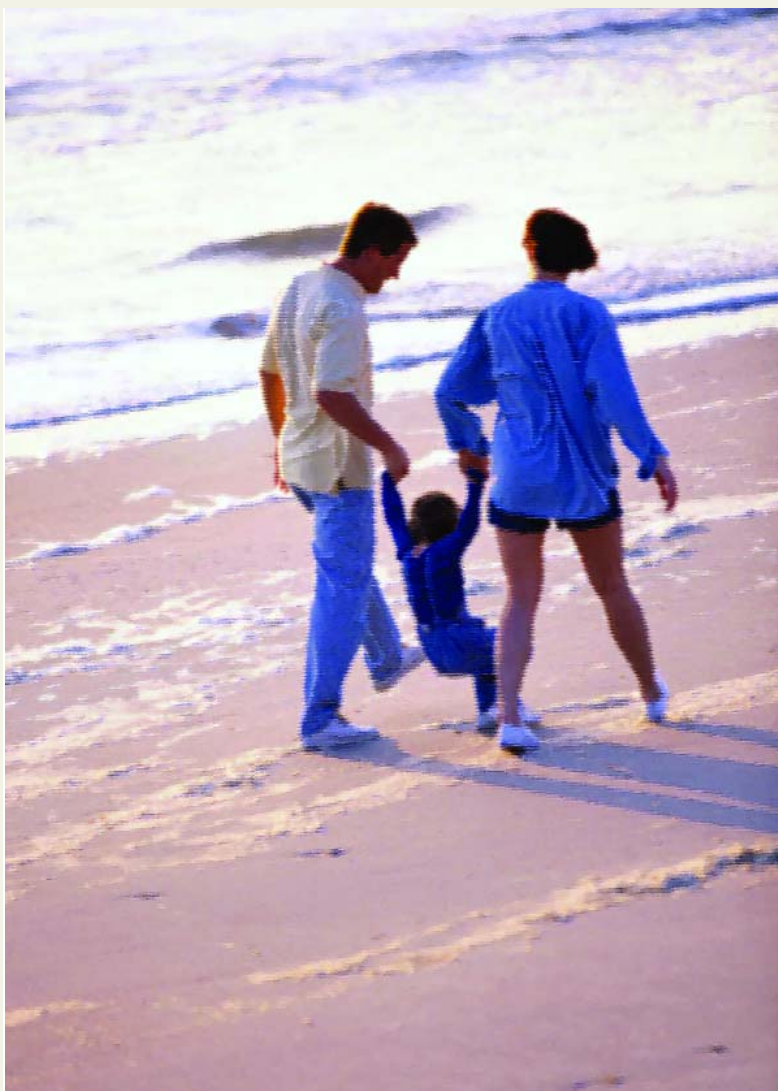


VIBRANT MUTUAL FUNDS INDUSTRY: ON HIGH-GROWTH TRAJECTORY

India's mutual fund industry, buoyed by a phenomenal rise in stock market indices and a spurt in foreign institutional investments, has been rewarding investors handsomely. The sector is poised to take-off on a new trajectory, even as funds target international markets, reports N B Rao



INDIA'S mutual funds sector has never had it so good. Retail investors have been pouring billions of dollars into funds, and have been reaping handsome rewards as many of the funds come out with double-digit (even triple-digit) dividends.

Indian stock markets have broken all-time records, the economy is swishing along famously (gross domestic product is expected to expand by 7.0 per cent for fiscal ending March 31, 2006), and foreign institutional investors including mutual funds, hedge funds and pension funds, have been pouring money into the country's capital markets.

With emerging markets (including India, China and Brazil) being the flavour of the season, international funds have been furiously earmarking a large portion of their allocations to developing countries. Not surprising, considering the phenomenal returns that markets like India have fetched them.

The Sensex, the benchmark, 30-share index of the Bombay Stock Exchange (BSE), has shot up by 26 per cent since April. Breaking the previous all-time high of 6,200, it raced rapidly over the past few weeks, almost touching the 8,000-mark, ignoring the spurt in oil prices, and uncertainties dogging the economic reforms programme of the federal government in Delhi, the national capital.

Buoyed by the bullish sentiments at the BSE (and the 7.0 per cent economic growth in India), overseas investors have been pumping in funds at a feverish pace: after investing a record \$8.5 billion in the country's stock markets during the whole of 2004, they have ratcheted up the ante, pouring in nearly \$7.5 billion during the first eight months of 2005. With overseas investments of \$22 billion since 2003, the Sensex has more than doubled over the past two years.

Not surprising then that US-based mutual funds which invest in emerging markets like India had till June attracted

over \$5 billion from investors, which is almost 10 times what they raised during the whole of 2002.

Worldwide, emerging market equity funds raised almost \$7 billion just between June and August, and about \$8.75 billion during the first eight months of the year, which is three times what they attracted last year.

And average emerging market stock funds have gained 30 per cent annually over the past three years. The Morgan Stanley Capital International index for Emerging Markets - which tracks over 800 stocks in 26 developing countries, and had gained 36 per cent over the past year - has risen by 13 per cent in 2005.

Funds with large exposure to emerging markets have come out with excellent results. Janus Overseas Fund, which was an under-performer over the past few years, now ranks among the best performing funds, after raising its exposure to markets like India and South Korea. The \$2.2 billion fund has invested 40 per cent of the corpus in emerging economies, with companies like Reliance Industries, India's largest private sector company, heading its list of holdings.

With the Indian stock markets providing attractive returns, foreign institutional investors (FIIs) have been making a beeline to the country. According to the Securities and Exchange Board of India (SEBI), the country's capital market regulator, nearly 150 new FIIs have registered this year.

Besides American and British FIIs, many are from countries like Canada, Denmark, Sweden, Belgium, Ireland and Italy. Interestingly, many Japanese FIIs have also set up a presence recently, and are playing a key role in the current bull-run.

Many leading international pension funds have also registered as FIIs with SEBI. They include CalPERS (California Public Employees' Retirement System), the UN Pension Fund, the US State Government Pension Funds, the Tennessee Valley Authority, and the General Motors Employees' Pension Fund. The total number of FIIs has also jumped by 27 per cent to 685.

India's robust capital market has resulted in a flowering of its mutual fund sector. Investors who had been disenchanted with

ASIA'S OLDEST EXCHANGE CORPORATISED

IT is the oldest stock exchange in Asia, and has been around for over 130 years. The Bombay Stock Exchange (BSE), with over 4,700 listed companies, is also one of India's leading markets. Till mid-August, it was owned by brokers and run as a non-profit organisation.

It has now been 'corporatised and demutualised,' in line with the directions of the Securities and Exchange Board of India (SEBI), the country's capital markets regulator. The Bombay Stock Exchange Ltd, the new company, plans to go public in a year's time, says Rajnikant Patel, managing director and CEO of the new entity.

"We have short-listed about a dozen merchant bankers and will appoint one within a month," he points out. BSE Ltd might go for an initial public offering (IPO) or even a strategic tie-up with partners. Ultimately, the brokers' stake would come down from the present 100 per cent to 49 per cent.



mutual funds have returned in a big way, pouring billions of rupees into new funds.

According to the Association of Mutual Funds in India (AMFI), mutual funds in the country have assets under management (AUM) of around \$40 billion. In July, the industry grew by nearly seven per cent. AP Kurian, chairman, AMFI, attributes the growth in AUMs to the spurt in the stock market indices.

Several funds have also been coming out with new fund offerings (NFOs). The most popular are equity mutual funds, which are also the most lucrative, giving returns between 8 and 10 per cent a month, outperforming the Sensex (which gained nearly 5 per cent in July).

A recent analysis of 113 equity-oriented schemes indicated an average return of 6.2 during the first fortnight of August. Canequity-Taxsaver, an equity fund, topped with a return of 13.81 per cent. It was followed by Taurus Star Share, which gave a return of 12.05 per cent.

While mutual funds in India have succeeded in attracting retail investors, they are now looking at the overseas markets, targeting the affluent ethnic Indian community. There are an estimated 25 million Indians living in different parts of the world, including the US, Canada, the UK, Africa, the Gulf, South East Asia and Australia. Annually, they remit around \$20 billion to India.

SBI Funds Management Pvt Ltd - a joint venture between

India's robust capital market has resulted in a flowering of its mutual fund sector.

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ASSETS UNDER MANAGEMENT AS ON JULY 31, 2005

Sr. No.	Name of the Asset Management Company	Asset Under Management (Rs. in Crore)
A	BANK SPONSORED	
	(i) Joint Ventures - Predominantly Indian	
1	SBI Funds Management Ltd.	7186
	Total A (i)	7186
	OTHERS	
1	BOB Asset Management Co. Ltd.	169
2	Canbank Investment Management Services Ltd.	1695
3	UTI Asset Management Company Pvt. Ltd.	22778
	Total A (ii)	24642
	Total A (i + ii)	31828
B	INSTITUTIONS	
1	GIC Asset Management Co. Ltd.	128
2	Jeevan Bima Sahayog Asset Management Co. Ltd.	2987
	Total B	3115
C	PRIVATE SECTOR	
	(i) INDIAN	
1	Benchmark Asset Management Co. Pvt. Ltd.	1724
2	Cholamandalam Asset Management Co. Ltd.	1103
3	Credit Capital Asset Management Co. Ltd.	191
4	Escorts Asset Management Ltd.	124
5	J.M.Financial Asset Management Pvt. Ltd.	4046
6	Kotak Mahindra Asset Management Co. Ltd.	7231
7	Reliance Capital Asset Management Ltd.	13136
8	Sahara Asset Management Co. Pvt. Ltd.	420
9	Sundaram Asset Management Company Ltd.	2037
10	Tata Asset Management Private Ltd.	9129
	Total C (i)	39141
	(ii) JOINT VENTURES - PREDOMINANTLY INDIAN	
1	Birla Sun Life Asset Management Co. Ltd.	10812
2	DSP Merrill Lynch Fund Managers Ltd.	6421
3	HDFC Asset Management Co. Ltd.	16590
	Total C (ii)	33823
	(iii) JOINT VENTURES - PREDOMINANTLY FOREIGN	
1	ABN AMRO Asset Management Co.Ltd.	1981
2	Alliance Capital Asset Management (India) Pvt. Ltd.	1400
3	Deutsche Asset Management (India) Pvt. Ltd.	2660
4	Fidelity Fund Management Private Ltd.	1960
5	Franklin Templeton Asset Management (India) Pvt. Ltd.	16345
6	HSBC Asset Management (India) Private Ltd.	7327
7	ING Investment Management (India) Pvt. Ltd.	2166
8	Morgan Stanley Investment Management Pvt. Ltd.	1801
9	Principal Pnb Asset Management Co.Pvt.Ltd.	6542
10	Prudential ICICI Asset Management Co. Ltd.	17915
11	Standard Chartered Asset Mgmt Co. Pvt. Ltd.	7914
	Total C (iii)	68011
	Total C (i + ii + iii)	140975
	Total (A + B + C)	175918

1 US\$ = Rs43.6

Source: Association of Mutual Funds in India (AMFI)

State Bank of India, the country's largest commercial bank, and Societe Generale Asset Management - plans to float a dollar or euro-denominated diversified equity fund for overseas Indians and other international investors.

According to PGR Prasad, managing director, SBI Funds, it hopes to raise about \$23 million in the overseas markets through the offshore fund. The company has just launched its Magnum Multicap Fund in India, and hopes to mop up about \$230 million. In July, the company had raised nearly \$215 million through its 'Magnum Comma Fund.'

The mutual fund will also tap the overseas Indian market over the coming months, offering a slew of products to holders of the India Millennium Deposits, which matures in December. State Bank of India had raised about \$5.5 billion through these deposits in 2000. AK Purwar, chairman, SBI, says that the mutual fund would launch products targeting overseas Indian investors, especially at the time of the redemption of the bonds.

Mutual funds in India are also looking at increasing their exposure to the infrastructure sector in the country. About \$10 billion would be invested to build new roads, highways, ports, airports and other infrastructure in India over the next three years. Funds like Tata Mutual Fund, DSP Merrill Lynch and Prudential ICICI have launched infrastructure funds, and others are also expected to follow suit. These funds have also performed reasonably well - the TIGER (The Infrastructure Growth and Economic Reforms) fund by DSP Merrill Lynch has given a 15.86 per cent return in the last quarter and a 52.84 per cent return for the 12-month period, while the Tata Infrastructure Fund has given a 11.75 per cent return in the quarter.

One segment of the industry whose prospects have improved significantly in recent weeks is the 'fund of funds' (FoF) sector. The Finance Ministry has agreed to categorise these funds as equity-oriented and debt-oriented for tax purposes. Tax laws are being changed to enable FoFs with an over 50 per cent exposure to equity to be declared as 'equity-oriented funds.' This would save them from paying 12.5 per cent tax.

Kurian of AMFI feels that this would act as a major incentive to asset management companies wanting to set up FoFs. There are about a dozen FoFs in India, with AUMs of around \$230 million.

India's vibrant mutual fund industry has witnessed remarkable growth in recent months. But it still has a long way to go. There are about 30 asset management companies in India with \$40 billion under AUMs (the US mutual fund industry has a corpus of over \$7 trillion). Banks in India, on the other hand, have deposits of over \$360 billion. Even after 10 years, AUMs by mutual funds are not expected to cross \$340 billion.

But with a burgeoning middle-class, estimated to be around 200 million, the potential for growth is immense. India's young population - with a median age of 24 - the high savings rate, and the rapidly-liberalising economy is expected to pitchfork the mutual fund sector to new heights. ■