Indian business & finance

Franklin Templeton winds up $3bn of India funds after market turmoil

US investment group halts withdrawals in move that could rock asset management industry

The Indian arm of the US fund group announced on Friday it would freeze withdrawals on six so-called credit-risk funds © Bloomberg News

Benjamin Parkin in New Delhi APRIL 24 2020

Franklin Templeton has shut six of its mutual funds in India after the coronavirus pandemic wrought havoc in the country's bond markets, in a move that traps over $3bn of investors' funds and raises risks of further turmoil across the asset management industry.

The Indian arm of the US fund group, which manages about $580bn globally, announced that it would halt withdrawals from, and wind up, six funds that invest in lower-rated bonds offering high interest rates.

That decision, which affects its Indian clients, was made after investors increased redemptions due to alarm at the spread of Covid-19. Asia's third largest economy has been largely shut down for almost five weeks as part of efforts to combat the virus's spread.

"This economic disruption and slowdown has created panic among investors," said Suman Chowdhury, president of Acuite Ratings. "This is a vicious circle . . . It can spill over to a larger number of mutual funds."

Analysts said it could take months or years for investors in the gated funds, which had Rs259bn ($3.4bn) in assets under management as of this week, to get their money back.

Winding up the funds "is the only viable option to preserve value for unit holders and to enable an orderly and equitable exit for all investors in these unprecedented circumstances," Franklin Templeton's India unit said in a statement.

Yet analysts said the move is likely to cause shockwaves in India's nascent mutual fund industry, noting that if retail and corporate investors pull more money out of debt funds other asset managers may be forced to take similar action.

The Association of Mutual Funds in India, an industry group, sought to stop redemptions from other debt funds on Friday. It implored investors "to focus on their investment goals, consult their financial adviser and not get sidetracked by an isolated event in a few schemes of one fund company".

This was a disaster waiting to happen

Saurabh Mukherjea, Marcellus Investment Managers

India's central bank has taken steps to boost liquidity in credit markets in recent weeks, to limited effect. Analysts said further measures from the Reserve Bank were now likely.

Mutual fund investing in India has taken off in recent years as millions of retail customers poured their savings into stocks and bonds for the first time.

But that has led to some messy situations for asset managers, which have been hit by the slowdown in India's economy and piled into riskier investments in their search for yield.

That has now come back to haunt them. Fund managers have been burnt by rising corporate defaults, particularly the high-profile failure of a number of lenders over the past 18 months. The near-collapse of Yes Bank last month wiped out more than $1bn in high-risk rupee bonds, which funds managed by Franklin Templeton and others had invested in.

“This was a disaster waiting to happen”, said Saurabh Mukherjea, founder of Marcellus Investment Managers, of the Franklin Templeton closures. “They’re the first to bail out. It’s unlikely they’ll be the last.”