INTERVIEW: VIKAAS M SACHDEVA

CEO, EDELWEISS MF

Acquiring debt fund customers cheaper

In an interview with FE*'s* ***Chirag Madia*** *and* ***Muthukumar K,*** Vikaas M Sachdeva, CEO of Edelweiss Mutual Fund *says increased retail inflows into fixed maturity plans are a good trend since these investors could potentially switch to equity fund investors, when equity market start looking up. He said customer acquisition costs are less when he comes through debt funds. Excerpts:*

We are witnessing continuous inflows into equity markets via SIPs. Can you explain the trend?

Fund houses are promoting SIPs as it increases the scope of long term annuity-based investments in the industry. Also, post 2008, it has been difficult to hold on to lump sum investments for too long due to the inherent volatility of the markets.

If we look at active SIPs numbers 4 years back, it was small. But currently it is over 60 lakh active SIP accounts and this is a phenomenal achievement for the mutual fund industry. While all fund houses have contributed to this growth, much of the credit for the same goes to larger fund houses, which have left no stone unturned to promote SIPs.

How much time does it take to break-even on acquiring a retail account?

Over the last four years, lot of money has shifted from equity to debt at the retail level. Incremental AUMs has gone more towards debt products like fixed maturity plans (FMPs) and bonds funds, which are conventionally low margin products.

We looked at a similar trend way back in 2000, when the internet bubble burst had led to investors flocking to debt products, which gave double digit returns on an annual basis. Investors then made money from such investments thanks to the debt rally, which took place during those times. Over a period of time, these investments moved back into equities, when equity markets started rallying from 2003.

Interestingly, it has been seen in the past that break-even threshold for acquiring a retail customer is much lower when he or she comes in during the bearish phase (for equities) as he comes in through debt funds which typically have lesser distribution costs.

However, if an investor comes during the bullish phase into equity. funds then there are chances that he might move out of the fund on a equity downturn, which on an overall basis increase the cost of acquisition for the mutual fund.

Higher SIP inflows is yet to translate into profitability for most smaller fund houses.

Acquiring retail investors always draws out lot of money, as there are efforts to communicate, build a brand and so on. Institutional business is essentially low-margin-high volume while retail is high margin low volume. The fact is that for profitability, both the set of customers are needed and that too in proper proportion.

As a fund house, you are focusing more on the quant funds. Any reason?

We have now branded ourselves as a quant fund house. In fact, our MIP is also a quant MIP on the equity part. We have two kinds of funds—long-only funds and an absolute return fund. As the latter is a fairly new concept, we are targeting private banks, top 100 distributors in each territory and engaging them in a dialogue. We are targeting high net worth individuals and middle net worth individual to invest in our funds. In the last 9 months, when Nifty was down by over 20 %, our absolute return fund was down only by less than 2%.

Retail money for us comes into our long only funds. As a strategy we are not looking at large assets but atleast 500 new converts, who will eventually sell our fund.