AN OVERVIEW OF ASSET MANAGEMENT SECTOR IN INDIA

Groundwork Intel
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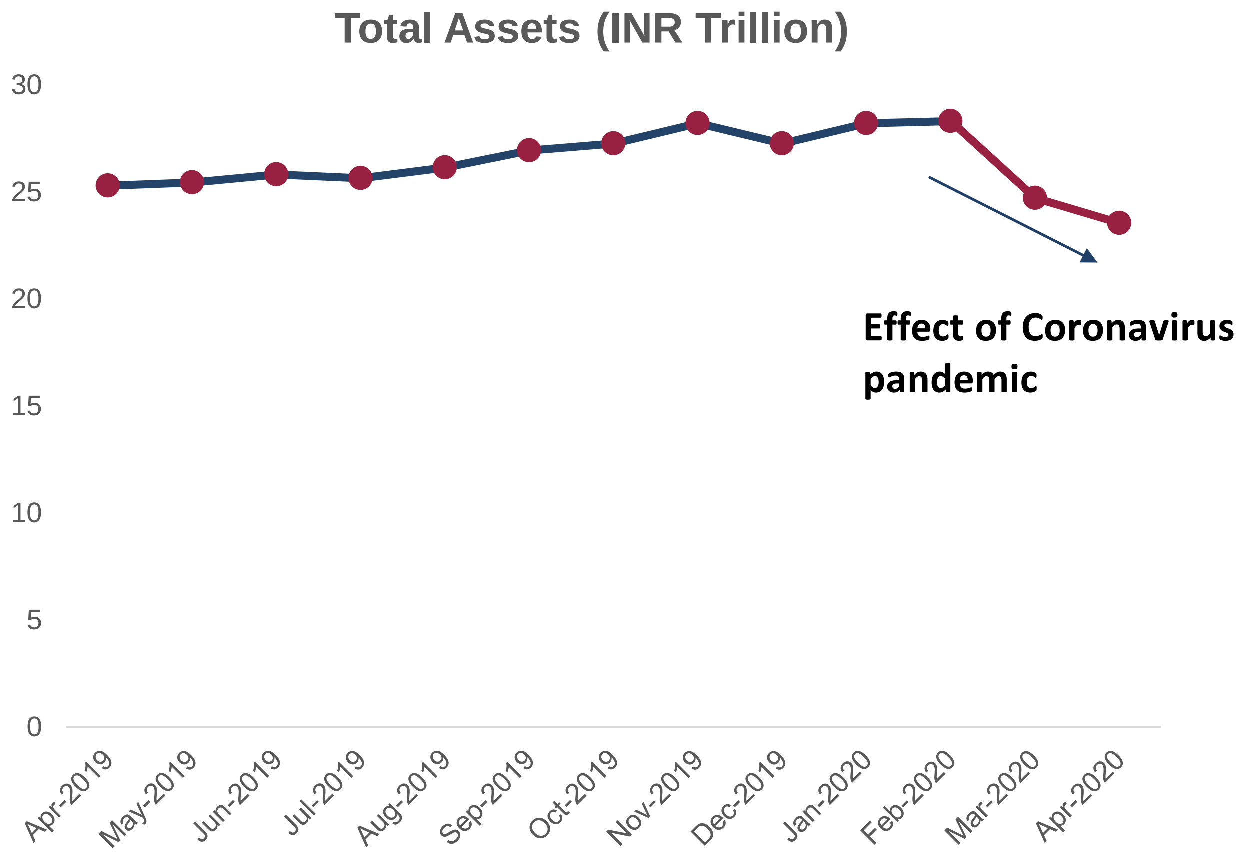
While the mutual fund industry experienced stable growth last year, the sector’s progression has stalled lately

- Assets managed by the Indian mutual fund industry has decreased from Rs. 25.28 trillion in April 2019 to Rs. 23.53 trillion in April 2020.
- That represents a 6.91% decrease in assets over April 2019
- Shrinking individual incomes due to the lockdown have severely hit SIP inflows into the equity mutual funds. This coupled with reduction in net asset value due to stock market volatility has caused overall decline in AuM for equity linked investments



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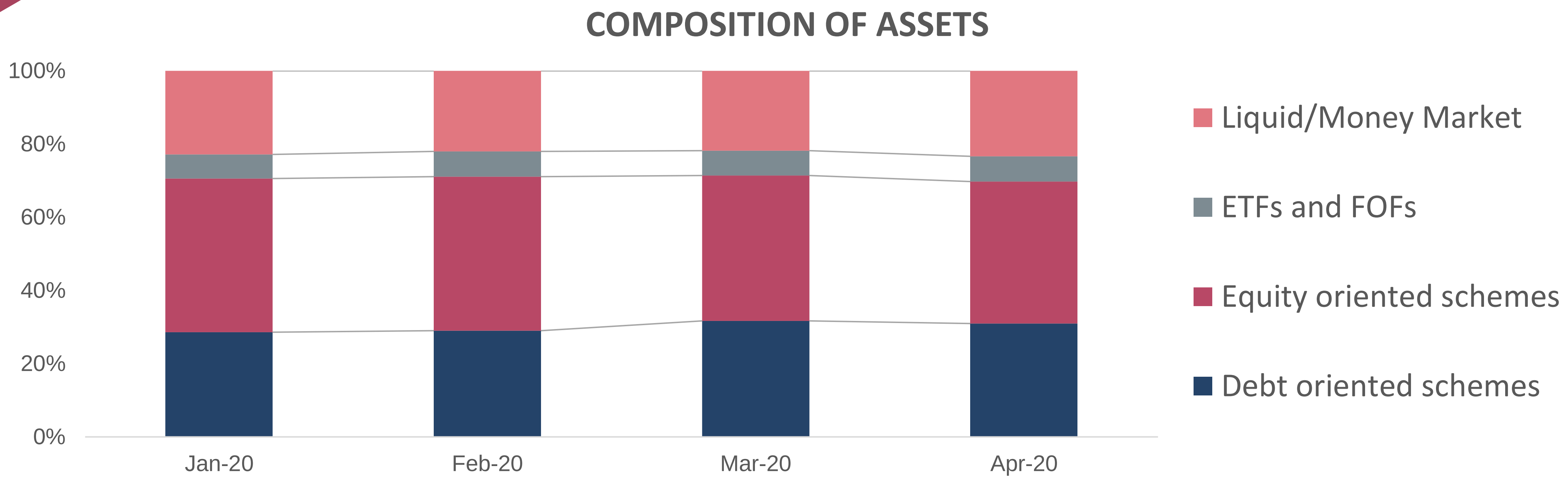
There has been a fall in contribution of equity-oriented schemes, whereas debt –oriented schemes have gained share



- The proportionate share of equity-oriented schemes is now 38.8% of the industry assets in April 2020, down from 42.4% in April 2019
- On the other hand, the proportionate share of debt-oriented schemes is 31.0% of industry assets in April 2020, up from 29.3% in April 2019

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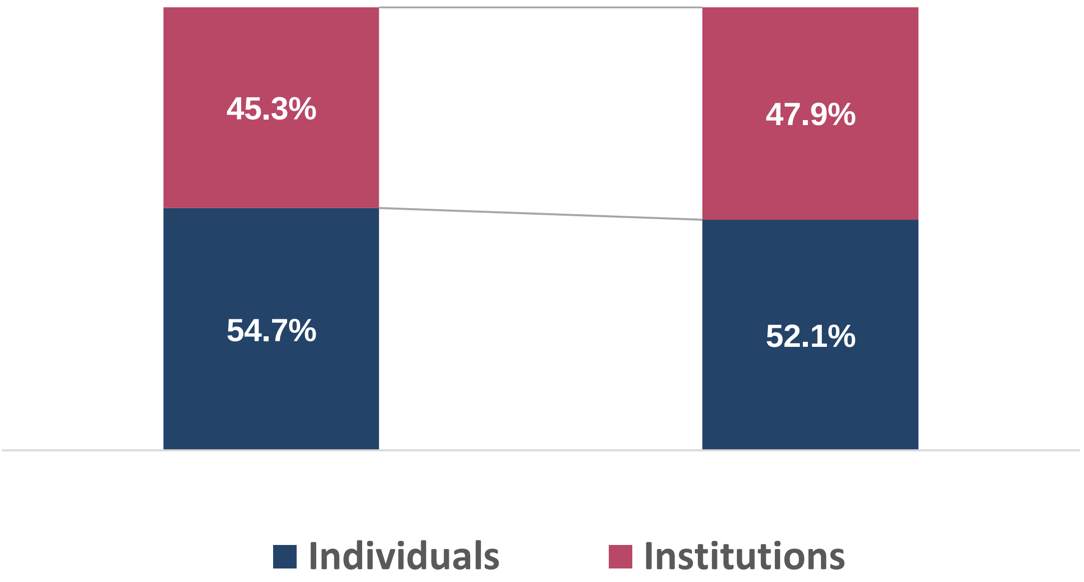
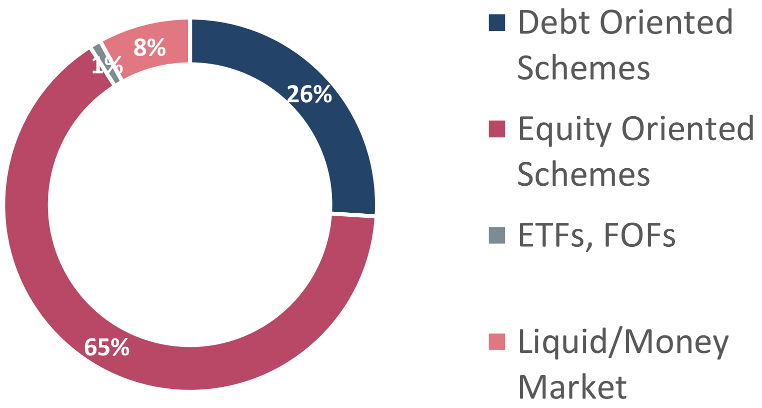
In terms of share in total investment, individuals contribution fell lately

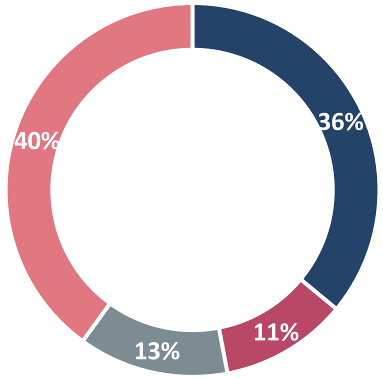
INVESTOR COMPOSITION



INDIVIDUAL HOLDINGS BREAKDOWN



INSTITUTIONAL HOLDINGS BREAKDOWN



- Individual investors now hold a lower share of industry assets, i.e. 52.1% in April 2020, compared with 54.7% in April 2019
- Institutional investors account for 47.9% of the assets, of which corporates are 93%. The rest are Indian and foreign institutions and banks

- Individual investors primarily hold equity-oriented schemes while institutions hold liquid and debt oriented schemes.
  - 65% of individual investor assets are held in equity oriented schemes
  - 76% of institutions assets are held in liquid / money market schemes and debt-oriented schemes

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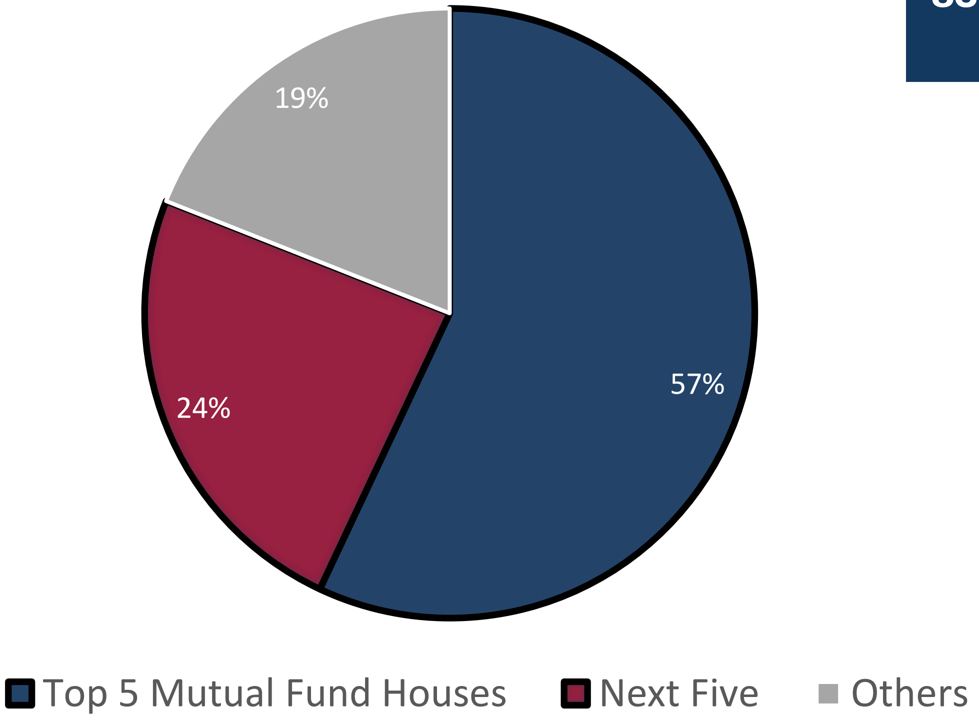
India is a highly concentrated market as few fund houses hold most assets

Market Share of Fund Houses (March 2020)



Top 10 Players account for over 83% of market share in terms of AuM

Top 10 Players

SBI Mutual Fund HDFC Mutual Fund ICICI Prudential Mutual Fund	***AUM ≥ INR 3 lakh crore***
Aditya Birla Sun Life Mutual Fund Nippon India Mutual Fund	***AUM ≥ INR 2 and < INR 3 lakh crore***
Kotak Mahindra Mutual Fund UTI Mutual Fund Axis Mutual Fund Franklin Templeton Mutual Fund IDFC Mutual Fund	***AUM ≥ INR 1 and < INR 2 lakh crore***

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Demand Drivers

Strong Demographics	A growing middle-class and a large working population with better job opportunities will help increase the pool of investible funds
Shift in Household Savings Towards Financial Instruments	A gradual shift in household savings as dominance of physical savings (real estate and gold) is going down, while share of financial savings is growing
Large Unpenetrated Market	Compared to global standards, in India, mutual fund AUM penetration as a percentage of GDP is still very low at 11 percent compared to the global average of 62 percent. This means there is a huge market that still has potential to be tapped
Supportive Policies	Structural reforms like formalisation of the Indian economy, financialization of savings, financial inclusion endeavours, rising share of EPFO funds being allocated to equities, will all play out in strengthening the flows to the mutual fund industry
Growing Retail Participation	The industry has witnessed a remarkable growth of over 86 percent in just two-and-half years in terms of the asset base mainly due to higher retail participation

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There are some challenges that the fund houses and wealth managers will face in the current scenario

Weak investor sentiment to hit revenues

- Investor sentiment has been weak, given the volatility in the markets. Further, the Covid-19-induced lockdown has taken a toll on investors' cash flows, hurting their investing capacity. As a result, investors have become cautious
- The hit on the equity markets is likely to translate into lower revenues for the mutual fund industry, with the share of higher-fee generating equity assets shrinking to 37 per cent as of March 31, 2020, as against 43 per cent a year ago
  - The fees charged on equity assets are usually higher than those charged on debt assets. With the share of equity shrinking in the overall pie, industry players will see their revenues come under pressure
- Some fund houses have also lost a significant market share in debt-oriented schemes, with investors avoiding such schemes because of a higher level of credit risks sitting in their portfolios

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Some other strategic challenges…

Technology Investment

- It is an imperative for mutual fund houses to invest in technology to sustain in the current market
- Investment in required technologies, imbibing state-of-the-art best practices of advisory and creating customised and innovative products will enable growth
- SEBI plans to allow investors to make mutual funds transactions worth up to INR 50,000 a month through digital wallets, as part of its efforts to digitise the distribution processes for all financial products. It also plans to allow immediate credit to customer’s bank accounts on liquid mutual funds redemption to attract retail customers as well as boost inflows

SEBI’s Check on Market Concentration

- Securities and Exchange Board of India (SEBI) has been raising concerns over the concentration of assets among top mutual fund houses and said there was a need for more competition in the industry to bring down the cost for investors
- Large fund houses have gained a disproportionate share of the incremental business that came to the industry over the last five years

Lack of Investor Awareness

- The challenges which the mutual fund industry have to face are low customer awareness and financial literary pose which act as the biggest challenge to channelize the household savings into mutual funds
- Multiple regulatory frameworks govern different verticals within the financial service sector. Further, factors that are impediment to the mutual fund investing are the availability of the large number of mutual fund schemes that makes investment decision complex and difficult, complicated KYC norms that restricts potential investors and quality of advice provided

High Cost of Operation

- In the pursuit of winning more investors it is inevitable that the AMCs will need to spend more on outreach, investor awareness, enrolling and training more distributors and incentivising them.

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Some human capital issues also remain (1/2)

PERFORMANCE BASED REWARDS

- Following the recent crisis in debt mutual funds, capital and commodity markets regulator SEBI is considering a proposal to make fund managers more accountable—by linking their remuneration to the performance of the schemes managed by them.

WOMEN ARE STILL UNDERREPRESENTED

- While the number of women in fund management has gone up in the last one year, women managers still constitute only 8% of the industry and cumulatively manage assets worth 3.1 lakh crore, a figure that translates to about 15% of the total assets under management for open-ended funds
- Interestingly, out of the total assets managed by women fund managers, 61% of the AUM outperformed the benchmark or peer group average on a one-year basis, 81% over a three-year basis and 86% over a five-year timeframe

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Some human capital issues also remain (2/2)

DEMAND FOR DIGITAL TALENT IS ON A RISE

- As technology advances become key differentiator, fund houses are finding ways to attract technology talent to bring in operational efficiency and offer better service across all significant wealth management stages
- The wealth management industry is an early adopter of AI
  - Automated advisors utilizing AI are expected to have assets worth USD 2.2tn by end of 2020
  - Cognitive applications in wealth firms are also helping deliver personalization, and answer complex client questions in real time through virtual advisors. For example: Wells Fargo piloted an AI driven solution on Facebook Messenger
- High speed automated asset trading and real-time regulatory compliance are examples of growing technical innovation
- Investment managers are using predictive analytics to generate investment ideas or as an early warning system for assets at risk

NEED TO INVEST IN TALENT TO STRENGTHEN DISTRIBUTION

- Currently, the industry has close to 2 crore unique investors. If the investor base was to increase to 5 crore in 10 years, India does not have distribution strength to cater to the demand
- Given the low penetration, low awareness of the product category, the inherent risks of the capital markets and the need for advice on financial planning and asset allocation – the need for hand holding for new investors is very critical and the sales force of asset management companies is woefully inadequate to service such a larger underserved population

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