BS - The Smart Investor - Delhi | Fri, 11 May-12 | Pg# :2 | Size : 261 sq.cm.

Retail investors go for debt over equity funds

Move is driven by market trend over past year, as debt funds offered 9-10% interest and equities tumbled

CHANDAN KISHORE KANT
Mumbai, 10 May

The financial year ending March 2012 saw a visible trend of investors' affinity for debt funds at a time when the equity markets remained weak and volatile.

Higher interest rates leading to risk-free guaranteed returns of as high as nine to 10 per cent attracted retail investors to other investment options offered by the fund industry. In 2011-12, pure retail folios in the debt category increased by half a million to 4.5 million as on March, compared with 3.9 million during the corresponding month last year. Even gilt funds, which primarily invest in government securities, saw a risee in investors from 23,310 to 26,222 during the period.

Last year, Subir Gokarn, the Reserve Bank's deputy governor, had stressed there was a need for mutual funds, especially gilt funds, to promote retail holding in government securities.

Ajit Menon, executive vice-president at DSP BlackRock Mutual Fund, says, "The increasing participation of retail investors in debt funds is mainly on account of the poor equity market scenario and higher interest rates. Investors have allocated more money during the year in fixed maturity plans, short-term debt funds and monthly income plans (MIP). Distributors have also shown focus on debt funds."

DEBT FUNDS GAIN OVER EQUITIES

Category	Asset under management*		Number of folios	
	March,'11	March,'12	March,'11	March,'12
Gilt funds	150.23	202.32	23,310	26,222
Debt funds	17,836.04	22,005.26	39,29,431	45,01,302
Gold ETFs	1,220.68	2,604.70	2,86,415	4,59,996
Equity funds	1,32,318.51	1,23,548.54	3,86,44,938	3,70,68,734

* ₹ crore

Source : Association of Mutual Funds in India (Amfi)

According to fund tracker Value Research, of the top 10 fund categories which gave good returns over the past year (ending May 9, six are either in the debt or gilt category. For instance, short-term debt funds, ultra short-term debt funds and debt income funds gave a return between 9.2 and 9.6 per cent. Similarly, gilt funds in the medium & long-term and short-term categories offered returns of 7.25 to 7.82 per cent. In contrast, all equity category funds gave negative returns during the period, from minus 1.55 per cent to as low as minus 22.45 per cent.

Statistics from the Association of Mutual Funds in India show the assets under management (AUM) in debt funds grew to ₹22,005 crore during 2011-12 against 17,836 crore the year before, a rise of 23 per cent. In the gilt category, though it's a marginal amount in terms of absolute value, the growth was 35 per cent, pushing AUM to ₹202 crore against ₹150 crore.

"It's a healthy trend," notes Vikaas M Sachdeva, chief executive officer of Edelweiss MF. "Investors got into debt funds because they do not want erosion of capital. In a bad markets scenario, getting a risk-free-return of six to seven per cent makes sense. And, it is not that investors who moved out from equities are the only ones investing in debt funds. New investors are also getting into debt funds."

Menon says this trend is likely to continue this year and MIP would be the best option for investment in debt funds, as it can provide decent returns. Adding: "That does not mean one should ignore equities. There is no reason to go zero on equities, as markets may see a change in trend." According to Sachdev, "Investors shouldn't time the markets. Whether one should opt for debt or equity schemes, it all depends on the investment objectives."