Total equity MF net inflows crosses Rs 21,000 crore in August

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In August, domestic equity-focused mutual funds received inflows of Rs 21875 crore, the highest ever in any month. These inflows are for pure equity schemes, equity linked saving schemes and equity exchange traded funds (ETFs). These figures show that India is in the midst of a domestic liquidity supercycle, with retail investors flocking to MFs in droves every month. This gush of liquidity has also been aided by lower returns in traditional avenues and the emergence of systematic investment plans (SIPs).

According to AMFI data collated by Value Research, pure equity funds garnered net inflows of Rs 19515 crore in August. ELSS products mopped up Rs 847 crore, while ETFs (non-gold) saw Rs 1513 crore worth net inflows coming in. ELSS are extremely popular due to their tax-saving sops. Retail investors are increasingly investing in MFs through SIPs, which helps them reduce market timing risk and carry out investments regularly. Currently, the MF industry receives about Rs 5000 crore per month through SIPs.

Just in terms of equity schemes, the net inflows in August 2017, at Rs 19515 crore, are over 50% higher than the next biggest month, i.e. January 2008, which witnessed Rs 12717 crore flowing in after the US global financial crisis deeply hurt Indian equities then.

Clearly, the dip in equity markets has not hit buoyant investor spirits. The broader stock benchmark Sensex fell by 2.4% in August. "The correction in equity markets in August 2017 failed to dampen the spirits of investors as equity mutual funds saw accelerated net inflows in the month. A strong SIP book and 'dip buying' by investors resulted in strong net inflows,' said Rahul Parikh, CEO, Bajaj Capital.

As much as Rs 72544 crore alone has been pumped in form of equity MF net inflows in the eight months starting January 2017. 'By the end of the month (Aug-17), equity mutual fund AUM stood at $111 billion, and as a percentage of market cap it rose to 5.3% - its highest level since July 2000,' said Morgan Stanley equity strategists Sheela Rathi and Ridham Desai.

The domestic flow surge in MFs is happening at a time when National Pension System (NPS) and Employee Provident Fund Organisation (EPFO) are putting in higher allocations to equities compared to historical trends. 'EPFO has raised its equity allocation to 15% in FY18 from 10% in FY17. As per our estimate, EPFO could likely invest Rs 250-300 billion in equities in FY18, of which Rs 57 billion has been invested this year thus far,' Rathi and Desai added.

The Indian MF industry has been witnessing phenomenal growth since 2014, with AUM doubling over the last 3 years. The last three years have witnessed large inflows into equity-focused funds. A rapid rise in the number of new investor accounts, as well as increasing share of assets from smaller cities, have also helped. Plus, the move of money into a more formal economy post-demonetisation has made mutual funds more attractive as an investment avenue.

Month	Inflow (Rs Cr)	Outflow	Net
August 2017	31079	11564	19515
January 2008	20253	7536	12717
July 2017	26761	14724	12037
June 2015	17391	5392	11999
July 2014	17162	6347	10815
May2006	15538	4976	10562
April 2015	14833	4427	10406
May 2017	22870	12662	10208
March 2006	15983	5857	10126
May 2015	13513	3663	9850

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