Asset Concentration in Indian Mutual Funds: It is Worrisome?

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On 24th August, 2018 during the 2018 AMFI summit, the SEBI chairman expressed concern that despite the tremendous growth in the Indian mutual fund industry, a majority of market share remains concentrated with a few big fund houses[1]. He has called for appropriate measures to ensure that healthy competition prevails in the MF industry. He is also worried of the fact that a few big players have excessively high profits and revenue share. He stated that, “the share of revenue of seven large AMCs is more than 60 per cent of the total industry revenue. Profit margins of large MFs have also stood at a very healthy 40-50 per cent.”

The Indian Mutual fund industry has been growing at a very rapid pace, mainly due to the improved desire of the individual investors to participate in the stock markets without having to make the investment decisions by their own. For example, from March 2008 to June 2018, assets under management have grown from 5.21 lakh crore to 23.45 lakh crore.[2] Even after the global financial crisis, some fund families achieved pre-eminent status in the MF industry. For example, by the end of June, 2018 ICICI and HDFC Mutual fund individually control around 13 percent of the market share and together control one-fourth the industry market share in an industry which has 41 fund houses. At the lower end, we have Shriram AMC Limited and Sahara AMC Limited with a mere market share of 0.002 percent and 0.003 percent respectively.

From Table 1, it is interesting to see that four out of five top mutual fund houses in terms of AUMs are same in 2008 and 2018. These fund houses are ICICI Prudential, HDFC, Reliance Nippon, and Aditya Birla. These top 5 fund houses together command a market share of 52.76 % in 2008 and 57.23 % in 2018. The mutual fund industry has seen a significant increase in the AUMs over the past five years, though there has been a steady growth over the past decade. The industry has trebled in less than five years from 8.49 Lakh crore in 2013 to 23.43 Lakh crore in 2018 June. The main reason for this significant jump in the AUMs in the mutual fund industry is mainly due to the prevailing bull market over the last five years coupled with a below par performance of other investment classes such as debt, commodity, and real estate. The below par

[1] https://www.business-standard.com/article/markets/limited-competition-in-mutual-funds-irks-sebi-ajay-tyagi-calls-for-reforms-118082400042_1.html
[2] Author’s own computations. Data source: ACE Mutual Funds

performance in several of the other asset classes triggered investors flocking to equity markets through investments in mutual funds. Especially, the mutual fund share in the equity market rose from 1.89 lakh crore to 6.84 lakh crore during this period.

Table 1: Market share of top 5 fund houses in 2008 and 2018

Top 5 Fund Houses in 2008	**Market Share**
Reliance Nippon Life Asset Management Limited	17.45%
ICICI Prudential Asset Management Company Limited	10.43%
UTI Asset Management Company Private Limited	9.40%
HDFC Asset Management Company Limited	8.59%
Aditya Birla Sun Life AMC Limited	6.89%
Top 5 Fund Houses in 2018	**Market Share**
ICICI Prudential Asset Management Company Limited	13.25%
HDFC Asset Management Company Limited	13.10%
Aditya Birla Sun Life AMC Limited	10.64%
Reliance Nippon Life Asset Management Limited	10.28%
SBI Funds Management Private Limited	9.96%

As seen from Table 2, there has been a significant rise in the mutual fund assets since 2008. The percentage of assets held by top 5 fund houses has been steady in the range of 53 – 57 %, whereas the percentage of assets held by top 10 funds is currently above 80 %. This shows the domination of top fund houses in the mutual fund industry. The large fund houses have excessively gained market share of the new business that has been attracting the industry over the recent years as seen in Table 2. Market share attained by the fund houses is the cumulative result of various decisions made by them and the response of the investors and stakeholders towards these decisions. It is the eventual reflection of selections made by investors, which is their disclosed preferences. Understanding the market share variable is very important as it reflects the revenue earned by the fund families as function of their AUMs. In this context, there is no surprise that SEBI is worried about the disproportionate market share of mutual fund assets. But, the evidence in the mutual fund industry around the world show that there are economies of scale and scope in the industry and as a result of this fund family size has an important effect on profitability.

Another issue that the SEBI chief is worried about is the impact of Total Expense Ratio (TER) on the profitability. “You would appreciate that from an overall industry perspective, some thinking is definitely required to bring in elements that facilitate a healthy competition in the industry”, said Mr. Tyagi[3]. This statement is reasonable as the revenue of the top most funds is in India is in the range of 60% of all the industry revenue. And the profit margin of the top fund houses is in the 40 – 50% bracket. The fund houses attain this disproportionate revenue with an average 0.75% to 2.5% TER, especially in the equity segment which is quite intriguing for SEBI. However, fund houses that charge a higher fee and do not pass the benefits to the investors will in the long run lose the market share. Also, not all types of fees have a negative relation with market share. We can expect a positive relation between market share fees charged for marketing and distribution expenses.

Table 2: Market Share of Top 5 and Top 10 Mutual Fund Houses

Year	AUM (Crore)	AUM of Top 5 MFs	Share of Top 5 MFs	AUM of Top 10 MFs (Crore)	Share of Top 10 MFs
June-2008	554769	294893	53%	415861	75%
June-2009	660099	381007	58%	525826	80%
June-2010	667086	389376	58%	538754	81%
June-2011	735300	410554	56%	587736	80%
June-2012	688541	377104	55%	545286	79%
June-2013	849510	451448	53%	664201	78%
June-2014	993234	541054	54%	776621	78%
June-2015	1234432	685215	56%	985018	80%
June-2016	1446453	824275	57%	1164729	81%
June-2017	1957073	1112749	57%	1586704	81%
June-2018	2344590	1341721	57%	1896794	81%

While Mr. Tyagi and SEBI are concerned about this excessive market share as well profits by the top fund houses, industry veterans say that this is not something to worry about as this an organic form of growth in a progressive industry. Firms in an industry gain the market share if they are ready to compete in a growing environment. Especially in the Indian MF industry, fund houses which took advantage of the growth opportunities with their superior management skills as

[3] Retrieved from https://www.thehindu.com/business/sebi-to-review-mf-expense-ratio-limits/article24763045.ece

well as a stable corporate governance mechanism benefited the most. I agree with Mr. Tyagi that the MF industry with more number of players and healthy competition would benefit the customers, however it is true of most of the industries that few big players account for nearly 70 – 80% of the revenue. The analysts following the Indian MF industry have observed that big fund houses have been able to successfully consolidate their positions with their timely investments penetrating into smaller cities and towns over the past few years. This is not the case only in India, but across MF industries in the world.

Several other factors have also contributed to a positive market share in MF industry. There are several features of performance that enhance the market share; the objective-adjusted returns generated by the fund families, and at least one top performer in the family. Another important factor which led to an increased market share by some of the fund houses is their superior innovative abilities compared to their competitors. However, industry commentators say that high level of innovation will have a negative impact on market share. It is to be noted that investors are highly sophisticated due to the vast amount of information available in the public domain, and due to this fund houses initiating new schemes that are similar to existing funds have a less impact on market share. Finally, this trend of market share concentration is not specific to MF industry alone. This is even higher in the Indian insurance industry, where LIC commands more than 70% industry share with respect to the insurance premiums. Private insurance companies such as HDFC, ICICI, SBI along with LIC command more than 85% of the industry share. In the similar lines, off late some of the private banks as well as automobile firms have been commanding significant market share in their respective industries.