MFs' exposure to certificates of deposit up sharply since Oct

CHIRAG MADIA

The mutual fund (MF) industry's exposure to bank certificates of deposit (CDs) has surged nearly fourfold since October, from just ₹48,576 crore to ₹1.76 trillion at the end of last month.

Industry players say banks have ramped up mobilisation via CDs in recent months amid pick-up in credit offtake.

Expectations of lower deposit growth and increased credit costs amid inflationary pressures have also driven banks to issue CDs over the past few months.

"The interest-rate cycle is turning. In such a scenario, liquidity is drying up. Also, banks are being opportunistic. They feel interest rates might notch up. Moreover, credit offtake has improved in the past few months and the growth of regular deposits might be going down. All these factors have led to increasing investments by funds in CDs," said Dwijendra Srivastava, chief investment officer-debt, Sundaram Asset Management.

The yields on several debt papers have hardened as the central bank increased interest rates.

At present, one-year CD rates are quoting around 5.6-5.7 per cent. Three months ago, the rates of the same tenure papers were around 4.1-4.3 per cent. Over the past three months, the MF aggregate holdings in CDs have been upwards of ₹1 trillion.

IN FOCUS

in ₹ cr

Aggregate holdings by MFs in CDs

Source: primemfdatabase.com

Typically, money-market funds, ultra-short duration funds, and short duration funds invest in CDs. In April, debt funds had seen net inflows of ₹54,757 crore, led by liquid funds, ultra-short duration funds, and money-market funds.

Fund houses buy bank CDs of shorter tenures of three months, six months, and one year. The issuance of CDs is currently dominated by private banks. However, with further tightening of liquidity, public-sector banks, too, might tap into the CD market in the months to come, observe industry players.

According to rating agency CARE, bank credit continued to witness strong growth of 11.1 per cent year-on-year for the fortnight ended April 22, up from 5.7 per cent in the year-ago period (reported April 23, 2021).

"This was driven by a low-base effect, retail loans, and higher working capital requirements owing to elevated inflation. Retail growth has been picking up due to improvement in the job market and economic activities," CARE Ratings said in a note.