

Roadmap for UTI

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Many people ask me: 'Will Unit Trust of India (UTI) get over its problems?' I give them two examples.

One, a man named Amitabh Bachchan, India's movie icon. A few years ago, he was in the dumps. His company, ABCL was in an unenviable position. His bungalow itself was the subject of litigation. Yet he came out of it. *All it required was positive attitude and a television program called 'Kaun Banega Crorepati'.*

I happened to read another example in a book titled 'What You'll Never Learn on the Internet', by Mark McCormack. The author refers to his interaction with a man whose father was sent to jail for financial irregularities. This is what the son had to say about the family business –

"It hurt us at first. Sales were down 30 per cent the first six months I was in charge. But then they started coming back. I learned something from that. Customers needed us and they were willing to buy from us because they didn't think our company was corrupt. It wasn't our corporate reputation that was sullied. It was my family's reputation that took the hit. My family's name, not our company image, needed rehabilitation.

"So, I did some drastic things. I removed any sign of my father from our stores and offices. It hurt personally, like I was abandoning him, but it had to be done. Then I put myself in our advertising. If it's a family business, people ought to see which member of the family is running the show now.

"But the most important thing is I never deny or try to hide what my father did. I don't revel in it, but I always acknowledge it. Even five years later, I can still see it in people's eyes when they're negotiating with me. They're wondering if I'm going to pull a fast one on them. So I go out of my way to be above reproach. If there's any grey area, I concede the point in the other side's favour. I've learned that people are incredibly forgiving, if they see you're trying."

These examples carry a deep message for UTI – positive attitude, transparency and a willingness to change. These age-old attributes will help UTI come out of what is certainly an extremely challenging situation.

Recent press reports indicate a certain willingness to change to a sounder Sponsor-Trustee-Asset Management Company legal structure operating under the framework of Securities and Exchange Board of India (SEBI). A few other steps that UTI will find useful are –

1. **Restoring goodwill among investors** – There is no point crying over the past. UTI will no doubt live up to its obligations with some assistance from the Government and the capital markets. Anything else that it can do?

Assets under management (AUM) of UTI currently stand at Rs50,000crore. If we take average management fee of 0.8 per cent, then annual management fees would be of the order of Rs400crore. This management fee could be the basis of a hugely profitable Asset Management Company (AMC).

How about giving away the shares of the AMC to investors in UTI schemes? *Investors would view it as a great gesture of goodwill by UTI.* In order to avoid free lunches, these shares in the AMC could be given only to investors who do not avail of the government-aided buyback option. Such an arrangement would be fair, since the investors who continue will bear the management fee expense that would be paid by the various schemes.

Is there anything else that UTI can corporatise into independent entities? One could be the registrar and transfer activity; another could be the entire agency network. By converting these into independent entities that can deal with UTI and its competitors, *UTI (the AMC) will be able to concentrate on its core role of managing the schemes.* The other entities can have a larger canvas to operate under. The shares of these entities too become available as vehicles to distribute value to investors who feel short-changed.

2. **New Schemes** – UTI cannot wish away the fact that investors are gravely concerned about its investment activities. Restoring the credibility would take time. Yet there is a comfort that UTI will exist even in the long term – a comfort that many of its high-flying competitors do not inspire.

UTI should therefore seek to change the whole focus of the mutual fund investors to *the long term and away from discretionary investment schemes* (where it has a disadvantage). It should promote *passive index schemes* (where the fund manager does not have a role in determining the stocks or their proportion in the portfolio) at extremely low expense ratios (which again competitors would find difficult to match). *A move to orient the industry structure towards low cost index funds could upset the apple cart of many of UTI's competitors.*

3. **International alliance** – A good international name will help UTI restore its credibility that much faster. Given the base of AUM (and related management fees) that becomes available, the partner could come in at an attractive valuation. Further, in the emerging scenario, Indian funds will invest abroad. There is also the possibility of attracting international funds for investment in India. The partner's credibility and expertise could be a significant benefit in such internationalization of the mutual fund industry.

These few steps would go a long way in helping UTI get back on its feet. Its market share will go below the current level of 50 per cent. Even a share of 25 per cent would be difficult to maintain in the next few years. But that is what happens in any industry post de-regulation. UTI does not have to worry about decrease in market share arising out of normal competitive forces. *But if the decline in market share is coupled with a decrease in AUM – and if that too is on account of causes within UTI rather than outside, then it is a serious concern.*

Unfortunately, UTI finds itself in this position of serious concern. *It can come out of it with positive attitude, transparency and a willingness to change.*