

JM Financial India Xchange takeaways

Beyond discretionary: The next leg of growth for Indian AMCs



At JM Financial India Xchange, we hosted a panel to discuss the next leg of growth for Indian AMCs. The panel discussed the nuances and development of systematic active funds, ETFs (Exchange Traded Funds), passives and alternates in India, vis-à-vis that available globally. With the strong wealth generation through discretionary mutual funds (MF), the panel agreed that the Indian capital markets offer a strong runway for discretionary funds as well as newer and niche products. The panel maintained that the widening array of products will allow the market to expand – and exponentially grow the count of 57mn unique MF investors.

- **Profile of panellists:** Our panellists offered expertise on a wide array of investment products in India and abroad. Ms Lakshmi Iyer, Group President, Investments at Bajaj Finserv, offered insights on fixed income and insurance funds. Mr Vishal Jain, Chief Executive Officer, Zerodha Fund House, highlighted the growth of passives in India and globally. Mr Rishi Kohli, Chief Investment Officer, JioBlackrock, gave insights on systematic active products. And Mr Chintan Haria, Head of Investment Strategy at ICICI Prudential Mutual Fund, discussed product innovation and penetration in Indian markets, and runway for diversification. The panel was moderated by Ms Koel Ghosh, Executive Director, MSCI India, who has an expertise in leading index providers, financial data providers and asset managers.
- **See a strong market for systematic active products:** In India, discretionary funds have generated strong alpha – with leading schemes offering 16%+ IRR over 20/30 year timeframes. However, with volatility in returns, investor IRRs have often suffered, leading to dropouts whenever markets have been volatile and scheme returns weak. Systematic active equity (SAE) funds focus on low volatility, which should reduce investor dropouts. JioBlackrock has launched its first SAE scheme, Flexi Cap Fund, in October, which reached 4.8mn customers, across 90%+ PIN codes, entirely through direct plans.
- **Passive product diversification holds the key as Indian ETFs do not enjoy a tax arbitrage over MF units:** In India, capital gains on mutual funds are levied only once the end-investor sells the mutual fund unit whereas in the US, every time a fund manager sells a security, capital gains/loss is applicable. Hence, in the US, tax arbitrage in favour of ETFs has led to ETF-led growth. In India, the same tax treatment for MF units and ETFs (at an advantage over PMS/AIFs) ensures both passives and active funds can grow, as penetration deepens. As on date, there are only around 10mn investors in passive products out of 57mn MF investors. However, passive products hold the key to markets for the new-to-market and Do It Yourself (DIY) investors, and offering a wider bouquet of products can drive runway.
- **Specialised Investment Funds (SIF) to expand the market:** Balanced advantage and multi-asset allocation funds of Indian mutual fund houses have built large AUMs by beating equity index performance, with low volatility. However, in the AIF space, equity long/short funds have found favour for offering fixed income plus returns, and investors have not reaped the benefits of higher returns with leverage. As SIFs come in at a lower ticket size of INR 1mn, the market for long/short equity can expand.
- **With the customer demand for investment options, see room for discretionary, passive and systematic active funds to grow:** The last decade has seen increasing investor confidence in capital markets, visible in the compounding of mutual fund AUM and investor count. Despite this, in terms of MF AUM to GDP, India stands where the US stood in the late 1980s – early 90s, offering room for sustained growth. As the unique investor count has inched up to 57mn levels and is expected to keep growing, asset managers will introduce a wider array of products. With the strong wealth generation through SIPs (Systematic Investment Plans) and discretionary funds, the panel expects discretionary products to remain in favour, even as passive and systematic active products scale up.

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Exhibit 1. Industry AUM of different asset classes for FY20-25

Year	FY20	FY21	FY22	FY23	FY24	FY25
AUM						
Income	6,956,232	9,353,104	7,698,911	6,461,839	6,782,352	7,634,390
Infrastructure Debt Fund	23,914	22,622	20,027	19,820	16,323	11,125
Equity	6,895,545	10,785,388	14,825,342	16,054,820	25,149,624	31,776,116
Balanced	1,134,197	1,599,703	2,490,555	2,739,044	3,871,959	4,700,744
Liquid/Money Market	4,719,162	4,973,646	5,631,939	5,365,919	5,737,163	7,328,952
Gilt	102,264	177,459	164,833	252,179	320,099	459,284
ELSS	778,364	1,299,457	1,515,936	1,551,462	2,178,481	2,362,800
Gold ETF	79,491	141,227	192,809	227,370	312,237	588,880
Other ETFs + Index Funds	1,545,517	2,950,950	4,800,382	6,517,943	8,776,576	10,630,273
Fund of Funds Investing Overseas	27,344	124,079	226,092	229,912	257,134	250,308
Total	22,262,029	31,427,635	37,566,826	39,420,307	53,401,946	65,742,872

AUM (INR mn)

Debt	7,082,409	9,553,185	7,883,771	6,733,838	7,118,774	8,104,799
Equity	8,808,106	13,684,548	18,831,833	20,345,326	31,200,063	38,839,660
Liquid	4,719,162	4,973,646	5,631,939	5,365,919	5,737,163	7,328,952
ETF + FoFs + Index Funds	1,652,351	3,216,256	5,219,282	6,975,225	9,345,946	11,469,461
Total	22,262,029	31,427,635	37,566,826	39,420,307	53,401,946	65,742,872

Source: AMFI, Company, JM Financial

Exhibit 2. Growth across different categories

Growth %	FY20	FY21	FY22	FY23	FY24	FY25
Income	-3%	34%	-18%	-16%	5%	13%
Infrastructure Debt Fund	-12%	-5%	-11%	-1%	-18%	-32%
Equity	-13%	56%	37%	8%	57%	26%
Balanced	-37%	41%	56%	10%	41%	21%
Liquid/Money Market	8%	5%	13%	-5%	7%	28%
Gilt	26%	74%	-7%	53%	27%	43%
ELSS	-19%	67%	17%	2%	40%	8%
Gold ETF	79%	78%	37%	18%	37%	89%
Other ETFs + Index Funds	15%	91%	63%	36%	35%	21%
Fund of Funds Investing Overseas	46%	354%	82%	2%	12%	-3%
Total	-6%	41%	20%	5%	35%	23%
Broad categories						
Debt	-3%	35%	-17%	-15%	6%	14%
Equity	-18%	55%	38%	8%	53%	24%
Liquid	8%	5%	13%	-5%	7%	28%
ETF + FoFs + Index Funds	17%	95%	62%	34%	34%	23%

Source: AMFI, Company, JM Financial

Exhibit 3. Share of AUM across different categories

Share of AUM %	FY20	FY21	FY22	FY23	FY24	FY25
Income	31%	30%	20%	16%	13%	12%
Infrastructure Debt Fund	0%	0%	0%	0%	0%	0%
Equity	31%	34%	39%	41%	47%	48%
Balanced	5%	5%	7%	7%	7%	7%
Liquid/Money Market	21%	16%	15%	14%	11%	11%
Gilt	0%	1%	0%	1%	1%	1%
ELSS	3%	4%	4%	4%	4%	4%
Gold ETF	0%	0%	1%	1%	1%	1%
Other ETFs + Index Funds	7%	9%	13%	17%	16%	16%
Fund of Funds Investing Overseas	0%	0%	1%	1%	0%	0%
Total	100%	100%	100%	100%	100%	100%
Broad categories						
Debt	32%	30%	21%	17%	13%	12%
Equity	40%	44%	50%	52%	58%	59%
Liquid	21%	16%	15%	14%	11%	11%
ETF + FoFs + Index Funds	7%	10%	14%	18%	18%	17%

Source: AMFI, Company, JM Financial

APPENDIX I

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Rating	Meaning
BUY	Expected return $\geq$ 15% over the next twelve months.
ADD	Expected return $\geq$ 5% and $<$ 15% over the next twelve months.
REDUCE	Expected return $\geq$ -10% and $<$ 5% over the next twelve months.
SELL	Expected return $<$ -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

Previous Rating System: Definition of ratings	
Rating	Meaning
BUY	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
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SELL	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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