17th May 2023

Have banks gained at the expense of mutual funds?

When the government took the decision to no longer provide any tax benefit to debt mutual funds in terms of capital gains, it was largely believed that funds would move back to bank deposits. What exactly does the data show for April 2023?

Data on AUM of mutual funds show a smart increase. AUM as of April end stood at Rs 41.62 lakh crore as against Rs 39.42 lakh crore in March. This is an increase of Rs 2.20 lakh crore. This was a good month in the equity market too with the Sensex moving from 58,992 to 61,112. Interest rates on deposits were largely stable and for 1 year remained in the range of 6-7.25%. The 10-year yield had come down by around 20 bps, and similar declines were witnessed in the Treasury bill yields.

However, there was also an increase in bank deposits during this period though the dates for comparison are different with the two month-end points being March 24th and April 21st.

The table below gives the outstanding position for both mutual funds and bank deposits at these two points of time.

Mutual funds AUM Rs crore	March 2023	April 2023	Change in April
Open ended Schemes	**39,07,838**	**41,29,953**	**2,22,116**
Income/Debt Oriented Schemes	11,81,982	12,98,706	1,16,724
Growth/Equity Oriented Schemes	15,17,083	15,84,551	67,469
Hybrid Schemes	4,78,917	4,94,305	15,388
Solution Oriented Schemes	32,334	33,548	1,215
Other Schemes	6,97,522	7,18,843	21,320
Close Ended Schemes	**33,194**	**30,864**	**-2,330**
Income/Debt Oriented Schemes	26,994	26,266	-728
Growth/Equity Oriented Schemes	6,200	4,598	-1,601
Interval Schemes	**999**	**1,004**	**5**
Grand Total	**39,42,031**	**41,61,822**	**2,19,791**
Banks Rs crore	**24th March 2023**	**21st April 2023**	**Change in April**
Bank deposits	1,80,43,914	1,83,11,580	**2,67,666**
Time deposits	1,58,63,483	1,61,73,452	**3,09,969**
Demand deposits	21,80,431	21,38,128	**-42,303**

Source: SEBI and RBI

The overall picture is quite interesting as April has been a good period for savings. Both banks and mutual funds have garnered higher funds. Some interesting points emerge from this table.

1. Time deposits of banks increased by Rs 3.09 lakh crore while demand deposits declined. The net increase of Rs 2.67 lakh crore was at a time when deposit rates remained largely unchanged. The yearend phenomenon of bulk deposits being raised would have contributed to this increase. However, normally short term deposits mature in the first fortnight of the new financial year and hence this increase is significant as it comes after this adjustment.

    a. In 2022, during the same time period overall deposits increased by Rs 1.58 lakh crore with time deposits increasing by Rs 2.36 lakh crore and demand deposits declining by Rs 0.78 lakh crore. This was also the time when the interest rates situation had remained unchanged.
2. The mutual funds picture is quite contrary to expectations.
    a. The increase in debt funds is higher than that in equity.
    b. Within debt funds, around Rs 90,000 crore of the Rs 1.16 lakh crore increase was through liquid (Rs 65,288 crore), money market funds (Rs 14,316 crore) and ultra-short duration funds (Rs 11,173 crore).
    c. The fact that there has been a preference for very short terms can be a useful indicator for banks on where to focus for garnering funds.
    d. The increase from equity funds was lower at Rs 67,469 crore. Within equity funds large, medium and small cap funds each had a share of around 13% while flexi cap had share of 16%. Therefore there was not much concentration compared with debt funds.
    e. Surprisingly the increase in hybrid funds, which was expected to be preferred on account of the change in tax laws was quite marginal.

Hence based on one month data it does look like that both banks and mutual funds have witnessed an increase in flow of savings. It is not clear whether this has come due to a reduction in consumption as the GST collections for April have come in at an all-time high of Rs 1.87 lakh crore. The impressionistic view is that both financial savings and consumption were up in April.

It would however need to be seen if this position is maintained through the year. The preference for debt over equity funds does come as a surprise given the change in tax laws as well as the performance of the equity market as depicted by the movements in the Sensex.

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