Funds invest in fewer firms in June but boost holdings

With markets declining, quality not quantity could be the need of the hour

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Mutual funds (MFs) spread their bets across fewer companies in June, even as the number of firms they invested in swelled to a record for recent years in the previous month.

They invested in 838 companies as of end-June, or eight fewer than the 846 firms in May, shows data from tracker primemfdatabase.com. The May figure was the highest in at least six years, reveal records dating back to June 2016.

Equity MFs collect money from clients and invest it on their behalf in the stock market. They manage ₹12.9 trillion through such schemes, according to data provided by industry body Association of Mutual Funds in India (Amfi). The industry manages assets worth nearly ₹37 trillion, including debt investments and hybrid schemes.

There was a fall in the number of companies into which MFs are investing, even as their overall holding in the stock market went up. MF ownership was at 7.79 per cent in June against 7.45 per cent in the previous month. This would indicate that the industry put more money into work, even as the number of companies they invested in came down, thus increasing their holding in fewer firms. Net inflows in pure equity funds were ₹15,497.76 crore in June, shows the data from Amfi. The S&P BSE Sensex, whose movements are seen to be broadly representative of how the market is doing, was down 4.6 per cent in June to 53,018.94.

The markets are on a decline because of the tightening of global liquidity. Global central banks have been sucking money out of the financial system. Foreign portfolio investors have been net sellers in the Indian markets by ₹1.14 trillion in 2022-23, so far. This is in addition to the record ₹1.4-trillion outflows seen in the previous year.

Sorbh Gupta, fund manager-equity, Quantum Mutual Fund, said the first round of selling typically happens in the more liquid names. There are a lot of buyers and sellers for these shares and transactions are easily executed. The next phase often involves a sell-off in less liquid stocks. Transactions can involve deep price cuts since there aren't as many counterparties, and finding a buyer for a sizable number of shares can be difficult. Gupta said that this is a risk that one may see playing out going forward. "We prefer more liquid names," he said.

Liquidity has been coming down. The National Stock Exchange saw shares worth ₹44,608 crore change hands daily on average in June. This was lower than the May average of ₹57,677 crore and June 2021's ₹70,668 crore.

There was a sell-off despite earnings growth. Indian companies are likely to see 30 per cent year-on-year growth in earnings, excluding commodity majors, according to the 11 July Equity Strategy report from global financial services group Jefferies, authored by equity analysts Mahesh Nandurkar and Abhinav Sinha.

"A low base and fully reopened economy should drive.... earnings growth. Demand outlook and tackling commodity price volatility will be key commentary to watch," it said.

ILLUSTRATION: BINAY SINHA

MOVING IN DIFFERENT DIRECTIONS

No. of companies has gone down

Overall MF ownership has risen

Source: primemfdatabase.com