

India

Overweight *(no change)*

Financial Services - AMCs

Healthy inflow despite volatile markets

- Mutual funds' AUM in Jan 2025 declined by ~2% mom to Rs68tr amid high MTM losses as equity fund net inflow remained in line with the quarterly avg.
- Equity funds saw strong inflow in large-cap, small-cap and multi-cap funds while thematic/sectoral funds witnessed some cooldown of inflow.
- We expect the near-term volatility to continue, mainly led by global events. However, we remain optimistic in the long run amid rising market penetration.

Equity AUM performs better despite market in a consolidation phase

As per the data released by AMFI (Association of Mutual Funds of India), the overall average assets under management or AUM of mutual funds in Jan 2025 declined by ~2% mom to Rs68tr due to high mark-to-market or MTM losses as equity fund inflow saw some cooling down but remained in line with the quarterly average, while debt fund inflow remained volatile. The net inflow in equity funds stood at Rs397bn, down 4% mom, while debt funds witnessed a net inflow of Rs1.28tr led by higher movement in short-term funds. We expect the near-term volatility to continue, but we remain optimistic over the mid- to long-term horizon amid improving geographic penetration as well as the rising popularity of mutual fund schemes, mainly among the young and mid-income investors.

Large & small-cap funds turn attractive, thematic/sectoral cool down

Net inflow into large-cap funds stood at Rs30.6bn, the second-highest inflow ever, which continued showing good momentum in the past few months, indicating rising investor preference towards large-cap funds. Net inflow in small-cap and multi-cap funds witnessed healthy growth, with mom inflow up by ~23% and ~16%, respectively, whereas thematic/sectoral funds witnessed a drop of ~41% due to new fund offer or NFO inflow cooling off. Thematic/sectoral funds saw three NFOs which garnered ~Rs28bn vs. 12 NFOs garnering ~Rs113bn in Dec 2024. Other schemes like large-cap & mid-cap schemes rose by ~8% mom, and mid-cap schemes grew by ~1% mom. The large-cap, mid-cap, large & mid-cap, and small-cap schemes accounted for ~45% of equity fund inflow against ~38% in the previous month.

MF: The deep-rooted investment plan is here to stay

We believe with the rise in disposable income, asset management companies or AMCs may remain major beneficiaries as the savings, by way of lower income-tax rates, might get channelized to systematic investment plans or SIPs of AMCs. The market has remained sceptical about the sustainability of inflow into AMCs in recent times, which is also visible in some AMCs' earnings. However, recent changes to the tax slab can, in our view, will ease these concerns over the short- to medium-term.

SIP inflow holds firm, despite market consolidation, at ~Rs264bn

The SIP inflow remained strong at Rs264bn in Jan 2025, up by ~40% yoy and flattish mom. We believe the flattish movement is warranted after a ~4.5% spike in the previous month's SIP inflow, as new SIP registrations lagged inflow for the month due to operational reasons. SIP AUM declined by ~3% mom to Rs13.2tr.

Outlook & valuation

We expect the inflow momentum to remain healthy in the medium term led by higher participation from the retail segment, with incrementally higher inflow from B-30 cities. We like NAM India (ADD, TP Rs900) for its consistent performance-led market share gains and ABSL AMC (ADD, TP Rs850) for its turnaround story. The undercurrent of likely acquisition of UTI AMC (ADD, TP of Rs1,350) makes its stock attractive. We have a HOLD rating on HDFC AMC with a target price of Rs4,200 due to the unfavourable risk-reward ratio.

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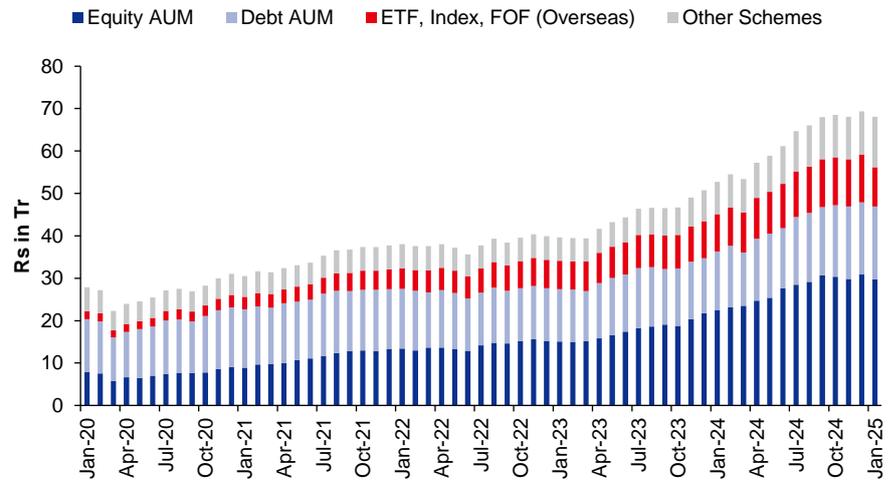
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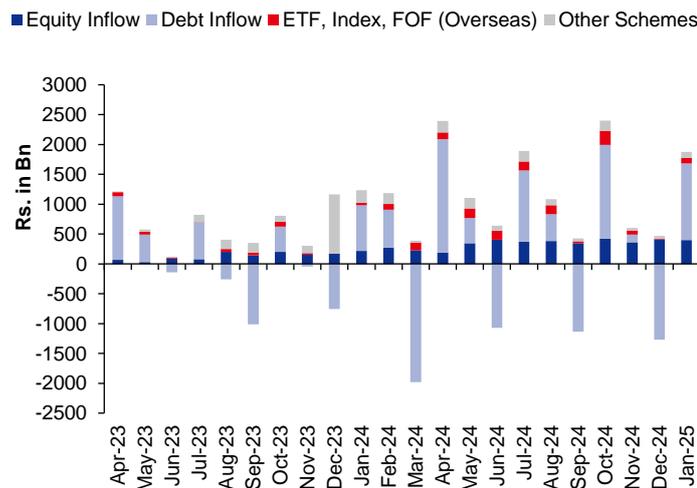
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Figure 1: MTM losses in equity AUM stagnates overall AUM level



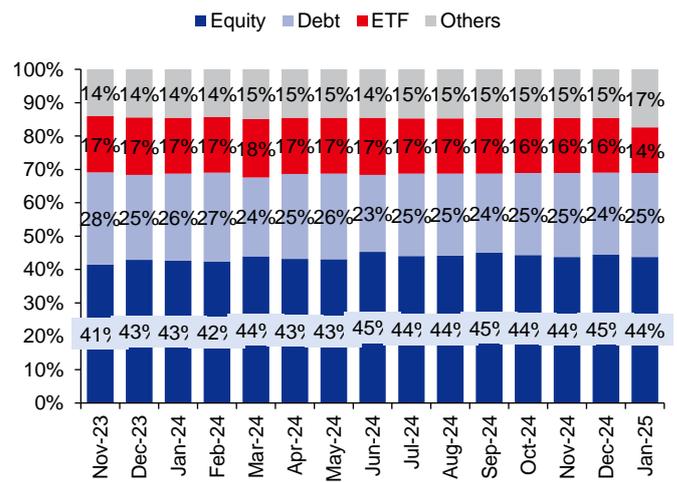
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Equity fund inflow healthy while debt fund inflow turns positive



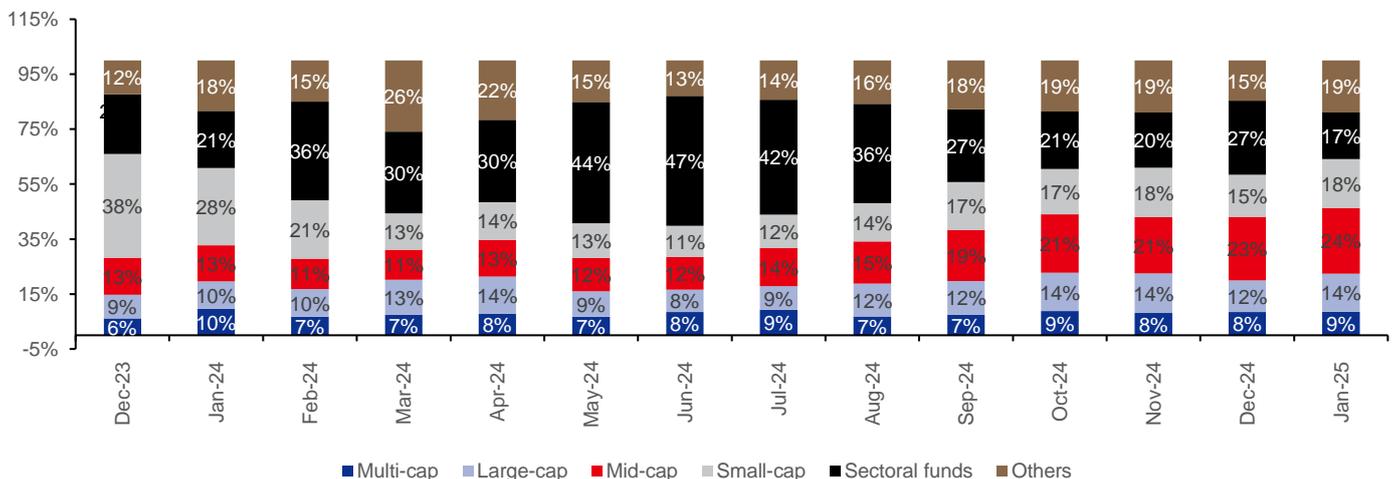
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Equity AUM inches down in the average AUM mix



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Net inflow: Large-cap, small-cap and flexi-cap fund inflow gains momentum while thematic/sectoral fund inflow cools down



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.