FMPs stall, credit risk funds see outflow in Apr

Mutual fund body's report on fixed maturity plans and credit risk funds reflects the ongoing concerns in the debt market amid a climate of risk aversion

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Reflecting ongoing concerns in the debt market, Association of Mutual Funds of India (Amfi) data released on Thursday shows relatively less money in fixed maturity plans (FMPs) staying within the category. FMPs worth ₹18,029 crore matured in April. Barely a trickle of this money went back into the same category at ₹384 crore.

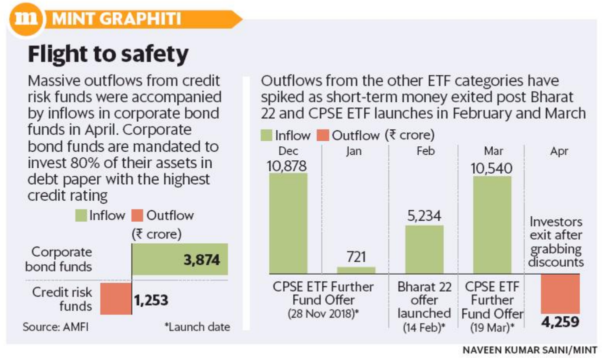
FMPs invest in debt instruments. They have been at the receiving end of India's ongoing debt crisis. Several FMPs have exposure to risky debt issued by groups such as the Infrastructure Leasing and Financial Services (IL&FS) Ltd, Essel Group and Reliance ADAG. A Kotak Mutual Fund FMP maturing in April held back certain units to account for payments due from Essel Group companies. An HDFC FMP was "rolled over" or extended to give it time to recover money from its Essel Group debt paper.

Credit risk funds, another mutual fund category that was hit by bad debt, saw net outflows of ₹1,253 crore.

"A large part of the maturity of FMPs in April used to get rolled over in the past, which has not happened this year," said Swarup Mohanty, chief executive officer, Mirae Asset Global Investments (India) Pvt. Ltd. Fresh launches of FMPs have also been stalled, which is clearly a result of the ongoing debt concerns."

A large number of FMPs mature in April each year as it offers investors the benefit of an additional year of indexation for tax purposes. However, some of the maturing money also gets reinvested in fresh FMPs. Some existing FMPs also get "rolled over" or extended to allow investors to stay invested in the scheme. This has happened to a lesser extent in April 2019 on account of the debt crisis.

A. Balasubramanian, CEO, Aditya Birla Sun Life AMC Ltd, said the lack of FMP rollovers and launches is a function of market interest outlook compared to bank fixed deposit (FD) rates. FMP rollovers are fewer when the latter are higher compared to the former. "It is also a function of general credit outlook," he added in reference to the current climate of risk aversion with respect to debt securities.



Meanwhile, the "Other ETF (exchange-traded fund)" category witnessed heavy inflows in February and March at ₹5,234 crore and ₹10,540 crore, respectively, on the back of additional offerings of Bharat 22 and the CPSE ETF. This category saw an outflow of ₹4,529 crore in April.

Aashish Somaiyaa, CEO, Motilal Oswal Asset Management Co. Ltd, said: "This could be on account of new financial year related adjustments by the EPFO or people redeeming units after getting the initial listing pop and normalization of discount given in the initial offer." The EPFO invests 15% of its incremental corpus in equity markets through ETFs and it may alter or vary its investments from time to time. ETFs like Bharat 22 and CPSE ETF also offer discounts on each fresh tranche offered to the public. Many investors buy into them to capture the discount and exit immediately after the fresh units list on the market. Two such tranches were offered to investors in February and March.

The hybrid funds category has been witnessing outflows since January 2019. Outflows from these funds (excluding arbitrage funds) soared to ₹3,181 crore in March 2019 for open-ended hybrid schemes. Outflows in April stood at ₹3,144 crore. "Hybrid funds were sold on the promise of regular monthly income under the dividend option. After taxation of dividends, the strategy came under question. Such funds were also hit by their exposure to risky debt," said Prakash Praharaj, founder, Max Secure Financial Planners, a Mumbai-based financial advisory firm.

Aggressive hybrid funds on an average have a one-year return of -0.58% and balanced hybrid funds have a one-year return of 0.53%. Praharaj said investors pay long-term capital gains tax at a lower rate after just one year in hybrid categories. As a result, there are fewer roadblocks to exiting such funds.

Net inflows into equity mutual funds slumped 64.02% to a 31-month low of ₹4,229.47 crore in April from ₹11,756 crore in March. Equity mutual funds saw an inflow of ₹11,171 crore in April last year. Vishal Kapoor, CEO, IDFC AMC, however, pointed to relatively higher flows in mid- and small-cap funds within the overall equity category as a bright spot on the horizon.

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