THE INVESTigator

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WHY INVESTORS SHOULD CONTINUE THEIR SIP'S NOW?

During 3 year period from 2010 to 2013, SIP returns were not good.
Check the table given below:

SIP Start Date
01-08-2010

SIP End Date
01-07-2013

SIP Amount
Rs. 1000/-

FUND	NO. OF INSTALMTS	COST VALUE	VALUE ON 20.07.2013
Large Cap Funds			Rs
SBI BLUECHIP FUND - G	36	36000	41194
ICICI PRU BLUECHIP FUND - G	36	36000	40505
Mid Cap Funds			
FRANKLIN INDIA PRIMA FUND - G	36	36000	41611
HDFC MIDCAP OPPN FUND - G	36	36000	39080
L&T MIDCAP FUND - G	36	36000	36365
Multicap Funds			
ABSL EQUITY FUND - G	36	36000	37424
RELIANCE MULTICAP FUND - G	36	36000	38404
HDFC EQUITY FUND - G	36	36000	36114
Small Cap			
DSP SMALL CAP FUND - G	36	36000	35704

Investors who continued their SIP, reaped a jackpot of returns at the end of 4th year. Check the table given below:

SIP Start Date
01-08-2010

SIP End Date
01-07-2014

SIP Amount
Rs. 1000/-

FUND	NO. OF INSTALMTS	COST VALUE	VALUE ON 20.07.2014
Large Cap Funds			Rs
SBI BLUECHIP FUND - G	48	48000	72038
ICICI PRU BLUECHIP FUND - G	48	48000	70445
Mid Cap Funds			
FRANKLIN INDIA PRIMA FUND - G	48	48000	81789
HDFC MIDCAP OPPN FUND - G	48	48000	81691
L&T MIDCAP FUND - G	48	48000	79673
Multicap Funds			
ABSL EQUITY FUND - G	48	48000	77027
RELIANCE MULTICAP FUND - G	48	48000	75317
HDFC EQUITY FUND - G	48	48000	72933
Small Cap			
DSP SMALL CAP FUND - G	48	48000	83936

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REPORT ON GROWTH OF MF INDUSTRY

[Published in August 2019 by Boston Consultancy Group and Association of Mutual Funds in India]

- From 1963 to 1987, India's asset management industry consisted of just one player, UTI and just one scheme US'64. The entry of public sector entities in 1987 saw the AUM grow to 10 fold from Rs 4600 Cr in Mar 1987 to Rs 47000 Cr in Mar 1993.
- The decade from 1993 to 2003 marked the entry of private & foreign players and also mutual fund regulations were launched during this period. This set the foundation for long term growth and the industry AUM crossed Rs 1 lakh Cr [Rs 1 trillion] in 2003.
- The industry amassed additional Rs 23 trillion during 2003 – 2019, registering a compounded growth of 24% pa. As of March 2019, the industry has 44 asset management companies and the AUM crossed Rs 24 trillion.
- India now ranks 17 in the global asset management industry based on assets under management (AUM) and has surpassed China in its penetration as percentage of GDP.

Financialization of Household Savings

The share of financial savings in overall gross household savings had fallen from 52% in FY'08 to 36% in FY'12, driven by the global financial crisis and muted market returns. The share of financial savings saw a sharp rise over the last six years and reached nearly 60% levels in FY'18. Mutual Funds played a key role in this recovery of financial savings, clocking a 31% CAGR between FY'14 and FY'18.

Retail Participation

Mutual funds have also played a important role in bringing smaller investors in to the fold with the expansion of SIP's and the Mutual Fund Sahi Hai campaign. Systematic Investment Plan [SIP] have proven to be a strong success among retail investors. The average ticket size of SIP's stood at Rs 3070 and the total number of SIP accounts at Rs 2.7 Crores.

Share of Top 10 AMC's

In India the top 10 AMC's account for 83% of the industry AUM which is in line with other major markets. The figure is 90% in markets such as Brazil and Switzerland, followed by Italy, Japan and Sweden where the top 10 players account for 80-85% market share. The US, South Korea, France and Germany, reflect a slightly lower percentage of 60-65% while UK & China have less than 50% concentration of the top 10 MF's in the country.

Individual and Institutional Mix

The growth in the AUM of individual investors has outpaced that of corporates and other institutional investors. Individual investors' AUM posted a 28% CAGR between FY'14 and FY'19. Individual investors now account for a majority of industry assets with 58% of the total AUM [Rs 13.8 trillion out of Rs 24 trillion] in FY'19 as against 48% of total AUM in FY'14.

Share of Equity Funds

The last five years saw a significant surge in equity oriented funds, with the share of equity growing from 27% of the overall AUM in FY'13 to 45% in FY'19.

The share of equity - oriented funds in India lies somewhere in the middle range when compared with other economies in the world. Equity accounts for 54% of the total AUM in the US and 45% in the UK. In France and Germany, equity accounts for 25% and 21% respectively of the total AUM. The equity AUM in China and Brazil is much lower at less than 10%.

What is yield and how does it differ from coupon rate?

The term yield is used to describe the return on your investment as a percentage of your original investment.

Yield in the case of stocks

Yield is the ratio of annual dividends divided by the share price. If a stock can be expected to pay out Rs 1 as dividend over the next year and is currently trading at Rs 50, its dividend yield is 2%. Or, if the stock price drops to Rs 25, its dividend yield rises to 4%.

The yield can be calculated based on dividends paid over the past year or dividend expectations for the next.

Yield in the case of bonds

In the case of a bond, the yield refers to the annual return on an investment. The yield on a bond is based on both the purchase price of the bond and the interest promised – also known as the coupon payment.

Although a bond's coupon rate is usually fixed, its price fluctuates continuously in response to changes in interest rates in the economy, demand for the instrument, time to maturity, and credit quality of that particular bond.

As a result, after bonds are issued, they trade at premiums or discounts to their face values until they mature and return to full face value.

Let's say a bond's face value is Rs 1,000 on which an investor can earn 5%. This means that the coupon is 5% and an investor who buys the bond and holds it till maturity will get Rs 50 every year over the tenure of the bond.

Now the price of the bond drops in the market to Rs 980. That means the current yield is Rs 50 divided by Rs 980 = 5.10%.

Later, the price of the bond rises to Rs 1,030. That means the current yield is Rs 50 divided by Rs 1,030 = 4.85%.

As the price of the bond fell, its yield increased.

Because yield is a function of price, changes in price result in bond yields moving in the opposite direction. There are two ways of looking at bond yields - current yield and yield to maturity.

Current Yield

This is is the annual return earned on the price paid for a bond. It is calculated by dividing the bond's coupon rate by its purchase price.

For example, let's say a bond has a coupon rate of 6% on a face value of Rs 1,000. The interest earned would be Rs 60 in a year. That would produce a current yield of 6% (Rs 60/Rs 1,000).

When a bond is purchased at face value, the current yield is the same as the coupon rate. But let's say the bond was purchased at a discount to face value – Rs 900. The current yield would be 6.6% (Rs 60/ Rs 900).

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Yield to Maturity

This reflects the total return an investor receives by holding the bond until it matures. A bond's yield to maturity, or YTM, reflects all of the interest payments from the time of purchase until maturity, including interest earned on interest.

The formula for calculating YTM is as follows.

$$\text{Yield to Maturity} = \frac{\text{Annual Interest} + \dfrac{\text{Par Value} - \text{Market Price}}{\text{Number of Years to Maturity}}}{\dfrac{\text{Par Value} + \text{Market Price}}{2}}$$

Let's work it out with an example: Par value (face value) = Rs 1,000 / Current market price = Rs 920 / Coupon rate = 10%, which means an annual coupon of Rs 100 / Time to maturity = 10 years.

Taking the above example and using the formula, the YTM would be calculated as follows:

YTM = Rs 100 + [(Rs 1,000-Rs 920)/10] / (Rs 1,000+Rs 920)/2

After solving the above equation, the YTM would be 11.25%.

- Courtesy www.morningstar.in

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