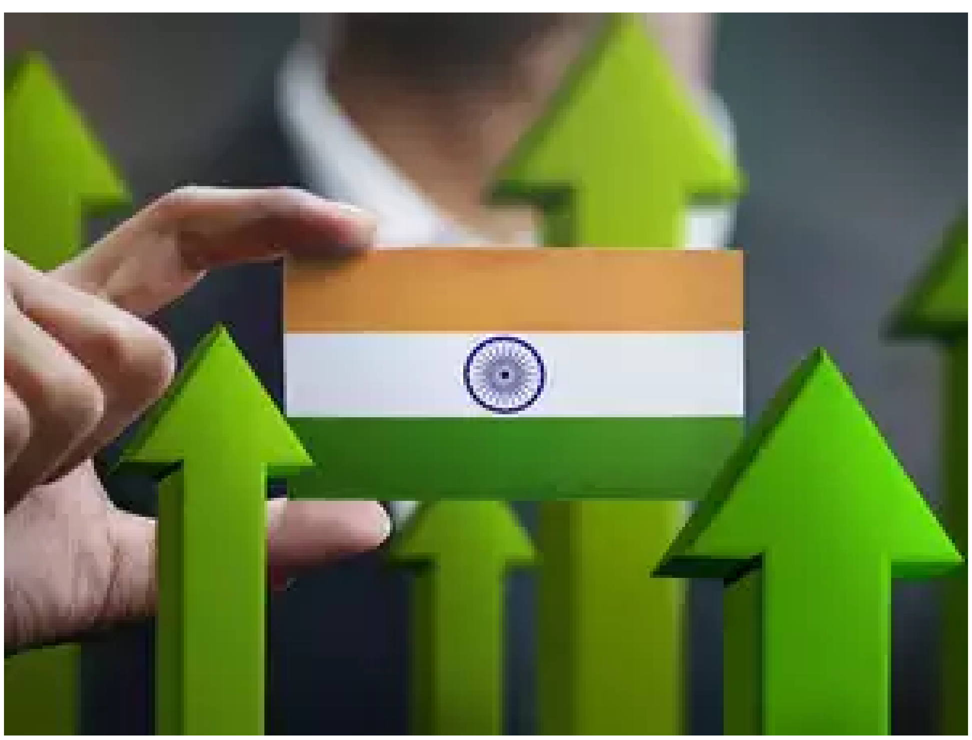
BSE SENSEX 78,041.59 ↓4.53%

Nifty50 23,587.50 ↓4.38%

Headlines

- SEBI board meeting: 2 announcements for mutual fund industry
- Specialised investment fund: How this new asset class will work and help investors
- '39% millennials and Gen Z have invested in mutual funds'
- Soon, MF accounts can be stored and viewed in DigiLocker
- SEBI simplifies offer document requirement for AMCs
- MFs stick to 1,082 stocks in 2024, add only 67 new positions
- SEBI mulls service platform for tracking inactive, unclaimed mutual fund folios
- Opt for flexi cap or multi cap or large cap funds for fresh investments: Naren of ICICI Prudential Mutual Fund

Indian mutual fund industry to register multi-fold growth in 2025: ICRA Analytics



The Indian mutual fund industry, which has witnessed over 135% surge in net inflows and nearly 39% growth in net AUM (Assets under Management) over the last one year, is likely to witness a multi-fold growth in the coming years, with India being in a bright spot in the global economy, said ICRA Analytics.

Total inflows into the mutual fund industry grew by 135.38% at Rs 60,295.30 crore in November 2024, as against Rs 25,615.65 crore in November 2023. Interestingly, the net AUM which was at Rs 49.05 lakh crore in November last year, crossed the historic milestone to touch Rs 68.08 lakh crore in November 2024.

With 2024 on the close and 2025 on the horizon, markets are witnessing intermittent bouts of volatility. Sluggish growth, rising tendencies of protectionism and geopolitical uncertainty are some of the factors which have weighed on the markets and contributed to market jitters, said the report.

(Cont.)

However, amidst the headwinds, the domestic mutual fund industry has showcased resilience backed by a sense of optimism regarding the growth prospects of the Indian economy, strong participation from retail investors, broadening investor base and growing interest and awareness among investors from smaller cities regarding mutual funds, the report highlighted.

	Net Inflows/Outflows Rs crore	Growth (%)	Net AUM Rs lakh crore	Growth (%)
November 2024	60,295.30	135.38	68.08	38.80
November 2023	25,615.65		49.05	

“Markets may witness some short-term volatility in the near term due to higher valuations, tensions in the Middle East and volatility in global crude oil prices. However, market corrections may be seen as opportunities to invest as it is essential to focus on long term sustainable growth. With the structural growth story of the Indian economy remaining intact and India a bright spot in the global economy, the domestic mutual fund industry is expected to witness multi-fold growth in the coming years,” said Ashwini Kumar, Senior Vice President and Head Market Data, ICRA Analytics.

Inflows into Growth/Equity oriented schemes

	November 2024 Rs. Crore	November 2023 Rs. Crore	Growth (%)
Multi cap	3626.46	1713.09	111.69
Large cap	2547.92	306.70	730.75
Large & mid cap	4679.74	1847.45	153.31
Mid cap	4883.40	2665.73	83.19
Small cap	4111.89	3699.24	11.15
Sectoral/Thematic	7657.75	1964.67	289.77
Value/contra	2088.01	1251.88	66.79
Flexi cap	5084.11	1667.56	204.88

(Cont.)

The share of open-ended equity oriented mutual funds to the total AUM increased to 44.59% at Rs 30.36 lakh crore in November 2024 up from 41.46% in November last year indicating the growing confidence among retail investors in the mutual fund ecosystem. Total inflows into equity mutual funds increased by 131.35% at Rs 35,943.49 crore in November 2024, as against Rs 15,536.42 crore last year. Since the beginning of calendar year 2024, inflows into equity mutual funds were up by 65.03% from Rs 21,780.56 crore in January 2024.

The number of new SIPs registered increased to 49.47 lakh at the end of November 2024, as against 30.80 lakh in November 2023. The SIP AUM stood at Rs 13.54 lakh crore in November 2024, as against Rs. 9.31 lakh crore in 2023. Overall net inflows stood at Rs 9.14 lakh crore from January 2024 to November 2024, as against Rs. 2.74 lakh crore in 2023, which tantamount to a growth of 233%.

“Domestic equity markets witnessed volatility in the past two months primarily because the corporate earning numbers for the quarter ended Sep 2024 came in lower than expected. Increase in domestic inflationary pressures and the outcome of the U.S. Presidential elections dampened hopes of rate cuts by the U.S. Federal Reserve. Moreover, growing uncertainty regarding global policies, geo-political issues and higher valuations have led to volatility in the markets. Large and mid-cap funds are likely to be a big draw among investors in the coming days amid increased volatility in domestic markets following escalating geopolitical risks and global uncertainty,” Kumar said.

Moving forward, market participants will continue to remain optimistic regarding the growth prospects of the Indian economy which can be attributed to strong corporate balance sheets and government support. The Indian economy is expected to grow at a steady pace led by corporate capex and pick up in bank credit. However, increase in domestic inflationary pressures, uneven and below average monsoons, volatility in global crude oil prices, tensions in the Middle East, geopolitical tensions between Russia and Ukraine, protectionist measures from the new U.S. Administration and heightened valuations might impact the industry moving forward, he added.

SEBI board meeting: 2 announcements for mutual fund industry

Market regulator Sebi, in its board meeting on Wednesday, approved amendments to SEBI (Mutual Funds) Regulations, 1996, aiming to minimise investment amount, to reduce frequency of disclosure, and align employee interests with those of mutual fund investors. Here’s a breakdown of the changes based on the board’s decisions:

1. Alignment of interest of the designated employees of the AMC with the interest of the unitholders

Sebi has approved amendments for relaxing the regulatory framework related to alignment of interest of the designated employees of the AMCs with the interest of the unitholders. This will help facilitate ease of doing business for mutual funds while mandating disclosure of results of stress testing of all mutual fund schemes.

The key changes:

- Reduced minimum investment: The minimum amount AMC employees must invest in schemes has been lowered.
- Simplified disclosures: The frequency of mandatory disclosures has been reduced to ease compliance.
- Shorter lock-in period: Employees resigning from AMCs will now have a shorter lock-in period for their investments.
- Nomination and remuneration committee: This committee will now verify compliance by designated employees, enhancing governance.

(Cont.)

- Relaxations for liquid fund managers: Employees managing liquid funds will benefit from relaxed requirements.
- Eased redemption norms: Redemption rules have been simplified for employees, providing greater flexibility.

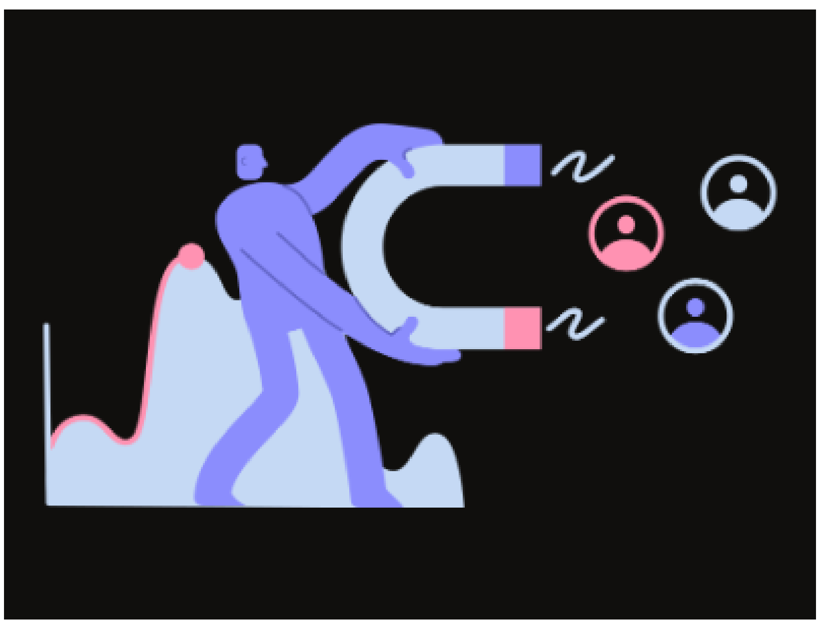
2. New timelines for fund deployment in NFOs

Sebi has also introduced a timeline for deploying funds raised during New Fund Offers (NFOs) to ensure better fund utilisation and prevent investor inconvenience.

Key Highlights:

- 30-day deployment rule: AMCs must deploy funds raised in NFOs within 30 days in accordance with the scheme's asset allocation strategy.
- Investors can exit without exit load: If the funds are not deployed within the specified timeline, investors can exit the scheme without incurring exit loads.
- Mis-selling incentives: To minimise mis-selling, distributors will earn the lower of the two commissions in case of switch transactions between two schemes.

Specialised investment fund: How this new asset class will work and help investors



SEBI has recently introduced a new asset class called Specialized Investment Fund (SIF). According to the industry players, this new asset class will cater to the investors who have outgrown the risk-return profile of mutual funds but are not yet big enough to go with PMS and AIFs.

SIFs are a product class that has more flexibility than a regular mutual fund scheme and lower ticket size than PMS and AIFs. The minimum investment amount for investors in SIF is Rs. 10 lakh. This asset class will have TER structure like mutual funds and will be subjected to single issuer limits.

Experts have welcomed SIF as it is expected to help the MF industry to cover entire spectrum of risk and reward profiles.

Ajit Menon, CEO, PGIM India MF, said that the SIFs have a higher risk-return profile, which is a welcoming move for investors who are in the middle range of investment and cannot go with PMS and AIFs.

Ajit claimed that SIFs will offer exposure to concentrated investment portfolio, which is only available in the AIF and PMS structure. SIFs will have a potential for thematic investments better than the MFs with more opportunity in equity domain. SIFs will be similar to what PMS does for slightly more affluent investors.

Madhu Nair, CEO, Union MF said that SIF is an asset class that can prevent the activities that are happening outside regulatory purview. Majority of such investment happens through investors who have outgrown the risk-return profile of MFs and want to take higher returns.

Madhu said that SIFs can provide more efficient returns with cost efficiency. Further, the investors in this asset category are expected to have a higher risk appetite than MF investors, which will result in differentiated strategies. It will also bring more players and more innovation in the MF domain.

‘39% millennials and Gen Z have invested in mutual funds’

A recent survey by Fin One (an educational website of Angel One) and Nielsen reveals that 39% of millennials and Gen Z Indians have invested in mutual funds.

The report surveyed 1650 participants in the age group of 18 to 35 who earn at least Rs. 15,000 per month.

The study also found that only 20% of respondents prefer mutual funds over other investment options. However, 45% of respondents prefer direct stocks.

Here are other key highlights of the survey:

- 80% millennials and Gen Z manage to save 20-30% of their salary
- 85% young adults have a bank account dedicated to their savings and investments
- Nearly 80% of the survey participants said that they save for financial security and future investments. 59% said they save for emergency funds while nearly 50% percent said they save for personal goals like purchasing a car/house.
- 85% of respondents said day to day expenses hinder their ability to save and invest
- 80% of respondents view diversification as important tool to reduce risks
- 40% respondents began investing in their early 20s
- Young adults consider flexibility and high returns as the most important factors when selecting investment products
- YouTube is considered the top source for education for 62% of young adults. This was closely followed by referrals through family and friends, resources offered by direct platforms and social media like Instagram. 42% of respondents said they seek help of MFDs/advisors to get financial knowledge

Soon, MF accounts can be stored and viewed in DigiLocker

In order to reduce instances of unclaimed amount in mutual funds and capital market, SEBI has issued a consultation paper in which it has asked AMCs and Depository Participants (DPs) to provide details of MF and stock holdings of investors in DigiLocker.

DigiLocker is a digital document wallet of the Government of India (GoI), which facilitates people to obtain and store documents like Aadhaar, PAN, driving license and death certificate.

Further, DigiLocker users can provide nominee details for their DigiLocker account. Upon death of an investor, DigiLocker will send an intimation to the nominee via SMS and email to access the digital information of the deceased.

The market regulator has also directed the KYC registration agencies to provide information on the demise of investors to DigiLocker. The nominee then can initiate the process of transmission of the financial assets by approaching the concerned AMC, said SEBI.

SEBI has directed AMCs to become an issuer with DigiLocker to enable investors to get access to their statement of account or transaction statement for the last 30 days in MFs.

You can submit your feedback to SEBI by December 31, 2024.

SEBI simplifies offer document requirement for AMCs

Markets regulator Sebi on Friday simplified the framework for asset management companies (AMCs) by reducing the requirement to upload draft SIDs to 8 working days from 21 days earlier. This is aimed at streamlining the process, reducing timelines, and enhancing investor protection while simplifying compliance for AMCs.

Earlier, AMCs had to upload draft Scheme Information Documents (SIDs) on Sebi's website for 21 working days to receive public comments.

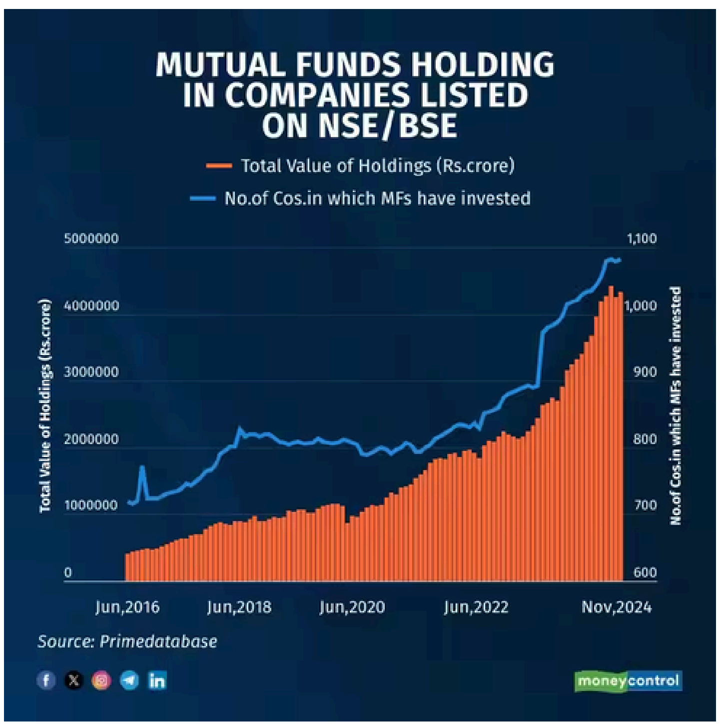
Over time, the regulator has standardised and updated the format and content of SIDs to improve investor communication.

In its circular, Sebi said the requirement to upload draft SIDs on the regulator's website has been reduced to 8 working days.

AMCs can file final offer documents (SID and KIM) after this period.

These changes are effective immediately, the Securities and Exchange Board of India (Sebi) said.

MFs stick to 1,082 stocks in 2024, add only 67 new positions



Indian mutual funds (MFs) have refrained from significantly increasing their stock picks, despite receiving substantial inflows over the past two years. In 2024, MFs added just over 6 per cent more stocks, rising to 1,082 stocks in November from 1,015 in December 2023 — an increase of around 67 stocks.

This remains only slightly higher than the 881 stocks held in December 2022. These additions have come primarily through initial public offerings (IPOs) listed in the past two years, with no notable additions from existing stocks.

"Lots of money inflow has been routed towards newly-listed companies as we have seen the highest numbers of IPOs in the last months. There can be possibility that MF managers have chosen to diversify fresh money inflow to participate in the newer businesses such as Enviro Infra, NTPC Green Energy, Waaree Energies, Premier Energies, Bajaj Housing Finance. These are very few recently listed best-performing IPOs," said analysts.

India has 44 MFs investing in equities. The total assets under their custody are around Rs 43 lakh crore. Over half of these assets are concentrated in just 27 stocks. HDFC Bank tops the list as the most owned stock by MFs, with holdings valued at Rs 2.73 lakh crore, followed by ICICI Bank at Rs 2.22 lakh crore and Reliance Industries Ltd (RIL) at Rs 1.51 lakh crore. Infosys, Bharti Airtel, and L&T round off the list of the most owned stocks by MFs.

So far in 2024, out of the 1,082 stocks, nearly 272 have delivered negative returns, while 100 stocks have provided single-digit gains. The remaining stocks have surged, delivering returns ranging between 10 and 400 per cent.

Indian capital markets have shown relatively smaller corrections, as compared to their global counterparts over the past few years, despite ongoing geopolitical tensions, high inflation, and the Reserve Bank of India’s (RBI) stance to keep interest rates unchanged in the near term.

SEBI mulls service platform for tracking inactive, unclaimed mutual fund folios

The market regulator SEBI has proposed the development of a service platform to help investors trace inactive and unclaimed mutual fund folios. The proposed platform, MITRA (Mutual Fund Investment Tracing and Retrieval Assistant), will be developed by the RTAs and offer investors a searchable industry-wide database of inactive and unclaimed mutual fund folios.

The platform will allow investors to identify overlooked investments or any investments made by others for which they may be the rightful legal claimant. It will encourage investors to complete KYC in accordance with current regulations, thereby reducing the number of non-KYC-compliant folios. The platform's database will also help reduce the number of unclaimed mutual fund folios.

In other words, the platform aims to encourage investors to search for forgotten mutual fund investments and update their KYC in accordance with current regulations.

The market regulator has outlined the criteria for classifying a mutual fund folio as inactive. An inactive folio is defined as a "Mutual Fund Folio(s) where no investor-initiated transactions (financial or non-financial) have occurred in the last 10 years, although a unit balance remains."

In other words, the platform aims to encourage investors to search for forgotten mutual fund investments and update their KYC in accordance with current regulations.

The market regulator has outlined the criteria for classifying a mutual fund folio as inactive. An inactive folio is defined as a "Mutual Fund Folio(s) where no investor-initiated transactions (financial or non-financial) have occurred in the last 10 years, although a unit balance remains."

The platform will be jointly hosted by the two Qualified RTAs (QRTAs), Computer Age Management Services Limited (CAMS) and KFIN Technologies Limited, acting as agents of AMCs. It will be accessible via links on the websites of MF Central, AMCs, AMFI, the two QRTAs, and SEBI.

LIC MF may consider IPO once its AUM hits Rs 1 lakh crore: MD

LIC Mutual Fund might consider an IPO once its asset under management (AUM) reaches the Rs 1 lakh crore mark, which it was targeting by FY'26, a top official said on Friday. At present, LIC MF's AUM was around Rs 38,000 crore, a significant jump from Rs 16,526 crore in FY'23.

"We have grown by 67 per cent in FY'24 and our current growth run rate is 30 per cent," LIC MF Asset Management Ltd MD and CEO RK Jha told PTI.

He said the current equity contribution across all funds is 47 per cent, with debt accounting for the remaining 53.

Institutional and corporate investors have put their money mostly in debt funds, while retail participation is skewed towards equity, he added.

Opt for flexi cap or multi cap or large cap funds for fresh investments: Naren of ICICI Prudential Mutual Fund

The year is drawing to a close. Most investors may be reflecting on the past year and drawing up plans for the New Year. ETMutualFunds reached out to S Naren – ED & CIO – ICICI Prudential AMC, one of the finest minds in the mutual fund space, to make sense of the market and what's in store for investors in the coming 12 months.

The investment landscape in the year ahead appears both promising and challenging, marked by a complex interplay of factors. India's macroeconomic fundamentals, despite the inherent uncertainties of an election year, paint a positive picture. The nation boasts robust macros, a resilient banking sector with clean balance sheets, and minimal corporate leverage. All of these factors make India one of the most structurally sound markets in the world. These factors collectively lay the groundwork for a flourishing economic landscape, underscoring India's ability to weather global uncertainties.

Historically, election years have been marked by increased market volatility. At the current valuation, 2024 looks poised to be the costliest election (in valuation terms among the past five election years). In terms of market segmentation, no pocket is inherently cheap at this point. Today, all three segments (large, mid, and small) appear expensive compared to their historical valuation. However, on a relative basis, large-cap stocks seem to be better positioned. What one needs to be mindful about is that most of the positives are already factored into the price at current valuations.

Globally, inflation and elevated interest rates were a major cause of worry in 2023, but the worst seems to be behind us. The possibility of a sharp economic slowdown across advanced markets seems like a remote possibility and geo-political tensions as and when they flare up will lead to market volatility across the world and India will be no exception.

Investor interest in small and midcaps have resulted in continuous inflows into the broader market, as a result of which this space has witnessed a sharp up move and consequently valuations have become very expensive. The valuation of both strong and weak fundamental companies have increased significantly. Investing in mid and small cap segments may be a risky proposition given the elevated valuations. Therefore, from an investment perspective, one can look for names/ assets which are relatively cheap or fairly valued in this market.

From a valuation perspective, large caps are better placed than mid and small caps. Once FIIs increase their participation in Indian markets, the large-cap space is likely to attract bulk of these inflows. Multi-asset as a category received considerable investor attention during the second half of the year. We believe as and when investors turn cautious on the markets, hybrid schemes will come under renewed focus. Since it is impossible to predict when the equity market could turn volatile, investing through vehicles such as the multi-asset which provides exposure to three or more different asset classes over the long term can deliver reasonable risk adjusted returns with reduced volatility.

Sources:- Economictimes, Moneycontrol, SEBI, AMFI, Cafemutual, Livemint, Business Standard etc.