e-ISSN: 2582-5208
International Research Journal of Modernization in Engineering Technology and Science
(Peer-Reviewed, Open Access, Fully Refereed International Journal)
Volume:06/Issue:02/February-2024 Impact Factor- 7.868 www.irjmets.com

A STUDY ON GROWTH OF MUTUAL FUNDS IN INDIA

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DOI : https://www.doi.org/10.56726/IRJMETS49095

ABSTRACT

Mutual funds is type of an Investment institution which mobilize saving of individual and institutions and channelizes these saving in corporate securities to provide investors a steady stream of return and capital appreciation mutual funds are based on the principle of 'Trusteeship' which means working on the behalf of someone else for the benefit of interested party and providing protection to such party.

Since the stated investment objectives of a mutual scheme generally form the basic for an investor's decision to contribute money to the pool mutual fund can not deviate from its stated objectives at any point of time. Every mutual fund is managed by a fund manager, who using his investment management skill and necessary research work ensures much better return than what an investors can manage on this own. The capital appreciation and other incomes earned from these investments are passed on to the investors (also know as unit holders) in proportion of the number of units they own. It is a special type of institutional device or an investment vehicle through which the investors pool their saving which are to be invested under the guidance of team of expects in wide variety of portfolios of corporate securities in such a way, so as to minimize risk, while ensuring safety and steady return on investment. It forms an important part of the capital market, providing the benefits of a diversified portfolios and expert fund management to a number large number, particularly small investors.

Keywords: Investment, Mutual Funds, Investor's, Protection, Management, Safety, Diversified, Revere Bank Of India (RBI)., Unit Trust Of India (UTI).

I. INTRODUCTION

1. History of the Indian mutual fund Industry:

The Indian mutual fund industry began with the formation of unit Trust of India (UTI) in 1963. The first mutual fund was units scheme 64. The (UTI) introduced several schemes aimed at different section of people. The end of year 2017 marks 54 years of existence of mutual funds in this country. The ride through these 54 years is not been smooth. The history of mutual funds in India can be broadly divided into four distinct phases.

First phases - 1964 - 1987

The Unit Trust of India (UTI) was established on 1963 by an act of parliament. It was set up by the Reserve Bank of India and functional under the Regulatory and Administrative control of the Revere Bank of India (RBI). The period between 1964 and 1987 was marked by operations of a single institution UTI, which prepared ground for the future mutual fund industry. The first and still the most popular product launched by UTI was unit scheme.

Another popular plan, unit Linked insurance plan (ULIP), was launched in 1971. During 1984-87, innovative and widely accepted scheme like children's Gift Growth Fund, (1986) and Master share (1986) were launched. The first Indian offshore fund, India fund, was launched in August 1986.

Second Phase - 1987-1993 (Entry of public Sector Funds)

In 1987, the commercial banks and the insurance companies were also permitted to launch schemes. Among the public sector banks, first to enter the industry was State Bank of India Mutual Funds (SBIMF) and Canara Bank Mutual Funds (CANBANKMF) in 1987. With the advent of this competition the market witnessed sudden growth. Indian Bank Mutual Funds (Indbank MF) and LIC Mutual Funds (LICMF), entered the market in 1989 followed by Bank of Indian Mutual Funds (BOIMF), Punjab National Bank Mutual Fund (PNBMF), General Insurance Corporation Mutual Fund (GICMF) in 1990. During 1991, The Government felt the need for a regulating authority to oversee capital market activities for the purpose of protecting the interest of investors. This objective has been stated in the preamble of the securities and exchange Board of India, Act. 1991. The Securities and Exchange Board of India (Mutual Funds) Regulations, 1993. Came into effect on 20 January, 1993 was the first attempt to bring mutual funds under a regulatory framework and to give direction to their functioning. This period was market by the entry of non-UTI public sector mutual funds in the market, bringing in competition.

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

During this period only 4 private funds namely Tata MF, Reliance MF, HBMF and Jardine Fleming MF entered the industry. New players have come in while others have decided to close shop by either selling off or merging with other. The rise of fund management industry is now bearing a significant impact on some associated areas such as distributors, banking, other saving products, registers and transfer agents, to name a few. In 1994-97, the private sector funds did do well and the UTI maintained its market share.

Fourth phases-since February 2003:

In the February 2006, following the repeal of the unit Trust of India Act 1963 UTI was bifurcated into two separate entities one is the specified undertaking of the unit Trust of India with assets under management of Rs 29,835 crores as at the end of January 2006, representing broadly, the assets of US 64 scheme, assured return and certain other schemes. The Specified undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by government of India does not come under the purview of the mutual fund Regulations. At the end of March 2016, there were 52 mutual funds, which managed assets of Rs 13,765,555 crores under 2133 scheme (AMFI Newsletter, 2016).

2. Growth trends of mutual fund industry in India:

Mutual fund Industry showed the satisfactory growth over the past decade. The mutual fund industry now proffers a very wide range of choices for investment to the potential investors. The industry has grown in stature to such an extent that it now acts as a reasonably strong counterforce to the foreign institutional investors in the stock market during time of high volatility which is the hall march of the sustained intermediate bull runs in the stock market. The mutual fund industry in India has seen dramatic improvements in quantity as well as quality of product and service offerings in recent years.

The mutual fund industry has gained the ability to offer wide variety of investment option for the Indian investor's population in general. Until in the recent past the Indian investors were largely left with options like investing in bank deposits such other low return nature's investments. Now, the investing population of the country has the choice of investing in mutual fund scheme that can match very well with the variegated investment needs of Indian investors. A wide mix of mutual fund investment options like high growth schemes, predominantly income scheme, tax saving scheme, are now available to the Indian investor both on the platform of open - ended scheme and closed- ended platform.

Another important development in the industry in recent times has been that top- notch managerial talent fined the mutual fund industry to be sufficiently attractive. The policy makers have also become sufficiently sensitized to the need to promote the mutual fund industry in a big way so that the pension fund management becomes less of knotty issue for various employers including the government itself. Growth and development of various mutual funds products in the Indian capital market has proved to be one of the most catalytic instruments in generating momentous investment growth in the capital market. The Assets Under management (AUM) reached to the height of Rs 1,828,151 crores in march 2017 after private and foreign mutual fund companies created their foot print in India.

3. Role of mutual funds in Indian economy:

Indian mutual funds have emerged as strong financial intermediaries and are playing a very important role in bringing stability to the financial system and efficiency to resource allocation mutual fund have opened new vistas to investors and imparted much needed liquidity to the system. In the process, they have challenged the hither to dominant role of commercial bank in the financial market and national economy. The impressive growth in the Indian mutual fund industry in recent year can largely be attributed to various factors such as rising household saving, comprehensive regulatory framework favorable tan policies introduction of several new products, investor education campaign and role of distributors. An attempt is made to examine the role of mutual fund in the Indian financial sector.

In general, it appear that the mutual fund in India have given a good account of themselves so far total AUM of the MFs have grown from Rs 3.26388 lakh crores in march 2007 to Rs 17.5 lakh crores in march 2017. Mutual funds have the potential for organic growth participate in this market must become the opportunity seeking missiles exploring path breaking initiatives to lead the revolution. Mutual funds play an important role in mobilizing the household saving for deployment in capital markets.

4. The 4As contributing to the growth of the Indian mutual fund Industry:

Mutual fund Industry in India is set to reach new heights in the coming years. Over the last decade, the total assets managed by mutual fund houses rose by 70% let look at the major factors influencing this spurf of growth.

It's a common notion that Indians household 'save' much compared to their counterpart in other parts of the world. Despite this investment in mutual funds have been minimal as compared to other avenues for investment of the late however, we are seeing a change with the changing demographic profile of the Indian population.

With new products being launched, coupled with financial awareness and literacy initiatives by the industry and the regulator, investors are beginning to recognize mutual funds as a tool for attaining financial goals rather than as mere investment means.

Among the multiple factors, there are four that are heavily influencing investors to fall in love with mutual funds.

Accessibility:

Emerging distribution channels based on online and mobile platform are expected to gain further prominence in mutual fund industry, mobile technology is acting as an enabler in reaching out to investors in far and distant places. Gone are the days when investors travelled to the nearest mutual fund house office to fill up forms and submit photocopies of PAN and other documents. With e-KYC soon to become a reality, investors will no longer need to visit offices to submit documents. Then why should they visit offices to buy or sell mutual funds?

Though the mutual fund houses were quick to offer online (web-based) transaction services, the idea of extending these services through mobile applications has gained momentum only recently. A number of mutual funds houses have already launched mobile applications to enable their investors to 'buy' mutual funds or from the convenience of their office or home. Along with mutual fund houses, third party mutual fund distributors like 'Funds India' have also come up with intuitive mobile applications.

Along with the basis features required for mutual fund transaction, such apps will be equipped with gamification tools. These tools help to identify the risk appetite and investment objectives of investors, thus guiding them to suitable funds.

Affordability:-

As per a study by KPMG, a lion's portion of mutual fund participation is restricted to the top five cities in India viz. Mumbai, Delhi, Bangalore, Chennai and Kolkata. This is mainly because of the high concentration of HNIs in these cities.

However, it is estimated that the disposable income of the Indian youth will increase threefold by 2020. And as it is always, the cost of investing and maintaining the mutual fund is relatively less compared to other investment options like equity or commodity trading. These points, along with many other positive factors related to job and income scenario will boost the mutual fund industry in the coming years.

Affordability

Accessibility

Mutual funds

Awareness

If we compare the mutual fund penetration in India to other parts of the world, we get a very weak correlation with GDP.

In India, the AUM to GDP ratio stands at 7 to 8% as compared to a global average of 37% according to a PWC - CH report, mutual fund participation will largely depend on increasing Availability.

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Awareness :-

investor awareness at grass roots level. In it's effort to increase investors awareness the industry and the securities and exchange Board of India (SEBI) have launched several initiatives. These include awareness programmes and campaigns to propagate financial education to various investor segments, including potential investors.

Hopefully, the collective efforts of regulators and mutual fund houses towards awareness programmes will yield good results in the coming years Indian mutual fund house's effort to reach out more into tier II to III cities will also yield more results in the coming years. Some mutual fund houses are even providing higher commission to their agents for the business brought in from these cities.

Availability:

With the number of mutual fund houses, the number of fund offerings with different composition and investment objective are plenty. Investors have a large choice to select from, whatever be their objective, be it building up their wealth, pension corpus or fixed income.

Mutual fund houses are offering a handful of SIP options, which cater to a different investor behavior. Currently, SIP is possible or a fixed amount/ units. Some fund houses have deployed advanced logarithms to work towards investor profitability (SIP sure, smart SIP etc.)

Out of these 4A's the latter three can be achieved by mutual fund houses and regulators through product innovation and awareness programmes. However, to implement the first one - accessibility mutual fund houses may need to partner with technology providers. Technology providers with mobility expertise can help mutual fund houses to launch their products through mobile applications with India's youth embracing mobility at an unprecedented rate, providing additional channels through mobile is a key and inevitable strategy.

5. Latest reforms in Indian mutual fund Industry:

The Association of mutual funds is India (AMFI) has submitted a series of recommendations to Securities and Exchange Board of India (SEBI) for upgrading the standards of Indian mutual funds industry to the international levels, the market regulators SEBI introduced some really path breaking reforms which in the long run could prove beneficial to the industry even as it hurts the industry in the short run in terms of investment inflows. Some of the recent investor friendly measures introduced by the SEBI are as follows:

- In order to have parity among all classes of unit holders, the SEBI has asked fund houses that no distinction should be made among unit holders based on the amount of subscription while charging exit loads. The parity among all classes of unit holders in terms of charging exit loads shall be made applicable at the portfolio level.
- Buying/Selling of mutual fund units allowed through NSE/BSE registered stock brokers. The move is aimed at improving penetration of mutual funds among investors at large.
- Fund houses will be able to charge their investors a little bit more as incentive for expanding to small cities, but would also have to set aside a small portion of their assets for investor education and awareness.
- In a recent measure, SEBI now requires Asset Management Companies to dispatch dividend warrants within 30 days of the declaration of the dividend, falling which the AMCs shall be liable to pay interest @ 15% per annum to the unit holders.
- SEBI has asked fund houses to declare their dividend payouts in rupee terms, instead of percentage - wise. The regulator has asked AMCs to follow the same in their future communications and advertisements as well. The move, many industry players believe, is an important one towards preventing mis-selling of mutual funds products by glorifying the percentage of dividend payouts, normally used to impress prospective investors. According to market players, SEBI's move to make MFs declare dividends in rupee term is aimed at making the actual dividend paid transparent.
- SEBI the market regulator has asked MFs to disclose the details of investor complaints on their websites, as well as annual reports.
- Among other measures, the fund houses would have to calculate the Net Assets Value (NAV) of the scheme on daily basis and public the same in at least two daily newspapers with nation-wide circulation. Also, any exist load charged by the fund houses would have to be credited to back to the scheme.

- SEBI has also made it mandatory on part of fund houses to benchmark returns on investment against the Sensex and Nifty instead of sectorial indices. This is done to give the investors a fair idea about their returns vis-a-vis the returns from the stock market. Setting one particular benchmark will help investors gauge performance of funds better, rather than rating the returns against different indices.

Among various reform measures taken by (SEBI) Securities & Exchange Board of India, the fund houses will have to make more disclosures in the interest of investors. They also have to shift to the one plan per scheme model, moving away from the present practice of cluttering one scheme with numerous plans. In order to shift the sales incentive plans from the traditional front-ended schemes to trail orientation, SEBI recently announced significant changes to the commission strictures. Commissions are now payable through a trial mechanism where the advisor receives commission on the assets retained by a scheme or fund on an ongoing basis. This takes away the temptation to cause investment churn for commissions. Also, in order to deepen the penetration beyond the top 15 metros or cities, the regulation now permits fund- houses to charge an additional fee of up to 0.3% more for the expense on the investment flows from small cities and towns. However, this is associated with mutual funds drawing 30% of new inflows from these smaller towns. For example, it a fund house gets less investment, such as say 20% of new investment, them the ratio will go up by 0.2% only. This is likely to push distributors to penetrate markets further, increasing the sales of mutual fund products and thereby bringing in new investors.

II. FUTURE SCENARIO

Future of the mutual fund industry is bright. The Indian mutual fund industry has been growing at a break-neck pace if the recent data is anything to go by. The following visual might be a better aid to understanding the phenomenal growth rate of MF AUM in India.

Growth rate of MF AUM in India is simply mind blowing. So what has fulled this recent growth ?

A lot of factors are at play here but I will list 2 major factors:

(i) We Indians have traditionally been in the habit of putting our saving in Real Estate, Gold or Hard cash. The only financial asset that we have historically preferred is bank fixed Deposit (or other saving scheme). As the bank FD rates keep falling, strong hard cash and gold keeps becoming risky. Moreover with the Real Estate market stagnating, savers are now forced to look at alternative way of saving. And the best alternative is mutual funds.

(ii) Demonetization- I don't know if it failed or not or what long - term impact will it have. But one impact is clearly visible. The cost of tax avoidance has increased. So a lot of people with accountable income (black money) are looking for way to convert it to white and this money is finding its way into mutual funds. I am not saving that entire black income is now white and taxes are paid on it. But definitely a much larger percentage of black money is finding its way into mutual funds after 8th Nov. 2016. Apart form these two, there are several other factors like increased awareness, rising income level, booming stock market, ease of transaction, advent of online mutual fund distributors so on and so forth.

The future of mutual fund in India is very bright, through it has paused owning to the structural change that is underway. If one believe that the goal of 'financial inclusion' would be met realistically, tremendous expansion of the industry can be visualized.

III. CONCLUSION

The MF industry has grown exponentially over the last decade. However, opportunities for further growth exist. The demonetization exercise has disrupted the economy in general and the financial sector in particular. Digital payment have been further encouraged on the back of promoting a cashless economy, one of the key outcomes of demonetization. Success of mutual fund however would bright depending upon implementation of suggestions. With AUM now approaching pre- crisis levels, the mutual fund industry has plenty of positive momentum heading into 2013. To date, many fund companies have persevered simply by staying abreast have their contemporaries, a strategy that has helped them reclaim lose ground since the global downturn.

But now some fund managers are considering strategies that would put them in the passing lane. Some will enter the ETF marketplace. Other will refine their selection criteria to improve their chances for solid fund launches. And many more will focus on retooling their back- and middle-office support functions in a bid for operational excellence. Of course, some key uncertainties linger particularly on the regulatory front. But uncertainty is nothing new to this industry, and these uncertainties seem unlikely to push fund leader off the road. Rather, expectation that fund leader will dig in and drive the kinds of change that have made mutual funds one of the most investors friendly and profitable investment vehicles around.

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