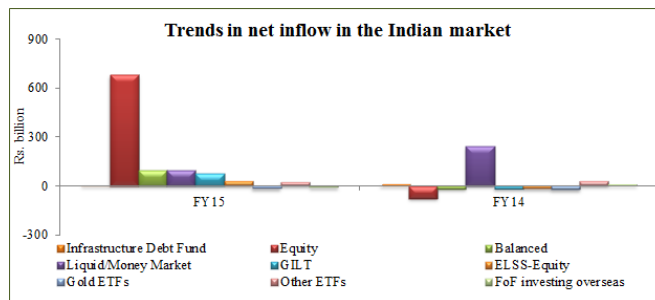


## Indian Mutual Fund Industry: The Road Ahead

The Indian mutual fund industry has come a long way since the launch of UTI schemes in 1964. Liberalization of the Indian economy and consequent entry of 40+ asset management companies [AMCs] led to the growth of its key parameter of Asset under Management [AUM] to Rs 2 trillion by 2005. In the next 10 years, it grew even faster and crossed Rs 12 trillion in September 2015.

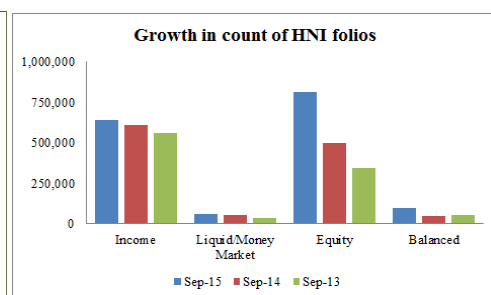
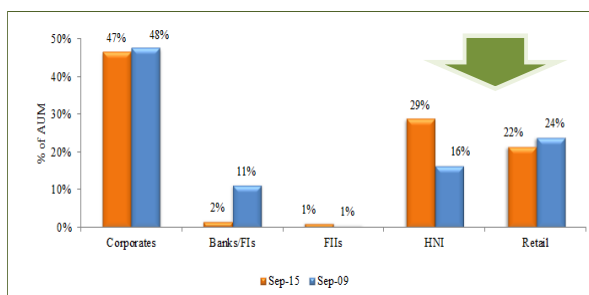
The growth in the last few years has seen a rising participation by individual investors, increasing consolidation among industry players and shift in the distribution structure. The change has encompassed all vectors, and it has been more visible in the last 12-18 months.

- a. **Product** – There has been a high inflow in equity schemes, which has been facilitated by rising personal income and shift away from traditional household savings products like bank deposits.



- 18% growth in SIP folio count – a key contributor to high equity inflow;
- Decline in NFOs, as move to rationalize and consolidate me-too schemes.

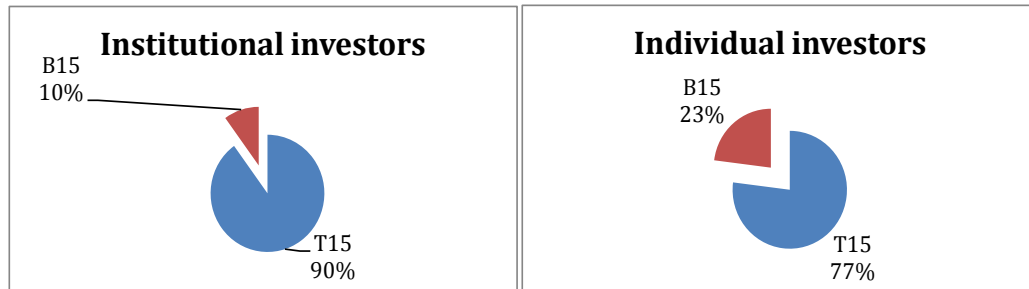
- b. **Buying behaviour** – Individual investors have increased their share in the market to 46% by registering a higher growth rate of 24% as compared to institutional investors, with the HNI segment (ticket size > Rs 5 lakh) registering high growth in equity folios.



While 60% of institutional sales were made through the direct route, the role of distributors holds the key for retail sales with only 11%-15% of individual investors preferring the direct route. The ticket size of institutional investors is very high with very low holding period owing to the pattern of their investment in non-equity schemes.

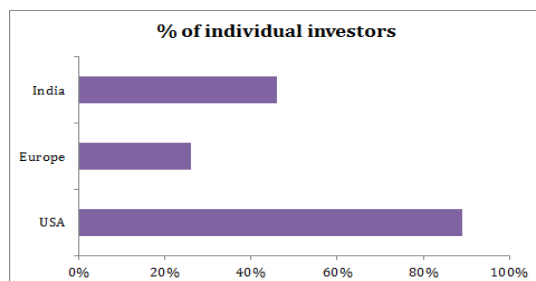
Ticket size for retail investors is around Rs 60,000 while that for HNI is Rs 21 lakh, and has a very high holding period as 56% of individual investor investment is in equity.

- c. **Place of purchase** – While institutional investors continue to dominate T15 sales, individual investors are increasing their share in B15 sales. This can be attributed both to the higher sales incentive available to distributors for B15 sales as well as the positive impact of the Investor Awareness Programmes [IAP] conducted by the AMCs.



- d. **Promotion** – AMCs have conducted 60,000 IAP over the past five years across 500 cities and have covered 1.8 mn participants for improving financial literacy. They have also enhanced their technology platform, and apart from strengthening their website, many offer mobile platforms for MF purchases and engage with their customers over social media. Tailored events are also undertaken for engaging with the HNI segment.
- e. **Regulatory oversight** – SEBI has undertaken multiple initiatives for protecting investor investors, lowering product cost, increasing reach and safeguarding the health of the industry. Mandatory disclosures and directives to raise capital base have led to changes in the product portfolio and AMC landscape. Enabling regulations like E-KYC and allowing Common Account Number have provided a fillip to 24\*7 direct sales.

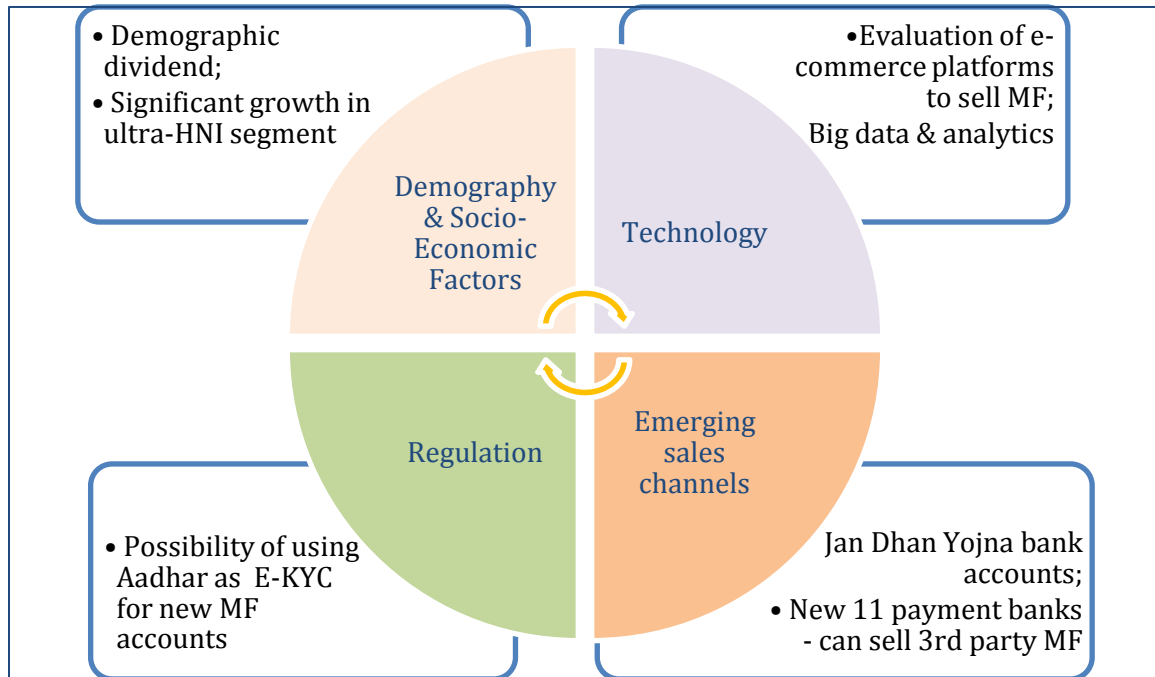
The rise of individual investors in Indian MF market augurs well for the mandated objective of increasing their penetration in India. Study of global markets show that retail investors drive the growth in the key markets of US and Europe.



- US – 90 mn retail investors; use MF for long-term financial objectives of retirement corpus & education savings;
- Europe – Insurance & pension funds invest in MF to manage contribution from their retail investors.

An increase in GDP as well as good stock market performance over the last two – three years provided Indian investors and especially retail investors with an opportunity to use

mutual funds to create wealth. We expect this trend to continue due to a confluence of some powerful factors in the near term that can catapult the Indian industry to greater heights.



2020 is expected to witness the emergence of a 116 mn working population that is between 20-24 years of age along with a significant rise in the wealth of ultra-HNIs. Apart from providing the MF with a strong catchment area, the e-commerce and direct plan initiatives of the AMCs is expected to resonate with this segment.

With India having almost 400mn Internet users and 1bn mobile phone owners, any positive outcome of selling MF through e-commerce platforms should increase the retail sales of MF. The opening of 190 million Jan Dhan bank accounts in 15 months through e-KYC and mobilization of Rs 27,000 crore (about 37% accounts are zero balance accounts) makes it imperative to evaluate the usage of this route to sell mutual funds, as would be the 11 payments banks that are expected to commence operations shortly. Ability to use Aadhar as E-KYC for MF sales and deploying technology to ensure compliance, is expected to give a further fillip to sales through these new channels.

We view these enablers as game-changers, and expect their confluence to propel the Indian Mutual Fund industry towards its goal of Rs 20 trillion AUM by 2020.

*Sources of data represented in the report: ICRON proprietary database and public domain sources like AMFI, RBI, ILO, Investment Company Fact Book, EFAMA reports, etc.*

## **Disclaimer**

All information contained in this document has been obtained by ICRA Online Limited from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Online Limited or its affiliates or group companies and its respective directors, officers, or employees in particular, makes no representation or warranty, express or implied, as to the accuracy, suitability, reliability, timelines or completeness of any such information. All information contained herein must be construed solely as statements of opinion, and ICRA Online Limited, or its affiliates or group companies and its respective directors, officers, or employees shall not be liable for any losses or injury, liability or damage of any kind incurred from and arising out of any use of this document or its contents in any manner, whatsoever. Opinions expressed in this document are not the opinions of our holding company, ICRA Limited (ICRA), and should not be construed as any indication of credit rating or grading of ICRA for any instruments that have been issued or are to be issued by any entity.



## MFI Explorer

Complete fund analytics on your desktop

## MFI Analytics

Comprehensive solutions in the portfolio analytics and sales analytics sphere

## White Label Research

Fund and fixed income research in your inbox

## MFI Financial Planner

A web based platform to integrate the advisory network and plan for goals, retirement, insurance and investments

## MFI Portfolio Tracker

Accurate portfolio valuation and return computation for mutual fund portfolios

## Portfolio Optimisation

Perfectly blended portfolio solutions for your clients



**ICRA Online Limited**  
A Group ICRA Company  
[www.icraonline.com](http://www.icraonline.com)

**Saugat Acharya**  
+91 98209 74940  
[saugat.acharya@icraonline.com](mailto:saugat.acharya@icraonline.com)

**Eshna Basu**  
+91 98318 27490  
[eshna.basu@icraonline.com](mailto:eshna.basu@icraonline.com)