



Five fund houses withdraw FMPs due to lukewarm response from investors

Drop in yields and competition among AMCs to offer FMPs posed a challenge for fund houses to garner money in FMPs during March quarter.

FMPs might be the flavor of the season but not all fund houses are able to launch their schemes successfully.

Around five fund houses – Peerless, Union KBC, BOI Axa, Mirae and Religare Invesco have withdrawn their fixed maturity plans (FMP) during January - March 2014 due to lukewarm response from investors.

In fact, six schemes of these fund houses failed to collect the requisite Rs. 20 crore from their NFOs and had to return money to investors.

Experts attributed this slowdown in FMPs to volatility in bond yields, growing appetite for tax free bonds and competition among fund houses to offer FMPs.

“There were a flurry of FMPs during January to March. As a result, some fund houses failed to get money in their FMPs. Also, the major chunk of inflows went to large players leaving their smaller counterparts in lurch,” says Dharendra Kumar, Chief Executive Officer of Value Research.

Vidya Bala, Head - Mutual Funds Research, FundsIndia.com is of the view that many large institutional investors pull out their money at the last minute due to slight movement in yield curve. She says, “Even a small movement in yield curve ratio can affect their treasury of any institution to a great extent.” Thus, FMPs are withdrawn if they are unable to mop up the requisite Rs. 20 crore from NFO.

Vishal Dhawan attributes this slowdown to issuance of tax free bonds. He said, “Many tax-free bonds offering effective yield of 9% were launched during the same period affecting inflows in FMPs.”

“Since, FMPs open for subscription only for a short period, it’s very difficult for fund houses to mop up the requisite target to start such funds. Also, the margin in these funds is low discouraging some fund houses to concentrate on this segment,” says G Pradeepkumar, Chief Executive Officer, Union KBC Mutual Fund.

A senior fund official said that yields had declined during March by 30 to 40 bps which resulted in tepid response on this segment.

Last year, in November, two fund houses failed to collect the minimum corpus (Rs 20 crore) and ended up by returning the money to investors. Five fund houses – SBI, DWS, Axis, LIC Nomura and Religare Invesco had extended their NFO period in December.

Scheme	Withdrawal Date
Peerless FMP Series 7 Reg	21-Feb-14
Religare Invesco FMP Series 22 Plan M (367D) Reg	25-Feb-14
Peerless Fixed Maturity Plan - Series 8 - Regular Plan	01-Mar-14
BOI AXA Fixed Maturity Plan - Series 12 (386 Days) - Regular Plan	13-Mar-14
Union KBC Fixed Maturity Plan - Series 11 - Regular Plan	20-Mar-14
Mirae Asset Fixed Maturity Plan- Series II -391 Days	13-Mar-14

Source: Value Research

SEBI rules state that NFOs of FMP can be open for subscription for a maximum of 15 days; however, many fund houses prefer to launch such schemes with a shorter NFO window of 1-3 days keeping in mind the interests of institutional investors. The short NFO window in FMPs ensures that the money collected from institutional investors isn't kept idle. FMPs with NFO period of 8-10 days are typically designed for retail investors.

"It is not just the small players who are struggling to get the inflows but the problem is similar even among the larger players. Many fund houses including larger ones have extended their NFO period so as to collect the requisite Rs. 20 crore," added Dhawan.