

MF industry on cusp of quantum growth

“Volatility is greatest at turning points, diminishing as a new trend becomes established.” billionaire investor and philanthropist George Soros once said.

I believe the quote is apt for the situation we are in – on one side, the pandemic has caused economic losses, but on the other, the financial markets have seen a sharp upside.

It is against this backdrop that CRISIL held its first ‘India Investment Research Conclave’ to celebrate the completion of 20 years of CRISIL Mutual Fund Ranking (CMFR) and discuss the growth of wealth management industry in the country.

The webinar had the who’s who of the mutual fund and wealth management industry as part of a star studded panel (*details in postscript*), and the discussions that followed were insightful and engaging.

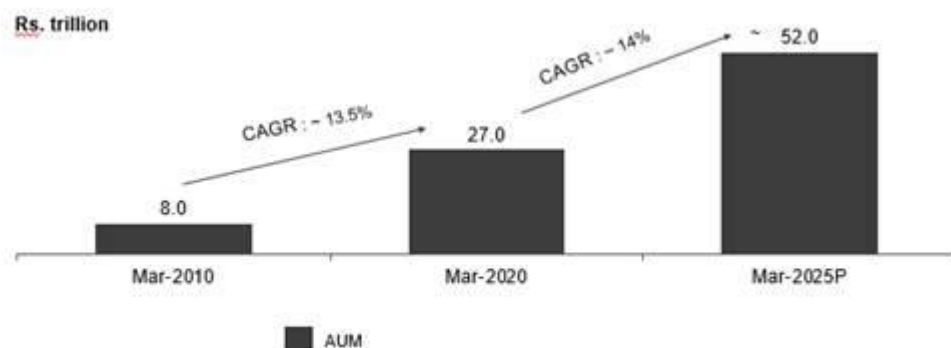
The event also had Ashu Suyash, our CEO and MD, present her views on the future of the capital and mutual fund market, while Nagarajan Narasimhan, Senior Director and Business Head, CRISIL Research, spoke about what has gone into making CMFR the veritable beacon it has been for mutual fund research in the country.

There was consensus among the panelists that the mutual fund industry in India has a bright future and will scale up significantly from here, riding on a strong regulatory framework and close linkages built with its distributor network over the years. It can potentially cater to 250 million customers, up from 25 million today.

The potential is underlined by the unhindered surge in money flow through the systematic investment plan (SIP) route despite market volatility. In a lighter vein, some even suggest that ‘SIP’ is a more popular term than ‘mutual funds’.

CRISIL estimates the industry to cross the Rs 50 lakh crore mark by 2025, from Rs 31 lakh crore as of December 2020, which works out to a compound annual growth rate of ~14%.

Mutual fund industry expected to channel individual savings



Note: AUM is the average of the last quarter for each fiscal, P – projected
Source: AMFI, CRISIL Research

The country is also seeing a change in the traditional fixed-income orientation of investment, with investors – especially younger generations – increasingly preferring equity (including direct equity), and high networth individuals (HNIs) gravitating towards alternative assets.

The recent underperformance of equity funds may have given rise to doubts in some quarters on its potential, but it is likely cyclical and caused by sharp market volatility.

CRISIL estimates asset allocation in the mutual fund industry to move towards equity, with its share rising from 42% currently to 47% by 2025 – in line with global peers – benefiting the young demography, which has a longer term investment horizon.

That said, asset allocation based on the investor's risk-return profile and investment horizon would be the right way for individuals to participate in the financial markets.

The young investing audience also needs to be educated about retirement planning, as it tends to focus on short-term or non-essential needs such as a fancy phone, a car, or a vacation.

As for the HNIs, environmental, social and corporate governance, or ESG, is gaining interest, offering the asset management industry a new growth avenue.

From our vantage point, passive funds as a category will gain prominence in near future, backed by investment from institutional investors (primarily provident funds) and evolved investors. Going forward, however, active funds will continue to garner major share of the industry.

For this growth to sustain, the industry will need close linkages with its distribution network and also adopt technology. Feet on the street would be as important as technology for penetration into the hinterland. The case of insurance is a pointer here – it has 10 times the number of distributors compared with mutual funds.

The development of advisory model of business in a developing country like India will also need some technological solution to bring regularity of cash flows and make it sustainable.

Alongside this, it is imperative that independent research, as epitomised by CMFR, continues to be the cornerstone as investors from various facet and segments of the society enter the industry.

The key is to have data, analytics, research and technology solutions that incorporate various aspects of research – from macro to micro – in investment solutions through in-house models and for all asset classes. This improves and sustains investor confidence over the long run.

For a video recording of the entire event, along with the presentations and the report released to mark the 20 years of CMFR, [here](#).

P.S. Eminent panelists in no specific order – Nilesh Shah, Group President & MD, Kotak Mahindra AMC Ltd, A Balasubramanian, MD & CEO, Aditya Birla Sun Life AMC Ltd, Sharad Mohan, Country Head – Retail Banking, Citibank India, Karan Bhagat, Founder, MD & CEO, IIFL Wealth & Asset Management Nithin Kamath, Founder & CEO, Zerodha and Manoj Nagpal, MD & CEO, Outlook Asia Capital.