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'Retail Participation More Important than Chasing AUMs'

More efforts are required to educate the citizens and spread the word on why mutual funds are better than chit funds, says Reliance Capital's CEO Sundeep Sikka

ET Q&A

Reliance Capital Asset Management, the firm that runs the Reliance Mutual Fund, says that the size of the assets under management is less important than profits or increasing retail participation. In a candid interview with ET's **Rajesh Mascarenhas** and **R Sriram**, **Sundeep Sikka**, the firm's CEO says that the fund, the second-biggest on the basis of size has to move away from its focus on liquid funds and focus on equity funds that could attract more retail investors. Liquid funds are largely preferred by corporates and generate negligible margins. Edited excerpts:

Despite the crises in emerging countries, Indian markets remained stable over the past few months. Do you think the worst is over for India?

Yes, I believe the worst is over for India. The feeling that we are getting currently is that the offshore investors or money managers are treating India differently from other emerging countries. And, hence, India might see a positive surprise with greater asset allocation among emerging markets this year.

Going forward, what could be the big trigger for the market you would be watching for?

I think corporate results and general elections would be the events market watching for. Election results may change the short-term sentiment, but corporate results and macro numbers will decide the long-term growth prospects. However, in that, growth will also depend on certain or clear mandate during the forthcoming elections.

Which are the sectors you are currently betting on? How do you see the valuations of Indian companies?

We remain positive on auto, auto-ancillaries and better managed banks and financial companies. Valuations-wise, many companies are available at reasonable P/Es. If you take out a few companies from the Sensex, the index is still at 14000-15000 level. You will definitely find some sectors and many companies with in those sectors at a reasonable price. We are currently underweight on software, infra and capital goods as software companies are currently expensive whereas prospectus of infra and capital goods stocks will depend on the policies of the new government.

ON VALUABLE SECTORS

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SUNDEEP SIKKA

For the first time, mutual funds asset under management (AUM) crossed ₹9 lakh crore despite lacklustre market sentiment. What is the reason for such a growth in AUM?

Though the assets under management (AUM) have risen to a record high of ₹9.2 lakh crore, the equity segment is less than ₹2 lakh crore. Overall, growth is coming largely from the institutional and corporate side and not from retail as equity segment is not growing through allocation. The major portion of AUM is in liquid funds, which is a low margin business.

Why has the MF industry failed to shift retail money from physical assets to financial assets in the past 10 years though the concept of mutual funds was introduced to lure retail investors?

The industry has not failed as currently there are three crore plus retail investors in the industry. It's a slow and steady process. I believe that the MF industry is for retail and we at Reliance are focusing on retail investors. Internally, we are working on reducing the liquid to total AUM ratio. Our strategy is to create attractive non liquid products for retail. These products will create wealth for both investors as well as the AMC. Our strategy is profitable growth and AUM growth. Our recent FMP has attracted 15,000 retail investors investing over ₹450 crore. On retail point of view, the longer they stay, the more profits they make.

If your focus is on profit margins and not on AUM, you will be left behind in terms of rankings. Is that ok with you, if you are at number 3 or number 4? Do rankings matters?

We do not want to be distracted by AUM numbers, as most of them are low-margin liquid funds. We continue to focus on profitable growth. The efforts we have put in this direction over the past two years are yielding results now. We do not want to do business because of rankings or to compete for number one or number two position. Instead, we would like to create wealth for our customers and shareholders. This is one of the prime reasons why we started disclosing numbers beyond AUM. You would see once the disclosers in the industry improve, the ranking would also change.

There were so many regulatory changes in past five years. Have they affected your industry?

Yes, there were so many regulatory changes after UK Sinha took over as Sebi chairman. It's a continuous process which is evolving. Despite that, the AUM has crossed ₹9 lakh crore. These changes in many ways have generated positive results, especially the mandate to hold investors education programmes helped industry increasing awareness in smaller cities.

Why chit funds are most successful in smaller cities but not mutual funds?

Indians love assured returns. But the basic underlining in mutual fund schemes is market-linked and, hence, we cannot assure a fixed return. More efforts are required to educate the citizens and spread the word on why mutual funds are better than chit funds. This is why Sebi has mandated to spend 2 bps of total AUM on investor awareness programme. We are very serious about this and are trying to expand our business and reaching out to smaller cities. At an overall industry level, the top five cities contribute 70% to the total AUM, but for Reliance Mutual Funds it is just 60%.