GROWTH OF MUTUAL FUNDS IN INDIA: A STUDY OF SOME SELECTED MUTUAL FUND COMPANIES

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ABSTRACT

The mutual fund is considered as a readymade diversified portfolio available in the financial market. Mutual funds are able to gather a huge amount of the surplus funds available with the small investors within a short period of time. Mutual fund operation has become an integral part of the Indian financial market. Today numerous schemes launched to meet the diversified needs of investors are being offered by many institutions. The purpose of this paper is to overview the growth of mutual fund industry in India.

Keywords: Mutual Fund, SIP, AMC.

INTRODUCTION

The financial market plays an essential role in the economic development of a country by facilitating the allocation of scare resources and passing that resource from saver to borrower. But the importance of financial factors in the progress of economic development was largely disregarded and forced savings were considered the best means of financial development. But this resulted in financial repression. In the early 1970s, repressive financial policies are criticised by McKinnon, and many others. They displayed that bank and non bank financial intermediaries could generate a supply of investment that goes beyond the desired level of savings and thus affect the rate of economy's growth. Raymond Goldsmith recommended the existence of financial superstructure such as financial institution, instrument and market which would facilitate the migration of funds for optimal use in terms of social returns through the acceleration of economic growth. McKinnon indicated that liberalisation of the economy and unification of the capital market is necessary to avoid financial repression. A systematic capital market plays a preeminent role in serving as the distributor of saving and investment among lenders and borrowers. Many of the newly liberalised country, such as India, have decreased their dependence on the bank-based system in order to upgrade a strong capital market as an allocator of resources. However, the efficiency of financial market is based on the existence of active and efficient financial intermediaries such as bank, investment institution and institutional investors. These intermediaries help in the elimination of market imperfection arising out of non circulation of information on borrowers. Structural changes in the financial market have caused an inverse trend in financial intermediation that is financial disintermediation. The transformation from a credit-based system to a financial system consisting of the capital market instrument like pension fund, insurance, and mutual funds are progressively playing a leading role. Among these investment institutions mutual funds have grown at a quicker rate because of their operational flexibility. They offer better returns to the investor and also act as a sophisticated market clearing agent. Mutual funds play a dynamic role in mobilising saving by issuing units and transmitting the funds in capital market into productive investment. They help in allocation of assets in financial market by circulating resources from the saving market for

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investment in the capital market. They not only provide support to the corporate sector but also assist in the process of financial innovation. For these reasons mutual funds come out as an important means of allocating assets in many countries including India.

Importance of Mutual Fund

Small investors confront a lot of difficulties in the share market such as limited resources, deficiency of professional advice, lack of information etc (Kim & Wu, 1989). Mutual funds provide an alternative avenue to these investors. Now-a-days, mutual fund is deriving its popularity due to the following reasons:

1. The basic intention of financial reform was to increase the domestic resources by reducing the dependence of outside fund. This necessitates a market-based institution which can tap the vast domestic saving and place them in profitable investment channels. Mutual fund is suitable for this purpose.
2. Public sectors' mutual fund is as safe as bank deposits. It assures higher return that had great appeal for the typical Indian risk averse investor.
3. The application of a share of public issue of a company does not give firm allotment to the ordinary investor. But investors of mutual funds, who subscribe to the capital issue created by the companies, get firm allotment of shares. In future, mutual fund owners would sell these shares in the same market at a far higher price. So mutual funds boost the confidence level of an investor.
4. Mutual funds are handled by professionals who have good knowledge of market functions. They maximize profit by suitable choice and timing of investment.
5. An important feature of mutual fund is the automatic reinvestment of dividend and capital gain. This feature creates more capital gain in the long run.
6. Mutual fund is capable of constituting greater amount of surplus available to rural, urban middle class investors.
7. Mutual fund pulls foreign capital flow in the country and protects profitable investments avenues abroad for domestic savings through the introduction of offshore funds by different foreign investors.

Institutional Arrangement of the Indian Financial System

The Indian financial sector consists of two broad sectors, organised sector and unorganised sectors. The organised sector includes commercial banks, non bank financial companies (NBFCs), development financial institutions (DFIs), mutual funds, insurance companies, pension and provident funds. In the pre reform period, the public sector institutions played a dominating role in the Indian financial system. But after 1991, this scenario has changed significantly. With the entry of private sector banks, mutual funds and insurance companies, the dominance of public sector in mutual fund industry has been reduced (Sahadevan & Thiripalraju, 1997). A significant proportion of market share of UTI and public sector mutual funds have taken away by the domestic and foreign private sector mutual funds. The following diagram represents the operation of Indian financial institution and position of the mutual fund in this regard Figure 1.

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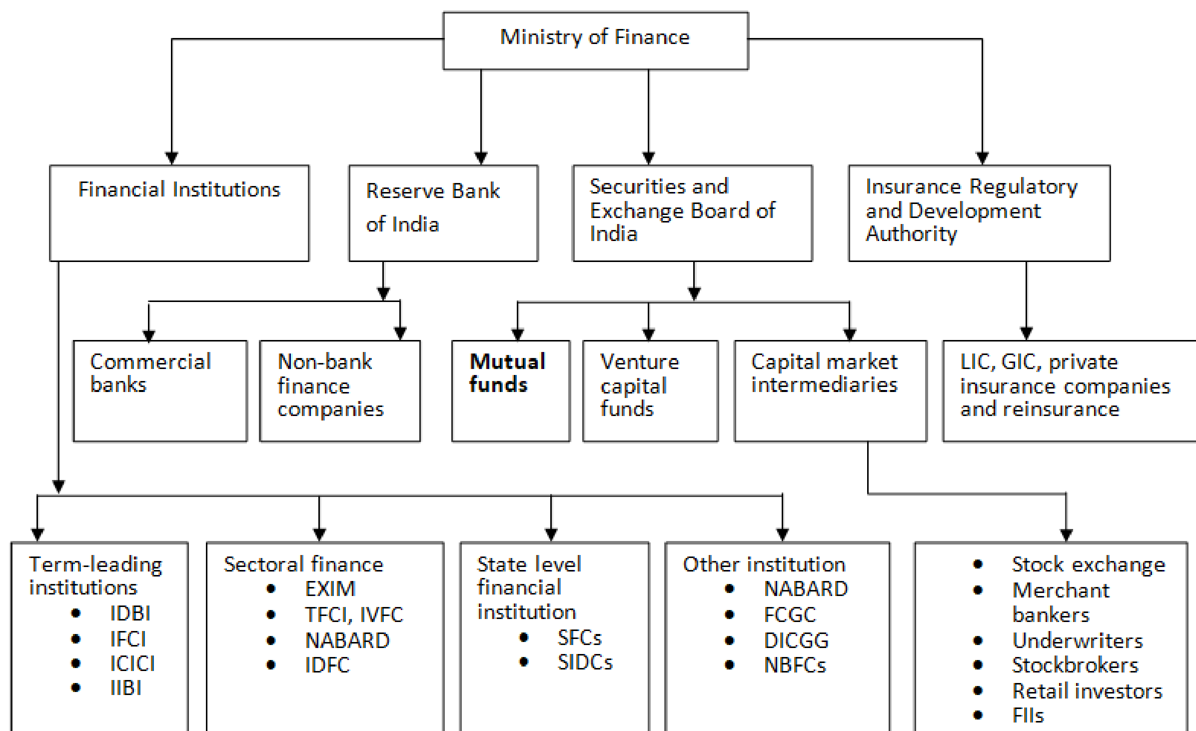

Figure 1
DIAGRAM REPRESENTS THE OPERATION OF INDIAN FINANCIAL INSTITUTION AND POSITION OF THE MUTUAL FUND

Evolution of Mutual Fund as an Asset

At the very dawn of commercial history, Egyptians and Phoenicians were exchanging shares in vessels and caravans in order to scatter the risk of these perilous avenues. The idea of pooling money dates back to 1822, while groups of public in Belgium set up a company to finance investments in national industries under the name of '*Societe Generale de Belgique*' included the concept of risk sharing. To diversify risk, the concept of mutual fund is used by this institution by taking securities from a lot of companies. By the word '*mutual*' we mean something collectively possessed by a group of public with their common interest of holding mutual faith among themselves. Here the word '*Fund*' is used in monetary phenomenon, to accumulate some amount of money from the members for earning profits with mutual struggle. In 1822, William I, the King of Netherlands, came forth with a close-end fund. In 1860, the concept of mutual fund extended to England. Foreign and Colonial Government Trust of London, which was established in 1868, was the real pioneer of modern mutual funds. In 1873, Robert Fleming, formed '*The Scottish American Trust*'. In nineteenth century, many British investment trusts put money into American stocks. Among them, the first American investment trust was the close-end Boston Personal Property Trust which was generated in 1893. Mutual fund in America had fundamentally the same concept of Unit Trust of Britain. In March 21 1924, 'Massachusetts Investment Trust, which was the first mutual fund, was set up by the professors of Harvard University U.S.A. This fund presented shares to the public in 1926. But Sherman L Adams is considered to be the father of modern mutual fund. In 1929, there were 19 open ended

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funds contended with approximately 700 closed ended funds. Crash of stock markets in 1929 led to wiping out of many closed end fund. 920 mutual funds were formed in U.S.A in the year 1930.With the enforcement of Securities Act of 1933, Investment Company Act of 1940 and Investment Advisors Act of 1940, there was a revival of mutual funds in U.S.A. In 1950, the numbers of open-ended funds were 100. In 1950, the value of securities possessed by U.S.A. funds was USD 2.5 billion[1]. Since the World War-II, there had been a remarkable growth in the mutual fund industry throughout the world. Mutual funds in Japan are renowned as investment trusts which are different from investment trusts of U.K. and mutual funds of U.S.A. According to Seema Sharma, Khan, Srivastava Investment trusts in Japan was set up to meet the alteration of government policy. The set up of investment trusts was not a spontaneous response to market developments like in the U.S.A. The Mutual fund industry in Japan has existed to 1937. Investment trusts in Japan were established under the enactment of Securities Investment Law of 1951. It had three exclusive features like contractual nature, open-end and flexibility.

Prior to 1960s, provident fund professional investment authorities of U.S.A. were not interested to invest in equities in India. In 1980s, most of the employees choose to invest in equity mutual funds for their retirement plan because of huge amount of return mutual. Whereas, Japan faced 60 percent decline in Nikkei due to Japanese retail investors' risk aversion to equities. With the rise of inflation and interest rates in 1990's, the individual and institutional investors became very aware of the true value of money. The assets of mutual fund industry in U.S.A. went up from USD 44 billion in the year 1980 to USD 1 trillion in the year 1989. Retail investments in US mutual funds were small due to the dullness of the market since 1966 till 1982. Since the beginning of 1990, investors have put half a trillion dollars into stock and bond mutual funds. In 1990, U.S.A. mutual fund industry composed of 2,362 mutual funds with 39,614 thousand of investors owing USD 570.8 billion of assets[2]. By the end of 1994, mutual funds had arrived to be the second largest financial institution after the banking sector in the U.S.A. The popularity of mutual funds among retail investors was driven by the alteration of retirement fund investment plans where employees at large were granted to select asset allocation between equities and debt. In 1995, the European community put on some laws, regulations and the administrative provisions associated with mutual funds that were known as Undertakings for Collective Investment in Transferable Securities. This created a momentum in lot of countries in the Asia-Pacific region such as Hong Kong, Thailand, Singapore etc. By the end of 1996, households owned around 74% assets of mutual fund industry in the U.S.A; the rest of 25% was possessed by banks, trustees, and other institutional investors. In 1996, U.S.A. households obtained USD 543 billion financial assets compared to USD 499.6 billion in 1995 with a large part assigned towards long-term mutual funds. At the end of first quarter of 2003, the assets of worldwide mutual funds were USD 11.2 trillion[3]. In March 2004, there were 8,212 mutual funds in U.S.A. totalling around USD 7.6 trillion where one out of every three investor owned a mutual fund investment. In U.S.A., mutual funds outperformed the securities on the New York Stock Exchange (NYSE). Mutual funds thus became a global financial instrument, collectively managing more money compared to other financial institution having a profound impact on financial markets. At the present time, there were thousands of funds presenting miscellaneous schemes with various investment objectives in the world. Mutual funds came forth as the most crucial investment option for household in U.S.A. with the basic goal of

[1] Tripathy (2007)
[2] Tripathy (2007)
[3] AMFI database

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acknowledging small investors to participate in the capital market by investing in a vast portfolio of multiple stocks so as to diminish risk (Goswami, 2012).

Evolution of Mutual Fund in India

The development model taken by India in the post-independence era was a mixed economy with the public sector having a dominant role and the activities in private industrial sector were macerated from time to time. The industrial policy resolution was initiated by the government in the 1948. A number of policy and procedural changes were introduced in 1985 and 1986, aimed at raising productivity, reducing costs, improving quality, opening domestic market to raise competition and freeing the public sector from the operational constraints and restraints. Overall, in the seventh plan period (1985-86 to 1989-90), Indian industries grew by an average annual rate of 8.5 percent[4]. The last two decades have witnessed a phenomenal expansion in the geographical coverage and financial scatter of our financial system. The spread of the banking system has one of the major factors in upgrading financial mediation in the economy and in the growth of financial savings. With the gradual adaptation of liberalization policies, there has been a rapid growth of capital market, money market and financial services industry including merchant banking, leasing and venture capital. Consistent with this drastic and far-reaching change in the financial sector, the mutual fund industry surfaced out to take an important place in the canvass of the financial market.

In July1964, the Unit trust of India (UTI) set up the first ever mutual fund scheme in India. The twin objective of US-64 was to mobilise the household savings and invest the fund in capital market for industrial growth. Although the growth was sluggish in the beginning, the Indian mutual fund industry gathered momentum from the year 1987 with the appearance of other players in the industry. The growth of mutual funds in India occurred in several phases. The initial phase was 1964 to 1987 when the UTI is launched under the act of parliament. UTI was introduced by RBI and functioned under its regulatory and administrative control. By the end of 1988, it held asset worth Rs. 6700 crore under its management[5].

In the second phase (1987-1993), public banks entered into the mutual fund market. The SBI mutual was the first in the list (June 1987) and was followed by many others like, Canara Bank mutual fund, Punjab National Bank mutual fund, Indian Bank mutual fund, Bank of India mutual fund, Bank of Baroda mutual fund, LIC (1989) and GIC. By the end of 1993, the Indian mutual fund industry held assets worth Rs. 470004 crores under its management. So far the mutual fund industry was a monopoly market with few competitors.

The third phase (1993-2003) indicates the entrance of private sector funds and foreign multinational funds. These funds provided the investors with plentiful choice of funds. In the year 1993, the first mutual fund regulation was written, which required all mutual funds except UTI to be registered and governed under SEBI regulation. In 1996, this regulation was substituted by a more comprehensive and improved SEBI regulation. The number of mutual funds companies increased to 333 with total assets of Rs. 121805[6] crores by the end of January 2003.

The fourth phase started in February 2003. In this phase UTI was divided into two separate entities. The specified undertaking of the UTI with assets worth Rs. 29835 crore, came

[4] AMFI database
[5] Source: Amfi database
[6] Tripathy (2007)

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under its own management by the end of January 2003, and the other entity was UTI mutual fund Ltd, funded by SBI, PNB, BOB and LIC. By the end of March 2015 Indian mutual funds managing assets worth Rs. 1082575 crores.

Mutual funds, today have come up in all the segments of capital markets, be it equity, debt, money market, gilt or hybrid. With falling returns in the debt market and rise in retail participation, there has been an unchanged rise in the equity investments by mutual funds. This increase in equity investments can also be highly imputed to the introduction of Systematic Investment Plans (SIP) by several Asset Under Management Companies (AMC). These SIPs offer higher return for the investment in equity schemes with low risk. This return is much higher than return from bank deposit.

REVIEW OF LITERATURE

The majority of the research work in the field of mutual fund has been carried out for the industrialised countries in general. . There is some rare exception where the framework is for the Indian economy. Notable contributors are (Panigrahi, 1996; Debasish, 2009; Keswani, 2011; Kumar, 2011; Essayyad & Wu, 1998). Panigrahi (1996) examine the reason behind the attractiveness of mutual funds in last few years and attributed it to its fastest growth, good performance, skilled manpower and its quicker spreadness to the relatively wider area than equity in the recent year. Sumalatha attempts to find the nature of competition among inter sectors and intra sector mutual funds from the year 2003 to 2006. The study tries to examine competition among mutual funds by conserving each fund as a firm. Debasish (2009) analyse the performance of 23 equity oriented mutual funds offered by six private sector such as Birla Sun Life, HDFC, Deutsche, DSP Merill Lynch, Franklin Templeton and Prudential ICICI and three public sector mutual funds such as LIC, SBI and UTI. Rao and Rao examine whether the size of equity mutual funds affect on the performance. Kumar (2011) wants to evaluate the market fluctuations of 14 equity oriented, 4 income oriented and 3 balanced mutual funds from 5 companies namely LIC, HDFC, ICICI, Reliance, Birla Sun Life in terms of beta from January 2000 to December 2009. Keswani (2011) empirically examines the effect of fund size on the performance of open ended balanced mutual fund in India. Dr. T. Satyanarayana Chary and Shaik Masood examine the performance of selected 16 equity oriented, 15 debt oriented and 12 balanced mutual funds in a modest way from the period 2000 to 2009. Dr. Binod Kumar Singh analyze the effect of various demographic factors like age, education, gender, occupation on the investment on mutual fund. 250 investors of Ranchi are selected for the study. Dr. R. Narayanasamy and V. Rathnamani examine the performance of selected equity oriented mutual fund on the basis of alpha, beta, standard deviation, R^2, Sharpe ratio from 2010 to 2012. Y. Prabhavathi and T. N. Krishna Kishore focus to realize the attitude, awareness and performances of investors of mutual funds. The study based on the three cities of South India Hyderabad, Bangalore and Chennai.

RESEARCH METHODOLOGY

This study is mainly based on secondary data. The data are collected from Association of Mutual Fund (AMFI) database 2016.

Data Analysis and Findings

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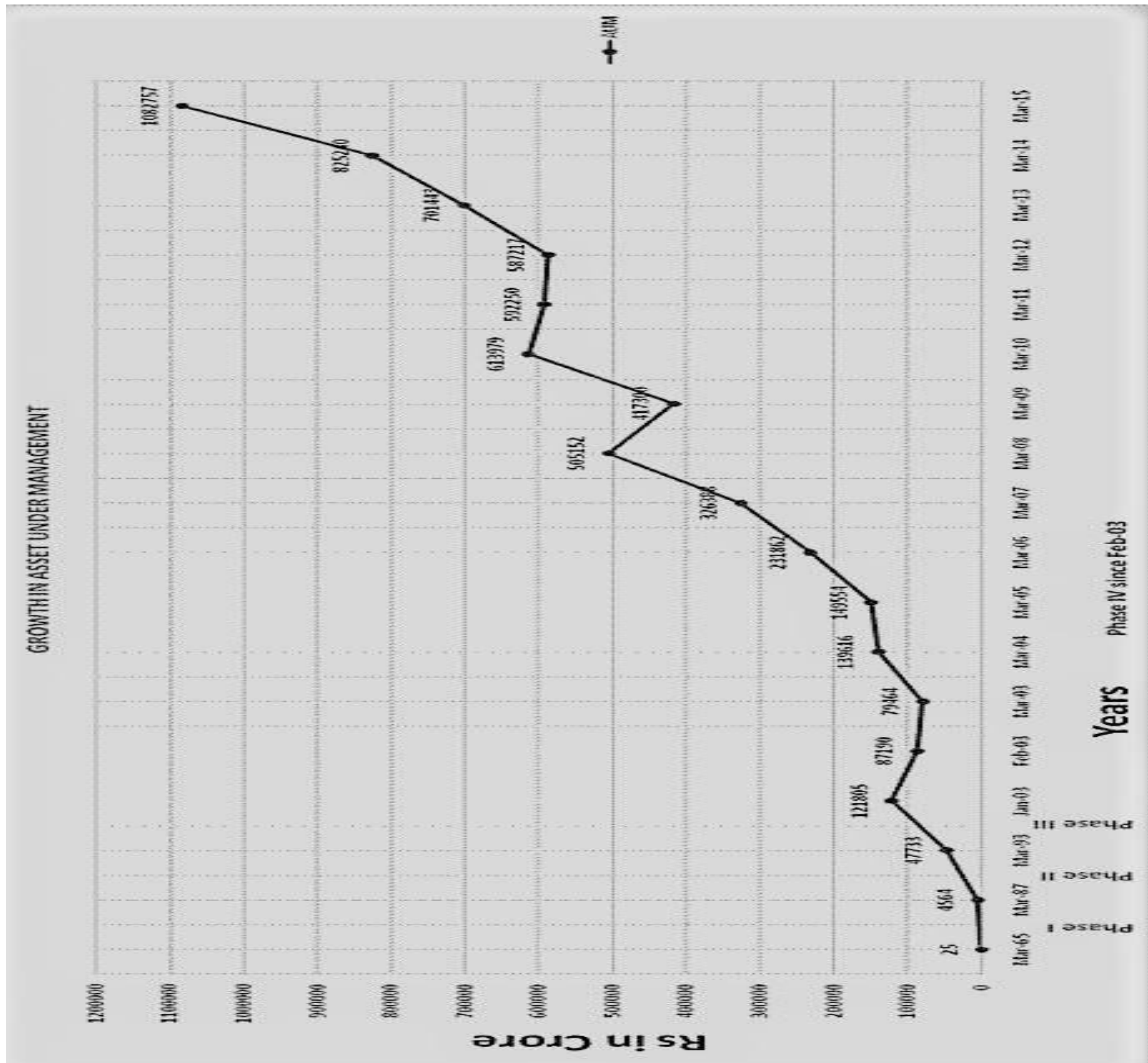
Figure2 depicts that after privatization in 1993, asset under management went up to 47,000 crores. In year Mar-05, assets mobilized through mutual funds was 1,49,554 crores and in year Mar-15 assets mobilized was 10,82,757 crores. During last decade the growth in assets under management was more than 600 percent, in India.



Source: AMFI database.

Figure 2
GROWTH OF ASSET UNDER MANAGEMENT OF MUTUAL FUNDS

The fund wise average asset under management of selected four mutual fund companies namely HDFC, Reliance, SBI and UTI are shown in Table 1. For HDFC mutual fund, the average asset under management increased by more than 600 percent. In case of Reliance mutual fund and SBI mutual fund, there is growth in assets under management to the tune of 400

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percent. For UTI mutual fund, average asset under management increased by more than 200 percent (Sadhak, 2003).

Table 1
AVERAGE ASSETS UNDER MANAGEMENT OF MUTUAL FUND COMPANIES (RS. IN LACKS)

	HDFC Mutual Fund	RELIANCE Mutual Fund	SBI Mutual Fund	UTI Mutual Fund
April-2006	2212806.70	2642010.62	1384289.84	3009970.27
March-2007	3195926.69	4766531.39	1898384.15	3761293.72
March-2008	4477316.82	9093794.02	2917896.08	4898281.26
March-2009	5795644.71	8096293.55	2638268.15	4875417.00
March-2010	8877984.40	11041270.92	3741700.35	8021780.73
March-2011	8628224.46	10157660.46	4167180.19	6718882.58
March-2012	8987874.71	7811179.28	4204154.20	5892214.59
March-2013	10172027.59	9458019.07	5490544.40	6945039.72
March-2014	11296283.51	10354177.53	6549947.15	7423329.33
March-2015	16163414.98	13712383.95	7494223.67	9275061.17

Source: AMFI database

Table 2 represents the category wise aggregate asset under management. We can see that for equity-oriented funds, the aggregate asset under management increased by more than 200%, followed by more than 150 percent for income oriented mutual funds, more than 140% for gilt mutual funds, more than 125% for balanced mutual funds and more than 80% for money market mutual funds.

Table 2
AGGREGATE ASSET UNDER MANAGEMENT - CATEGORY WISE –FROM 2009 TO2015

	Equity	Income	Balanced	Gilt	Money market
March-2009	109512.59	197452.68	11649.82	5966.93	90058.83
March-2010	199810.8	314329.91	15783.06	3461.03	75752.81
March-2011	197562.80	294217.42	17552.4	3507.28	74699.86
March-2012	182402.95	291067.75	16455.98	3659.59	80048.58
March-2013	172651.76	396787.82	16629.28	8074.19	93173.09
March-2014	191683.9	460974.5	16792.62	6114.68	133279.92
March-2015	345138.94	516951.12	26367.83	14614.43	162562.35

Source: AMFI database

CONCLUSION

It is concluded from this analysis that growth rate of assent under management for whole mutual fund industry is very high through the study period. Among four selected mutual fund companies, average asset under management for HDFC is highest, followed by Reliance and SBI. Asset under management for equity oriented mutual funds highly increased than other four categories namely income, balanced, gilt and money market mutual funds.

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