Sakthi Financial Services

Weekly Newsletter

VERSION 24.25.20 / NOVEMBER 16 / 2024

BSE SENSEX **77,580.31** ↓ **2.40%**

Nifty50 **23,532.70** ↓ **2.52%**

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BS BFSI Summit: Rs 100 trillion AUM just 3-4 years away, say MF CEOs

The mutual fund (MF) industry's strong growth in recent years is backed by structural changes in the household investment pattern and that is why the industry is unlikely to see a major slowdown if the equity market were to enter the bear phase, according to top MF executives.

Speaking at the Business Standard BFSI Insight Summit, the heads of some of the largest fund houses said that the momentum in the MF inflows can take the assets under management (AUM) past the Rs 100 trillion milestone in the next two-three years. The AUM has doubled in the past three years and is currently around Rs 67 trillion.

"The AUM has doubled in the last three years. For the AUM to reach Rs 100 trillion, it has to add only another 50 per cent. I don't think it should take more than three-four years to reach the milestone," said DP Singh, Joint CEO, SBI Mutual Fund.

He also added that the growth in AUM is partly a result of the market rally.

"Just to put things into perspective, mark-to-market gains accounted for a substantial portion of growth in AUM in recent years. The surge is not just because of the net inflows," he said.

Navneet Munot, MD & CEO of HDFC Asset Management Company Limited (HDFC AMC), said that while AUM numbers are discussed the most, he finds bigger satisfaction in the growing MF reach and rising systematic investment plan (SIP) inflows.

"Going by the pace of growth in the last 20 years, I have no reason to believe that the next 20 years will not look better than that," he said. The industry veteran estimated that MFs' AUM will be around 50 per cent of the bank deposits in the next three-four years.

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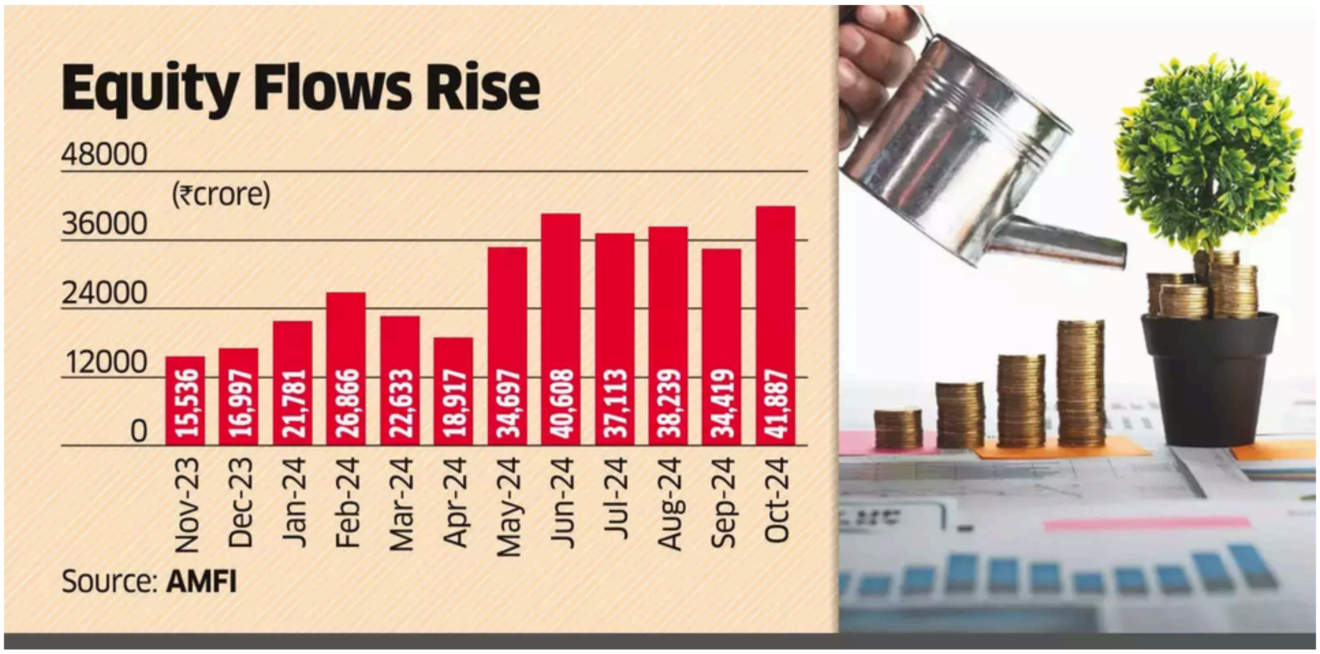
'Buy the dips' triggers record equity MF bets; SIP accounts topped 100 mn



Retail investors used the sharp dips in the market in October to add to both their lump sum equity mutual fund schemes and systemic investment plans (SIP), taking both to record highs.

Investors bought equity funds worth ₹41,887 crore in October, the highest ever in a month, compared to ₹34,419 crore in September. SIP purchases amounted to ₹25,323 crore, up from ₹24,509 crore in the previous month. Debt funds saw inflows of ₹1,57,402 crore, largely from overnight and liquid funds. Strong flows and an increase in stock market valuation took the total average assets under management of the industry to ₹68.5 lakh crore, against ₹68 lakh crore in the previous month.

Investors continued to put money into sectoral and thematic funds, with these funds attracting ₹12,2278 crore in October.

Within equities, all categories saw robust flows from investors. Flexicap funds got the highest inflows of ₹5,181 crore, followed by large- and mid-cap funds, which attracted ₹4,857 crore. Large-cap funds attracted ₹3,452 crore, while multi-cap funds, which invest in a mix of large-cap, mid-cap and small-cap funds, saw inflows of ₹3.597 crore.

Flows into mid-cap funds increased to ₹4,683 crore in October from ₹3,130 crore in the previous month while small-cap funds got ₹3,772 crore compared to ₹3,071 crore.

"Investors continue to navigate market volatility through SIPs, STPs (systematic transfer plans) and occasional one-time purchases on days when markets witnessed corrections," said Manish Mehta, national head - sales, marketing & digital business, Kotak Mahindra AMC.

Liquid and overnight schemes saw inflows of ₹83,863 crore and ₹25,784 crore, respectively, while money market funds saw inflows of ₹25,303 crore. In the hybrid segment, arbitrage funds, a product investors have been using to park idle money and get better tax adjusted returns compared to liquid funds, saw inflows of ₹7,182 crore compared to outflows of ₹3,532 crore in the previous month.

Multi-asset allocation funds, which invest in a mix of debt, equity and gold, saw inflows of ₹3,797 crore. Balanced advantage funds saw inflows of ₹1,371 crore and equity savings funds saw inflows of ₹1,748 crore.

Gold exchange-traded funds saw inflows of ₹1,962 crore in October as many investors bought digital gold on the auspicious occasion of Dhanteras.

Equity mutual fund inflows surge 22% to Rs 41,886 crore amid market downturn

ICICI Prudential Multi-Asset Fund turned Rs 10 lakh to over Rs 7 crore in 22 years

ICICI Prudential Multi-Asset Fund, a multi-asset allocation fund, has successfully completed 22 years of existence in the market. The scheme has offered 21.58% CAGR since its inception.

The scheme benchmark is against Nifty 200 TRI (65%) + Nifty Composite Debt Index (25%) + Domestic Price of Gold (6%) + Domestic Price of Silver (1%) + iCOMDEX Composite Index (3%).

Launched in October 2002, the scheme offered 22.47% CAGR in the last five years. In the last three and one-year periods, the scheme offered 21.19% and 32.09% CAGR respectively.

"ICICI Prudential Multi-Asset Fund's journey of wealth creation is a strong testament to the power of disciplined asset allocation across diverse asset classes. This approach has benefited our investors over the long term with rewarding investment outcomes," said Nimesh Shah, MD & CEO of ICICI Prudential AMC.

He added, "At ICICI Prudential Mutual Fund, we rely on the expertise of a dedicated team comprising of fund managers across equities, debt, and commodities. This collaborative approach enables us to make well-informed allocation decisions, allowing the scheme to leverage our asset class expertise to deliver value to our investors."

A lump sum investment of Rs 10 lakh at the time of inception would be approximately worth Rs. approximately 7.26 crore with a CAGR of 21.58% as of September 30, 2024. A similar investment in scheme benchmark - Nifty 200 TRI (65%) + Nifty Composite Debt Index (25%) + Domestic Price of Gold (6%) + Domestic Price of Silver (1%) + iCOMDEX Composite Index (3%) – would have yielded approximately Rs 3.36 crore with a CAGR of 17.39%.

In terms of SIP performance, a monthly investment of Rs 10,000 via SIP since its inception would have grown to approximately Rs 2.9 crore as of September 30, 2024, with a CAGR of 18.37%. A similar investment in the scheme's benchmark would have yielded a CAGR of 14.68%.

The scheme had an asset under management (AUM) of Rs 50,495.58 crore which accounts for nearly 48.29% of the total AUM in the multi asset allocation category. This indicates significant investor trust of investors in the scheme, according to a press release by the fund house. Data as of September 30, 2024. (Source: Value Research).

"By adopting this strategy, investors can achieve a more favorable risk-adjusted return across market cycles. Moreover, diversifying a portfolio across multiple asset classes also plays a crucial role in managing volatility, helping to smooth out the fluctuations that can occur in individual markets," - said S Naren, ED & CIO, ICICI Prudential AMC

Children's Day: How mutual funds can help you invest in your child's future

Generally, each succeeding generation has been better-off on most socio-economic indicators than their parent's generation; most importantly financially better off. This is also the result of parents planning a better future for their children. While hopes and aspirations grow, so does the cost of realizing those plans, especially when considering the inflationary impact on essential expenses like higher education. In the past, Indian parents often primarily saved for traditional milestones, like marriage, and invested in national savings certificates or long-term fixed deposits.

However, today's parents are increasingly prioritizing intermediate goals—such as higher education, whether it be in engineering, medicine, MBA or international studies—that have become as costly if not more than the cost of wedding. Now more than ever, parents need to invest wisely in plans that helps their money grow with their child's ambitions, ensuring their investment keeps pace with inflation and helps their children soar.

The Rising Cost of Education: A Serious Reality Check

Education, unlike most expenses, is non-discretionary—parents are loathe to compromise on quality when it comes to their child's dreams. And yet, the cost of education is skyrocketing.

Inflation in education services has been running ahead at almost double that of the reported consumer price index numbers put out by the Government. With around 11% p.a. inflation in college fees, the costs of good MBA programs have surged 8 times in the last 20 years.

This rapid increase means that for many families, funding their child's education has become a financial burden, which if not well planned for, can result in sleepless nights and risk of missed opportunities.

Why Equities Are Key to Long-Term Wealth Creation?

Parents saving for their children's futures need investment options that can seek to outpace inflation, and historically, equities have proven to be the asset class with the highest real returns over periods of a decade or more. Research shows that long-term investments in equities can yield returns that no other asset class offers*, potentially turning even modest monthly investments into substantial wealth over time due to the power of compounding. For example, an investment of just Rs 9,000 per month over 20 years can potentially grow to a corpus of over Rs 1 crore in a well-performing equity fund*. (Source: Baroda BNP Paribas AMC Internal Research).

The Benefits of Children's Plan in Mutual Funds

One effective tool in this journey could be a Children's Scheme offered by mutual funds. These funds provide an ideal blend of disciplined investing and long-term growth. Children's Plans come with a lock-in period of 5years or when the child becomes a legal adult whichever is earlier, instilling a habit of staying invested for the long term.

(Cont.)

This feature allows fund managers to make high-conviction, long-term investments. Over a long period invested capital grows manifold given the power of compounding.

The inbuilt discipline of Children's plan of mutual funds due to their lock-in period combined with the stock-picking ability of professional fund managers can help add to the compounding wealth that the equity market offers. When combined with a step-up SIP, such plans can significantly enhance invested capital and help support your child's growing aspirations.

How to Start: SIPs and Step-Up Options?

Starting early and investing regularly can be the winning combination for parents looking to create substantial savings for their child's future. A Systematic Investment Plan (SIP), where you invest a fixed amount monthly, is one of a great way to invest into Children's Funds offered by Mutual Funds. With a step-up SIP, you can gradually increase your monthly contribution, aligning your investment growth with rising incomes and aspirations. This helps modest initial investments to grow into a sizable amount by the time your child needs it.

The Flexibility to Invest Additional Funds

Children's Plans also allow flexibility to add lump sum investments. Whether it's an Annual bonus or a birthday gift received from family, these contributions can go directly toward building a robust fund for your child's future. Such flexibility seeks ensures that any additional inflows can be used effectively to boost your child's financial corpus, providing peace of mind as they reach for their dreams.

A Final Thought for This Children's Day

This Children's Day, consider how Children's Plan of mutual funds could play a critical role in securing your child's future. By harnessing the power of long-term equity investments, parents can create an investment that grows alongside their love for their children. Thoughtful and disciplined financial planning today can make all the difference tomorrow, helping children achieve their dreams without financial constraints.

Investing in children plans of mutual funds isn't just about money; it's a testament to the hope, love, and support that parents have for their child future. So, as you celebrate Children's Day, take a step toward fulfilling those dreams—start investing wisely for a future as bright as your child's potential.

*Source: Bankbazaar Survey. Data as of July 2023 (Latest Available Data), Bloomberg

(The author Suresh Soni is CEO, Baroda BNP Paribas Asset Management India. Views are own)

Mutual fund monthly SIP inflow crosses Rs 25,000 crore mark for first time

The monthly mutual fund SIP crossed the Rs 25,000 crore mark for the first time in October and stood at Rs 25,323 crore against Rs 24,509 crore in September.

The monthly SIP contribution was recorded at Rs 16,928 crore in the same period a year ago.

The mutual fund folios were at all-time highs of 21,65,02,804 in October. The retail mutual fund folios, which include equity, hybrid, and solution-oriented schemes, were also at an all-time high at 17,23,52,296 for October as compared to 16,81,61,366 for September.

The retail AUM, which includes equity, hybrid, and solution-oriented schemes, stood at Rs 39,18,611 crore for October as compared to an AUM of Rs 40,44,098 crore in September. The total number of SIP accounts were the highest ever at 10,12,34,212 in October as compared to 9,87,44,171 in September.

MFs/RIAs will be responsible for investor data protection and any output if they use AI

SEBI has issued a draft guidelines to allow market intermediaries like asset management companies and registered investment advisers to leverage artificial intelligence (AI) and machine learning (ML).

According to the proposed norms, while market intermediaries can leverage AI and ML to provide value added services, they will be responsible for investor data breach by AI and ML.

Also, the market intermediaries will have to take responsibility of output generated by such tools. In addition, such tools should comply with the SEBI regulations.

SEBI defines AI as, “The expression “Artificial Intelligence” is understood to focus on executable programmes in machines and computers that can learn, reason and act in ways that would normally require human intelligence. AI techniques are designed to learn from analysing data sets and perform on the basis of minimal or without any human assistance. AI uses ‘Machine Learning’ techniques including natural language processing (voice to text, text to systems, robo chat bots, etc), neural networks, statistical heuristics, feedback mechanism, etc, including a combination thereof to analyse large amounts of data, learning from such data and performing tasks without explicit instructions.”

As market indices continue to slide, should mutual fund investors halt their SIPs for the time being?

Benchmark indices have fallen over 10 percent from their peak, retail investors have started feeling pangs of the market correction. This is enough to dissuade scores of retail investors to continue to invest. Nifty has fallen over 10 per cent from its record high of 26,277, while the Sensex slid over 8,500 points from its peak.

It is yet not a bear market which is defined by a fall of 20 percent, retail investor portfolios are already witnessing signs of significant distress.

Some retail investors feel that it is time to wait and watch instead of continuing to invest. Some of the questions that bother investors these days include the following:

Should we wait any longer before the market corrects to its true valuation? Why invest when the market is falling continuously? Since there is more correction that lies ahead, why not wait for some more time?

There may be some substance in these statements but it is perhaps true for the lumpsum investors and not for the SIP investors. Let us explain how.

When investors buy mutual fund units during the market fall, the average price of their mutual fund units declines, thus raising the prospects of earning higher gains during the bull run. Additionally, when you buy across the entire market cycle (s), the total cost gets averaged out - which effectively means that you do not need to wait for the ‘right’ price to buy. The idea behind this is this: keep buying at the regular intervals and relax!

Besides, the market correction is seen as a good time to buy. "Instead of stopping the SIPs, investors should capitalise on the market correction and use this as an opportunity to buy more," argues Deepak Aggarwal, a Delhi-based chartered accountant and financial advisor.

Why mutual fund inflows aren't enough to counter Indian market volatility

Indian equities, which had largely been shielded from market volatility over the past few years thanks to strong macros, robust earnings, and consistent domestic inflows, are now facing a tough challenge. The past month has witnessed a sharp 8% drop in benchmark indices, with the broader market seeing even steeper corrections. As of November 5, 2024, over 125 stocks in the NSE 500 index have dropped more than 25% from their recent peaks, showed an analysis by Axis Mutual Fund.

The Role of Foreign Institutional Investors (FIIs):

A key factor behind this market downturn is the significant outflow of foreign funds. In October 2024, FIIs pulled out $12 billion, reversing the positive trend seen in the previous two fiscal years. This abrupt shift in foreign sentiment has put pressure on Indian equities, despite strong domestic inflows.

Domestic Flows: A Double-Edged Sword

This market swing is particularly surprising considering the sustained and strong inflows into domestic mutual funds (MFs). In September alone, domestic mutual funds saw inflows of Rs 344 billion (US$4 billion), and in the first half of FY25, mutual funds recorded a massive US$30 billion in inflows. SIP flows have also reached new heights, with a monthly investment of Rs 245 billion (US$2.9 billion) in September, continuing into October, showed the analysis. But they have not been sufficient to offset the impact of FII selling. The increased supply of equity shares through IPOs, QIPs, and secondary market sales has further exacerbated the situation.

Foreign Selling: A Major Driver of Market Downturn

According to market experts, the primary driver of market downturn has been foreign selling, which reached an unprecedented US$12 billion in October alone. This was a sharp reversal in sentiment compared to the previous fiscal year when foreign institutional investors (FIIs) had been net buyers of Indian equities.

Several factors have contributed to the outflow of foreign capital, including disappointing earnings reports, rising US 10-year yields (up by approximately 80 basis points since mid-September), a stronger US dollar (which has appreciated by 4.2%), and shifts in global capital flows towards Chinese and Japanese markets. These factors have all played a part in dampening the appetite for Indian equities among foreign investors.

Equity Supply Surge Outstrips Mutual Fund Inflows

Another major theme impacting Indian equities is the increasing pace of equity supply, which has created a vulnerability in the market. During Q2 FY25, the supply of equity in the form of IPOs, Qualified Institutional Placements (QIPs), and secondary stake sales from promoters and private equity amounted to US$21 billion (Rs 177,000 crore), significantly outpacing the $18 billion (Rs 142,000 crore) that flowed into equity mutual funds.

This large capital-raising activity could contribute to further investments in capex and acquisitions across various sectors, including power, real estate, IT, healthcare, retail, and auto.

"The breadth of companies looking for capital is wide. Power sector (US$4.7 bn) and real estate (US$4.1 bn) stand out with largest capital raises each planned for this year. Services companies (IT, Logistics) at US$2.3 bn, Retail (Q-commerce, FMCG) US$2.9 bn, Healthcare at US$2.3 bn, metals at US$2.2 bn and auto at US$3.1 bn are other sectors witnessing material capital raises," noted the report.

Active equity mutual funds' cash holdings top May 2023 highs

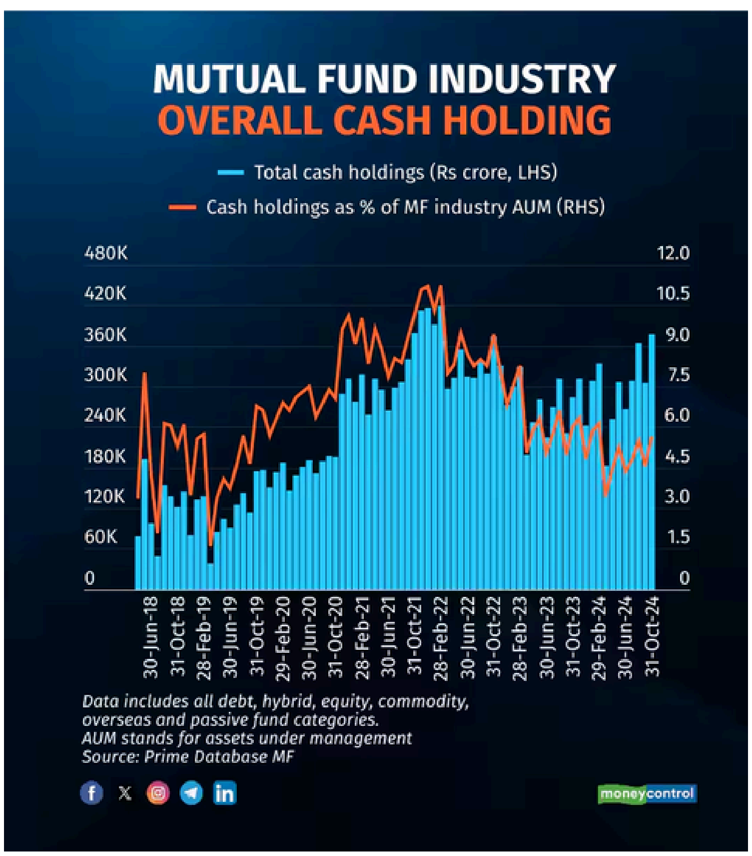
Active equity funds continued to sit on cash piles in October as cash holding as a percentage of category assets reached 4.91 percent, the highest level since May 2023, showed data available with Prime Database MF.

Active equity mutual funds had combined assets under management (AUM) of around Rs 30 lakh crore crore as of October end.

The category of funds includes active multi-cap, large-cap, large & mid-cap, mid-cap, small-cap, dividend yield, contra, value, focused, sectoral/thematic, ELSS and flexi cap schemes.

On an absolute basis, however, the cash holdings of all the active equity funds moderated to Rs 1,46,957 crore at the end of October 2024 against Rs 1,47,588 crore in the previous month.

This shows that mutual funds were engaged in buying opportunities at lower levels, but were still keeping some of the powder dry for future buying.



Data further showed that the overall cash holdings as a percentage of the industry AUM rose to 5.64 percent or Rs 3.77 lakh crore at the end of October. This figure includes debt, hybrid, equity, commodity, overseas and passive fund categories.

At Rs 3.77 lakh crore, the mutual fund industry's overall cash holding was highest since February 2022, when it was Rs 4.19 lakh crore.

The rise in cash holdings by mutual fund houses has come amid weakness in equity markets. Indian indices ended lower for the sixth consecutive session on November 14, with Nifty below 23,550. Sensex fell 0.14 percent to 77,580.31.

Selling in Indian equity markets over the past one-and-a-half months has largely been done by foreign institutional investors (FIIs) while domestic institutional investors (DIIs), especially mutual funds, have been on the buying side.

"As a percentage, the cash component keeps moving even if funds don't do anything. Let us say if my cash is 10 percent and stocks are 90 percent, and if stocks fall by 10 percent, which is what Nifty has done, then the stock value falls, but the cash remains where it was. However, as a percentage, it may look higher," said Rajeev Thakkar, Chief Investment Officer, PPFAS Mutual Fund.

Experts also believe that retail investors have a clear intent to deploy more cash into the equity markets while institutions have been trying to play it smart

NFO (New Fund Offer)

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