

An Analysis of Indian Mutual Fund Industry

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Abstract- The Indian mutual funds industry, which began its journey with the establishment of the Unit Trust of India in 1964, has witnessed modest growth in the recent years. There has been growth both in terms of AUM as well as the variety of products offered. The purpose is to provide the investor of moderate means in the same advantages as the large capitalists, in reducing the extent of risk of investing in foreign and colonial Government stocks by spreading the investment over a number of large stocks. This paper focuses on the importance, growth and development of mutual funds industry and also the problems and prospects of mutual funds in India. And reveals that the mutual funds industry in India had mobilised the savings of millions of investors and supplied huge amount of capital to different sectors of the economy since its inception in 1964.

However, despite the impressive growth, there still exist some crucial challenges. Low customer awareness levels and financial literacy pose a great hurdle. The industry has limited penetration beyond the top 15 cities in India. Moreover, the participation in the mutual funds industry remains skewed towards the corporate sector, meaning thereby relatively low participation by the retail sector

Keywords- *Mutual Funds, Assets Under Management, Investment.*

INTRODUCTION

The basic idea of pooling money in order to secure the advantages of spreading the magnitude of risk over many securities is not new. The idea of diversifying risks for mutual fund benefit can be traced to the very beginnings of commercial history. The purpose is to provide the investor of moderate means the same advantages as the large capitalists, in reducing the extent of risk of investing in foreign and colonial Government stocks by spreading the investment over a number of large stocks.

Meaning of Mutual Fund

Mutual fund is a financial innovation that provides for a novel way of mobilising savings from small investors and allowing them to participate in the equity

and other securities of the industrial organisations with lower degree of expected risk. According to the Association of Mutual Funds in India (AMFI), “A mutual fund is a trust that pools the savings of a number of investors who share common financial goal”. Anybody with an investible surplus of as little as a few thousand rupees can invest in mutual funds. These investors buy units of a particular mutual fund scheme that has a defined investment objective and strategy. According to the SEBI Regulations, 1996, “Mutual fund is a fund established in the form of a trust to raise monies through the sale of units to the public or a section of public under one or more schemes for investing in securities, including money market instruments”.

History of Mutual Funds in India

The history of mutual funds in India can be broadly divided into four distinct phases

- First Phase: 1964-1987:

The Unit Trust of India (UTI) came into being in 1963 by an Act of Parliament. In the initial years, UTI functioned under the Regulatory and Administrative control of the Reserve Bank of India. In 1978, the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control of UTI. The first scheme launched by UTI was the Unit Scheme 1964. By the end of 1988, UTI had ₹6,700 crores of assets under management.

- Second Phase: 1987-1993 (Entry of Public Sector Funds):

1987 marked the beginning of the second phase of growth of the industry since when mutual funds were being to set-up by insurance corporations and public sector banks. Mutual funds were set up in this phase by State Bank of India (SBI) (June, 1987), Canara Bank (December, 1987), Punjab National Bank (August, 1989), Indian Bank (November, 1989), Bank of India (June, 1990), Bank of Baroda (October, 1992), Life Insurance Corporation of India (LIC) (June, 1989) and General Insurance Corporation of India (GIC)

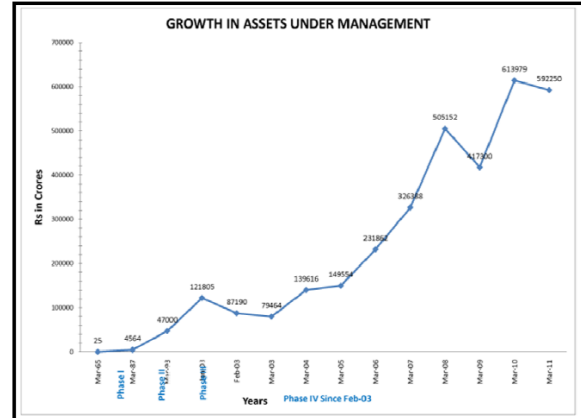
(December, 1990). By the end of 1993, the mutual fund industry had assets under management to the tune of around ₹47,004 crores.

- **Third Phase: 1993-2003 (Entry of Private Sector Funds):**

The industry came within the ambit of liberalisation in 1993. The first private sector mutual fund (Kothari Pioneer, now merged with Franklin Templeton) was registered in July, 1993. In the wake of the outbreak of scams in the stock market (Harshad Mehta Scam) and the entry of the private sector into the field, a detailed regulatory framework having the Securities and Exchange Board of India (SEBI) in the centre stage was instituted. The 1993 set of SEBI (Mutual Fund) Regulations were replaced by a more comprehensive set of Mutual Fund Regulations in 1996 that remains in force till date. The industry witnessed in this phase also the entry of foreign mutual funds. A new era of mergers and acquisitions began. By the end of January 2003, 33 mutual funds were operating with total assets of ₹1,21,805 crores. The Unit Trust of India was continuing as the industry leader with assets under management of around ₹44,541 crores.

- **Fourth Phase: Since February 2003:**

Following the repeal of the Unit Trust of India Act, 1963, the UTI was bifurcated into two separate entities in February 2003. The first of the two entities was the Specified Undertaking of the Unit Trust of India with assets under management of ₹29,835 crores as at the end of January 2003 (representing broadly, the assets of US 64 scheme, assured return and certain other schemes). This entity functions under an administrator under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations. The other entity was the UTI Mutual Fund, sponsored jointly by SBI, PNB, BOB and LIC, which was registered with SEBI and now functions under the Mutual Fund Regulations. This fourth phase of the industry's growth is still continuing when with a continuing spate of mergers of different private sector firms, the mutual funds industry is consolidating its operations and growth.



Types of Mutual Funds

Mutual funds may be of many types depending on operations, investment objectives or on a mix of other bases. These are shown below:

Classification by Operations

On the basis of operations of mutual funds schemes, they have been classified into open-ended, close-ended and interval funds. These have been discussed below in detail.

- **Open-Ended Funds**

An open-ended fund allows investors to buy and sell its units at all the times based on its net asset value (NAV). As a result of this, the AUM of these funds goes on changing based on the frequency and volume of trade of its units. The prime advantage of these funds is the liquidity.

- **Closed-Ended Funds**

The units of a close-ended fund remain open for subscription only during the initial offer period and can be sold only at maturity. Premature redemption is not allowed for such schemes. Therefore, the units of such schemes are compulsorily listed on a recognised stock exchange and subsequently the units can be traded on the stock exchange where it is listed.

- **Interval Funds**

These possess the characteristics of both open-ended and close-ended funds. The units of these funds may be traded during pre-specified intervals at NAV based price.

Classification by Investment Objectives

Funds under this category are defined on the basis of their objectives. They serve the investment need of the

different type of investors based on their risk and return profile. The classification of these funds is as follows:

- Growth Funds-
These are driven by the objective to provide capital appreciation over medium to long term. The maximum of the corpus of these schemes are normally invested in equities and equity related instruments and therefore possess relatively high degree of risk.
- Balanced Funds -
The objective of the balanced funds is to provide both growth and regular income over a long period of time. These funds make investments in both equities and fixed income securities in a proportion as specified in their offer document.
- Income Funds -
The primary objective of income funds is to provide regular and steady income. These funds predominantly invest in fixed income securities such as bonds, corporate debentures and money market instruments and are less risky compared to growth funds.
- Money Market/Liquid Funds -
These funds provide easy liquidity, capital protection and moderate income. The corpus of these funds is exclusively invested in safer short term instruments such as treasury bills, certificates of deposits, commercial papers and interbank call money. The returns from these funds are relatively steady.
- Gilt Funds -
These funds make investments exclusively in government securities such as central government dated securities, state government securities and treasury bills. These are suitable for investors who are searching for risk free investments.
- Floating Rate Fund -
Floating rate funds are debt funds which invest about 75 to 100 per cent of their corpus in securities that pay a floating rate interest such as bank loans, bonds and other debt securities and the remaining in fixed income securities.

- Fixed Maturity Plans (FMP) -
The characteristics of Fixed Maturity Plans (FMPs) closely resemble to that of close-ended funds. These are the passively managed funds and make investments in securities such as certificate of deposits and commercial papers which are held in the portfolio till maturity.
- Monthly Income Plans (MIP) -
Monthly income plans are primarily driven by the objective of generating regular income for its investors. To achieve this objective, the funds invest its corpus in fixed income securities so that the unitholders can be made monthly payment.
- Sector Funds -
The corpus of Sector funds is invested in a specified sector only such as pharma, biotech, IT or in specified products. As a result of this, the sector funds lack the benefit of diversification and possess high risk.

REVIEW OF LITERATURE

Agarwal (2003) revealed that the performance is affected by the saving and investment habits of the people and the second side the confidence and loyalty of the fund Manager and rewards affects the performance of the Mutual fund industry in India.

R. M. Kumar and Joy (2023) shows that there is a positive relationship between the Sensex and macroeconomic factors except inflation and unemployment rate as they show negative relationship.

V Jambodekar (1996) conducted a study to assess the awareness of MFs among investors, to identify the information sources influencing the buying decision and the factors influencing the choice of a particular fund. The study reveals among other things that Income Schemes and Open Ended Schemes are more preferred than Growth Schemes and Close Ended Schemes during the then prevalent market conditions. Investors look for safety of Principal, Liquidity and Capital appreciation in the order of importance.

Babbar (2016) suggested that the mutual funds that are small in size, have low growth of assets under management, low net asset value and high experience in terms of age of the fund are successful in generating superior one period ahead risk adjusted performance

M. Patel, S. Gupta and Madhavan (2023) Our findings indicate that (a) fund managers practice securities selection, but their securities selection ability fails to improve risk-adjusted returns; (b) higher style consistency leads to better risk-adjusted performance; and (c) investment style and style consistency have considerable impact on fund performance.

OBJECTIVE

1. to examine the performance of the fund houses
2. To study the importance, growth and development of mutual funds industry in India
3. To study the problems and prospects of mutual funds in India.

RESEARCH METHODOLOGY

The study adopts for itself a descriptive framework and bases the enquiry mainly on secondary data. The secondary data is used to examine and evaluate the ex-post performance of mutual funds. The data was gathered from a variety of journals and websites. Secondary information relies on details gathered from earlier research projects carried out by other periodicals.

RESULT AND DISCUSSION

1. The combined shares of Indian fund houses in world's total assets under management were found to be minuscule. While the United States alone accounted for more than half of the world's total assets under management with Europe with a 34 per cent share occupying the second position, India's share was found to be less than one per cent of the total assets under management worldwide.
2. The mutual funds industry in India had mobilised the savings of millions of investors and supplied huge amount of capital to different sectors of the economy since its inception in 1964. Starting with an asset base of Rs. 24.67 crore in 1964-65, the industry has grown to Rs. 6,11,402 crores by the end of December, 2010-11 registering 26.27 percent compound annual growth. Its total investor base has increased from 1.32 lakh (0.029 percent of total population) in 1964 to 4.72 crore (3.9 percent of total population) in 2011. The total

number of schemes have risen from only one scheme in 1964-65 to 1,226 in 2010-11 positing 19.77 percent compound annual growth. The total number of mutual fund players have also increased from merely 1 in 1964-65 to 44 in 2010-11 at the compound annual growth of 11.91 percent. The above-mentioned figures clearly show that mutual funds industry has made tremendous progress since its inception.

3. Our findings regarding mutual fund problems reveal that low level of financial literacy and awareness among investors are the major problem of mutual funds industry. The awareness about mutual fund products is quite low especially in semi urban and rural areas as majority of people in these areas find it difficult to differentiate between mutual funds and direct stock market investments.

Also, the punishment imposed by SEBI on mutual funds violating its regulations is very small. The absence of adequate fund governance and penal provisions in mutual fund regulations encourages guilty parties to go for bigger scams.

Mutual funds usually use tough and vague language in writing their investment policies. These are written in a manner that investor may get confused.

High cost of mutual funds is an important problem of mutual funds industry which appears mainly in the form of high fees and commissions.

CONCLUSION

In today's dynamic market-environment, the promotion of financial literacy is seen as a critical imperative for optimising growth of the mutual funds industry. Although, the investors in metros are more familiar with mutual funds as a profitable channel of investment, people in smaller towns and cities are not in a position to assess the pros and cons of various MF schemes and of the risks attached thereto, and therefore disclosures need to be made very clear and easily accessible by all present and prospective investors. Mapping the requirements of investors in the form of a hierarchy of needs shows that the new age investor demands higher rate of returns, more transparency and the freedom to choose from a wide range of product alternatives.

In spite of the several problems faced by the mutual funds industry in India, its growth has been quite

encouraging over the years. It is evident from the mounting growth of AUM, market participants, investor base and total number of schemes offered during the forty-seven years of industry's operation. On the basis of which, the industry is anticipated to sustain its encouraging trends in future also. The country's economic and financial growth scenario also foretells the good future of mutual funds in India. It is evident from the fact that with the continuously rising savings rate, the investment activities in mutual funds have also risen in the country. So, it is expected that in coming years, mutual funds will tap the larger portion of domestic savings especially household savings.

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