

Regulatory tweaks lead to big MF inflows from smaller cities

AUM share of 'Beyond top 30 cities' rises by over ₹67,000 crore in April

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Mutual fund assets garnered from 'Beyond top 30 cities' have recorded a sharp jump in April. This appears to have been triggered by market regulator SEBI's tweaks to the incentive structure, aimed at improving mutual fund penetration to smaller cities.

Data sourced from AMFI show that the share of Assets Under Management (AUM) from the 'beyond top 30 cities' (B30) rose 2.6 percentage points in April to 17.3 per cent, up from 14.7 per cent in March.

The AUM from the B30 cities increased by ₹67,247 crore in April. This compares favourably with the increase of ₹66,616 crore recorded in the March quarter. In value terms, the AUM from B30 cities was ₹4-lakh crore till April-end.

Additional incentives

Under-penetration of mutual funds is seen by the regulator as a major concern. In order to address this, SEBI allowed AMC's to charge an extra 30 basis points in the total expense ratio (TER) if the inflows from beyond top 15 cities (B15) were at least 30 per cent of gross new inflows or 15 per cent of the average AUM in a calendar year, whichever was higher.

AUM: Small is bountiful

City/AUM	Apr-18	Mar-18*	Mar-13
Top 15 (%)	NA	80.9	86.9
Top 30 (%)	82.7	85.3	91.5
Beyond Top 30 (%)	17.3	14.7	8.5
AUM - Top 30 (₹ cr)	19,19,274	19,36,447	6,42,101
AUM - beyond Top 30 (₹ cr)	4,01,493	3,34,246	59,342

*NRIs & overseas investments are adjusted among top 30 cities

MFs that have highest penetration into rural segment (₹ cr)

	Top 30 cities	Beyond Top 30 cities	% of B30 AUM to the total AUM
SBI MF	1,62,535	63,645	28
Canara Robeco MF	9,813	3,246	25
UTI MF	1,14,528	36,538	24
Sundaram MF	25,591	6,651	21
AXIS MF	62,884	15,656	20

This move brought in favourable results in the AUM share from the B15 cities, which increased to 19 per cent in March, from 13 per cent in March 2013. AUMs from B15 cities such as Nashik, Coimbatore, Bhopal and Ranchi recorded a sharp jump in this period.

New tweaks

In a bid to further expand the equity culture in the country, SEBI has now decided to allow MFs to charge an additional 30 bps in the TER only if inflows are garnered from beyond top 30 cities instead of beyond top 15 cities. The new rule came into effect from April 1.

This move is expected to drive more inflows from smaller cities. B30 cities that have shown a sub-

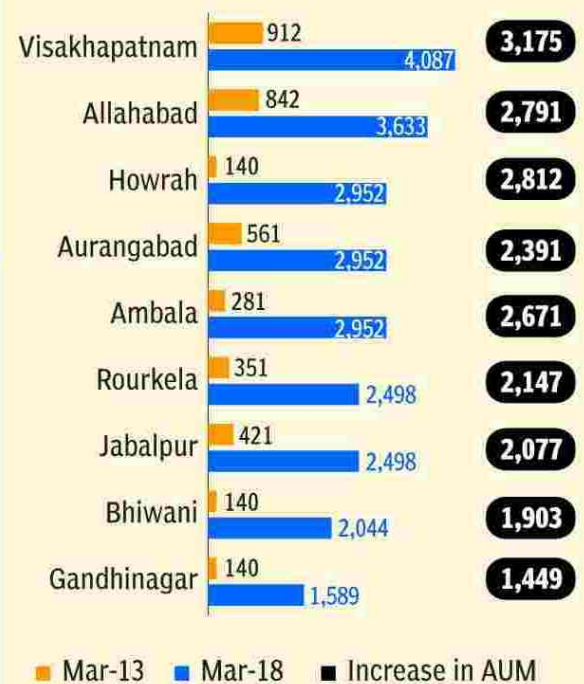
stantial rise in inflows into mutual funds over the last few years, such as Visakhapatnam, Allahabad, Aurangabad, Ambala, Rourkela, Jabalpur, Bhiwani and Gandhinagar, are now getting more attention from mutual funds.

However, the move is likely to result in lower commissions for mutual fund distributors who operate from Chandigarh, Ludhiana, Indore, Nashik, Coimbatore, Bhopal, Kochi and Ranchi, among other cities. Due to the regulatory tweak, the extra 30 bps in TER cannot be charged on inflows from these cities, which are ranked between 16 and 30 by AMFI. These cities earlier qualified for the additional incentive.

Ensuring that at least 30 per

Smaller cities that saw highest increase in MF AUM (₹ cr)

Beyond Top 30 Cities as on Mar'18



cent of gross new inflows in a scheme comes from the B30 cities may not be easy for many fund houses, but they could soon qualify under the second condition. Since share of AUM from B30 cities has grown to 17.3 per cent as of April 2018, many fund houses could soon have 15 per cent of the average AUM (YTD) from B30 cities.

Some of the larger mutual funds that have a significant presence in rural areas will find it easier to claim the higher incentive. Fund houses such as SBI MF (which gets 28 per cent of its assets from B30 cities), Canara Robeco MF (25 per cent), UTI (24 per cent) and Sundaram (21 per cent) may find it easier to qualify under the new rules.