IIMC-CRC-2016-02

IIMC CASE RESEARCH CENTRE (IIMCCRC)
SAHADEB SARKAR, VARUN JINDAL
JANUARY 2017

IFC MUTUAL FUND: IN SEARCH OF THE RIGHT INVESTMENT STRATEGY

On a typical humid day in summer, Raman was sitting at his desk thinking about his first major job assignment with IFC Mutual Fund, a startup headquartered in the Indian city of Mumbai. He had got this job offer as part of the campus placement process at one of the top-notch B-schools in India. His conviction about the growth in India's mutual fund industry as well as his keen interest in the stock-picking strategies had made him turn down lucrative offers from some of the well-established firms.

Indian Mutual Fund Industry

The origin of the Indian mutual fund industry may be traced back to 1963 when Unit Trust of India (UTI) was formed by an Act of the Indian Parliament as a joint initiative of the Reserve Bank of India (India's central bank) and the Government of India. The entry of SBI Mutual Fund as a first non-UTI public mutual fund in 1987 marked the beginning of another phase in the evolution of mutual fund industry in India. The first set of regulations in this industry came into force in 1993 with the entry of private mutual funds which were later substituted

---

This case was written by Sahadeb Sarkar and Varun Jindal of the Indian Institute of Management Calcutta. The case was prepared solely to provide material for classroom discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation and they cannot be held liable for any loss or profit resulting from the use of the concepts highlighted in the case.

Indian Institute of Management Calcutta gratefully acknowledges the financial contribution of 23rd batch of PGP alumni in fully supporting the expenses toward development of this case study at the Case Research Centre of the institute.

with the Securities and Exchange Board of India[1] (Mutual Fund) Regulations 1996[2]. These regulations were amended from time-to-time.

The Indian mutual fund industry had 44 players covering over 2100 schemes with assets under management (AUM)[3] to the tune of over 10 trillion rupees as of September 2015[4]. The AUM volume in terms of India's GDP stood at about 5-6% which was much less than that in some of the other emerging markets like Brazil and South Africa[5]. The Indian market, despite being thinly penetrated remained concentrated with the top 10 players accounting for close to 80% of the AUM (**Exhibit 1**). The geography-wise distribution of AUM remained highly skewed with top 15 Indian cities commanding for over 85% of the AUM and Mumbai alone accounting for close to 42% of the AUM as of September 30, 2015[6].

Though there was headroom for growth, the Indian mutual fund industry continued to face challenges like lower financial literacy of investors, dynamic nature of industry regulations, limited product differentiation, and limited distribution incentives[5]. Some of these concerns were particularly pronounced outside the 15 cities where AUM was concentrated, resulting in lower penetration of mutual funds in these regions. This lower penetration had particularly been attributed to lower demand related issues like cultural attitude of the population towards investments and savings in addition to low financial literacy, as well as lower supply related reasons such as lack of talented mutual fund agents[7].

COMPANY BACKGROUND

IFC Mutual Fund, like several other professionally managed mutual funds, was formed as a trust, in line with the provisions of the Indian Trusts Act, 1882. The mutual fund was

---

[1] For knowing Securities and Exchange Board of India (Mutual Fund) Regulations 1996 in detail, refer to the URL: http://www.sebi.gov.in/acts/MutualFunds.pdf (retrieved on April 7, 2016)
[2] For knowing the historical evolution of mutual funds in India in greater detail, refer to the following URL: https://www.amfiindia.com/research-information/mf-history (retrieved on April 7, 2016)
[3] AUM comprised of the market value of assets managed by all mutual fund houses in India on behalf of their investors.
[4] AMFI monthly, September 2015
[5] Indian mutual fund industry report by KPMG: https://www.kpmg.com/IN/en/IssuesAndInsights/ArticlesPublications/Documents/Indian-Mutual-Fund-Industry.pdf (retrieved on April 7, 2016)
[6] AMFI website, http://portal.amfiindia.com/spages/QDAGVolQ2-2015-2016.pdf (retrieved on April 7, 2016)
[7] SEBI's report on "Penetration of Mutual Funds in India: Opportunities and Challenges" available at http://www.sebi.gov.in/cms/sebi_data/DRG_Study/OpportunitiesChallenges.pdf (retrieved on April 7, 2016)

registered with Securities and Exchange Board of India (SEBI), the securities market regulator in India. IFC Asset Management Company established under the Companies Act 2013 was an approved asset management company for IFC Mutual Fund. Investment management agreement mandated IFC Asset Management Company to manage the mutual fund.

IFC Mutual Fund[8] planned to raise money from the investors to trade in diversified portfolio of stocks. It had plans to initially remain confined to the equity-oriented schemes. Being a newly started fund, it wanted to establish itself in the market by providing superior returns on its schemes to investors. With an aim to be investor-centric, the fund wanted to develop not only the investment expertise, but also the process orientation for the same. The fund was yet to identify a comprehensive and robust strategy for making systematic investments into Indian equities for its various equity-oriented schemes. Since AUM in terms of India's GDP was much lower when compared to some of the other emerging markets, IFC Mutual Fund wanted to cash in on this opportunity by getting its basics right.

RAMAN'S ASSIGNMENT

Raman was tasked with the responsibility of identifying a few good stocks within the CNX100 list for investment. CNX100 was a diversified 100-stock index accounting for 38 sectors of the Indian economy and accounting for about 78.57% of the free float market capitalization of the stocks listed on India-based National Stock Exchange (NSE) as on March 31, 2015[9]. **Exhibit 2** lists the stocks comprising of CNX100. IFC Mutual Fund did not initially want to focus on the either the government stocks[10] or those stocks which had delivered negative net returns over the last 4-5 years.

Sipping his coffee, Raman thought about how to proceed with his first major assignment.

[8] For the sake of simplicity, we have used IFC Mutual Fund instead of IFC Asset Management Company throughout the case.
[9] NSE website, http://www.nseindia.com/products/content/equities/indices/cnx_100.htm (retrieved on April 7, 2016)
[10] Stocks of those companies where government has a majority ownership (>50%) may be assumed as government stocks.