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Debt funds the new flavour as equities sour

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Chennai: The uncertainty in the stock markets has led to a renewed interest in debt funds. Investors seem to be placing more confidence in debt and cash funds. The assets under management (AUM) of debt funds jumped 45.5% between January 31 and June 30 this year to Rs 36,086.12 crore. The AUM for equity for the same period fell 13.1% to Rs 1,71,463.24 crore, according to Valueresearch data.

For debt schemes, the AUM in June this year represents a more than two-fold jump compared to the same period the previous year. On a month-on-month basis, equity AUMs witnessed a nearly 10% decline and reached a six-month low on June 30. "In the current stock market chaos, there is no sector which has not got beaten," according to Dhirendra Kumar, director of Valueresearch, a firm that tracks the mutual funds sector.

With bond yields heading north and interest rates ruling high, fixed maturity plans



Figures in Rs crore

(FMPs) have become the flavour of the season. All the leading fund houses have come up with a host of new FMPs in the past two months. Though the returns are not assured in FMPs, investors can expect a return in tune with

BET ON DEBT

AUM in June doubled compared to the same period the previous year

ASSETS UNDER MANAGEMENT					
Date	Equity	Hybrid	Debt	Cash	Total
June 30, '08	1,71,463.24	18,749.06	36,086.12	3,34,637.81	5,60,936.23
May 31, '08	1,89,957.89	20,078.96	32,478.10	3,48,894.95	5,91,409.90
Apr 30, '08	1,83,853.91	20,109.50	28,911.36	3,28,185.94	5,61,060.71
Mar 31, '08	1,80,250.35	20,487.77	25,143.98	3,02,337.49	5,28,219.59
Feb 29, '08	2,00,140.05	22,136.91	24,529.29	3,17,153.68	5,63,959.93
Jan 31, '08	1,97,492.51	22,770.13	24,794.44	3,04,624.72	5,49,681.80
June 30, '07	1,43,501.65	20,147.33	16,277.68	2,21,595.39	4,01,522.05
May 31, '07	1,37,415.63	19,860.15	17,210.58	2,40,033.48	4,14,519.84
Apr 30, '07	1,29,553.21	19,530.33	14,872.48	1,87,279.83	3,51,235.85
Mar 31, '07	1,21,526.98	19,686.59	9,783.66	1,76,893.17	3,27,890.39
Feb 28, '07	1,19,280.26	19,960.96	10,934.89	2,04,204.56	3,54,380.66
Jan 1, '07	1,28,009.99	20,593.18	11,609.84	1,80,744.26	3,40,957.27

Source: Valueresearch

current interest rates, according to Valueresearch.

These close-ended schemes seek to generate regular returns by investing in debt, government and money market securities that mature in line with the duration

of the scheme. FMPs also attract lesser tax when compared to fixed deposits.

The cash portion, which includes liquid funds, FMPs and floating rate funds, grew 9.85% between January 31 and June 30. Hybrid funds,

which have a large portion in equity, saw a 17.65% decline during the period.

Fund managers expect fixed income schemes to remain popular given the uncertain conditions in the equity markets. "Equity markets have become quite volatile and this is the reason for the trend (investors putting money in debt funds)," says a fund manager with a leading fund house.

"Debt funds have become attractive since interest rates have gone up. Institutions too want more stable funds now and are going to the retail market with debt schemes," says Suresh Rangarajan, managing director and CEO of Artha Money, a financial products distributor. The total AUMs (equity, debt, cash and hybrid) between January 31 and June 30, grew a mere 2% compared to the 17.7% jump witnessed for the same period in 2007. However, this is a cyclical phenomenon and equity markets would rebound in a few months, says Rangarajan.