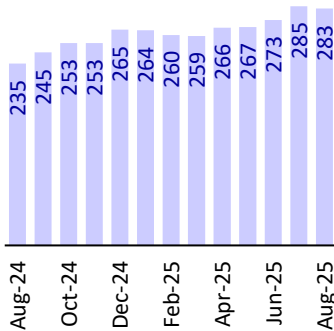


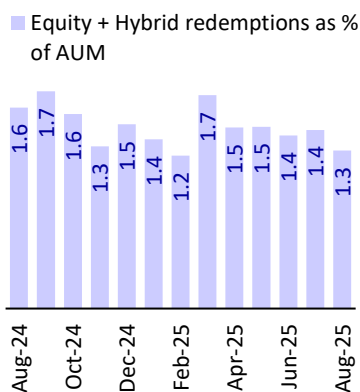
Mutual Funds

Strong trends in SIP flows continue (INR b)



Source: MOFSL, AMFI

Redemption trends steady



Source: MOFSL, RBI

SIP traction slows down as returns dip; debt segment still weak

- We interacted with a few large mutual fund distributors (having an AUM of INR10b+), a large B2B2C MF distributor, and institutional sales representatives to analyze customer behavior in the prevailing market conditions.
- Retail activity has seen some moderation on MF flows, considering that the 1-year SIP returns have been negative. The trend is more pronounced with the direct channel.
- Distribution-led models have experienced strong trends in the recent past. However, competitive intensity among B2B2C channels is increasing, leading to higher sharing with distributors.
- Against the previous corrections in markets, wherein lump sum flows used to gather pace, this time the activity on lump sum is on the lower side.
- On the debt side, strong traction is yet to pick up in spite of the cut in interest rates owing to the adverse taxation rules.
- Structurally, we remain positive on the mutual fund-related space – AMCs, distributors, intermediaries, and wealth managers. Our top picks in the space include ABSL AMC, CAMS, and Nuvama.

Retail SIP trends weak in the recent past, more so from fintechs

- Given the weak market performance (Nifty down 4.5% over the past year), SIP momentum among retail investors has moderated. New SIP registrations in August 2025 were the lowest since April 2025, although encouragingly, SIP closures have trended down, with August marking the lowest level since November 2024.
- In previous market corrections over the past five years, lump-sum flows tended to accelerate as investors viewed declines as long-term opportunities. However, under the current macro backdrop—characterized by tariff uncertainty and geopolitical tensions—investors appear more cautious and are mainly staying on the sidelines.
- Operationally, disruptions on BSE StAR MF—the dominant transaction platform for fintech players—led to multi-hour to multi-day outages in June and August 2025, blocking purchases, redemptions, and new SIP creations on apps such as Coin. These issues likely dampened inflows for fintechs during the period.
- From a business model perspective, fintechs rely heavily on digital-led customer acquisition (advertising, incentives, and referral programs). Rising customer acquisition costs in recent quarters, coupled with mounting profitability pressures, have forced platforms to reduce subsidized marketing expenses, which in turn has slowed incremental SIP additions.
- Additionally, with the festive season approaching and GST rate cuts supporting consumption demand, household spending is likely to take precedence over financial investments. On the distribution front, after the initial round of commission reductions by some leading AMCs, there has been little change in commission structures in recent months.

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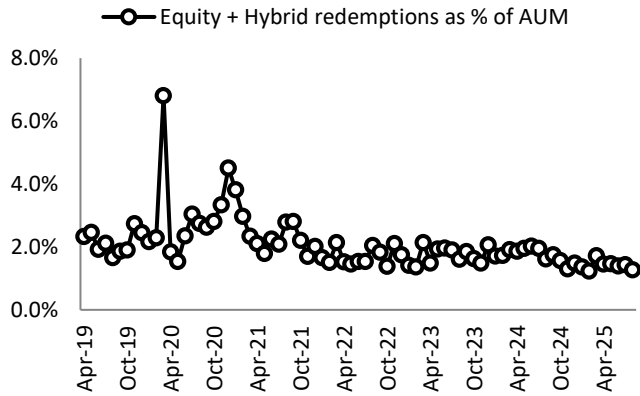
Debt flows remain muted

- Although the RBI has reduced policy rates, much of the easing had already been priced in, with yields softening ahead of the cuts. As a result, investors entering debt mutual funds post-cut have seen limited duration gains. Moreover, concerns around a potential re-steepening of the yield curve or foreign outflows pressuring the INR and government securities have further dampened appetite for long-duration funds.
- Large institutions and family offices continue to favor allocations at the shorter end of the yield curve, reflecting a preference for lower volatility and higher visibility on returns. At the same time, competition from alternative products—corporate deposits, bonds, and bank fixed deposits—has intensified. Investors remain reluctant to absorb the ~25bp cost differential associated with debt mutual fund structures.
- While portfolio diversification remains a structural advantage for mutual funds, this benefit is more likely to be recognized once there is greater clarity on a sustained downward trajectory in interest rates. In parallel, corporates, once significant allocators to liquid and ultra-short-term funds, are increasingly shifting to direct placements in commercial paper (CP) and certificates of deposit (CD). These instruments offer transparent yields, superior liquidity, and eliminate fund expense ratios, making them more attractive in the current environment.

B2B2C channel showing marked shifts

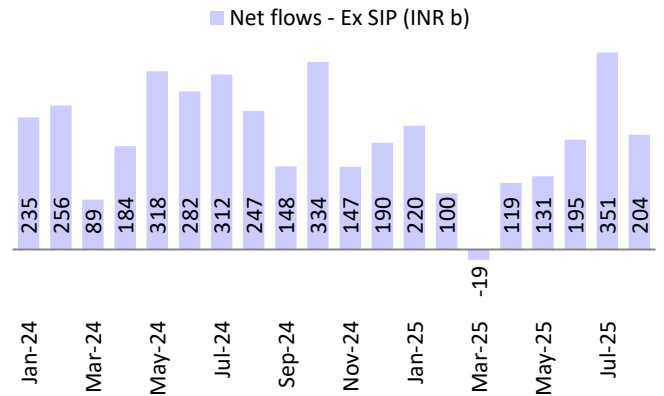
- The new wave of mutual fund distributors looks very different from legacy IFAs. The median age is now ~35 years, and expectations are closer to those of a consumer tech user: they want iPhone-level user experience, seamless onboarding, and high-quality tech support. This makes platform design, digital workflows, and mobile-first interfaces crucial in attracting and retaining distributors. B2B2C platforms that offer gamified dashboards, smart analytics, and 24x7 digital servicing are better placed to win over this younger cohort.
- The market is broadening beyond metros: in the last five years, the share of distributors outside the top 30 cities has risen from 47% to 56%. This trend makes branch-led servicing unfeasible, given that a branch traditionally covers only a 5–10 km radius. Instead, digital onboarding, remote training, and centralized call centers (e.g., 70-seater setups) are replacing physical branch dependency. B2B2C platforms thus become the critical “digital bridge” that allows AMCs to scale distribution in Tier-2/3/4 towns without massive brick-and-mortar costs.
- For distributors, three factors dominate: convenience of tech, visibility through marketing support, and clarity/competitiveness of commissions. While paying slightly higher commissions is a bonus, the real differentiator is the ease of business—quick transaction processing, compliance automation, and real-time client portfolio analytics. Platforms that bundle tech + marketing + fair commissions are emerging as the preferred partners.
- Though the distributor onboarding trend has cooled recently, structural drivers remain supportive. GST credits and income-tax benefits for distributors could materially improve economics. Meanwhile, option money and gaming-sector liquidity represent potential incremental pools of capital that could shift toward mutual funds with the right incentive structures. In the medium term, these macro/policy nudges will add meaningfully to the B2B2C distribution ecosystem’s depth.

Exhibit 2: Equity redemptions remain soft, indicating stickiness



Source: MOFSL, AMFI

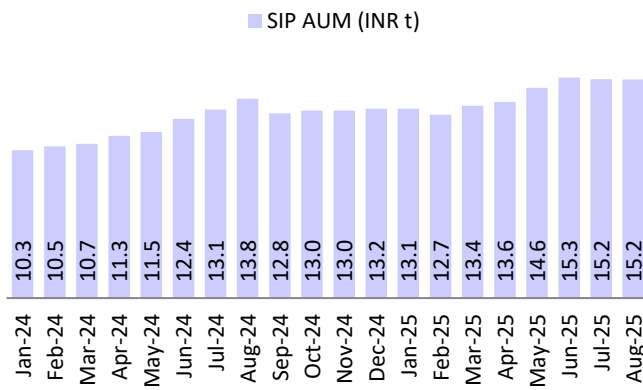
Exhibit 3: Ex-SIP net inflows have been steady in the past few months



Source: MOFSL, AMFI

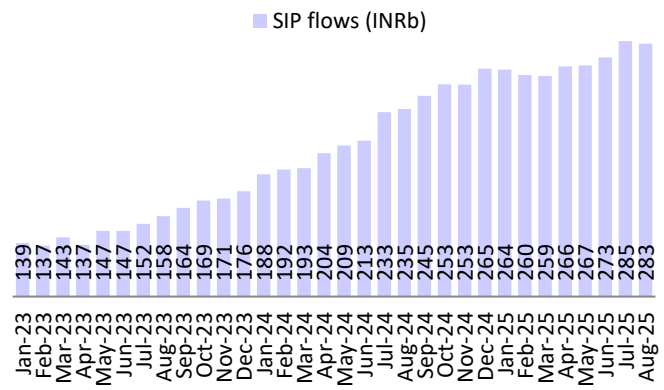
*Gross inflows in equity and hybrid, less SIP inflows and redemptions from equity and hybrid NFOs

Exhibit 4: Healthy growth in SIP AUM...



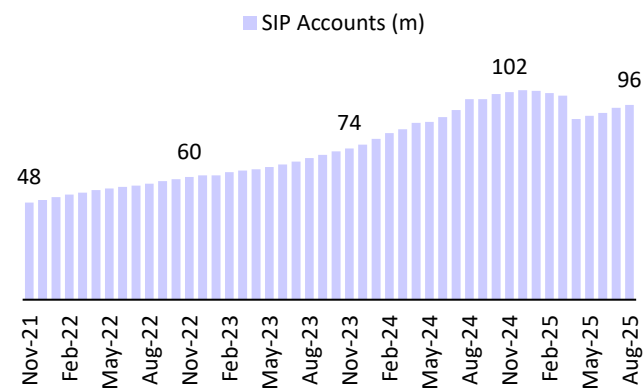
Source: MOFSL, AMFI

Exhibit 5: ...with SIP monthly flows trending upward



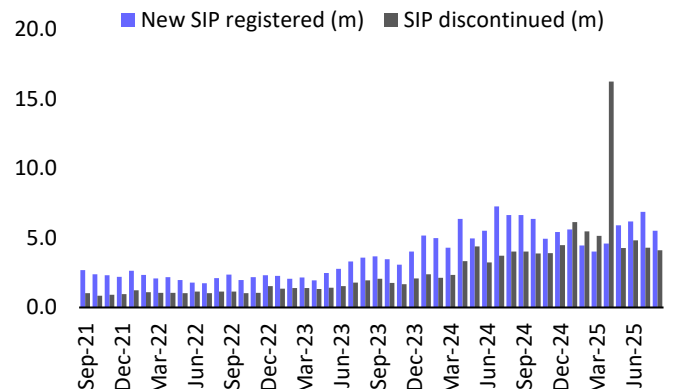
Source: MOFSL, AMFI

Exhibit 6: Sustained rise in the number of SIP accounts...



Source: MOFSL, AMFI

Exhibit 7: ...as the incremental opening of SIP accounts picks up at a faster pace than the closure rate



Source: MOFSL, AMFI

Apr'25 saw one time reset of data for stricter implementation of SIP closure

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