Business Standard

Thu, 08 Feb-18; BS - The Smart Investor - Delhi; Size : 333 sq.cm.;
Circulation:108165; Page : 1

Equity MFs log high inflow before market fall

Investors poured ₹154 billion into schemes in January

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Mumbai, 7 February

Retail investors have poured a huge sum into equities in January amid a sharp surge in stock prices, taking the benchmark indices to all-time highs.

Equity mutual fund (MF) schemes reported net inflows of ₹154 billion ($2.4 billion), slightly less than in the preceding month but higher than the 12-month average inflows of ₹136 billion. The robust flows, however, were just ahead of the rout in the equity markets, which eroded ₹9 trillion worth of investor wealth.

The assets under management (AUMs) for the industry stood at ₹22.41 trillion in January, up from ₹21.26 trillion in the previous month. Equity AUMs, too, rose to ₹7 trillion from ₹6.9 trillion in December.

Benchmark indices have been down more than 5 per cent this month, having ended all trading sessions in losses. The fall comes amid risk aversion among global investors, caused by a sell-off in the US bond market. Higher bond yields in the US have raised inflation concerns and more-than-expected rate increases by the Federal Reserve, ending the easy liquidity cycle.

Industry observers said it would be interesting to see whether retail investors continued with their equity investments despite the turmoil. The turbulence has shocked many investors, as equity markets were largely tranquil last year. Industry players have not ruled out a fall in net inflows due to the volatility and higher taxes on equities and dividends, proposed in the Budget. They said they hoped investors would continue with their systematic investment plans (SIPs).

Since August, equity schemes received net inflows of an average ₹183 billion. The acceleration in flows was underpinned by a sharp rally in stocks, particularly small- and mid-cap ones. Investors have put ₹1.63 trillion into equity-oriented mutual fund schemes in the past year.

The strong inflows came despite fund managers sounding cautious on valuations. Nilesh Shah, managing director of Kotak Mahindra AMC, and Mahesh Patil, co-chief investment officer of Birla Sun Life Mutual Fund, among others, had recently asked investors to be careful.

"We are cautious at this stage. There could be healthy corrections this year. Investors are advised not to come to equities with a short investment horizon after seeing the past few years' high performance. We cannot stop inflows, but the investment horizon for a new investor should be 3-5 years. Not less," said Shah.

According to Patil, the markets will be volatile and it could be a challenging year for returns. "Investors should continue with their SIPs. But as far as lump-sum investment is concerned, caution should be exercised at this stage," he added.

Unlike in the past, most fund managers are not rushing to buy stocks, despite the sharp correction. Another 10 per cent fall was likely, many said.

Industry players said investors had shown maturity in the past few years by not timing the market and continuing with their regular investments. This is structurally positive for the industry.

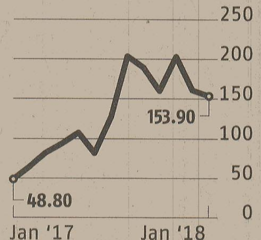
Sundeep Sikka, chief executive officer (CEO) of Reliance Nippon Life Mutual Fund, said, "Investors in India are now opening up to the idea of investments in mutual funds. It is a result of continuous work by the sector over the past decade to educate investors." Inflows into equity would only improve, he added.

The mutual fund industry saw inflows of ₹1.06 trillion in past 12 months. This was mainly on the back of nearly ₹960 billion inflows into money market liquid funds, where typically large corporate and institutional investors invest. Balanced funds continued to receive steady inflows of ₹77 billion, while gilt funds saw an outflow of about ₹12 billion. About ₹22 billion flowed out of equity ETFs during the month.

IS THE MONEY TAP CLOSING?

Equity inflows in January were at a 6-month low but still above the past 12-month average

Equity net inflows* (₹ billion)



Total: ₹1,677.02 billion; *Includes ELSS

Source : Association of Mutual Funds in India (Amfi)