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Small cities becoming big players in the stock market

From Patna to Kozhikode, cities below the top 15 now contribute to over 60% of incremental folios being added, say experts

THE BIG SHIFT

SANDEEP SINGH
NEW DELHI, MAY 7

IN APRIL 2003, the mutual fund industry in India had Rs 89,238 crore of assets under management (AUM), of which only 11 per cent (Rs 10,000 crore) was in equity schemes. But over the next 14 years, until March 2017, the graph took a completely different trajectory — while AUM in the industry grew almost 20 times to Rs 17,54,619 crore, that of equities grew nearly 50 times to Rs 4,82,138 crore, almost 27 per cent of the total.

Reason: entry of retail investors in equity markets, not just from big cities but smaller towns as well. Earlier, equity movement was largely dependent on investment by high net-worth individuals and foreign portfolio investors but over the last 5-7 years, investors from small towns have joined the action.

In the financial year 2016-17, B-15 cities (all cities below the top 15), such as Patna, Indore and Kozhikode, accounted for 25 per cent of gross sales — around 53 per cent of that was in equity schemes. While gross sales for the year stood at Rs 2.68 lakh crore for the industry, that from B15 cities stood at Rs 66,885 crore.

While India added 1.07 crore new folios over the last three years, industry insiders say almost 60 per cent of the incremental folios are being contributed from cities outside the top 15, mostly by retail investors.

Sundeep Sikka, CEO, Reliance Mutual Fund, said the retail AUM from B15 cities stood at Rs 1.35 lakh crore one year ago but has jumped to over Rs 2.1 lakh crore now. "MFs were considered to be an investment avenue for rich urban investors. However, over the last 5-7 years, small retail investors have also been investing in equities and equity mutual funds," he said.

Describing this change as a "major development", market experts say this broadens the investor base of the stock market and provides a counter-balance to foreign portfolio investors whose outflows have led to volatility in the past.

While net inflows into equity mutual funds over the last three years amounted to a record Rs 1.95 lakh crore at an average annual inflow of Rs 65,000 crore, city-wise AUM data compiled by the Association of Mutual Funds in India (AMFI) confirms that the share from smaller towns has been on the rise.

Consider this:

■ T15 (top 15 cities, including the metros) accounted for 86.35 per cent of the industry's AUM of Rs 8.25 lakh crore in March 2014. Their share came down to 85.28 per cent in March 2017. In the same period, the share of other cities went up from 13.65 per cent to 14.72 per cent.

■ This share went up in a time period when the industry AUM jumped 2.1 times, which means that in absolute terms AUM from B15 cities rose from Rs 1,12,645 crore in March 2014 to Rs 2,58,279 crore.

■ AUM share of cities beyond the top 100 went up from 2.81 per cent in March 2014 to 3.61 in March 2017. In effect, their rise was from Rs 23,189 crore to Rs 63,341 crore in the three-year period.

Signboards advertise mutual fund schemes in Varanasi, Saturday. *Anand Singh*

GROWTH OF MUTUAL FUNDS IN SMALL CITIES

SHARE OF ASSETS UNDER MANAGEMENT

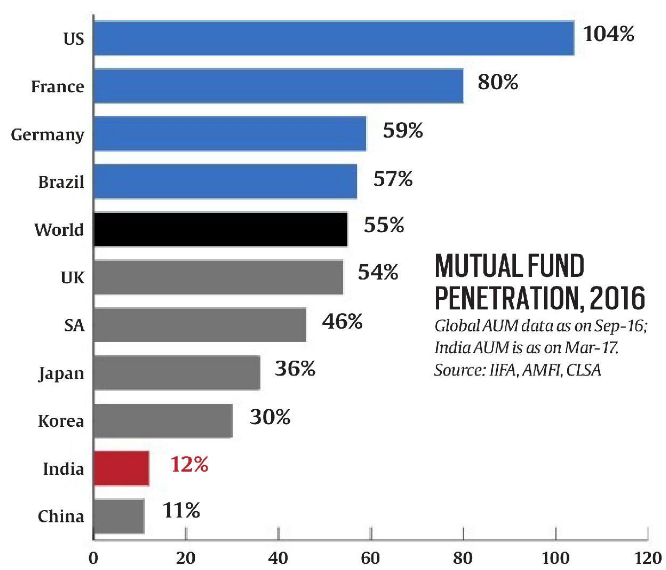
	March 2014	March 2017	March 2014	March 2017
Top 15 cities	86.35%	85.28%	₹712,595 cr	₹1,496,339 cr
Next 85 cities	10.84%	11.11%	₹89,456 cr	₹194,938 cr
Cities beyond top 100	2.8%	3.61%	₹23,189 cr	₹63,342 cr
Industry AUM (₹/cr)	825,240	1,754,619	825,240	1,754,619

Source: Association of Mutual Funds in India

DOMESTIC PARTICIPATION VS FOREIGN INVESTMENT

	Net inflow in equity MF	Net FPI* inflow
2016-17	59,006	55,702
2015-16	67,611	-14,171
2014-15	68,121	111,332
2013-14	-7,627	79,708
2012-13	-12,931	140,032
2011-12	6,148	43,737
2010-11	-13,405	110,121
2009-10	-1,170	110,220
2008-09	1,056	-47,706
2007-08	40,782	53,403
2006-07	22,552	25,235

All figures in Rs crore
*MF: Mutual Funds, FPI: Foreign Portfolio Investors
Source: CDSL and AMFI



MUTUAL FUND PENETRATION, 2016

Global AUM data as on Sep-16; India AUM is as on Mar-17. Source: IIFA, AMFI, CLSA

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>
> **SUNDEEP SIKKA,**
> CEO, RELIANCE MUTUAL FUND

Then again, experts say, while the number of folios from T15 cities is around 2.8 crore, that from B15 cities now stands at around 2.7 crore. "B15 cities now contribute to over 60 per cent of incremental folios being added," said an industry insider.

Data also shows that while the mutual fund industry saw a jump in AUM of 35.2 per cent during 2016-17, B-15 cities saw their assets rise faster, by 41 per cent.

It's a similar story when it comes to investment in equity schemes. According to AMFI data, 53 per cent of assets of B15 towns went in equity schemes in the year ended March 2017 whereas in case of T15 cities, the equity AUM comprised 29 per cent of their total AUM.

WHAT CHANGED

"We believe that a major enabler for the strong growth in B15 cities is the upfront commission structure. It is very important to promote a suitable and transparent investment product in B15 cities and the SEBI (Securities and Exchange Board of India) has ensured this focus," said Nimesh Shah, MD and CEO, ICICI Prudential AMC.

"Along with this, the regulator has made sure that mutual fund remains a highly transparent product with very progressive disclosure norms in place. This has helped improve the trust factor around the product. Also, investor education initiatives run by AMFI, AMCs (asset management companies) in conjugation with distributors have helped improve awareness levels about mutual funds as a financial product," he said.

The reach of fund houses has also played a role, say experts. Today, each of the top five mutual fund players have more than 100 branches in B15 cities. This increased focus is also a result of SEBI's decision in 2012 to allow fund houses to charge an additional 30 basis points (bps) in the total expense ratio if new inflows from B15 cities are at least 30 per cent of gross new inflows in the scheme or 15 per cent of the average assets under management, whichever is higher.

However, while mutual funds have penetrated into smaller towns, the industry is still way behind world leaders.

A report by the leading global investment group, CLSA, shows that in September 2016, India's AUM to GDP ratio stood at 12 per cent, much lower than the global average of 55 per cent. To put that in perspective, the numbers were 104 per cent for the US, 80 per cent for France and 59 per cent for Germany.