CARE Ratings
Professional Risk Opinion

Mutual Funds Monthly Tracker: September 2021

Debt MFs increase investment in government securities and CBLO

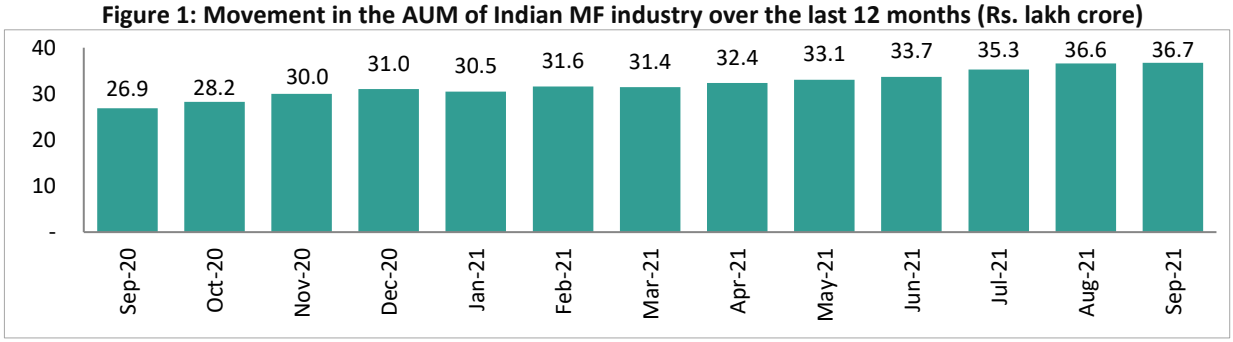
October 29, 2021 I BFSI Research

Key Highlights

- Assets under Management (AUMs) of the Indian Mutual Fund industry at Rs.36.7 lakh crore remained largely at similar level as witnessed in August 2021, however on y-o-y basis MFs AUM grew by 36.6% y-o-y in September 2021 which has translated to an asset base addition of Rs.9.8 lakh crore driven by an increase in AUM of debt funds and equity funds.
- The overall net outflows stood at Rs.47,257 crore in September 2021 as compared with a net outflow of Rs.52,091 crore in September 2020 (net inflows of Rs. 32,976 crores in August 2021).
- Since March 2021, open-ended equity schemes have witnessed the seventh consecutive monthly net inflows of Rs.8,677 crore in September 2021 (outflows of Rs.734 crore in September 2020) with SIPs crossing the Rs 10,000 crore mark.
- Index funds and ETFs (Gold & other ETFs) also saw inflows during September 2021 of Rs.3,104 crore and Rs.8,105 crore respectively, compared with inflows of Rs.398 crore in index funds and Rs.4,112 crore in the previous year (inflows of Rs.1,934 crore and Rs.8,572 crore respectively in August 2021).
- The open-ended debt mutual funds witnessed an outflow of Rs.63,910 crore in September 2021 as compared with outflow of Rs.51,962 crore in September 2020 (inflow of Rs.1,074 crore in August 2021). Also, close-ended debt mutual funds witnessed outflows of Rs.5,084 crore in September 2021 compared with outflows of Rs.997 crore in the previous year.
- The highest share (44%) of debt AUMs is in short-term instruments with maturity of less than 90 days, followed by a share of 37% in long duration instruments with maturity of 1 year and above, 10% in 90-182 days and 8% in 182 days to 1 year.
- Hybrid schemes registered inflows of Rs.3,588 crores in September 2021 compared with outflows of Rs.4,219 crores in September 2020 (inflows of Rs.18,706 crore in August 2021).

Industry Size

Figure 1: Movement in the AUM of Indian MF industry over the last 12 months (Rs. lakh crore)

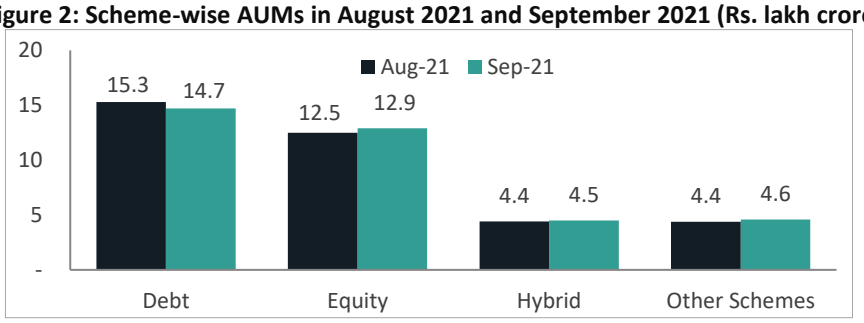


Source: AMFI

Equity schemes have the largest number of folios at approximately 756.3 lakhs which constitutes 67.7% share of the total number of folios. The number of folios in equity schemes surged by over 100 lakhs (15.4% y-o-y) from September 2020. Hybrid schemes with 104.8 lakh folios have the second-largest share at 9.4%, and debt schemes with 79.9 lakh folios have a 7.2% share. Solution-oriented and other schemes account for the balance folios (~16% share). Additionally, the average size per folio under debt-oriented schemes stood at Rs.18.2 lakh in September 2021 vs. Rs.16.6 lakh in September 2020, while the average size of each folio under equity-oriented scheme increased to Rs.1.7 lakh vs. Rs.1.2 lakh in the previous year led by higher investments.

Schemes-wise AUMs

Figure 2: Scheme-wise AUMs in August 2021 and September 2021 (Rs. lakh crore)

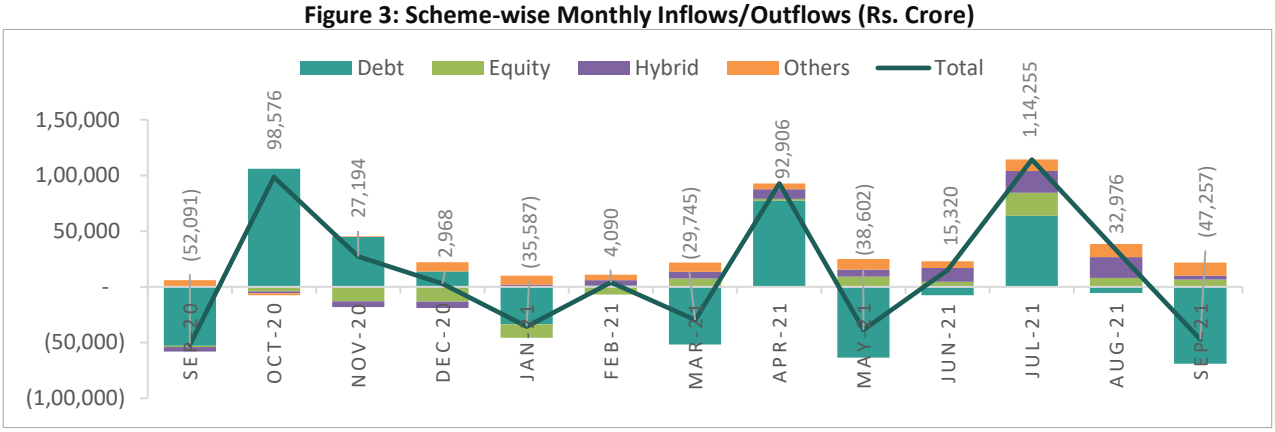


Note: Remaining includes solution-oriented and other schemes, Source: AMFI

Debt schemes accounted for the largest share of AUMs at 40.1% (vs. 50% in Sept 2020), followed by equity schemes with 35.1% (vs. 29.0% in Sept 2020) and hybrid schemes with 12.3% (vs. 11.0% in Sept 2020). The balance 12.5% (vs.10.0% in Sept 2020) is accounted by solution-oriented and other schemes.

Monthly Inflows/Outflows

Figure 3: Scheme-wise Monthly Inflows/Outflows (Rs. Crore)



Source: AMFI

During September 2020 to September 2021, the MF industry witnessed overall outflows in five months, while realizing inflows in eight months. Generally, the outflows coincided with the outflows in the debt funds. Equity AuMs increased despite witnessing outflows in the earlier eight months, primarily due to increasing valuation of the portfolio stocks.

As can be seen in figure 4, inflows in hybrid schemes have decreased from Rs.18,706 crore in August 2021 to Rs.3,588 crores in September 2021 (vs. outflows of Rs.4,219 crores in September 2020). Also, the passive funds which includes index funds and ETFs saw significant inflows during September 2021.

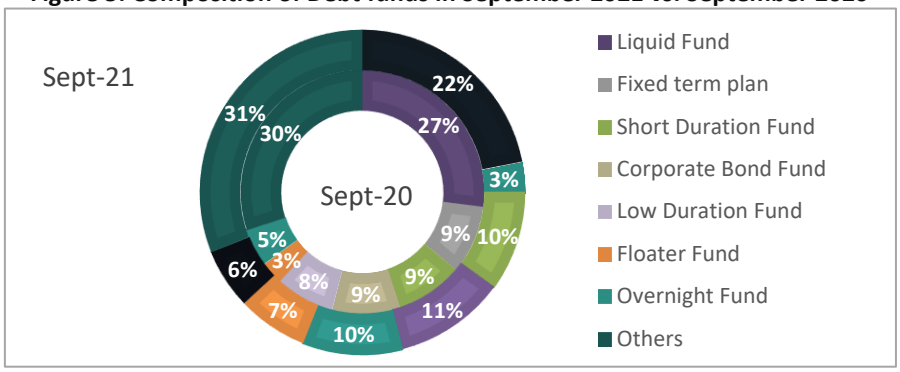
Figure 4: Inflows/Outflows from Hybrid and other schemes

Hybrid and other schemes (in Rs crore)	Net Inflow (+ve)/Outflow (-ve) for the month of Sept 2020	Net Inflow (+ve)/Outflow (-ve) for the month of Aug 2021	Net Inflow (+ve)/Outflow (-ve) for the month of Sept 2021
Hybrid Schemes			
Conservative Hybrid Fund	53	11	426
Balanced Hybrid Fund/Aggressive Hybrid Fund	(2,004)	(561)	(220)
Dynamic Asset Allocation/Balanced Advantage	(244)	16,571	5,233
Multi Asset Allocation	37	(49)	241
Arbitrage Fund	(1,732)	1,793	(3,009)
Equity Savings	(329)	941	916
Total (Hybrid Schemes)	**(4,219)**	**18,706**	**3,588**
Other Schemes			
Index Funds	398	1,934	3,104
GOLD ETF	597	24	446
Other ETFs	3,515	8,548	7,660
Fund of funds investing overseas	1,520	1,085	410
Total (Other Schemes)	**6,031**	**11,592**	**11,620**

Source: AMFI

Composition of Debt Mutual Funds

Figure 5: Composition of Debt funds in September 2021 vs. September 2020



Source: AMFI

Out of the net assets of Rs.14.7 lakh crore of the debt-oriented mutual fund AUMs as of September 31, 2021, liquid funds continue to have the largest share at 22.0% (share in September 2020: 27.0%), followed by Corporate Bond Fund at 11.0% and Short Duration Fund & Low Duration Fund at 10.0% respectively. Top six debt scheme categories account for about 62% share of debt AUMs, while the balance thirteen schemes account for the remaining 38.0%.

Furthermore, the open-ended debt mutual funds witnessed an outflow of Rs.63,910 crore in September 2021 as compared with outflow of Rs.51,962 crore in September 2020 (inflow of Rs.1,074 crore in August 2021). The outflows could be on account of redemptions by corporates to pay their quarterly advance tax requirements, however, the outflows recorded during the month were lowest compared to the previous year. Of all the open-ended debt mutual fund schemes, liquid funds (Rs.48,379 crore) and low duration funds (Rs.16,609 crore) attracted higher outflows followed by Ultra-Short Duration Fund (Rs.10,909 crore).

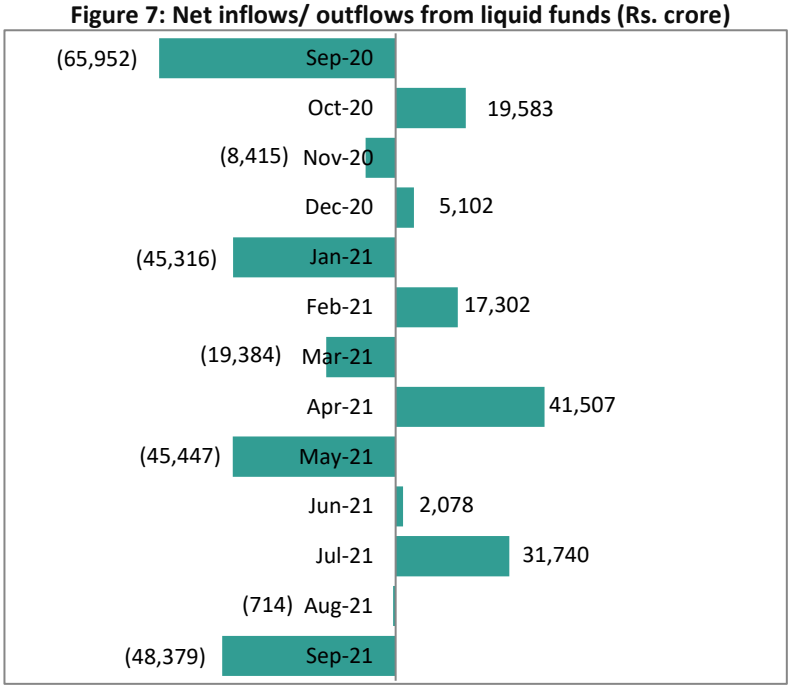
Credit risk funds have generally reported monthly outflows since April 2019. This category received inflows of Rs.396.5 crore in September 2021 (last inflow was in January 2021 of Rs.366 crore and since May 2021 till September 2021 this category has been witnessing inflows aggregating to Rs.1,296 crore). Looking at the trend in the last five months we can observe that the investors have cautiously started to return to this category in search of higher yields.

Figure 6: Net inflows/ outflows from Open-ended debt mutual fund schemes (Rs. crore)

Open-ended Debt Oriented Schemes (in Rs crore)	Net Inflow (+ve)/Outflow (-ve) for the month of Sept 2020	Net Inflow (+ve)/Outflow (-ve) for the month of Aug 2021	Net Inflow (+ve)/Outflow (-ve) for the month of Sept 2021
Overnight Fund	4,188	(11,808)	16,312
Liquid Fund	(65,952)	(714)	(48,379)
Ultra-Short Duration Fund	(4,867)	1,890	(10,909)
Low Duration Fund	1,818	(7,408)	(16,609)
Money Market Fund	(4,857)	2,048	(8,433)
Short Duration Fund	3,853	413	64
Floater Fund	5,199	9,991	5,871
Others	8,656	6,662	(1,827)
Sub Total	**(51,962)**	**1,074**	**(63,910)**

Note: Others include medium duration fund, medium to long duration fund, long duration fund, dynamic bond fund, corporate bond fund, credit risk fund, banking and PSU fund, gilt fund, gilt fund with 10-year constant duration and floater fund; Source: AMFI

Figure 7: Net inflows/ outflows from liquid funds (Rs. crore)



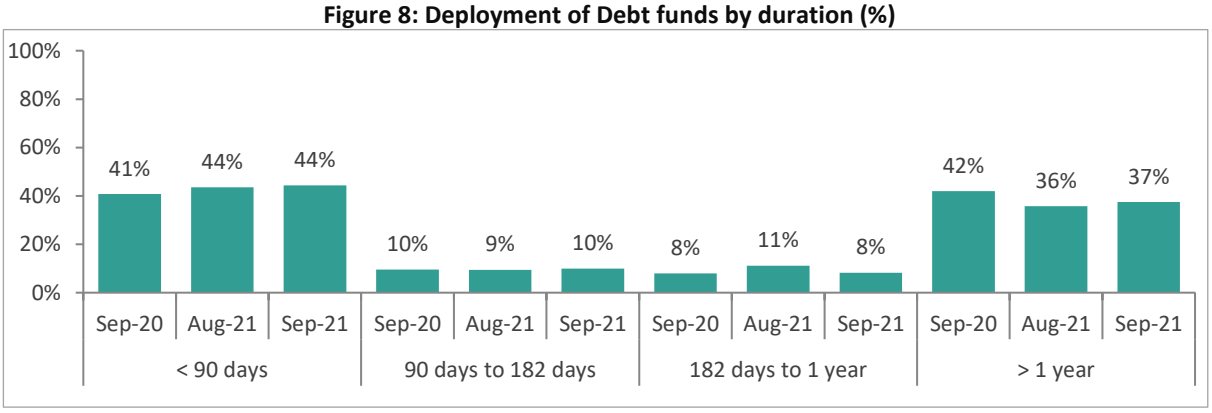
Source: AMFI

Figure 7 depicts the net inflows/ outflows from liquid funds during September 2020 to September 2021 on monthly basis. The liquid funds witnessed an outflow of Rs.48,379 crore in September 2021 compared with net outflows of Rs.65,952 crore in September 2020. Traditionally, liquid funds have witnessed quarter-end withdrawals in September as corporates withdraw money to pay their tax payment obligations.

Deployment of Debt Funds

This section analyses the various products in which debt funds were deployed by MFs. The highest share of debt AUMs is in short-term instruments with maturity of less than 90 days, followed by long duration instruments with maturity of 1 year and above. Higher exposure to shorter duration securities is possibly also an indication of market positioning due to expectation of hardening of interest rates in the next 2-6 quarters. Figure 8 represents percentage of debt funds deployed by duration in September 2020, August 2021, and September 2021.

Figure 8: Deployment of Debt funds by duration (%)



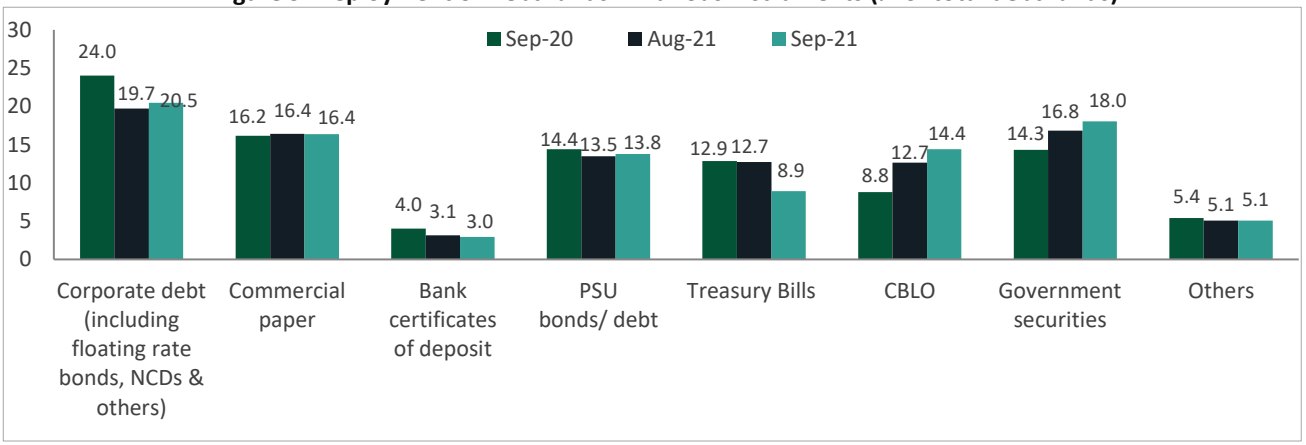
Source: SEBI

Figure 9 depicts the deployment of debt funds in various instruments in September 2020, August 2021, and September 2021. Key observations from the below figure include:

- In September 2021, the largest proportion of debt funds were invested in corporate debt papers worth Rs.3.50 lakh crore. This segment includes floating rate bonds, non-convertible debentures, etc. Compared with the previous month, assets in this category increased marginally in terms of value as well as in percentage terms, the share increased marginally.
- The second-highest category in which debt funds invested their money was government securities with Rs.3.09 lakh crore invested in this category. The category has risen from the third position in September 2020, indicative of the conservative approach.
- The investment in CPs increased compared with previous month and previous year as can be seen in Figure 9, followed by investment in commercial papers. The share of investment in commercial paper remained stable at 16.4% in September 2021 as compared with previous month.

- Funds deployed in bank certificates of deposit stood at Rs.0.50 lakh crore in September 2021 as compared with Rs.0.60 lakh crore in September 2020. Concurrently, percentage share of investments in this category have fallen from a year-ago level. Furthermore, it can be noted that the average rate of interest on CDs has fallen by 70 bps compared with previous year (4.6% in September 2021 compared 3.9% in September 2020). Moreover, the overall outstanding amount of bank certificates of deposit have decreased from Rs.0.75 lakh crore in September 2020 to Rs.0.60 lakh crore in September 2021 as banks are flush with funds and there is no significant credit growth happening. Hence, high system liquidity coupled with low credit outflow has caused the outstanding CDs to reduce as banks are not borrowing through CDs and consequently mutual fund investment in CDs have declined.
- Funds in CBLO increased to Rs.2.47 lakh crore in September 2021 from a year-ago level of Rs.1.32 lakh crore in September 2020 (Rs.2.25 lakh crore in August 2020), and the percentage share also increased to 12.0% compared with y-o-y and m-o-m basis. Additionally, as per channel check, the fund managers choose to invest in CBLO and government securities as very low spreads don't justify investing in CPs and bonds.
- Funds in PSU bonds/debt increased to Rs.2.36 lakh crore from Rs.2.16 lakh crore in September 2020; also, in percentage terms, the share increased to 14.4% compared with year-ago owing to better returns.
- Others' category includes money market investments, securitised debt, asset-backed securities, mortgage-backed securities, equity-linked debentures/notes, bank FD, etc, which has generally remained stable at around 5%

Figure 9: Deployment of Debt funds in various instruments (% of total debt funds)

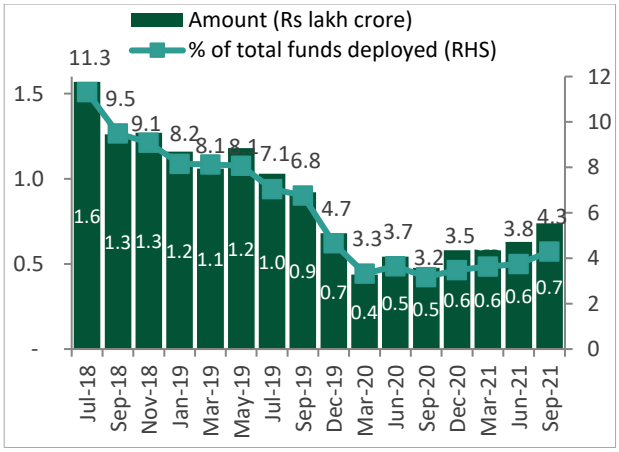


Source: SEBI; Note: figures are rounded off to the nearest digit

Overall exposure of Debt MFs to NBFCs stood at Rs.1.6 lakh crore in September 2021, marginally higher than March 2021 level (Rs.1.3 lakh crore in September 2020), which is slightly more than half of the September 2018 level (Rs.2.3 lakh crore). Accordingly, the percentage share also declined from 19.0% in July 2018 to 9.7% in September 2021.

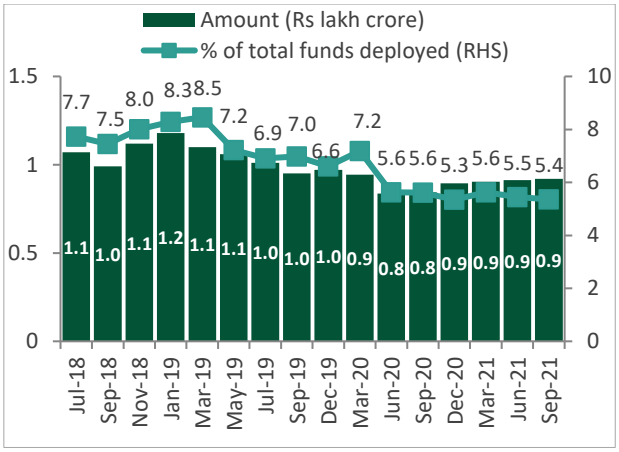
As seen in Figure 10, investments in CPs of NBFCs increased from a year-ago level of Rs.0.48 lakh crore in September 2020, after having declined for the better part of the previous year. The percentage share of funds deployed by MFs in CPs of NBFCs in September 2021 stood at 4.3% of debt AUMs (compared with 9.5% in September 2018) and the amount held stood at Rs.0.74 lakh crore (Rs.1.26 lakh crore in September 2018). As seen in Figure 11, the percentage share of funds deployed by MFs in corporate debt paper of NBFCs in September 2021 have decreased marginally compared with last year (5.6% of debt AUMs in September 2020) as well as on m-o-m basis.

Figure 10: Exposure of MFs to CPs of NBFCs



Source: SEBI

Figure 11: Exposure of MF to corporate debt paper of NBFCs



Source: SEBI

Composition of Equity Mutual Funds

Figure 12: Composition of equity funds in September 2021 vs. September 2020

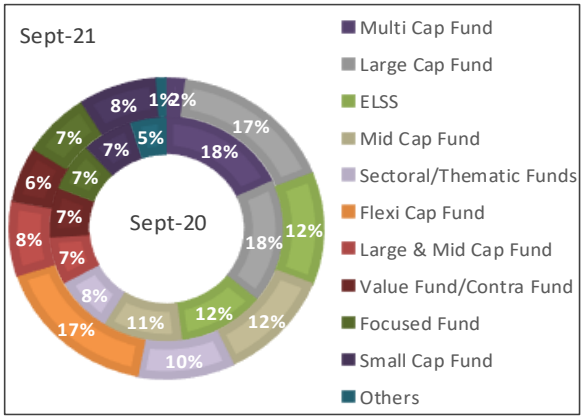
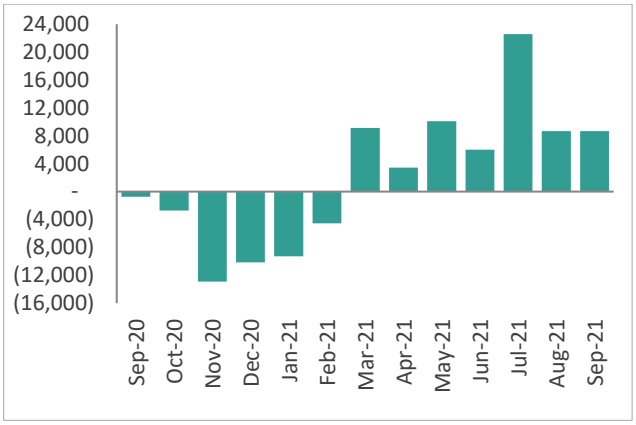


Figure 13: Net inflows/outflows in open-ended equity-oriented schemes in Rs. crore



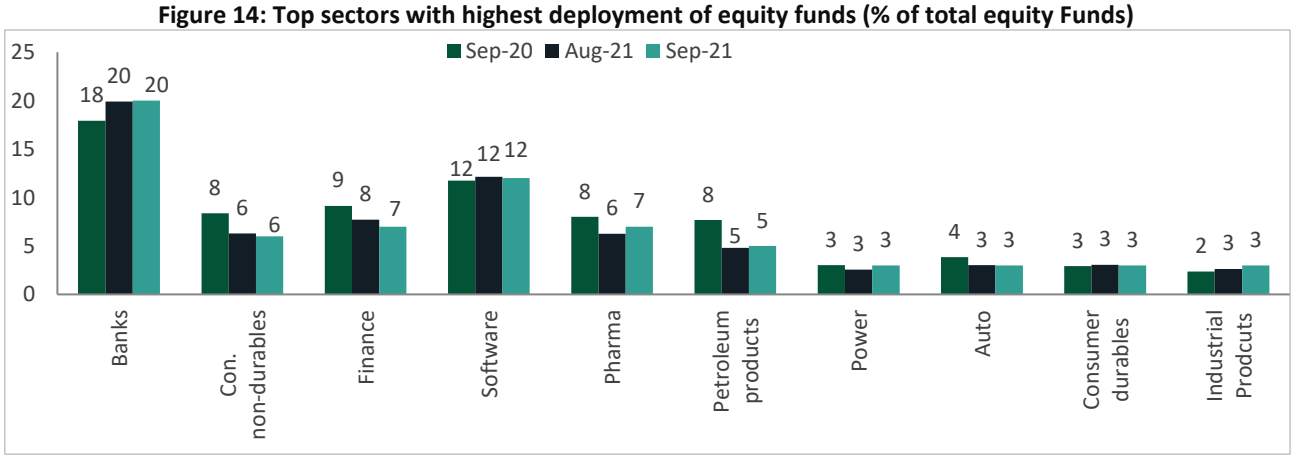
Source: AMFI

Out of the net assets of Rs.12.9 lakh crore of equity mutual fund AUMs, the largest share continues to be accounted by large cap funds and flexi fund (created in January 2021) with a share of 17% each, followed by ELSS and mid-cap fund with a share of 12% each. In September 2021, open-ended equity schemes have witnessed seventh consecutive monthly net inflows of Rs.8,677 crore in September 2021 which is almost similar to August 2021 (outflows of Rs.734 crore in September 2020). Additionally, the Sensex crossed 60,000 for the first time in September 2021 which is almost twice the pandemic lows hit in March 2020 making it one of the attractive performers among the various investment category. Multi Cap Fund witnessed the largest net inflow of Rs.3,569 crore, followed by Sectoral/Thematic Funds at Rs.2,618 crore and Flexi Cap Fund at Rs.2,009 crore in September 2021.

Deployment of Equity Funds

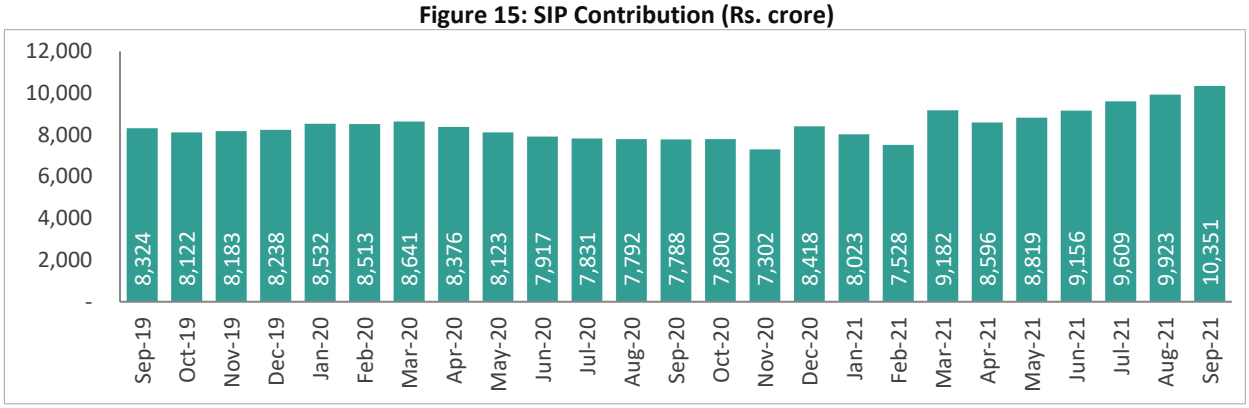
Banks, consumer non-durables, finance, software, pharma, and petroleum products were the top six sectors where equity funds invested their funds in September 2021 and they cumulatively accounted for over 57.0% share of equity funds equivalent to Rs.10.8 lakh crore. Top ten sectors in which equity funds invested their money in September 2020, August 2021, and September 2021 are depicted in figure 14.

Figure 14: Top sectors with highest deployment of equity funds (% of total equity Funds)



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

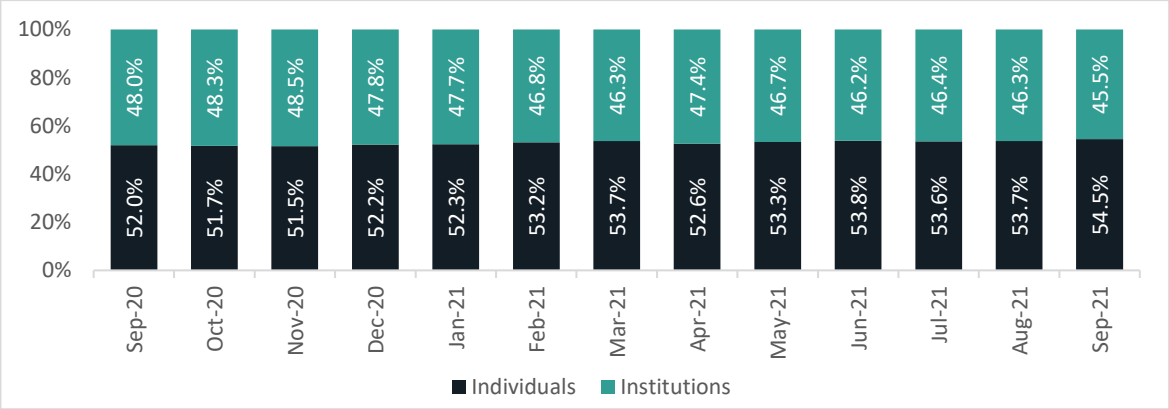
Figure 15: SIP Contribution (Rs. crore)



Source: AMFI

Total SIP accounts grew by 34.5% y-o-y and stood at 4.49 crore in September 2021 as against 3.34 crore in September 2020. SIP contribution increased to Rs.56,454 crore during H1FY22 as compared with Rs.47,827 crore during H1FY21, as investors have turned out to be cautious and are taking the SIP route instead of investing a lump sum amount. For the month of September 2021, SIP contribution increased to Rs.10,351 crore from Rs.7,788 crore in September 2020 implying a y-o-y growth of 32.9%, on m-o-m basis also the SIP contribution was higher than the previous month. For the first time the SIP contribution witnessed the highest rise of over R.10,000 crore in September 2021.

Figure 16: Investor Type-wise Composition of Mutual Fund Assets



Note: Latest data available is till July 2021; Source: AMFI

As per AMFI, equity-oriented schemes derive majority of their assets from individual investors (Retail plus HNI), while institutional investors hold a majority stake in liquid as well as debt-oriented schemes. As can be seen in the above figure, individual investors hold a marginally higher share in overall industry assets, i.e., 54.5% in September 2021 compared with 52.0% in September 2020, whereas institutional investors account for 45.5% of the total assets, of which corporates account for 95%; and the balance investors include Indian and foreign institutions or banks. In September 2021, around 26% of the mutual fund assets held by individual investors is from the B30 locations and 5.4% of institutional assets come from B30 locations. Institutional assets are majorly concentrated in T30 locations, accounting for 95% of the total.

Concluding remarks

- The Indian Mutual Fund industry recorded a milestone of Rs.36.7 lakh crore in September 2021, after witnessing fall in AUM to Rs.26.9 lakh crore in September 2020 compared with Rs.27.9 lakh crore recorded in January 2020.
- As per AMFI, the MF Industry's AUM has grown from Rs.6.42 lakh crore in September 2011 to Rs.36.7 lakh crore in September 2021 about five-and-a-half-fold increase in a span of 10 years. The industry's AUM had crossed the milestone of Rs.10 lakh crore for the first time in May 2014 and in a short span of about three years, the AUM size had increased more than two folds and crossed Rs.20 lakh crore for the first time in August 2017. The AUM size crossed Rs.30 lakh crore for the first time in November 2020 and reached Rs.36.7 lakh crore as on September 30, 2021.
- Equity-oriented schemes have largely witnessed net inflows of Rs.28,240 crore during September 2020 to September 2021, despite registering outflows in the six straight months during the last 12 months. The valuation gains have supported the rise in Equity AUM.
- Debt-oriented funds have received net outflows of which the liquid fund and low duration fund categories received the maximum outflows that capped the overall growth in AUM during the month.
- Liquid funds witnessed an outflow of Rs.48,379 crore in September 2021 compared with net outflows of Rs.65,952 crore in September 2020. However, in October 2021, liquid funds are expected to witness inflows as corporates typically invest in liquid funds once their tax payment obligations have been completed.

- Overall exposure of Debt MFs to NBFCs stood at Rs.1.6 lakh crore in September 2021, after having declined in the previous financial year.
- Banks, consumer non-durables, finance, software, pharma, and petroleum products were the top six sectors where equity funds invested their funds in September 2021.

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