

MFs to keep powder dry

As of January 31, top 5 fund houses held ₹23,245 cr in cash, or 4% of their total equity assets

ASHLEY COUTINHO

Mumbai, 23 February

Mutual funds (MFs) are keeping their powder dry to invest in Life Insurance Corporation of India's (LIC's) initial public offering (IPO) that is expected to hit the market next month.

Industry executives believe that a few large-cap and flexi-cap schemes may choose to hold back the fresh flows they get in the days leading up to the IPO. These flows will then be funnelled into the offering. A few funds may also choose to liquidate some of their existing holdings, especially in other insurance companies, and plough them back into LIC.

As of January 31, the top five fund houses held ₹23,245 crore in cash, or 4 per cent of their total equity assets.

Share prices of SBI Life, HDFC Life, and ICICI Prudential Life have slid 10 per cent, 9 per cent, and 12 per cent, respectively, in the past month.

"Large fund houses may be plan-

ning to bid aggressively and want to conserve cash in the next few days," said a senior MF executive, adding, "The government is counting on the participation of domestic MFs, and fund houses may not want to be perceived as not meeting those expectations." Investors discharged nearly ₹15,000 crore into equity-oriented schemes in January amid sustained volatility in the market. This was the 11th straight month of inflows into equity MFs, taking the total mop-up this financial year to ₹1.17 trillion. A bulk of this money has come by way of systematic investment plans.

MFs will want to keep a buffer of 4-5 per cent cash in equity schemes, some of which may be deployed during the IPO and some after listing, said a senior fund manager. "Not all money may be channelled at one go. It depends upon which schemes the fund houses are getting inflows for and what the mandate of those schemes is," he explained.

Fund managers believe investor

CASH HELD BY TOP FUND HOUSES

Mutual Fund	Amount (₹ crore)	% of equity AUM
Axis Mutual Fund	7,565	5.38
ICICI Prudential Mutual Fund	7,108	5.37
SBI Mutual Fund	6,509	5.01
HDFC Mutual Fund	4,747	3.72
Kotak Mahindra Mutual Fund	2,752	3.10
Nippon India Mutual Fund	2,337	2.47
Aditya Birla Sun Life Mutual Fund	2,129	2.20
Franklin Templeton Mutual Fund	1,837	3.51
Sundaram Mutual Fund	1,359	4.54
Canara Robeco Mutual Fund	1,324	3.94

Source: PRIME Infodatabase

appetite will hinge on the pricing and valuation, and how much money is left on the table. "Several large IPOs in the past have not made money for investors. The hope is that this time around it will be different and the government will get its pricing right," said another fund manager.

Large-sized offerings in the past, such as One97 Communications (the parent of Paytm), Reliance Power, General Insurance Corporation of

India, and SBI Life Insurance, have tanked on listing day. Paytm stock sank 27 per cent on debut.

The government could raise ₹60,000-65,000 crore by selling 5 per cent stake via an offer for sale, at a listing valuation of \$172 billion. At this scale, LIC will be the third-largest stock in India by market capitalisation, and the 32nd-largest by free float, ensuring an entry into mainstream indices, such as Nifty50, said a note by UBS.