

MEDIUM-DURATION, CREDIT RISK FUNDS SEE EXITS

Outflows from MFs Signal Poor Appetite for Debt Papers

Liquidity woes, likely defaults to push up borrowing costs

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Mumbai: The latest statistics on India's mutual fund industry seem to reflect the debt market's nervousness, with liquidity constraints and likelihood of defaults pushing up borrowing costs in one of the world's fastest-expanding major economies.

For the first time in April, the Association of Mutual Funds of India (AMFI) has given a break-up of net fund positions into various scheme categories after classifications were changed last year. Data showed medium-duration and credit risk funds have both recorded outflows. They are ₹531 crore for the first category and ₹1,253 crore for credit-risk funds.

Analysts say the outflows reflect the prevalent nervousness. This also means that demand for debt papers, especially short-term commercial papers (CPs), could be immediately affected.

"There could be some impact but we cannot say that it will lead to a major dent in demand for CPs. That's because most of the inflows into CPs come from liqui-

id funds, which are still standing strong," said Karthik Srinivasan, senior vice-president ICRA.

To be sure, net inflows into debt funds in the month of April stood at about ₹1.21 lakh crore, the AMFI data showed. This includes the ₹89,778 crore net inflow into liquid funds, which leads the debt fund category.

Srinivasan estimates that around ₹3.17 lakh crore of CPs, maturing in less than 90 days, will come up for renewal later this

month and in June. However, he does not believe that there could be a problem absorbing these rollovers.

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Market participants are also confident that companies will be able to roll over their short-term borrowings in the next couple of months.

"The outflow from the credit risk and medium duration fund is itself a small-sized one. Those funds do not invest in CPs. The liquid funds that invest in these papers are still positive so I think the risk is still manageable. It is true that investors have become reluctant, but there is still no cause for alarm," said R Sivakumar, head-fixed income, at Axis Mutual Fund.