Title: During the Covid Outbreak, New Tendencies in Indian Mutual Funds Emerged

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Abstract

Everyone, including the mutual fund sector, had a roller-coaster journey in 2020. The industry underwent several modifications for a variety of reasons. The Securities and Exchange Board of India, India's market regulator, enacted a host of new rules and regulations to make mutual funds more transparent and investor-friendly.

The COVID-19 outbreak and subsequent shutdown had an impact on global capital markets, including the Indian mutual fund sector. The crisis has put the industry through its paces, maybe for the first time. The article used the qualitative research approach to examine the numerous issues confronting the mutual fund sector during the early stages of the pandemic, such as fund flow, secondary debt markets, regulatory changes, and investor behaviour. The study's findings will aid researchers and capital market players in developing ways for dealing with crises in the future. However, history has shown that when the Mutual Fund (MF) business has taken a knock, it always recovers stronger. Looking at the conditions and crises around the nation, the capital market regulator – the Securities and Exchange Board of India (SEBI) – modified particular restrictions to facilitate the processes in the best interests of various industry stakeholders.

KEYWORDS - Indian Mutual Funds, SIP, SEBI, COVID-19, ACMF

INTRODUCTION

The Indian economy is regarded a quickly rising economy, and a crisis or pandemic condition sparked a series of adjustments in the game. The present COVID-19 pandemic scenario has taken centre stage and has jolted the whole economy, making resuming normalcy a difficult task. Any sector of the economy has seen disruption, and the sectors are experiencing problems to overcome them. When it comes to the Indian financial industry, the capital market has experienced several obstacles. However, history has shown that when the Mutual Fund (MF) business has taken a knock, it always recovers stronger. Looking at the conditions and crises around the nation, the capital market regulator – the Securities and Exchange Board of India (SEBI) – modified particular restrictions to facilitate the processes in the best interests of various industry stakeholders.

The turn of the year 2022 has brought severe volatility to the world's financial markets. We've seen the third wave of the COVID-19 pandemic (thanks to the Omicron variant), Russia's invasion of Ukraine, sanctions enacted to discourage Russia, the boiling price of Brent crude oil, inflation starting in, and central banks acting to manage inflation.

METHODOLOGY

Objectives of the study

1. To comprehend the implications of COVID-19 on the Indian mutual fund business.

2. Comprehend the new tax legislation

3. To comprehend the pandemic's impact on SIP

Source of Data

Secondary data from media sources such as business newspapers, both print and online, circulars and rules from regulator websites, and research articles from academic journals are used in the study.

Indian mutual fund market Overview

The mutual fund industry's SIP revenues declined by 4% to Rs 96,000 crore in the 2020-21 fiscal year as a result of COVID-19-induced lockdowns, resulting in income uncertainty. As a result of the coronavirus pandemic, which resulted in lockdowns in March 2020 and increased income uncertainty, many investors elected to terminate their SIPs. This was evidenced by the fall in SIP inflows after March 2020. The contribution declined for 11 months in a row after peaking at Rs 8,641 crore before breaking through to new highs.

For the month of February 2022, the average assets under management (AAUM) of the Indian mutual fund industry were 38, 56,140 crore. In May 2014, the industry's AUM passed the 10 Trillion (10 Lakh Crore) mark for the first time, and in less than three years, the AUM size had more than doubled, crossing the 20 Trillion (20 Lakh Crore) mark for the first time in August 2017. In November 2020, the AUM size surpassed 30 trillion (30 Lakh Crore) for the first time. As of February 28, 2022, the industry AUM was at 37.56 Trillion (37.56 Lakh Crore).

Digital penetration, government initiatives aimed at smart cities and faster communication rates are all helping the shift of asset share to smaller cities and towns. The increased retail contribution via SIPs demonstrates the strength of digital penetration in India.

As of February 28, 2022, the total number of accounts (or folios in mutual fund parlance) was 12.61 crore (126.1 million).

Market Trends

Growing in mutual funds' Assets

The mutual fund (MF) industry's assets grew as a result of the stock markets' strong performance and net inflows to equity schemes. The industry's average assets under management (AAUM) climbed at Rs 36.17 trillion for the quarter ending December 31, 2021, representing an almost 30 percent increase year on year.

Individual investors' assets in mutual funds grew by 22.32 percent from Rs.17.18 lac cr in February 2021 to Rs.21.02 lac cr in February 2022. The value of institutional assets grew by 16.08 percent from Rs.15.11 lac cr in February 2021 to Rs.17.54 lac cr in February 2022.

Mutual Fund SIP grows at new peak

The number of SIPs and monthly collections has grown due to the high number of new first-time investors joining the market and the ease of registering SIPs through online fin tech portals, but the average ticket value per SIP has declined. The average SIP ticket size in December 2021 was Rs 2303 per SIP, down from Rs 3313 in December 2017. Monthly SIP receipts, on the other hand, climbed by 77% in the same time to Rs 11,005 crore, up from Rs 6222 crore in December 2017.

According to distributors, the number of SIPs surged by 41% in the previous year, to 4.91 crore operating accounts from 3.47 crore accounts, as many new investors entered the market.

Multi cap funds' investing mandates have changed.

SEBI published a circular in September 2020, modifying the portfolio mandate of multi cap fund schemes. From January 20, 2021, multi cap funds will be required to invest a minimum of 25% in big cap, small cap, and mid cap equities. This increases the entire equity exposure of these schemes to 75%, up from the current minimum equity exposure of 65% with no market cap constraints.

This approach strives to ensure that multi-cap funds are "true to label" and have a well-diversified portfolio. Most multi-cap funds favoured large-cap equities, with little or no exposure to small-cap firms. To evade the new rule, many fund firms discussed transforming their current multi-cap schemes to ESG funds or Focused funds.

The creation of the flexi cap category

Many large fund companies were unhappy with the change in mandate for multi-cap plans. Many senior fund managers and CIOs have spoken out against the plan, claiming that it will make the category more dangerous for investors. The main concern with the adjustment was the need for a 25% exposure to small cap companies. SEBI intervened on November 6th, issuing a circular for the launch of a new mutual fund category- Flexi Cap Funds. Flexi cap funds are a new term for the previous multi cap funds—a market cap agnostic category with a minimum equity commitment of 65 per cent.

NAV calculation has been altered.

This year, SEBI also changed the procedures for calculating NAV in mutual funds. According to the new regulations, regardless of the amount of the investment, investors will get the purchase NAV of the day when their money reaches the asset management company (AMC).

This regulation will go into effect on February 1, 2021, and it will not apply to liquid or overnight funds.

Inter-scheme transfer requirements have been tightened.

In the aftermath of the Covid-19 pandemic's liquidity problem, several fund institutions attempted to retain liquidity in some short duration loan schemes by moving poor credit to either balanced funds or longer duration schemes. SEBI issued new guidelines to safeguard investors' money from being harmed by this procedure.

Inter-scheme transfers in closed-ended funds are no longer permitted after January 1, 2021, and must be completed within three business days following the scheme's unit allotment to investors. Furthermore, SEBI took note of the movement of bad credit from one scheme to another and directed that fund houses be barred from transferring debt papers to another scheme if there is any negative market news or rumour about a security in the media, or if an alert is generated about a security for its risk levels in the preceding four months.

Separation of advisors and distributors

This year, SEBI also enforced the long-delayed separation of consultants and distributors. This was done largely to address the issue of regular investors being misled and overcharged for services. A corporation with both advising and distribution arms can either give financial advice or sell items to its clients, according to the new rule. Individual planners and distributors must also select one of the roles and register with AMFI.

Label for the new risk-o-meter

SEBI added a new category to the risk-o-meter to assist investors make better judgments about investing in high-risk mutual funds. In addition to the existing five danger categories, the risk-o-meter tool will display a 'Very high' risk category. SEBI also required fund firms to report and assess risk based on the portfolio of the specific scheme rather than the category. Fund houses must make monthly risk-o-meters and portfolio disclosures public beginning January 1, 2021.

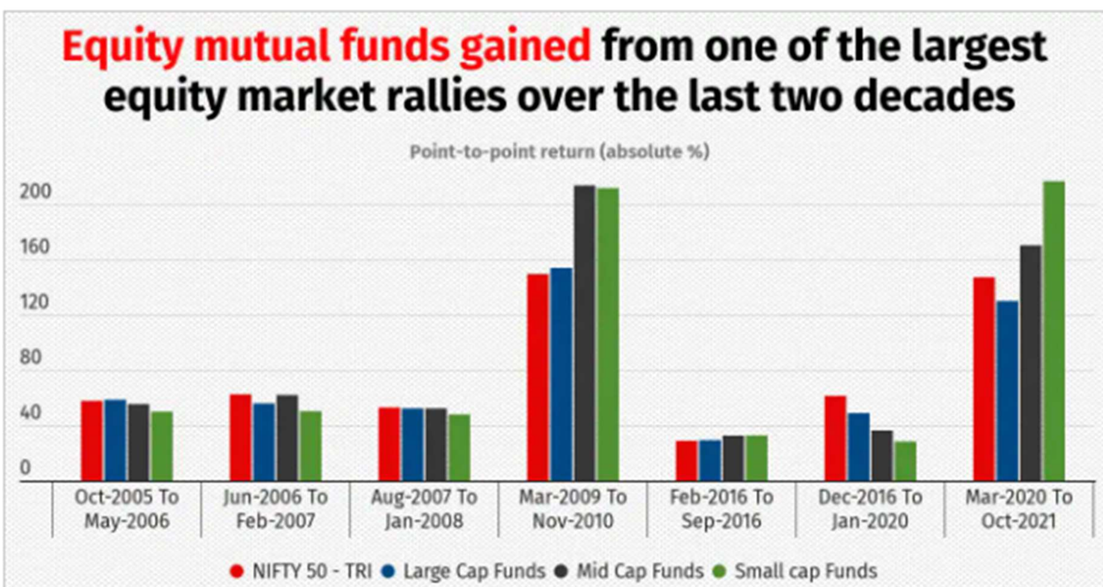
Dividend options have been renamed

Mis-selling under the guise of monthly pay outs is a long-standing practise in mutual funds. Finally, SEBI took measures to increase openness in dividend distributions in mutual fund schemes, directing fund companies to clearly state that dividends may be paid from their capital. As a result, beginning in April 2021, dividend options in both existing and future schemes would be changed to reflect better, more transparent terminology. The dividend payment option will now be known as the income distribution cum capital withdrawal option. Dividend reinvestment will be titled re-investment of income distribution cum withdrawal, and dividend transfer will be renamed transfer of income distribution cum capital withdrawal.

Norms to increase transparency in the sale of debt securities

This year, the SEBI modified the disclosure standards for debt mutual funds to assist investors grasp the risk levels in the portfolios earlier. Fund houses will be required to report the yields of the scheme's underlying instruments, as well as the portfolio, on a weekly basis under the new rules. Prior to the new regulation, portfolio disclosure occurred on a monthly basis. Previously, fund firms simply disclosed the portfolio's indicative yield, not the precise yields of the assets. According to mutual fund experts, this approach makes debt mutual funds more transparent and credit risk in these schemes more predictable.

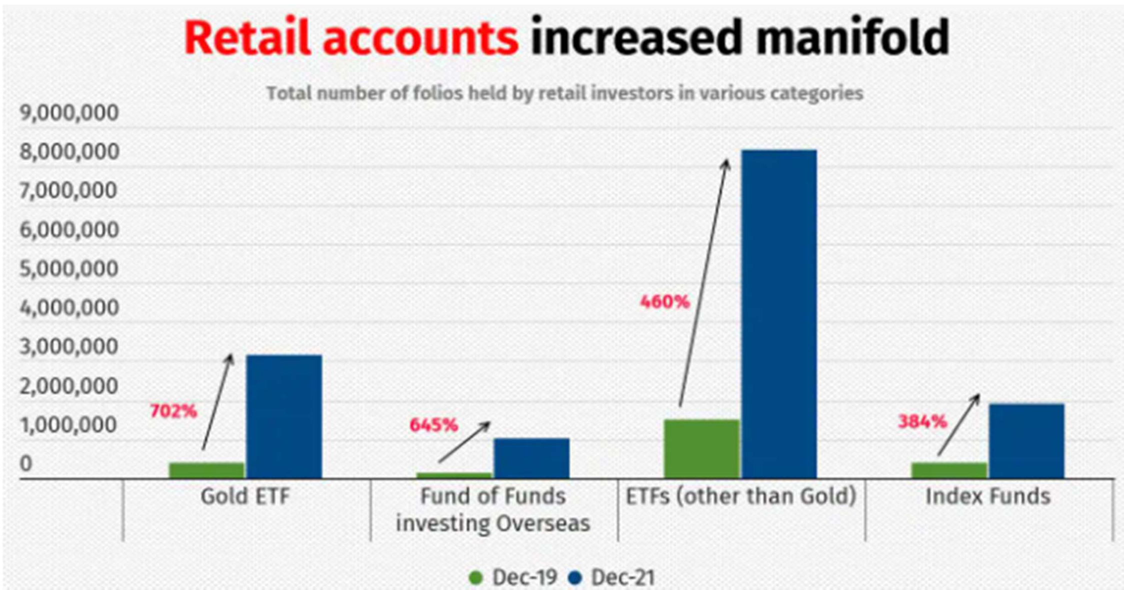
GAIN IN EQUITY MUTUAL FUND



Source-ACEMF

Despite the fact that the pandemic is still causing concern in the global economy, the domestic equities market has seen a major runup in the last few years. Despite the fact that the equities market took a hit due to the increase in COVID-19 cases, the bulk of companies recovered well from their March 2020 lows. Investors have continued to invest in Indian stocks while the market has corrected. Domestic mutual funds followed suit as well. Over the previous two years, the majority of equity-oriented ETFs achieved respectable results.

THE NUMBER OF RETAIL INVESTORS IS INCREASING



Source-ACFI

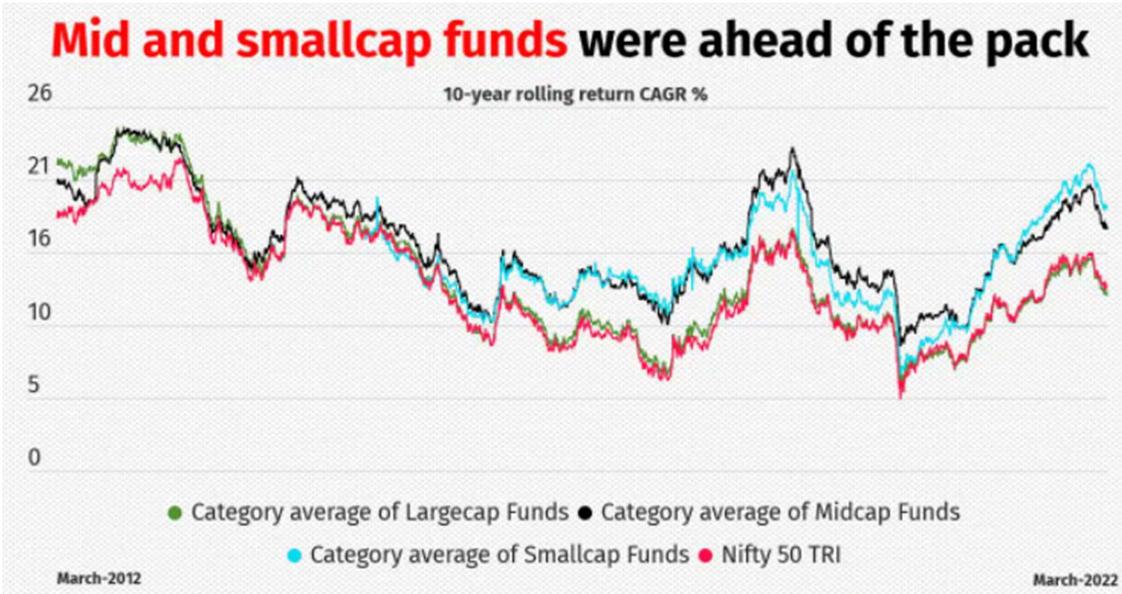
Passive funds, global funds, and gold ETFs were popular among retail investors. Over the previous two years, the overall number of accounts in these categories has increased dramatically. Passive investing has gained traction among investors as a result of active large cap funds' recent underperformance against benchmarks such as the Nifty 50 TRI. Diversification in gold ETFs, as well as tempting recent gains in global funds, drew in additional ordinary investors. More than 2.8 crore retail investor folios have been added in the previous two years.

Systematic investment plans (SIPs) are becoming increasingly popular.

Source-ACFI

Systematic investment plans (SIPs) have become a popular way to invest in mutual funds in India. Despite the volatility, the number of new SIPs registered has been growing. More than two crore new SIP accounts have been added in the previous two years. It demonstrates how individual investors have matured and are prepared to maintain SIPs through market ups and downs. As of February 2022, the total number of SIP accounts was 5.17 crore.

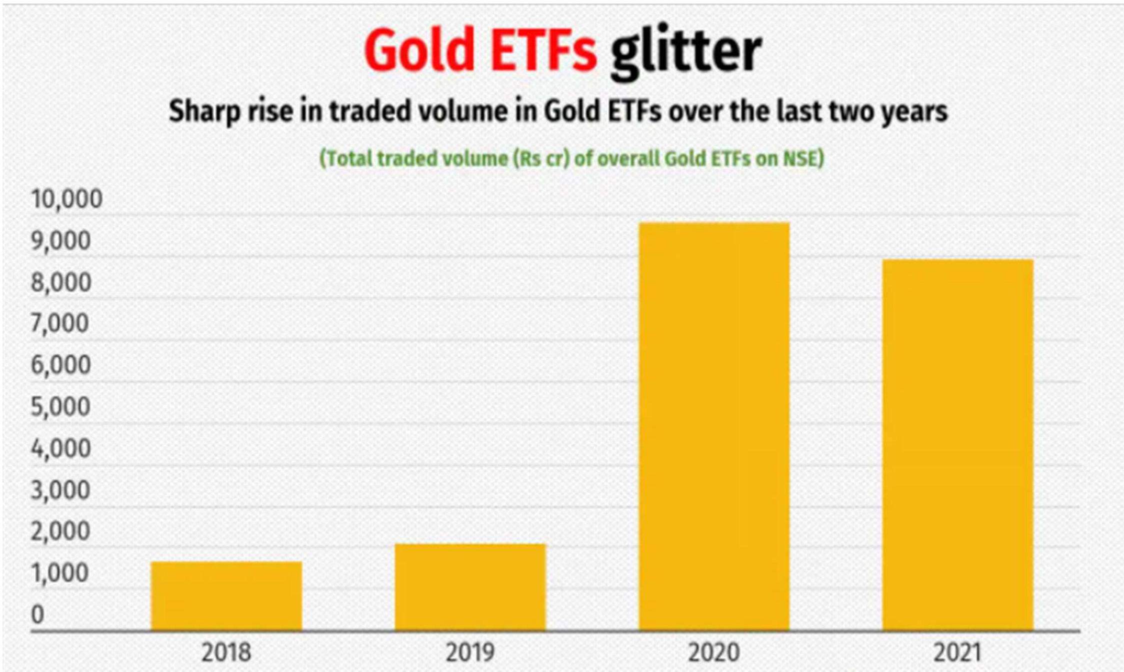
Different category (Capitalisation) Mutual Funds performance



Source-ACEMF

Over the previous few years, funds invested in midcap and small cap equities have reaped the highest benefits. They outperformed their large cap peers. Because of their lower values, quality mid and small cap stocks have gained favour among investors. During the time, mid and small cap companies in the technology, basic materials, and industrials sectors outperformed.

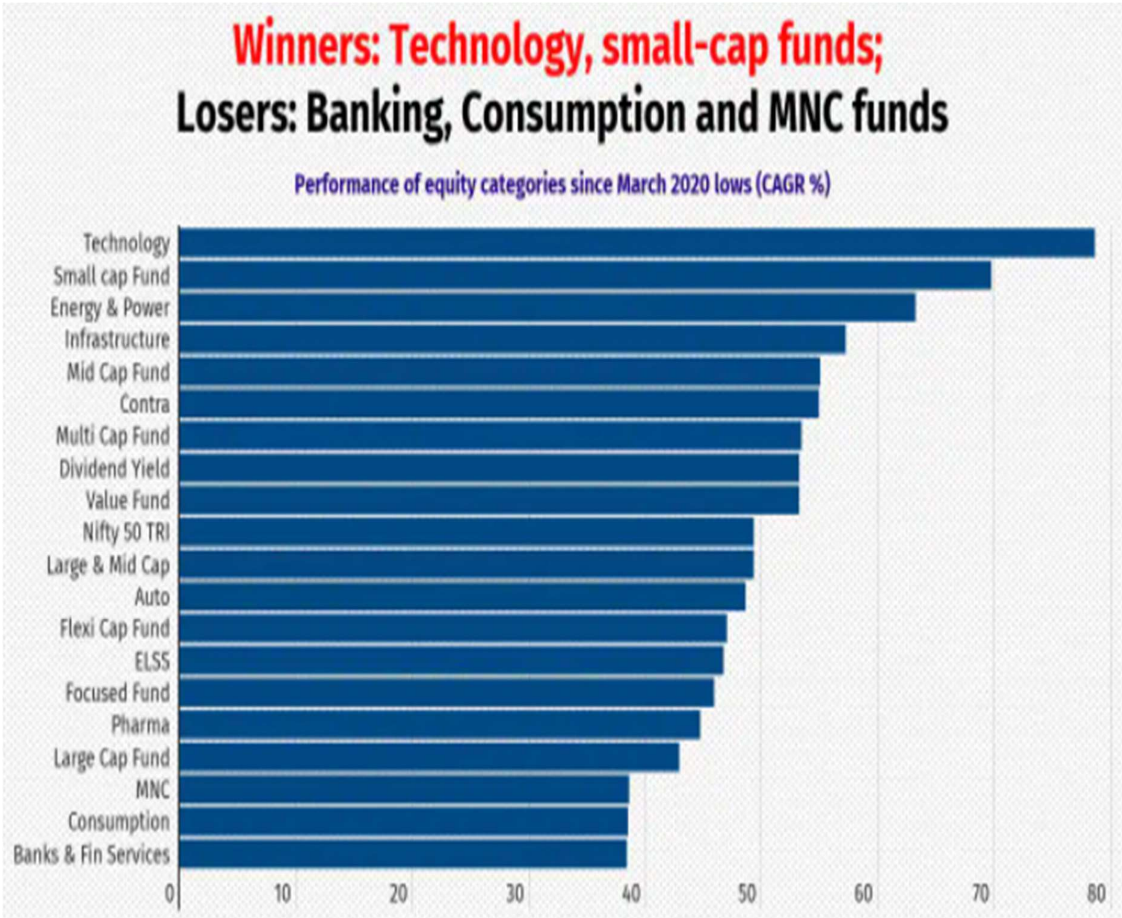
Gold ETF Growth



Source-ACEMF

Since March 2020, gold prices have risen by almost 30%. Despite the financial market volatility caused by the pandemic, greater inflation, and geopolitical tensions over the previous two years, the asset class has remained loyal to its origins, providing investors with much needed diversification and inflation protection. We have seen time and again following a crisis that investors begin to explore a strategic portfolio allocation to gold, and this time was no exception. Domestic gold ETF AUM has more than quadrupled, rising from over Rs 8000 crore in 2020 to Rs 16,000 crore now. This increased buying demand has resulted in increased trade volumes for gold ETFs on exchanges."

Industry-Wise Mutual Funds Performance



Source-ACEMF

Over the previous two years, funds in the technology, small cap, and energy & power categories have outperformed, while banking, consumer, and MNC funds have lagged. Value and infrastructure funds have made a strong resurgence.

New tax rules concerning the Dividend Distribution Tax (DDT)

DDT was introduced for the first time in 1997. Previously, they were taxed in the hands of stockholders. The thinking processes underlying this approach are to encourage stakeholders to reinvest their money in the firm in order to support development. Between April 1st, 2002 and March 31st, 2003, legislators again moved the tax burden on shareholders.

From FY20 onwards, the notion of taxing dividends in the hands of investors would be reinstated. Previously, dividends were taxed in the hands of investors but paid by fund firms.

Taxes will have to be paid by the investors themselves beginning this fiscal year. As a result of the increased compliance requirements, investors began to shift from Dividend plans to Growth plans. Investors that require funds from their investments choose redemption or Systematic Transfer Plans (STP).

Key-Learnings

- To summarize, do not respond to market volatility with unnecessary stress. Instead, approach assets rationally by developing a sound strategy. When investing, keep emotions at check and avoid following the crowd. Take a cautious and scientific approach.
- Several persons were able to get through the COVID-19 pandemic-induced lockdown and limitations (which resulted in job losses and salary reduction) because to cash or a contingency reserve. Even in the future, with the fourth of COVID-19 and global issues looming, having an appropriate emergency reserve will come in handy.
- Consider investing in a phased or piecemeal fashion under the current market conditions, rather than investing all of your investible surplus in one go. You can also invest in equity mutual funds through a systematic investment plan (SIP). Following these tactics will assist you in better managing downside risk and will be beneficial in the long run. Remember that patience, tenacity, financial discipline, and 'time in the market' are the most important aspects of the wealth-creation path!
- Even in the face of the COVID-19 outbreak and other problems, corporate profitability have been optimistic. Even if profits fall for a few quarters, do not be disappointed because earnings do not usually move in a linear fashion. What you need to do is take a measured risk, develop a sound strategy, and keep investing.
- The history of the equity market demonstrates that, despite overpowering unfavourable events such as the 2002 downturn, the 2008-09 subprime mortgage crisis in the United States, the Dubai debt debacle in 2009-10, the debt crisis in Greece, the slowdown in China in 2016, and the crash at the onset of the COVID-19 pandemic in 2020, the Indian equity markets have well bounced back, supported by investor buying activity. This is due to the fact that India continues to be a popular investment destination for many Foreign Portfolio Investors (FPIs), Domestic Institutional Investors (DIIs), and High Net-worth Individuals (HNI). They exude confidence in the Indian economy's long-

term prospects, which are bolstered by reforms as well as the demographic advantage it provides.

CONCLUSIONS

The mutual fund sector was performing well until pandemic conditions altered the game completely. During economic downturns, investors always strive to play it safe and prioritize safety over rewards. Because the business interacts with both stock and debt asset classes, fund flows are frequently rebalanced. However, because there may be volatility in investor earning capacities, they are discovered redeeming their assets without hesitation. As a result of this circumstance, several schemes, particularly credit risk schemes, were unable to withstand redemption pressure. This had a disproportionate impact on fund AUMs, causing funds (such as Franklin Templeton debt funds) to be compelled to close. To alleviate the suffering of investors, SEBI issued additional compliances and rules. Because of the new relaxations and rules imposed by SEBI, investors are advised not to lose faith in the mutual fund sector merely because one asset management business could not keep up with the redemption demand. They should remain focused on their investment objectives and, to the greatest degree feasible, avoid any premature mass redemption.

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