39
% of rated assets in top-rated (5- & 4-star) funds

67
% of AMC assets beating the benchmark over the past 3 years

'Big opportunity ahead'

Over the last year, the industry has seen strong growth following demonetisation and reducing appetite for physical assets. Besides this, we believe there are strong drivers for structural growth of the industry such as opening of about 30 crore new bank accounts over last few years, reducing appetite for physical assets and falling interest rates.

The acquisition of Deutsche Bank's mutual fund business about 18 months back was a game changer for us. It was the largest acquisition in the mutual fund industry till date.

In addition to enhancing the investment platform, we have taken a number of steps to engage our clients and distribution partners. Our number of branches has gone up from 10 last year to 23 currently.

Risk controls

While valuations are high, let's remember that the market is not a monolithic entity. It is the average of all sectors. Indeed, we see a few pockets where valuations are stretched either on optimism or on low floating stocks. Understandably, our investment teams have to work a lot harder to find investment opportunities.

We believe while performance is important, it is equally important to avoid negative surprises. All our funds operate within a clearly laid down, true-to-label investment framework. Both on equity and fixed income, there is rigorous discussion and a clear action plan.

Rising industry assets

We believe there's ample scope for the industry to grow. Out of domestic household savings of over $500 billion per annum, equity flows account for less than 4 per cent per annum. As a per cent of market cap, equity mutual funds account for less than 6 per cent. We believe there is ample scope for institutionalisation of equity holdings via mutual funds. Having said that, certain segments of the market, like micro caps and small caps, do pose challenges due to poor liquidity.

Growing clout of domestic funds vis-a-vis FIIs?

Powered by steady retail flows, mutual funds have seen their importance grow. But from an overall ownership perspective, FPIs own about 27 per cent of Indian market cap, whereas mutual funds own less than 6 per cent. With sustained retail interest, the share of domestic funds in the overall market cap will rise significantly.

Outlook for equity and debt

The GDP growth in the last quarter, at 5.7 per cent, is one of the lowest readings we've seen in recent times. We, however, believe economic growth is likely to bounce back to 6.5–7 per cent over the next 12 months. While long-term prospects for the equity market remain strong, we must admit that valuations are no longer compelling and leave room for disappointment in the near term.

On fixed income, the market is likely to retain surplus liquidity. However, the scope for further rate cuts appears limited. We would recommend investors to consider short-maturity and accrual funds for fixed-income deployment.

"Rapid financialisation of savings and the opportunity ahead for the industry is much bigger than what has been witnessed so far."

Suresh Soni, CEO