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FIRST LIGHT

20 April 2023

RESEARCH

BOB ECONOMICS RESEARCH | CAPEX CLIMATE

Update on investment scenario and its funding

DIVERSIFIED FINANCIALS

Equity MFs continued to outshine debt funds in FY23

Daily macro indicators

Ticker	17-Apr	18-Apr	Chg (%)
US 10Y yield (%)	3.60	3.58	(2bps)
India 10Y yield (%)	7.23	7.20	(3bps)
USD/INR	81.97	82.04	(0.1)
Brent Crude (US$/bbl)	84.8	84.8	0.0
Dow	33,987	33,977	0.0
Hang Seng	20,782	20,651	(0.6)
Sensex	59,911	59,727	(0.3)
India FII (US$ mn)	**13-Apr**	**17-Apr**	**Chg ($ mn)**
FII-D	93.1	(122.2)	(215.3)
FII-E	98.1	51.5	(46.6)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: CAPEX CLIMATE

Investment picture in FY23 was fuzzy. Different dimensions emerge from the CMIE capex data. While new project announcements have reached an all-time high in FY23, the picture is not even across sectors. Most of these announcements were in the services sector (transport services). Manufacturing showed only modest pickup with major capital creating sectors such as machinery, metals on the other hand noting considerable drop in announcements in FY23 compared to FY22. Apart from new announcements, even revival rate of projects have dropped to lower levels. The gestation period of projects have also increased, reflective of increased economic cost of capital and also delayed completion of projects.

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DIVERSIFIED FINANCIALS

- MF industry MAAUM grew 6% in FY23 driven by equity and passive funds while debt outflows continued
- Clear preference for equities in the individual category which outshone the institutional segment
- Top 10 AMCs maintained ~80% MAAUM market share helmed by SBI AMC; close competition in the equity space

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CAPEX CLIMATE

19 April 2023

Update on investment scenario and its funding

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Investment picture in FY23 was fuzzy. Different dimensions emerge from the CMIE capex data. While new project announcements have reached an all-time high in FY23, the picture is not even across sectors. Most of these announcements were in the services sector (transport services). Manufacturing showed only modest pickup with major capital creating sectors such as machinery, metals on the other hand noting considerable drop in announcements in FY23 compared to FY22. Apart from new announcements, even revival rate of projects have dropped to lower levels. The gestation period of projects have also increased, reflective of increased economic cost of capital and also delayed completion of projects.

On the funding side as well, the story is mixed. Bank credit, the primary source of funding shows that credit off take to industry has been far below the normal pace of credit accretion in FYTD23. Notably, 8 out of the 19 sub-industries which are monitored by RBI, showed credit growth even below 4.3%, which is industry level pace of credit accretion in FYTD23 (April-Feb). Funding through the corporate debt market has also remained skewed. Funds raised from primary market again remained inclined towards services sector, with manufacturing share dropping sharply in the equity segment. Funding through the ECB route has been impacted due to higher capital cost in a rising interest rate regime. But the purpose wise proposals show some degree of respite as here the share of new projects and import of capital goods have increased, which indicated some improved sentiments with regard to investment climate.

Investment in FY23 showed mixed picture:

CMIE data reflected some buoyancy on investment front as new project announcements picked up considerably, reaching an all-time high of Rs 29 lakh crore in FY23 compared to Rs 22 lakh crore in FY22. Basically, this indicator expresses the intentions of business enterprises; albeit all the announcement may not necessarily translate into actual investment. The major pickup is attributable to services sector (other than financial), where new announcements picked up to Rs 10.3 lakh crore in FY23 compared to Rs 5.2 lakh crore in FY22. Within services, the sharp increase has happened for transportation sector where new announcements rose to Rs 8.8 lakh crore in FY23 compared to Rs 3.9 lakh crore in FY22. The announcements made by the airlines industry were major contributors here.

Manufacturing and electricity sector also witnessed improvements. However, within manufacturing, the increase is not broad based. Except chemical and products (where new announcements picked up to Rs 7.3 lakh crore in FY23 from Rs 3 lakh crore in FY22), all sub sectors noted drop in announcements. In fact, for capital creating segments such as machinery and metals and products, considerable drop in announcements have been noticed.

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- **Clear preference for equities in the individual category which outshone the institutional segment**
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Equity funds remain in the lead: India's mutual fund industry MAAUM grew at 6% YoY in FY23, closing the year at Rs 40tn (12% CAGR FY18-FY23). Equity remained the silver lining with 12% YoY growth (17% CAGR), forming 52% of MAAUM vs. 41% in FY18 (49% in FY22). SIP was a key growth engine for equities, with 10.8mn SIP accounts being added in FY23 alone for a total of 64mn. SIP AUM swelled to Rs 6.8tn, forming 33% of equity assets. Debt continued to disappoint as higher interest rates and inflation dampened sentiments. Passive funds stayed in focus, advancing 19% YoY (47% CAGR off a low base) to exit FY23 at Rs 5.2tn or 13% of MAAUM.

Individual investments rising at a brisk clip: Individual MAAUM share rose from 51% in FY18 to 58% in FY23 (55% in FY22), clocking a brisk 15% CAGR vs. 9% for the institutional segment. Within the individual category, equity-based MAAUM grew 13% YoY to Rs 18.4tn (18% CAGR FY18-FY23), constituting 79% of the total. Debt and liquid funds together made up the biggest chunk for the institutional category at 59% in FY23, but have seen a steady decline over FY18-FY23. Within individuals (defined as retail plus HNIs), retail investor share in MAAUM has risen by ~125bps over FY18-FY23 to 25% whereas that of HNIs has soared ~550bps to 33%.

Top 10 AMCs continue to dominate: The top 10 players have been able to maintain ~80% market share consistently over FY18-FY23. SBI AMC remains the market leader with 17.6% share followed by IPRU AMC at 12.3%. Drilling down to the equity space, the battle is closer with IPRU AMC at 13% followed by SBI AMC at 12.6% and HDFC AMC at 12.2%. The top 10 have lost some ground in the equity segment, commanding 73% market share at end-FY23 vs. 77% at end-FY18.

Within the listed space, MAAUM market share remained largely intact YoY in FY23 for HDFC AMC (maintained #3 rank), Nippon AMC (up one place to #4), and UTI AMC (maintained #8 rank). ABSL AMC, however, shed 100bps and dropped two spots to #6. In the equity segment, the ranking trend was similar except that HDFC AMC upped its market share from 11.4% to 12.2%. For a detailed analysis of sector and company performance, see our Jan'23 report: **Mutual fund industry – Onward and upward**.

Recommendation snapshot

Ticker	Price	Target	Rating
ABSLAMC IN	348	488	HOLD
HDFCAMC IN	1,769	2,310	BUY
NAM IN	232	347	BUY
UTIAM IN	675	983	BUY

Price & Target in Rupees | Price as of 19 Apr 2023

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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