

COVID-19
BELEAGUERED
ASSET MANAGEMENT
INDUSTRY?

Indian investors woke up with these business headlines on April 24, 2020:

- ❖ *“Franklin Templeton fund closure Highlights: ‘Investor currently in state of fear and shock”*
- ❖ *“A chase for high yields landed Franklin Templeton in a lockdown”*
- ❖ *“Franklin Templeton’s \$4.1 billion fund freeze shows lingering credit pain”*

The above news item compelled us to go through the Indian arm of the US fund group’s Official statement of April 23, 2020, which says *“In light of the severe market dislocation and illiquidity caused by the COVID-19 pandemic, this decision has been taken in order to protect value for investors via a managed sale of the portfolio. It is the only viable option to preserve value for unit holders and to enable an orderly and equitable exit for all investors in these unprecedented circumstances.”*

It was a statement from one of the world's largest independent specialized global investment fund house which is having fund size of about \$ 1.5 trillion as on February 2020 and this situation raises some immediate questions in investors mind.

Is investor’s money with mutual funds is not safe or the capital security of money is gone?

Will this impact even the equity funds of Franklin Templeton?

Can this be happen to other segments of mutual funds in India?

But before moving towards the answers of above raised concerns, we should understand Mutual Funds and Assets Management Industry first.

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Industry Overview

A mutual fund is operated by an investment firm called Asset Management Company that raises money from investors and then invests in a group of assets like equities, bonds, gold or real estate. The mutual fund portfolio manager invests in accordance with a stated set of objectives .

Asset management is about managing clients investment and providing them with strategies and expertise that would allow them to achieve their goals and secure the financial future.

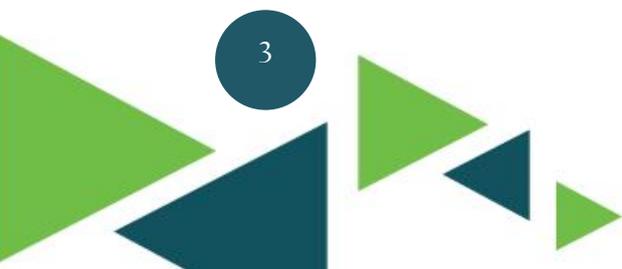
An individual or institution is likely to approach an AMC when there investments income is substantial. While investing in an AMC, basically one is investing in a fund (“Mutual Fund”) managed by the AMC. Assets manager closely follow the financial markets therefore they are able to offer highly quality advise and superior risk return on investment. The returns of the funds are linked to the market and therefore hinges on how the funds is perform.

For managing the pools of funds AMC charge a fee called a fund management fee. It is a prime source of revenue generation for the AMC.

Globally, the asset management industry plays a crucial role in the financial services industry, acting as a means to channel investor capital into the economy’s growth machinery. Asset management companies are playing a seminal role in economic growth as they provides a link between investors seeking appropriate savings vehicles and the financing needs of the real economy.

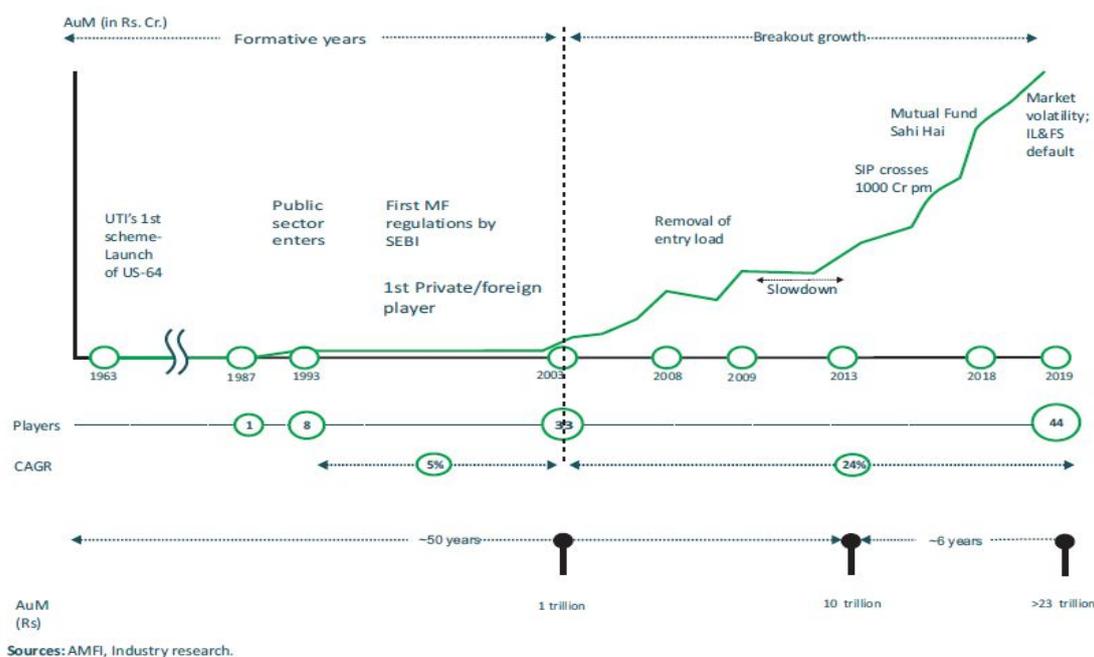
Global Leading AMCs :

Pure Investments Funds	Arms of Banking Conglomerates
✦ BlackRock	✦ UBS Global Asset Management
✦ Vanguard	✦ Goldman Sachs Asset Management
✦ State Street Global Advisors	✦ BNP Paribas
✦ Fidelity	✦ Dautsche Asset & Wealth Management



AMC Industry— INDIA

Evolution of Mutual Fund Industry in India:



I Phase (1964- 1987) - Phase of Inception

Through collaboration between Reserve Bank of India and Government of India formation of UTI by the act of parliament.

II Phase (1987- 1993) - Entry of Public Sector Mutual Funds

Public sector bank started establishing mutual funds. At the end of 1993, the MF industry had assets under management (“AUM”) of INR 47,004 crores.

III Phase (1993- 2003) - Entry of Private Sector Mutual Funds

Foreign sponsors started setting up mutual funds in India. At the end of January 1993, the MF industry had AUM of INR 121,805 crores.

IV Phase (2003- 2014) - Consolidation phase

Fourth phase witnessed several merger and demerger in the asset management businesses. Following the global meltdown in the year 2009, the financial markets across the globe were tanked.

Current Phase (May 2014 onward) - Steady development and growth

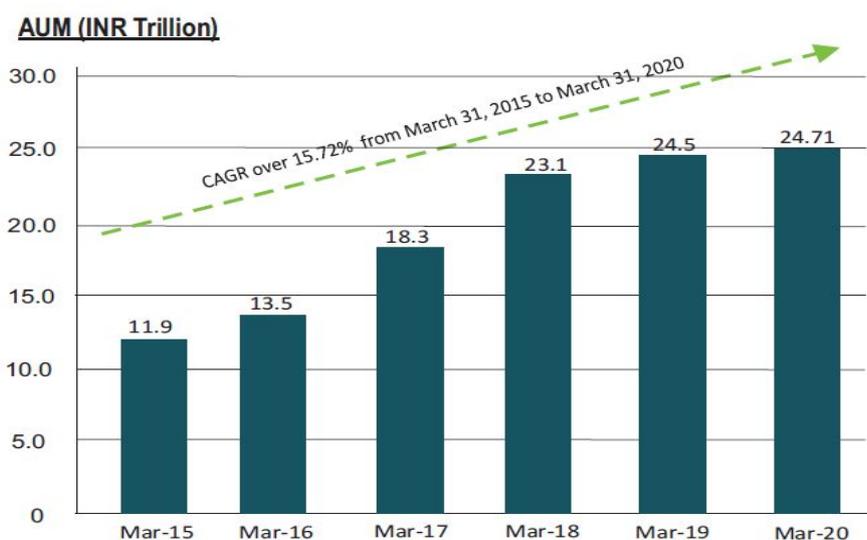
Industry’s AUM crossed milestone of INR 10 Trillion for the first time as on May 31, 2014 and INR 15 Trillion in the next two years.

Strong AUM Growth

With increasing awareness among Indian investors about mutual funds, the AUM of the industry has seen an astonishing growth every year. As of March 31, 2020, AUM of the Indian mutual fund industry stood at INR 24.71 trillion.

Aggregate AUM of the Indian mutual fund industry have grown at a healthy pace over the past decade. In the last 10 years average assets under management (“AAUM”) grew at a CAGR of approximately 14.93% from INR 6.14 trillion as of March 31, 2010 to INR 24.71 trillion as of March 31, 2020.

The Indian mutual fund industry has seen tremendous growth in last few years. Over the past five years, AUM growth has accelerated with a gratifying CAGR of approximately 15.72%, from INR 11.19 trillion as of March 31, 2015 to INR 24.71 trillion as of March 31, 2020.



■ Current Scenario & Outlook

Current Scenario:

As a result of turbulence caused by Covid-19 epidemic in global as well in Indian economy, we experienced a redemption pressure in the month of March 2020 by net outflow of INR 2.13 trillion across all segments. The outflow has pulled down the AUM of the industry to INR 24.71 trillion in March-end from INR 27.23 trillion in February-end.



While mulling the loss in AUM at the fiscal year end, we should also take into account that the redemption pressure was mostly backed by outflow from debt funds, which is mostly led by the seasonal year end when corporate usually tend to redeem their investments to meet the advance tax payment deadline.

Despite market turmoil, the new inflow into equity schemes of mutual funds registered the 17th month high of INR 0.12 trillion in March 2020, which is a rise of 3.56% from the inflow of March 2019.

On account of the Covid- 19 crisis and the resultant lock down of the Indian economy, on April 23, 2020 Franklin Templeton has decided to wind up six of its debt segments mutual funds in India. Post this announcement we conduct a research on this unprecedented events and found that as of the announcement date the six funds of Franklin Templeton have combined AUM of INR 25,856 crore and almost 65% of it are invested in below AA rated paper. So the exposures in low rated bonds were facing the liquidity issues since post economy lockdown and forced Franklin Templeton to shut down its six debt segment mutual funds.

This unprecedented events has created a panic among investors and investors confidence start reducing in mutual funds.

Post Franklin Templeton's announcement we have been continuously watching the heads of some big mutual funds in India on different business news channels and other platforms coming out and saying that there is nothing wrong, there is no problem, there is no liquidity issues but in our view, we think that Franklin Templeton unprecedented move shows that there is a problem in current scenario for the industry. We foresee that defaults from corporates are going to be a big issue for the debt segments of mutual funds and we may see the same redemption pressure in other mutual funds having exposure in low rated papers.

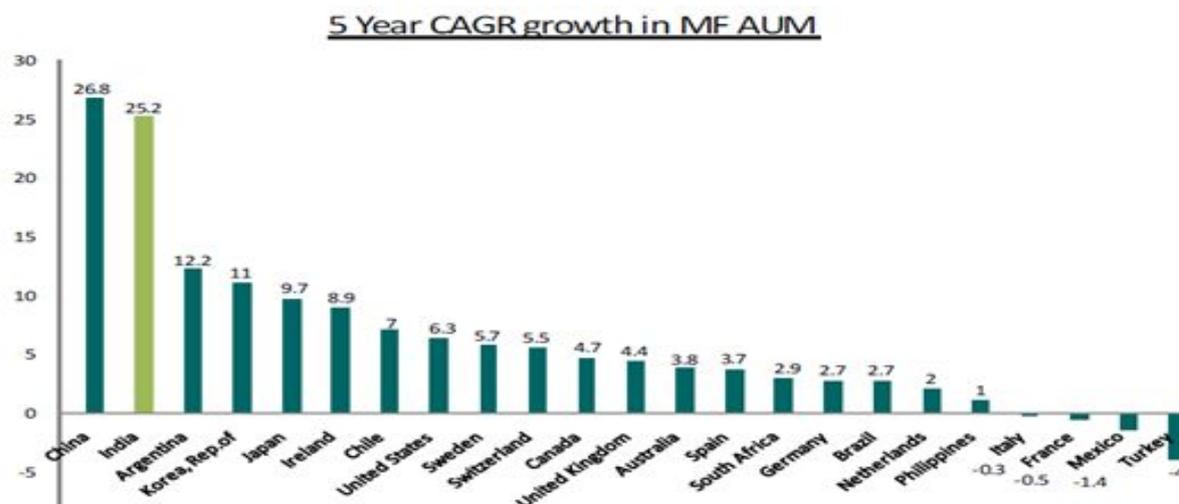
Outlook:

The outlook of the asset management industry to a great extent is driven by economic condition of country, which is staring at the possibility of low growth due to the outbreak of Covid-19 epidemic. When the interest on fixed deposits is on a downward trajectory, to minimise the epidemiological damage in the country due to Covid-19 virus the Reserve Bank of India (RBI) has cut the repo rate to 4.4% on March 27, 2020. A majority of banks have also slashed their Fixed Deposits rates. This rate cut by the RBI will also led to a fall in the bond yields.

We believe that, the low interest rate in fixed deposit and government bond yields will encourage the investors to continue investing in mutual funds schemes through systematic investment plan (SIP). Systematic Transfer Plan (STP) in this market with a view to review and diversify their portfolio. In this slowdown the Investors need to adopt a smart investment approach and spot opportunity in the current slowdown to create wealth.

Mutual Fund AUM Growth: India V. World

The Indian mutual fund industry is one of the fastest growing and most competitive segments of the financial sector. In terms of growth in mutual fund AUM, India stands on second position just after China.



Source: IIFA (as of March 31, 2019), Amfiindia

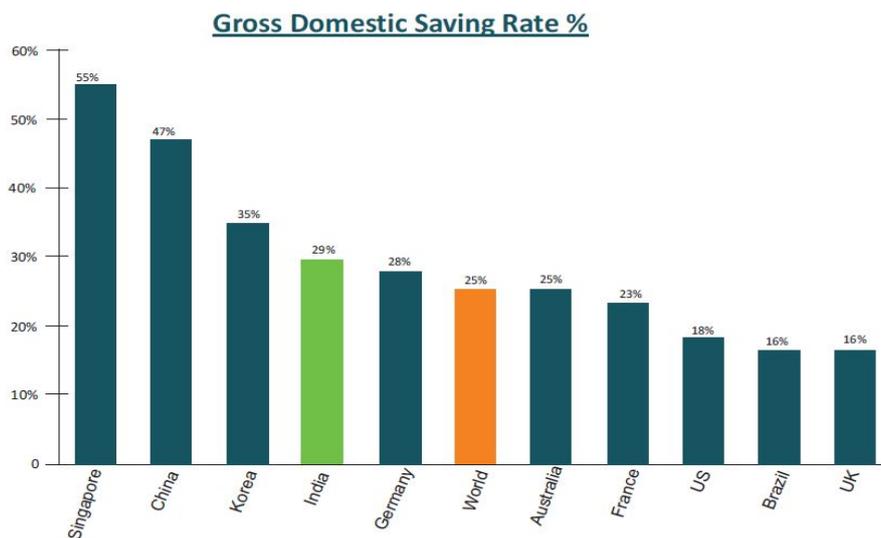
Growth Drivers

- ✧ Structural shift of household savings from physical assets to financial assets;
- ✧ The concepts of systematic investments plan (SIP);
- ✧ Growing investors base due to various marketing initiatives and investment awareness campaigns like Mutual Fund Shai Hai by Association of Mutual Funds in India (AMFI) growing investors base;
- ✧ Progressive reforms and regulations by SEBI to promote penetration of mutual funds:
 - ✓ introduction of direct plans,
 - ✓ amendment in upfront commission rules,
 - ✓ capping of Total Expense Ratio (TER) charged by MFs to investors,
 - ✓ standardization of MF schemes,
 - ✓ timely disclosures
- ✧ Greater participation of individual investors;
- ✧ Increasing formalisation of the economy post the implementation of structural reforms, such as GST and demonetisation;

**MUTUAL
FUNDS**
Sahi Hai

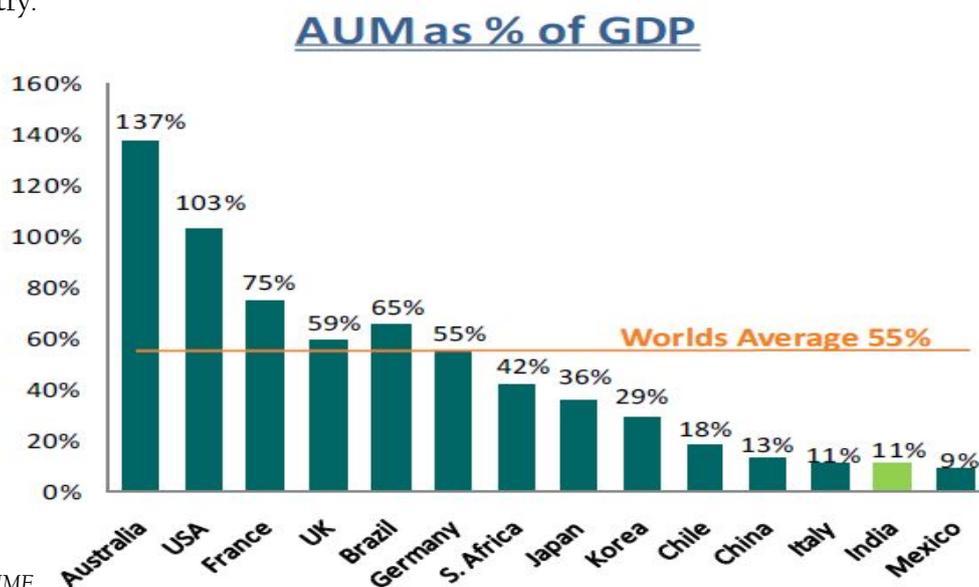
High - Saving & Low - MF Penetration

India has been an economy with a high gross domestic savings rate of approximately 30% which is above world rate. However, a substantial part of this saving have been channelised into physical assets i.e gold and real estate.



Source: World Bank

Data shows that despite the manifold growth in AUM size the Indian mutual fund penetration ratio is significantly lower as compare to world average. The current level indicates that there is a tremendous growth opportunity for Indian asset management industry.



Source: IMF

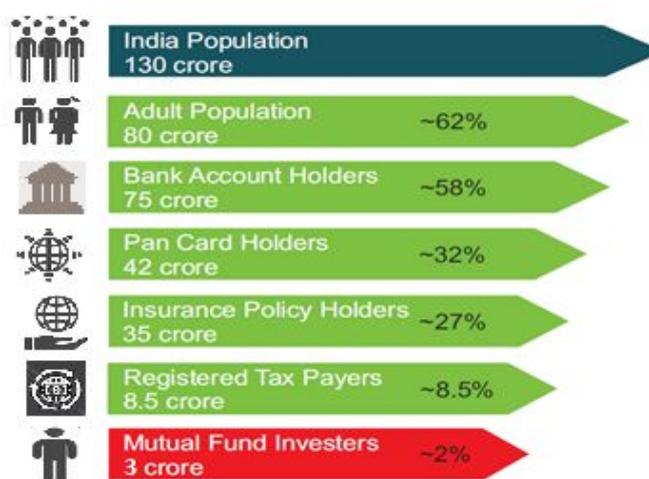
Opportunities & Challenges

Opportunities:

Current MF AUM stand at just 17% of financial savings (bank deposit plus mutual fund) which indicate the potential of further growth in this industry;

- ✧ Rising inflow into Systematics Investments Plans;
- ✧ This industry has seen strong growth in last 5 years driven by growing household savings. Due to growing households savings and increasing share of MFs in the pool of savings, profitability of AMCs will continue to be healthy;
- ✧ Increasing participation by smaller cities/ towns;
- ✧ Grown interest and participation of individual investors;
- ✧ This industry has the potential to multifold its size from the current level. There is strong reason to believe that the Indian mutual fund industry has not yet seen its global peak .

- ✧ **Opportunity size:** This chart illustrate that although the mutual fund industry registered astounding growth over 5 years but it has only 3 crore investors. This numbers signal the huge scope lying ahead. As the total no. of folios as per mutual fund parlance as of March 31, 2020 stood at 8.97 crore which is 70th consecutive month witnessing rise in the no. of folios, therefore we can project that this industry has the potential to reach INR 100 trillion of AUM by 2030.



Challenges:

- ✧ Lack of healthy participation from a large part of the country;
- ✧ Low customer awareness and financial literacy;
- ✧ Slowdown in economy;
- ✧ Credit events impacting confidence of MF investors;



■ Glance of Indian AMC

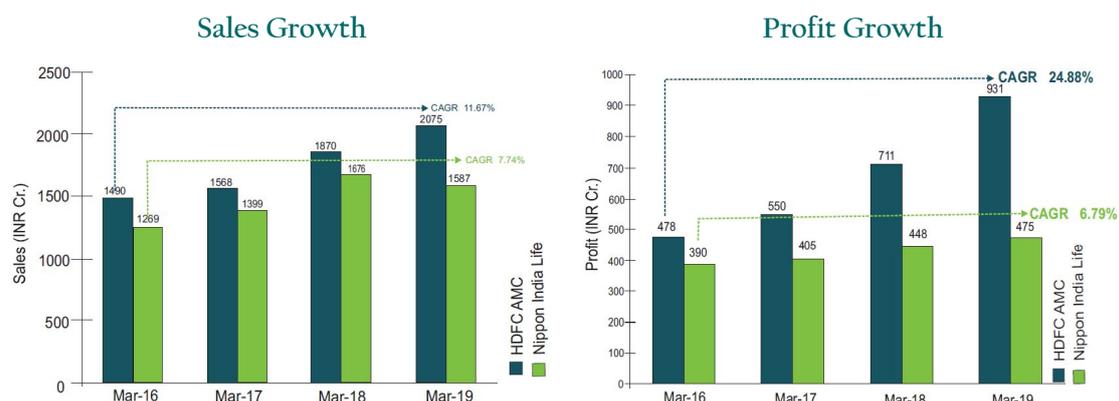
The Indian mutual fund market is fragmented. Currently there are 44 AMCs are operating in Indian mutual fund market and as of March 31, 2020 AUM of the mutual fund industry stood at INR 27.01 trillion. Study shows that the top five mutual fund companies have market share of over 58%. The top 5 leading AMCs in India as of March 31, 2020:

	Market Share	AUM 5 Year CAGR	AUM Size *
	14.2%	34.89%	3.50
	13.7%	15.43%	3.38
	13.0%	15.88%	3.22
	9.1%	12.96%	2.25
	8.3%	8.35%	2.05

* Amount in INR, in trillion.

Out of total 44 AMCs in India, only two AMC which are listed on Indian stock exchange- HDFC Asset Management Company Limited and Nippon Life India Asset Management Limited. UTI AMC is yet to be listed though it has filed its offer documents with SEBI.

Financial Analysis: HDFC AMC & Nippon Life India



Share Price - Growth



AMC	Face Value	MCap (In cr.)*	Opr. Inc. (In cr.)**	Opr. Exp. (In cr.)**	Opr. Mrg. (In cr.)**	AAUM Size (In cr.)
HDFC AMC	5.00	44,947.25	1,915.18	734.93	61.63%	338,071.70
Nippon Life India	10.00	15,229.34	1,478.64	959.76	35.09%	204,883.72

AMC	Face Value	ROE**	ROCE* *	AAUM 5 year CAGR*	Mcap/AAUM*	Stock PE	Price/Book
HDFC AMC	5.00	35.00%	51.64%	15.43%	12.16%	44.20	13.17
Nippon Life India	10.00	19.50%	28.19%	8.35%	7.43%	33.07	5.90

* As on March 31, 2020; ** As on March 31, 2019

Conclusions

As we all aware that global as well as Indian economy is experiencing a sharp downturn and market crisis due to outbreak of unprecedented infectious disease COVID-19 resulted vanishing the momentum of global growth. The economic challenges and uncertainty will remain high until we come up with effective treatment of coronavirus. Investors sentiment will remain somber in the second half of 2020 and mutual funds may see redemption in short term which could lead to more corrections in markets and a liquidity crunch for industries and existing investors. The probability of rapid bounce-back appears unlikely.

But here the question emerge what options does investor have; either to put his hard earned money in low yield FDs or to jump directly into share market and probably that doesn't make sense. Indian AMC's are well regulated and the investments of AMC's are well fragmented which poses minimal risk to the investors. Investors with long term goals should adopt the strategy by adding fresh investments gradually in their portfolio at the low price. Corona is not the end of world and as prudent industries will eventually survive and prosper in long run, same formula works for mutual fund industries. We foresee that in long phase India's asset management industry signify huge opportunity for growth and further penetration. Thus we would conclude that Mutual Funds are still **Sahi Hai!**

Links Used

Association of Mutual Funds of India	www.amfiindia.com
Mutual Fund India	www.mutualfundindia.com
Reserve Bank of India	www.rbi.org.in
International Monetary Fund	www.imf.org
World Bank	www.worldbank.org
HDFC AMC	www.hdfcfund.com
Nippon Life India	www.nipponindiamf.com
India Brand Equity Foundation	www.ibef.org
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Screener	www.screener.in

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