DOI : 10.18843/ijms/v6i1(6)/15
DOI URL :http://dx.doi.org/10.18843/ijms/v6i1(6)/15

An Analysis of Growth and Penetration of Indian Mutual Fund Industry

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ABSTRACT

The mutual fund industry is one of the fastest growing industries in India. Mutual Fund is a professionally managed investment fund that pools money from many investors and invest it in stocks, bonds, short term money market instruments and other securities. Mutual fund enables investors to invest in a wide range of securities through a single platform. An attempt has been made in this paper to study the growth and penetration of Indian Mutual Fund industry for last 15 year i.e. March 2004 to March 2018. Assets under management and AUM-to-GDP has been analysed to study the growth and penetration of Indian Mutual Fund Industry during the study period.

Keywords: growth, penetration, mutual fund, investment.

INTRODUCTION:

Mutual Fund is a pool of money collected from multiple investors. It collects money from many investors and invests the same on their behalf. It is a professionally managed investment fund that pools money from many investors and invest it in stocks, bonds, short term money market instruments and other securities. Mutual fund enables investors to invest in a wide range of securities through a single platform. The SEBI Regulations 1993 defines mutual fund as, "a fund in the form of a trust by a sponsor, to raise money by the trustees through the sale of units to the public, under one or more schemes, for investing it in securities in accordance with these regulations".

Types of Mutual Funds:

In terms of ease with which investors can enter and exit funds, mutual funds are broadly classified in to two types:

Open-ended funds: In open-ended funds, investors can buy and sell the units from the fund, at any point of time. Open-end fund does not have any restrictions on the amount of shares the fund can issue. Shares are bought and sold on demand at their net asset value (NAV), which is based on the value of the fund's underlying securities and is calculated at the end of the day.

Close-ended funds: These fund raise money from the investors only once. After the investment period, fresh investment cannot be made into the fund. If the fund is listed on a stock exchange the units can be trades like stocks. Like stocks, their share prices are determined according to the supply and demand and they often trade at a wide discount or premium to their NAVs

Mutual fund can also be classified according to the nature/objective of investment. Here are the different classes of mutual funds according to their risk-return characteristics:

Equity Fund: These funds invest most of the money in equities and equity related instruments. These are high risk schemes and investors can also make losses. With fluctuating share prices, such fund show volatile performance. However, short term fluctuations in the market generally smoothens out in the long term, thereby offering higher returns and great capital appreciation in long term. The funds are suitable for investors who are willing to take more risk.

Debt Funds: These funds invest most of the money in debt instruments including corporate debts, debt issued by banks, gilts and government securities and money market instruments like certificates of deposits (CD), commercial papers (CP) and call money. Returns are almost assured in these types of funds. These funds are suitable for risk averse investors.
Balanced Funds: These funds invest money in both equity and debt. As a result, on a risk-return ladder, they fall between equity and debt funds. These funds are ideal for investors who prefer spreading their risk across various instruments.
Money Market Mutual Funds: These funds invest a bulk of their money in safer short term money market instruments like certificates of deposits (CD), commercial papers (CP), treasury bills and call money. Most of the investments are for a smaller duration. These funds are also called as liquid funds.
Gilt Funds: These funds invest bulk of their money in government securities. Since they have the backing of the government, they are considered the safest mutual fund.

History of Mutual Fund Industry in India:
The history of Mutual Fund Industry in India can be traced back to 1963, with the launch of the Unit trust of India by the Government of India under an act of Parliament. UTI was launched under the regulatory and administrative control of RBI. In 1978, the regulatory and administrative control of UTI was transferred to IDBI (Industrial Development Bank of India). The first scheme that was launched in India by UTI was Unit Scheme 1964. Later in 1970's and 80's, UTI starting innovating and offering different schemes to suit the needs of different classes of investors. Unit Linked Insurance Plan (ULIP) was launched in 1971.
In 1987, public sector enterprises such as State Bank of India, Punjab National Bank, Canara Bank, India Bank, Bank of India, General Insurance Corporation of India (GIC), Life Insurance Corporation of India (LIC) entered the market and established public sector mutual funds.
A new era in the mutual fund industry began in 1993 with the permission granted for the entry of private sector funds. Foreign mutual fund management companies were also allowed to operate mutual funds. The private funds have brought in with them latest product innovations, investment management techniques and investor-servicing technologies.
A comprehensive set of regulations for all mutual funds operating in India was introduced with SEBI (Mutual Fund) Regulations, 1996. These regulations set uniform standards for all funds.
In February, 2003 the UTI Act was repealed. UTI no longer has a special legal status as a trust established by an act of Parliament. It was divided into 2 separate entities- the UTI Mutual Fund, which is sponsored by Punjab National Bank, State Bank of India, Bank of Broda and Life Insurance Corporation of India and the second entity is the Specified Undertaking of the Unit Trust of India.

REVIEW OF LITERATURE:

Sahadevan & Thiripalraju (1997) in their research paper analysed the performance of private sector funds. They compiled and analysed the monthly average return and standard deviation of 10 selected private sector funds. There research reveals that in term of rate of return, 5 funds namely Alliance 95, ICICI Power, Kothari Prima, Kothari Pioneer Blue Chip and Morgan Stanley Growth Fund outperformed the market during the period of comparison. The analysis also reveals that, by and large, performance of fund is not closely associated with its size.
Gupta & Sehgal (1998) in their research paper tried to find out the investment performance of 80 schemes managed by 25 mutual funds, 15 in private sector and 10 in public sector for the time period of June 1992-1996. The study has examined the performance in terms of funds diversification and consistency of performance. The study concluded that mutual fund industry's portfolio diversification has performed well and it supported the consistency of performance.
Roy, S. and Ghosh, S.K. (2012) in their paper evaluated the performance of the open ended mutual fund gilt mutual fund schemes for the period 2008-09. They analysed the risk adjusted performance, market timing performance and selectivity performance. The study revealed that the selected mutual fund schemes had not performed well and the performance of Indian private sector mutual fund companies were better than public sector companies. They concluded that the performance of selected open ended gilt schemes was not satisfactory during the recession period.
Adhav and Chauhan (2015) in their paper assessed and compared the performance of mutual funds schemes of selected Indian companies by standard deviation and Shape's Ratio They found that all selected mutual funds performed better than their benchmark indices. The study revealed that the risk for debt funds was much lower than that of equity funds. They further concluded that equity oriented hybrid funds and arbitrage funds and

conservative debt hybrid funds showed worst performance.

Ratnarajun, P. & Madav, V.V. (2016) in their paper analysed the risk return relationship and market volatility of selected mutual funds and examined the performance of selected schemes from March 2012 to March 2016 by using Sharpe and Treynor models. They investigated the performance of 30 open ended diversified equity schemes. Performance of Reliance Regular Saving Fund Equity, SBI Contra Fund, HDFC Equity Fund was not found good. Sharpe Ratio was found positive for all the selected schemes

OBJECTIVES OF THE STUDY:

- To study the growth of mutual fund industry in India.
- To compare the penetration of mutual funds in top economies of the world.

RESEARCH METHODOLOGY:

The study is conducted to understand the growth of mutual fund industry in India. To gain an insight into the growth of mutual fund industry, assets under management over the period has been analysed. An attempt has been made to study the growth assets under management for last 15 years period i.e. March 2004 to 2018. The study is based on secondary data using the published data available from Association of Mutual Fund in India. Data has also been collected from various websites, books, journals, periodicals etc.

Analysis of Growth of Indian Mutual Fund Industry:

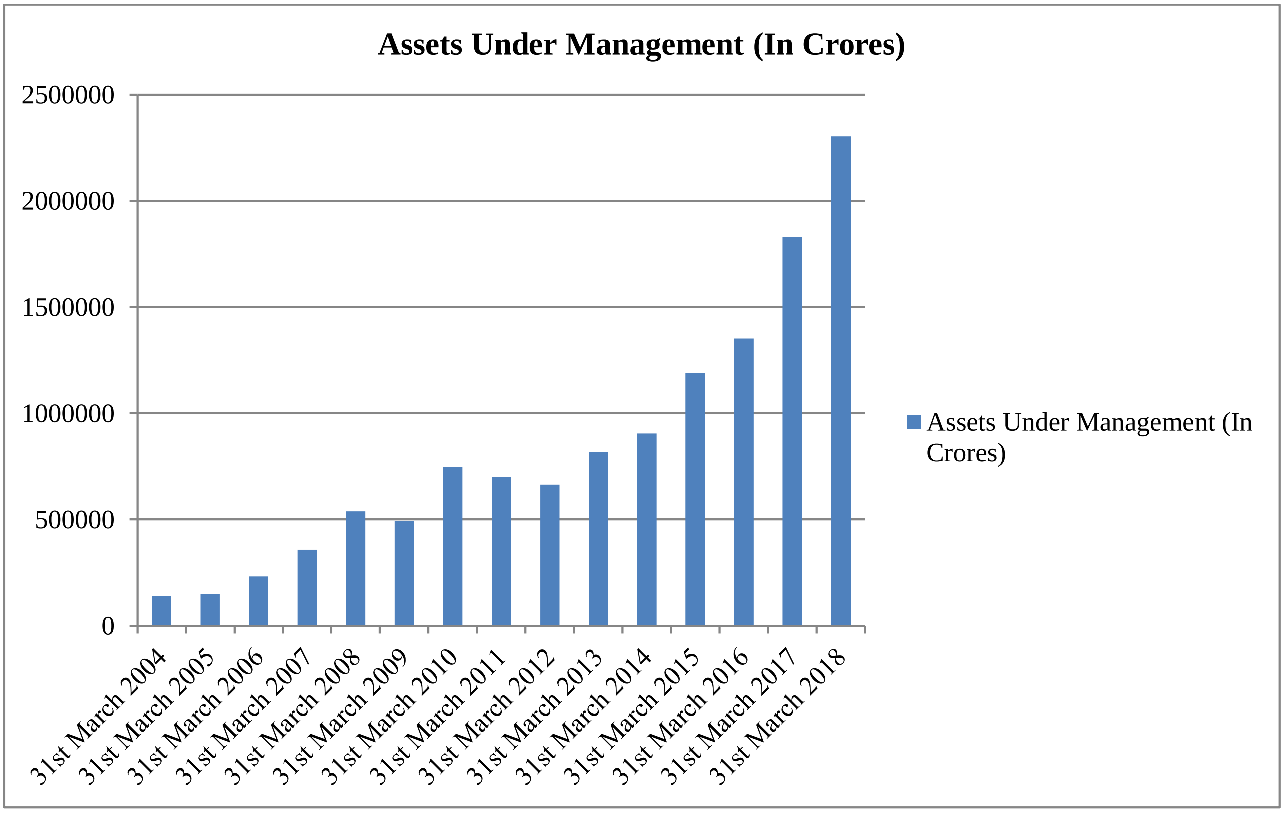
To study the growth of Indian mutual fund industry, assets under management during the period of study has been analysed.

Table 1.1: Assets Under Management

Years	Assets Under Management (In Crores)
March, 2004	139616
March, 2005	149600
March, 2006	231862
March, 2007	359097
March, 2008	538508
March, 2009	493285
March, 2010	747525
March, 2011	700538
March, 2012	664792
March, 2013	816657
March, 2014	905120
March, 2015	1188690
March, 2016	1353443
March, 2017	1829524
March, 2018	2305212

Source: AMFI Monthly/Quarterly Reports for different years:

Graph 1.1: Assets Under Management



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It is evident from Table 1.1 and Graph 1.1 that the total assets under management have shown a rising trend from 2004 to 2008. Assets under management have risen from Rs.139616 cores in 2004 to Rs.538508 crores in 2008. In 2009 there was a small drop in assets under management and reached to Rs.493285 crores. However, 2010 assets under management bounced back and reached to Rs.747525 crores. In 2011, there was a marginal drop in assets under management to Rs.664792 crores. After 2011, assets under management have shown a rising trend till 2018 and reached to its all time high at Rs.2305212 crores. By looking at the trends on assets under management, we can conclude that mutual industry in India has been growing continuously and it has further potential to grow at a faster rate.

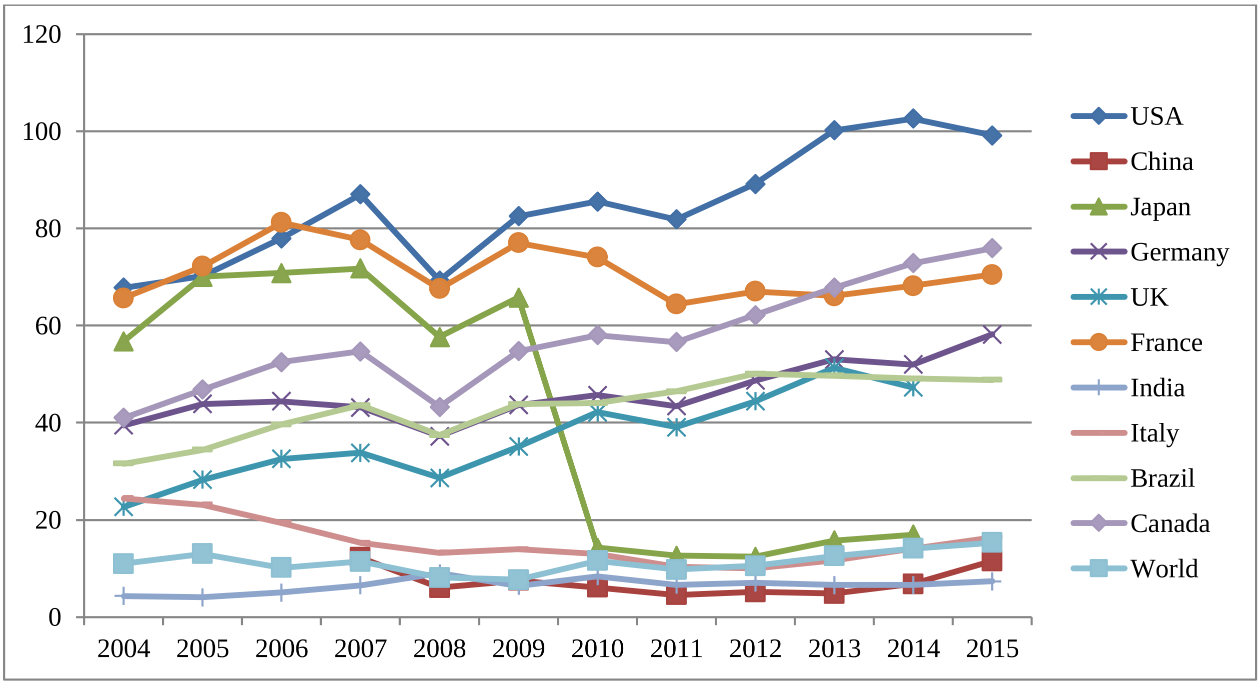
Penetration of Mutual Fund Industry in Top Economies of the World:
AUM-to-GDP ratio has been computed as a measure of penetration of mutual fund in top 10 economies of the world including India.

Table 1.2: Penetration of Mutual Funds in Top 10 Economies of the World

Years	USA	China	Japan	Germany	UK	France	India	Italy	Brazil	Canada	World
2004	67.81		56.78	39.46	22.69	65.65	4.31	24.41	31.56	41.01	10.99
2005	70.20		70.05	43.88	28.29	72.20	4.05	23.09	34.42	46.82	12.99
2006	77.95		70.85	44.43	32.56	81.20	5.04	19.36	39.66	52.51	10.17
2007	87.03	12.26	71.74	43.16	33.8	77.64	6.54	15.25	43.58	54.71	11.42
2008	69.30	6.05	57.66	37.20	28.64	67.6	8.97	13.21	37.44	43.26	8.11
2009	82.53	7.52	65.80	43.64	35.09	77.04	6.44	13.92	43.8	54.72	7.69
2010	85.54	6.08	14.29	45.67	42.19	74.07	8.40	13.03	44.05	58.05	11.56
2011	81.84	4.56	12.62	43.42	39.09	64.41	6.62	10.29	46.47	56.58	9.75
2012	89.14	5.16	12.40	48.69	44.41	67.06	7.10	10.06	50.08	62.16	10.54
2013	100.22	4.84	15.74	53.01	51.34	66.09	6.60	11.61	49.68	67.78	12.58
2014	102.61	6.8	16.97	51.97	47.26	68.21	6.56	14.08	49.1	72.87	14.08
2015	99.18	11.54	18.33	58.18	51.00	70.51	7.33	16.40	48.8	75.96	15.29

Source: World Bank (citing: World Bank-Non Banking Financial Database)

Graph 1.2



Source: World Bank (citing: World Bank-Non Banking Financial Database)

In Table 1.2 and Graph 1.2, the AUM-to-GDP ratio of top 10 economies of the world w.e.f. 2004 to 2015 has been shown. AUM-to-GDP ratio in India in 2004 was 4.31% which has increased to 7.33% in 2015. The world average of AUM-to-GDP ratio has reached to 15% in 2015. AUM-to-GDP ratio has increased in India but still we are at the lowest level in top economies of the world. Though the assets under management of mutual fund industry in India has been increasing continuously, but it has to tread a long way to catch up the world average when it comes to AUM-to-GDP ratio.

CONCLUSIONS:

Assets under management have shown a rising trend during the period of study except a few years. AUM-to-GDP ratio has also been increased continuously in India during the study period, but we are still at the lowest level in the top economies of the world. By looking at the trends on assets under management and the AUM-to-GDP ratio, we can conclude that mutual industry in India has been growing continuously and it has further potential to grow at a faster rate.

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