Mutual Fund Industry in India: Recent trends & Progress

(Abstract)

* Anand Singh

** *Prof.* C.P Mall

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 600 schemes offered by Mutual Funds, and these funds have mobilized substantial amount of the household savings. The present paper focuses on the growth of Mutual Fund Industry in India over the past few years.

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.

Period of the 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 2000 to December 2007.

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.

----

* Research Scholar, Faculty of Commerce, B.H.U, Varanasi

email-meet2anandbhu@gmail.com

Cell no-9838596407

** *Professor,* Faculty of Commerce, B.H.U, Varanasi

Mutual Fund Industry in India: Recent trends & Progress

Mutual Funds play vital role in resource mobilization and its efficient allocation to the productive sources of the economic system. Throughout the world, these funds have worked as a reliable instrument of change in financial intermediation, development of capital markets and growth of the corporate sector. The process of Liberalization, deregulation and reconstruction of the Indian economy has created necessity for efficient allocation of scarce financial resources. In this process of development, Mutual Funds have emerged as strong financial intermediaries and are playing an important role in bringing stability to the financial system and efficiency to the resource allocation process.

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 600 schemes offered by Mutual Funds, and these funds have mobilized substantial amount of the household savings. The present paper focuses on the growth of Mutual Fund Industry in India over the past few years.

OBJECTIVES:

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.

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 2000 to December 2007.

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.

EVOLUTION:

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 assets of Rs.537943 crores under 840 schemes.

Assets under Management (sector wise) of Mutual Funds: performance of Mutual Funds in India is measured through growth of Assets under Management. The data relating to sector wise Assets under Management for the period 2000-2001 to 2007-2008 (upto Dec.2007) is presented in Table 1

Table-1: Assets under Management (sector wise) of Mutual Funds

(From April 2000 to Dec.2007)

Year	Private sector Mutual Funds (in Rs. Crore)	Public sector Mutual Funds (in Rs. Crore)	Grand Total (in Rs. Crore)
2000-2001	25942.14	64644.73	90586.87
2001-2002	41458.98	59135.21	100594.19
2002-2003	56580.56	52718.80	109299.36
2003-2004	107087.44	32528.85	139616.29
2004-2005	117487.31	32113.10	149600.41
2005-2006	181514.61	50347.86	231862.47
2006-2007	262078.64	64213.49	326292.13
2007-2008 (upto Dec.2007)	447173.85	102762.28	549936.13

Source: Reports of Investment Management Department, SEBI

It is evident from the Table 1.1 that the investors prefer private sector Mutual Funds as against the public sector Mutual Funds. The share of private sector Mutual Funds has increased from 28.64% in the year 2000-2001 to 81.31% in the year 2007-2008 (Upto Dec.2007). In the year 2000-2001 the Assets under Management of Mutual Funds amounted to Rs.90586.87 crores out of which public sector constituted the remaining 28.64% share. But this situation has overturned over a period of 7 years. In the year 2007-08, out of the total Assets Under Management of Rs.549936.13 crores, the private sector mutual funds are having a lions share of 81.31% whereas the public sector mutual funds amounts to only 18.69%.

Assets under Management (scheme wise) of Mutual Funds: Data relating to scheme wise Assets under Management for the period 2000-01 to 2007-08 (upto Dec.07) is presented in Table 2.

Table-2: Assets under Management (scheme-wise) of Mutual Funds

(From April 2000 to Dec.2007)

year	Income/debt oriented schemes (Rs. In Crore)		Growth/equity oriented schemes (Rs. In Crore)		Balanced schemes (Rs. In Crore)		Grand total (Rs. In Crore)
	open	closed	open	closed	open	closed	
2000-01	33294.05	22013.61	9091.97	6913.42	19040.42	233.40	90586.87
2001-02	49529.07	18490.75	9399.14	6221.00	16720.02	234.21	100594.19
2002-03	68050.92	12860.33	8391.50	5924.76	13038.96	1032.90	109299.37

2003-04	108584.71	1669.97	22643.27	2638.39	3295.85	784.11	139616.30
2004-05	98052.32	8197.29	35813.78	2670.06	4163.12	703.83	149600.40
2005-06	95513.83	29398.93	91498.15	7958.14	6701.46	791.95	231862.46
2006-07	105156.35	88428.33	104755.33	18842.18	7408.70	1701.25	326292.13
2007-08 (upto Dec.07)	238199.15	73466.25	173593.56	37597.86	16182.13	3755.41	542794.36

Source: Reports of Investment Management Department, SEBI

From the Table 2, it can be observed that investors prefer open-ended funds to the close-ended funds. In the entire period of study, Assets under Management of the open-ended funds dominates the Assets under Management of the close-ended funds. Further it can also be observed that the investors prefer income/debt oriented schemes over the growth/ equity oriented and balance schemes. In the year 2000-01, 61.05% of the total Assets under Management are mobilized through the income/debt oriented schemes, followed by 21.28% from balanced schemes and only 17.67% from growth/equity oriented schemes. It is interesting to observe that the Assets under Management under balanced schemes have continuously decreased from 21.28% in the year 2000-01 to a mere 3.67% in the year 2007-2008 (upto Dec.07)

<u>Resource mobilization by Mutual Funds</u>: data relating to Resource mobilization by Mutual Funds during the period 2000-01 to 2007-08 (upto Nov. 07) is presented in Table 3.

<u>Table-3: Resource Mobilization by Mutual Funds</u>

(From April 2000 to Nov.2007)

Year	Private sector			Public sector			Grand total		
	Gross inflow	Repurchase / redemption amount	Net inflow / outflow of funds	Gross inflow	Repurchase / redemption amount	Net inflow/ outflow of funds	Gross inflow	Repurchase / redemption amount	Net inflow / outflow of funds
2000-01	75009.11	65159.54	9849.57	17948.28	18669.78	-721.50	92957.39	83829.32	9128.07
2001-02	147798.26	134748.37	13049.89	16724.91	22599.60	-5874.69	164523.20	157348	7175.20
2002-03	284095.49	272026.05	12069.44	30610.70	38483.75	-7873.05	314706.20	310509.80	4196.39

2003-04	534649.28	492104.78	42544.50	55540.59	51276.66	4263.93	590189.90	543381.40	46808.43
2004-05	736463.30	728863.80	7599.50	103245.10	108644.26	-5399.19	839708.40	837508.10	2200.31
2005-06	914703.26	871726.53	42976.73	183446.10	173643.60	9802.45	1098149.30	1045370.1	52779.18
2006-07	1599873.0	1520836.0	79038.00	338620	323673	14947	1938493	1844509	93984
2007-08 (upto Dec.07)	2246609	2127246	119363	359785	344025	15760	2606394	2471271	135123

Source: Reports of Investment Management Department, SEBI

It can be seen from the Table 3, that the net resource mobilization by mutual funds amounted to Rs. 9128.07 crores in the year 2000-2001. It has declined to Rs. 7175.2 crore in 2001-2002 and it has further declined to Rs. 4196.39 crores. This was on account of the steep increase in redemption/repurchase during this period. In the year 2003-2004, the net inflows amounted to Rs. 46808.43 crores.

In the case of public sector mutual funds, redemption/repurchase exceeded gross resource mobilization in the year 2000-2001, 2001-02, 2002-03 and 2004-05, thereby making their net resource mobilization negative. From the period 2000-01 to 2007-08 (upto Nov. 07) the Private Mutual Funds are successful in keeping their net resource mobilization positive. The total funds mobilized in the year 2007-08 (upto Nov. 07) amounted to Rs. 135123 crores, out of which the private sector mutual funds mobilized Rs. 119363 crores, i.e. 88.34% as against the public sector with Rs. 15760 crore, accounting for only 11.65% of the total funds mobilized.

Trends in transactions on stock exchanges:

Data relating to net purchases/sales of equity and debt by mutual funds during the period 2000-2001 to 2007-2008 (upto Nov. 07) is presented in Table 4.

Table-4: Purchases/Sales made by Mutual Funds

(From April 2000 – Nov.2007)

Year	Equity (Rs. In crore)			Debt (Rs. In crore)		
	Gross Purchase	Gross Sale	Net Purchase / Sales	Gross Purchase	Gross Sale	Net Purchase / Sales
2000-01	17375.78	20142.76	-2766.98	13512.17	8488.68	5023.49
2001-02	12098.11	15893.99	-3795.88	33583.64	22624.42	10959.22
2002-03	14520.89	16587.59	-2066.70	46663.83	34059.41	12604.42
2003-04	36663.58	35355.67	1307.91	63169.93	40469.18	22700.75
2004-05	45045.25	44597.23	448.02	62186.46	45199.17	16987.29
2005-	100435.9	86133.70	14302.20	109804.9	73003.67	36801.24

06	0			1		
2006-07	135948.00	126886.00	9062.00	153733.00	101189.00	52543.00
2007-08 (upto Nov.07)	130577.00	124259.00	6318.00	189187.00	137136.00	52051.00

Source: Reports of Investment Management Department, SEBI

It is evident from the Table 4 that the mutual funds were the net buyers in the debt market through out the study period. But in the equity market, the mutual funds are net sellers in the year 2000-01, 2001-02 and 2002-03. from the year 2003-04, the mutual funds gross purchases of equity is more than the gross sales, thereby making their net investment in equity positive. The year 2005-06 is the remarkable year as the total purchases of equity crossed Rs. 1, 00,000 crores. It is evident that the mutual funds company's net purchases in debt are always higher than the net purchases in equity which reemphasis that the investors are interested in the debt oriented schemes over the equity oriented schemes.

Findings of the study:

1. In the year 2007-08, 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% whereas the public sector mutual funds amount to only 17.94%.

2. In the entire period of study, Assets under Management of the open-ended funds dominated the Assets under Management of the close-ended funds which signifies that the investors prefer open-ended funds to the close-ended funds.

3. The investors prefer Income/Debt oriented schemes over the growth/equity oriented schemes and balanced schemes. Out of the total Assets under Management of Rs. 542794.36 crores, Rs. 311665.40 crores i.e. 57.40% of the total funds are under debt/income oriented funds followed by equity/growth oriented funds with Rs. 21191.42 crores i.e. 38.91% and a mere Rs. 19937.54 crores i.e. 33.67% under balanced funds.

4. Out of the total funds mobilized in the year 2007-08 (upto Nov. 07) amounted to Rs. 135123 crores, out of which the private sector mutual funds mobilized Rs. 119363 crore i.e. 88.34% as against the public sector with Rs. 15760 crore, accounting for only 11.65% of the total funds mobilized.

5. The mutual funds were the net buyers in the debt market throughout the study period.

6. The mutual funds companies' net purchases in debt are always higher than the net purchases in equity which reemphasis that the investors are interested in the debt-oriented schemes over the equity-oriented schemes.

Suggestions:

1. During the period of study, it was found that the majority of the resources mobilized by the mutual funds are through the income-debt schemes. This indicates that more efforts have to be made by the mutual funds to create awareness among the investors regarding the earnings 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 requirements of the retail investors.

3. In the developed countries like US, the percentage of net-assets held by the household's investors is more than 80% of the total funds, but in India, it is just around 40%. This signifies that the mutual fund companies in India should try to attract more number of household investors towards investments in mutual funds.

References:

1. Bansal, L.K, 1996, "Mutual Funds: Management & Working", Deep and Deep Publications, N.Delhi.
2. Gangadhar, 1992, "The Changing Pattern of Mutual Funds in India", Management Accountant, 12(1992); 924-928.
3. Kothari S.P; Warner J.B; 2001, "Evaluating Mutual Fund Performance", Journal of Finance, Volume 56, Number 5.
4. Mohan Rao P.; 1998, "Working of Mutual Fund Organizations in India", Kanishka Publications, N.Delhi.

5. Sharpe, William F, 1968, “Mutual Fund performance and the theory of capital assets pricing: Reply”, Journal of Business 41(2).
6. Waghmare, Tushar, 1997, “The future of fund management in India”, Tata Mcgraw Hill, N.Delhi.