Mutual Fund Industry in India: Recent trends & Progress

Presented by

NAME OF THE AUTHORS 1: MS. ARCHANA

DESIGNATION: LECTURER IN COMMERCE AT ST' ANNE'S FIRST GRADE COLLEGE FOR WOMEN, MILLERS ROAD BANGALORE

ADDRESS: ST ANNE'S FIRST GRADE COLLEGE FOR WOMEN MILLERS ROAD VASANTHNAGAR BANGALORE

E-MAIL ID: archana.sathish1991@gmail.com

MOBILE NUMBER: 9900609378

NAME OF THE AUTHORS 2: MRS. TABASSUM

DESIGNATION: LECTURER IN COMMERCE AT ST' ANNE'S FIRST GRADE COLLEGE FOR WOMEN, MILLERS ROAD BANGALORE

ADDRESS: ST ANNE'S FIRST GRADE COLLEGE FOR WOMEN MILLERS ROAD VASANTHNAGAR BANGALORE

E-MAIL ID: tabs_8@rediffmail.com

MOBILE NUMBER: 9901481736

Mutual Fund Industry in India: Recent trends & Progress

(Abstract)

Mutual funds are distinctive because instead of buying a security like stocks or bonds issued by a single institution, you buy into a portfolio that includes securities issued by a number of companies and/or government agencies. Mutual funds is a mediator that brings together a group of people and invests their money in stocks, bonds and other securities.

Mutual Fund is an institutional arrangement wherein savings of millions of investors are pooled together for investment in a diversified portfolio of securities to spread risk and to ensure steady returns. These funds bring a wide variety of securities within the reach of the most modest of investors. It is essentially a mechanism of pooling together savings of large number of investors for collective investment with an approved objective of attractive yield and appreciation in value. The Mutual Funds offers different investment objectives such as growth, income and Tax planning.

In the recent times the Indian Capital Market has witnessed new trends, one of them being the spectacular growth of Mutual Funds. There are more than 1000 schemes offered by Mutual Funds, and these funds have mobilized substantial amount of the household savings. The paper presented will focus on the growth of Mutual Fund Industry in India over the past few years.

Keywords: Capital market; Portfolio; Assets under management ; Income Debt Schemes ; equity oriented schemes.

Introduction

Historically, Mutual Fund investment traces its origin to the early pioneering investments of Scottish and English investors in the American West in the 1800s and later of the early global portfolio investors in Japan in the 1960s. The "investment trust" concept spread rapidly through Europe, and the first American fund was created in 1893. The idea spread quickly around the world, but it came to India only in the 1960s.

The Mutual Fund Industry in India started in 1963 with the formation of Unit Trust of India (UTI), at the initiative of the Government of India and Reserve Bank of India. The year 1987 marked the entry of non-UTI, public sector Mutual Funds set up by public sector banks and Life Insurance Corporation of India Limited (LIC) and General Insurance Corporation of India Limited (GIC), with the entry of private sector funds in the year 1993, a new era started in the Indian Mutual Fund Industry, giving the Indian investors a wider choice of fund families. As at the end of November 2007, there were 32 funds, which manage assetsof Rs.537943 crores under 840 schemes

Current Scenario of Mutual Fund in India

The Indian Mutual fund industry has witnessed considerable growth since its inception in 1963. The assets under management (AUM) have surged to Rs 4,173 bn in Mar-09 from just Rs 250 mn in Mar-65. In a span of 10 years (from 1999 to 2009), the industry has registered a CAGR of 22.3%, albeit encompassing some shortfalls in AUM due to business cycles. The impressive growth in the Indian Mutual fund industry in recent years can largely be attributed to various factors such as rising household savings, comprehensive regulatory framework, favorable tax policies, and introduction of several new products, investor education campaign and role of distributors. In the last few years, household's income levels have grown significantly, leading to commensurate increase in household's savings. Household financial savings (at current prices) registered growth rate of around 17.4% on an average during the period FY04-FY08 as against 11.8% on an average during the period FY99-FY03. The considerable rise in household's financial savings, point towards the huge market potential of the Mutual fund industry in India.

Besides, SEBI has introduced various regulatory measures in order to protect the interest of small investors that augurs well for the long term growth of the industry. The tax benefits allowed on mutual fund schemes (for example investment made in Equity Linked Saving Scheme (ELSS) is qualified for tax deductions under section 80C of the Income Tax Act) also have helped mutual funds to evolve as the preferred form of investment among the salaried income earners.

Besides, the Indian Mutual fund industry that started with traditional products like equity fund, debt fund and balanced fund has significantly expanded its product portfolio. Today, the industry has introduced an array of products such as liquid/money market funds, sector-specific funds, index funds, gilt funds, capital protection oriented schemes, special category funds, insurance linked funds, exchange traded funds, etc. It also has introduced Gold ETF fund in 2007 with an aim to allow mutual funds to invest in gold or gold related instruments. Further, the industry has launched special schemes to invest in foreign securities. The wide variety of schemes offered by the Indian Mutual fund industry provides multiple options of investment to common man.

LITERATURE REVIEW

It is bound to adapt the rich books, journals, periodicals, reports, etc. to measure with quantity of collections. Lots of books, national level magazines, websites are referred for the study. The previous research studies are also be used as a guideline in preparing and designing the research work.

The project also includes the various schemes and history of mutual fund in India.

STATEMENT OF THE PROBLEM

The main purpose of doing this project was to know about mutual fund and its functioning. This helps to know in detail about mutual fund industry right from its inception stage, growth and future prospects.

OBJECTIVES OF THE STUDY

The present study focuses on the growth of Mutual Fund Industry in India. The growth of the Mutual Fund Industry is studied under various parameters like Assets under Management (AUM), resource mobilized and the transactions done by the Mutual Fund Industry in the stock market.

RESEARCH METHODOLOGY

Research Design:

The research design used here is secondary research.

Secondary research (also known as desk research) involves the summary, collation and/or synthesis of existing research rather than primary research where data is collected from, for example, research subjects or experiments

Data collection

The data required for the study has been collected from secondary sources. The secondary sources include the official websites of Securities Exchange Board of India (SEBI), Association of Mutual Funds in India (AMFI), and the websites of the various Mutual Funds companies.

Period of study

The study has been primarily focused on the growth of Mutual Fund Industry in India over the past seven years i.e. from April 2007 to july 2014

ANALYSIS AND FINDINGS

Mutual funds vs. other investments

Investment in mutual fund is always safe because of its unique advantages with it. When an investor invests in bank deposits, debt market, usually risk will be very less but return is around 10%, whereas investment in share market, Forex market carries higher amount of risk having higher return. But mutual fund will give usually moderate return with moderate risk. Probability of losing amount in mutual fund will be less as the risk is diversified with investment in different securities and fund is managed by professional experts. Exhibit-1 shows the comparative returns of mutual fund with other investment alternatives.

COMPARITIVE RETURNS

Bank Deposits	Debt Market	Share Market	Mutual funds
8% -10% Rate varies as per The term	8% - 12% Depending on securities	0%->100% Depends on Market	10%-50% Subject to market risks

SOURCE: RBI

Table:1- ASSET UNDER MANAGEMENT IN TOTAL

YEAR	AMOUNT (IN BILLION)
2007	3262.92
2008	5051.52
2009	4173.00
2010	6139.79
2011	5922.50
2012	5872.17
2013	7014.43
2014	8252.40

It is evident fron table 1.1 that the asset under management in Mutual funds are sequentially increasing in the year 2007 the asset under management was rs 3262.92 billion and there is a increase of 65 % in the year 2008, due to the recession in the country in the year 2009 the asset under management has gradually decreased to 4173.00 billion from 5015.52 billion. The year 2010 showed increase of 6139.79 billion. While the years 2011 and 2012 showed a decrease. Again in the year 2013 and 2014 the asset under management of mutual funds increased drastically

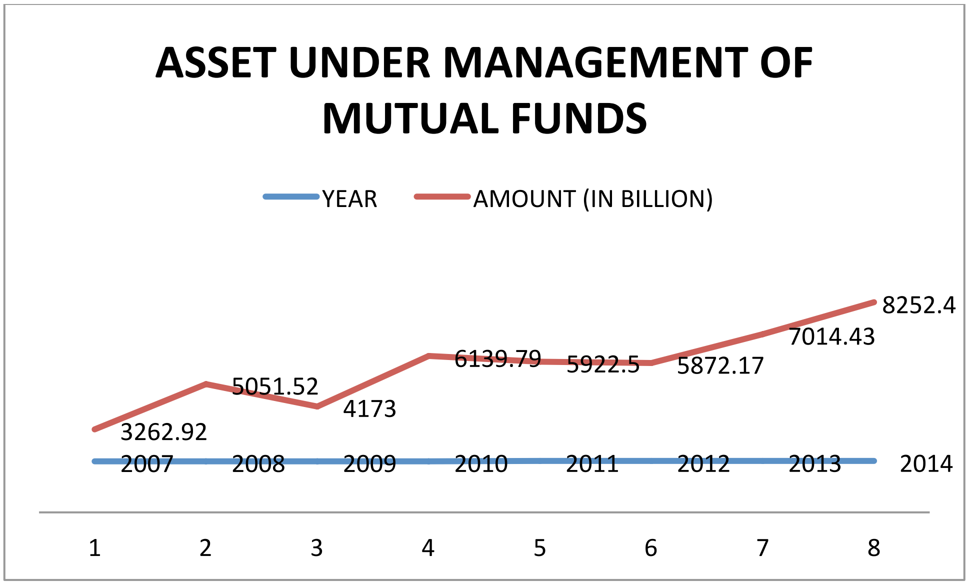

TABLE:2 ASSET UNDER MANAGEMENT (SECTOR WISE) OF MUTUAL FUND

YEAR	PRIVATE SECTOR MUTUAL FUND	PUBLIC SECTOR MUTUAL FUND	GRAND TOAL IN (RS CRORE)
2007-2008	37942.14	64644.73	167231.6
2008-2009	41458.98	59135.21	100594.19
2009-2012	59580.56	53718.80	113299.30
2010-2011	307087.44	42528.85	349616.29
2011-2012	317487.31	42113.10	359600.41
2012-2013	418514.61	50347.86	468862.47
2013-2014	447173.85	102762.28	549936.13

Source: SEBI website

It is evident from table 2 that the investors prefer private sector Mutual Fund as against the public sector Mutual Fund . The share of private sector Mutual Fund has increased from 28.64% in the year 2007-2008 to 81.31% in the year 2013-2014 (upto july 2014). in the year 2007-2008 Asset Management of Mutual Funds amounted to Rs 167231.6 crores out of which public sector constituted the remaining 28.64% share. But this situation has overturnes over a period of 7 years. In the year 2013-2014, out of the total asset under management of Rs 326292.13 crores, the private sector mutual funds are having a lions share of 81.31% whereas the public sector mutual funds amount to only 18.39%

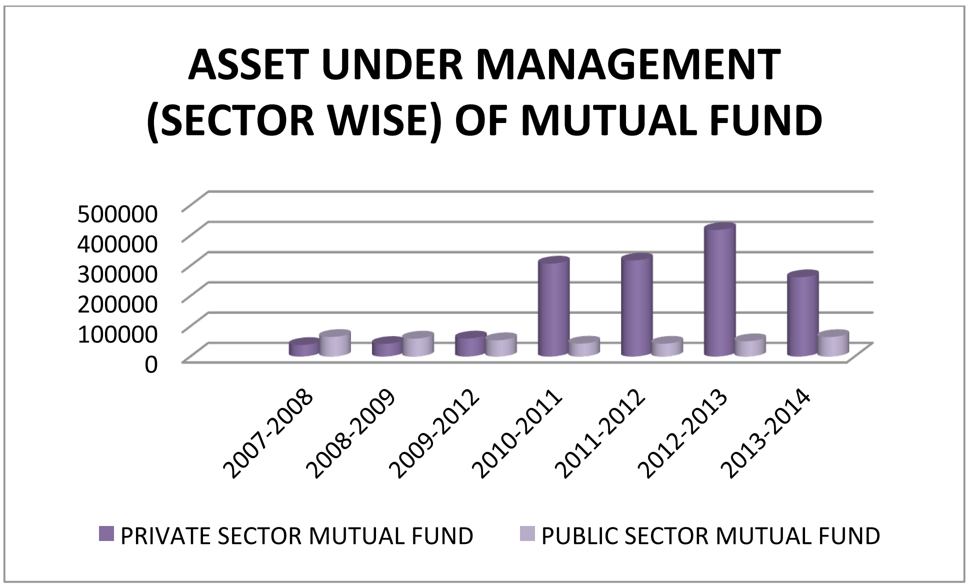

TABLE:3 NET RESOURCES MOBILISED BY MUTUAL FUNDS IN DIFFERENT SECTORS (in billion)

YEAR	UTI	BANKING SECTOR	FINANCIAL INSTITUTIONS	PRIVATE SECTOR	TOTAL
2007-08	106.78	75.97	21.78	1382.24	1586.77
2008-09	-41.12	44.89	59.54	-305.38	-242.08
2009-10	156.33	98.55	48.71	479.68	782.47
2010-11	-166.36	13.04	-169.88	-162.81	-486.00
2011-12	-31.79	3.89	-30.98	-395.25	-454.13
2012-13	39.38	72.32	13.12	624.57	749.38
2013-14	4.01	48.44	25.72	467.90	546.07

From the above table we can see that total net resources mobilized by mutual funds in 2007-08 are 1556.77. This has decreased in 2008-09 and there is a negative figure. This was on account of steep increase or redemption during this period. This has again increased in 2009-10.

The total resources mobilized through mutual funds by the banks has been less in the years 2007 -08 whereas in 2013-14 the resources mobilized by banks are 48.44.

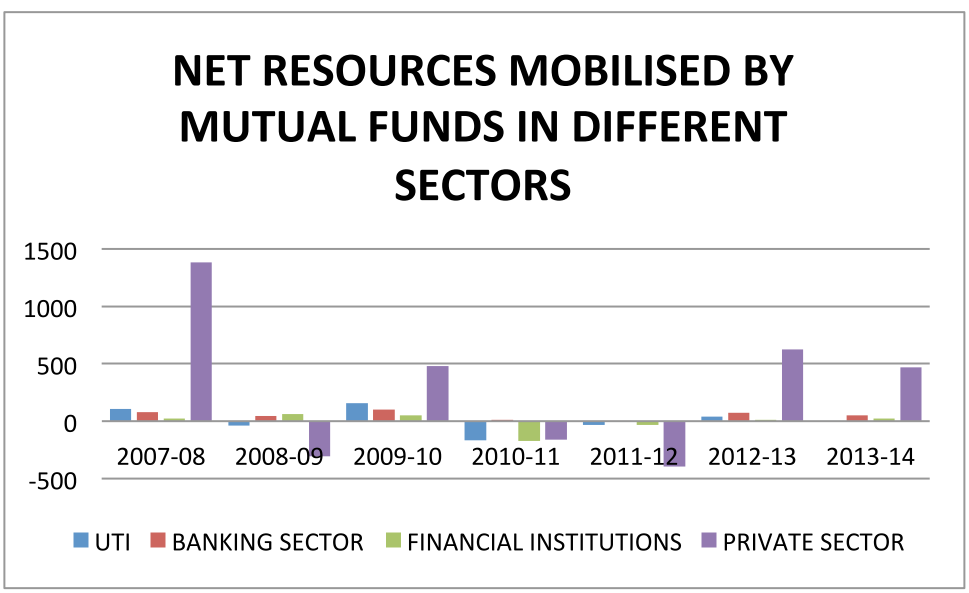

TABLE:4 PURCHASES/SALES MADE BY MUTUAL FUNDS

EQUITY RS IN CRORE			
YEAR	GROSS PURCHASE	GROSS SALES	NET PURCHASE/SALES
2007-2008	17375.78	20142.76	-2766.98
2008-2009	12098.11	15893.99	-3795.88
2009-2010	14520.80	16587.59	-2066.70
2010-2011	36663.58	35355.67	1307.91
2011-2012	45045.25	44597.23	448.02
2012-2013	100435.9	86133.70	14302.20
2013-2014	135948.00	126886.0	9062.00
DEBT RS IN CRORE			
YEAR	GROSS PURCHASE	GROSS SALES	NET PURCHASE/SALES
2007-2008	13512.17	8488.68	5023.49
2008-2009	33583.64	22624.42	10959.22
2009-2010	46663.83	34059.41	12664.42
2010-2011	63169.93	40469.18	22700.7
2011-2012	62186.46	45199.17	16987.29
2012-2013	109804.9	73003.69	36801.24
2013-2014	153733.0	101189.0	52543.00

It is evident from the table that mutual funds were the the net buyers in the debt market throughout the study period but in equity market the mutual funds are net sellers in the year 2007-08 , 2009-10 and 2010-11.From the year 2010-11 , mutual funds gross purchases of equity is more than the gross sales thereby makes there net investment in equity positive. the year 2011-12 is a remarkable year as the total purchase of equity crossed rs. 1,00,000 crores, it is evident that mutual fund companies net purchases in debt are always higher than the net purchases in equity which re emphasises that the investor are interested in debt oriented schemes than equity oriented schemes.

FINDINGS OF THE STUDY

1) The total asset under management of mutual fund shows a gradual increase in 2007 and 2008. But in 2009 there is a decrease of 83%, again the year 2010 showed a increase, followed by a decrease in 2011 and 2012, but the marked boomed in the year 2013 and 2014 which showed a positive sign.

2) In the year 2013-14 , out of the total assets under management of Rs. 537943 crores, the private sector mutual funds are having a lion's share of 82.06% where as the public sector mutual funds amounted to only 17.94%

3) Out of the total funds mobilized in the year 2013-14 amounted to Rs. 135123 crores, out of which the private sector mutual funds mobilized to Rs. 119363 crores i.e. 88.34%.
As against the public sector with Rs. 15760 crores accounting for only 11.65% out of the total mobilized funds.

4) Mutual funds were the net buyers in the debt market throughout the study period.

5) Mutual fund companies net purchase in debt are always higher than the net purchase in equity which re emphasizes that the investors are more interested in debt oreiented schemes than the equity oriented schemes.

<u>SUGGESTIONS</u>

1. During the period of the study it was found that the majority of the resources mobilized by mutual funds are through income debt schemes. This indicates more efforts have to be made by the mutual funds to create awareness regarding the earning potential of the equity / growth schemes.
2. With the increasing awareness among the retail investors about capital markets the mutual fund companies should come with innovative schemes to meet the demand of retail investors.

3. In the developed countries like US the percentage of net assets held by household investors is more than 80% of the total funds. In India it is just 40%. This signifies that mutual fund companies should try to attract more investors from the household sector.

REFERNCES

WEBSITES VISITED

www.rbi.org.in

www.sebi.gov.in

www.wikipedia.com

www.mutualfundindiainfo.com

BOOKS REFERRED

1) FINANCIAL MANAGEMENT: REDDY APPANIAH AND SATHYA PRASAD
2) PRINCIPAL OF MANAGEMENT : SHARMA GUPTA
3) SHARP WILLIAM.F, 1968 "MUTUAL FUND PERFORMANCE AND THE THEORY OF CAPITAL ASSET PRICING" JOURNAL OF BUSINESS 41(2)
4) WAGHMARE TUSHAR: 1997 "THE FUTURE OF FUND MANAGEMENT IN INDIA", TATA MC GREW HILL, NEW DELHI