

Mutual Funds Monthly Monitor: July 2021

Equity MF witnessed record high inflows during the month

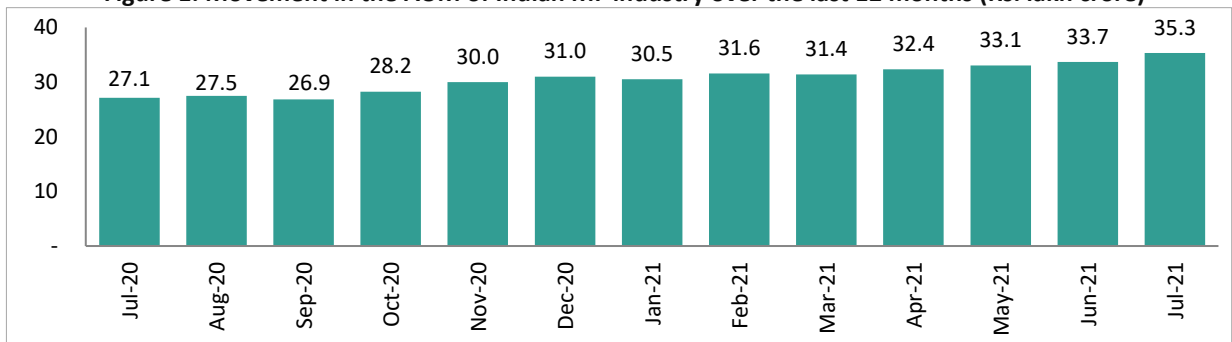
August 31, 2021 | BFSI Research

Key Highlights

- Assets under Management (AUMs) of the Indian Mutual Fund industry touched a new high of Rs.35.3 lakh crore growing significantly by 30.2% y-o-y in July 2021 which has translated to an asset base addition of Rs.8.2 lakh crore, while on m-o-m basis, the AuM increased by 4.7% driven by an increase in AUM of debt funds and equity funds.
- The overall net inflows stood at Rs.1,14,255 crore in July 2021 as compared with a net inflow of Rs.89,813 crore in July 2020 (net inflows of Rs.15,320 in June 2021).
- Since March 2021, open-ended equity schemes have witnessed the fifth consecutive monthly net inflows of Rs.22,584 crore in July 2021 (outflows of Rs.2,480 crore in July 2020) which is higher by almost four times the previous month.
- The open-ended debt mutual funds witnessed an inflow of Rs.73,694 crore in July 2021 as compared with inflow of Rs.91,392 crore in July 2020 (inflow of Rs.3,566 crore in June 2021). On the other hand, close-ended debt mutual funds witnessed outflows of Rs.9,824 crore in July 2021 compared with outflows of Rs.4,749 crore in the previous year.
- Liquid funds witnessed an inflow of Rs.31,740 crore in July 2021 (net inflows of Rs.14,055 crore in July 2020).
- Inflows in hybrid schemes have increased from Rs.12,361 crore in June 2021 to Rs.19,481 crores in July 2021 (vs. outflows of Rs.7,301 crores in July 2020).
- Index funds and ETFs (Gold & other ETFs) also saw inflows during July 2021 of Rs.1,110 crore and Rs.6,483 crore respectively, compared with outflows of Rs.182 crore in index funds and inflows of Rs.14,047 crore in the previous year (inflows of Rs.1,687 crore and Rs.3,372 crore respectively in June 2021).

Industry Size

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

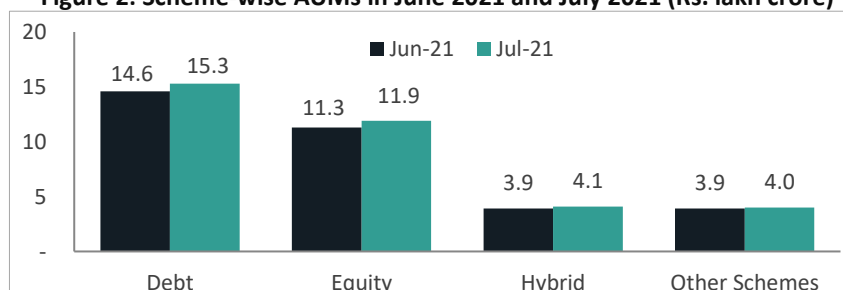


Source: AMFI

Equity schemes have the largest number of folios at approximately 710.8 lakhs which constitutes 67.4% share of the total number of folios. The number of folios in equity schemes surged by over 73 lakhs (11.5% y-o-y) from July 2020. Hybrid schemes with 98.3 lakh folios have the second-largest share at 9.3%, and debt schemes with 78.3 lakh folios have a 7.4% share. Solution-oriented and other schemes account for the balance folios (~15% share). Additionally, the average size per folio under debt-oriented schemes stood at Rs.18.7 lakh in July 2021 vs. Rs.18.4 lakh in July 2020, while the average size of each folio under equity-oriented scheme increased to Rs.1.6 lakh vs. Rs.1.2 lakh in the previous year led by higher investments.

Schemes-wise AUMs

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

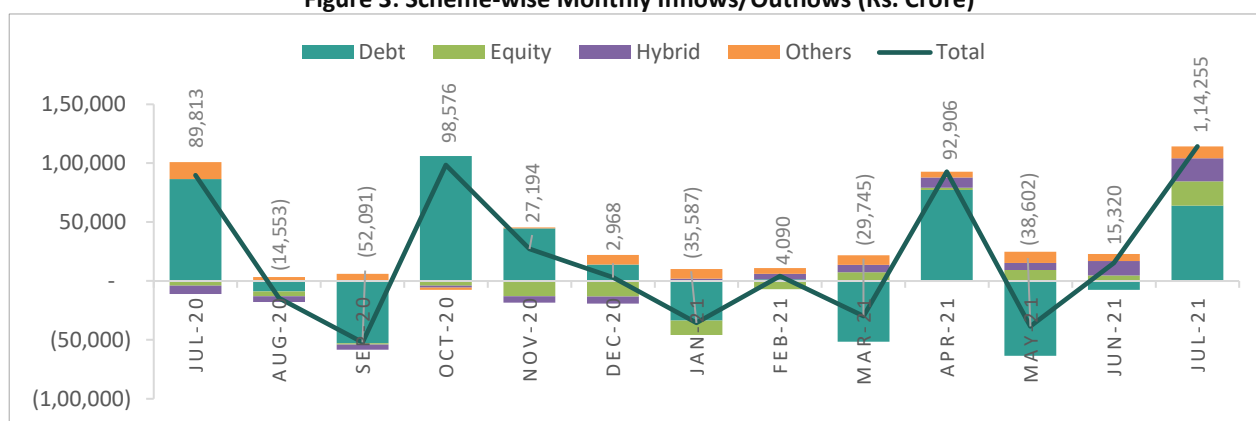


Note: Remaining includes solution-oriented and other schemes, Source: AMFI

Debt schemes accounted for the largest share of AUMs at 43.3% (vs. 51.0% in July 2020), followed by equity schemes with 33.7% (vs. 28.0% in July 2020) and hybrid schemes with 11.6% (vs. 11.0% in July 2020). The balance 11.4% (vs.9.0% July 2020) is accounted by solution-oriented and other schemes.

Monthly Inflows/Outflows

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



Source: AMFI

During July 2020 to July 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 increased from Rs.12,361 crore in June 2021 to Rs.19,481 crores in July 2021 (vs. outflows of Rs.7,301 crores in July 2020), however, as mentioned above the share of hybrid scheme in total mutual fund assets have been at a similar level in July 2021 compared to the level in July 2020. Also, the passive funds which includes index funds and ETFs saw inflows during July 2021.

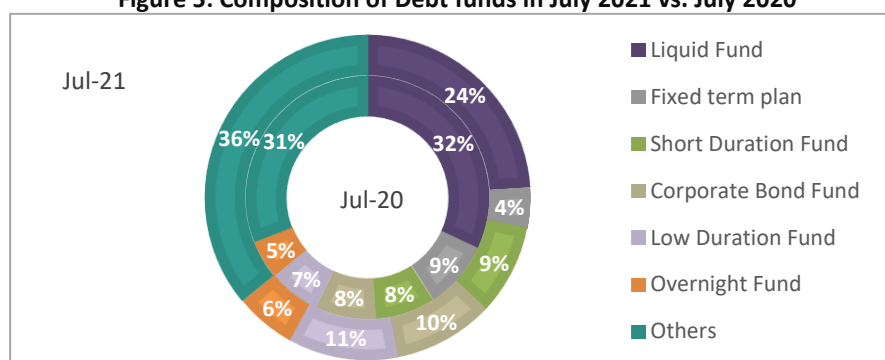
Figure 4: Inflows/Outflows from Hybrid and other schemes

| Hybrid and other schemes (in Rs crore) | Net Inflow (+ve)/Outflow (-ve) for the month of Jul 2020 | Net Inflow (+ve)/Outflow (-ve) for the month of Jun 2021 | Net Inflow (+ve)/Outflow (-ve) for the month of Jul 2021 |
|---|--|--|--|
| Hybrid Schemes | | | |
| Conservative Hybrid Fund | (155) | 634 | 726 |
| Balanced Hybrid Fund/Aggressive Hybrid Fund | (2,196) | (301) | 741 |
| Dynamic Asset Allocation/Balanced Advantage | (761) | 2,057 | 2,454 |
| Multi Asset Allocation | (82) | 89 | (9) |
| Arbitrage Fund | (3,732) | 9,060 | 14,924 |
| Equity Savings | (375) | 823 | 645 |
| Total (Hybrid Schemes) | (7,301) | 12,361 | 19,481 |
| Other Schemes | | | |
| Index Funds | (182) | 1,687 | 1,111 |
| Gold ETFs | 921 | 360 | (61) |
| Other ETFs | 13,126 | 3,013 | 6,545 |
| Fund of funds investing overseas | 401 | 792 | 2,490 |
| Total (Other Schemes) | 14,266 | 5,850 | 10,085 |

Source: AMFI

Composition of Debt Mutual Funds

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



Source: AMFI

Out of the net assets of Rs.15.3 lakh crore of the debt-oriented mutual fund AUMs as of July 31, 2021, liquid funds continue to have the largest share at 24.0% (share in June 2020: 32.0%), followed by Low Duration Fund and Corporate Bond Fund at 11.0% and 10.0% respectively and Short Duration Fund at 10.0%. Top six debt scheme categories account for about 64% share of debt AUMs, while the balance thirteen schemes account for the remaining 36.0%.

Furthermore, the open-ended debt mutual funds witnessed an inflow of Rs.73,694 crore in July 2021 as compared with inflow of Rs.91,392 crore in July 2020 (inflow of Rs.3,566 crore in June 2021). Of all the open-ended debt mutual fund schemes, liquid funds (Rs.31,740 crore) and money market funds (Rs.20,910 crore) attracted higher inflows followed by low duration funds (Rs.8,161 crore). Debt mutual fund with shorter tenure have provided better flexibility to investors amid uncertainty in interest rates as it prevented them from getting locked in for a longer duration.

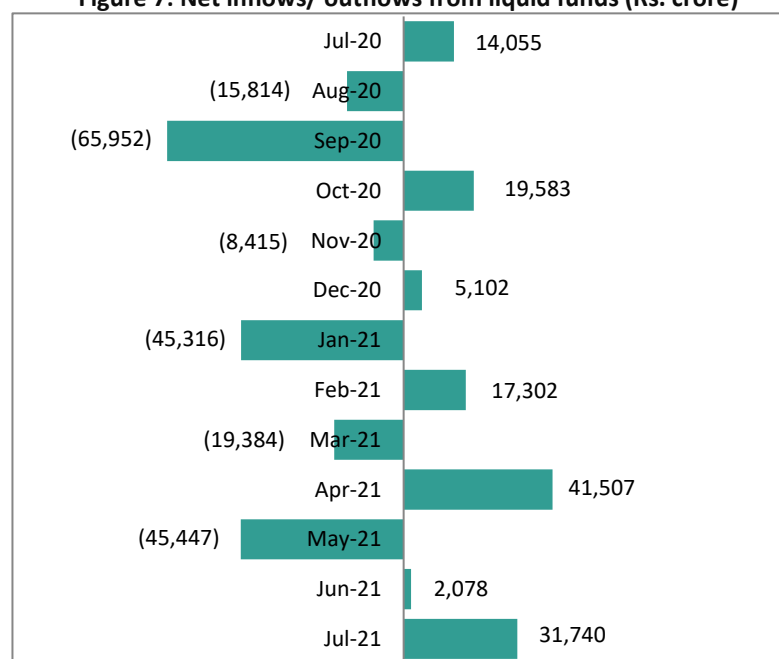
Credit risk funds have generally reported monthly outflows since April 2019. This category received inflows of Rs.301.5 crore in July 2021 (last inflow was in January 2021 – Rs.366 crore, May 2021 – Rs.258 crore and June 2021 – Rs.3,566 crore). Looking at the trend in the last three months we can observe 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 Jul 2020 | Net Inflow (+ve)/Outflow (-ve) for the month of Jun 2021 | Net Inflow (+ve)/Outflow (-ve) for the month of Jul 2021 |
|--|--|--|--|
| Overnight Fund | 4,667 | 4,460 | 5,933 |
| Liquid Fund | 14,055 | 2,078 | 31,740 |
| Ultra-Short Duration Fund | 9,333 | (2,440) | 6,656 |
| Low Duration Fund | 14,219 | 6,273 | 8,161 |
| Money Market Fund | 9,067 | (13,988) | 20,910 |
| Short Duration Fund | 11,510 | (1,057) | (1,427) |
| Floater Fund | 4,713 | 6,319 | 7,423 |
| Others | 23,828 | 1,920 | (5,703) |
| Sub Total | 91,392 | 3,566 | 73,694 |

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 July 2020 to July 2021 on monthly basis. The liquid funds witnessed an inflow of Rs.31,740 crore in July 2021 compared with net inflows of Rs.14,055 crore in July 2020. Traditionally, liquid funds have witnessed inflows in July month as corporates typically invest in liquid funds once their tax payment obligations have been completed in June. Additionally, as can be seen in figure 6, corporate bond fund, medium to long duration fund and short duration funds have witnessed outflows of Rs.3,068 crore, Rs.1,734 crore and Rs.1,427 crore respectively in July 2021 compared with other debt mutual funds.

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. Figure 8 represents percentage of debt funds deployed by duration in July 2020, June 2021, and July 2021.

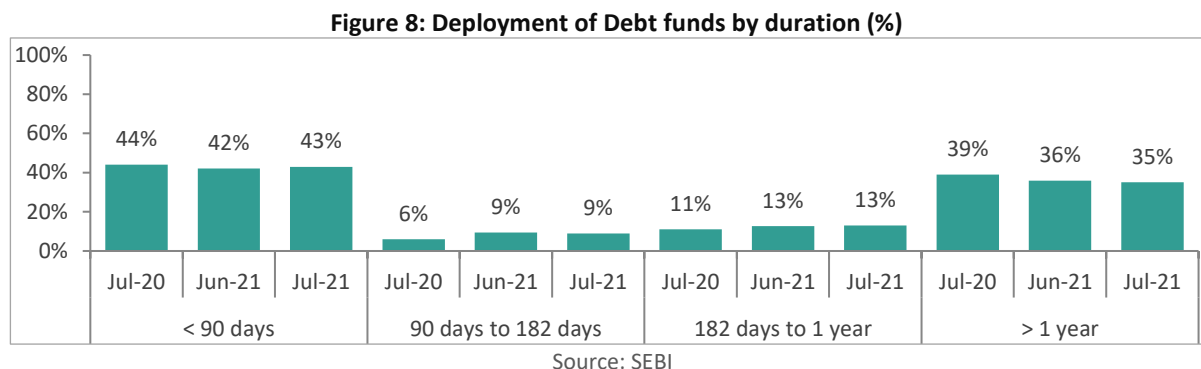
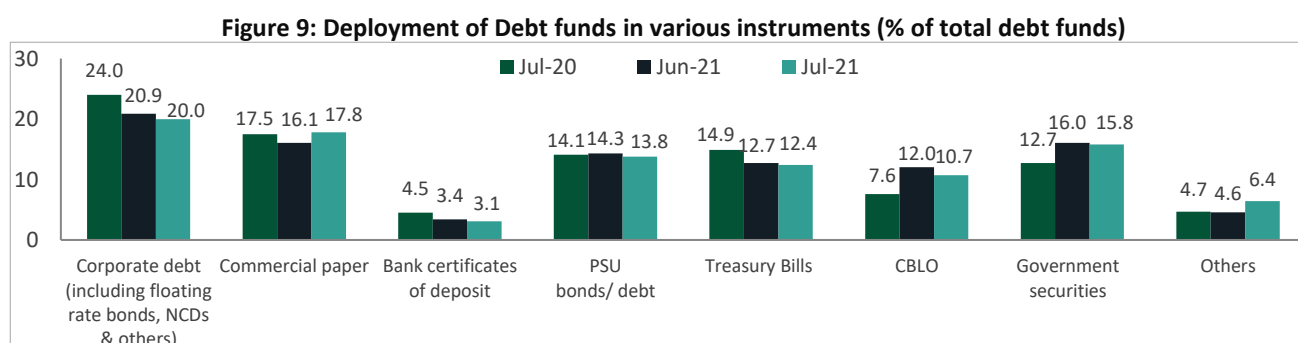


Figure 9 depicts the deployment of debt funds in various instruments in July 2020, June 2021, and July 2021. Key observations from the below figure include:

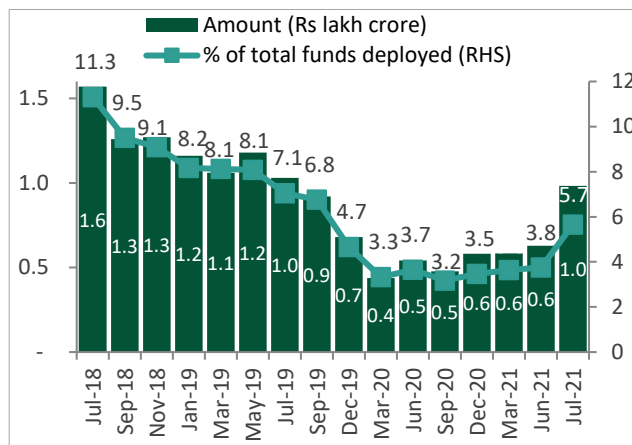
- In July 2021, the largest proportion of debt funds were invested in corporate debt papers worth Rs.3.47 lakh crore lower than a year-ago level of Rs.3.70 lakh crore in July 2020, which witnessed net outflows to the tune of Rs. 3,068 crores from corporate bond funds. This segment includes floating rate bonds, non-convertible debentures, etc. Compared with the previous month, assets in this category decreased by Rs.3,099 crore; while in percentage terms, the share declined marginally.
- The second-highest category in which debt funds invested their money was Commercial Papers (CPs) with Rs.3.10 lakh crore (Rs.2.70 crore in July 2020), of which NBFCs account for around 32%. The investment in CPs increased compared with previous month and previous year as can be seen in Figure 9.
- This is followed by investment in government securities which is the third highest in which debt funds invested (Rs.2.75 lakh crore in July 2021 vs. Rs.2.68 lakh crore in July 2020).
- Funds deployed in bank certificates of deposit stood at Rs.0.54 lakh crore in July 2021 as compared with Rs.0.69 lakh crore in the same month previous year. Concurrently, percentage share of investments in this category have also fallen from a year-ago level. Furthermore, it can be noted that the average rate of interest on CDs has fallen by 46 bps compared with previous year (4.42% in July 2021 compared with 4.88% in July 2020). Moreover, the overall outstanding amount of bank certificates of deposit have decreased from Rs.1.04 lakh crore in July 2020 to Rs.0.64 lakh crore in July 2021 as banks are flush with funds and there is no 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 therefore mutual fund investment in CDs have declined.
- Funds in CBLO increased to Rs.1.87 lakh crore in July 2021 (Rs.2.02 lakh crore in June 2021) from a year-ago level of Rs.1.17 lakh crore in July 2020 as it is a short-term instrument, and the percentage share also increased on y-o-y basis.
- As per channel check, fund managers chose to invest in CBLO and government securities as low spreads don't justify investing in CPs and bonds (deployment in CBLO and government securities increased from 7.6% and 12.7% respectively in July 2020 to 10.7% and 15.8% respectively in July 2021). The rates of CBLO has increased from the range of 3.0-3.2% in July 2020 to 3.0-3.4% in July 2021 resulting in higher investment (TREPS rate has been considered here as CBLO and TREPS are same).
- Funds in PSU bonds/debt increased to Rs.2.39 lakh crore from Rs.2.17 lakh crore in July 2020; however, on percentage terms the share declined marginally on y-o-y and m-o-m basis. The m-o-m increase in spread was the lowest in the case of PSU bonds (16 bps).
- Others' category includes money market investments, securitised debt, asset-backed securities, mortgage-backed securities, equity-linked debentures/notes, bank FD, etc.



Overall exposure of Debt MFs to NBFCs stood at Rs.1.9 lakh crore in July 2021 compared with Rs.1.5 lakh crore in March 2021 (Rs.1.4 lakh crore in July 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 10.9% in July 2021.

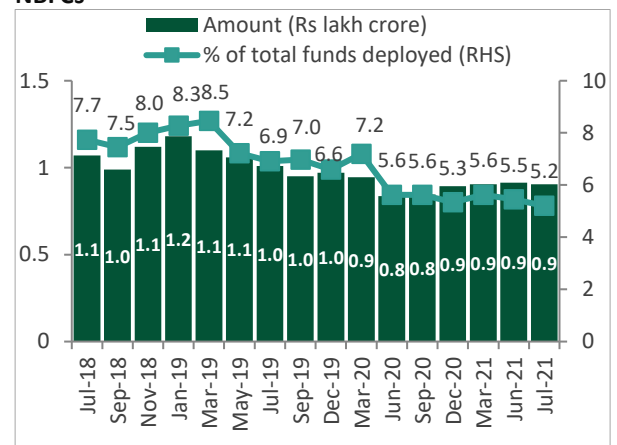
As seen in Figure 10, investments in CPs of NBFCs increased from a year-ago level of Rs.0.51 lakh crore in July 2020, after having declined for the better part of the previous year. The percentage share of funds deployed by MFs in CPs of NBFCs in July 2021 stood at 5.7% of debt AUMs (compared with 9.5% in September 2018), higher than 3.6% deployed in March 2021 and the amount held stood at Rs.0.98 lakh crore (Rs.1.26 lakh crore in September 2018). The debt MFs are gradually increasing their exposure to CPs of NBFCs following unlocking of the economy after the second wave of the pandemic. As seen in Figure 11, the percentage share of funds deployed by MFs in corporate debt paper of NBFCs in July 2021 have moderated compared with last year (5.6% of debt AUMs in July 2020) as well as on m-o-m basis.

Figure 10: Exposure of MFs to CPs of NBFCs



Source: SEBI

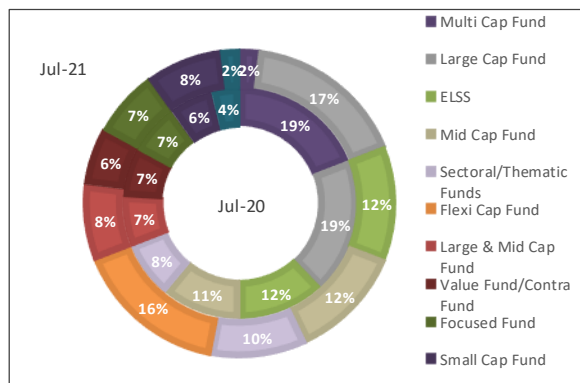
Figure 11: Exposure of MF to corporate debt paper of NBFCs



Source: SEBI

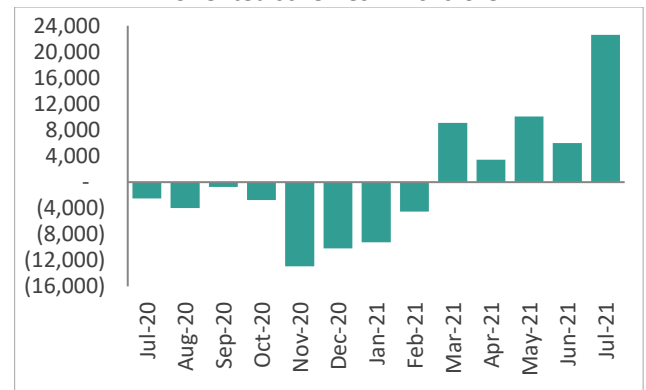
Composition of Equity Mutual Funds

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



Source: AMFI

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

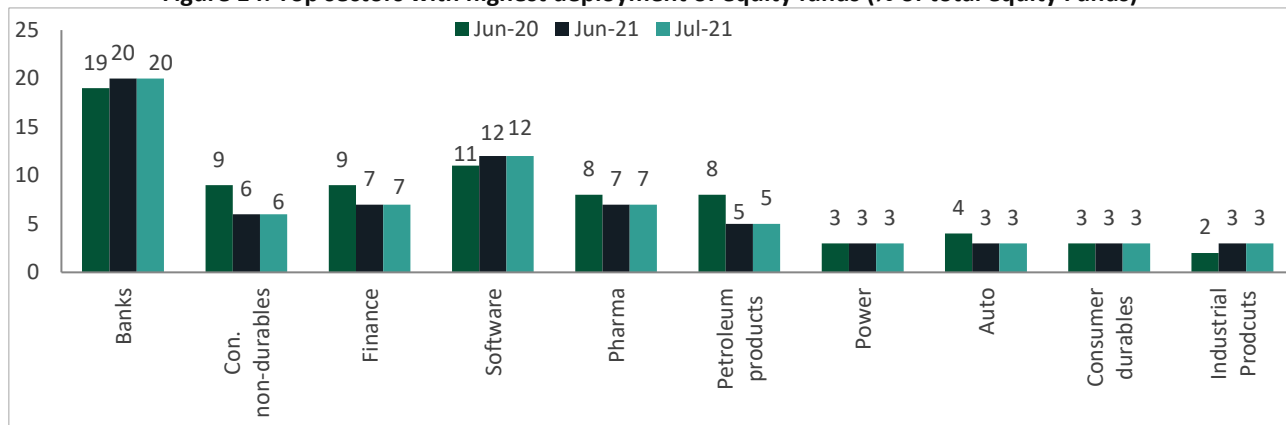


Out of the net assets of Rs.11.9 lakh crore of equity mutual fund AUMs, the largest share continues to be accounted by large cap funds with a share of 17%, followed by recently created flexi fund category with a share of 16%; ELSS and mid-cap fund with a share of 12% each. In July 2021, open-ended equity schemes have witnessed fifth consecutive monthly net inflows of Rs.22,584 crore in July 2021 (outflows of Rs.2,480 crore in July 2020) which is higher by almost four times the previous month as investors have started investing their savings that was accumulated in the past one year due to lower spending. This was coupled with better returns from equities and stability in the market. Flexi Cap Fund witnessed the largest net inflow of Rs.11,508 crore, followed by Sectoral/Thematic Funds at Rs.5,729 crore and Small Cap Fund at Rs.1,779 crore in July 2021.

Deployment of Equity Funds

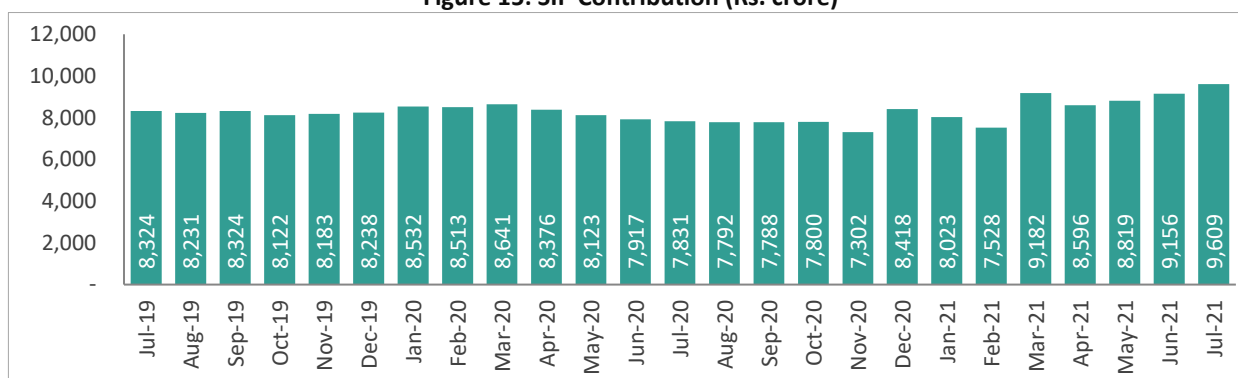
Banks, consumer non-durables, finance, software, pharma, and petroleum products were the top six sectors where equity funds invested their funds in July 2021 and they cumulatively accounted for over 57.0% share of equity funds equivalent to Rs.9.7 lakh crore. Top ten sectors in which equity funds invested their money in July 2020, June 2021, and July 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

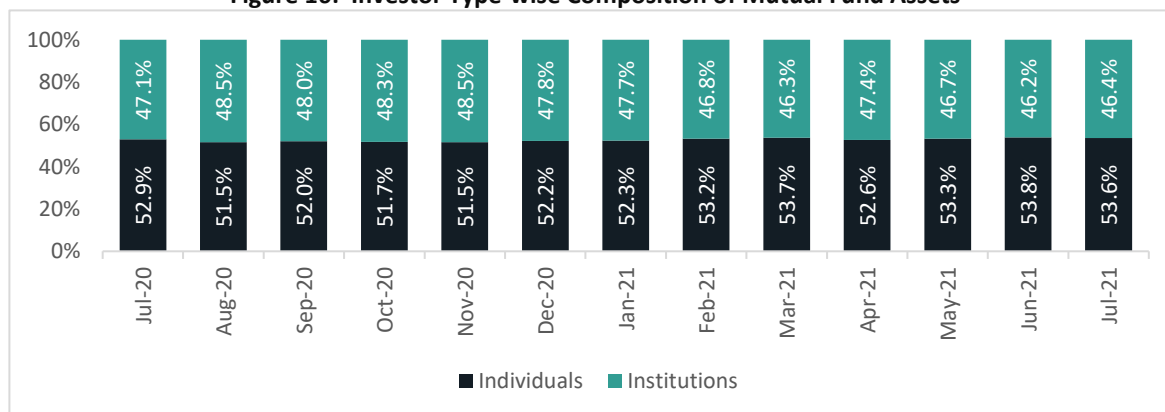
Figure 15: SIP Contribution (Rs. crore)



Source: AMFI

Total SIP accounts grew by 27.5% y-o-y and stood at 4.17 crore in July 2021 as against 3.27 crore in July 2020. SIP contribution increased to Rs.36,180 crore during 4MFY22 as compared with Rs.32,247 crore during 4MFY21, 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 July 2021, SIP contribution increased to Rs.9,609 crore from Rs.7,831 crore in July 2020 implying a y-o-y growth of 22.7%, on m-o-m basis also the SIP contribution was higher than the previous month.

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



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., 53.6% in July 2021 compared with 52.9% in July 2020, whereas institutional investors account for 46.4% of the total assets, of which corporates account for 95%; and the balance investors include Indian and foreign institutions or banks. Around 25% of the mutual fund assets held by individual investors is from the B30 locations and 5.5% 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.35.3 lakh crore in July 2021, after witnessing fall in AUM to Rs.27.1 lakh crore in July 2020 compared with Rs.27.9 lakh crore recorded in January 2020.
- During the last 12 months, equity-oriented schemes have largely witnessed net inflows of Rs.4,416 crore during July 2020 to July 2021, inspite of registering outflows in the eight straight months, however, higher inflows in July 2021 supported the overall net inflows. While valuation gains have supported the rise in Equity AUM.
- Debt-oriented funds have also received net inflows of which the liquid fund and money market fund categories have received the maximum inflows that supported the overall growth in AUM.
- The highest share (43%) of debt AUMs is in short-term instruments with maturity of less than 90 days, followed by a share of 35% in long duration instruments with maturity of 1 year and above, 13% in 182 days to 1 year and 9% in 90-182 days.
- Overall exposure of Debt MFs to NBFCs stood at Rs.1.9 lakh crore in July 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 June 2021.

Contact:

Sanjay Agarwal
Saurabh Bhalerao
Shobhna Kanojia
Mradul Mishra

Senior Director
Associate Director – BFSI Research
Lead Analyst – BFSI Research
(Media Contact)

sanjay.agarwal@careratings.com
saurabh.bhalerao@careratings.com
shobhna.kanojia@careratings.com
mradul.mishra@careratings.com

+91-22-6754 3582
+91-22-6754 3573
+91-22-6754 3519
+91-22-6754 3573

+91- 810 800 7676
+91- 900 495 2514
+91- 816 945 9228

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Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel.: +91-22-6754 3456 | CIN: L67190MH1993PLC071691

Connect:

