

# Mutual Funds: MF managers expect redemptions of Rs 50,000 crore from debt funds in September

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Recent liquidity crunch in the system has led to redemptions from the debt funds, especially the liquid funds and ultra short-term debt funds. Fund managers expect redemptions of over Rs 50,000 crore from the debt funds in September.

In July, the mutual fund (MF) industry had seen outflows of Rs 32,628 crore, showed the data from Association of Mutual Funds in India (Amfi). In the month of July, while the MF industry had seen outflows, liquid funds and income funds had witnessed redemption of Rs 31,141 crore and Rs 7,950 crore from liquid and income funds, respectively. On the other hand, equity, arbitrage and equity-linked saving schemes (ELSS) schemes witnessed inflows of over `10,585 crore.

A senior fund manager from the leading fund house said, "On Friday and even today (Monday), there was redemption from banks and corporates from liquid funds and ultra short term debt funds, due to the liquidity tightening. But right now, with clarification from the Reserve Bank of India (RBI) and finance minister in place, there is some amount of reduction in anxiety, but people are still little jittery." He also added that in September debt funds could witness outflows of over `50,000 crore due to the current issues. While liquid funds invests in debt and money market securities with maturity of upto 91 days only, ultra short-term funds invests in instruments such that their duration of the portfolio is between three and six months.

Officials in the industry say that the liquidity crunch is due to the advance tax payment of over `1 lakh crore and recent crises in the IL&FS. "Even macro factors are not positive, as Brent crude has crossed \$80 per barrel coupled with widening current account deficit (CAD) and rupee weakening has added more pressure in the past few days. There are redemptions in debt funds, but it happens at every quarter end," said Dwijendra Srivastava, chief investment officer, debt, Sundaram Mutual Fund.

Typically, banks and large corporates redeem their money from liquid funds every quarter to book some profits, say fund managers. In the last one year, category average of liquid funds is around 6.75%, while its 6.18% for ultra short duration funds, showed the data from Value Research.

Fund managers expect more volatility in the days to come. "Right now most of the investors have turned cautious and are sitting on sidelines as far as fresh investments is concerned. They are likely to return once there is stability in the debt market," said a

debt fund manger. Fund managers also say that they should spread out their investments over multiple tranches over next few months in the debt funds.

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