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MFs see surge in new fund offers

Broader market recovery seen as catalyst as fund houses look to plug gaps in portfolios

JASH KRIPLANI
Mumbai, 21 February

The mutual fund (MF) industry has seen a strong pick-up in new fund offers (NFOs) in the current calendar year, with over a dozen new products being launched or filed by fund houses.

According to industry experts, the rising pile of NFOs could be attributed to the broader market recovery, and also to fund houses looking to fill up gaps in their product basket. While there have been three NFO launches in January, many more are in the pipeline.

"Since September last year, market breadth has been improving. Typically, during such periods, NFO collections tend to be higher as investor confidence improves with value of investments going up. In addition, fund houses find such periods more conducive to quickly deploy investor funds flowing into their schemes," said Vidya Bala, co-founder of research platform Primeinvestor.in.

Since September, the broader market indices — BSE MidCap and BSE SmallCap — have given returns of 17 per cent apiece, against 10 per cent returns posted by frontline indices such as the Sensex and Nifty.

After staying away from the small-cap space for long period, the country's oldest fund house — UTI AMC — has filed for a small-cap fund. IDFC AMC is another fund house that has launched a small-cap fund. Fund houses are also launching thematic funds to expand their product offerings.

Edelweiss MF has launched a US Technology Fund of Fund (FOF). BNP Paribas MF has also filed for a technology fund, which will be an FOF investing in BNP Paribas Funds Disruptive Technology.

Environmental, social and governance, or ESG, funds that invest on the basis of ESG standards of companies, have also seen some product launches.

Both Birla Sun Life MF and DSP MF have filed for an ESG Fund.

Meanwhile, Tata MF has launched a multi-asset fund, which will be the first MF scheme to have exposure to the commodities basket.

The foreign fund house HSBC AMC has filed for a focused equity product, which, as the name suggests, is mandated to make high-conviction bets with the number of stocks in the portfolio limited to 30 stocks. According to experts, however, investors should be cautious when investing in new fund offerings.

"We advise investors to look at NFOs only if the product is introducing a new concept or investment strategy. Otherwise, investors are better off sticking to existing schemes that have a longer track-record and have navigated various market cycles," said Amol Joshi, founder of Plan Rupee Investment Services.

"With an existing scheme, it is relatively easy to check whether the scheme has been true to its mandate, or whether it has moved away from it in the past," he added.

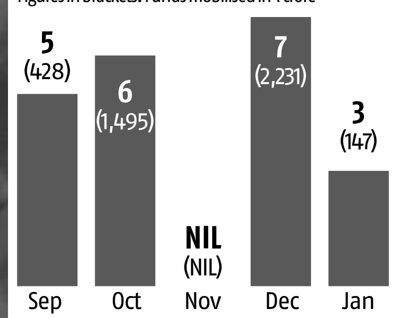
Further, fund houses have been launching a slew of passive funds to tap into the rising investor interest in such schemes. "Investors have become a bit more cost-conscious of late, and are showing interest in passive funds in which the expense ratios tend to be lower," Bala added.

Both Birla Sun Life MF as well as Nippon India MF have filed for a mid-cap index fund and a small-cap index fund, in recent times.

CASHING IN

Fund houses expect collections to improve with markets seeing broader recovery

■ No. of NFOs
Figures in brackets: Funds mobilised in ₹crore



Includes equity, index, and exchange-traded funds; Govt ETFs excluded
Source: Amfi

Virus fear grips Asian indices

AFP/PTI
Hong Kong, 21 February

A spike in new virus cases outside China spooked Asian indices on Friday, after Wall Street pulled back from record highs as more companies warned of earnings being hurt by the epidemic.

More than 2,200 people have died from the novel coronavirus, which has infected over 75,000 people — mostly in China — and spread panic around the world.

While Beijing claims its epidemic control efforts are working, the rising death toll and number of new infections abroad have rattled investors.

A batch of warnings from companies over the impact of the virus on bottom lines — including Danish ship operator Maersk and Air France-KLM — and weaker manufacturing data in Japan also fanned anxiety.

Initial hopes that the virus would have only a short-term impact on earnings and economic growth have given way to the reluctant realisation that it could linger.

"It took Apple to do what the coronavirus couldn't — make stocks feel a little queasy," said Stephen Innes of AxiCorp, referring to the tech giant's warning Monday that it would miss its quarterly revenue forecast because of the disease.

"The market seemed to absorb the initial Apple shock in its typically pleasant manner, but it's the aftershocks when corporate America starts waving the warning flags in tandem that could prove to be the biggest gut check."

Seoul's Kospi fell 1.5 per cent. The country confirmed 48 more virus cases on Friday afternoon, adding to the 52 it announced in the morning, taking its total to 204.

Japan's benchmark Nikkei 225 closed down 0.4 per cent as investors took to the sidelines ahead a long weekend.

Mainland China's key Shanghai Composite Index closed up 0.3 per cent, following central bank efforts to cushion the impact of the virus on the world's second-largest economy, where manufacturing activity has been hit hard.

Elsewhere, Sydney, Taipei and Singapore all shed 0.3 per cent. China reported Thursday a big drop in the number of new infections after it once again changed the method of counting patients with the virus.

It was the second revision of criteria in just eight days and the flip-flopping "did not help the mood" of investors, noted Rodrigo Catril of National Australia Bank.

The National Health Commission reported 889 new cases on Friday, up from the previous day.

After the losses on Wall Street and in Europe, Jeffrey Halley of OANDA likened the reaction on Asian markets to "more a case of the sniffles, rather than a full-blown cold".

But he said company warnings "could turn into a flood" if the virus crisis continues for the rest of the first quarter and extends into the next.

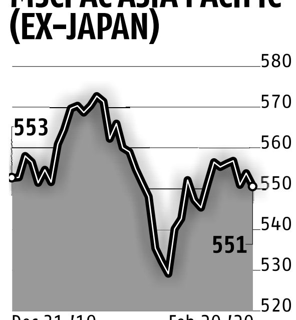
The MSCI world equity index, which tracks shares in 49 countries, fell 0.2 per cent, while MSCI's broadest index of Asia-Pacific shares outside Japan slipped 1 per cent.

China is the world's biggest importer and consumer of oil — and prices have been particularly sensitive to the epidemic affecting dozens of countries and territories.

Both main contracts were lower on demand fears, with Brent Crude off 1.6 per cent and West Texas Intermediate down 1.4 per cent.

With inputs from Reuters

MSCI AC ASIA PACIFIC (EX-JAPAN)



Source: Bloomberg

Domestic gold at all-time high

DILIP KUMAR JHA
Mumbai, 21 February

Gold prices jumped 2 per cent in the domestic markets to a new high, on Friday, following global cues. This led to domestic consumers staying away from fresh purchases, with even scheme- and exchange-related consumers deferring transactions to avoid high making charges.

Standard gold in Mumbai's Zaveri bazaar rose to ₹42,400 per 10gm in spot trade. While most retail shops in Zaveri bazaar were shut for Mahashivratri on Friday, the ones that were open did not witness any footfall.

"There is no business, perhaps because of the sudden spike in gold prices. Even monthly deposit scheme and exchange-related customers were absent," said Kumar Jain, director at Umedmal Tilokchand Zaveri, a bullion dealer and jewellery retailer in Zaveri bazaar.

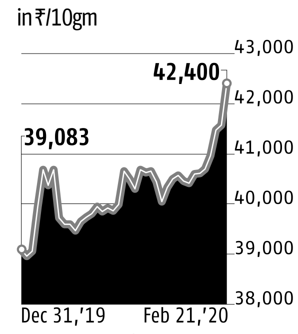
Gold prices in India have jumped 8.5 per cent in CY20 so far, and a staggering 26 per cent in the last one year following the rise in global indices. In the benchmark London spot market, gold was trading at $1,639 an oz — the highest in seven years — in early trade, on fears of falling dollar interest rates and monetary easing by China and Japan, which has raised gold's safe haven appeal.

US Global Investors' CEO Frank Holmes does not rule out prices to hit $1,900/oz in the medium term and hence recommends investors to buy more gold and silver.

"The falling interest rate cycle has always supported a rise in gold prices. While the minutes of the Federal Open Market Committee in the US are yet to be out, concerns remain on the interest rate cut in CY20. In such circumstances, investors remain bullish on gold," said Ajay Kedia, MD of Kedia Commodity.

STANDARD GOLD

in ₹/10gm



Source: IBJA, Trade

THE COMPASS

Muthoot Finance: All that glitters is gold

Strong growth prospects support valuation of 2.1x its FY21 book

HAMSINI KARTHIK

A rally of more than 75 per cent over the past year has put Muthoot Finance — a gold financier headquartered in Kerala — in the league of top-rated financial services firms such as Bank of Baroda, Bandhan Bank, and HDFC AMC in terms of market value.

The icing on the cake is that it has displaced names such as AU Small Finance Bank, Punjab National Bank (PNB), and Shriram Transport on the bourses.

Factors like strong underlying growth led by the gold rally, the firm's ability to tap capital at reasonable rates, and diversification efforts have all contributed to this surge.

For instance, the 19 per cent year-on-year (YoY) growth in its gold loan book in the December quarter (Q3) seems to have made up for the previous quarter's dip (9 per cent), thus lifting the stock by 23 per cent in a week. In Q3, the firm held 173 tonnes of gold, up 4.2 per cent YoY.

Year-to-date, financial gold assets under management (AUM) have risen 12 per cent, against 10 per cent in FY19, indicating FY20 may close stronger than anticipated.

In addition, its near-leadership position in the gold loan business gives it the edge over its peers.

While gross non-performing assets (NPA) fell to 2.54 per cent in Q3 from 3.43 per cent in Q2, analysts at IDBI Capital note that NPA isn't really a pain point in the gold loan business.

That Muthoot Finance could bring down its cost of funds by 32 basis points sequentially to 8.98 per cent in Q3, also helped its financials.

However, given that it has always worked with cost of funds at 9.0-9.2 per cent, the decline in Q3 could just be a one-off.

Another factor working in its favour is the ability to diversify into new avenues. Besides picking a stake in Belstar Investments and Finance (a microfinance business) in 2016, Muthoot has since branched out to affordable housing, vehicle financing, insurance broking, and asset management.

The diversification move has helped it partially offset its dependence on gold loans, the share of which stood at 88 per cent, with other businesses contributing 12 per cent to consolidated revenues.

A reasonably insulated business, coupled with decent asset quality, puts Muthoot Finance in the shopping cart of 12 out of 13 analysts polled on *Bloomberg*.

Valuations at 2.1x its FY21 book also appear reasonable, in the context of strong growth prospects.

LEAGUE TABLE

List of financial services players, excluding holding companies, with market value of less than ₹1 trillion

	(₹crore)
IndusInd Bank	81,947
HDFC AMC	71,970
Bandhan Bank	66,949
Bank of Baroda	38,027
MUTHOOT FINANCE	**36,620**
IDBI Bank	35,865
AU Small Finance	35,641
Punjab National Bank	35,608
Power Fin Corp	34,915
Shriram Transport	30,448

Source: Capitaline
Compiled by *BS* Reseach Bureau

E*Trade deal: Morgan Stanley fuels banking takeover buzz

JENNY SURANE, LANANH NGUYEN & NABILA AHMED
New York, 21 February

The chief executive (CEO) officer of Morgan Stanley, James Gorman, had just ended a decade-long drought of major takeovers by top US banks with his surprise deal to buy E*Trade Financial Corp for $13 billion. Across the industry, speculation was erupting that conditions had finally lined up for a wave of similarly hefty acquisitions.

Morgan Stanley's announcement is being interpreted by analysts, investors, and investment bankers as just the start of a long-predicted series of deals big enough to reshape the upper echelons of the US financial industry. Many of the largest banks are wielding highly valued stocks at a time that Silicon Valley innovators are looking to wrest away business. Mergers and acquisitions (M&A) are one way for banks to both scale up and adapt.

"The financial performance of the industry allows acquirers to transact from a position of strength," said Anu Aiyengar, co-head of global M&A at JPMorgan Chase & Co. "More broadly, digital disruption is making it more important to optimise cost and efficiency."

Some observers also point to the prospect that regulation may stiffen after US elections in November if a Democrat wins the presidency. The field of candidates seeking to challenge Donald Trump includes several who have vowed to rein in — or even break up — 'too big to fail' banks.

'Big chance'

Gorman had eyed the online retail brokerage for almost 20 years before everything lined up. For Morgan Stanley, the all-stock deal lands E*Trade's direct-to-consumer digital capabilities as well as $360 billion of client assets. Gorman reassured analysts that his firm is already conferring with regulators — such as the Federal Reserve, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corp. — to win approval for the deal.

"YOU'VE GOT TO BE IN THE CONDITION TO DO IT, YOUR STOCK HAS TO REFLECT THE VALUE OF THE COMPANY, YOU HAVE TO HAVE MOMENTUM THAT INVESTORS WANT TO SEE"

JAMES GORMAN
CEO of Morgan Stanley

"We wouldn't be entering into this if we didn't think, from a regulatory perspective, this would be viewed favourably," Gorman said. "That's not something we would put to big chance."

While Gorman said he still sees E*Trade as a so-called bolt-on acquisition, the price is significantly larger than the takeovers the largest banks have emphasized in recent years to augment business lines. It may open the way for rivals to seek larger targets too.

Other industries

Matchmakers have proposed a wide variety of large takeovers by big US banks over the past decade only to be disappointed. Some suggested, for example, that credit-card lender Discover Financial Services could make a juicy target for a variety of large consumer banks.

It's not just banks seeking to grow through M&A. The two biggest US life insurers, MetLife Inc. and Prudential Financial Inc., are both open to acquisitions even as they seek to divest in slower-growth areas.

Leaders of payments companies also have said they're looking to participate in the industry's consolidation. Mastercard Inc's CEO Ajay Banga compared his business development team to 'gnomes in Santa's shop' that bring him as many as 60 deals in a year to consider. FleetCor Technologies Inc., a fuel card provider, has said it has a list of 'big elephants' it hopes to bag.

Wealth managers and robo-advisers are also appealing targets because of their relatively stable revenue, which can offset volatility from trading businesses. Goldman Sachs bought United Capital for $750 million last year, while Morgan Stanley beefed up its wealth division by buying stock-plan administrator Solium Capital Inc. for $900 million.

Buyers aren't the only ones under pressure. Charles Schwab Corp's acquisition of TD Ameritrade Holding Corp. in November reshaped the brokerage industry and encouraged E*Trade to consider a sale. Goldman Sachs Group was among firms that also took at least a cursory look at E*Trade before giving it a pass, according to people with knowledge of the matter. "Frankly, if I'm on the E*Trade board, I'm certainly feeling a sense of urgency to find a buyer," Thomas Bradley, the former president of TD Ameritrade, said at the time.

Still, Gorman cautioned that it's unlikely that the biggest banks will try to pull off transformational deals. They will instead stick to targets that add capabilities or round out businesses. And not every firm, he noted, has the means to shop. "You've got to be in the condition to do it, your stock has to reflect the value of the company, you have to have momentum that investors want to see," Gorman said in an interview.

BLOOMBERG

▶ FROM PAGE 1

Buyer cartels may be covered under...

However, the amendment does not take into consideration the concept of "relevant turnover" as decided by the Supreme Court in the Excel Crop Care matter in 2017.

As such, penalties may still continue to be an issue of discretion and debate, Goel said. The draft amendments also call for introducing a "commitment and settlement" clause in the Competition Act. The enabling clause will allow those found in contravention of the competition law to "commit" to correct their ways to avoid action even before investigation is completed. Even in cases where investigation is over, evidence has been found, and the adjudicating process has started, the companies can still enter a settlement. The companies will have to pay a certain amount as fine and avoid legal proceedings after ensuring that any anti-competitive practice will be corrected.The proposed amendments also seek to provide clarity to "hub and spoke cartels". The MCA suggested hubs also be covered under Section 3(3), which deals with cartels that hinder competition.

A hub-and-spoke cartel is basically an arrangement between companies where a dominant player, called hub, is wooed by other firms, called spoke, to destroy competition by, say, increasing or lowering prices.

Goel said hub-and-spoke agreements were not specifically covered under the Competition Act.

The CCI has imposed penalties by independently invoking Section 3(1) of the Competition Act.

"However, the CCI's powers to invoke Section 3(1) independently are pending adjudication before the Supreme Court," he said.

The proposed amendments also seek to expand the composition of the CCI by including part-time members in the Commission. The Commission is currently a four-member body, including the chairman.

Deal or no deal: Trump flip-flops...

He said the "Namaste Trump" rally in Ahmedabad would spoil him.

"Prime Minister Modi said, we will have 10 million people greet you. Here's my problem. We have a packed house. We have a lot of people, thousands of people that couldn't get in. It's going to look like peanuts from now on," he said. "I'll never be satisfied with the crowd. If we have 10 million people in India, how can I be satisfied when we fill up like a 60,000-seat stadium? I am getting spoiled," Trump said.

He is scheduled to travel to Ahmedabad, Agra, and New Delhi on February 24-25.

Senior Indian officials say India is now hoping to sign a smaller pact focusing on agriculture goods.

"The US wants a big deal which can match the one signed with China earlier this year to slowly wind down the trade war. But the sudden cancellation of US Trade Representative Robert Lighthizer's visit to New Delhi as part of the vanguard negotiations team has almost shut down the talks," an official said.

Lighthizer, considered Trump's point man on trade, was responsible for shutting down the vast majority of India's export promotion schemes last year after a sustained fight at the World Trade Organization.

With inputs from PTI