Inflows in equity mutual funds hit 24-month low

SILVER LINING Retail investments via SIPs stay intact amid drop in overall flows

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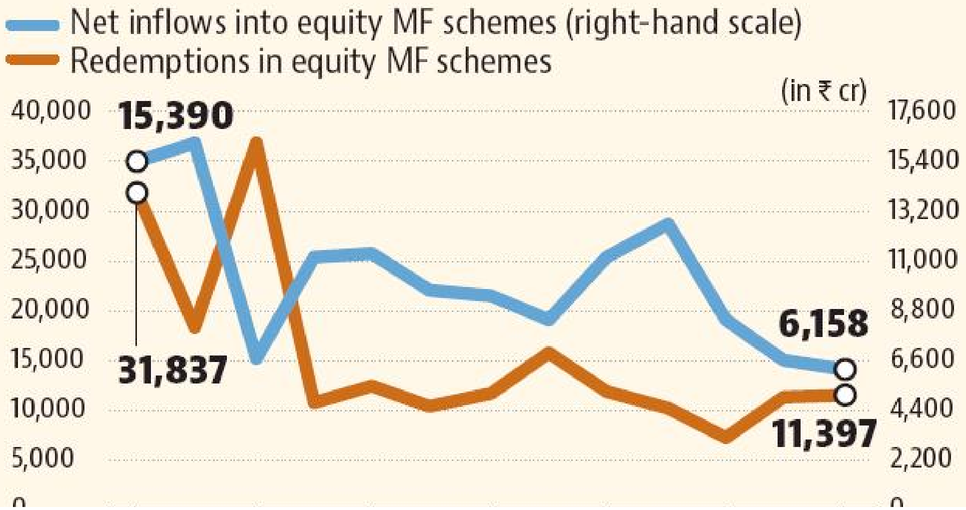
MUMBAI/NEW DELHI: Net inflows of investments into mutual fund equity schemes have hit a 24-month low, with only ₹6,158 crore accruing in January 2019. The continuing volatility in stock markets and political uncertainty seem to have impacted overall sentiment, except for one silver lining—retail investment in such funds seems to be intact.

The dramatic drop in net inflows, according to data released by the Association of

Slide show

Net inflows into equity mutual fund schemes dropped to ₹6,158 crore in January, down 6.7% from ₹6,606 crore in the previous month, according to Amfi data.



said while the data shows a marginal month-on-month increase in inflows through the SIP route, the growth rate has slowed down.

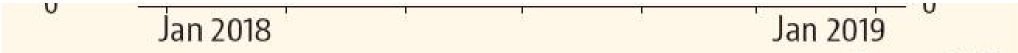
Equity flows will continue to decline and potentially turn negative, Somaiyya said, pointing to "poor past performance, mis-selling of balanced funds and lower commissions" as the principal reasons for the trend. Over the past few years, many distributors sold balanced (hybrid) funds as an investment yielding regular dividend income.

However, dividends from balanced funds are market-linked

Mutual Funds of India (Amfi) for January 2019, continues a trend that has been evident for several months. January's net inflows are down 6.7% from ₹6,606 crore in December 2018. Compared with the ₹15,390 crore net inflows into equity mutual fund schemes a year ago, the fall is a steep 60%.

Equity funds in the data include pure equity funds as well as equity-linked savings schemes (ELSS), tax savings vehicles investing predominantly in equity. The picture gets bleaker after factoring in fund flows from arbitrage funds—according to the latest data, arbitrage funds saw an outflow of ₹1,076 crore in January 2019. This places the net inflow at ₹3,838 crore at the end of January 2019, less than a third of what the industry collected last year.

The other worrying factor is the steady increase in redemptions: ₹11,397 crore was redeemed from equity funds in January 2019, against ₹11,234 crore in the previous month.



Source: AMFI

Inflows into mutual funds have been declining for several months

Experts blame market volatility and political uncertainty for the trend

Retail investments have stayed intact, with SIPs showing a small increase in January

Experts attributed this to volatility in the financial markets last year and tightening of rules on commissions in mutual funds by the Securities and Exchange Board of India (Sebi) over the past year. The general elections due in April-May are also likely to have weighed on investor sentiment.

However, it does seem that the retail investor is yet to give up on equity mutual funds. The amount collected through systematic investment plans (SIP) in January 2019 was ₹8,063.67 crore, compared with ₹8,022.33 crore in the previous month, according to the Amfi data. SIP is an investment plan offered by mutual funds that allows investors to invest a fixed amount in a mutual fund scheme periodically.

"Despite acute market volatility owing to credit events and global uncertainty, retail investors continue to repose their faith in the India growth story. This is quite evident from the SIP flows and folio numbers, which continue to rise sequentially. On debt asset under management, with the Reserve Bank of India easing the rates, we expect to see flows rise in the coming weeks," said Amfi chief executive officer (CEO) N.S. Venkatesh.

However, if the current volatility continues, even this inflow might taper off, experts fear. Aashish Somaiyya, CEO of Motilal Oswal Mutual Fund, and cannot be relied on as a steady source of income. There was also a lower risk perception in these funds which turned out to be completely unfounded because of losses on the equity and debt components of these funds.

"Even balanced funds have had a negative return over the past one year," Somaiyya said.

Vishal Dhawan of Plan Ahead Financial Advisors attributed the drop in fund flows to poor returns and an uncertain future outlook. "The slowdown is probably a combination of low returns that existing SIP investors would be currently seeing, especially on their mid and small cap schemes, causing them to evaluate other options," he said.

The slowdown comes even as domestic liquidity has become crucial for equity markets, with foreign institutional investors (FIIs) retreating from Indian shares. FIIs sold off Indian equity worth $4,557.39 million in 2018 and $75.35 million in January.