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Profitability of top fund houses rises as equity flows see surge

HDFC MF, ICICI Prudential MF, and SBI MF added more than ₹500 billion each in overall assets in FY18

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Large fund houses reported healthy growth in profitability in the last fiscal, benefiting from sustained equity inflows and economies of scale built over the years.

HDFC MF, the second-largest AMC in terms of assets managed, clocked a net profit of ₹7.22 billion in 2017-18, 31 per cent higher than the ₹5.5 billion clocked in the previous fiscal. ICICI Prudential MF, the largest AMC, saw profits rise 30 per cent to ₹6.25 billion, while that of Reliance MF rose 26 per cent to ₹5.04 billion over the same period. The aggregate net profit in FY18 for 34 fund houses grew above 40 per cent over FY17, shows the Value Research data.

DSP MF and Kotak Mahindra MF registered the biggest percentage rise in profits among the top fund houses. The former's net profit rose 135 per cent to ₹2.01 billion, while the latter's grew 112 per cent to ₹0.81 billion.

HDFC MF, ICICI Prudential MF and SBI MF added more than ₹500 billion each in overall assets during 2017-18, the most among fund houses.

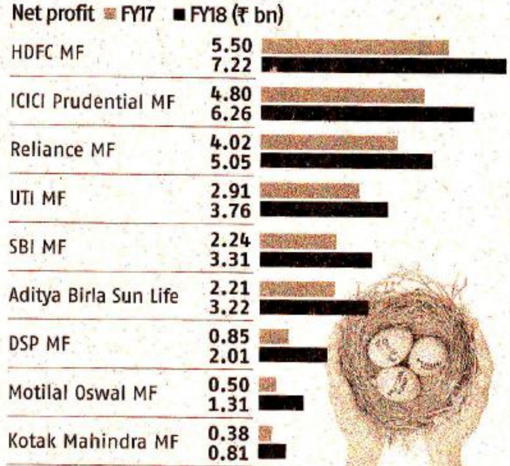
"With assets growing at a brisk pace over the past 2-3 years, the economies of scale are playing out for the larger AMCs. The other factor that may have shored up profits is the increase in proportion of direct assets, where commission is not paid," said Dhaval Kapadia, director (portfolio specialist), Morningstar India.

Direct plans, which allow investors to bypass distributors, now form about 40 per cent of overall MF assets. Assets under management of the MF industry grew 22 per cent to ₹21.36 trillion at the end of March 2018, from ₹17.54 trillion over the year-ago period.

Equity assets grew even faster by 38 per cent to ₹7.49 trillion, with investors pumping in about ₹1.7 trillion in equity schemes.

Fund houses take in asset management fees anywhere between 100 and 150 bps for equity schemes, compared to 5-100 bps for debt schemes, show estimates. Equity assets are also stickier than debt assets.

HOUSING THE FUNDS



Source: Value Research

While the top 10 fund houses posted sizeable profits, most of the smaller ones continued to struggle. Nine of them posted losses and eight clocked profits in low single digits.

With investors moving to brands and schemes that have delivered consistent returns, the gap between the bigger and smaller funds is likely to widen, experts said.

Profit margins could come under pressure if equity inflows waver and regulatory changes come into play.

For instance, the total expense ratio (TER) could change in the next few months, limiting expenses charged by large schemes.

The regulator has capped the TER for fund houses with equity assets of up to ₹500 billion at 1.05 per cent, against 1.75 per cent earlier. TER for lower assets has also been slashed, slab-wise. That for closed end equity-oriented schemes is capped at 1.25 per cent.

MFs have benefited from a shift to financial assets from physical assets like real estate and gold. Investments through systematic investment plans have averaged ₹40-70 billion in the year or so.

"An equity investment culture is rising and taking a more formal form. Most new-age investors are professionals earning a livelihood in other industries; stock markets are simply a vehicle for their savings. Given the lack of expertise, resources and time, these investors are investing through insurance schemes and MFs," said a note by foreign brokerage Jefferies.