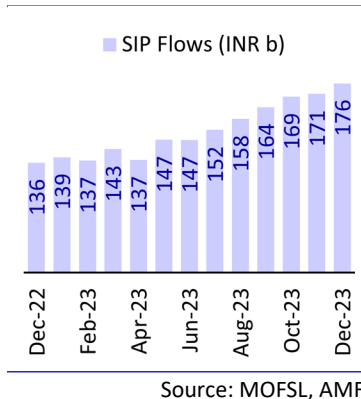
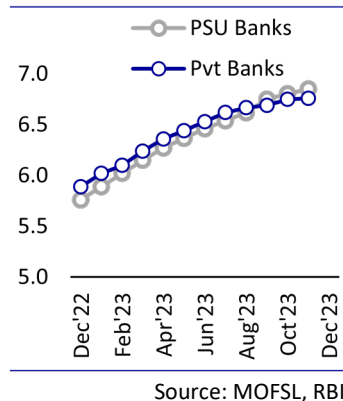


Mutual Funds

Strong trends in SIP flows continue



Rise in average term deposit rates



SIP ticket sizes increase; NFO commissions rise; debt flows continue to be weak

- We interacted with a few large Mutual Fund distributors (having an AUM in excess of INR10b) and institutional sales representatives to analyze customer behavior in the prevailing market conditions.
- SIPs continue to be the key driver for equity inflows. Passives fade in action as actives continue to deliver strong returns, particularly in small caps and large caps. However, NFOs from relatively smaller-sized AMC's have offered significantly higher commissions vis-à-vis past few quarters.
- Increasing options to invest in various fixed-income instruments such as Corporate Deposits, Bonds, and Fixed Deposits along with taxation impact continue to keep investors at bay for investing into debt MFs. A 50bp interest rate cut, however, has the potential to attract smart money swiftly.
- We remain positive on 360ONE and CAMS in the AMC space with a BUY rating on the both stocks. 360ONE is well placed to leverage the emerging trends in the UHNI segment, wherein inter-generational wealth transfer is picking up momentum, especially so in the smaller tier cities. CAMS, on the other hand, is seeing improved AUM and revenue traction, driven by strong equity markets and healthy trends in non-MF segments such as PMS/AIF RTA.

Equity segment flows fueled by strong SIP momentum

- Strong growth has been witnessed across both B-30 and T-30 cities. One clear trend emerging is increasing ticket size of SIPs across geographies.
- Other notable trends include 1) existing SIP customers increasing their SIP subscriptions, and 2) as returns from existing SIPs materialize, there is also a surge in lumpsum investments.
- With markets reaching historical highs and optimism arising from state election results, distributors have increased their efforts in the marketing of MFs.
- Advertisement budgets of AMC's have increased which is percolating to distributors in the form of more events, conferences, and training sessions.
- Redemptions outpace gross inflows in two phases of equity markets 1) sustained weakness and 2) overheated markets. With the current market in neither phase, distributors are expecting strong inflows to sustain over the near term.
- Even in periods of outflows, jump in SIPs (which are relatively stickier) will ensure a comparatively lower impact in the ensuing times.
- In terms of recent NFOs, the share of retail is more inclined toward small cap and mid cap funds, while institutions have been investing in large cap funds.
- Top AMC's which have seen increased inflows on account of strong performance are Nippon AMC, HDFC AMC, Quant and a couple of schemes of ABSL AMC.
- NFO commissions have increased in the past few months from about ~140bp to about 180bp, but most of the recent launches are from smaller-sized AMC's.
- The passive trend is weakening, particularly in times of robust equity markets where active funds are performing better. Search trends and video views related to passives have also shown a decline.

Prayesh Jain – Research Analyst (Prayesh.Jain@MotilalOswal.com)

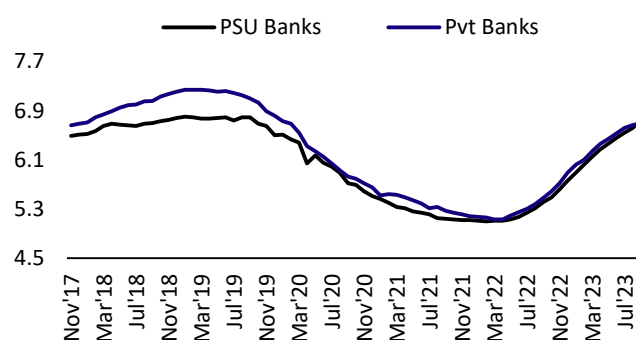
Research Analyst: Nitin Aggarwal (Nitin.Aggarwal@MotilalOswal.com) | **Nemin Doshi** (Nemin.Doshi@MotilalOswal.com)

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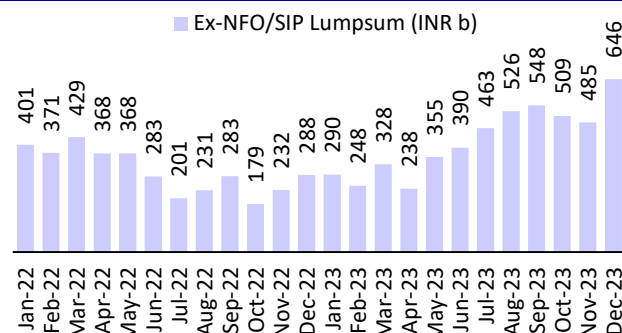
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Debt flows remain muted

- Large institutions and family offices continue to prefer investing at the shorter end of the yield curve for their debt MF investments.
- The “Lazy Investing” culture – matching duration of assets with liabilities, which was prevalent until the taxation change on debt MFs, has now taken a back seat.
- Dynamic bond funds are likely to see increased attraction in the near term, while a 50bp cut in interest rates can attract long-term investors into debt mutual funds.
- Competition from products such as corporate deposits, bonds, and bank fixed deposits has increased. Customers are reluctant to incur a 25bp cost to invest into debt MF.
- Portfolio construction is the advantage that the MFs enjoy, but the same will come into play, when there is a clear trajectory of interest rates moving down.
- Inclusion of India in global bond indices have also attracted flows by domestic investors as liquidity is expected to improve considerably.
- Credit AIFs had seen increased attraction, but the segment is getting crowded. Fund raising has been easier, but deployment into quality companies is getting challenging.

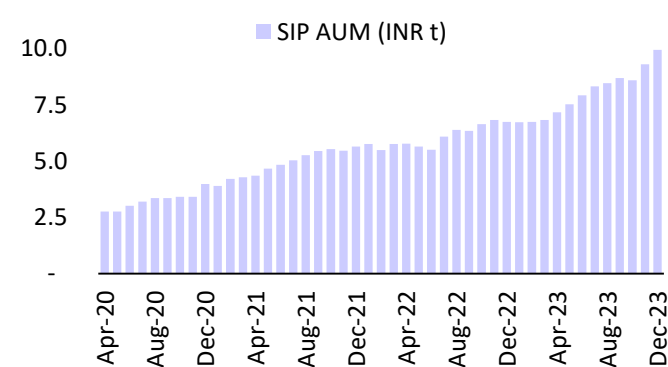
Exhibit 1: Weighted average term deposit rates have been rising in line with the rising repo rate

Source: MOFSL, RBI

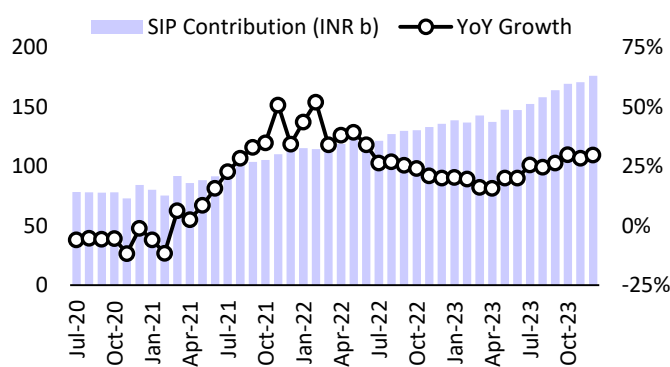
Exhibit 2: Ex-SIP Net inflows exhibit strong performance, achieving a new high in Dec'23

Source: MOFSL, AMFI

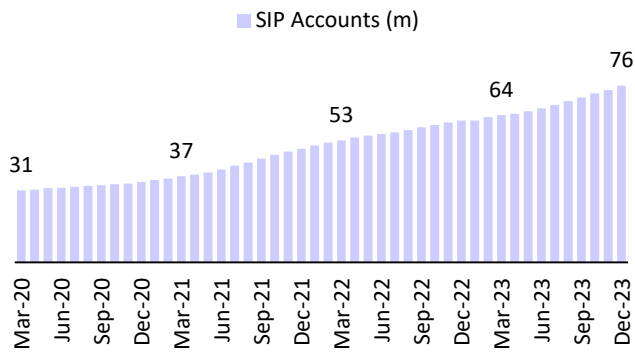
*Gross inflows in equity and hybrid, less SIP inflows and proceeds from equity and hybrid NFOs

Exhibit 3: Healthy growth in SIP AUM...

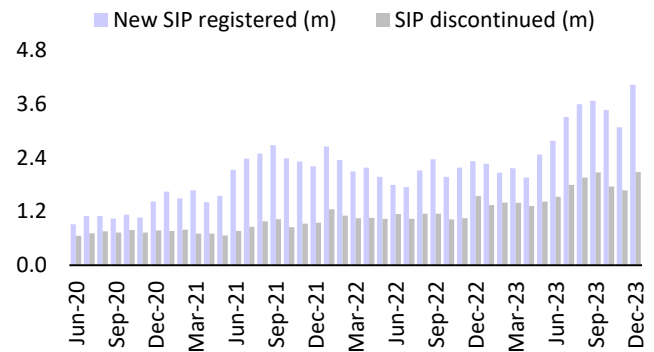
Source: MOFSL, AMFI

Exhibit 4: ...with SIP monthly flows trending upward

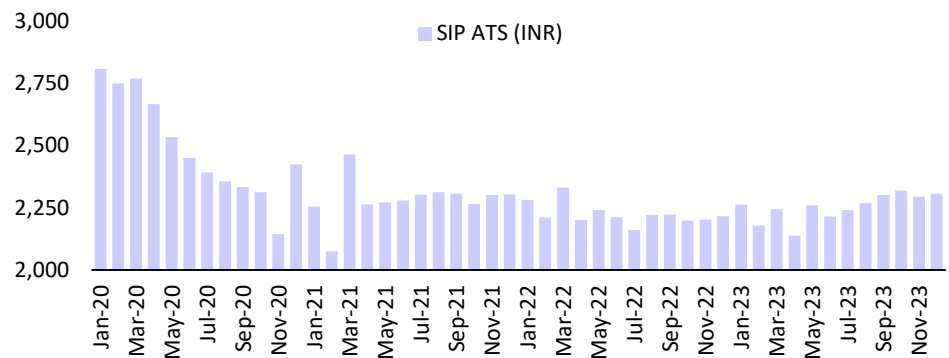
Source: MOFSL, AMFI

Exhibit 5: Sustained rise in the number of SIP accounts...

Source: MOFSL, AMFI

Exhibit 6: ...as incremental opening of SIP accounts picks up at a faster pace than closure rate

Source: MOFSL, AMFI

Exhibit 7: Average SIP ticket size has been trending higher

Source: MOFSL, AMFI

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
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