Robust NFO collections boost equity AUM and cash levels

Industry news

- **Mutual fund assets take a Rs17,776-crore dip in December 2006:** The Indian mutual fund industry saw a slight deceleration in its growth with the assets under management (AUM) falling by Rs17,776 crore to settle at Rs323,601 crore for December 2006. The sharp decline in the AUM was largely due to a dip in the AUM of liquid schemes as corporates and high net worth individuals pulled out money to meet their advance tax commitments. Further, the banks also withdrew money from liquid and other short-term schemes to meet the new CRR requirements, as mandated by the Reserve Bank of India (RBI).
- **Reliance overtakes Prudential ICICI in terms of AUM:** Reliance MF has toppled Prudential ICICI as the country's largest private sector mutual fund house in terms of assets under management, while UTI MF has retained its leading position across both the public and private mutual funds. Reliance MF's AUM rose to Rs36,927 crore in December, up Rs2,290 crore over the previous month. This was mainly due to the launch of Reliance Long-Term Equity Fund, which collected over Rs2,100 crore. Prudential ICICI MF is now at the number three position with its AUM at Rs33,304 crore.
- **UBS likely to acquire Standard Chartered AMC:** UBS is likely to acquire the Standard Chartered Asset Management business in India for Rs600-650 crore. Despite many bidders being in the race, it is learnt that UBS may win the deal despite being the second highest bidder because amongst other things, it is likely to retain the Stanchart mutual fund team and also offer them an ESOP scheme. The deal is close to being finalised and is expected to be announced in London in the third or fourth week of January.
- **Securities & Exchange Board (SEBI) hikes limit for mutual funds' overseas investments:** The SEBI has hiked the individual limits of mutual funds' investments in overseas equity instruments by $50 million to $150 million. The hike follows the recent RBI decision to hike the overall investments by mutual funds in American depository receipts (ADRs), global depository receipts (GDRs), overseas exchange traded funds and other foreign securities to $3 billion from $2 billion in November last year.
- **Mutual fund identification number (MIN) mandatory for mutual fund investments:** The SEBI has made the mutual fund identification number (MIN) mandatory for investors putting money into funds. This is part of the SEBI's broader plans to enhance the know your customer (KYC) norms in the mutual fund industry. The MIN will be provided free to investors and will be available at select branches and offices of mutual funds. To begin with, investors investing Rs50,000 or more will have to obtain the MIN effective from January 1, 2007.

Highlights

- The assets under management (AUM) for equity funds increased by 5.7% to Rs143,619 crore in December 2006. The rise in the equity AUM was substantially higher than the market movement of 0.7%.
- Fund managers made purchases worth Rs13,181 crore and turned net buyers to the tune of Rs1,627 crore during the month after two consecutive months of selling.
- Equity mutual funds registered a net inflow of Rs6,229 crore. The robust new fund offering (NFO) collections coupled with the relatively lower redemption volumes boosted the funds flow in December 2006.
- Mutual funds are sitting on Rs12,430 crore of cash, waiting to be deployed in the market. Of this, Rs6,710 crore of cash lies with the existing mutual funds, while the remaining Rs5,720 crore have been mobilised through NFOs.
- Amongst all sector funds, technology funds have generated the highest returns in December 2006. Auto, pharma and technology funds have outperformed the Sensex, whereas the funds in the banking and fast moving consumer goods (FMCG) sectors have underperfomed the Sensex.
- Mutual funds have slashed their exposure to banking, tobacco and electrical equipment companies, and have bought stocks in the steel, pharmaceutical and engineering sectors.

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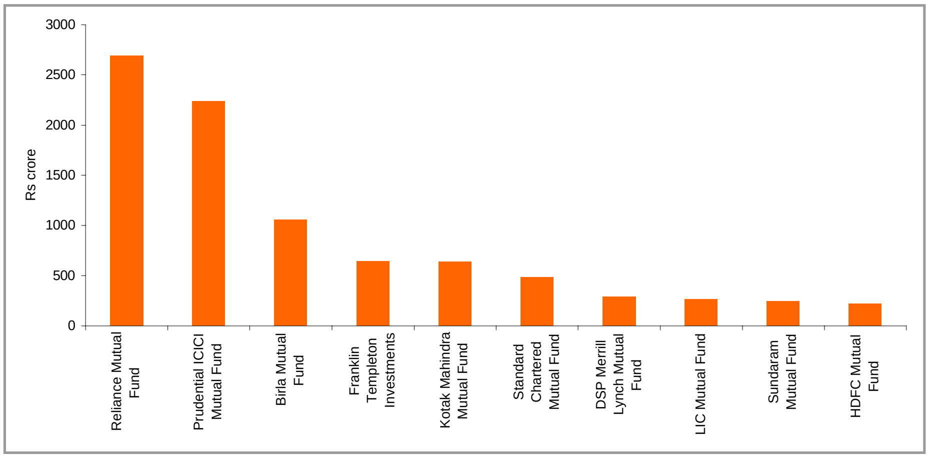
- **Major movers for December 2006**

The AUM of equity mutual funds increased by 5.7% from Rs135,851 crore in November 2006 to Rs143,619 crore in December 2006. The rise in the equity AUM was substantially higher than the market movement of just 0.7%. The AUM for the equity-diversified funds surged by 3.6%, whereas that of the tax planning and sector funds rose by 7.6% and 4.8% respectively. The index funds saw a marginal decline of 0.5% in their AUM.



Reliance Mutual Fund clocked the highest increase of 17.9%, amounting to Rs2,690 crore in its AUM, largely fuelled by the robust collections of the newly launched Reliance Long-Term Equity Fund. Prudential ICICI Mutual Fund and Birla Mutual Fund followed Reliance Mutual Fund and recorded increases of Rs2,243 crore and Rs1,060 crore respectively in their equity AUM. The top loser was Benchmark Mutual Fund, which saw its equity AUM declining by Rs1,009 crore, followed by UTI Mutual Fund and ABN Amro Mutual Fund.

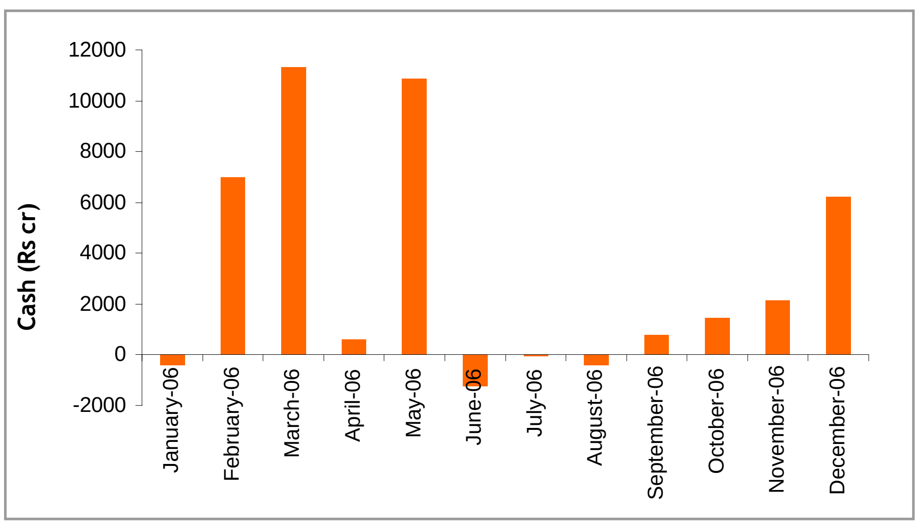
- **Stock market activities for mutual funds**

Mutual funds turned net sellers of equities in December 2006.

Month	Purchase (Rs cr)	Sales (Rs cr)	Net (Rs cr)
Dec-06	13181.43	11554.38	1627.05

Equity fund flow

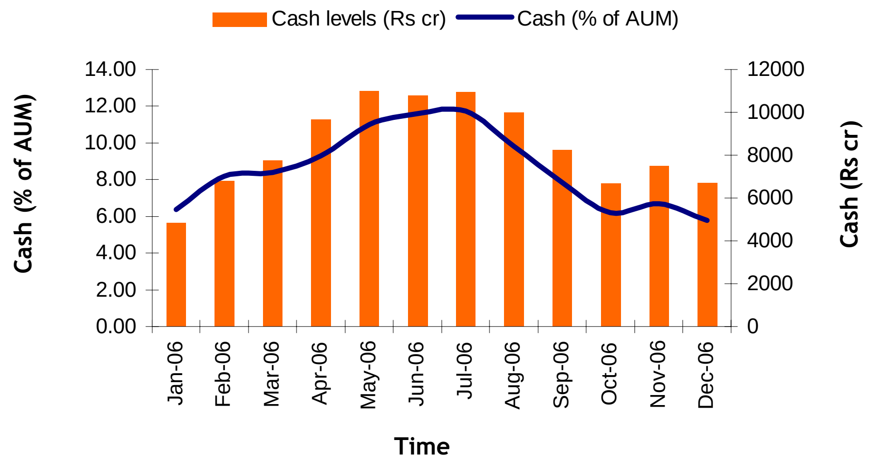
Fund flows into the equity mutual funds continued their upward trend, with the equity mutual funds registering a net inflow of Rs6,229 crore in December 2006. The rise in the fund flows in December as compared with November is mainly attributed to the higher amounts mobilised by the NFOs (Rs5,720 crore in December 2006 compared with only Rs1,671 crore in November 2006) and the relatively lower volume of redemptions. Even though the amount flowing into the existing schemes stood marginally lower at Rs6,812 crore, the higher NFO collections and the lower redemptions were high enough to result in an overall increase in the net funds flow into equity mutual funds. The NFO collections include the amounts raised by Escorts High Yield Equity Scheme, JM Financial Services Sector Fund, JM Telecom Sector Fund, Prudential ICICI Equity & Derivatives Fund, Standard Chartered Arbitrage Fund, Reliance Long-Term Equity Fund, LIC India Vision Fund, Kotak Dynamic Asset Allocation Scheme and Lotus India Taxplan. The same however do not include the collections made by SBI One India Fund, DSP Merrill Lynch Taxsaver Fund and HSBC Taxsaver Equity Fund. These funds were launched in December but did not close in the month, as the allotment of the units for these funds is not yet complete. The collections made by these funds (approximately Rs1,200 crore) will be reflected in the next month's fund flow figures.



Cash levels

Liquidity

The absolute cash levels for all equity funds launched before December 2006 declined from Rs7,487 crore in November 2006 to Rs6,710 crore in December 2006. The cash as a percentage of the total corpus also followed a similar trend, decreasing from 6.7% of the total corpus in November 2006 to 5.8% in December 2006. The decline in the cash levels indicates that mutual funds have been investing aggressively in order to participate in the market rally.

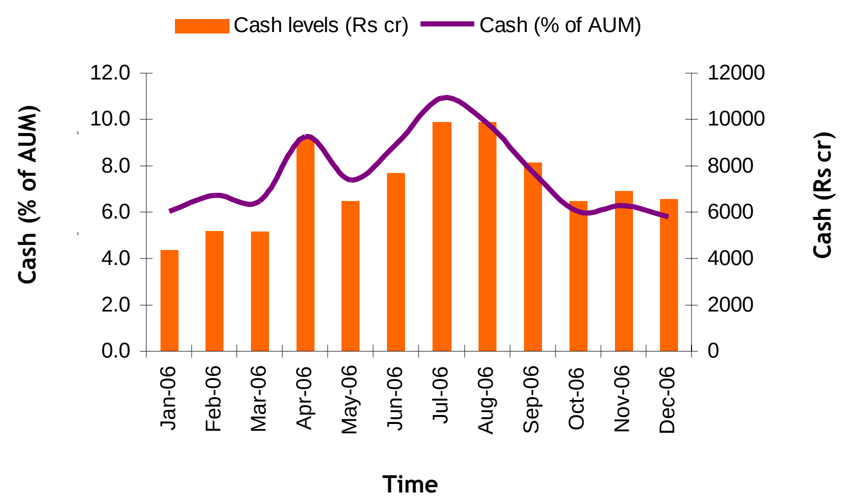


Note: Includes all equity funds in the industry launched before December 2006

The total cash sitting with mutual funds, including the cash mobilised through the recently launched NFOs, however, stands at a healthy Rs12,430 crore. Flush with cash, mutual funds are well placed to maintain the buying interest and propel the market forward.

Sentiments

Cash as a percentage of the total corpus (for all funds which are at least three months old) decreased from 6.3% in November 2006 to 5.8% in December 2006, indicating that mutual funds have been in a strong investment mode.



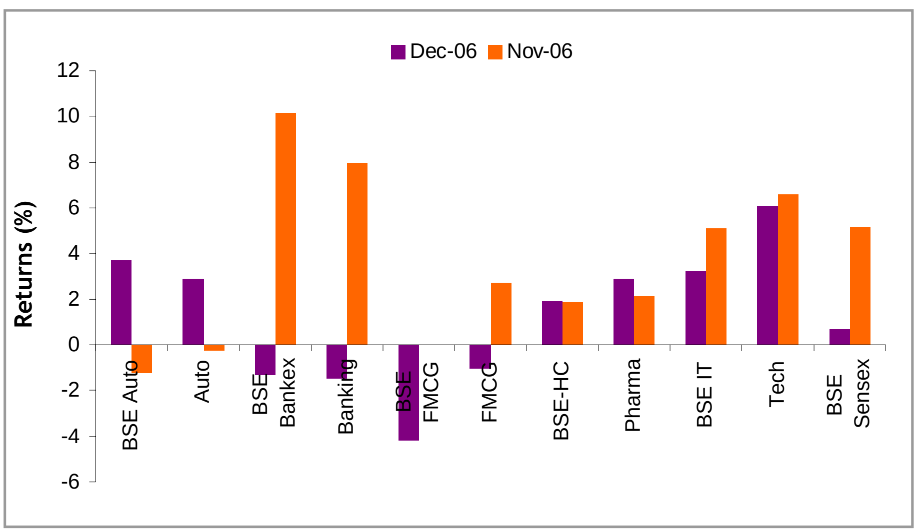
Note: Includes all equity funds in the industry with a NAV track record of three months+.

Sector allocation

Major shifts in the sector allocation for the equity-diversified category are as under:

Sector name	December 2006		November 2006	
	Amount (Rs cr)	% of net assets	Amount (Rs cr)	% of net assets
Increase in exposure				
Steel	3105.5	3.4	2043.5	2.4
Pharmaceuticals	4696.2	5.1	3929.7	4.5
Engineering & industrial machinery	3665.8	4.0	3088.7	3.6
Hotels & resorts	971.6	1.1	620.4	0.7
Power generation, transmission & equip	2297.3	2.5	1966.7	2.3
Electronics	1577.4	1.7	1335.2	1.5
Decrease in exposure				
Miscellaneous	3263.4	3.6	4079.1	4.7
Banks	6364.5	7.0	6417.5	7.4
Tobacco & pan masala	1835.4	2.0	2022.4	2.3
Electricals & electrical equipments	3073.3	3.4	3138.7	3.6
Entertainment	2026.9	2.2	2115.9	2.4
Chemicals	1228.1	1.3	1341.6	1.6

Performance of sector funds



With the Sensex gaining a meagre 0.7% in December, most fund categories except auto have generated lower returns in December 2006 as compared with the significantly higher returns clocked in November 2006. Auto, pharma and technology funds have outperformed the Sensex, whereas the funds in the banking and FMCG sectors have underperfomed the Sensex by wide margins. Additionally, the funds in the FMCG, pharmaceutical and technology sectors have outperformed their respective benchmark indices (the BSE FMCG index, the BSE Healthcare index and the BSE IT index) whereas the funds in the auto and banking sector have underperformed the BSE Auto index and the BSE Bankex respectively in December 2006. The technology funds gave the highest returns in December 2006, followed by the pharma and auto funds.

Disclaimer: mutual fund investments are subject to market risk. Please read the offer document carefully before investing. Past performance may or may not be sustained in the future.