Education set to boost retail asset base for MF providers

Education is key to bringing more retail investors into Indian equity markets and ending institutions' dominance, according to Aashish Somaiyaa at Motilal Oswal Asset Management.

India's investors need more education to become familiar with and willing to invest in mutual funds, says Aashish Somaiyaa, chief executive officer at Motilal Oswal Asset Management.

Despite the growth of the economy and a rise in stock valuations, the country's mutual funds have relatively few assets under management.

Somaiyaa, a director of India's Association of Mutual Funds, says this is down to investors being unable to identify and purchase stocks of high-quality companies, unlike the institutions who have profited greatly from the 'India shining' story of the past year.

He estimates only 4% of the NIFTY 50 index of leading companies is retail money. The fact that people favour direct equity, and bonds, because they have a greater understanding of them than of mutual funds, is another factor pulling down asset managers, he adds.

According to Nielsen, a consultancy, only 9% of urban Indian households were investing in mutual funds as of November 2014. To ease this uncertainty, Motilal Oswal, which is part of BSE and NSE-listed Motilal Oswal Financial Services, is doing its bit to raise education standards. But doing so isn't easy. It not only takes time, but also requires considerable effort.

A recent report published by PricewaterhouseCoopers revealed that asset management companies have gone to sizeable efforts to educate local investors.

The consultancy noted that between May 2010 and May 2013, 36 asset management companies conducted 31,283 programmes in 485 cities, with 944,772 participants.

"We are making efforts to educate people on investing in equity through managed products," says Somaiyaa, adding that government-backed products and saving schemes with decent yields have been factors limiting mutual fund asset growth.

AASHISH SOMAIYAA
Motilal Oswal Asset Management

One of the ways it does this is through a comprehensive guide to mutual funds on its website (http://motilaloswalmf.com/knowledge-centre/investment-faqs/mutual-fund).

"I started out in the industry in 1998 and for pretty much half my career have seen the government issue tax free, risk free bonds – RBI Relief Bonds that pay 12%. The coupon on sovereign-backed bonds is now usually around 7% tax free," Somaiyaa says.

Having closely watched the growth of the industry in India, and the people of the country, Somaiyaa is confident that local investors are about to put more money to work into mutual funds.

"A rise in per capital income will lead to the most concrete opportunity for the industry to reach the next level," he says. He believes an anticipated increase in the country's per-capita income from US$1,000 to US$1,500 over the next five years will be a big inflection point. The statistics seem to support him.

Nielsen reported in November 2014 that consumer investment in mutual funds had increased 5% over the previous three years in metro areas. Growth outside these cities was also a quite respectable 2% since 2010.

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BUILDING A REPUTATION

Motilal Oswal has built a name for itself in the Indian market. People who recognise the brand understand it has a longstanding investment strategy that differs it from peers, adds Somaiyaa.

The investment philosophy stated on its website is to "buy right and sit tight" by focusing only on high quality, long only, Indian equity investment and portfolios of between 25 and 35 stocks. It uses a stock-picking acronym – Q.G.L.P – which stands for high quality, earnings growth, longevity of competitive advantage and bought below a fair price. It is so committed to this core competency that it only offers three funds – an all-cap, mid-cap, and a large cap – and has no intention of adding more.

In a recent article on moneycontrol.com, one its fund managers recommended that Indian investors buy into dips, and specifically recommended industrials, including logistics, and infrastructure.

The asset management arm's parent company has more than 600 institutional clients in equity research and execution/advisory, but on the retail side, competing in a market where most funds sell performance rather than investment conviction can be challenging.

However, Motilal Oswal's sales process is firmly rooted in its strong research capabilities.

For the last 19 years it has produced an annual wealth creation study that supports its investment conviction, and has helped it become one of the largest providers of discretionary portfolio management, says Somaiyaa.

"[The report] tells you what has gone into great companies becoming great. We find the common traits of companies that produce wealth. Our managed accounts have been running the same strategy for 13 years," he adds.

The company's distribution strategy also shows how it wants to distinguish itself. Somaiyaa says it is not looking to build a huge B2B or B2C sales force, and avoids going deep into distribution, leaving that for intermediaries.

While other fund management companies may have 30 professionals in investments and 2,000 in sales and performing other functions, Somaiyaa says Motilal Oswal has 18 in investments and just 26 in sales.

Although this small-scale approach hasn't led to people flocking to it from all corners of the country, the company is doing pretty well. Incorporated in 2008, it has assets under management of about INR1.46 billion (approximately US$233 million) as of December 21, 2014 – and its assets have grown 384.83% since December 2010.

Somaiyaa and his colleagues are happy to stick to a resolute investment and business plan that has still led to the company enjoying exponential growth. It helps that the company's business rationale is easy to explain.

"The Sensex has gone up [by a compound] 17% each year in the last 30 years," says Somaiyaa. "You don't need to sell exotic structures under the guise of reducing risk. In the long-run, nothing beats high-quality long-only equity." ■