SENSEX	NIFTY	USD	GOLD	CRUDEOIL
54288.61	16214.70	77.74	51027.00	8618.00

Impact of large retail inflows in the reduction of correlation between Indian and global equity markets

Over the past year, India has seen a sustained and unparalleled selling by FPIs to the tune of $18 billion. At the same time, the primary market has enabled record equity fundraising by companies. Typically, a combination of these two events implies that the money available for the secondary market is low and the indices could drift lower

However, the year saw the index journey of close to 15,000 at the start of the fiscal to close to over 18,500 before the current correction set in.

This happened because of the continuous participation of retail investors in the market. We have been pointing out that this is structural. Higher retail participation is not the usual momentum seeking new entrants at the top of the market, although that too may be one of the factors.

This time around, the entry of retail coincided with the low of the market in March 2020 and market dips continue to be bought into.

If we look at the trend of new clients of net-based brokerages, they seem to be young digital natives in their mid-20s. This is a very good age to come to the market and build an equity portfolio in a healthy manner over a long period. The strong momentum in white-collar jobs, particularly in IT and other sectors further provides support to this trend. Retail is investing directly as well as through mutual funds. Equity mutual funds have seen record inflows.

If we look at examples of economies close to us such as Malaysia and Thailand, these countries have seen their MF assets increase from sub-10% and sub-15% of GDP to over 30% and 35% respectively, from 2000 to 2022, an increase of approximately 20%.

The growth in MF AUM has closely tracked the trend of per-capita incomes in these countries. As per-capita incomes have risen, people have been able to invest more in riskier assets.

n developed markets like the US, the MF AUM to GDP is over 120%. This same phenomenon is now taking place in India. As our per capita incomes are rising, the country is changing from a country of savers to a country of investors. If the policy environment remains stable and encourages equity exposure, then the growth could accelerate.

The next decade should see India delivering a strong growth. There is a great chance that from a $3 trillion economy, we cross $5 trillion by 2027 and then double up to $10 trillion over the next 10 years. This would enable per-capita incomes in the country to rise from just over $2,000 to over $6,000 over this period, a number close to where Thailand is at the moment (over $7,000).

This implies that the period of next 14-15 years should see our MF AUM to GDP increase from the current 16% to over 30%, an addition of over 1% of GDP per year in a combination of new flows and market action, and over both debt and equity asset classes.

(Cont.)

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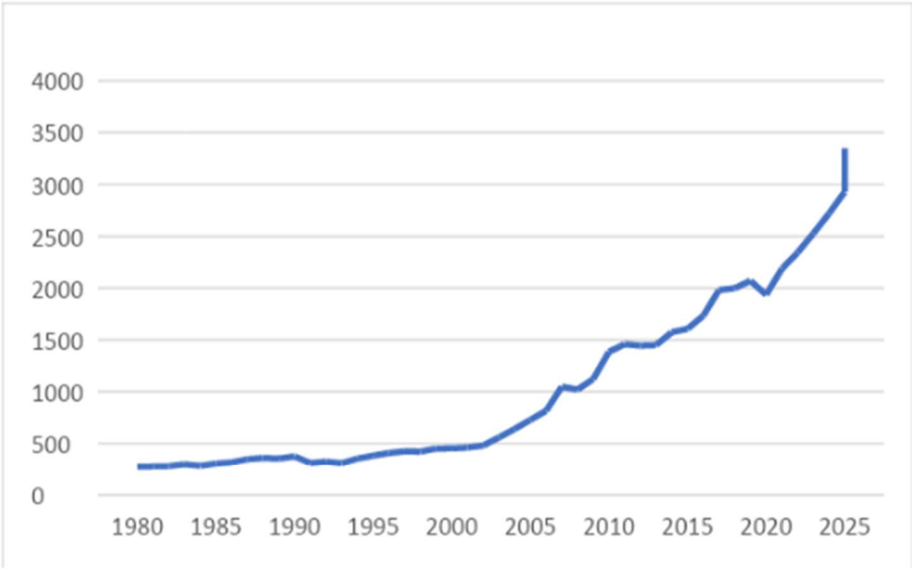

Source: Bloomberg, ASK IM Research

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Rs.37.6 trillion of assets could look close to Rs 150 trillion of assets over this period, a CAGR of 10%. Of the two asset classes, equities could grow faster than debt, given the higher return expectations from that asset class.

While these numbers seem large, they could prove conservative. Retail flows into equity MFs moved up from $12.2 billion in FY2008 to $27.4 billion in FY2022, while the journey saw a few sedate years as well. Asset allocation to equities in India is low to start with. Equities as a percentage of household assets have barely moved from 4.2% to 4.8% over FY2008 to FY2022. As India gets richer, this ratio should move into double digits.

A similar or stronger growth is expected in the assets of the Life insurance companies over this period. Direct investment of retail into the market would be over and above these investments into funds and insurance platforms.

It is this sustained strong flow of domestic money that has enabled the market to absorb the strong FPI selling and new IPOs while delivering positive returns. With FPI money becoming a smaller part of the market, the influence of policy making in the west should reduce over time and the direction of the market would be determined more by domestic participants.

Our earnings trajectory, our policymaking and the sentiment of our investors has started to matter more, as it should be. While the influence of foreign money would reduce over time (after the 2008 to 2014 period of strong inflows, we have seen FPI interest taper off), it is actually good news for FPIs also. This would enable them to invest in a market which is less correlated to the west and obtain diversification benefits.

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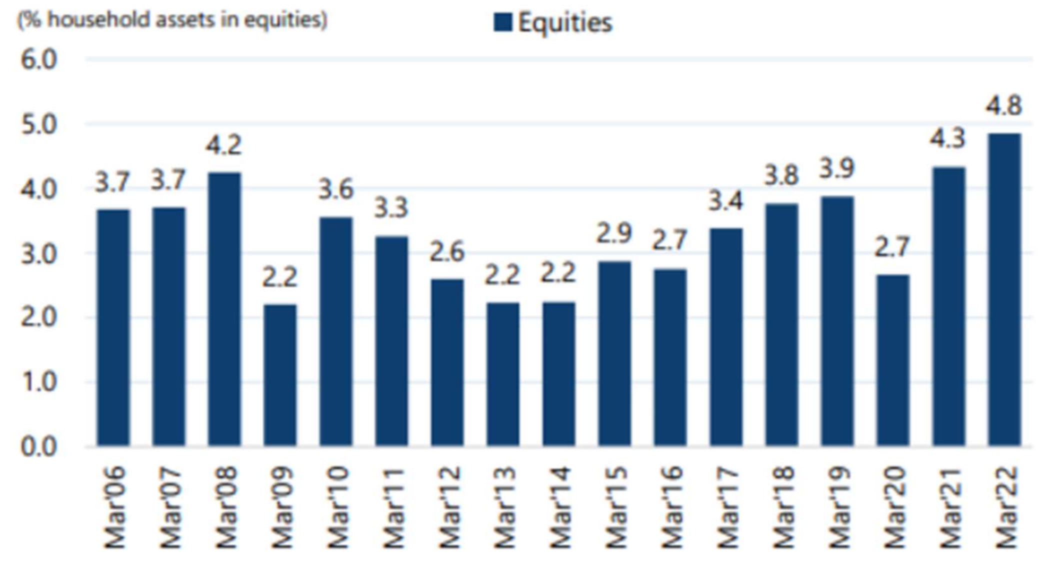

Source: RBI, ASK IM Research

SEBI allows mutual funds to launch passively-managed ELSS schemes

Mutual fund investors will soon get one more option to make tax-saving investments. The Securities and Exchange Board of India (SEBI) on May 23 allowed mutual funds to launch equity-linked savings schemes (ELSS) as passively-managed funds as well.

SEBI wants such a scheme to be based on an index that comprises the top 250 companies in terms of market capitalisation.

However, there is one caveat. A mutual fund can have either an actively-managed **ELSS** scheme or a passively-managed one, but not both. So, this will allow new-age fund houses that are focusing on passive schemes, to launch a passively-managed ELSS fund.

FPIs dump Indian equities worth over Rs 35,000 crore in May so far

Exodus of foreign money from the **Indian equity markets** continues unabated with **FPIs** pulling out over Rs 35,000 crore so far this month on concerns over the prospects of more aggressive rate hike by US Fed and appreciation of the dollar. With this, net outflow by **Foreign Portfolio Investors** (FPIs) from equities reached Rs 1.63 lakh crore so far in 2022.

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MF Bulletin: MF Industry in Apr 2022

The mutual fund industry started FY 2022-23 on a positive note. Overall, the industry assets increased from Rs. 37.57 lakh crore in Mar 22 to Rs. 38.04 lakh crore in Apr 22. Also, the net monthly fund flows turned positive to Rs. 72,847 crores in Apr 22.

Here are the other key highlights of the month gone by.

'The mutual fund industry adds 17.90 lakh folios and 6.77 lakh investors'

The MF Industry added 6.77 lakh new investors, a growth of 2% compared to March 2022. The total number of investors has now reached 3.43 crore. In terms of folio count, the numbers increased from 12.95 crore in Mar 22 to 13.13 crore in Apr 22.

'Marginal increase in T30 and B30 AUM'

As against Mar 22, T-30 and B-30 AUMs increased slightly to Rs. 31.24 lakh crore and Rs. 6.80 lakh crore, respectively.

In line with Mar 22, the proportionate share of T-30 and B-30 cities remained unchanged at 82% and 18%.

Of the total 13.13 crore folios, 56% or 7.38 crore folios were registered in T-30 cities and the balance 44% or 5.75 crore were from B-30 cities.

'Retail investors' average AUM per folio declines marginally to Rs. 1.65 lakh'

The average AUM per folio pf retail investors deceased to Rs. 1.65 lakh in April 22 from Rs. 1.67 lakh in Mar 22. The retail segment in T-30 and B-30 cities reported average AUM per folio of Rs. 2.19 lakh and Rs. 0.96 lakh, respectively.

Overall, the average AUM per folio of the MF industry was Rs. 2.90 lakh in April 2022.

'Increase in SIP accounts'

The total live SIP account increased from 5.28 crore in Mar 22 to 5.39 crore in Apr 22.

In April, the industry opened 21.82 lakh SIPs and discontinued 10.53 lakh SIP accounts. Of the total live SIP count, equity schemes were the largest contributors with an 85% share. Debt schemes and hybrid schemes form 3% and 6%, respectively.

Investors invested Rs. 11,863 crores in SIPs, of which close to 77% or Rs. 9,092 crore was through MFDs. The balance 23% or Rs. 2,771 crores came from direct plans.

'3,991 new MFDs join the mutual fund industry'

1722 individuals, 2 overseas distributors, 76 corporates and 2,191 corporate employees joined the industry in Apr 22. This took the monthly ARN registration count to 3,991, lower than 4,453 registrations in Mar 22.

Maharashtra, Gujarat and Uttar Pradesh reported close to 51% of ARN/EUIN registration in percentage term. They individually contributed 33.07%, 9.95% and 7.97% to the overall registrations in Apr 22.

Besides, 5605 MFDs (2,914 individuals, 203 corporates and 2,488 corporate employees) renewed their ARNs in Apr 22, which was higher than 4888 renewals in Mar 22.

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Mutual funds collect Rs 1.08 lakh crore via 176 NFOs in FY22 on retail investors' interest

Riding on intense retail investors' interest and a sharp rally in equity markets, asset management companies (AMCs) launched 176 new fund offerings (NFOs) in 2021-22, garnering a whopping Rs 1.08 lakh crore.

With liquidity tightening, interest rates on the rise, stock market consolidation in progress, return to work from office, there could be subdued interest in NFOs going forward. While fixed maturity plans (FMPs) category could see considerable launches, the same cannot be expected from other categories, Gopal Kavalireddi, Head of Research at FYERS, said.

Also, almost all AMCs have launched new schemes across most categories, thereby fillings the earlier existing product gaps that was created post-recategorization, he said.

"Gaps in investment objectives, interest of investor in specific themes, availability of funds for deployment, credibility and reputation of fund managers, and performance of stock markets could dictate the quantum of new launches," he added.

According to the data compiled by Morningstar India, there were 176 new fund offers (including closed-end funds and ETFs) in 2021-22. These managed to collect a staggering Rs 1,07,896 crore during their inception stage.

This was way higher than 84 NFOs floated in 2020-21 and cumulatively, these funds were able to mobilize Rs 42,038 crore.

Usually, NFOs come during a surging market when investor sentiment is high and optimistic. The stock market along with the positive investor sentiments kept surging post-March 2020, leading to the launch of higher number of NFOs.

The NFOs were floated to capitalise on the mood of investors and attract their investment as they were willing to invest at that time.

Coincidentally, over the same period, the Indian capital markets Sebi along with Association of Mutual Funds of India (AMFI) brought in considerable investor-friendly changes which included exit-load removal, entry-load capping, categorization and reorganization of mutual fund schemes, direct plans, risk-o-meter, addition of new category, Flexicap, and other policies, thus ensuing investor awareness and bringing about clarity and transparency in investments.

With the need to improve income levels, and also with a view of long-term investing, along with measures taken by Sebi and AMFI resulted in a flurry of NFOs across many categories of mutual funds-- equity and debt alike, Kavalireddi said.

Most of the schemes were launched in the index and ETF category, to support both - passive and active investors.

he maximum number of funds (49) were launched in the index fund segment, which amassed Rs 10,629 crore, followed by other ETFs (34), which collected Rs 7,619 crore and fixed-term plans (32), which mobilised Rs 5,751 crore.

In addition, investors were attracted to international funds and sectoral or thematic funds. The AMCs launched overseas funds of funds, which mopped up Rs 5,218 crore and 11 sectoral or thematic funds, which raised Rs 9,127 crore.

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Axis Mutual Fund sacks 2nd fund manager under investigation for irregularities

After sacking its chief dealer - Viresh Joshi - who was also a fund manager, Axis Mutual Fund has now sacked a second fund manager, Deepak Agarwal, who was under investigation for irregularities. In an earlier statement, the fund house said **Axis AMC** has been conducting a suo moto internal investigation since February 2022, using reputed external advisors to assist with this ongoing investigation.

Agarwal, who was an equity research analyst and assistant fund manager of Axis Consumption ETF, Axis Quant Fund and Axis Value Fund, is no longer part of these schemes.

On May 6, *Moneycontrol* broke the story that the fund house had **suspended Joshi, along with assistant fund manager Deepak Agarwal**, on allegations on irregularities.

Axis MF later confirmed that it had undertaken a a suo moto investigation

Joshi, who has spent over a decade at the fund house, was also in the role of fund manager in five schemes – Axis Arbitrage Fund, Axis Banking ETF, Axis Nifty ETF, Axis Technology ETF and Axis Consumption ETF.

Axis MF is the seventh-largest mutual fund in the country, with Rs 2.59 lakh crore of assets under management.

India considering spending additional $26 billion to fight inflation: Sources

The Indian government is considering spending an additional Rs 2 lakh crore ($26 billion) in the 2022/23 fiscal year to cushion consumers from rising prices and fight multi-year high inflation, two government officials told Reuters. The new measures will be double the Rs 1 lakh crore hit government revenues could take from tax cuts on petrol and diesel the finance minister announced on Saturday, both the officials said.

India's retail inflation rose to an eight-year high in April, while wholesale inflation rose to at least a 17-year high, posing a major headache for Prime Minister Narendra Modi's government ahead of elections to several state assemblies this year. The government estimates another Rs 50,000 crore additional funds will be needed to subsidise fertilisers, from the current estimate of Rs 2.15 lakh crore, the two officials said.

The government could also deliver another round of tax cuts on petrol and diesel if crude oil continues to rise that could mean an added hit of Rs 1 lakh crore-1.5 lakh crore in the 2022/23 fiscal year started on April 1, the second official said. One of the officials said the government may need to borrow additional sums from the market to fund these measures and that could mean a slippage from its deficit target of 6.4% of GDP for 2022-23. The Indian government plans to borrow a record Rs 14.31 lakh crore in the current fiscal year, according to budget announcements made in February.

The other official said the additional borrowing will not impact the planned April-September borrowing of Rs 8.45 lakh crore and may be undertaken in January-March 2023.

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EQUITY	3-years return (%)	5-years return (%)	Corpus (₹ cr)
LARGE-CAP			
UTI Nifty Index Fund - Growth	12.98	11.76	6,852
HDFC Index Fund - Nifty 50 Plan	12.72	11.55	5,721
Category average	12.52	11.19	
EQUITY FLEXICAP			
Canara Robeco Flexi Cap	15.56	12.26	7,285
Parag Parikh Flexi Cap	22.16	17.31	21,907
Category average	14.31	10.22	
EQUITY SMALL AND MIDCAP			
Axis Midcap	20.18	15.64	17,679
SBI Small Cap	25.53	17.51	12,098
Category average Midcap	19.49	10.80	
Category average Smallcap	22.80	12.52	
EQUITY (TAXSAVER)			
Canara Robeco Equity Tax Saver	17.60	13.34	3,629
Mirae Asset Tax Saver	18.59	14.22	11,963
Category average	13.81	9.59	
HYBRID			
BALANCED ADVANTAGE			
Edelweiss Balanced Advantage	13.47	10.02	8,008
ICICI Prudential Balanced Advantage	11.30	9.31	39,761
Category average	9.48	7.73	
ARBITRAGE			
Kotak Equity Arbitrage	4.47	5.21	24,648
Tata Arbitrage	4.56	NA	10,059
Category average	4.25	4.96	

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