In CY17, net assets of all open ended funds of the world stood at USD 49 trillion, where India’s share was marginal at ~0.6% (according to Investment Company Institute). At the same time, India lags in terms of AUM to GDP ratio of ~14% in FY17, while the world average in CY16 was ~53%. China, with a similar population as India is at ~11%. This indicates India’s current underpenetrated MF industry and the growth potential it has in the years to come.

Chart 1: Mutual fund assets to GDP ratio in CY16

Source: World Bank
Note: India’s figure is of FY17

Indian scenario

The Indian Mutual Fund (MF) industry has shown an impressive growth, especially in the last 2 decades, not just in the scale of Assets under Management (AUM) but also in terms of number of folios. The industry size almost doubled in the past 3 years (from Rs. 10.8 lk cr in FY15 to Rs 21.8 lkh cr in FY18) and quadrupled in the past 10 years (Rs. 5.1 lk cr in FY08).

FY19 (up to Dec-18) witnessed an addition of ~Rs. 1.5 lk cr in its asset base.

As on Dec-18, Indian MF industry had a total of 803 lakh folios, out of which ~76% were of equity/growth oriented schemes, ~14% of debt/income oriented schemes, ~8% of balanced schemes and remaining 2% of Exchange Traded Funds (ETFs) and fund of funds investing overseas.

The AUMs of Indian MF industry grew at a notably high CAGR of 27% from FY14-18. In FY19, AUM grew to Rs. 22.85 lk cr as of Dec-18, registering 7% growth over March-18. However, this growth rate of 7% is much lower compared with the growth rate of 21% registered in Dec-17 over March-17. Chart 2 depicts the AUMs of the industry in the past 5 years.

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Private sector MFs have continued to dominate with a share of 80.6% as of Dec-18. However, in recent years it has come down from 84.8% in FY15 to 82.7% in FY18.

**Scheme wise resource mobilisation**

Chart 3 highlights the AUMs of debt and equity schemes over the past 5 years. These 2 schemes today cumulatively account for ~86% of the total AUMs, while the rest comes from balanced, ETF and fund of funds investing overseas.

A scheme-wise pattern reveals that share of equity and balanced schemes have increased over the years, which were earlier dominated by debt schemes. Debt schemes have seen a fall in share from 73% in FY14 to 53% in FY18. At the same time, share of equity schemes has increased from 23% in FY14 to 35% in FY18. Share of balanced schemes has also risen from 2% in FY14 to 8% in FY18. This shows the movement of funds towards non-debt asset classes.

The fall in share of debt schemes continued in FY19 (up to Dec-18), where share of debt, equity and balanced schemes were ~50%, 37% and 8% respectively (compared with ~53%, 35% and 8% respectively as of March-18).

FY19 (up to Dec-18) has remained a positive year for equity schemes (net inflow of Rs. 0.9 lk cr), ETF schemes (net inflow of Rs. 0.26 lk cr) and balanced schemes (net inflow of Rs. 0.12 lk cr). However, debt schemes witnessed net outflows worth Rs. 0.42 lk cr during the year. This can be attributed to outflow of Rs 2.11 kh cr from liquid/ money market schemes which invest in short term assets such as treasury bills, certificates of deposit and commercial paper, etc. This was mainly due to a rising interest rate scenario in FY19 which made bank FDs more attractive than debt MFs, as they offer better...
returns at lower risk. Also on account of the NBFC liquidity issue, mutual funds moved away from such investment in debt instruments to an extent.

**Deployment of funds by MFs**

(a) Debt MF

Chart 4 depicts the funds invested by debt MFs in various instruments. Key observations from the chart are as below:

- There has been a steady shift towards corporate debt paper, which includes floating rate bonds, non-convertible debentures, etc. The share of this instrument in total funds deployed by debt MFs, increased sharply from 21% in March-14 to 38% of total debt AUM in March-18. Total exposure to this instrument in Dec-18 stood at Rs.4.5 lk cr.
- Investments in commercial paper (CP) have steadily risen over the past 5 years, from 15% of total debt AUM in March-14 to 24% in March-18. As on Dec-18, debt MFs invested Rs.3.8 lk cr in CPs, compared with Rs.3.06 lk cr in March-18. July-18 witnessed a peak in investments in commercial papers, due to increasing allocation to the NBFC sector.
- The share of certificates of deposit has dropped sharply over the years from 44% in March-14 to 12% in March-18.
- Investment in other asset types rose to 12% in Dec-18. This segment includes treasury bills, other money market investments, equity linked debentures/notes, asset backed securities, bank FD, etc.

**Chart 4: Deployment of funds by debt MFs (% of AUM)**

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<tr>
<td>Corporate debt (including floating rate bonds, NCDs &amp; others)</td>
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<td>31</td>
<td>31</td>
<td>37</td>
<td>38</td>
<td>34</td>
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</tbody>
</table>

Source: SEBI; Note: figures are rounded off to the nearest digit

**Exposure of MFs to NBFCs**

Along with the rise of AUM and growth of NBFC over the past few years, overall exposure of MFs in NBFCs has almost tripled from Rs. 0.7 lk cr in March-14 to Rs.2.2 lk cr in March-18. In percentage terms, share of commercial paper and corporate debt paper of NBFCs to total funds deployed rose from 14.3% in March-14 to ~17.6% in March-18, where July-18 witnessed the highest exposure of debt MFs to NBFCs in the past 5 years at ~19%.

After the liquidity crisis triggered in the NBFC space, fund houses gradually started reducing their exposure to their commercial paper. As seen in chart 5, MF exposure to commercial paper of NBFC sector declined during the period.
However, MF investment in corporate debt paper of NBFC shows a different trend (chart 6), wherein Aug-18 onwards the exposure to NBFCs rose.

**Chart 5: Exposure of MF to commercial papers of NBFCs**

As of Dec-18, Indian MFs still hold a significant proportion (~17.2% or Rs.2.3 lk cr) of their assets in commercial paper and corporate debt paper of NBFCs.

**Chart 6: Exposure of MF to corporate debt paper of NBFCs**

(b) **Equity MF**

- The top 5 sectors where equity MFs deployed their funds in March-18, have remained constant since March-14, except for a new sector- finance being included while replacing auto sector. Deployment of funds in the finance sector have risen over the past 5 years and as of Dec-18, it was the 2nd highest sector where funds were deployed by equity MFs.

- On comparing the deployment of funds in top 10 sectors in Dec-18 with March-18, a rise in share was witnessed in sectors such as bank, software, consumer non-durables, pharmaceuticals and petroleum products. The fall in share was seen in sectors such as finance, auto, construction projects, power and auto ancillaries.

**Chart 7: Top 5 sectors with highest deployment of funds by equity MFs (as a % of equity AUM)**

Source: SEBI
Concluding remarks:

- AUM of Indian MF industry witnessed an overall growth of ~160% in past 5 years.
- The growth in equity AUM of ~290% in past 5 years is more than 3 times the growth established by debt AUM of ~88%.
- Private sector MFs have continued their dominance over public sector MFs. However its share is dropping in recent years from 84.8% in FY15 to 82.7% in FY18.
- Deployment of funds by debt MFs has undergone a major shift in the past 5 years, in terms of increased allocations to instruments such as corporate debt, commercial paper and reduced investments in certificates of deposit.
- Focusing on the NBFC sector, investments in its commercial papers reduced post Aug-18, while funds deployed in corporate debt paper rose.