9 Feb 2023

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Update on Bank Deposits or Mutual Funds?

The present financial year has been quite unusual in the sense that consumption kept ticking even with inflation being high as the pent up demand phenomenon played out. Savings were affected for sure and this was manifested in slower growth in deposits to begin with. How about mutual funds, which tend to compete with banks when it comes to savings allocation? In the foregoing analysis we look at the movement in bank deposits and AUM of mutual funds for the period April 2022 and December 2022.

It is important to note that as RBI kept hiking the repo rate there was a tendency for bank deposits to also increase to match the increasing demand for credit. Notably, higher deposit rates have garnered an increase in deposits in the last few months. MFs on the other hand have been impacted by downside risks to global growth and tighter financial conditions, which impacted market fundamentals. Increase in Sensex (point to point) has also been considerably lower at 3.3% in FYTD'23 (last close: 06 Feb 2023) compared to 18.3% increase seen in FY22.

Thus, overall AUM of MFs have risen by only Rs 2.3 lakh crore and if the same momentum is maintained it will not be able to reach Rs 6.1 lakh crore accretion seen in FY22. Equity still holds up in FYTD23 compared to debt segment. The rising interest rate cycle has acted as a deterrent due to the discounting factor involved in pricing. The degree of substitutability between MF and bank deposits which in FY22 was slightly tilting towards MF, is showing reversal with Bank deposits being the preferred choice of allocation.

What has been the situation in FYTD23?

- In the first 9 months of FY23 (Apr-Dec), AUMs of MFs have increased to Rs 39.9 lakh crore in Dec'22 from Rs 37.6 lakh crore seen in Mar'22. *This is an accretion of Rs 2.3 lakh crore. During this same period, Bank deposits have increased by Rs 12.7 lakh crore.*
- Within MFs, equity funds have shown the maximum increase from Rs 13.7 lakh crore to Rs 15.3 lakh crore, an accretion of Rs 1.6 lakh crore. This is line with 3.3% increase in Sensex during the same period. Allocation in small cap and multi cap funds rose the most.
- Hybrid funds which invest 65 to 100% in equity also showed slight increase in the first 9 months of FY23. From Rs 4.8 lakh crore, it rose to Rs 4.9 lakh crore. This is led by Dynamic Asset Allocation/Balanced Advantage Fund, where investment in equity/debt that is managed dynamically and Multi Asset Allocation Fund.
- Debt funds on the other hand, have been a disappointment. The inflow in this segment moderated to 12.7 lakh crore in Dec'22 from Rs 13.5 lakh crore in Mar'22, thus showing decline of Rs 0.9 lakh crore. This is led by fall in allocation towards Banking and PSU Fund and other short duration funds. Also during the same period, 10Y GSec yield went up by 48bps in response to 225bps hike in repo rate. A higher yield reflect value of existing debt instruments may fall, due to the discounting factor.

Table 1: How different instruments have fared in FYTD23

Instruments, Rs lakh crore	Mar-22	Dec-22	Change
Equity	13.74	15.32	1.6
Debt	13.52	12.65	-0.9
Hybrid	4.80	4.91	0.1
Others	5.51	7.01	1.5
Total AUM	**37.6**	**39.9**	**2.3**
Bank Deposits	**164.7**	**177.3**	**12.7**

Source: SEBI, Bank of Baroda Research

What had been the situation in FY22?

- *In FY22, AUM of MFs, rose to Rs 37.6 lakh crore from Rs 31.4 lakh crore in FY21, showing an accretion of Rs 6.1 lakh crore. Bank deposits during the same period rose by Rs 13.5 lakh crore.*
- In FY22 as well, majority of the inflow was towards equity funds which rose by Rs 3.7 lakh crore from Rs 10 lakh crore in FY21 to Rs 13.7 lakh crore. There was also a sharp increase in Sensex by 18.3% in FY22.
- Hybrid segment also rose by Rs 1.4 lakh crore to Rs 4.8 lakh crore in FY22. However, debt segment continued to remain muted. Compared to an inflow of Rs 14.5 lakh crore in FY21, it moderated to Rs 13.5 lakh crore in FY22 (a fall of Rs 1 lakh crore). This is followed by 67bps increase in 10Y GSec yield in FY22. Policy rate on the other hand remained unchanged during this period.

Table 2: How different instruments have performed in FY22

Instruments, Rs lakh crore	Change in FY22
Equity	3.7
Debt	-1.0
Hybrid	1.4
Others	2.1
Total AUM	**6.1**
Bank Deposits	**13.5**

Source: SEBI, Bank of Baroda Research

In absolute terms, deposit inflow is much higher compared to MFs (around 4.5 times higher). Share of deposits in sum of increase in deposits and AUM of mutual funds increased from 68.8% in FY22 to 84.5% in YTDFY23. Notably, during the same period, Weighted Average Term Deposit rate went up by 75bps. The share of equity funds in total resources garnered by banks and MFs came down from 18.9% in FY22 to 10.7% in YTDFY23.

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