PRESS RELEASE

IIT Hyderabad Faculty Analyses the Impact of COVID-19 on the Performance of Indian Mutual Fund Industry

HYDERABAD, 20th April 2020: Indian Institute of Technology Hyderabad faculty Prof. Badri Narayan Rath has analysed the impact of COVID-19 pandemic on the performance of the Indian Mutual Fund Industry.

Mutual Funds have become the investment vehicle for propelling wealth and widening the choice of India's middle class. However, the current catastrophe amidst Coronavirus-induced nation-wide lockdown has created a havoc for both Mutual Fund investors and the Mutual Fund Industry. The aim of this research is to explore the linkage between COVID-19 and financial performance of the Mutual Fund Industry and conclude with a few insights.

Speaking about his analysis, Prof. Badri Narayan Rath, Department of Liberal Arts, IIT Hyderabad, said, "*Investors with a continuous flow of income who are aiming at long-term investment horizons should not pull out their money from mutual funds irrespective of volatility in the equity and debt funds in the short term. Instead, the small investors may shift from the Systematic Investment Plan (SIP) to Systematic Transfer Plan (STP) in the medium term to mitigate the risk amid the COVID-19 outbreak.*"

As on 15th April 2020, the COVID-19 outbreak has spread to 213 countries with nearly 1.88 million confirmed cases and 119,044 deaths worldwide (Source: World Health Organization). India being the second populous country is no exception from this pandemic. The decision of complete lockdown taken by our Honourable Prime Minister in discussion with all stakeholders in appropriate time has significantly changed the narration as compared to many advanced nations. The total number of COVID-19 cases in India has crossed slightly above 11,000 with 377 deaths, however the emergence of Coronavirus disease has already dampened Indian economy and it's too early to predict the exact magnitude of economic loss.

India officially announced its first COVID-19 positive cases on 30th January 2020 (WHO) and total number of cases were less than 100 till 15 March 2020 and thereafter the new cases have been increasing until 15th April 2020 (Figure 1). The research has taken into consideration the period between 30 January to 15 March 2020 as **COVID-19 low intensity phase** and from 16 March to 15 April 2020 as **COVID-19 high intensity phase** and compares the performance of the Mutual Fund industry.

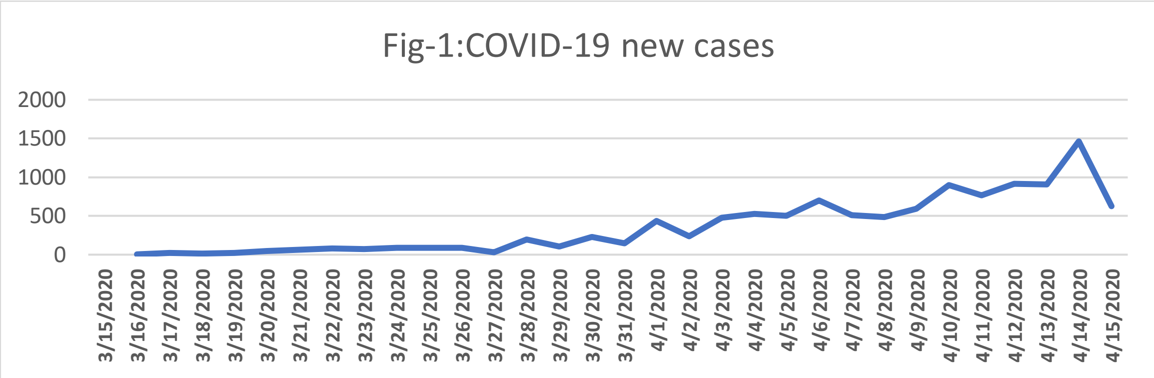

Fig-1:COVID-19 new cases

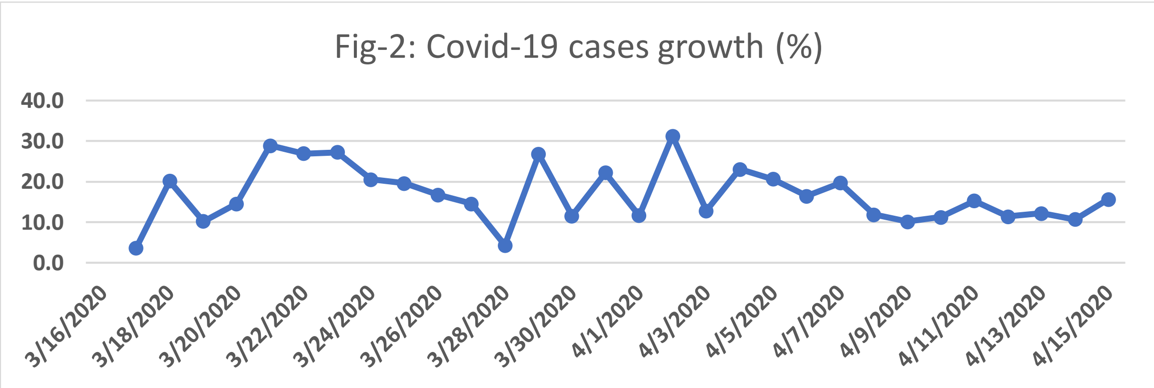

Fig-2: Covid-19 cases growth (%)

Although the new COVID-19 cases keep snowballing, it is worthwhile to notice that the growth rate of COVID-19 confirmed cases shows a steady path particularly after 5th April 2020. Figure 2 clearly demonstrates that the lockdown decision taken by both Central and State Governments has so far controlled this pandemic as compared to many western countries.

Key summary statistics of Indian Mutual Fund Industry

	Equity			**Debt**		
	Gross Purchases	Gross Sales	Net Investment	Gross Purchases	Gross Sales	Net Investment
	Covid-19 low intensity phase (30 January to 14 March 2020)					
Mean	43560.7	36736.6	6824.1	101270.4	87734.9	13535.4
S.D.	21441	17780.2	19130.7	38077.2	32392.9	17666.9
C.V	0.49	0.48	2.8	0.37	0.36	1.3
Growth	9.44	14.1	-	42481.3	172548.8	-
	Covid-19 high intensity phase (15 March to 09 April 2020)					
Mean	49214.7	41329.5	7885.2	69673.9	88465.6	-18791.6
S.D.	22608.6	19549.6	19043.8	36493.7	45614.4	31964.3
C.V	0.46	0.47	2.41	0.52	0.51	-1.7
Growth	3.2	11.9	-	455472.1	355610.4	-

Source: Estimation based on CEIC database

The investors invest in Mutual Funds through equity and debt funds. The key summary statistics table exhibits the following:

- A higher investment in debt products as compared to equity products. The mean values of gross purchases, gross sales and net investment in equity products are significantly higher in Covid-19 high intensity phase (phase II) as compared to low intensity phase (phase I). The net investment, which is the difference between gross purchases and gross sales, has increased to Rs. 7885.2 million during high intensity phase from Rs. 6824.1 million during low intensity phase.
- Based on coefficient of variation (CV), the figures clearly demonstrate that the volatility of both gross purchases and gross sales is subordinate in Covid-19 high intensity phase as compared to Covid-19 low intensity phase. However, the average growth rates of gross purchases and gross sales have significantly deteriorated in phase II as compared to phase I.
- The narrative of debt fund diverges from equity fund. In case of debt fund, the mean value of gross purchases has drastically declined from INR 101,270.4 million in phase I to Rs. 69673.9 million in phase II. On the other hand, the average gross sales of debt products have increased in phase II as compared to phase I. As a result, the mean value of net investment in debt fund has turned out to be negative (Rs.18791.6).
- The results also clearly reveal that the volatility of gross purchases and gross sales series has increased in phase II as compared to phase I. The average growth rates of both gross purchases and gross sales of debt fund has augmented in phase II as compared to phase I.
- A deeper observation based on Figure 3 reveals that the gross sales of debt shows significantly higher than gross purchases in phase II and particularly from 18 to 26 March 2020 and highly volatile too. As a result, the net investment in debt fund are negative in most of the days post 15 March.
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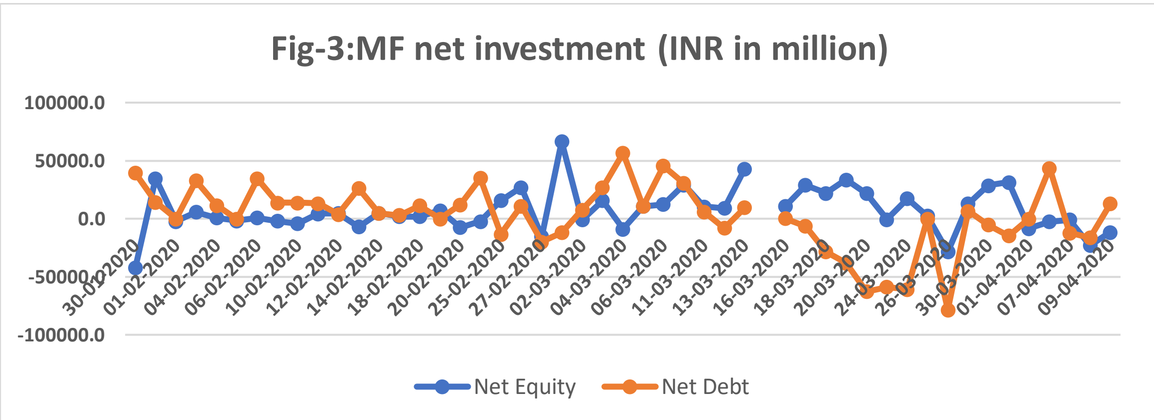

Source: CEIC database

In the wake of the COVID-19 tragedy, volatility will continue to grip the Mutual Fund industry because of investor concerns over ongoing turmoil of Indian economy. Although stimulus packages announced by both the Ministry of Finance and Reserve Bank of India (RBI) may encourage the MF investors to continue investing through systematic investment plan (SIP), at same time it poses uncertainty about their future cash flows and exposure of investment to equity assets. Nonetheless, there is no need for Mutual Fund investors to panic as long as the net asset values (NAV) of their investment drastically does not die out in this ongoing first quarter of FY2020-21.

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About IIT Hyderabad

Indian Institute of Technology Hyderabad (IITH) is one of the six new Indian Institutes of Technology established by the Government of India in 2008. In a short span of around a decade, the institute built on an imposing 570-acre campus and has been ranked among the top ten institutes for four consecutive years in the National Institute Ranking Framework (NIRF) released by the Ministry of Human Resource Development (MHRD), Government of India. The Institute was also ranked #10 in the first edition of Atal Ranking of Institutions on Innovation Achievements (ARIIA) introduced this year by MHRD to systematically rank all major higher educational institutions and universities in India on indicators related to 'Innovation and Entrepreneurship Development' among students and faculties.

IIT Hyderabad has close to 210 full-time faculty, 2,855 students of whom 20 per cent are women, nearly 200 state-of-the-art laboratories and five research and entrepreneurship centers. The Institute has a strong research focus with more than Rs. 500 crore of sanctioned research funding while Ph.D. scholars account for about 30 per cent of total student strength. IITH students and faculty are at the forefront of innovation with more than 1,500 research publications and patent disclosures, 300 sponsored/consultancy projects and 50 industry collaborations. IITH has MoUs with 50 universities in the U.S., Japan, Australia, Taiwan and Europe. IITH has been pioneering change in pedagogy with fractal academic programs that atomizes course modules, encourage interdisciplinary learning spanning innovative technology, fundamental science, liberal arts and creative arts like photography, theatre and painting.

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