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RBI MF liquidity window to improve investor confidence, calm down corp debt mkt: Experts

New Delhi, Apr 27 (PTI) Experts on Monday termed the RBI"s move to open a special liquidity facility of Rs 50,000 crore for the mutual fund sector as "brilliant", saying it will improve investor confidence and reduce stress in the corporate debt market.

The Reserve Bank of India"s decision comes days after Franklin Templeton Mutual Fund decided to close six debt schemes with assets under management of more than Rs 25,000 crore.

With a view to easing liquidity pressures on mutual funds, the RBI decided to open a special liquidity facility of Rs 50,000 crore.

At the same time, the RBI highlighted that the stress, however, is confined to the high-risk debt mutual fund (MF) segment at this stage; the larger industry remains liquid.

Mutual fund industry body Amfi Chairman Nilesh Shah said it is a good confidence building measure to ensure continued confidence of investors on the industry as also normal functioning of the markets.

Nimesh Shah, MD and CEO at ICICI Prudential AMC, said that as a pre-emptive step, the RBI through its announcement of special liquidity facility for mutual funds has aimed to reduce the stress in the corporate bond segment.

“...This is a welcome and positive step which will improve investor sentiments. We believe that a deflationary environment where prices come down across asset classes makes debt an interesting asset class to invest in today," he added.

Given the incident about winding up of six debt oriented schemes of Franklin Templeton MF, there was much anxiousness and concern among investors, specially retail clients.

"Brilliant move by RBI to bring confidence to mutual fund investors and also will help to calm down the corporate debt market," ITI Mutual Fund CEO and CIO George Heber Joseph said.

Ankur Maheshwari, CEO, Equirus Wealth, said the RBI"s decision will provide comfort to mutual fund investors and preserve financial stability.

“Also, while banks had sufficient liquidity already, this is a reassuring step that the regulator is ready to support the markets as and when required," he added.

Under the Special Liquidity Facility for Mutual Funds (SLF-MF), the RBI will conduct repo operations of 90 days tenor at the fixed repo rate.

The scheme will be available from Monday itself till May 11, 2020, or up to utilisation of the allocated amount, whichever is earlier.

The RBI further said funds availed under the SLF-MF should be used by banks exclusively for meeting the liquidity requirements of MFs by extending loans, and undertaking outright purchase of and/or repos against the collateral of investment grade corporate bonds, commercial papers, debentures and certificates of deposit held by MFs.

"We would need to understand the definition of investment grade debt instruments. Good quality debt instruments were already getting funding, therefore what all grades of debt instruments are included will determine the actual impact on liquidity into MF system," said Omkeshwar Singh, who is head RankMF at Samco.

Kaustubh Belapurkar, Director – Manager Research, Morningstar India said the liquidity window will certainly help improve investor confidence. Mutual funds have ample AAA rated exposures which can be used for this purpose.

"But it will be interesting to see, if banks are willing to lend lower down the credit curve if it comes to that. Liquidity is constrained in the debt markets,especially lower down the credit spectrum," he added.

He, further, said that debt funds have witnessed redemptions, but most have a significant amount of liquid securities to meet redemptions. This has been in play since March, given the pessimism around the economy slowing down due to the lockdown.

Amit Jain, Co-Founder and CEO Ashika Wealth Advisors said liquidity window is a positive sentiment in short term, however in the long run, performance of underlying industry and business model will determine the future liquidity in corporate bond market

"Also, we feel, once the lockdown opens we may observe high redemption pressure by Indian corporates from these debt instruments, to fund their day to day operations," he added.

The announcement comes days after Franklin Templeton Mutual Fund, which has been operating in India for 25 years, decided to shut down its six schemes citing redemption pressures and lack of liquidity in the bond markets.

The Amfi chairman believes that the mutual fund industry continues to be on sound footing both on portfolio quality as also on the liquidity front despite an isolated incident in these challenging times.

Barring four fund houses that have collectively taken loan of Rs 4,427.68 crore, as of April 23, 2020, which is a small percentage of the RBI announcement and also overall MF Industry AUMs, none of the other 40 mutual fund houses has any borrowings, thereby indicating sound liquidity, he added. PTI SP MR
