



Mutual Funds Industry Landscape / 2017

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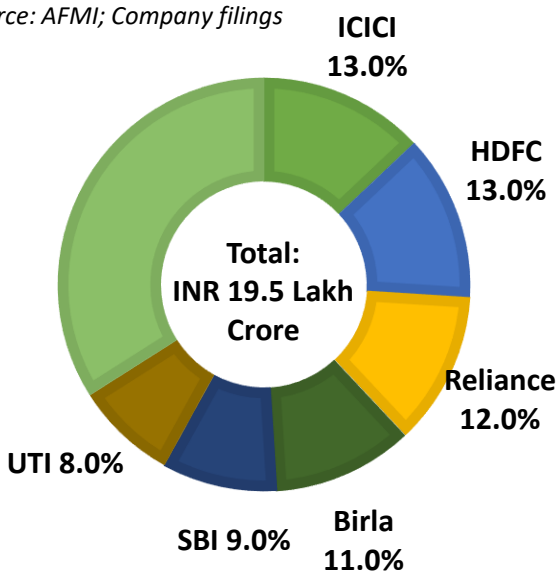
The Mutual Fund industry's in India manages ~INR 19.5 Lakh Crore (~US\$ 300 bn) in Assets Under Management. While the industry has been growing at a CAGR of 28% since 2012, the industry AUM is only 12% of GDP vs global average of 55% indicating a substantial potential for growth. Healthy inflow and market returns aided doubling of AUMs over the past three years. The industry is dominated by domestic fund houses with the Top 6 players accounting 2/3rd of the total industry AUM

As India unfolds its growth story in advent of becoming one of the fastest growing economy of the world, it continues to attract investors from around the globe and domestically. The lack of financial expertise and sophistication in a large proportion of individuals makes mutual funds a irreplaceable investment mode in India.

The first introduction of a mutual fund in India occurred in 1963, when the Government of India launched Unit Trust of India (UTI). UTI enjoyed a monopoly in the Indian mutual fund market until 1987, when a host of other government-controlled Indian financial companies established their own funds, including SBI, Canara Bank, and Punjab National Bank.

Exhibit 1: MF Industry Market Share (2016)

Source: AFMI; Company filings

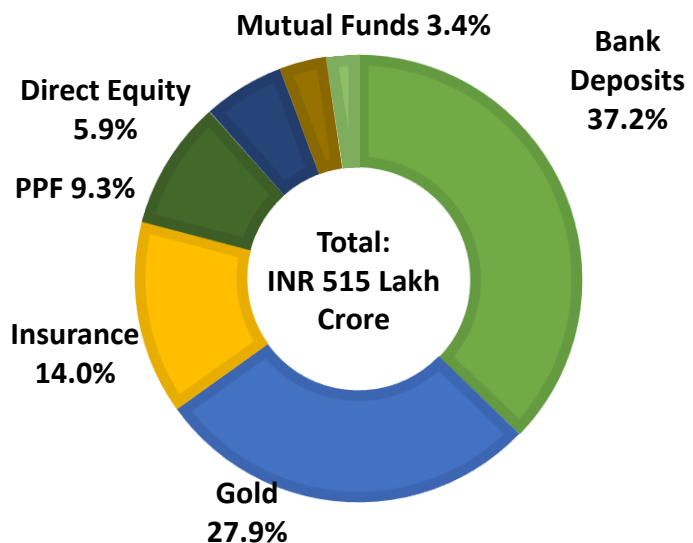


The mutual fund industry gained significant traction after the entry of private players in 1993. The industry has since seen significant growth both in terms of number of players and AUM size. SEBI introduced regulatory reforms over the past two decades to increase mutual fund penetration, adopt global best practices and ensure investor protection.

Equities provide a means to beat inflation in the medium to long term and as a result investing in equities is of paramount importance. Mutual Funds provide a good avenue for indirectly investing in the stock markets for the Indian retail investor. As India's population is predominantly young, financial awareness and investing sophistication will change the retail investment trend from safe, low yielding assets such as gold and real estate to a more balanced portfolio consisting of a good mix of investments.

Exhibit 2: Break up of retail financial asset (2016)

Source: IRDA



The growth of the industry followed the growth in the market index until mid 2015 as shown in Exhibit 3. However, post this period the AUM grew at a significant higher rate as the participation of new retail investors grew. Number of folios increased by around 16mn in last three years.

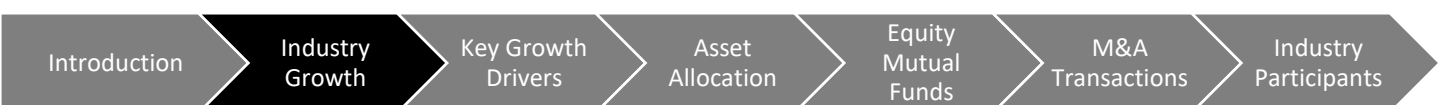
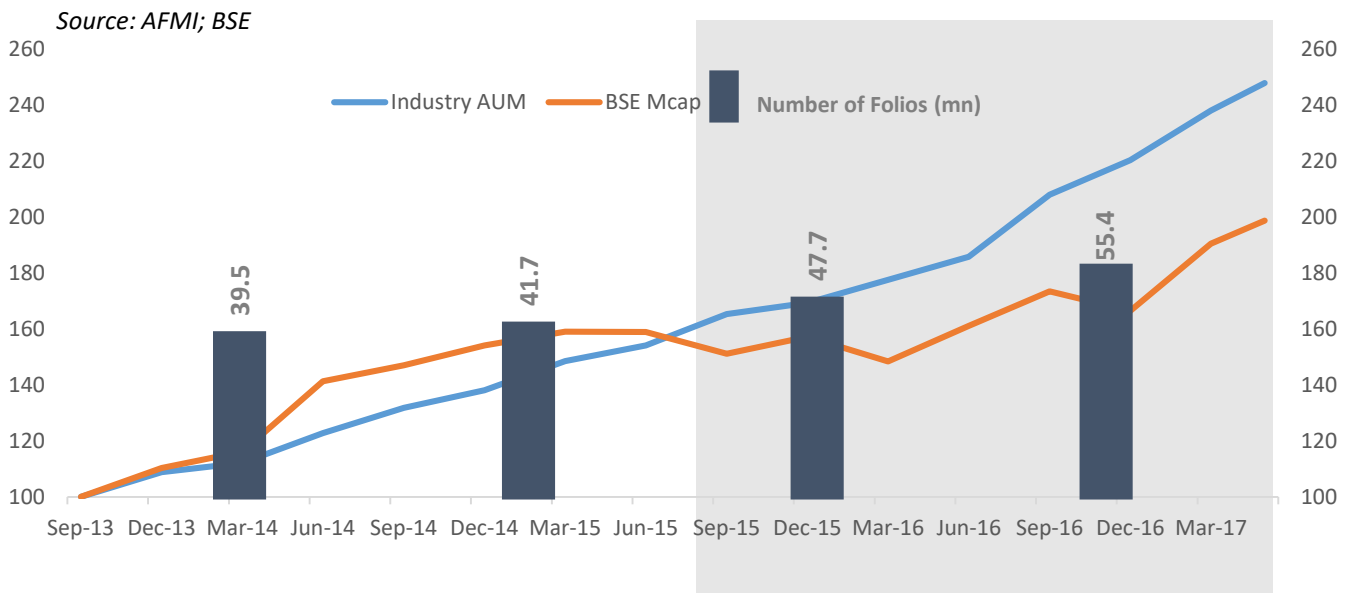
With a rising number of retail investors in MFs, the average monthly retail investment, which is typically from systematic investment plans (SIPs) has increased to INR 4,000 Crore (USD 615 mn) a month in 2016 in contrast to INR 1,800-2,000 Crore (USD 275-308 mn) in 2015.

Introduction of various products by the AMCs also contribute to the growth of the funds. The various products offered by the AMCs meet the objectives of different types of investors and provide them enough flexibility in case changes in market or individual circumstances. This has led to a large number of new individuals opening new folio accounts as can be seen in the Exhibit below. As of Dec 31 2017, the number of folios in mutual funds stood at 55.4 mn witnessing a growth of 15% cagr over the last two years.

Although mutual funds were introduced in India in 1963, the advent of private players is what led to the expansion of the industry. As the forum opened up for private players, the number of industry participant increased significantly. The aggressive marketing and distribution push by private players also led to increase in the AUM. It also led an increase in product offering by the industry players.

Allowing entry of private players brought in capital to fund growth, helped product development and led to expansion in the reach of mutual funds. The past six years (notably the years which have seen unprecedented growth in AUM) saw seven foreign players exit their operations to domestic fund houses. This is leading to consolidation in the industry and the mutual fund industry is becoming more concentrated.

Exhibit 3: AUM versus BSE Mcap Growth supported by aggressive growth in number of folios



Fast Paced Wealth Creation aided by strong macro-economic fundamentals

The pace of wealth creation has been picking up primarily driven by India's strong economic expansion and rising per capita income. India took 60 years to cross the USD 1 Trillion mark but only 7 years to cross USD 2 Trillion.

India is global hub for manufacturing and has high amount self consumption. Digitalization and other favorable economic reforms by the government will further enhance the economic growth.

A broad based creation of wealth and as a result personal savings will aid continued inflows into the mutual fund industry

Currently low penetration in investor wallet share

The AUM/GDP ratio is one of the lowest amongst the large economies of the world. Mutual funds account for only about 3.4% of total investment in financial assets by individual investors

In the past few years, growing investor awareness has helped drive investments into mutual funds as investors have moved away from traditional, non-yielding assets like gold.

Favorable demographic and rising income levels

Over 50% of the population in India is under 25 years of age. This segment represents the greatest opportunity for the mutual fund industry as they are not only growing in number but also accumulating

The mutual fund industry gained significant traction after the entry of private players in 1993. The industry has since seen significant growth both in terms of number of players and AUM size. SEBI introduced regulatory reforms over the past two decades to increase mutual fund penetration, adopt global best practices and ensure investor protection.

Currently, the retail financial assets in India represents around 65% investment in assets that do not produce income or protect assets against inflation as shown in exhibit 2. Equities provide good returns and inflation hedge. With less than 10% invested in equities, Equity mutual funds represents good opportunity in India. As India's population is predominantly young, financial awareness will change the retail investment trend from safe assets to relatively riskier assets with higher return expectations.

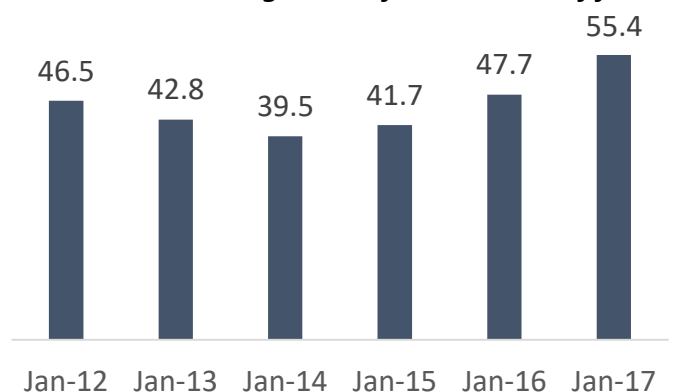
Government Initiatives

Indian government has come up with various schemes and plans for the development of economy. "Make in India" and "100 smart cities" are two such programs that promises good future outlook. The growth oriented government is looked favorably by investors.

Government's focus on digitalization has far reaching impacts on the mutual fund industry. The increase in transparency and ease to do business increases investor confidence. With more digital platforms available now, industry participant's reach has increased and have coverage to remote areas in India to investors aboard.

The advent of online banking and fintech services will also boost growth in the industry.

Exhibit 9: Increasing trend of the number of folios

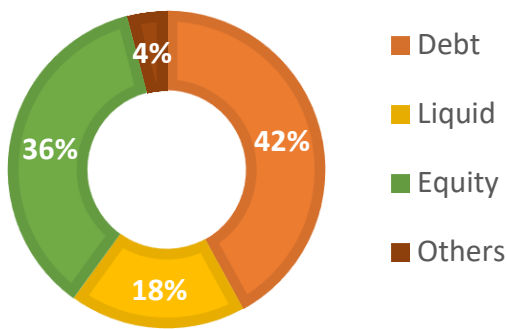


Financial assets account for about 43% of retail savings in India. Within financial assets, gold contributed about 28% while bank deposits comprise 37%. Mutual funds have seen growing prominence over the past few years, accounting for about 3.5% of total financial assets. Within the mutual fund industry, the highest growth is seen in Equity mutual funds in the past 3 years

In the low interest rate economy, equity focused funds have seen rising prominence in the eyes of investors. As displayed in exhibit 5, debt investments have the lowest growth in the last three years whereas the highest incremental growth comes from balanced and growth oriented equity funds.

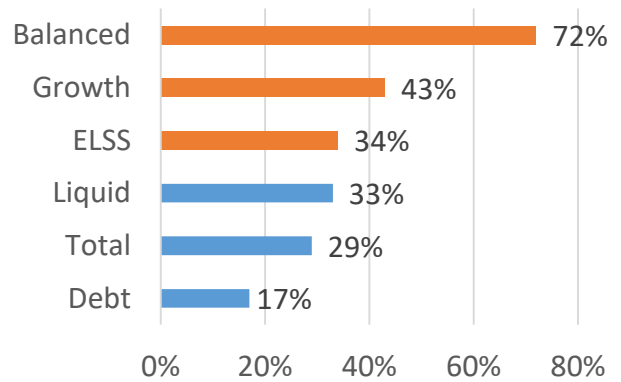
The current AUM mix comprises 42% from debt focused funds and 36% from equity focused funds.

Exhibit 4: AUM mix of Mutual Fund Industry



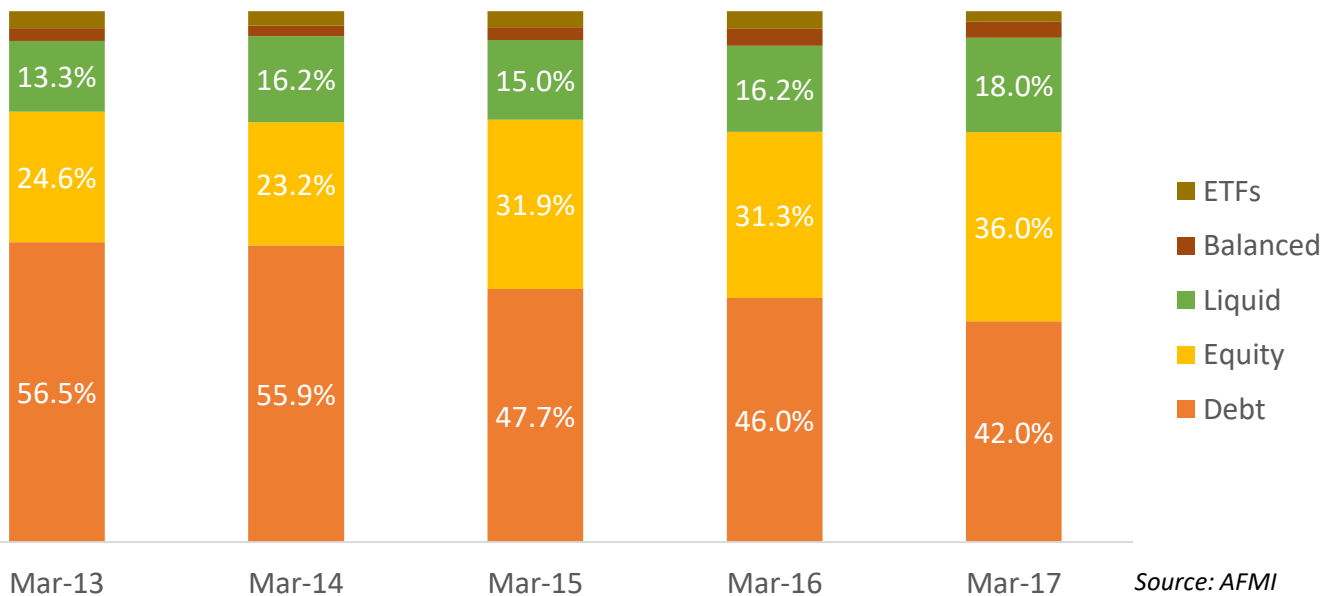
Source: AFMI

Exhibit 5: Segmentwise growth in past 3 years



Source: AFMI

Exhibit 6: Industry AUM break up across asset classes



Source: AFMI

The total number of folios have seen a significant increase in the past 3 years driven by wider investor awareness and substantial push by SEBI and AMFI to popularize and educate investors about mutual funds

The primary driver for the folio addition has been equity accounts as investors have rebalancing their portfolio to include a larger portion of equity to diversify

Equities contributed about 36% of the total mutual fund AMC asset size as on March 31 2017 up from 25% 4 years ago

Exhibit 7 captures the growth in mutual fund AUM over the period of last thirteen years. It has been growing at a consistent level. Exhibit 8 provides the growth in the Equity AUM. As can be seen, The industry growth for equity mutual funds was more or less in line with the overall industry growth. But in the past 4 years, equity mutual funds have been growing at a 50% higher growth rate than the industry.

To respond to the growing demand for equity investments, mutual funds have started to offer more equity related products.

Exhibit 7: Overall Mutual Fund AUM Trend in INR Trillion

Source: AFMI

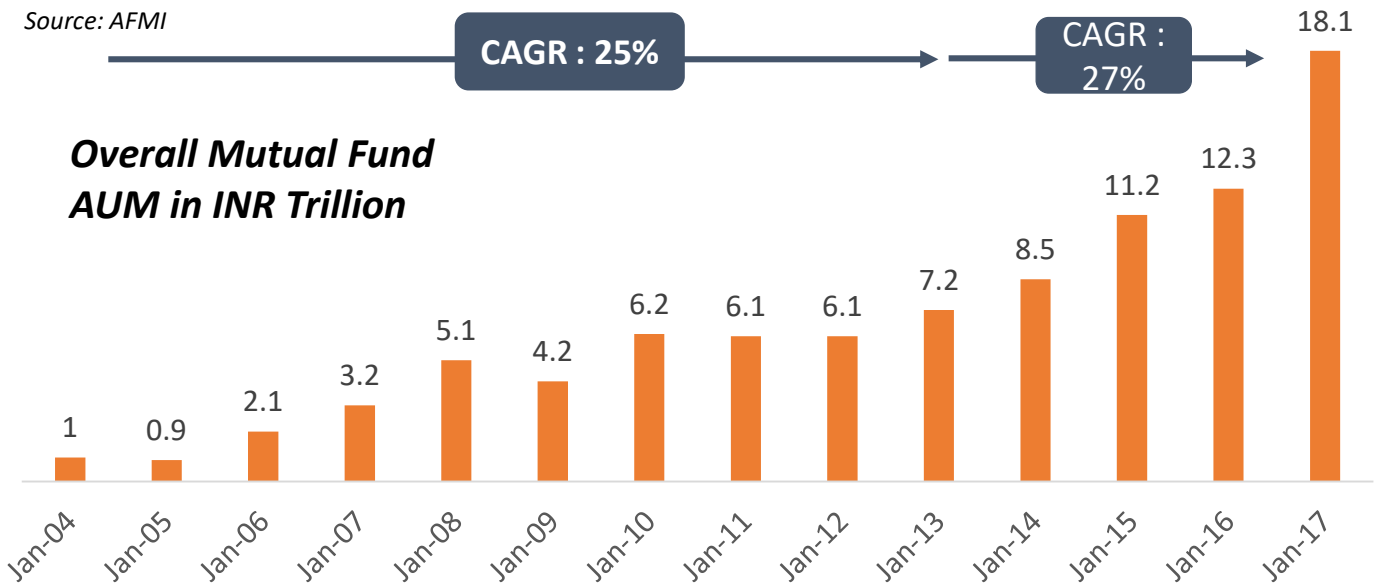
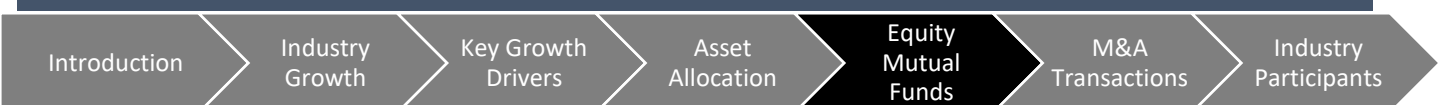
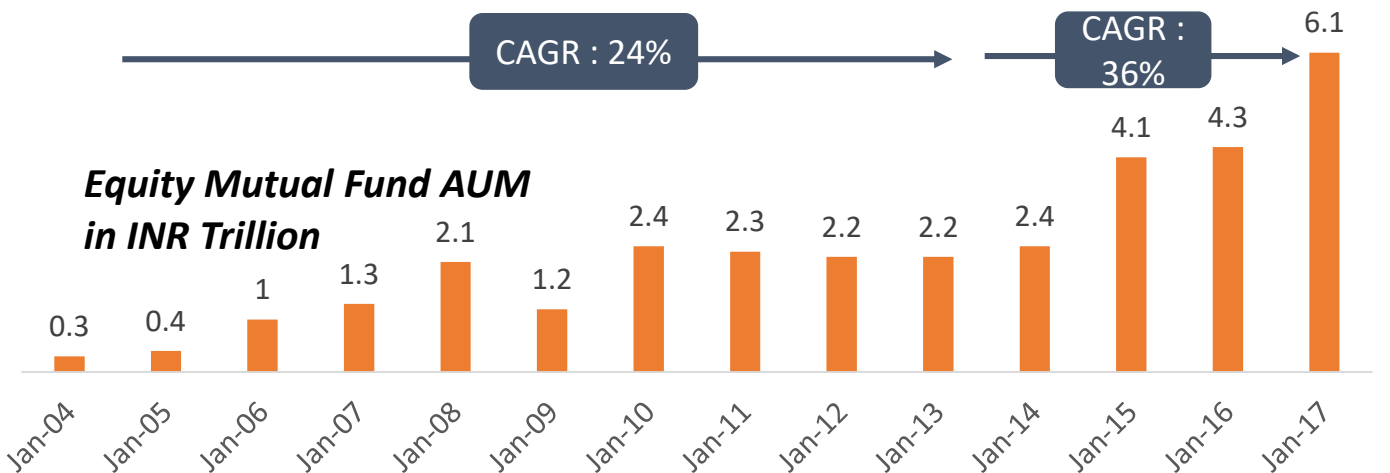


Exhibit 8: Equity Mutual Fund AUM Trend in INR Trillion



Date	Target	AUM (INR Cr)	Buyer	Deal Size (% of AUM)
Nov-16	JP Morgan Asset Management India	7,081	Edelweiss AMC	1.5%-2%
Nov-16	Goldman Sachs Asset Management	7,132	Reliance Nippon	3.5%
Aug-15	Deutsche MF	20,720	Pramerica MF	Est 2%
Oct-14	ING Investment Management	563	Birla Sun Life MF	Est 2%
Mar-13	Pine Bridge MF	660	Kotak Mahindra AMC	Est 4-6%
Dec-13	Morgan Stanley Investment Management	3,290	HDFC Mutual Fund	Not disclosed
Jun-13	Daiwa MF	266	SBI Mutual Fund	Est 1.0 - 1.5%
Mar-12	Fidelity MF	8,881	L&T Finance	6.5%

Introduction

Industry
GrowthKey Growth
DriversAsset
AllocationEquity
Mutual
FundsM&A
TransactionsIndustry
Participants

Exhibit 10: HDFC Asset Management Company Limited Performance

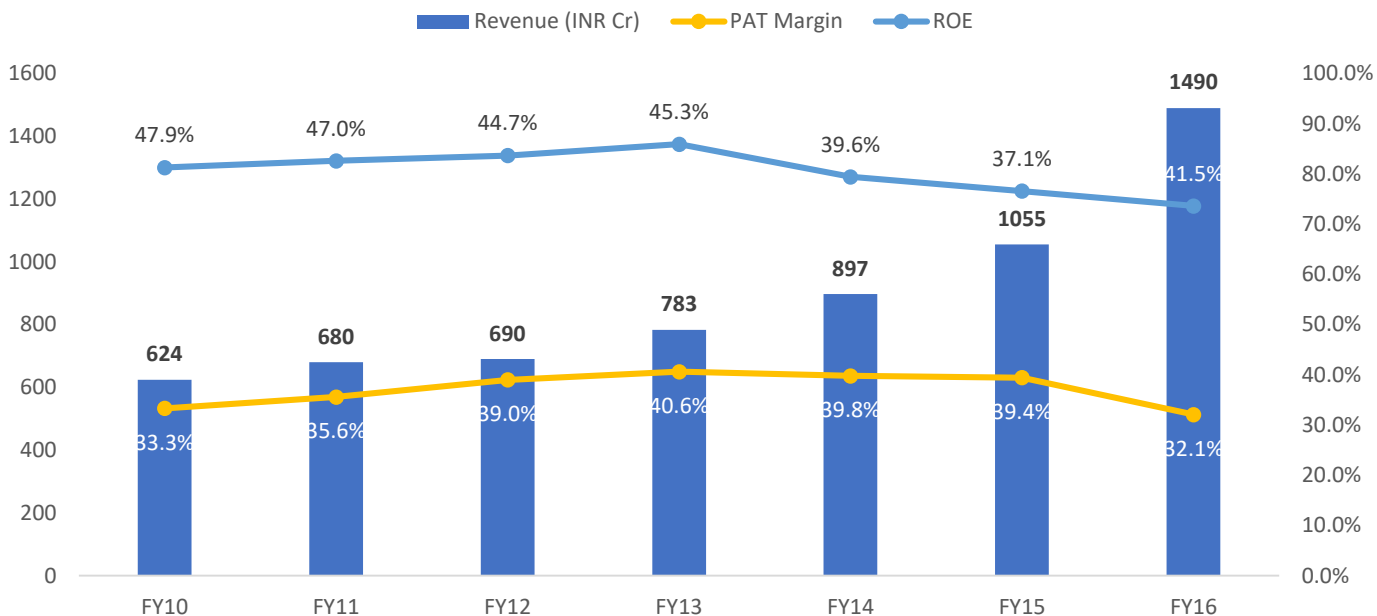


Exhibit 11: Reliance Capital Asset Management Fund Performance

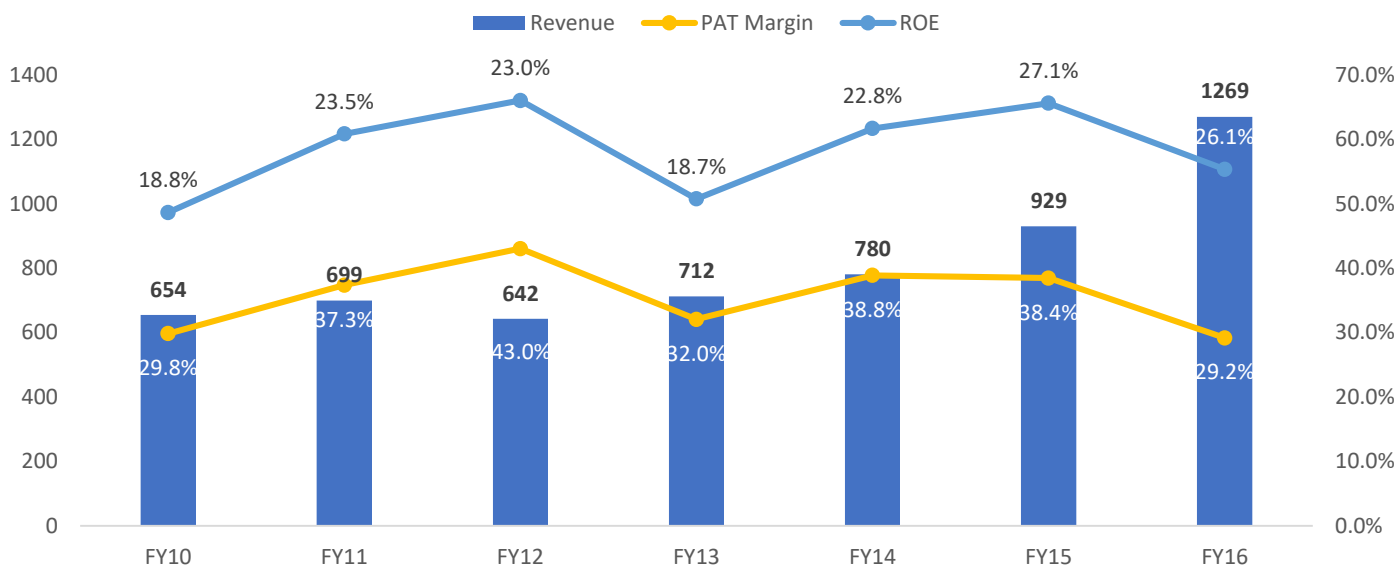


Exhibit 12: UTI Asset Management Company (P) Ltd Performance

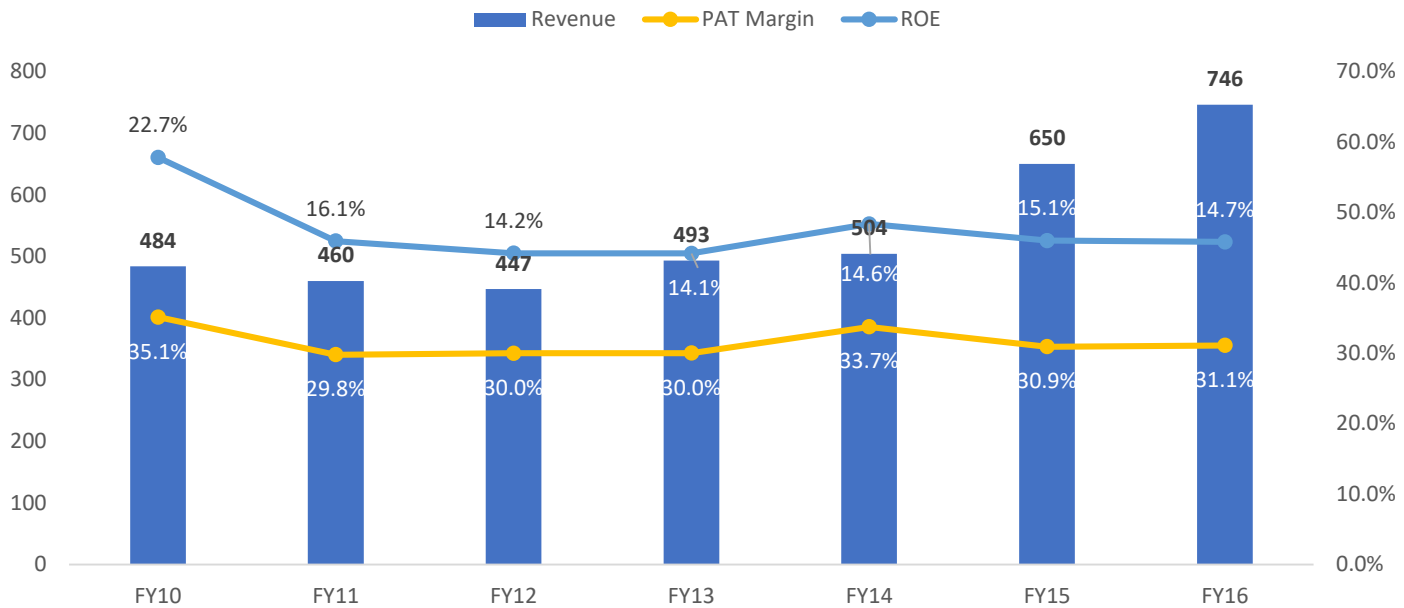


Exhibit 13: ICICI Prudential Asset Management Company Limited Performance

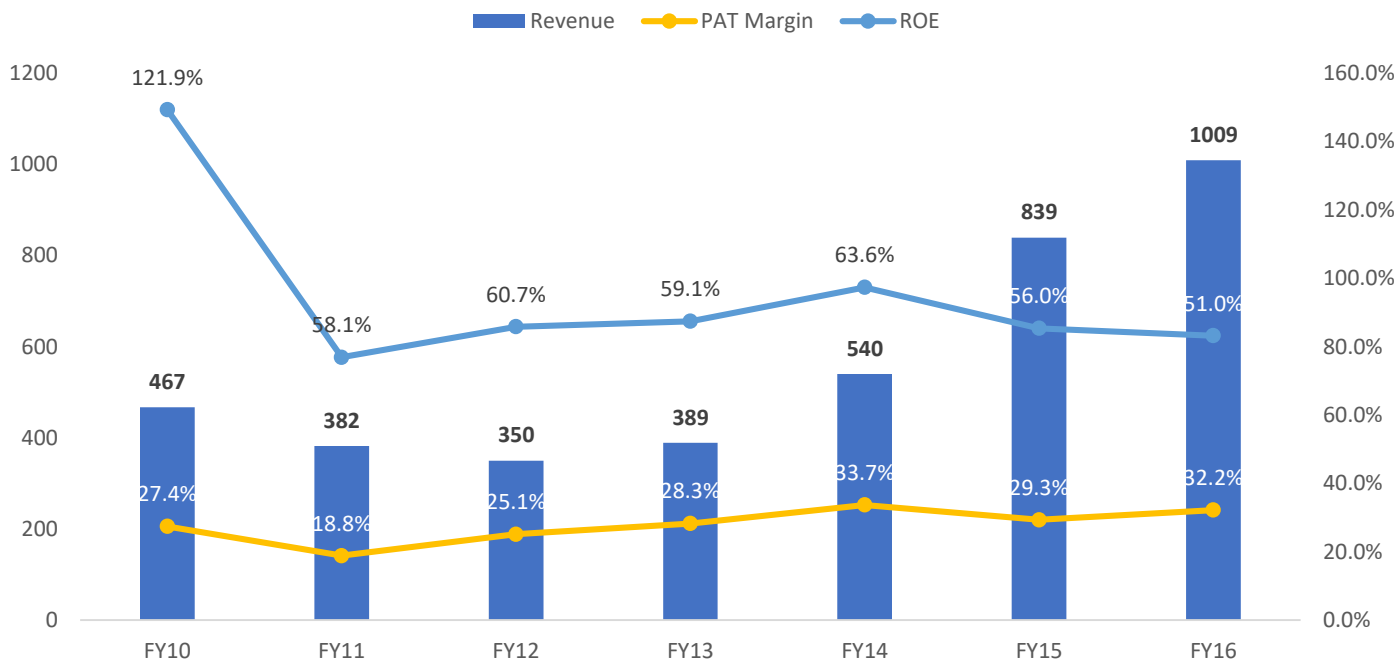


Exhibit 14: Franklin Templeton Asset Management (India) Private Limited Performance

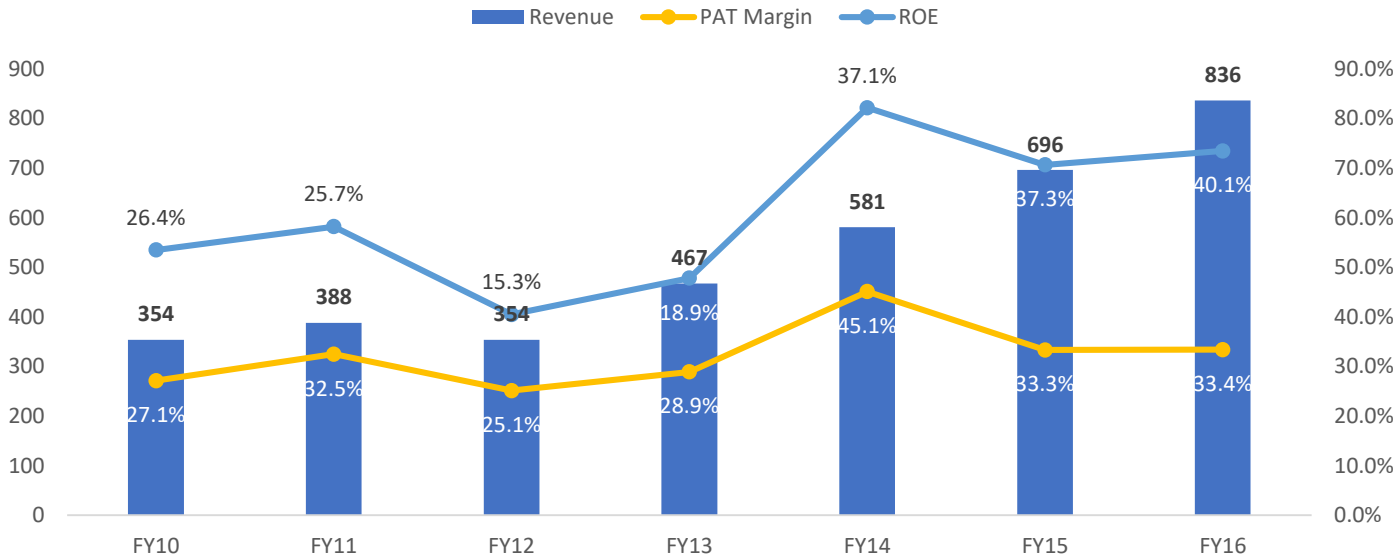
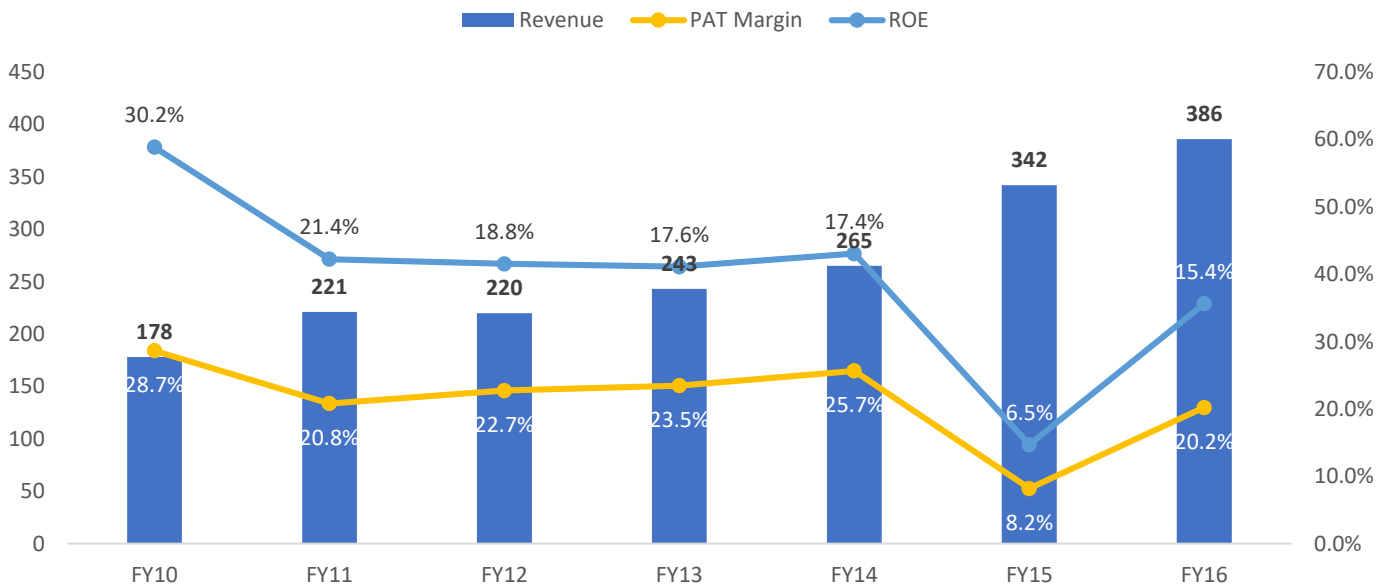


Exhibit 15: DSP Blackrock Mutual Fund Performance



Contact us:

Debashish Panigrahi

E: debashish@imapindia.in

M: +91 9619137460

Pranit Chowhan

E: pranit@imapindia.in

M: +91 9167112277