Sakthi Financial Services

WEEKLY UPDATE

16th August 2023 Volume :- 23.24.17

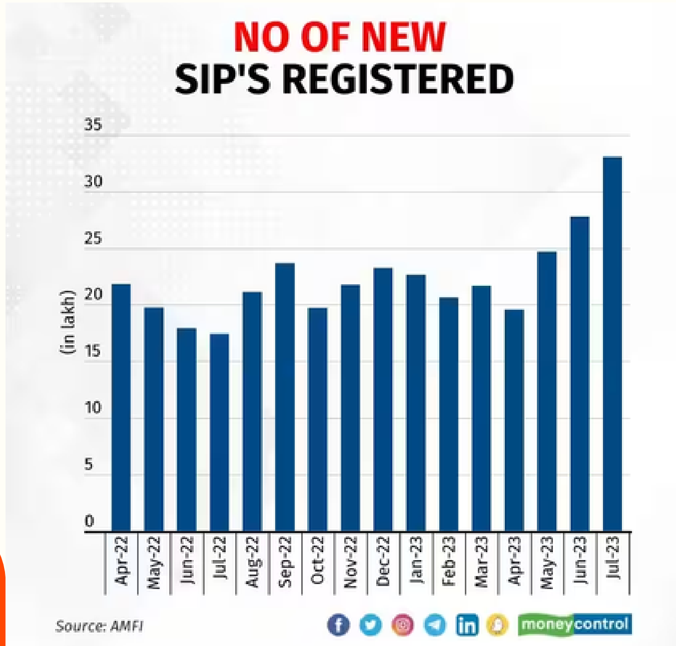
BSE SENSEX	NIFTY 50	USD TO INR
65539.42	19465.00	82.95

SIPs ride the market rally with record 33.06 lakh fresh accounts in July

Money pouring into mutual funds through systematic investment plans (SIPs) continues to be on the rise, with July logging a fresh all-time high in new SIP account registrations of 33.06 lakh. This is more than 20 percent higher than the previous record of 27.78 lakh seen in June.

Interestingly, Gross SIP for the June was at Rs 14734 crore while Net SIP stood at Rs 5608 crore. Net SIP to gross SIP ratio was at 38 percent which is falling from the last few months compared to 70 percent last year. In April this ratio was 51 percent against 57 percent a year ago while in May it was at 39 percent versus 66 percent last year.

Over the last year, an average of approximately 23.30 lakh new SIP accounts were added each month, leading to a cumulative addition of 279.58 crore accounts.



Analysts said there is an increase in redemptions as many investors are taking some money off the table after the recent rally which saw the Nifty come within kissing distance of 20,000. Market experts said some investors may have decided to discontinue their SIPs as they feel the market is likely to be stagnant till the general elections are over.

Many analysts are structurally positive on the domestic economy which would lead to strong equity performance. There might be a temporary blip due to global disruptions like recession, China entering deflation or China's export degrowing etc.

(Cont.)

Key Highlights

- 43 equity mutual funds offer over 20% in three years; toppers offer over 35%
- RBI maintains the pause, keeps the repo rate at 6.50%
- MF AUM crosses Rs.46 lakh crore AUM
- Onboarding of MF/PMS clients simplified
- Mutual fund houses are expected to go slow on NFOs this year

The government reforms like PLI, Make in India, GST etc have led to strong equity performance, which is also positive for Mutual Fund industry, analysts added.

According to Siddharth Khemka, head of retail research at Motilal Oswal Securities, the trend suggests that SIP figures are anticipated to maintain their robustness in 2023. This is attributed to the growing recognition among investors regarding the significance of consistent investments through this approach.

“Retail MF SIP flows is a well recognised success story. It reflects growing awareness about the importance of long term investing. However, the rising churn reflected in net SIP inflows shows a different story. Generally retail mindset is perhaps still short term. Or investors have turned cautious given the new high level. Whatever the reason there is clearly absence of euphoria at new peak level unlike the past experiences”, Dua added

"The market is attracting new investors as indices have been showing strength month after month,” said Amar Ranu, analyst at Anand Rathi Shares and Stock Brokers. “AMFI’s efforts to market SIPs through different ad campaigns like Mutual Fund Sahi Hai also helped it grow and find acceptability amongst investors", Ranu added.

“We believe that the attempt to time the market does not really work well. Investors, especially investing thru SIP, need to keep picture in mind of multi-year upcycle in the Indian economy and the huge wealth creation opportunity in equity market over the next 5-8 years” said Gaurav Dua, Sr VP & Head – Capital Market Strategy, Sharekhan by BNP Paribas.

43 equity mutual funds offer over 20% in three years; toppers offer over 35%

Around 43 equity schemes have offered more than 20% in a three-year horizon, a study of returns by ETMutualFunds showed. ETMutualFunds considered the daily rolling returns of 204 equity schemes that have completed three years in the market.

Around 43 schemes from contra, ELSS, flexi cap, focused, large & mid cap, mid cap, multi cap, and small cap categories offered more than 20% returns in three years. Large cap fund and value categories failed to offer more than 20% returns in the three-year horizon. There were 26 large cap and 14 value funds that have completed three years in the market.

The top performing schemes offered more than 35% in three years. Bank of India Small Cap Fund topped the return chart with 37.11% returns, followed by Canara Robeco Small Cap Fund (37.08%) and Quant Small Cap Fund (36.15%). Around eight schemes offered more than 30% in three-years.

Around 15 small cap schemes managed to offer more than 20% in a three-year horizon. Despite offering double-digit returns, some schemes did not make it to the list as they offered less than 20%. One should always consider their risk profile, investment horizon and goal before making investment decisions. Past performance does not guarantee future performance.

Around 10 mid cap funds, five focused funds, four flexi cap and large & mid cap funds, three ELSS, and one contra, and multi cap fund also featured on the list.

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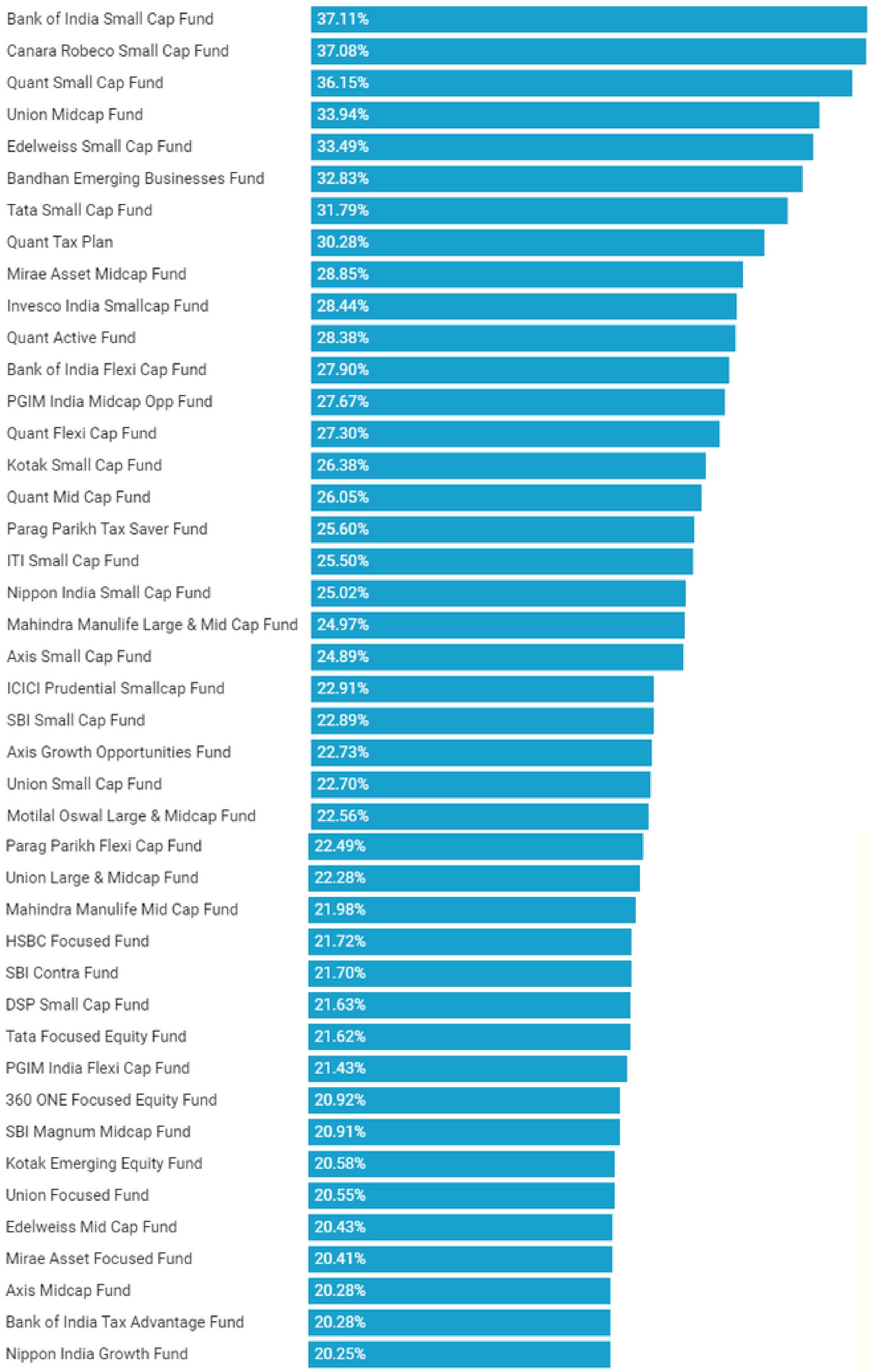
Schemes that offered more than 20% in three-years



RBI maintains the pause, keeps the repo rate at 6.50%

RBI at its Monetary Policy Committee (MPC) has kept the repo rate unchanged at 6.50%.

This is for the third consecutive time that the Central Bank maintained the pause. It first hit the pause button in April 2023 after a cumulative rise of 250 bps since May 2022.

Sharing the rationale, RBI said in a press release, “Domestic economic activity is holding up well, supported by domestic demand in spite of the drag from weak external demand. With the cumulative rate hike of 250 basis points undertaken by the MPC working its way into the economy, the MPC decided to keep the policy repo rate unchanged at 6.50 per cent, but with preparedness to undertake policy responses, should the situation so warrant.”

It further said, “The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth.”

Deepak Agrawal, CIO-Fixed Income, Kotak MF believes that RBI is likely to stay on hold for the rest of the current year 2023. He said, “RBI prefers to be in ‘wait and watch’ mode to check if the recent food price inflation is getting generalized and prefers to keep rates on hold and keep the monetary policy unchanged.”

From an investment perspective, Sandeep Bagla, CEO, Trust MF sees this as the right time to add duration to a portfolio. He explained, “Next few months would be a good opportunity to add duration to the portfolio with a 12-month investment horizon.”

He added, “It would be difficult for risky assets to perform in the face of the headwinds caused by tight monetary and financial conditions.”

MF AUM crosses Rs.46 lakh crore AUM

The industry average AUM recorded a new high as it crossed the Rs 46 lakh crore mark in July 2023. It stood at Rs 46.28 lakh crore, 23% higher than last year. Of this retail investors (equity, hybrid and solution oriented schemes) contributed Rs 23.77 lakh crore, which is over 51%.

Also, gross SIP inflows crossed Rs 15,000 crore for the first time and stood at Rs 15,245 crore. Moreover, the overall industry inflows turned positive to Rs 82,046 crore as against June 2023.

Equity inflows dipped from Rs 8,637 crore in June 2023 to Rs 7,626 crore in July 2023. This is partially due to investors booking profits in large cap funds which reported net outflows of Rs 1,880 crore. Also, there was a net outflow from focused funds to the tune of Rs 1,067 crore. A similar trend was observed in ELSS and flexi cap funds. However, in response to the market rally, small cap funds received the highest inflows of Rs 4,171 crore. Multi cap funds received the next-highest inflows of Rs 1,623 crore, and the flows in other equity categories was positive.

Total inflows in hybrid funds increased from Rs 4,611 crore in June 2023 to Rs 12,421 crore in July 2023. Apart from balanced hybrid fund/aggressive hybrid fund, all categories received net inflows. Among these, arbitrage funds received the highest net inflows to the tune of Rs 10,075 crore.

Good news: Onboarding of MF/PMS clients simplified

In a major development, SEBI has asked market intermediaries which include mutual funds, PMS and AIF to allow their investors to invest immediately in their product after completion of KYC process.

This means, once your client submit their KYC documents and complete the KYC process, they can invest their money immediately in mutual funds, PMS and AIFs among other capital market products. There is no need to wait for KYC validation, which usually takes 4-5 days.

With this, MFDs need not wait for KYC to be completed to onboard a new client. This will come into effect from September 1, 2023.

SEBI said, “In the interest of investors and for ease of transacting in securities market, the client shall be allowed to open an account with intermediaries and transact in securities markets as soon as the KYC process is completed.” Further, SEBI has asked KRAs to verify KYC records within 2 days of receipt of KYC records. KRAs will have to verify PAN, name, address, mobile number and email id.

Also, KRAs will have to facilitate interoperability i.e. there is no need to do multiple KYC times in capital market if an investor has done KYC once. Another important development is standardisation of KYC process across KRAs. Currently, KRAs have their own set of rules to do KYC. Further, SEBI has asked to complete KYC verification of all existing investors within 90 days.

Mutual fund houses are expected to go slow on NFOs this year. Here's why

The asset management companies (AMCs) are slowing the pace of launching new mutual funds schemes and drafted the documents for only 59 new fund offerings (NFOs) so far this year. The number is far less than 70 NFOs launched during the corresponding period in the previous fiscal year and the experts pointed out many reasons for the same.

As per experts quoted by the news agency PTI, this year the NFOs are expected to remain much lower than the 228 schemes floated in 2022 and 140 during 2021. The reason behind the phenomena is the combination of factors and other dynamics related to mutual funds which are impacted by internal and external factors.

"AMCs may be concentrating on managing and promoting their existing schemes, rather than launching new ones. This strategy allows them to maximize the returns for existing investors and maintain stable assets under management," news agency PTI quoted SAS Online founder and CEO Shrey Jain.

Moreover, the recent surge in the market to unprecedented levels might be contributing to AMCs exercising prudence in introducing new fund offers (NFOs). In times of heightened market levels like these, AMCs could be apprehensive about the potential for a market correction or downturn, as pointed out by Trust MF President and CBO Ajaykumar Gupta.

<u>Cumulative collections of nearly 20,000 crore</u>

Regarding fund mobilization, the cumulative collection from mutual funds' new fund offers (NFOs) has reached nearly 20,000 crore in 2023 up to this point. Comparatively, it was ₹62,187 crore in 2022, ₹99,704 crore in 2021, and ₹53,703 crore in 2020.

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News in Brief

Abans Holdings gets board's nod to enter mutual fund space

Financial services firm Abans Holdings Ltd on Friday said it has secured board's approval to diversify its operations and enter into the country's mutual fund business. This strategic move will position the company at the forefront of asset management services, Abans Holdings said in a statement. Helios Capital has received capital markets regulator Sebi's approval to launch a mutual fund business, Samir Arora, the main founder of the company announced. Capital market regulator SEBI has given nod to Nithin Kamath-promoted Zerodha Asset Management Company to launch mutual fund business.

Individual investors hold lion share in MF assets

AMFI data reveals that the contribution of individual investors which includes retail investors and HNIs now accounts for 57% of the total MF assets as on June 2023. Last year, individual investors contributed 55% to the total MF assets. Of the total MF assets of Rs.45 lakh crore, Rs.26 lakh crore AUM has come from individual investors, shows AMFI data.

MFDs and NDs remain crucial for the MF industry, drive 47% of business

An analysis of AUM data published as on June 2023 shows that the top 30 fund houses (in terms of June 2023 quarterly average AUM) derive 47% of their total monthly average AUM from non-associate distributors like MFDs and NDs. Direct plans, however, are not far behind as they contribute 46%. The remaining 7% is from associate distributors i.e. affiliates of fund houses.

8 out of 10 MFs have delivered positive returns in FY 2023: SEBI

Majority of schemes have delivered positive returns. SEBI data shows that 77% or 8 out of 10 mutual funds have given positive returns in FY 2023. Further, the data from the market regulator shows that 146 schemes have delivered annual returns in excess of 10%. While 450 schemes have delivered annual returns between 5% and 10%, 590 funds gave annual returns less than 5% in FY 2023. Close to 350 schemes have delivered negative annual returns and 56 of them gave less than annual returns of less than -10%.

SEBI comes out with new timeline for exit option window period for change in control of asset management company

Capital markets regulator SEBI on Friday came out with a new timeline for the exit option window period given to the mutual fund unitholders for change in control of asset management company(AMC). Under the new timeline, a change in control of the AMC cannot be made unless the unitholders of the mutual fund would be given the option to exit on the prevailing Net Asset Value (NAV) without any exit load within a period of at least 15 calendar days from the date of communication. Earlier, this timeline was at least 30 days.

Over Rs.2600 crore of MF assets remain unclaimed in FY 2023: SEBI

SEBI data reveals that the MF industry has unclaimed amount of over Rs.2600 crore in FY 2023. In FY 2022, the unclaimed amount of the MF industry was Rs.2500 crore. Unclaimed amounts of mutual funds are on account of non-encashment of dividends and maturity proceeds by investors.

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New Fund Offer (NFO)

(Source:- Economictimes, AMFI, Moneycontrol, IBJArates, Cafemutual, Livemint, etc)