

Second wave: MFs' basket takes a hit

Fund houses invest in fewer stocks in March even as value of holdings surges

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Mutual funds (MFs) invested in fewer stocks as of March 2021, compared to the number a year ago, despite equity assets going up by a few trillion.

There had been a rising trend after the number touched a 31-month low of 796 scrips in July 2020, show numbers from PRIME Database.

The market recovery and decline in Covid-19 cases later saw that number rise again. It touched 813, as of March 2021. This was close to the levels seen before the pandemic.

Interestingly, this is despite the value of these holdings falling by over 25 per cent from February 2020, the month before the lockdown. MFs invested in more stocks in February 2020, when the value of their holdings was ₹11.6 trillion, than in March 2021, by when it had risen over ₹13 trillion to stand at ₹14.7 trillion.

In what could be a dampener to



ILLUSTRATION: BINAY SINHA

LARGE CORPUS, FEWER STOCKS



FLIGHT TO SAFETY

- MFs hold over ₹3 trillion more in equities compared to last year
- The money is spread across fewer stocks than before
- Fund managers reduced number of stocks amid first wave last year
- Falling cases, market recovery had seen number of stocks rising again
- Fresh surge in cases raises spectre of flight to more liquid names

this rising number, experts believe that investors tend to become more conservative during periods of volatility or decline. This often prompts a shift towards stocks that can be bought and sold easier.

Many smaller companies have very few trades taking place. This can make it more difficult for fund managers to find a buyer if they need to

sell their shares.

"I would give more weightage to liquidity," said Deven Choksey, managing director of KRChoksey Investment Managers, regarding investments during uncertain times.

He added that they haven't necessarily seen this trend play out just yet, even as Covid-19 cases cross 200,000 a day in India, the highest in the world.

The stock market hasn't corrected as much from its peak, as during the last lockdown. The Sensex had then dropped 38 per cent from its earlier all-time high in March 2020. It corrected 6.4 per cent from its all-time high to close at 48,832.03 on Friday.

Vinay Paharia, chief investment officer of Union Asset Management Company, said the new companies

coming to the market through initial public offerings (IPOs) may have contributed to the rise.

There were 66 IPOs in the 12 months ending March 2021. They raised a total of ₹74,694 crore, shows numbers from PRIME Database. This is the highest since the financial year ending March 2018, or FY18.

"Further, when there was volatility in the markets, good quality firms that were trading at expensive valuations may have seen (a) correction in their share prices, and mutual funds would have bought those businesses that could have led to an increase in the number of stocks," he said.

The number of stocks that MFs have exposure to has been rising over the years as well. They were as few as 732 as of June 2016. The total value of MF holdings in these stocks was ₹4.3 trillion at the time. This has increased significantly in the time since then. Many stocks are too small to invest in, according to Choksey. Fund houses often only invest in firms that have a minimum valuation of at least ₹10,000 crore, he said.

Money is still flowing into funds that invest in small-cap firms. Assets under management of such funds showed a 4.5 per cent increase to ₹72,050 crore between February and March, according to PRIME Database.