An Analytical Study on Growth of Mutual Fund Industry in India

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Abstract: ***Mutual funds offer benefit of diversification of risk to investors. Individual investors may not have the time and professional competence for analyzing risk and return across sectors and companies. Diversification involves the mixing of investments within a portfolio to manage risk. Investing and liquidating investment process is quite easy in case of mutual funds. Funds collected through different schemes by fund managers are invested in equity and debt market for the corporate sector which leads to pooling of investment and capital formation in the country. Mutual funds are considered as an investment option benefiting the investors and the economy as a whole. The present article has been written to describe the growth of mutual funds in India in terms of number of schemes and the net assets under management of mutual fund managers.***

Keywords: Mutual Funds, Net Assets under Management, Income Funds, Growth Funds

1. Introduction

Mutual fund is an investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets with the aim of attractive return. The mechanics of savings and investment have changed in India. Individuals have small amount of savings and wish to participate in the industrialization process of the country. But such investors do not have the professional expertise to take appropriate investment decision. Mutual fund industry has emerged as the ideal investment vehicle for today's complex and modern financial scenario. The number of size of investors and size of investment has also increased with an increase in per capita income in the country. Different types of mutual fund instruments are available in Indian market with varied combination of risk and return analysis. Small investors face many problems in the share market due to lack of professional advice and lack of information. Mutual funds have come as much needed help to these investors. Mutual fund managers invest the funds in equity, debt and other schemes as prescribed for these fund managers.

2. Concept of Mutual Fund

As per **AMFI (Association of Mutual Funds in India), "A** Mutual Fund is a trust that pools the savings of a number of investors who share common financial goals. Anybody with an investible surplus as little a thousand rupees can invest in a mutual fund. These investors buy units of a particular mutual fund scheme that has a defined investment objective & strategy". In India, the Mutual Fund Industry is highly regulated with a view to imparting operational transparency & protecting the investor's interest. The structure of Mutual Fund is determined by SEBI Regulations. These regulations require a fund to be established in form of a trust under the Indian Trust Act 1882. A Mutual Fund is typically managed. Instead, a fund relies upon third parties that are either affiliated organizations or independent contractors to carry out its business activities such as investing in securities. A Mutual Fund operates through a four tier structure. The four parties that are required to be involved are Sponsor, Board of Trustees, Asset Management Company and Custodian.

3. Evolution of Mutual Funds in India

The Mutual Fund Industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank of India. Unit trust of India (UTI) was established in 1963 by an Act of Parliament. It was set up by Reserve Bank of India and functioned under the regulatory and administrative control of Reserve Bank of India. In 1978, UTI was delinked from RBI and IDBI (Industrial Development Bank of India) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Rs. 6700 cores of assets under management.

1987 marked the entry of non UTI, Public sector mutual funds set up by public sector banks and Life Insurance Corporation (LIC) & General Insurance Corporation (GIC). SBI Mutual Fund was the first non-UTI Mutual Fund was established in June 1987 followed by Canbank Mutual Fund(December 1987) , Punjab National Bank Mutual Fund(August 1989), Indian Bank Mutual Fund(November 1989), Bank of India(June 1990), Bank of Baroda Mutual Fund(October 1992). LIC launched its Mutual Fund in June 1989 while GIC had set up its Mutual Fund in December 1990. At the end of 1993, Mutual Fund Industry had assets under management of Rs 47004 cores.

New era in the history of mutual funds started in 1993 with entry of private sector funds. The Erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993. The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996. The number of Mutual Fund houses went on increasing, with many Foreign Mutual Funds setting up funds in India. As at the end of January

2003, there were 33 Mutual Funds with total assets of Rs 121805 cores. The UTI with Rs 44541 cores of assets under management was way ahead of other Mutual Funds.

UTI was bifurcated into two separate entities in February 2003, following the repeal of Unit Trust of India Act 1963. One is the specified undertaking of Unit Trust of India with assets under management of Rs 29835 cores as at the end of January 2003, representing broadly the assets of Unit Scheme 1964, assured return and certain other schemes. The specified undertaking of UTI, is functioning under an administrative & under the rules framed by government of India and does not come under the purview of Mutual Fund Regulations. The second is UTI Mutual Fund, sponsored by SBI, ONB, and BOB & LIC. It is registered with SEBI & functions under the Mutual Fund Regulations. With the bifurcation of Erstwhile UTI which took place in March 2000, had assets more than Rs 76000 cores under management and with setting up of a UTI Mutual Fund ,conforming to the SEBI Mutual Fund regulations & with recent mergers taking place among different private sector funds, the Mutual Fund Industry has entered its current phase of consolidation & growth.

4. Review of Studies

Mutual fund industry is quite old and has attracted the attention of the researchers with different motives. Some of the studies have been conducted to evaluate the growth and performance of mutual funds. These researches are the matter of criticism on the various grounds such as number of samples, time of the research or the selection of particular scheme.

Jensen (1968) Jensen introduced his own model to measure a fund’s performance relative to a benchmark. The study examined the risk-adjusted performance of portfolios and estimated the predictive ability of mutual fund managers. The study used the data for 115 mutual funds from 1945 to 1966 and returns for S&P 500 index to proxy the market. The study concluded that there was very little evidence that funds were able to perform significantly better than expected as fund managers were not able to forecast securities price movements.

Carlson (1970) conducted a research to analyze that the predictive value of past leads to forecasting future performance of mutual funds for the study period ranged from 1948 to 1967.The results provided empirical support to the return-risk postulate of the capital asset pricing model and concluded that mutual funds outperform the market or not depends upon the selection of both i.e., the time period and market proxy. The study concluded that past performance showed little predictive value for future performance.

McDonald (1974) conducted a research to examine the performance of American Mutual Funds in terms of risk & return for the study period 1960 to 1969 for the sample size of 123 funds with the help of Treynor and Sharpe indexes. The results showed that 67 funds perform better than the stock market average in case of Treynor Index while as per Sharpe Index only 39 mutual funds showed higher performance than the stock market average. Macdonald concluded that average return of mutual funds increased with the increase in level of risk.

Miller and Nicholas (1980) examined the risk-return relationships in the presence of non stationarity in order to obtain more precise estimates of alpha and beta. The study was based on a sample of 28 mutual funds for the period of 1973-1974. The results showed some weak positive relationships and some weak negative relationships between betas and the rate of return for the market. However, no general, statistically significant relationships of either type were found.

Stehle and Olaf (2001) conducted a research to evaluate the risk-adjusted performance of open ended mutual funds. The study used the data set of all German funds sold to public in 1972. The research analysis covered the time period of 1973 to 1998. DAX, which included the 30 largest German stocks and DAX 100, which included the 100 largest German stocks were used as benchmark for comparative performance evaluation. The analysis revealed that the funds underperform the appropriate benchmarks by approximately 1.5 per cent per year in case of rate of returns of individual funds. On the other hand, underperformance was reduced by 40 per cent in case of un-weighted average rates of return. The analysis led to conclude that the large German stock mutual funds on the average performed better than the small ones.

Sondhi and Jain (2010) examined the market risk and investment performance of equity mutual funds in India. The study was based on a sample of 36 equity fund schemes. The study period was 3 years. The study also examined the classified performance of open ended or close ended categories; size of fund and the ownership pattern significantly affect the risk-adjusted investment performance of equity funds. The results of the study confirmed the empirical evidence produced by Fama (1992) that high beta funds may not necessarily produce high returns. The study revealed that the performance of mutual funds during the study period was affected by category, size and ownership.

Deepak Aggarwal (2011) provided an overview of mutual fund activity in India. The study analyzed the pricing mechanism of Indian mutual fund industry covering the data at both fund manager & investor level. There had been incredible growth in mutual fund industry in India attracting large investments from domestic and foreign investors in the form of safety, hedging arbitrage, limited risk with better returns than any other long term securities. The study revealed that performance of mutual fund industry in India is affected by saving and investment habits of people and as well by confidence and loyalty of fund managers.

Bansal and Kumar (2012) evaluated the performance of selected mutual funds schemes based on risk return relationship models. The returns on mutual funds were also compared with return on equity shares of different sectors of Indian economy. Returns on “ten mutual fund schemes and returns on equity shares of 3 sectors namely fast moving capital goods, information technology and power sectors had been studied over the time period Jan 2006 to Jan 2009(3 years). The analysis had been made on the basis of mean return, intercept, beta, Sharpe ratio, treynor ratio & Jensen ratio. The overall analysis showed below average performance.

Ramanujam V & Bhuvneshwari A (2015) analyzed the growth of mutual funds from March 2004 to March 2014. The analysis revealed that the asset under management of all sectors, mutual fund sales & redemption and scheme wise resource mobilization has been increased from the year 2004 to 2014. The amount of total AUM of Indian mutual fund industry was Rs. 11.11 lakh core on December 2014 against the last year balance of Rs. 8.25 lakh core resulting in growth of 35 percent. This showed that investor preference towards financial assets is increasing.

Review of previous studies indicates that mutual funds have become important investment instrument if present times. Performance of the mutual fund instruments dependents upon large number of factors. The role of fund manager is quite important. The present article has been written to describe the growth of mutual fund instruments as per classification of fund manager.

5. Research Methodology

The volume of investment in mutual fund instruments has increased during the recent past. Present article has been written to describe the growth of mutual fund industry over a period of ten years. The growth parameters include growth in terms of number of schemes and net assets under management of mutual fund industry. Objective of the study are as under:

- To describe the growth of mutual fund schemes in India.
- To analyze the proportionate share of various types of schemes in India.
- To study the growth in net assets under fund management companies in India.

Mutual Fund Industry in India - Number of Schemes

The volume of trading depends upon the types of financial instruments available and the element of risk. Different mutual fund agencies offer various types of schemes to meet the varied needs of the investors. Table 1.1 below shows the total number of Mutual Funds schemes in India over a number of years.

Table 1.1: Number of Schemes under Mutual Funds

Financial Year	Income Funds	Growth Funds	Balanced Funds	Liquid Funds	Gilt Funds	ELSS Funds	Other Funds	Total Funds
2006	253	207	36	50	28	35	--	609
2007	412	253	38	58	28	39	11	839
2008	539	290	35	57	32	44	26	1023
2009	309	304	33	57	35	49	32	819
2010	443	324	32	51	36	48	42	976
2011	696	306	30	55	39	48	52	1226
2012	775	303	30	55	42	49	55	1309
2013	760	298	32	55	42	49	58	1294
2014	1077	311	30	53	44	52	67	1634
2015	1517	416	27	54	41	58	88	2201
Average	**678**	**301**	**32**	**55**	**37**	**47**	**48**	**1193**

Source: Compiled from AMFI Annual Reports

The table below indicates that total number of Mutual Fund Schemes increased from 609 in March 2006 to 2201 in March 2015. The number of income schemes increased from 253 in March 2006 to 1517 in March 2015.Such growth was followed by Growth schemes as these schemes increased from 207 to 416 in the year 2015. Further, the number of balanced schemes was 36 in 2006 and these were reduced to 27 in 2015. The share of gilt, ELSS and other schemes increased during the study period. Concluding, the number of income fund schemes and growth fund schemes has dominance in total number of different types of mutual fund schemes available in Indian mutual fund industry. The average number of schemes has been highest under income funds for the study period followed by growth funds. This may be due to the preference of investors for these types of schemes. So, it may be concluded that income fund schemes and growth fund schemes are most popular mutual fund schemes in India

Per Cent Age Share of Different Type of Funds

The relative importance of different types of mutual funds has been studied with the help of percentage share of different mutual fund schemes in India to the total has been presented in Table 1.2.

Table 1.2: Percentage share of Mutual Fund Schemes

Financial Year	Income Funds	Growth Funds	Balanced Funds	Liquid Funds	Gilt Funds	ELSS Funds	Other Funds
2006	41.54	33.99	5.91	8.21	4.60	5.75	
2007	49.11	30.15	4.53	6.91	3.34	4.65	1.31
2008	52.69	28.35	3.42	5.57	3.13	4.30	2.54
2009	37.73	37.12	4.03	6.96	4.27	5.98	3.91
2010	45.39	33.20	3.28	5.23	3.69	4.92	4.30
2011	56.77	24.96	2.45	4.49	3.18	3.92	4.24
2012	59.21	23.15	2.29	4.20	3.21	3.74	4.20
2013	58.73	23.03	2.47	4.25	3.25	3.79	4.48
2014	65.91	19.03	1.84	3.24	2.69	3.18	4.10
2015	68.92	18.90	1.23	2.45	1.86	2.64	4.00
Average	**53.60**	**27.19**	**3.15**	**5.15**	**3.32**	**4.29**	**3.31**

Source: **Compiled from AMFI Annual Reports**

The percentage with respect to the total number of mutual fund schemes ranges from 41.54 per cent in 2006 to 68.92 percent for the period of 2004 to 2015. The percentage share of growth fund schemes to total mutual fund schemes declined from 33.99 per cent to 18.90 percent. Similarly the share of balanced, liquid, gilt and ELSS schemes in total mutual fund schemes also decline during the study period and such funds constitute very small proportion in total portfolio. But the share of Gold ETFs, other ETFs and Fund of funds has increased during the study period. The average per cent age share of income fund schemes has been more than fifty per cent share during the study period. The average per cent age share of growth fund schemes has been more than twenty seven per cent during the same period. Liquid funds and ELSS are also relatively more preferred as compared to balance fund and guilt fund schemes. Concluding, income funds and growth funds together constitute more than eighty per cent of total mutual fund schemes in India.

Net Assets under management

The growth in the amount of net assets under management of UTI Mutual Fund, Non-UTI Public Sector Mutual Funds and Private Sector Mutual Funds for the study period has been presented in Table 1.3.

Table 1.3: Net Assets under Management of Indian Mutual Fund Industry

Year	UTI MF (Rs. Core)	Non UTI Public Sector MF (Rs. Crore)	Private Sector MF (Rs. Crore)	Total Amount (Rs Crore)	Growth Rate (% age)
2005-06	-	50348	181514	231862	35.50
2006-07	35488	26525	259854	321867	38.82
2007-08	48982	43301	437260	529543	64.52
2008-09	48754	55543	386509	490806	-7.32
2009-10	80217	93064	574057	747338	52.27
2010-11	67188	67092	566529	700809	-6.23
2011-12	58922	65329	540540	664791	-5.14
2012-13	69450	88715	658592	816657	22.84
2013-14	74233	101454	640970	905120	10.83
2014-15	92750	112633	983307	1188690	31.33
CAGR (%)	**9.58**	**13.15**	**16.05**	**16.33**	

Source: **Compiled from Annual Reports of SEBI**

The analysis reveals that total net assets under management of Indian mutual fund industry increased during the study period. The total amount of net assets under management of Indian mutual fund industry increased from Rs. 231862 cores in the year 2005-06 to Rs. 1188690 core during 2014-15. The amount of assets under management of private sector mutual fund industry increased from Rs. 181514 cores in 2005-06 to Rs. 983307 cores in 2014-15. So private sector is having maximum worth of net assets in Indian mutual fund industry in comparison to UTI & Non-UTI Public Sector Mutual Fund. The analysis of compound annual growth rate indicates that the compound growth rate has been relatively high in respect of private sector mutual funds as compared to UTI and public sector mutual funds. This may be due to the better fund management practices with a combination of better marketing strategies followed by private sector fund managers.

Percentage share of Net Assets under Management

The per cent age share of different types of asset management companies has been calculated to present the relative strength of different types of asset management companies for the stydt period and the same has been presented in table 1.4.

Table 1.4: Indian Mutual Fund Industry- Percentage share of Net Assets under Management

Year	UTI MF	Non UTI Public Sector MF	Private Sector MF
2005-06	-	21.71	78.29
2006-07	11.02	8.24	80.74
2007-08	9.25	8.18	82.57
2008-09	9.93	11.32	78.75
2009-10	10.73	12.45	76.82
2010-11	9.59	9.57	80.84
2011-12	8.86	9.83	81.34
2012-13	8.50	10.86	80.64
2013-14	8.20	11.21	80.59
2014-15	7.80	9.48	82.72
Average	**9.32**	**11.47**	**80.22**

Source: Compiled from Annual Reports of SEBI.

It is found from the above table that the share of private sector mutual funds increased substantially from 78.29 percent in 2005-06 to 82.72 percent in 2015, while the share of UTI and Non-UTI Public Sector Mutual Funds together constitute only 21.71 percent during the corresponding period. It can be seen that share of public sector mutual funds have declined to 9.48 percent in the year 2015 from 21.71 percent in the year 2005-06. Similarly due to bifurcation of UTI, the share of UTI mutual funds has declined to a very low level of 7.80 percent in the year 2015 from 11.02 percent in year 2007. So Private Sector Mutual Funds have completely dominated the Indian mutual fund industry having highest percentage share of Net Assets under Management of79.08 percent over the twelve years, followed by Non-UTI Public Sector Mutual Funds with 13.27 percent and UTI Mutual Fund with 9.32 percent.

Concluding, the number of mutual fund schemes and the net assets under management of Indian mutual fund manages has increased during the study period. The growth of private sector mutual funds is restively high as compared to UTI and public sector mutual fund managers.

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