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L&T Mutual Fund: Ready for change

Kailash Kulkarni, Chief Executive Officer, L&T Mutual Fund talks to Hubbis about India's regulatory environment, the firm's plans for the future, and how a small tweak can result in a broader customer base for the country's mutual funds.

INDIA'S ROBUST MUTUAL FUND INDUSTRY has seen recent exponential growth on the back of systematic investment plans (SIPs).

Kulkarni feels that to reach the next phase, the industry needs to focus on educating people the importance of goal orientation through more straightforward communication.

"I think the goal orientation education has now started to bear fruits but hasn't reached the desired levels yet. Simple communication has helped the industry and the investor alike," he explains.

"For instance, educating investors about SIPs as a larger part of their goals. Funding your child's education is one of the larger needs or goals, and one realises it after missing the bus," he adds, and so the message is whether the markets go up or down, "you need to continue investing and not bother about the volatility."

Kulkarni, who is Vice Chairman of the Association of Mutual Funds of India (AMFI) and has previously headed its Financial Literacy Committee, stresses that "more often than not, this is the key area for most fund houses as investors do the reverse when markets fall. Hence education about SIPs needs to go up significantly."

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A good year

The year 2017 was exceptionally robust for L&T Mutual Fund, according to Kulkarni, and one of the key drivers has been the growth in its SIPs.

"We focussed on building long-term assets," he says. "If you look at our numbers, you will see our SIP base has increased significantly."

L&T Mutual Fund, as of March 2018, had AUM worth INR65,932 crore (USD9.88 billion) across 29 schemes. "In the calendar year 2017, the industry has grown by 26% whereas we have grown by more than 68%," he says. "Folios, overall assets under management, SIPs, etc., have all seen considerably higher growth than the industry growth rate."

Challenged with the notion that in the bullish markets of the recent past, and that perhaps growth was the norm and not the exception for asset managers in India in 2017, Kulkarni pushes back. "Yes, you are 100% correct when you say anybody would do very well. The big question is how better you are doing as compared to the industry," he reasons. "Because what you can influence is only new sales happening in that year."

You cannot influence the book, which is substantially large, while new sales as a percentage of the book are considerably small, Kulkarni states.

"Like in our case, we started off with equity market share of 2.6%, and today we are at 3.9%, so we have added that 0.7% odd on that new sales component," he explains. "Now, if you have to do that, on a stock of 3%, you are doing 7-7.5% in terms of new sales."

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Kulkarni points out that L&T Mutual Fund also monitors its risks. "While we do believe that all channels of distribution are important, you will find that our exposure to any single distributor is not more than 5%. In fact, our top three distributors cumulatively are under 15% of our total book," he reveals. "So, the diversification of assets into our fund house is through multiple distributors across multiple channels."

For 2018, Kulkarni's biggest priorities are increasing their headcount in both sales and service segments, and training and continuous education.

"The second huge priority for me is enhancing our technological capability to service the new age investor," he says. "Today, we need to focus on making the consumer experience far more seamless than what it is today. Our systems need to be robust, whether one invests through a website or a mobile platform."

Additionally, "SIPs will continue to be a focus area this year too," Kulkarni emphasises.

Gearing for future growth

Recapping the industry developments that have boded well for players across the board, Kulkarni points to the unified brand cam-

paign launched by the industry players called 'Mutual fund Sahi Hai!', which essentially means "mutual fund is the right product."

The multi-lingual campaign, he says, has cut across social and class hierarchies in India. "This is the first time in last 20 years that I have seen the industry come together for a unified cause, and along with the rising market, it was timed to perfection," he notes.

"The awareness levels have grown, and [it helps] that there are no alternative products today which the investor wants to invest in," he explains. "The alternative asset classes that Indians used to love such as real estate and gold are struggling due to various government measures."

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Going forward, Kulkarni pitches for a change in the way asset managers are ranked. "A move towards a customer-based ranking system rather than an AUM ranking system would result in a significant increase in the number of new customers you bring to the industry and penetration levels," he reasons. "What gets projected in media is what gets measured, and people follow that. So, when the measurement is based on AUM, but naturally, people will chase the bigger ticket investments."

A ranking change to new investors added, however, would force everyone to rejig their focus towards acquiring investors, which is ultimately for the good of the industry.

The second thing Kulkarni would like to see is a roadmap, which the regulator puts out in terms of the proposed changes with timeframes. This will help the industry and investors align themselves. "Like in many developed countries," he says, adding that this helps the industry as a whole and prevents any intermittent surprises.

A final demand from Kulkarni is a unified methodology of taxation or governance for similar kind of products.

"For example, today, unit-linked products in India, which are issued by life insurance companies are identical to mutual funds in terms of the constituents," he explains. "They invest in equity or fixed income, or a hybrid, but the rules and regulations, and tax laws, around them, are entirely different."

And so, there is an arbitrage available between the same product issued by two different entities, he points out. "That arbitrage should be done away with; a particular product category irrespective of who is issuing it should have the same set of rules, norms, and statutes."

No fear of scheme consolidation

The Securities and Exchange Board of India (SEBI) has brought out the consolidation of mutual fund schemes in what was a significant year for the Indian mutual fund industry from a regulatory point of view.

With this move, SEBI has brought in bring uniformity to the characteristics of similar schemes with an eye on making it easier for the investor to evaluate various options before making any investment. Previously, mutual funds companies were able to come up with their own methodologies of categorising funds. This has changed to a total of 36 categories.

Kulkarni says that L&T Mutual Fund did not have a problem with the categorisation as the fund house already had a limited number of schemes.

"When we presented our case to the regulator, we didn't have to make any changes in any of our schemes because they all fit in very comfortably within the categories that SEBI has defined."

"About six years ago, we acquired Fidelity Mutual Fund. At that time, we were very clear that we will not be a part of the NFO (New Fund Offer) game and will launch a new product only where it can be substantially proven that it is not already in the basket."

In the last five years, hence, L&T Mutual Fund has done only five NFOs.

"Our growth has not been built on NFOs, but on pure vanilla open-ended products," he says. "Out of the top 15 asset management companies in India, one more company and we have the least number of open-ended schemes amongst all the players."

Today, he explains, L&T Mutual Fund is in a good situation where there are more categories and fewer schemes, and so it "can launch a couple of products which are still differentiated."

"Whether we do that or not, time will tell," Kulkarni notes. ■