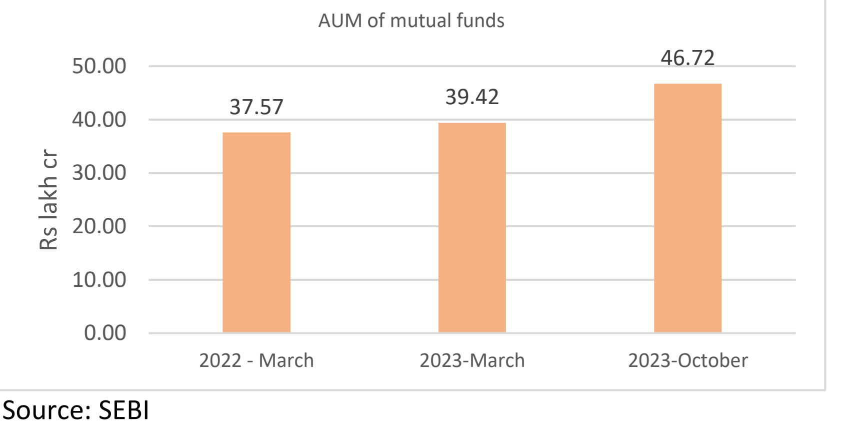
Mutual funds back in favour in first 7 months

Mutual funds have been an alternative avenue for savings in the country and has grown in importance as the capital markets have deepened. RBI data on financial savings of households show that the flow of funds in mutual funds rose from Rs 0.64 lakh crore in FY21 to Rs 1.60 lakh crore in FY22 and further to Rs 1.79 lakh crore in FY23. In terms of share in overall financial savings stock of households, it was 7.6% in FY21 and 8.5% and 8.4% respectively in the following two years.

Hence it can be seen that while assets under management (AUM) mutual funds are still of a lower magnitude compared with banks deposits, they have been gaining importance of late with investors becoming financially savvy. More importantly, risk aversion has started coming down, which is natural as individuals become more financially savvy.

AUM of mutual funds increased from Rs 37.57 lakh crore in FY22 to Rs 39.42 lakh crore in FY23. In the first seven months of the year there has been a sharp increase to Rs 46.72 lakh crore.



Source: SEBI

The interesting part of the story has been that the investors have progressively become less risk averse as seen by the migration to the equity oriented schemes which is shown in the Table below.

	2022 - March	2023-March	2023-October
Income/Debt Oriented Schemes	34.6	30.0	29.0
Growth/Equity Oriented Schemes	36.3	38.5	40.2
Hybrid Schemes	12.8	12.1	12.6
Solution Oriented Schemes	0.8	0.8	0.8
Other Schemes	13.9	17.7	16.8
Closed ended schemes	1.6	0.9	0.6
Total	100.0	100.0	100.0

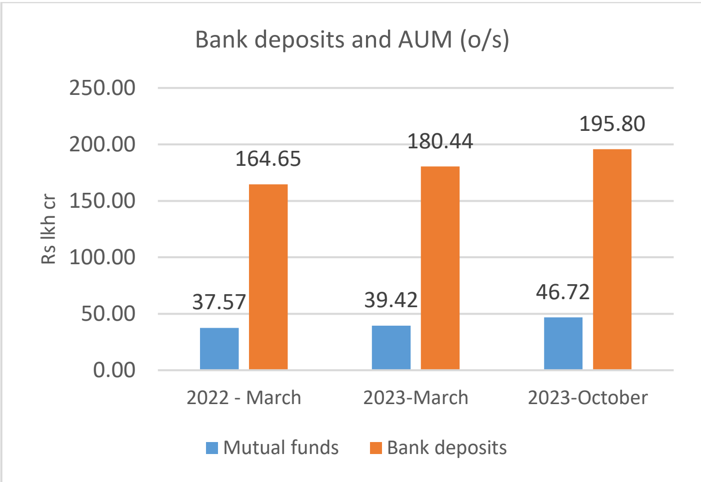
Source: SEBI

- The share of debt schemes has come down. There are two reasons for this. First, the interest rate cycle turned in FY23 where banks offered higher deposit rates which caused a shift to bank deposits. Second, the recent budget has removed the capital gains tax benefit on debt schemes which makes them less efficient now.

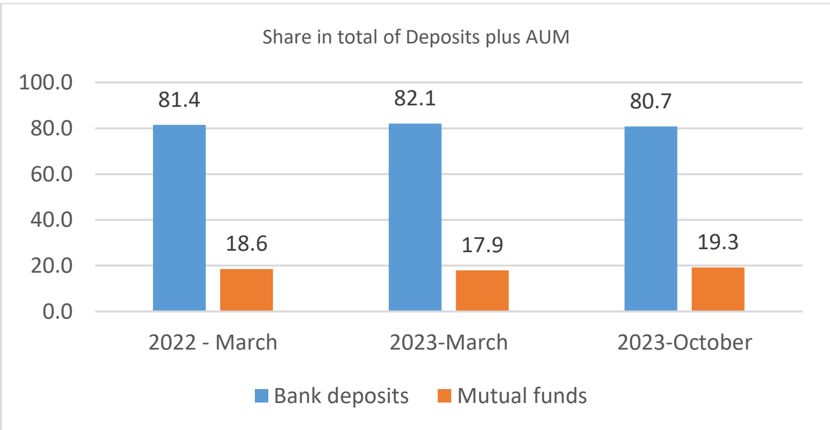
- However, the risk taking ability can be seen from the migration to growth/equity, hybrid and 'other schemes'.
- The booming stock market has enabled investments in the equity segment. The returns have been volatile. In FY22 it was 18.3% but became virtually flat in FY23. However, from March 2023 to October 23 the gain was around 11%.
- Hybrid schemes have a dominance of equity with a good modicum of debt thus reducing the risk but still bestowing tax benefits analogous to equity schemes.
- The 'other schemes' category is basically index funds and ETFs which have become popular with share of almost 17% of total AUM.

How do mutual funds stand vis-a-vis bank deposits?

Bank deposits grew by 9.6% in FY23 and 8.5% in FY24 on WTD basis (up to November 3). Mutual funds growth was sluggish at 4.9% in FY23 but impressive at 18.5% in FY24 (YTD). Banks were able to claw back in FY23 as interest rates were increased thus making deposits a superior asset as they go with nil risk. However, in FY24 so far, mutual funds have made a comeback with equity and hybrid schemes growing by 23.9% and 22.7% respectively.



In terms of shares in total of o/s deposits + AUM, bank deposits recovered in FY23 and declined marginally by 0.4% to 80.7%.



Source: SEBI/RBI

Concluding remarks

Mutual funds have grown in stature for sure and do compete with bank deposits all the time. While one can see a direct correspondence between debt schemes and bank deposits where risk-return tradeoffs are different, the migration to equity and index schemes is a reflection of the individual investor becoming more aware of the alternatives and willingness to take risk. This could be the pattern going ahead.

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