

2008: the fog light for Indian Mutual Fund Industry

Amar Ranu, PGDSM** (IICM)

05/01/2009

If we categorized 2007 as the blue-moon for Mutual Fund industry, in 2008 it lost all its sheen but the story did not depict so gloomy picture. Mutual Fund Industry in India saw its highest AUM in May 2008 crossing Rs 6 trillion (Rs 6 lakh crore). As India seemed coupled in the current meltdown and it could not insulate from the cataclysm, it also bore the brunt of financial debacle. The foreign inflows dried as the developed money started flocking to their home. But the average AUM which lost 23.52 per cent as on Dec 31, 2008 as compared to Dec 2007 was much less when compared to Sensex which plummeted 52.47 per cent, the steepest in the last 30 years.

The year 2008 started in a buoyant mood with strong inflows with many new players queuing to foray into robust mutual fund industry. Some of the new players especially MNCs started well and built a comfortable position garnering good money from the market. The mutual fund industry in India shielded itself from the meltdown and the double-digit growth story continued until it got jostled due to the liquidity crisis in Oct 2008 when it lost 18.34 per cent. The regulation loopholes which favored fund managers to launch FMP NFOs at a very large scale hit them hardest due to severe redemption pressure. In FMPs' where there were not strict mandate to declare portfolios, the fund managers invested in low quality and in papers which did not match their average maturity. Finally the SEBI bawled out and the strict guidelines tightened the neck. But the distress selling due to extreme redemption pressure led to the steep fall in Oct 2008.

Looking at the total AUM, the top five players had Rs 237956 crore constituting 56.51 per cent of total average AUM. Reliance enjoyed the top slot with Rs 70208 crore while HDFC and UTI hold the second and third slot with Rs 46757 and Rs 42548 crore respectively. LIC MF is the biggest gainer with an upsurge of 23.24 per cent and for the first time it stormed into the top ten replacing Kotak and DSP BlackRock. The other players which registered a double digit rise are JP Morgan, Birla, ICICI and Canara Robecco Mutual Fund. The new players have to bore the brunt maximum due to financial liquidity crisis. Edelweiss Mutual Fund, Mirae Asset Mutual Fund and Bharti AXA Mutual Fund lost a whopping 53.14 per cent, 35.49 per cent and 31.61 per cent respectively.

The product innovations benefitted the investors to a level beyond their expectations. ETFs in different styles such as Gold, PSU, Bank et al including World Gold Fund and a blend of equity and gold by different players helped investors to diversify their portfolio to the maximum extent.

2008 would also be remembered for the consolidations and buyouts. Fortis acquired ABN AMRO Investments while IDFC acquired Standard Chartered AMC at hefty premium. Religare, the new player bought out the fastest growing LOTUS MF at throw away price as LOTUS existence reached a dangerous level which could be disastrous.

The equity debacle which led to AUM fall got neutralized to some extent with increased inflows in income funds. With a series of fiscal and monetary measures by Gol and the Central Bank RBI such as interest rate cuts, financial stimuli et al, the long-term papers such as government securities gained the

maximum. The Income Fund and Gilt Fund saw the maximum inflows. But interest rate cuts are temporary which can increase the volatility if the government starts increasing the interest rates.

2008 could not depict the rosy picture, but it was also not the murky year in mutual fund history. The year saw many new players foraying into it, many new products et al. 2009 would definitely be a year of opportunities and innovations for mutual fund players.
