Hot Mkt Prompts InCred to Shut Multi-cap AIF, Return Money

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Mumbai: InCred Asset Management has decided to shut one of its equity products, India Value Growth Fund I, and return money to investors, two months before the fund's maturity, amid growing worries about the overheating equity market.

The asset manager, owned by fiinancial services firm InCred, led by former senior Deutsche Bank executive Bhupinder Singh, said n a note to clients, it was booking profits in the fund and is handing back ₹80 crore it managed citing elevated risks of significant fluctuations in the market.

"This decision is driven by the current market conditions, which are at an all-time high, presenting a level of volatility and uncertainty that warrants caution," said the InCred note to its clients.

The practice of returning client money by asset managers on account of challenging market conditions is uncommon in India. Mutual funds usually restrict flows into equity schemes at such times.

India Value Growth Fund I, a close-ended multi-cap Alternative Investment Fund (AIF) meant for the rich, was scheduled to mature in September 2024. Since its inception in September 2019, the fund delivered an absolute return of 165.0% or an annualised 22.7% as of June 30 as against the BSE 200 Total Returns Index's gains of 142.7% or (20.4% annualised) in the same period, the note said.

"The scope for incremental IRR is reducing due to the steep valuations in the market," Aditya Sood, who manages the fund, told ET. "The markets are trading at valuations that are over three times the standard deviation, with many companies at over 100 times Price to Earnings ratio."

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Sood was the fund manager of ICICI Prudential Asset Management's Portfolio Management Services division when it shut down two schemes in January 2018 and returned money to investors because of lofty valuations back then.

"The decision to return capital to investors is largely to stay disciplined across cycles," he said. "This bull market rally has resulted in rational investors getting fatigued but there seems to be a reluctance to act."

Sood said in the other InCred equity schemes, the cash holdings have gone up by 15-25% ahead of the Union Budget, while new investors are being sensitised about the market risks at the time of onboarding.

The Indian economy remains on a strong footing, but the market risks could stem from elsewhere, he said.

"Although domestic factors remain sound, there could be a risk from tighter regulations," said Sood. "I think the bigger risks for the market could emanate from the US where there are signs of the economy slowing down."

The absence of a more prolonged market reversal in recent times on account of the uninterrupted flow of domestic money into equities may be worrying, he said.

"This is a liquidity-driven rally which has not seen a major reversal since Covid," said Sood. "The drawdown in Indian markets has been at 9% (on average) while in the US, it is not even 2.5%."