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An Analytical Study on Affect of Pandemic Covid-19 on Mutual Fund Industry in Indian

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Abstract

The benevolent success of mutual fund sector in India has witnessed the impeccable development in the under management of asset to great extent in the recent past. The steps taken up by the regulatory body were promising and friendly for the investors and had given healthy competition globally. The occurrence of corona virus disease has impacted the mutual fund sector to great extent. The occurrence of the disease was completely unpredicted and had not given any scope of being proactive to the disease. Whenever such natural calamities have occurred, they aggressively showed their presence and arrival to the investment world and other business operations. Purpose – the purpose of this study is to find out the Impact of corona virus disease on Indian mutual fund sector, especially while the entire world is facing severe financial crisis and funds allocation plays a significant role. Data / Design/ Methodology/ Approach – the data collected and treated properly by using statistical tools and SPSS Findings – in the findings it was found that most of the investors believed that adopting a hybrid change was the right option as the sector shown some drift and flexibility also to takeover the condition. Originality / Value – the research was conducted keeping the research ethics in mind, and seen that data collected is genuine and authentic

Keywords: Mutual Fund, Corona virus disease, Indian perception.

Introduction

The overwhelming success of mutual fund sector in India has observed the immaculate development in the under management of asset to great extent in the recent past. The steps taken up by the regulatory body were promising and friendly for the investors and had given healthy competition globally. The occurrence of corona virus disease has impacted the mutual fund sector to great extent. The occurrence of the disease was completely unpredicted and had not given any

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scope of being proactive to the disease. Whenever such natural calamities have occurred, they aggressively showed their presence and arrival to the investment world and other business operations. In spite of this dreadful disease and its deadly impact some sectors have managed effectively to uplift themselves and stand erect in this tough conditions, mutual funds sector can be given that space after deeper contemplation and analysis. India is considered to be the mixed economy of the world, which had encouraged investment the particular sector in the later stages of the disease.

Objectives of the Study

1. To understand the bearing of Corona virus disease on the Mutual Fund market of India.
2. To evaluate the drift of small investors involvement in the pre-COVID and post-COVID situations.
3. To discover the Debt Fund crisis in the Corona virus disease period with reference to Reliance Mutual Fund.
4. To scrutinize the influence of Corona virus disease returns created by the Mutual Fund sector.

Question of Research

The particular question is being address

The influence of corona virus disease on the mutual fund sector particularly impacted the small investment participation and the way the returns are affected

Methodology

The study is based on secondary data which is obtained from different sources like Newspapers, Magazines and other sources.

1. Affect of Corona virus disease -19 on Mutual Fund Industry in India

The quantity of applications for new fund offers (NFOs) file by Mutual Fund Companies with market regulating agency SEBI has been diminishing since past few months largely due to the national lockdown and its impact on overall investor emotion. Fund companies approached SEBI for as many as 11 NFOs in January, the number fell to six in February, and it further fell to just one in March and nil in April. In May so far, the figure stands at two, according to the markets regulator (PTI, 2020).During the year2019, 139 NFOs were launched out of which 35 NFOs were for Fixed Maturity Plans (FMPs) and Capital Guarantee Plans. 16 NFOs were launched in May 2019, 11 in February2019and10eachinJanuary, August and December2019 (Mukherjee, 2020).

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1.1 Asset under Management of Indian Mutual Fund Industry

Table: 1 showing Asset under Management from (December 2019 - April 2020)

Table1: Growth of Asset under Management before and after Corona

Type of fund	Dec 2019	Jan 2020	Feb	Mar	Apr
Open- ended funds	2469459	2600295	2539864	2050733	2223281
Close - ended funds	183087	183976	182640	175076	169810
Interval funds	1527	1531	432	392	393
TOTAL	**2654074**	**2785803**	**2722937**	**2226202**	**2393485**

Source: Association of Mutual Fund in India

It is observed from the above table that the total Assets under Management of the industry declined by 9.82 percent between December 2019 and April 2020 due to COVID-19 effect. Assets Management of the open-ended Mutual Funds decreased by 9.97 percent during the same period that is in the pandemic.

1.2 Scheme wise representation of Mutual Fund Assets (in%)

Month	Equity oriented	Debt oriented	Flow
Dec 2019	42.0	29.0	23.0
Jan 2020	42.0	29.0	23.0
February	42.0	29.0	22.0
March	40.0	32.0	22.0
April	39.0	31.0	23.0

Source: Association of Mutual Fund in India

The table reveals that assets inequity leaning mutual funds turn down by 3.05 percent between 2019 and 2020 due to corona upshot. Further, assets in equity receptiveness mutual funds recorded a constant turn down from beginning of 2020. But, it was seen that assets in debt oriented mutual funds and liquid funds increased by 2.02 percent and 0.8 percent in that order between December 2019 and April 2020 due to corona influence.

1.3 Participation from Retail sector

1.4 **Table: 3** depict share of entity and institutional investors in mutual fund asset

Month	Individual Investors	Institutional Investors
December2019	53.4	47.0
January2020	52.7	47.3
February2020	53.0	47.3
March2020	52.2	48.0
April2020	52.1	48.0

Source: Association of Mutual Fund in India

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It is observed from Table 3 that the share of individual investors in mutual fund assets declined continuously from December 2019 to April 2020. On the other hand, the Indian mutual fund industry witnessed an increase in the share of institutional investors in mutual fund assets continuously from December 2019 to April 2020.

1.5 COVID-19 outbreak and Debt Fund crisis

Most risk-averse mutual fund investors prefer to invest their hard-earned money in Debt mutual funds. These funds usually carry lesser risk than equity funds. As a result, these funds provide lower returns compared to equity funds. These funds generally invest in fixed interest-earning securities like treasury bills, commercial papers, etc. However, these debt funds started experiencing the harsh realism of the corona virus outbreak since January 2020.Franklin Templeton Mutual Fund crisis added extra ammunition to the war of confusion and fear among investors 'minds about their hard-earned money.

In April 2020, Franklin Templeton (FT) Mutual Fund announced winding up of six of its credit-focused debt schemes. This was a rude shock to the entire debt mutual fund investors, who rushed to withdraw their investments from credit funds as well as other debt MF schemes. Although the debt-oriented categories witnessed a net inflow of Rs. 43,432 crore in April, the credit risk category, given its nature, was one of the worst-hit with a net outflow of Rs.19,239 crore during the month. Investor's in credit risk funds ran for exits after FT MF incident. As per the Morning star note dated April 24, the FT funds were run with a clear focus towards a credit (or accrual) strategy, with significantly higher exposure to AA and A-rated instruments as compared to their peers. Lower-rated papers usually have very low liquidity as they cannot be sold immediately in the market at a fair valuation in India. During times of stress, the liquidity for such lower-rated papers becomes even tighter as everyone becomes risk-averse and wants to lend only to higher-rated corporate (Patel, 2020).

Through a notice dated April 23, 2020, FT MF announced its decision to wind up six of its schemes; Franklin India Low Duration Fund, Franklin India Ultra Short Bond Fund, Franklin India Short Term Income Plan, Franklin India Credit Risk Fund, Franklin India Dynamic Accrual Fund and Franklin India Income Opportunities Fund. The reason cited by the Fund House was dramatic and sustained fall in liquidity in certain segments of the corporate bonds market on account of the COVID-19 crisis and the resultant lock-down of the Indian economy. Joseph Thomas, Head of Research, Emkay Wealth Management, termed the incident as a crisis of confidence rather than a crisis of liquidity. The Reserve Bank of India (RBI) on following day announced a special liquidity of Rs.50, 000 crore for mutual funds in the wake of the winding up of six debt funds by Franklin Templeton. Banks can benefit of 90 day funds from the RBI's repo window and use it to lend solely to mutual funds or acquire investment grade corporate papers held by mutual fund. One hopes that this is a rare case and we will not see more such cases even though the economy is yet to come out of this difficult phase (Kansara, 2020).

Table4: Mutual Fund Returns between 2019 to 2020

Mutual Fund	**3m**		**1y**		**3y**		**5y**		**10y**	
	Apr 20	Dec 19	Apr 20	Dec 19	Apr 20	Dec 19	Apr 20	Dec 19	Apr 20	Dec 19
Equity Funds										
LC	16.58	4.92	14.06	10.53	2.11	14.03	4.51	8.58	7.53	9.77

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LMC	19.00	5.00	13.72	08.03	1.54	11.58	4.28	8.82	8.49	11.12
MLC	18.00	4.00	13.12	09.78	0.43	12.20	4.20	8.50	8.39	11.05
M C	20.00	4.00	13.82	02.77	3.97	09.01	3.85	8.12	10.6	13.47
S C	24.36	2.00	20.39	01.51	7.92	07.02	2.08	7.32	7.86	11.59
V O	19.89	3.00	19.55	02.39	4.49	08.83	2.63	7.19	8.14	10.98
E L S S	18.23	4.00	13.99	08.26	1.02	11.78	3.99	8.26	8.47	11.12
INT	09.73	9.00	02.24	25.51	5.49	10.37	2.68	6.72	6.13	04.79
BANK	31.12	9.00	27.66	14.79	5.72	16.07	0.70	7.79	4.11	10.10
INFRA	24.00	1.00	22.62	01.80	8.31	06.93	0.32	4.90	2.86	05.93
PHARMA	12.87	8.00	19.25	03.80	5.83	00.90	2.97	1.35	12.9	12.20
TECH	12.10	1.00	10.14	08.81	12.47	14.96	7.69	8.80	11.4	12.69

Source: Mutual Fund Insight, February, 2020,p 77and Mutual Fund Insight, June, 2020, p 77

Note: LC: Large-cap, LMC: Large and mid-cap, MLC: Multi-cap, MC: Mid-cap, SC: Small- cap, VO: Value-arranged, ELSS: Equity Linked Savings Scheme, INT: International, BANK: Banking Sector, INFRA: Infrastructure, PHARMA: Pharmaceutical Sector, TECH: Technology Sector, AGG: Aggressive, BAL: Balanced, CON: Conservative, LD: Long-term, MD: Mid-span, SD: Short-length, USD: Ultra Short-length, LIQ: Liquid, DYN: Dynamic Bond, CORP: Corporate Bond, CR: Credit Risk The fundamental perceptions fromTable4 are expressed underneath:

Pre-corona returns of all value assets with the exception of drug reserves were more than the post-corona. All crossover reserves performed better in the pre- corona period.

Among obligation reserves, mid-cap, brief term, ultra brief span and credit hazard reserves performed better in the pre- corona period. Shockingly, long-span obligation assets and dynamic security reserves performed better in the post- corona period. Fluid assets performed better in the pre- corona period in all periods aside from the 10-year time frame. Corporate obligation reserves performed better in the post corona period in two periods (3-yearand10-year).

Post- corona returns of all value assets with the exception of drug reserves were negative in 3-month and 1-year. Among value reserves, huge cap reserves, worldwide assets, drug assets and innovation area reserves create dispositive returns in the post- corona period in 3year. 5year and 10-yearpost- corona returns of all value reserves were positive excepting foundation finances which produced negative returns in the5-year time span. Debt funds, only long-duration debt funds exhibited returns above 12% in1-year both in pre and post- corona period.

All debt funds provided positive returns in the pre- corona period. During post- corona period, barring mid-duration fund (3-month period) and credit risk fund (3-month and 1-year period) all other debt funds were successful in generating positive returns.

During post- corona period, amongst all the funds, pharmaceutical funds remained the best performing fund in 3-month (12.87%), 1-year (19.25%) and 10-year (12.91%), technology sector fund in 3-year (12.47%), long-durationdebtfundin5-year(9.24%). The fund in 3 month (9.99 %) and 3-year (16.07%) international fund in 1-year (25.51%), large and mid-cap fund in 5 year (8.82%) & mid-cap fund in 10-year (13.47%).

During post- corona period, banking sector fund was the worst-performing fund in 3-month (-31.12%) and 1-year(27.66%), infrastructure fund in 3-year (-7.31%), 5-year (-0.32%) and 10-year (2.86%).On the other hand, during the pre corona period, technology sector fund was the worst-performing fund in 3-month (0.71%), small-cap fund in 1-year(-1.51%),pharmaceutical fund in 3-year(0.90%)and5-year(1.35%) & international fund in10-year (4.79%).

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Findings

(1) New fund offer by mutual fund companies are diminishing since the outbreak of corona mostly due to the nation wide lockdown and its impact on overall investor sentiment. The number of new fund offer was six in February, and it further dropped to just one.

(2) The total Assets under Management of the Indian mutual fund industry declined by 9.82 percent between December 2019 and April 2020 due to Corona effect. The Assets under Management of open-ended mutual funds decreased by 9.97 percent during the same period. Moreover, assets in equity-oriented mutual funds declined by 3.5 percent between December 2019 and April 2020 due to Corona effect. That apart, assets in equity-oriented mutual funds recorded a continuous decline from February 2020 to April 2020.

(3) The portion of individual financial backers in common asset resources declined consistently between December 2019 and April 2020. Then again, the Indian common asset industry saw an expansion.

(4) Cause for debt fund crisis in Mutual Fund was striking and continued fall in liquidity in certain segments of the corporate bonds market on account of the Corona and the resultant lock-down of the Indian economy. Franklin Templeton invested in lower quality papers/instruments for generating more returns. Lower rated papers usually have very low liquidity as they cannot be sold immediately in the market at a fair valuation in India. During times of stress Corona the liquidity for such lower-rated papers becomes more important.

(5) The outbreak devastated the assurance of the entire debt mutual fund investors and hurried to withdraw their investments from credit funds as well as other debt MF schemes. Investors in credit risk funds ran for exits after Franklin Templeton MF incident. However, the immediate intervention of the RBI and SEBI restricted further damage to the debt fund universe.

(6) Pre Corona returns of all value resources except for drug hold were more than the post-Corona returns in all periods. All half breed reserves performed better in the pre Corona time frame. Among obligation reserves, mid-term, brief span, ultra brief length and credit hazard reserves performed better in the pre Corona time frame. Surprisingly, long-span obligation assets and dynamic security reserves performed better in the post Corona time frame. All things considered, it tends to be expressed that the effect of Corona on shared asset returns are tremendous.

Conclusion

To lessen the canvas of the dreadful disease, the Government of India imposed complete lockdowns and many strict rules were imposed like physical distancing. Corona virus had even impacted the capital market and the mutual fund sector. The benevolent success of mutual fund sector in India has witnessed the impeccable development in the under management of asset to great extent in the recent past. The steps taken up by the regulatory body were promising and friendly for the investors and had given healthy competition globally. The occurrence of corona virus disease has impacted the mutual fund sector to great extent. The occurrence of the disease

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