India

Overweight *(no change)*

Financial Services - AMCs

Volatility puts investment discipline to test

- Mutual funds' AUM in Feb 2025 declined by ~1% mom to Rs68tr amid softer equity fund inflow and limited MTM gains, while debt fund inflow was volatile.
- Capital market volatility hurt inflow, as seen in subdued gross equity fund inflow & new SIP registrations, although gross SIP inflow was healthy at ~Rs260bn.
- We expect the volatility to stay in the near term, mainly led by global events. However, we remain optimistic in the long run amid rising market penetration.

All is not gone - investment discipline inches up

There is some dampness in the sentiment as gross inflow in equity schemes declined to a 11-month low in Feb 2025, although the gross outflow remained low, which indicates that investors continue to remain patient even amidst the noise. Volatility has been high in recent months, especially in the erstwhile leapfrogging small-cap and mid-cap indices witnessing a sharp decline of ~14-18% so far in 2025. However, another indicator of rising financial discipline is a small decline of ~1.5% mom in systematic investment plan or SIP inflow which managed to remain high at Rs260bn.

Equity AUM slows down as net inflow shrinks amid a choppy market

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 Feb 2025 declined by ~1% mom to Rs68tr due to the dual impact of a continued decline in capital market and a dip in inflow. Consequently, equity AUM continued to shrink and was lower by ~3% mom. Net inflow in equity funds slowed to Rs293bn, lower by ~26% mom, while debt funds witnessed a net outflow of Rs65bn. We expect the volatility to continue in the near term, 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-cap funds are a preferred choice; thematic/sectoral lose sheen

Net inflow into large-cap funds stood at Rs29bn, down by ~6% mom, witnessing lower volatility as compared other schemes, holding up investor preference. Net inflow in small-cap, mid-cap, large & mid-cap and multi-cap funds witnessed a sharper decline, down by ~35%, ~34%, ~36% and ~29%, respectively, Thematic/sectoral funds saw a second straight month of a sharp decline in net inflow, lower by ~37% mom (contributing to ~20% of net equity inflow), due to smaller new fund offer or NFO inflow. Thematic/sectoral funds saw seven NFOs; however, they garnered only ~Rs21bn vs. three NFOs garnering ~Rs28bn in Jan 2025. Large-cap, mid-cap, large & mid-cap and small-cap schemes accounted for ~43% of equity fund inflow as against ~45% in Jan 2025.

SIP inflow stays firm; AUM witnesses a dip

The SIP inflow remained high at Rs260bn in Feb 2025, up by ~36% yoy and down by ~1.5% mom. New SIPs registered were the lowest so far in FY25 at 4.5m, although accounts discontinued were also lower by ~11% mom at 5.5m. As a large portion of SIPs is equity- linked, SIP AUM declined sharply by ~6% mom to Rs12.4tr.

Outlook & valuation

We expect the inflow momentum to remain volatile in the near term but get healthy in the medium term led by higher participation from the retail segment, higher understanding of market volatility and rising investment discipline along with incrementally higher inflow from B-30 cities. The recent correction in select AMC stocks have placed them in attractive buckets. We like NAM India for its consistent performance-led market share gains and ABSL AMC for its turnaround story. The undercurrent of likely acquisition of UTI AMC makes its stock attractive. We have a HOLD rating on HDFC AMC due to the unfavourable risk-reward ratio.

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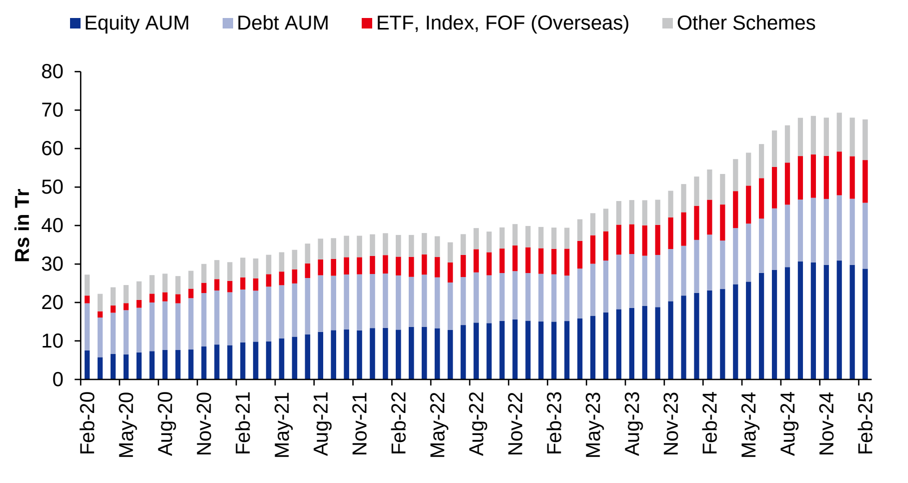
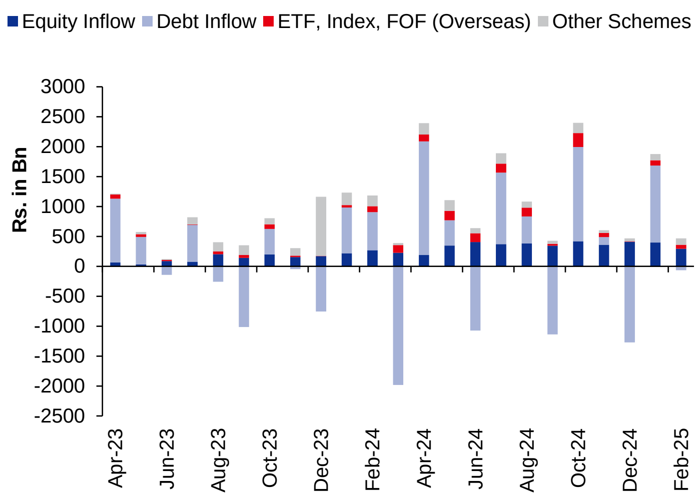
Figure 1: MTM losses in equity AUM stagnate the overall AUM level



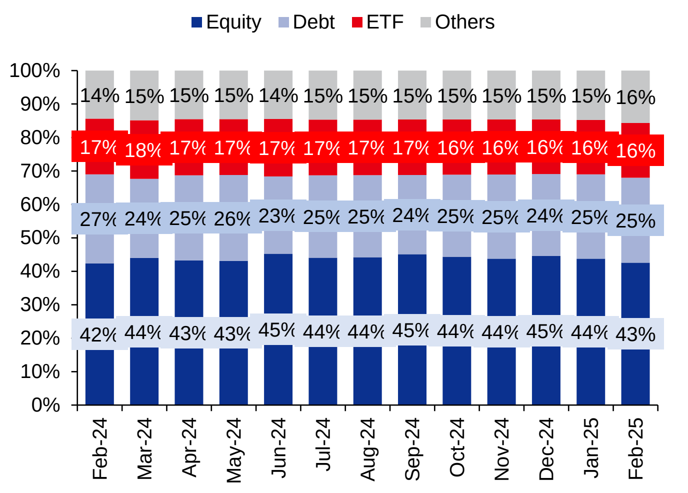
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Equity fund inflow slows while debt fund inflow turns negative



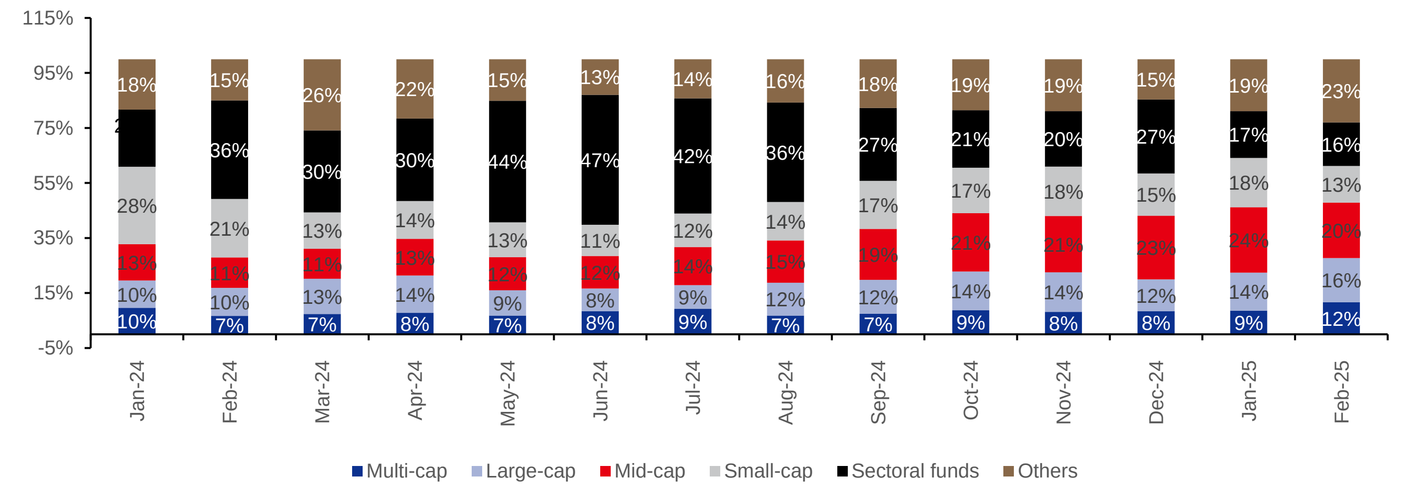
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Net inflow – broad-based slow growth large-cap funds preferred while small-cap, mid-cap and thematic/sectoral funds lose sheen



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Stock Ratings	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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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.