

Live Webinar Series

Re-Accelerate: Trends in the Indian Mutual Funds Industry



Financial Services



#ReAccelerateWithPraxis

Foreword

This report is intended to provide an overall perspective on the trends in the Mutual Funds industry as the economy starts recovering post a nation-wide lockdown announced on 22 March 2020. In the section on “*Setting the growth context*”, we have discussed the key drivers for the growth of Mutual Funds in India, the performance of different products (debt, AIFs, PMS, etc.) and long-term outlook that indicates that there is significant headroom for growth.

In the section on “*Emerging trends in product and channel choices*”, we have looked at trends in the distribution of mutual funds, growing traction of direct plans, and the importance of digital distribution channels.

We also look at the impact of COVID on 3 key parameters – changes in risk appetite, product preferences, and channel choice. Finally, we discuss how the Mutual Funds is still a T30 story and how it needs to tap the market beyond the top 30 centers.

In the section on “*Competitive landscape*”, we have analyzed the degree of market concentration, revenue trajectory of the top 10 players, and opex structure of key players. We also look at the correlation of AAUM and PAT to estimate break-even AUM.

Amidst the uncertainty and the rapidly changing situation, there may be variances from the projections and hypotheses stated here. We, at Praxis Global Alliance, look forward to continuing the discussion with key stakeholders in the Mutual Fund and the broader Financial Services industry and relearning as the industry reaccelerates post-COVID.



Shishir Mankad
Head, Financial Services



Madhur Singhal
Managing Director

Key takeaways

- **AuM of Indian asset management industry has grown substantially** on the back of retail participation via SIPs, having received impetus post demonetization and positive uptake from several awareness campaigns since 2016
- **Growth in industry is primarily driven by equity schemes** as debt products have fallen out of flavor, and AIF and PMS are still relatively small in the overall scheme of things
- **We believe that COVID has accelerated digital adoption of investors requiring MFs to rethink distribution models:**
 - **Increase in direct plans** registering rapid growth across product categories (most prevalent in mass affluent segment)
 - **Clear shift towards digital** with the advent of online brokerage platforms which have shown substantial increase in active accounts post COVID
- **Growing competition and rising costs of doing business have pushed the breakeven AuM** from INR 10-15K to 40-50K crores, leaving some very interesting strategic choices for mutual funds
- We are very convinced of the long-term view of the industry as it still has significant headroom to grow when compared with global benchmarks; however, MFs will need to ensure the following:
 - **Shift of focus** from merely providing products **to offering solutions**
 - Blend sound data-driven asset allocation with emotional selling to **create sustainability of investments**
 - **Rebuild investor confidence in fixed income** solutions given that India is a savings-driven country
 - **Build the market below the top 30 cities** to take the growth to the next level



**Setting the growth
context**



**Emerging trends
in product and
channel choices**

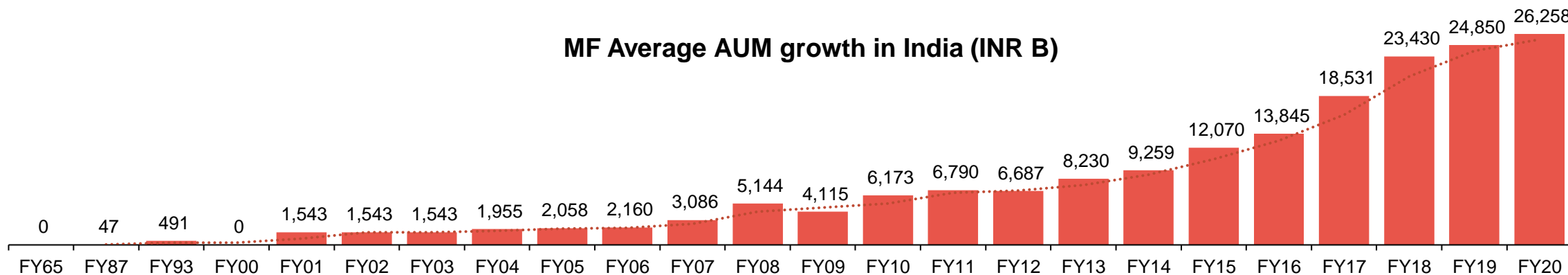


**Competitive
landscape**

Indian asset management industry is >INR 26T (~25% of outstanding bank credit), economies of scale passed back to investors in terms of reduced TERs

FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
<ul style="list-style-type: none"> SEBI banned entry load on MFs 	<ul style="list-style-type: none"> Fund investment & advisory fees to be $\leq 0.20\%$ of daily net assets of the scheme → lower TER 	<ul style="list-style-type: none"> AMCs to decide on distribution of TER fee - regulatory giving way to free market 	<ul style="list-style-type: none"> Fungibility of TER allowed. Entire exit load to be credited to the scheme 	<ul style="list-style-type: none"> Entry loads banned to support retail investors Only certified advisers to give financial advice – by SEBI Introduction of Direct plans 	<ul style="list-style-type: none"> Defined 'long term' for debt mutual funds as 36 months. Tax exemption limit for investment in financial instruments raised to INR 1.5L from INR 1L 	<ul style="list-style-type: none"> SEBI asked fund houses to shift from colour coding to riskometer which classified schemes based on the risk profile 	<ul style="list-style-type: none"> Provided easy entry to the foreign fund managers keen to enter India 	<ul style="list-style-type: none"> MF recategorization into five categories by SEBI → clarity for investors 	<ul style="list-style-type: none"> Upfront fees of 1% withdrawn 20% of the liquid scheme corpus to be in invested into liquid assets - SEBI 	<ul style="list-style-type: none"> Upfront commissions not permitted No pass back to investors No expense from AMC books

MF Average AUM growth in India (INR B)

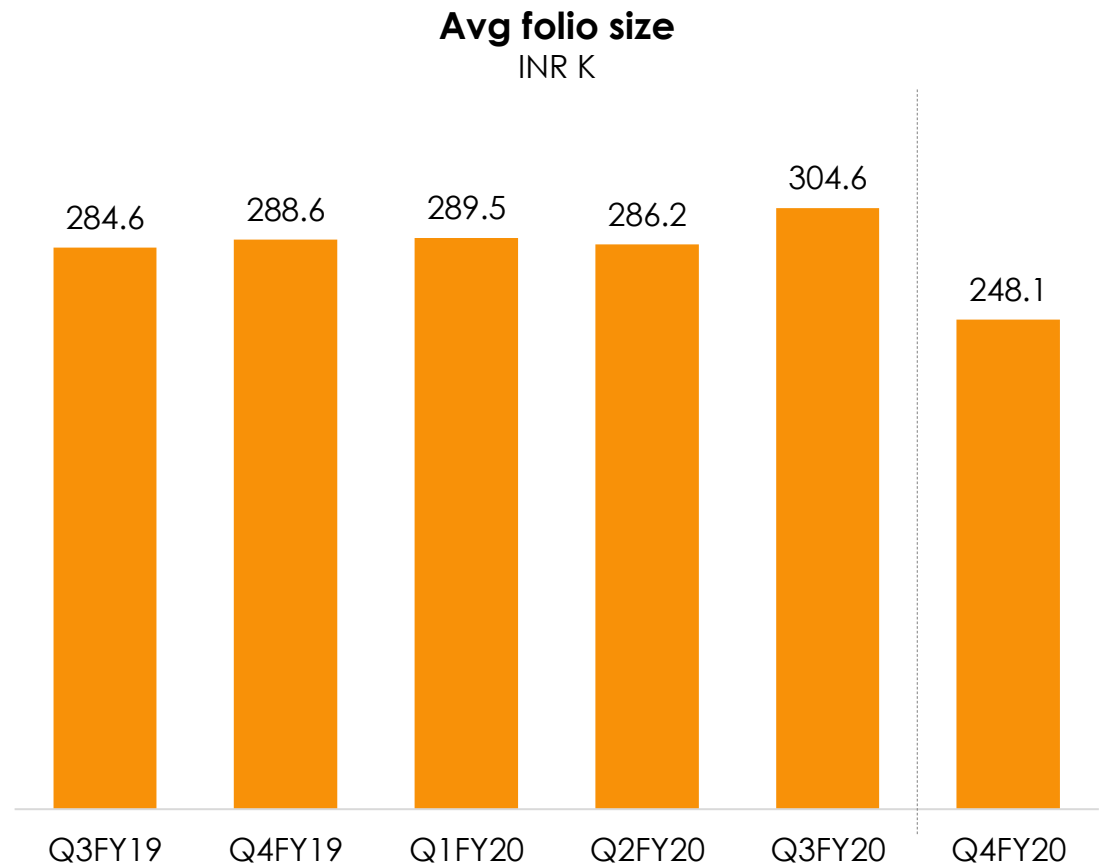
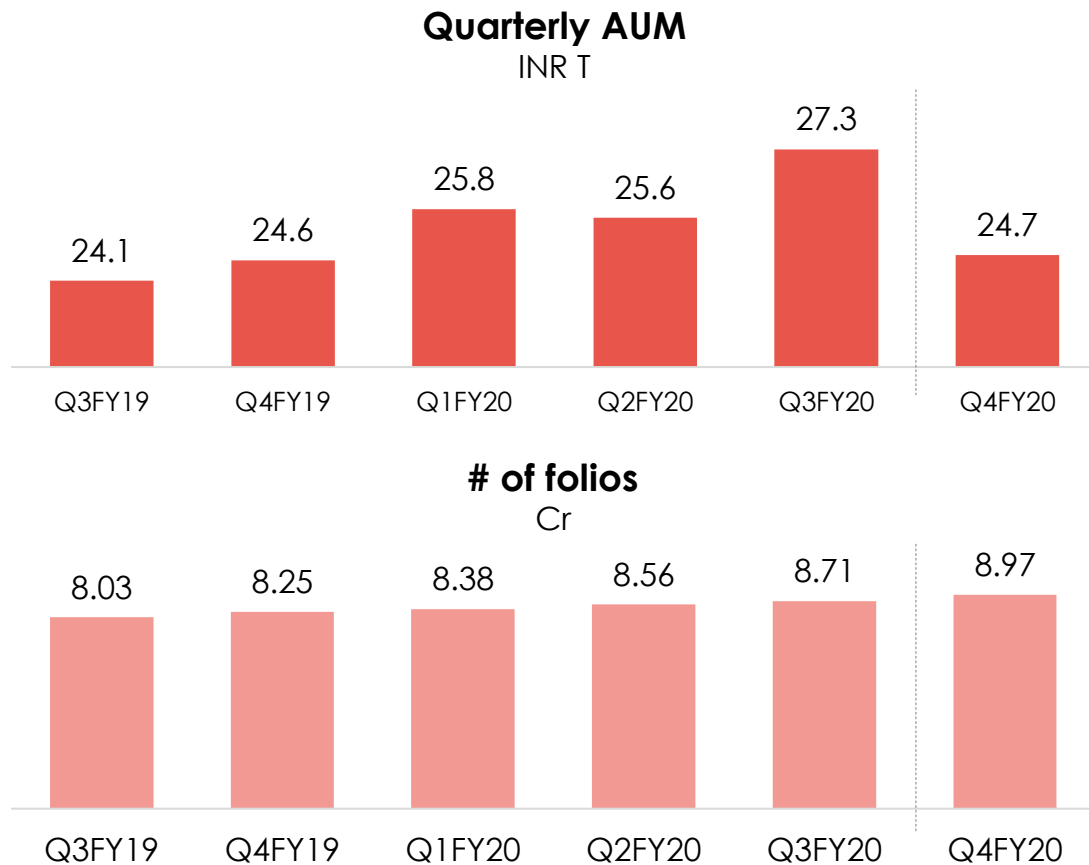


Steady growth in folios and average AuM per folio till Q3FY20

Industry AuM fell sharply in Q4FY20 despite growth in number of folios

Average AuM growth at ~3.2% per quarter till Q3FY20, and growth in number of folios at ~2.2% per quarter

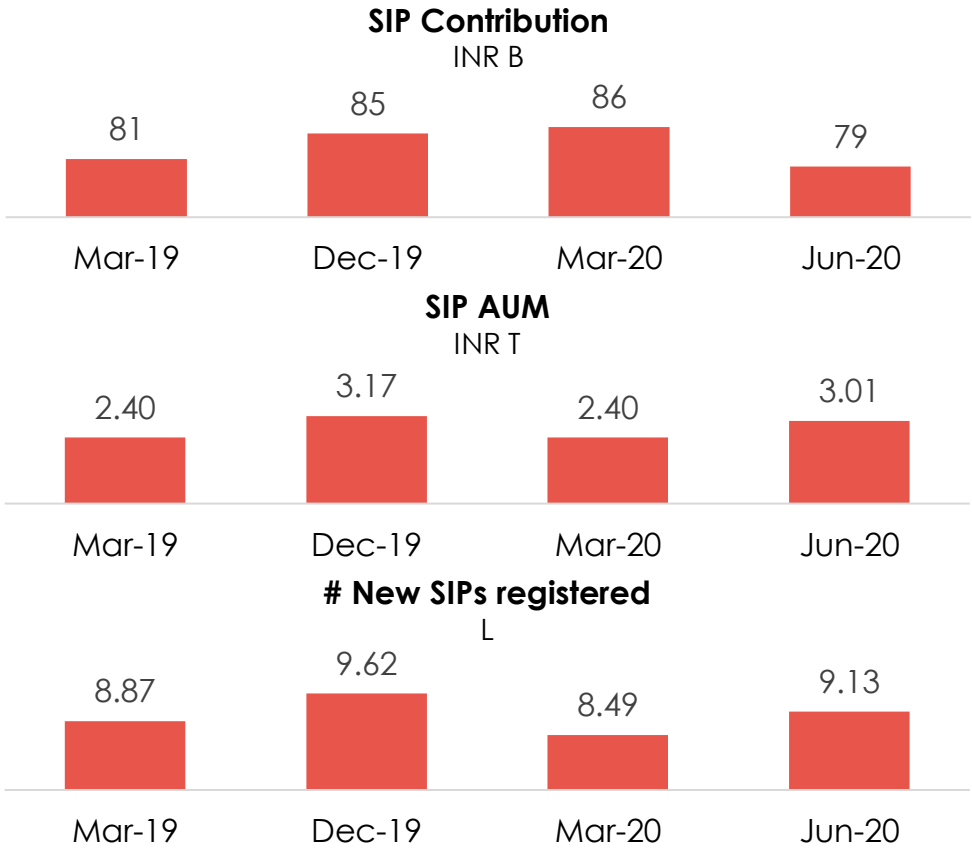
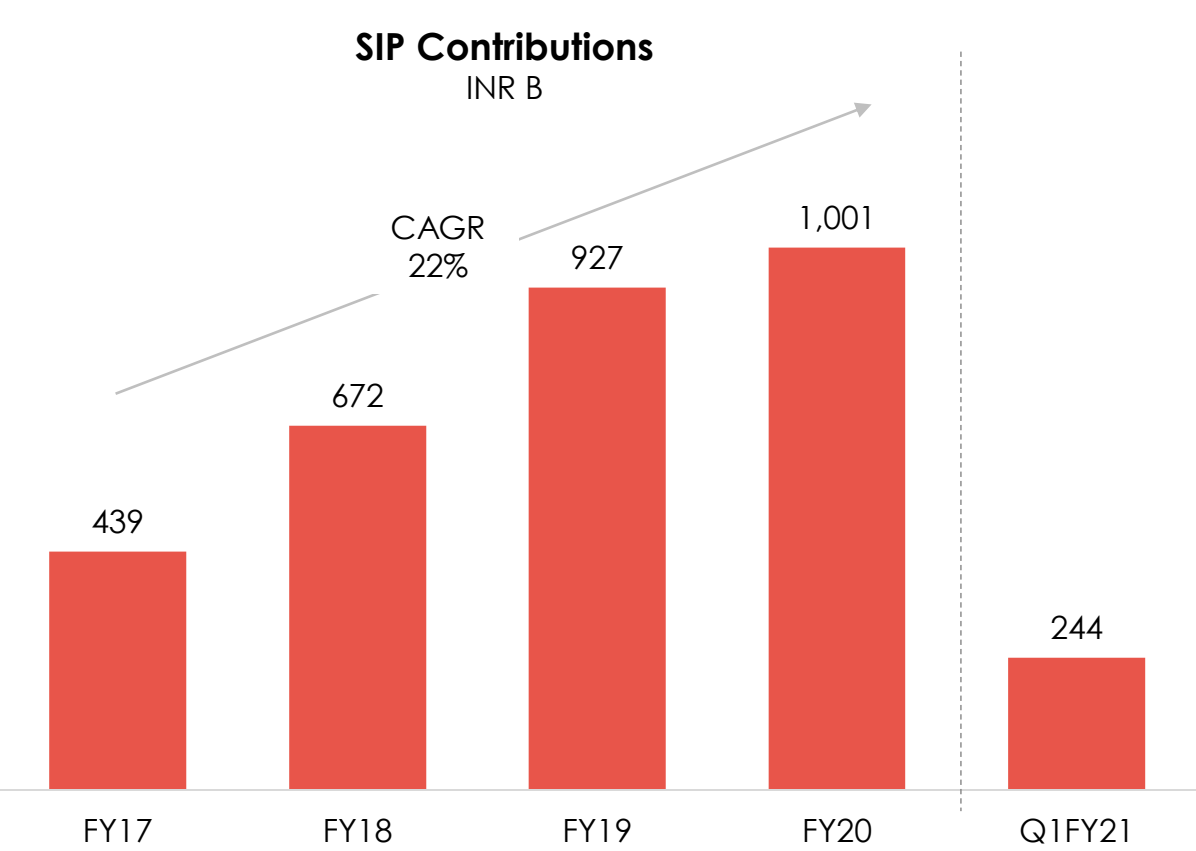
Average folio size has grown by ~2.1% CQGR till Q3FY20 but fell significantly in Q4FY20



SIP contributions have more than doubled since FY17, new SIP registrations rebounded in Q1FY21 after a drop in Q4FY20

SIP contributions have doubled since FY17, crossing INR 1T in FY20

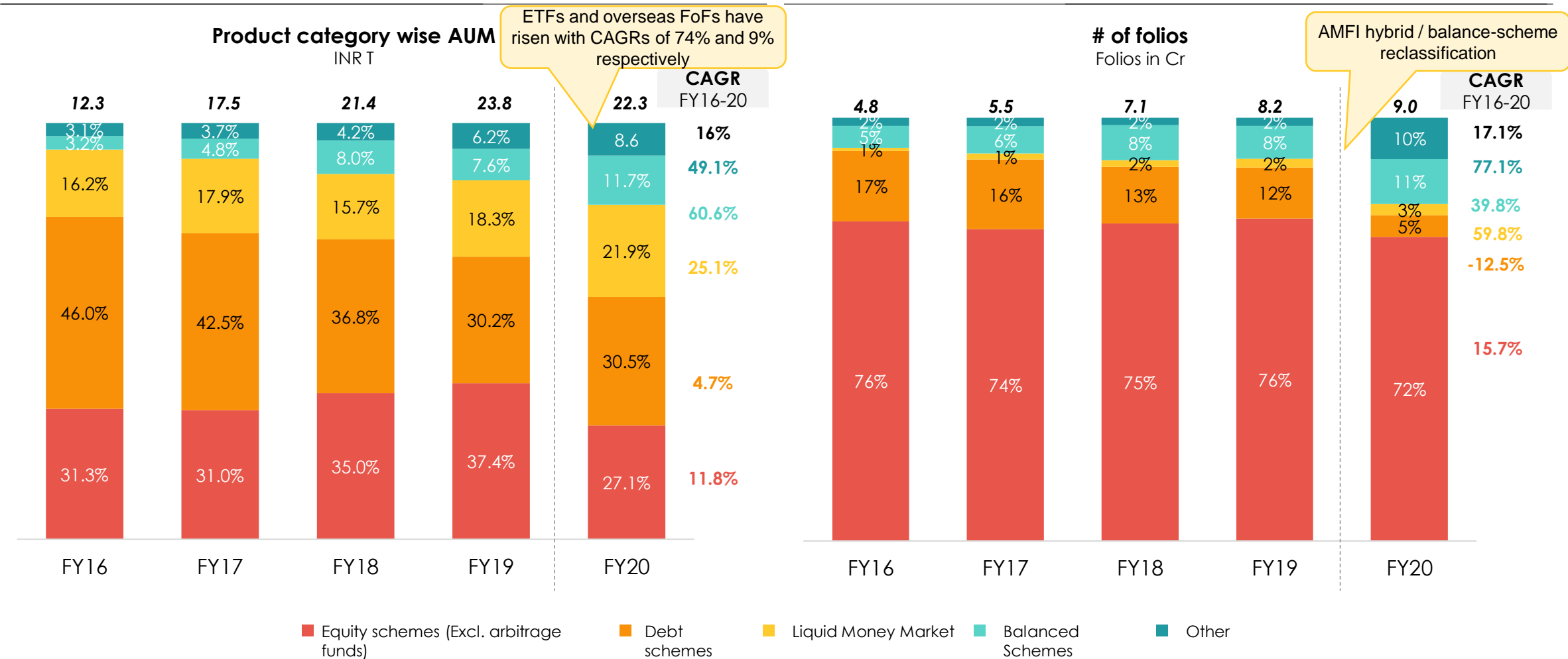
New SIPs rebounded in Q1FY21, not showing any significant impact of COVID



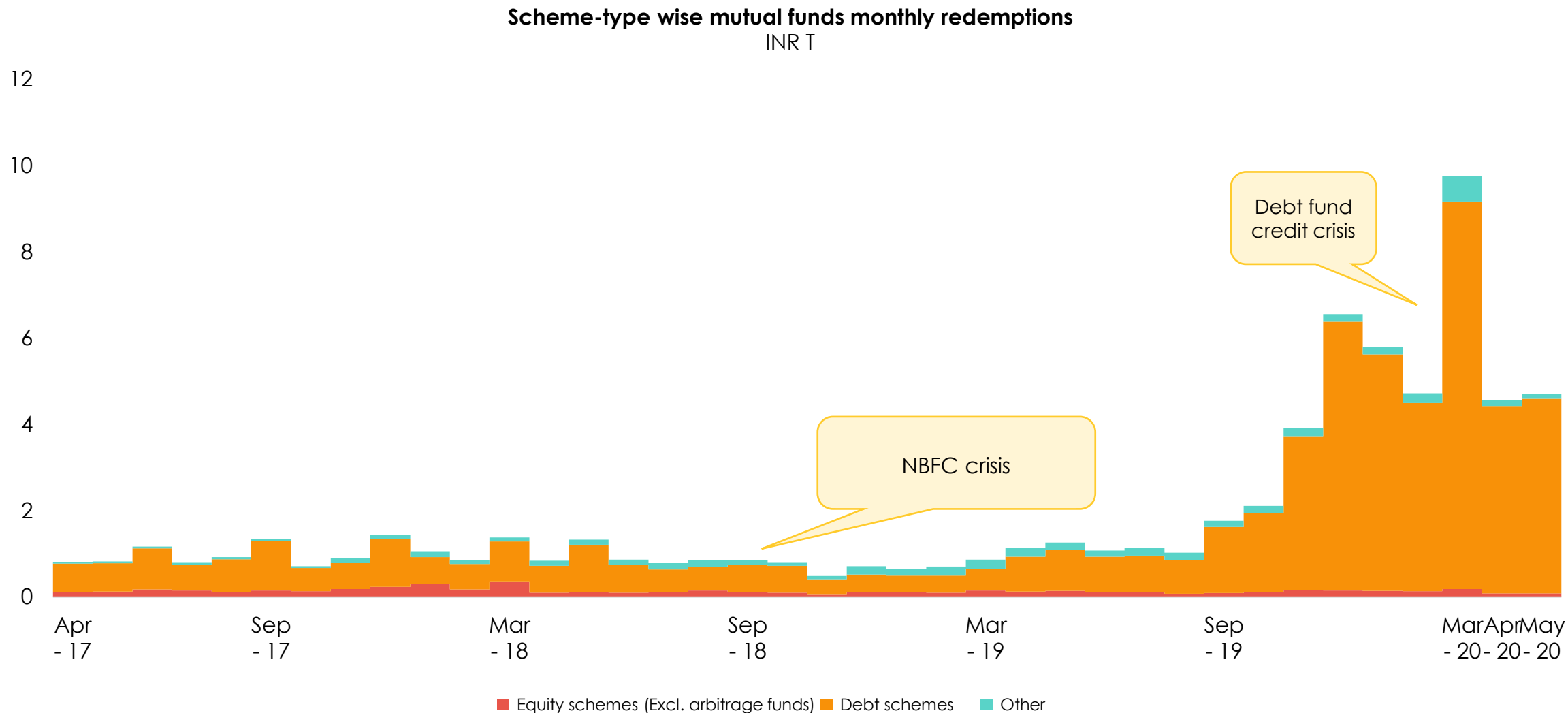
Debt products rapidly losing sheen: number of debt-MF folios fallen by more than 50% in FY20, AuM growth is benign at ~5% CAGR from FY16-FY20

Steady fall in share of AuM of debt funds in total AuM, FY16-FY20 CAGR at ~5%

Marked decline in the number of folios of debt-based MFs in FY20



Debt fund redemptions spiked in Q4FY20, possibly triggered by the debt fund crisis and flight to safety amidst the COVID crisis

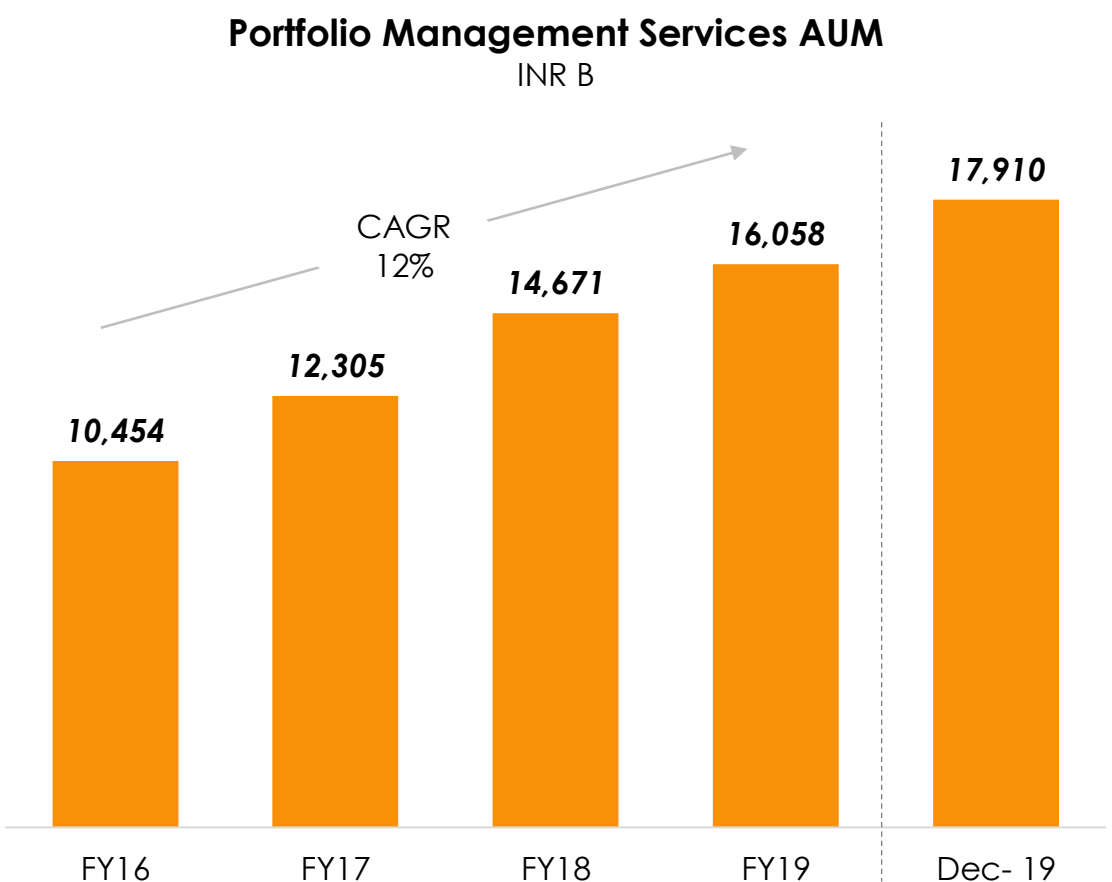
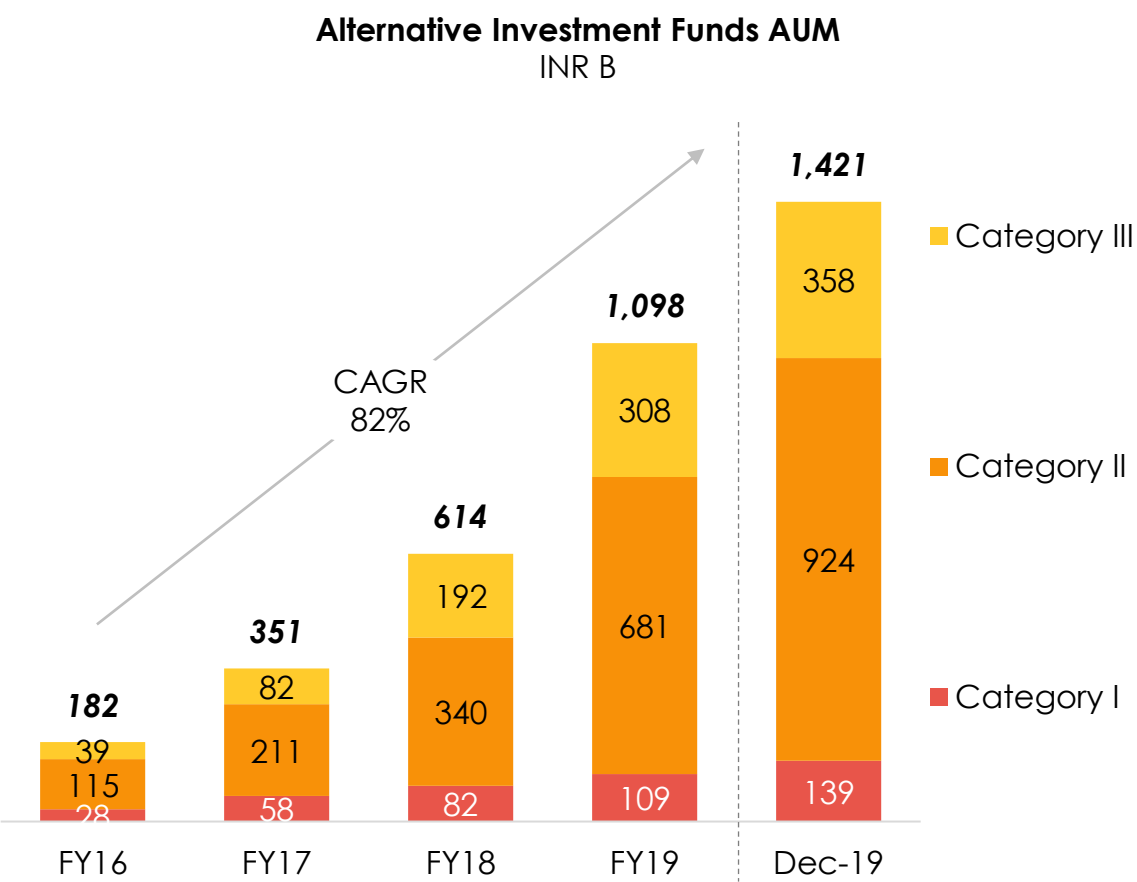


Note(s): Other MF products comprises of Arbitrage funds, balanced schemes, other hybrid funds, gilt, ELSS – equity, gold ETFs, other ETFs, and overseas fund of funds
Source(s): Press reviews, AMFI, Praxis analysis

PMS and AIF have not yet moved the needle on growth for AMC's

Alternative investment funds have grown at a CAGR of 82% from FY16-FY19, however AMC's are not the mainstay

5-year CAGR of PMS AuM is ~12%, not very different from that of mutual fund schemes

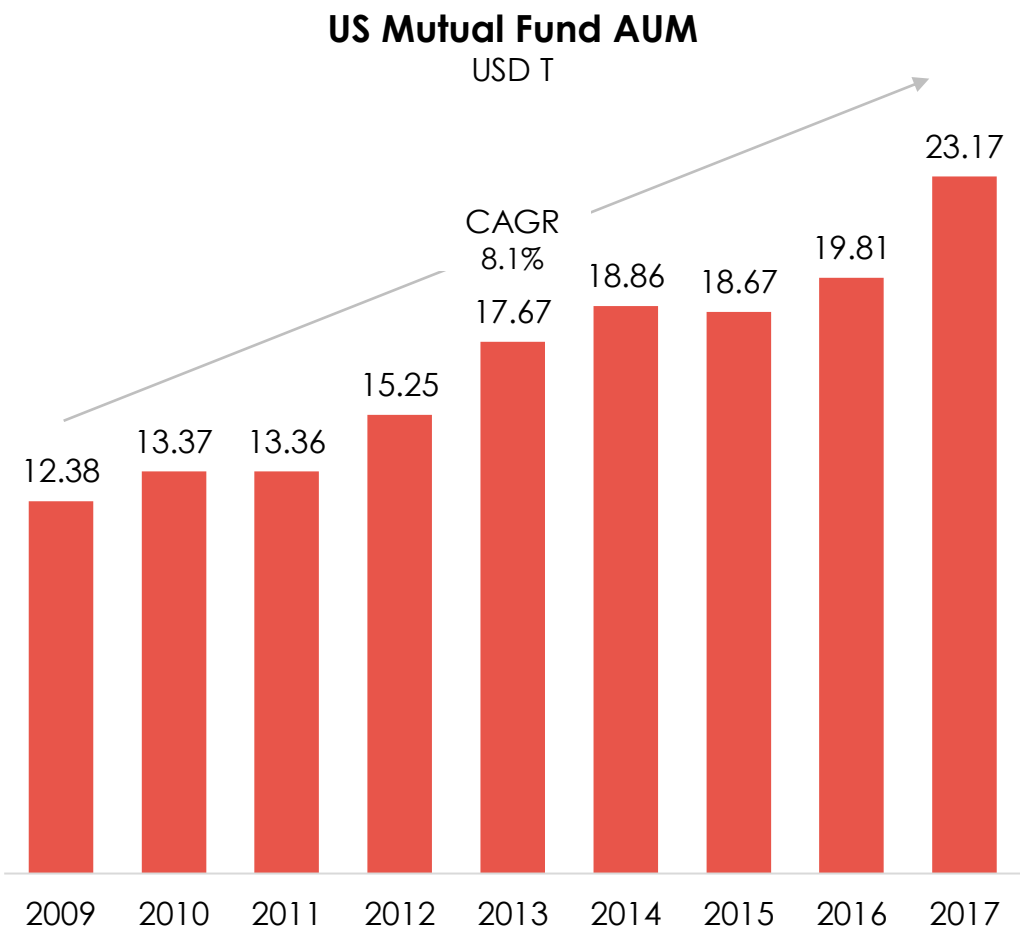


Note(s): Category I AIFs invest in start-ups / early stage ventures / SMEs / infrastructure / social sectors; Category III AIFs includes funds such as hedge funds, PIPE funds, etc.; Category II AIFs include the rest
Source(s): SEBI, Praxis analysis

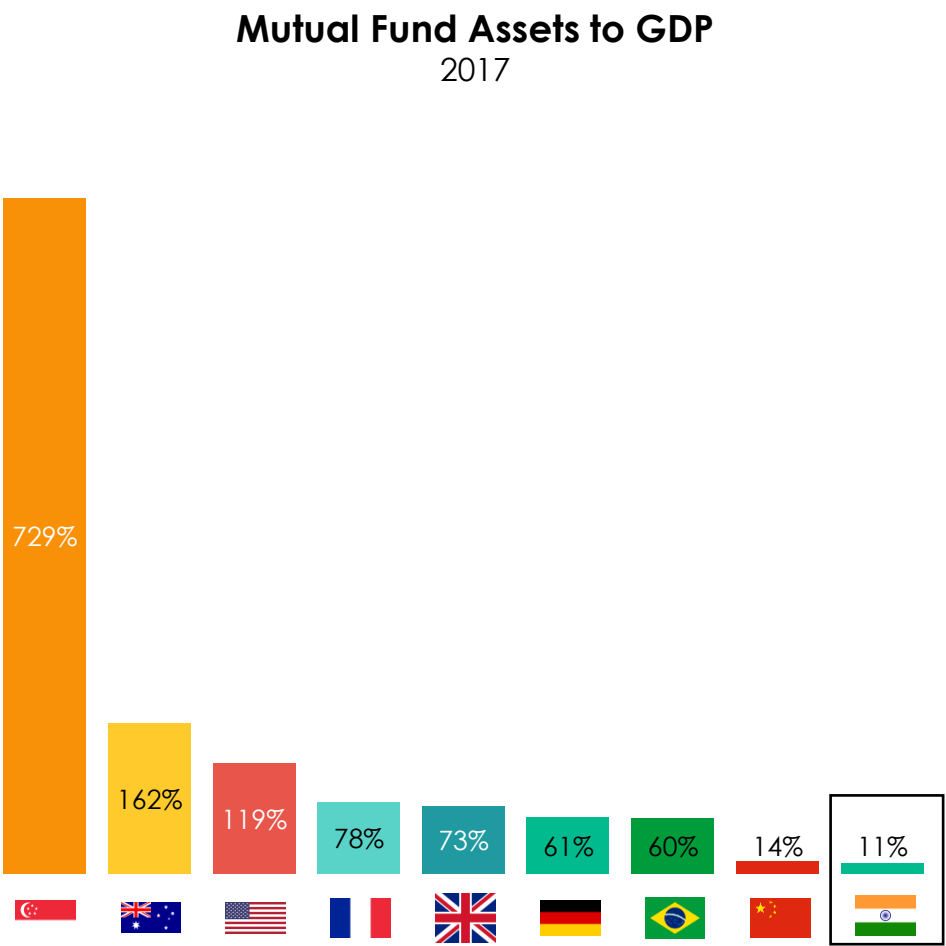
© Praxis Global Alliance | 10

Indian asset management industry has significant headroom for growth

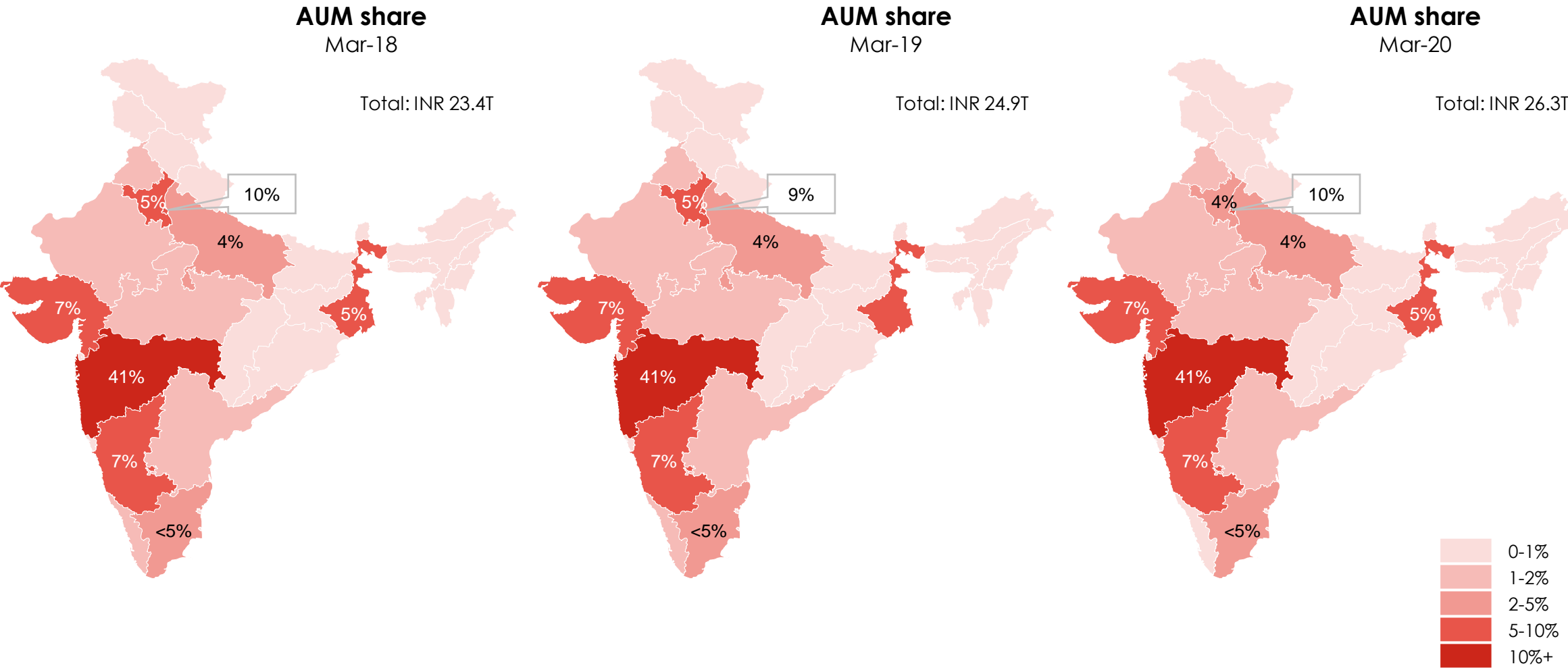
The US MF market has grown at a CAGR of ~8% from FY09-FY17, on a massive base



MF AuM is only 11% of GDP in India, well below international benchmarks



Significant opportunity to broad base mutual funds in India: 4 states (Maharashtra, New Delhi, Karnataka and Gujarat) have ~65% share in AUM



A piggy bank is shown in profile, facing right. It is a reddish-orange color with a darker orange circular spot on its side. The background is a solid, slightly darker red. The piggy bank has a small ear, a snout, and a coin slot on its back.

Setting the growth
context

A person in a grey suit and white shirt is pointing with their right index finger at a digital interface. The interface displays various data visualizations, including a bar chart, a line graph, and a network diagram with nodes and arrows. The background is a blurred office setting.

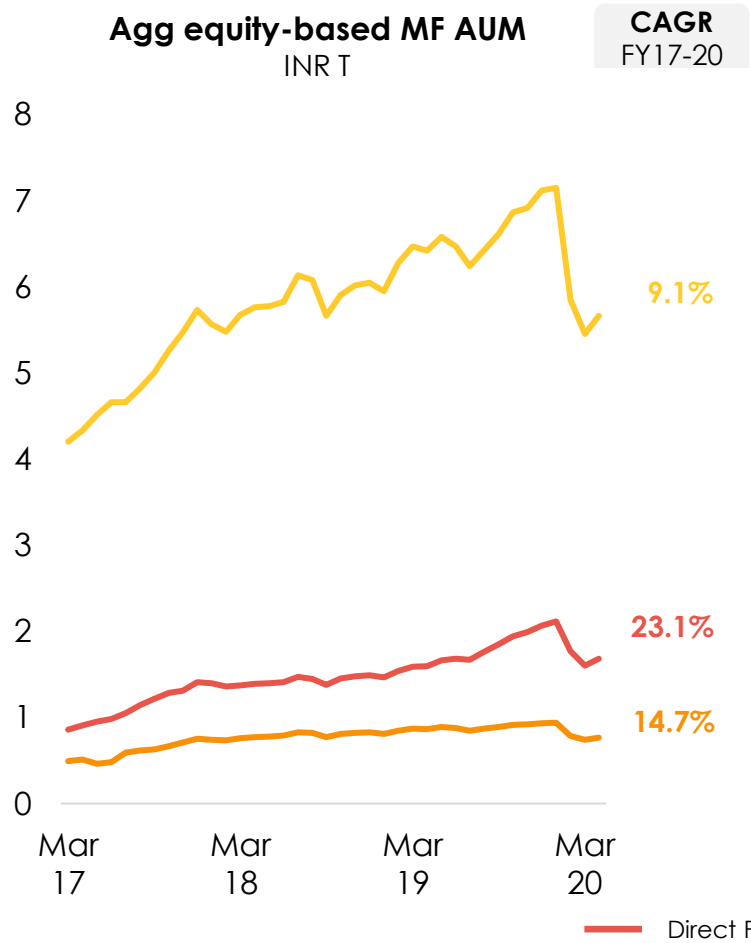
Emerging
trends in product
and channel choices

A hand is holding a pen over a desk. On the desk, there is a smartphone, some papers, and a pen. The background is a blurred office setting. The entire image has a greenish tint.

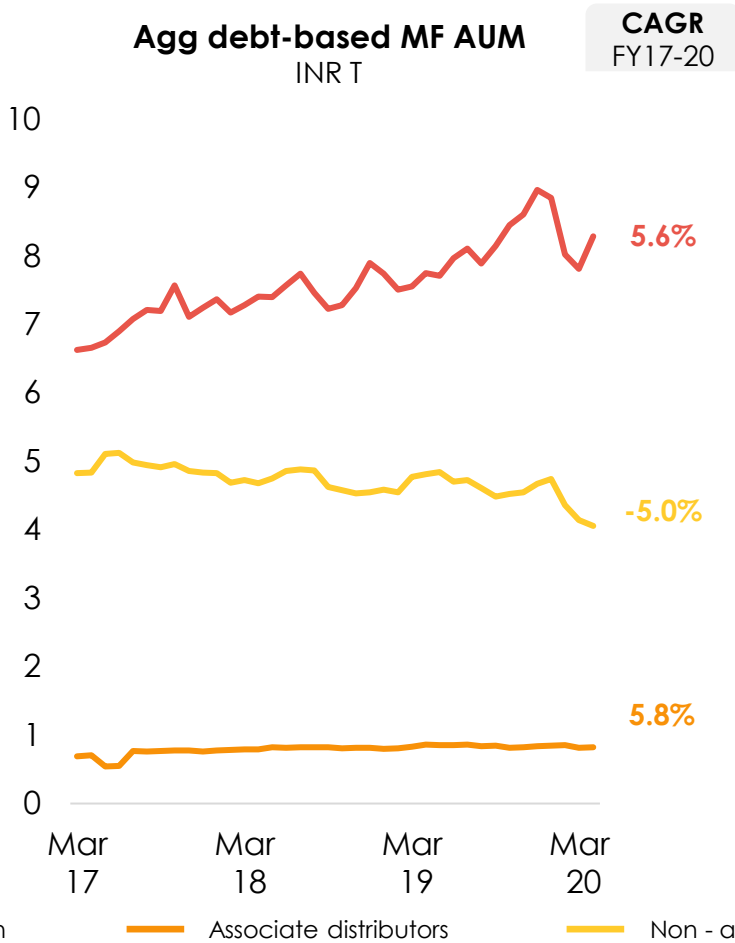
Competitive
landscape

Direct plans rapidly gaining traction across scheme types

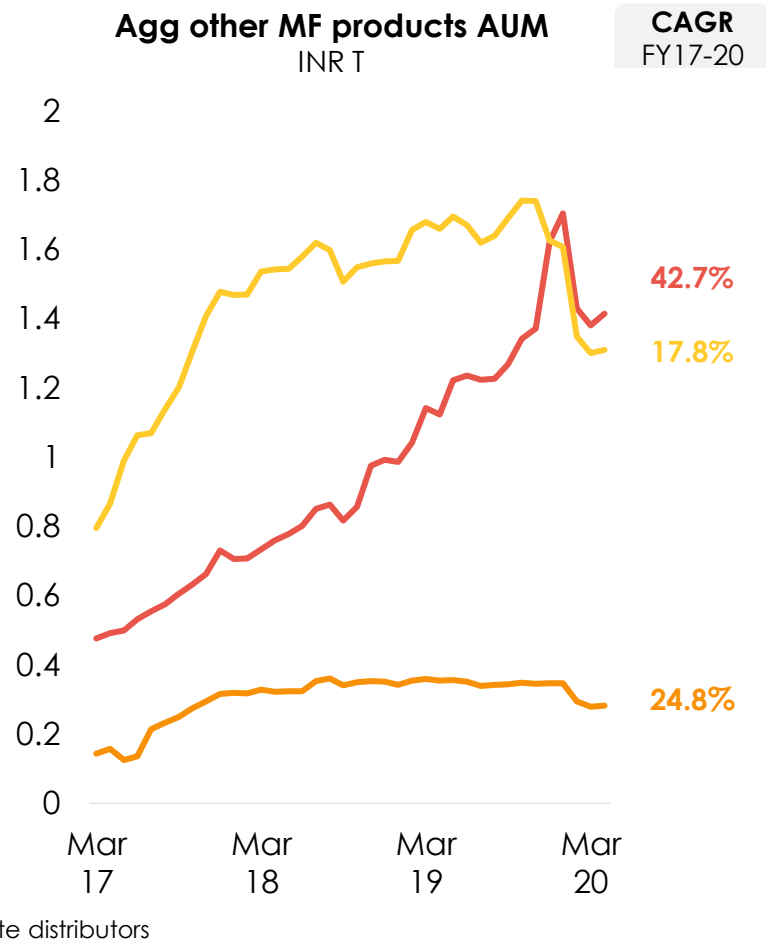
Direct plans growing rapidly, though lag non-associate distributors on AUM



Direct plans dominate MF AUM



Direct plans have surpassed non-associate distributors in other MF products



Note(s): Other MF products incl. balance-schemes, exchange-traded funds, and funds of funds (overseas)
Source(s): AMFI, Praxis analysis

Direct plans most prevalent in mass affluent segment, marginal uptick in HNIs' preference for direct plans

Mass affluent prefer MF investments through direct plan while HNIs prefer regular plans for MF investments

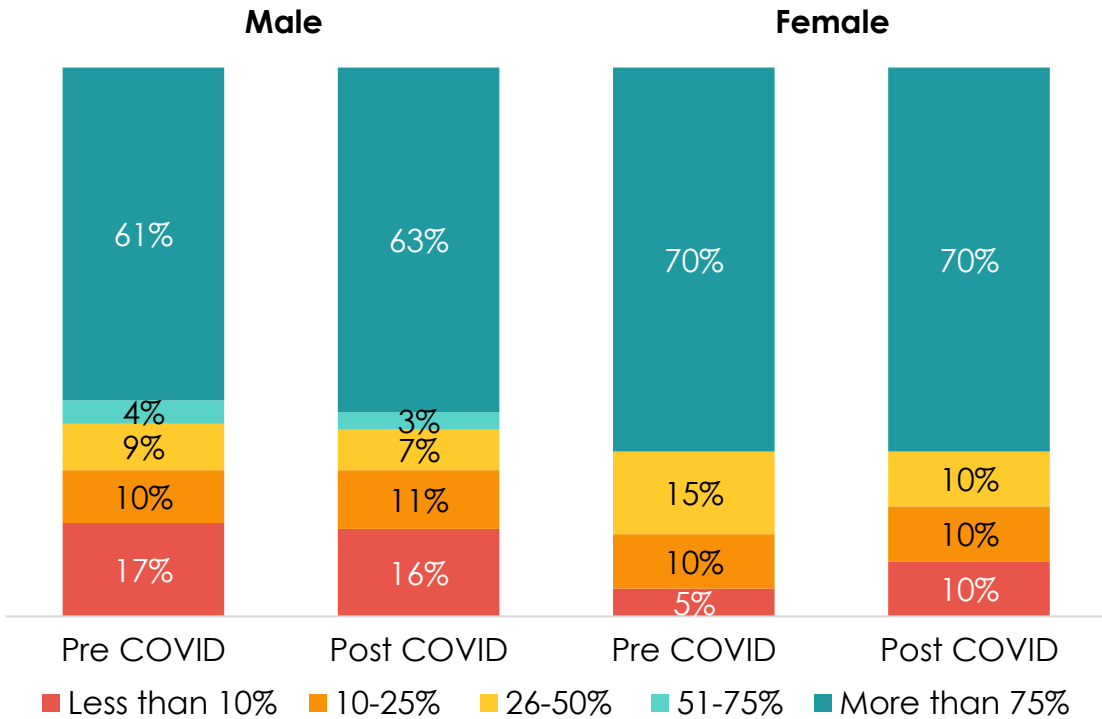
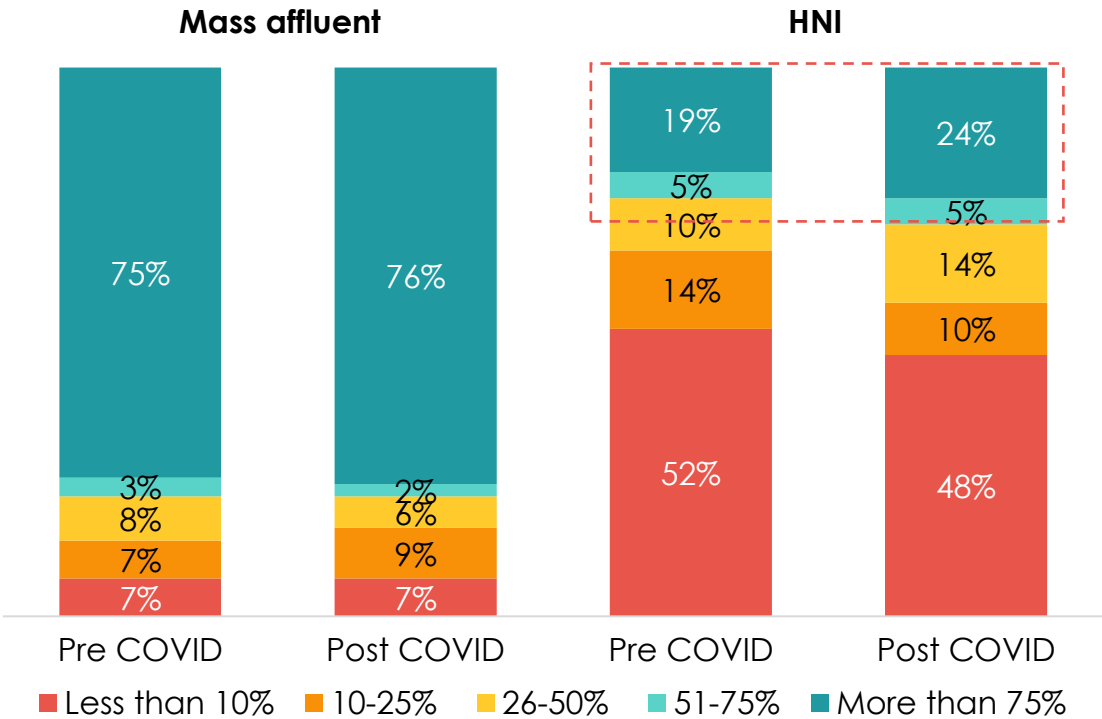
70% female prefer MF investments through direct plan while ~65% male prefer direct plans

Q: What % of your mutual fund assets are invested through direct plans?

Q: What % of your mutual fund assets are invested through direct plans?

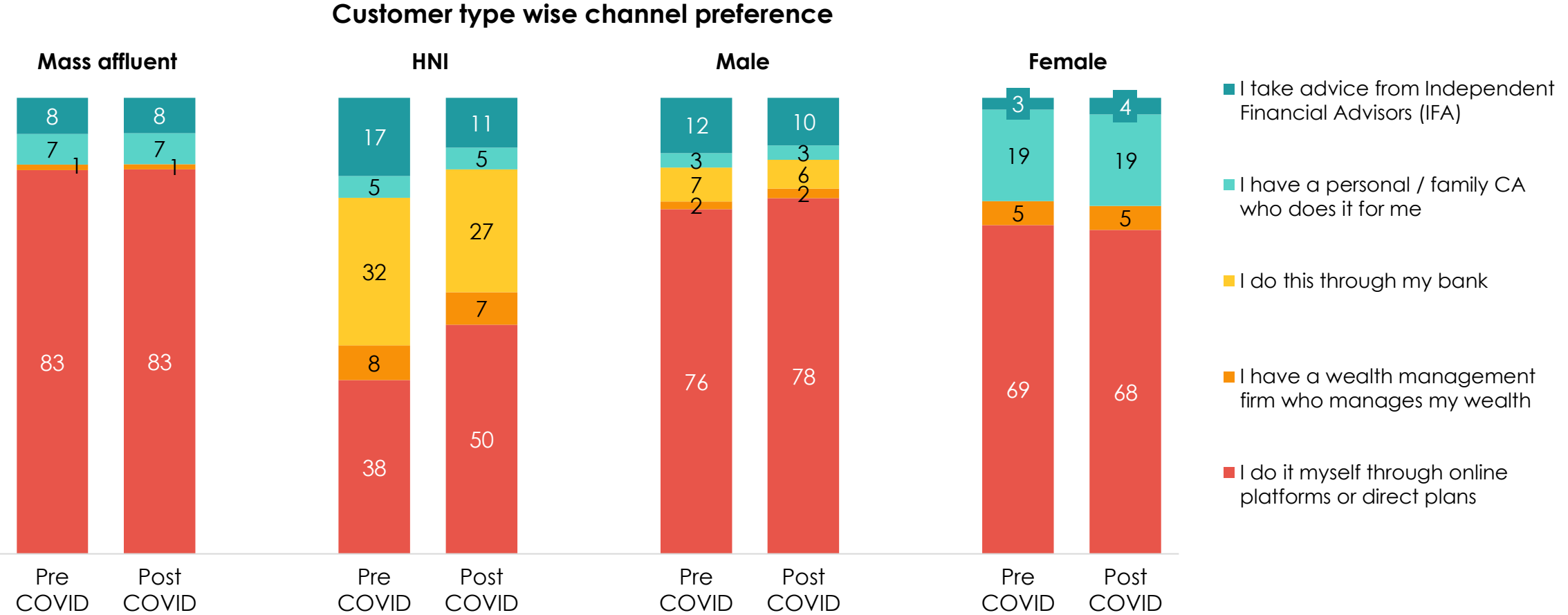
Customer type wise channel preference

Gender wise channel preference



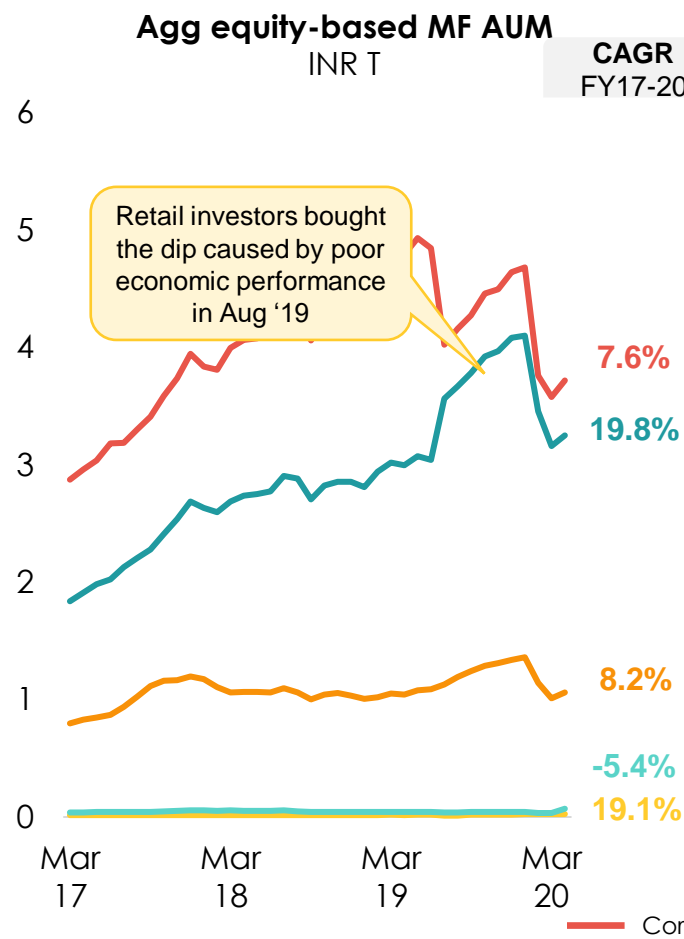
COVID may have marginally shifted HNIs' channel preference towards direct plans

Q. How do you manage your wealth? (% proportion)

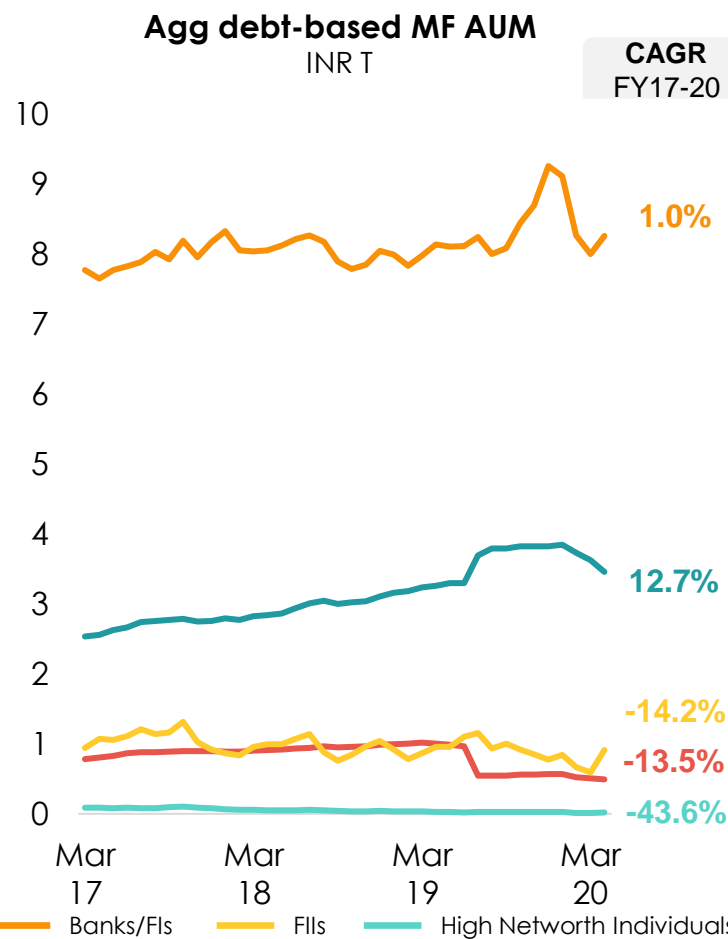


Retail segment has been the key growth driver in equity and debt schemes, MF industry not punching its weight in HNI segment

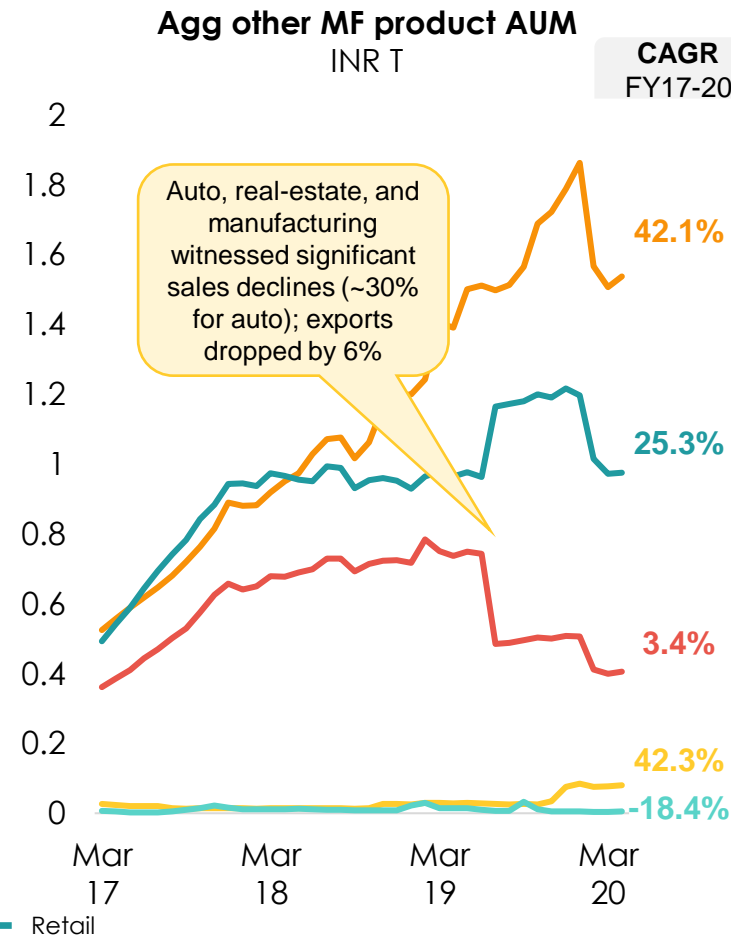
Retail and corporate segments are the key pillars of Equity scheme AuMs



Banks and FI's dominate debt AuM, though retail growing faster than other segments



Banks and FIs have surpassed retail in other MF products



Note(s): Other MF products incl. balance-schemes, exchange-traded funds, and funds of funds (overseas); other MF products incl. balance-schemes, exchange-traded funds, and funds of funds (overseas)
Source(s): Press reviews, AMFI, Praxis analysis

Mass affluent and female investors most conservative; COVID appears to have reduced risk appetite of HNIs

HNIs are more aggressive investors than mass affluent

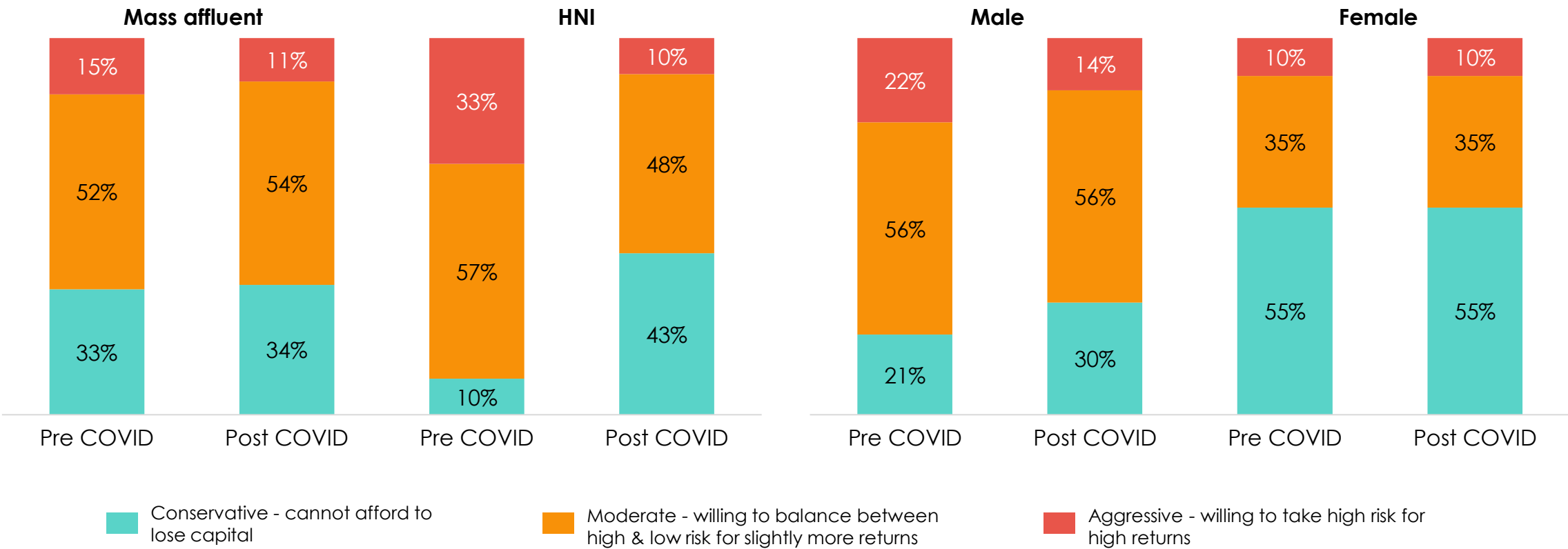
Females are more conservative investors, while males are moderate investors

Q. How would you define your risk profile in terms of investments?

Q. How would you define your risk profile in terms of investments?

Customer type wise investment behavior

Gender wise investment behavior



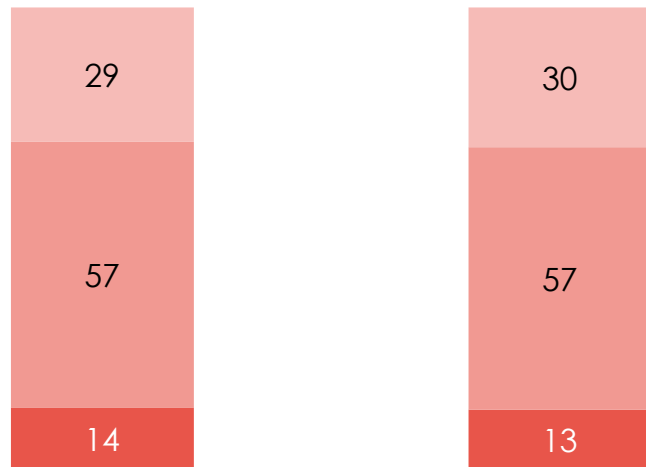
60% net-worth of the customers is composed of investible assets, while ~85% of the asset based include only equity MFs and fixed / term deposits

No significant change in composition of net-worth Pre-COVID and Post-COVID for most mutual fund investors

>80% of the net investible assets are distributed across Fixed /term deposits and equity mutual funds

Q. How is your net worth split across the following options? (% proportion)

Split of net-worth



Pre-COVID

Post-COVID

- Physical assets (excluding residential)
- Investible assets (Investments, Bank Deposits, Cash)
- Promoter shareholding / Invested in own business

Q. In what proportion are your investible assets distributed across asset classes? (% proportion)

Split of net investible assets



Pre-COVID

Post-COVID

- Direct equity / direct stocks
- Non-equity Mutual Funds (e.g. Debt, other hybrid)
- Fixed / Term deposits
- Equity Mutual Funds

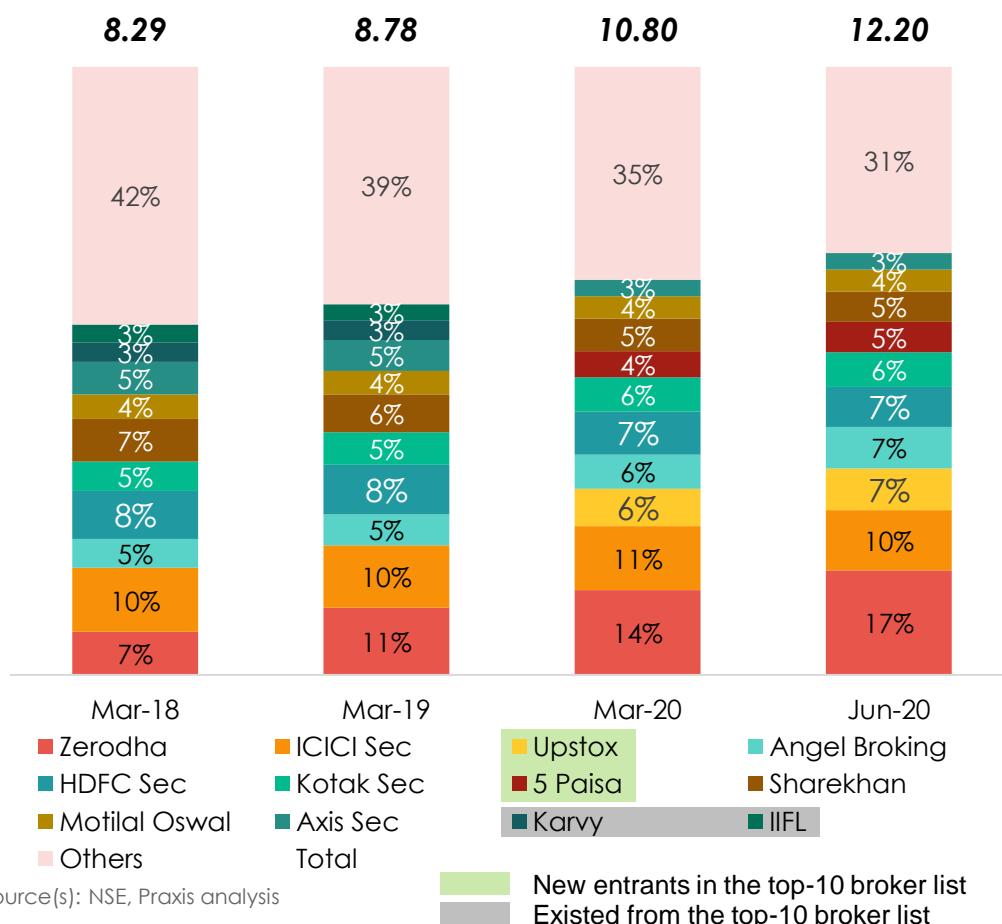
Discount brokers such as Zerodha, Upstox, & 5 Paisa have tripled their mkt share since Mar-19; substantial increase in new active accounts during COVID

Upstox and 5 Paisa are the new entrants in the Indian brokerage market and gained ~12% market share

Rising volumes despite COVID: # trades, trade quantity and turnover have almost doubled since Mar-19

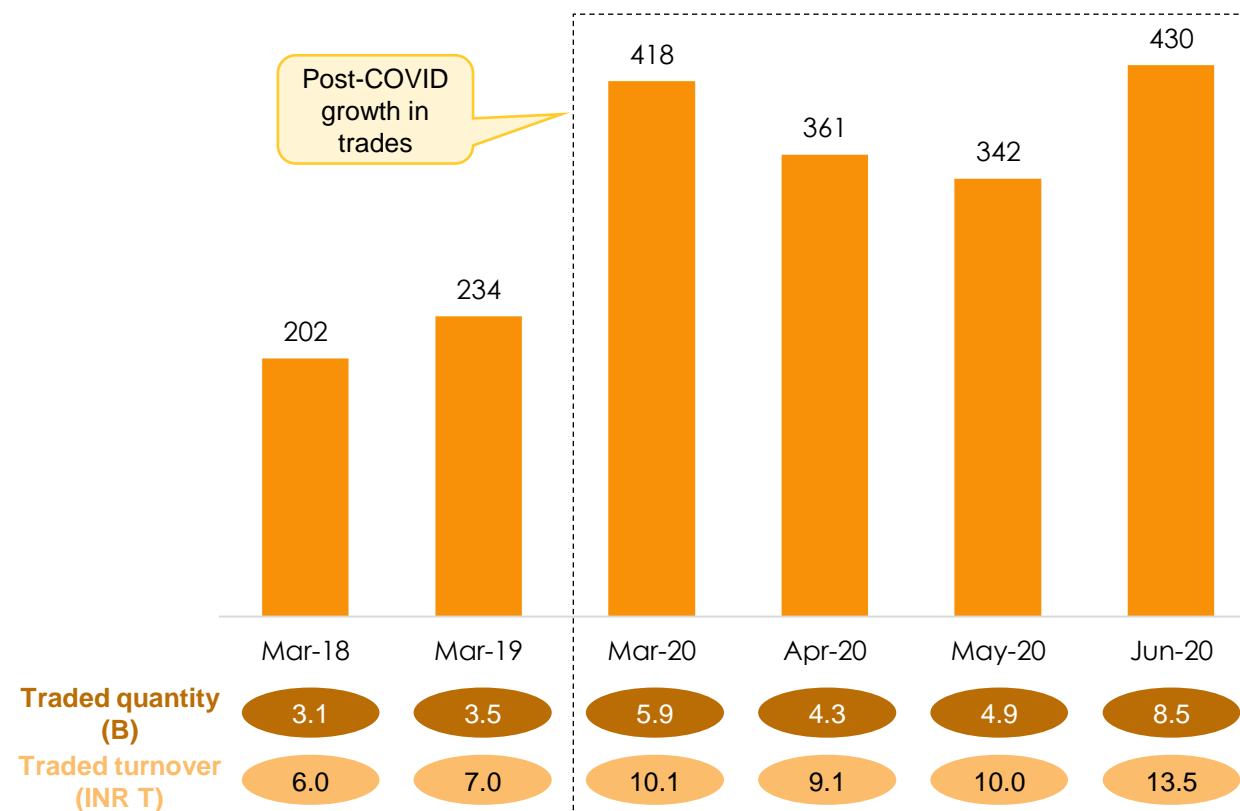
Share of top-10 brokers by # active accounts

B



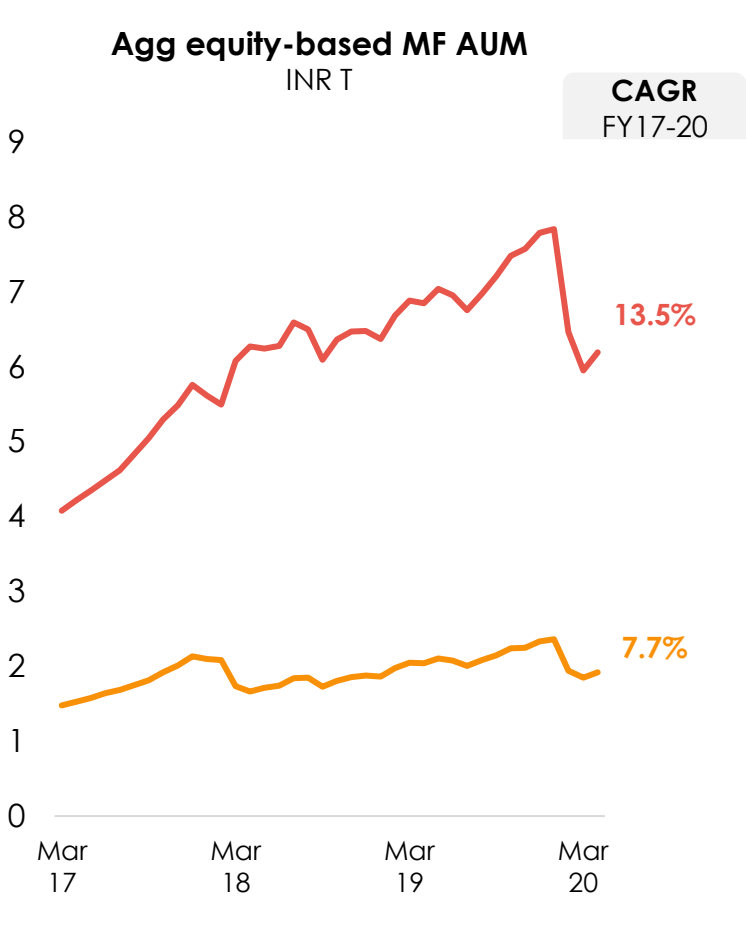
equity trades on NSE

M

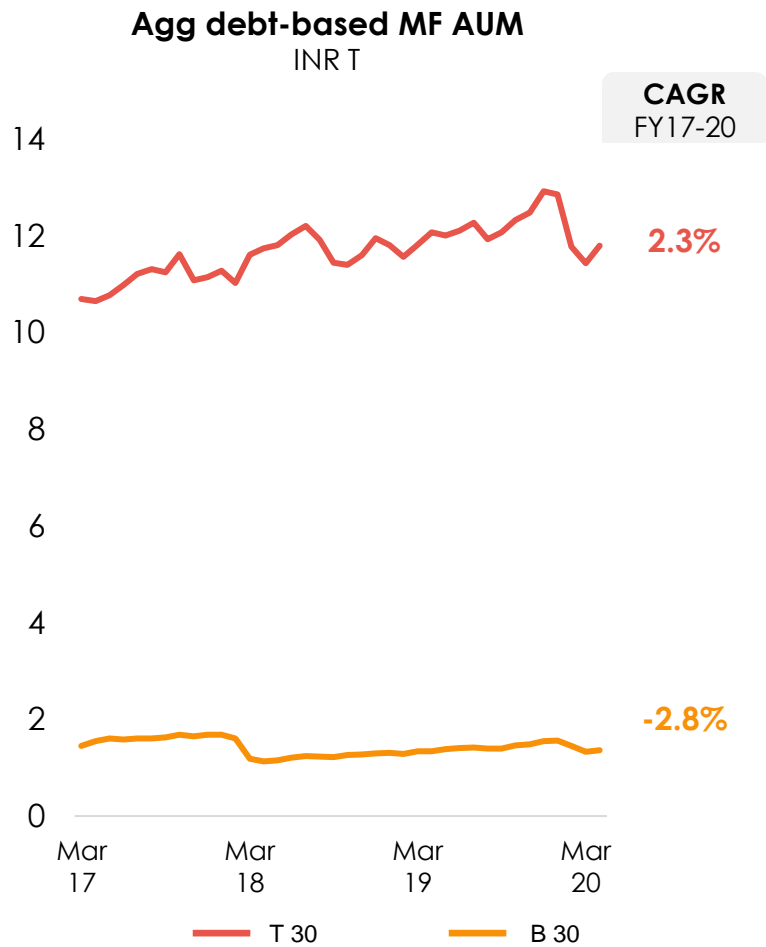


Indian MF industry still a T-30 story?

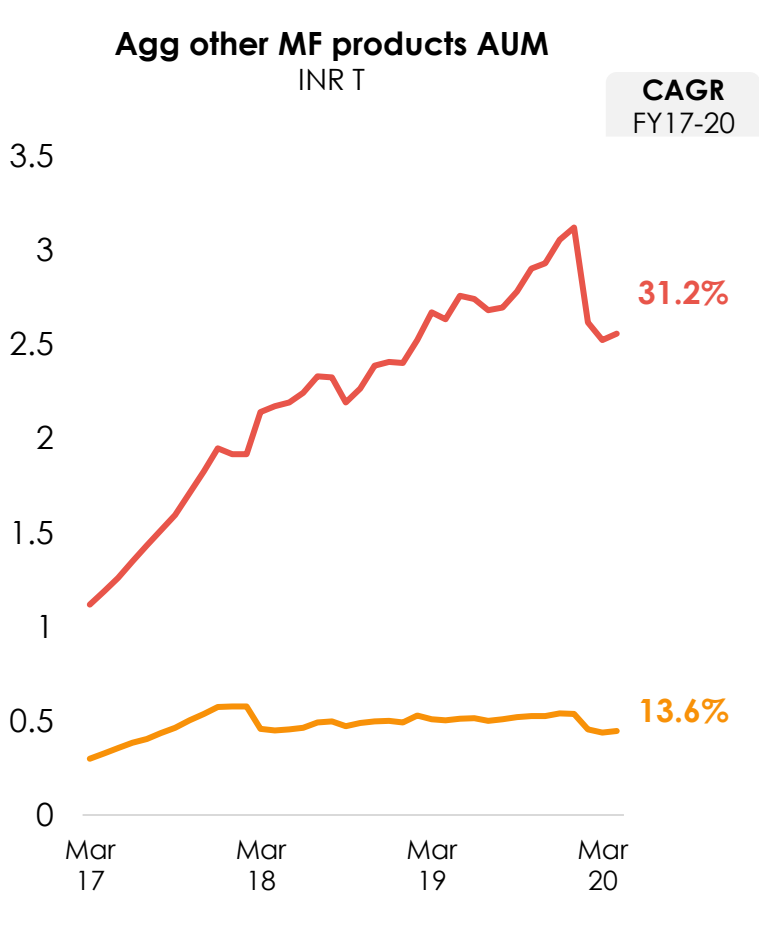
T-30 AuM of equity funds significantly higher & growing faster than B-30 AuM



Debt funds AuM dominated by T-30 centers



T-30 centers have powered AuM growth in other MF products



Note(s): Other MF products incl. balance-schemes, exchange-traded funds, and funds of funds (overseas)
Source(s): AMFI, Praxis analysis



**Setting the growth
context**



**Emerging trends in
product and channel
choices**



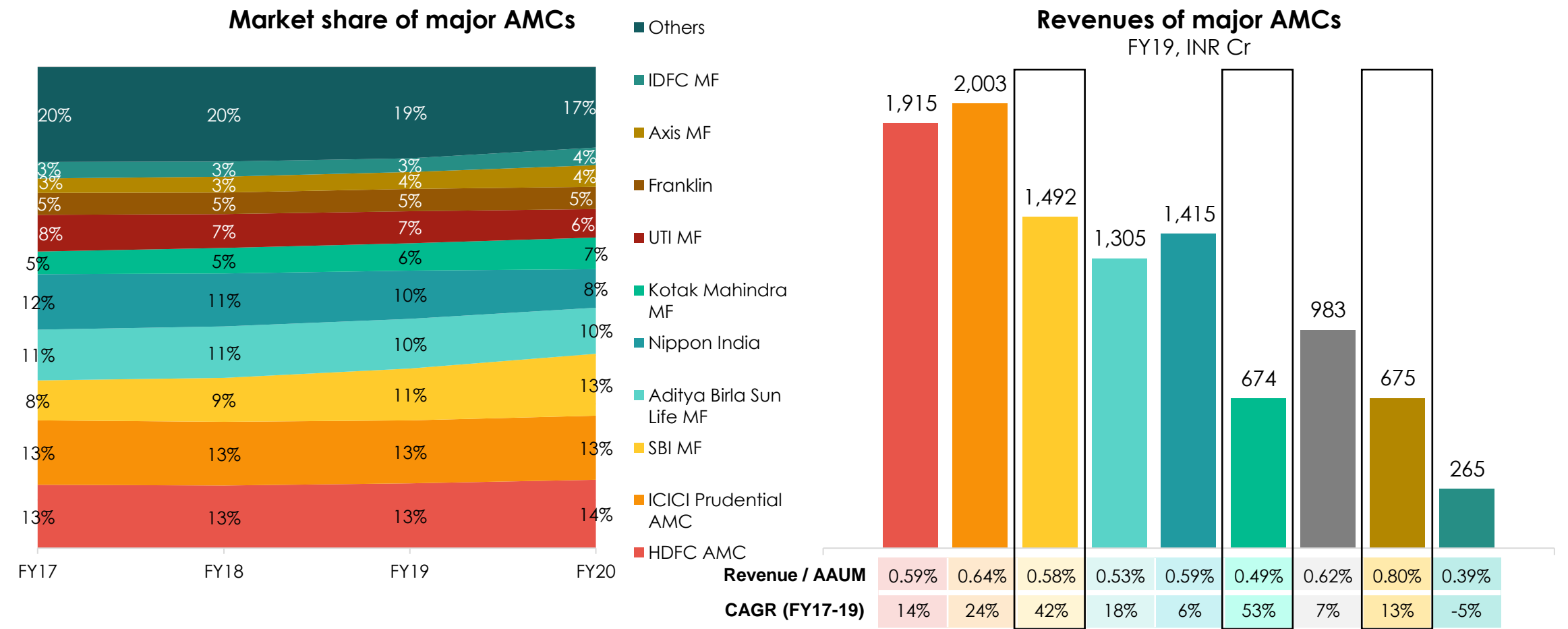
**Competitive
landscape**

Top 10 fund houses have over 80% share in AuM, top 3 have ~40% share

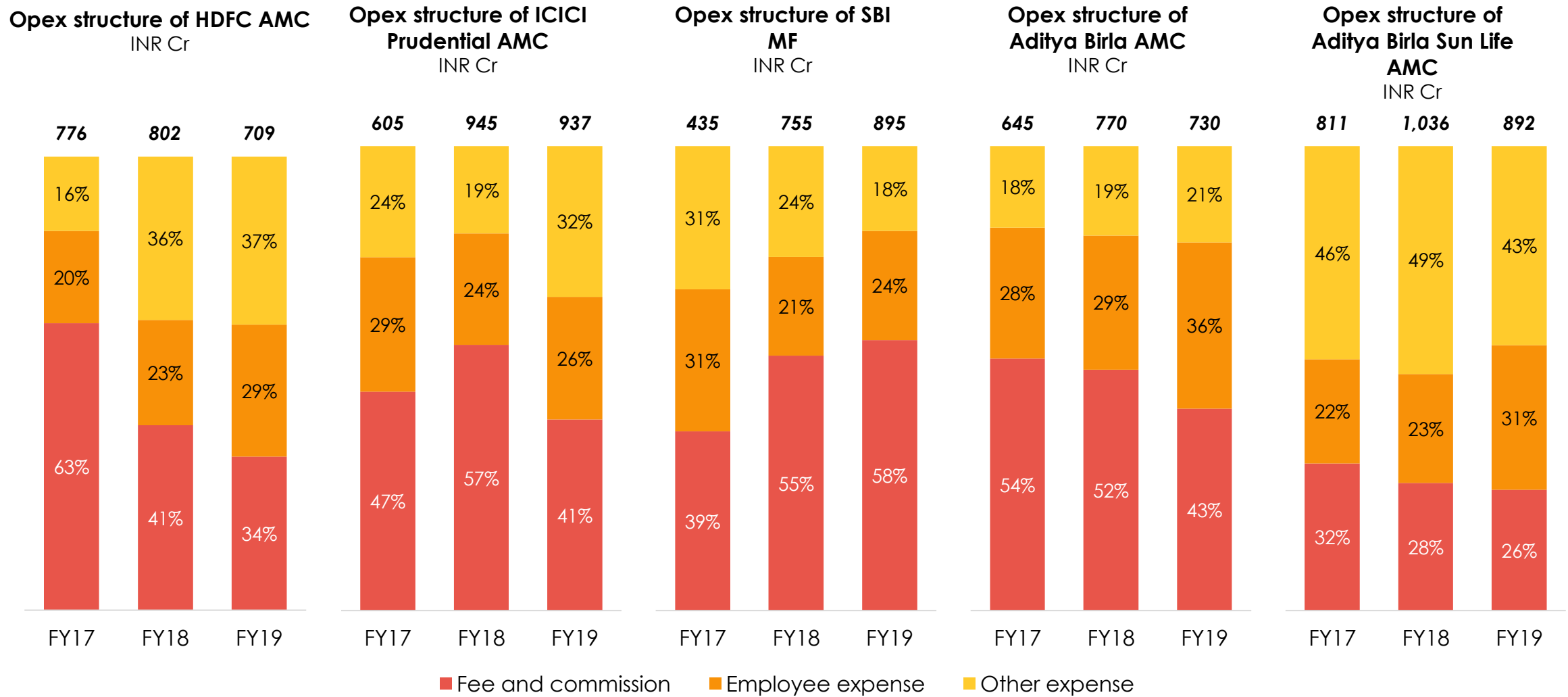
Revenues for most players are ~0.6% of AAUM

Top 10 fund houses have over 80% share, Top 3 (HDFC, ICICI Prudential and SBI MF) have ~40% market share

Typical revenue is 0.6% of AAUM; Axis MF Rev / AAUM is ~0.8%, SBI and Kotak revenues have grown fastest from FY17-19



Fee and commission account for ~30% of opex, HDFC, ICICI and Aditya Birla appear to have created cost efficiency in distribution over the last 3 years



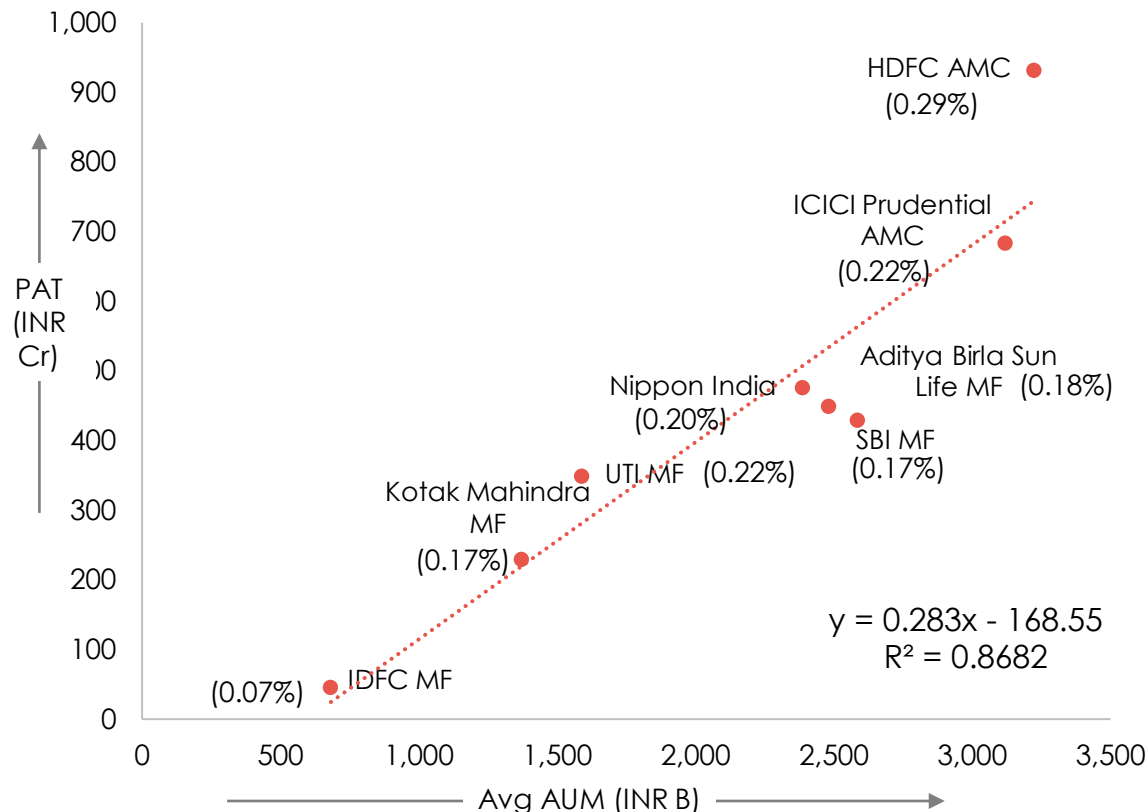
Source(s): Annual report, Praxis analysis

AAUM and PAT are highly correlated; minimum threshold for generating substantial profit appears to ~INR 40K-60K

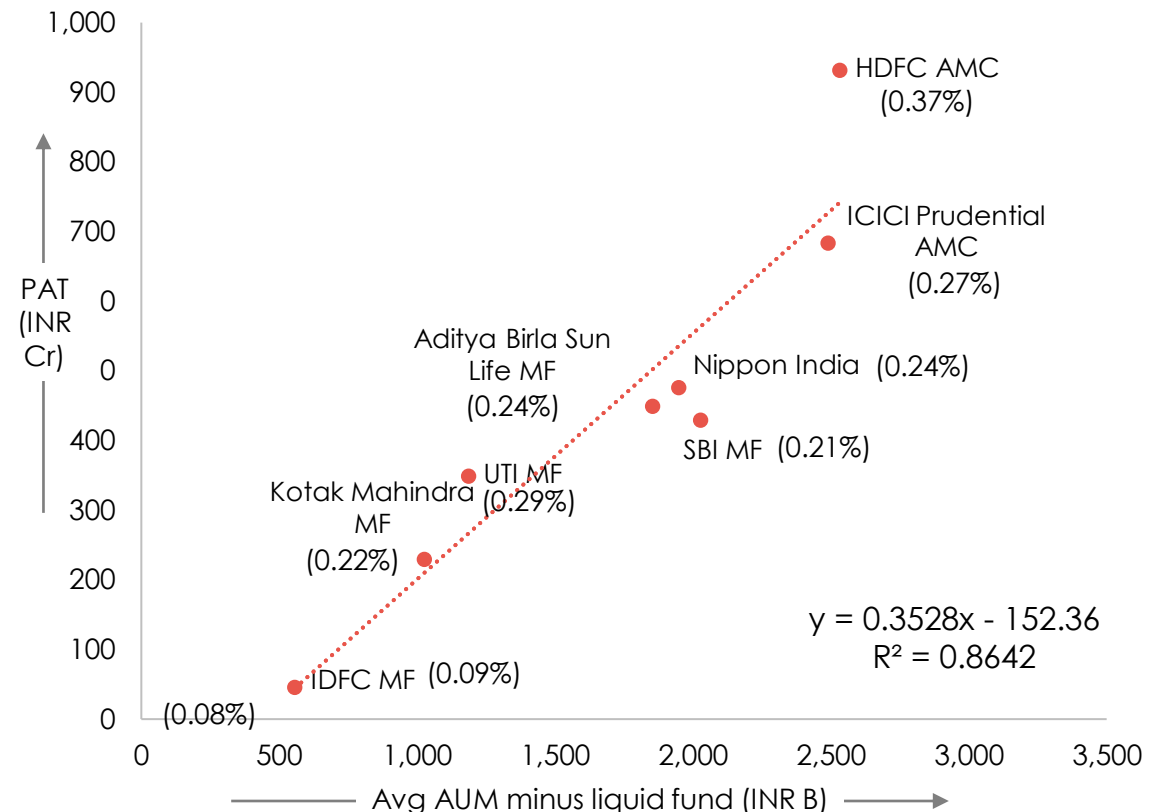
Larger AMCs such as HDFC, ICICI, and UTI MFs have earned more than 0.20% PAT / AAUM in FY19...

...while the same is more than 0.25% when adjusted with liquid or money market funds

Correlation of PAT with AAUM
FY19



Correlation of PAT with Full-fee AAUM
FY19



Note(s): Full-fee Avg AUM = Avg AUM – AUM from liquid or money market funds
Source(s): AMFI, Annual reports, Praxis analysis



Financial Services

Specific practitioner expertise



Shishir Mankad

Practice Leader

**Banking and Financial
Services**



Madhur Singhal

Practice Leader

Financial Services



Anil Jaggia

Domain Advisor

**Banking and Financial
Services**



Chandrashekhar Bhide

Domain Advisor

Financial Services



Varsha Agrawal

Practice Member

Financial services



Ankit Surana

Practice Member

**Banking and Financial
Services**

How we help our clients

We have partnered with banks, NBFCs, wealth managers, insurers and fintechs to help navigate the rapidly transforming industry landscape, meet growing customer expectations and embrace the new digital world



Digital Transformation

Providing end-to-end digitalization solutions such as neo-banking and robo-advisory to reduce TAT, CAC and improve customer experience



Customer acquisition and engagement

Providing deep understanding of customer journey, pain points, customer behavior through extensive market research



Product and Sales effectiveness

Supporting clients in revenue growth and market share gain by identifying new opportunities and benchmarking various aspects of productivity with best industry practices



Cost optimization

Designing cost-effective ways to measure and manage the product and customer portfolio



Operational risk management

Elevating business performance by identification, assessment, modelling, monitoring and controlling of key operational risks



Network expansion

Designing and implementing rich branch growth models with micro market strategy and detailed branch model economics

About Praxis

Praxis Global Alliance is the next-gen management consulting and business research services firm revolutionizing the way consulting projects are delivered. We deliver practical solutions to the toughest business problems, by uniquely combining domain practitioner expertise, AI-led research approaches, and digital technologies.



Praxis is 'Practical'



We bring the best domain expertise with our deep pool of industry practitioners and implementation teams as two-in-a-box



We work with agility, flexibility and embed with your teams to enable SUPERIOR OUTCOMES



We leverage technology deeply to enable higher ROI on your consulting and analytics spend

Connect with us - We will be happy to share perspectives



Madhur Singhal

Managing Director, Mumbai

madhur.singhal@praxisga.com

M: +91 908 221 8254

Vaibhav Tamrakar

Vice President, Bengaluru

vaibhav.tamrakar@praxisga.com

M: +91 962 522 6697

Aryaman Tandon

Director, Gurugram

aryaman.tandon@praxisga.com

T: +91 11 4932 3564

Abhishek Maiti

Vice President, New Delhi

abhishek.maiti@praxisga.com

M: +91 962 522 6702

For media queries, please contact

Shishir Mankad

Head, Financial Services, Mumbai

shishir.mankad@praxisga.com

T: +91 982 104 4074

Seema Karwa

Vice President, Gurgaon

seema.karwa@pgalabs.com

M: +91 962 522 6696

Parul Singh

Head, Marketing and Communications

marketing@praxisga.com

M: +91 782 794 4926

Disclaimer:

This material has been prepared by PGA Labs, which is the trade name of Praxian Global Private Limited ("Praxis") with the intent to showcase our capability and disseminate learnings to potential partners/clients. This material can be referred to by the viewers on the internet but should be referenced to PGA Labs, if reused or adapted in any form or in any forum. The frameworks, approaches, tools, analysis and opinions are solely Praxis's intellectual property and are a combination of collection of best data we could find publicly, and Praxis team's own experiences and observations.

We make no representation or warranty, express or implied, that such information is accurate or complete, and nothing contained in here can be construed as definitive predictions or forecasts. Before reading further, the Recipient expressly agrees that this might not address any and all risks and challenges facing Recipient, its business and the markets within which it operates, nor all possible market conditions. No responsibility or liability whatsoever is accepted by any person including Praxis or its Business partners and affiliates and their respective officers, employees or agents for any errors or omissions in this document.

This document is not complete without an accompanying oral discussion and presentation by Praxis though Praxis is not obligated to do so. Praxis does not have any duty to update or supplement any information in this document. Praxis shall not be responsible for any loss sustained by any person who relies on this presentation.



THANK YOU
#BuildTogetherWinTogether

PRAXIS
— GLOBAL ALLIANCE —