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THE DEVELOPMENT OF MUTUAL FUND INDUSTRY IN INDIA

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ABSTRACT

The purpose of this article is to present the attributes of mutual fund industry in India, its development since inception with UTI, entry of public sector, private sector and foreign enterprise, various schemes offered by companies especially started to meet small investor's needs. The article also explains the growth aspects of the mutual fund industry along with some guidelines that would result in safe investment and reasonable return.

The main cause of underdevelopment of a nation is its poor capital formation. Mobilization of savings is the backbone of sound financial system and for the development of the economy. The reforms have made the Indian financial system very strong. Mutual fund is one of the emerging financial instruments for small and retail investor and in developing countries like India small investment makes major part of capital. The objective of the study is to reveal the mutual fund industry from its inception to current position. The data used for the study is secondary in nature. To analyze the data various statistical tools like average, percentage and CAGR were used.

Keywords:
Mutual fund industry, growth, financial system, investor.

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1. INTRODUCTION

Mutual fund is a financial intermediary just like a bank because there is perfect transmission of money between holder (saver) and the securities in which the fund invests. Mutual Fund Industry showed the satisfactory growth over the past decade. Mutual Fund defined as an institutional investment vehicle through which customers pool their monetary resources towards the common objectives to spread the risk and to ensure steady return. After investing in mutual fund schemes, the investor need not bother about anything because mutual fund is a professionally managed investment option and also having the professional fund management teams that takes the responsibility of investing in stocks and shares after due analysis and research. Mutual fund is a generic term for various types of investment vehicles such as growth option, index funds, tax

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saving schemes, open-ended investment etc. At Present, there are 42 mutual funds players with several schemes and different options working in competitive market.

THE HISTORY OF MUTUAL FUND INDUSTRY

Historically, mutual funds in foreign countries began as private enterprise, known as investment trust. It was launched by a single individual who used his financial judgement abilities for the benefit of a group. The AMFI (Association of Mutual Fund in India) has classified the four decades of mutual fund in India into four phases.

Phase I (1963-1987): Growth of UTI: The concept of mutual fund was launched in India with the establishment of Unit Trust of India in 1963. It was establishment by an act of parliament. The first scheme introduced by UTI was US-64 IN 1964, which was the pioneer scheme of the industry in the country. UTI enjoyed the monopoly and continued to provide good returns. Until 1978, the UTI functioned under the control of the Reserve Bank of India (RBI).in 1978. The control transferred to the industrial development Bank of India (IDBI). Since, it was the only one player during that time, as a result, the growth of the industry was synonymous with the growth of UTI.

Phase II (1987-1992): Entry of public sector funds: in 1987, the government allowed the public sector banks and insurance companies to enter the industry due to the liberalization. The state bank of India, was the first bank to set up a mutual fund in November 1987.after that this step was followed by Canara bank (Dec87), LIC (June89), Punjab national bank (aug89), Indian bank(nov89),bank of India (Jun 90), GIC(Dec90), Bank of Baroda(Oct92). Thus, this period was clearly evident the entry of eight new mutual funds, six by public sector banks and two by the insurance corporations.

Phase III (1993-1996): Emergence of private funds: A hallmark period in the mutual fund industry began in 1993 with the entry of private sector and SEBI regulation in the mutual fund industry. The private sector funds came with them latest innovations, investment management techniques and investor servicing techniques. Kothari Pioneer (now merged with Franklin Templeton mutual fund) was the first private sector fund to enter in the market in 1993 as a country's first open ended growth –oriented mutual fund. In 1993-94, five private sector funds launched their schemes followed by six others in 1994-95.

Phase IV (1996-1999): Growth and SEBI regulations: In this phase SEBI set the regulations and uniform standard for all mutual funds operating in India to protect the investors. Liberalization of the economy had increased the competition and growth of the mutual fund industry.

Phase V (1999-2004): This phase was concerned with the growth in terms of both amount mobilized from small investors and assets under management. Earlier UTI functioned and controlled under a separate law of the Indian Parliament but during this phase, UTI was also under the control of SEBI regulations. After that all the new schemes launched by erstwhile UTI had to be SEBI approved. In 2004 SEBI granted mutual funds to invest in overseas securities.

Present stage of the industry: The industry observed a wave of mergers and acquisitions. The UTI scam in 1998 decline the overall asset under management of the industry but the industry recovered over the years. The mutual fund industry showed the unprecedented growth from 2005 to 2007 with a rate of 32%,62% and 68% respectively. The AUM (Asset Under Management) in this industry is Rs. 1,314,532 crore in sep.2015. In 2012-2013, the total gross resources mobilized by mutual fund are Rs.7,267,885 crore in which the resources mobilized by public sector funds Rs. 5,987889 crore and private sector mutual funds Rs.633,350 crore and mobilization of resources by UTI Rs.646,646 crore. According to the monthly number released by the AMFI, the Indian mutual fund industry's AUM rose by Rs.208.40 bn to Rs.12.02 trillion in Feb.2015. According to PwC report, AUM-to-GDP ratio in India only 7%.

2. REVIEW OF LITERATURE

Gupta & Shivani (2011) conducted a study on mutual funds current state and future outlook. They concluded that low awareness level & financial literacy of customers is the biggest challenge for mutual fund houses. Further the mutual fund houses adopt a comprehensive approach while covering Tier-1 and Tier-2 cities.

M.B. Umarani (2012) analyzed the growth of i\Indian mutual fund industry and pointed out that mutual fund industry is illusionary and also there is little doubt on the inherent nature of mutual funds that it's a investment platform for small investors. She suggested that regulators need to make regulation & policies that will boost the retail participation in the mutual fund industry.

Jani & Jain (2013) analyzed the relationship between AUM mobilized by mutual fund and GDP growth of the India. They concluded that mutual fund has become a key resource mobilizer for Indian financial system. They suggested that some improvements like proper structure & regulations are required in the case of black money and also proper regulatory framework for the investor's protection.

Chauhan & Adhav (2015) studied the recent trends in mutual funds industry in India. The study highlighted that in India investor base of mutual funds is high but when we compare India with other nations, it is still lacking far behind. They suggested that strong regulations, better services to the investors, and high returns could make mutual fund schemes more investor friendly.

Resource Mobilization by Mutual Funds: This section deal with the growth of the Indian mutual fund industry.

Table 1: Assets Under Management (AUM)

Years	Assets Under Management (in crores)	% Increase (decrease)
1965	25	....
1987	4564	18156
1993	47000	929.80
2000	113005	140.43
2001	090587	-19.83
2002	100594	11.046

2003	079464	-21.00
2004	139616	75.69
2005	149554	07.12
2006	231862	55.03
2007	326388	40.77
2008	505152	54.77
2009	417300	-17.39
2010	613979	47.13
2011	700538	14.09
2012	664792	-5.10
2013	816657	22.84
2014	905120	10.83
2015	1188690	31.33
CAGR	**24.03%**	

Source: www.amfiindia.com
(Data pertaining to the month of March every year)

The Table 1 shows that in 5O years of existence, the mutual fund industry achieved a CAGR of 24.03% in assets under management. From a little amount of Rs. 25 crore in 1965, it attained an impressive figure of Rs.13,53,443 crore in year 2016. The table also shows the upwards and downwards trends (in % form) of AUM in different years.

Table 2: Share of different schemes in AUM of the mutual fund industry (crore)

Schemes/Years	**Income**	**Balanced**	**ElSS**	**Money market/liquid market**	**Equity/Growth funds**	**Gilt**
2001	48863 (54%)	19273 (21%)	2523 (03%)	4128 (4.5%)	13483 (15%)	2317 (2.5%)
2002	55788 (55%)	16954 (17%)	1768 (1.7%)	8069 (8.2%)	13852 (14%)	4163 (4.1%)
2003	47564 (59.8%)	3141 (4%)	1228 (1.5%)	13734 (17.3%)	9887 (12.4%)	3910 (5%)
2004	62524 (45%)	4080 (03%)	1669 (1.2%)	41704 (29.8%)	23613 (17%)	6026 (0.4%)
2005	47605 (32%)	4867 (3%)	1727 (1%)	54068 (36%)	36757 (25%)	4576 (3%)
2006	60278 (26%)	7493 (3%)	6589 (3%)	61500 (27%)	92867 (40%)	3135 (1%)
2007	119322 (36%)	9110 (3%)	10211 (3%)	72006 (22%)	113386 (35%)	2257 (1%)
2008	220762 (44%)	16283 (3%)	16020 (3%)	89402 (17%)	156722 (31%)	2833 (1%)
2009	197343 (47%)	10629 (3%)	12427 (3%)	90594 (22%)	95817 (23%)	6413 (1.3%)
2010	311715 (51%)	17246 (3%)	24066 (4%)	78094 (13%)	174054 (28%)	3395 (1%)

2011	291975 (49%)	18445 (3%)	25569 (4%)	73666 (13%)	169754 (29%)	3409 (1%)
2012	290844 (50%)	16261 (3%)	23644 (4%)	80354 (14%)	158432 (27%)	3659 (0.62%)
2013	395985 (57%)	16307 (2%)	22731 (4%)	93392 (13%)	149777 (22%)	8074 (1.15%)
2014	460671 (56%)	16793 (2%)	22547 (3%)	133280 (16%)	165560 (20%)	6115 (0.74%)
2015	515773 (48%)	26368 (2%)	39470 (4%)	162562 (15%)	305669 (28%)	14614 (1%)
2016	565459 (46%)	39146 (3%)	41696 (4%)	199404 (16%)	344707 (28%)	16306 (1%)
CAGR	(16.53%)	(4.53%)	(20.56%)	(27.42%)	(22.45%)	(12.97%)

Source: www.amfiindia.com
(Data pertaining to the month of March every year)

The Table 2 highlights the share of different schemes in AUM of the mutual fund industry. Table indicates that over the years, income and growth oriented funds are the investor's first choice. The figures shows that the share of GILT Schemes (Debt Funds) in total AUM has decreased from 2003 to 2006 and the same time figures showed that growth funds(Equity Funds) enjoyed increased share in total AUM. But later on trend changed in favor of debt funds. Due to less risky nature of Debt funds, their growth was not bounded in comparison to Equity funds.

Table 3: Cumulative Growth in No. of Schemes

Years	**No. of Schemes**
1964-74	0005
1974-86	0010
1989	0021
1993	0059
1994	0167
1999	0277
2000	0344
2002	0417
2004	0403
2005	0451
2006	0592
2007	0756
2008	0956
2009	1001
2010	0882
2011	1131
2012	1309

2013	1294
2014	1638
2015	1884
2016	2420

Source: www.amfiindia.com
(Data pertaining to the month of March every year)

The Table 3 is related to the growth of schemes. In 1964, there were only 5 schemes but it can be observed that, the number of schemes increased after the entry of private sector in 1993. In present (2016) there are 2420 schemes offered by various AMCs

Table 4: Cumulative Growth in No. of AMCs

Years	No. of Schemes
1964	01
1989	08
1993	09
1996	26
2000	33
2005	30
2006	30
2007	32
2008	35
2009	38
2010	38
2011	41
2012	44
2013	43
2014	46
2015	43
2016	42
CAGR	**7.60%**

Source: www.amfiindia.com
(Data pertaining to the month of March every year)

The Table 4 is related to the number of AMCs in India. It shows that there were only 9 AMCs in 1993, the number of AMCs in India reached the figure of 42 as on 31st march, 2016. The cumulative growth in number of AMCs is 7.60%

Table 5: Share (%) of Mutual Funds in Total Assets Under Management of the MF Industry

Years	UTI	Bank sponsored	Institutions	Private Sector Mutual Funds		
				Indian	Foreign Joint venture: Predominantly indian	Joint venture: Predominant Foreign
2000	67.7	07.0	3.0	02.0	8.6	11.5

2001	64	03.7	3.9	03.7		9.5	15.2
2002	51.1	04.0	4.2	05.1		15.4	20.1
2003	17.0	05.6	7.4	13.0		19.4	37.6
2004		20.1	4.7	14.2	2.6	23.7	34.6
2005		19.5	2.0	20.6		20.6	37.3
2006		19.4	2.2	22.0		32.0	24.4
2007		16.4	3.0	24.0		33.0	23.6
2008		15.1	2.7	30.8	5.8	30.8	14.8
2009		16.4	4.7	31.2	6.6	36.5	04.6
2010		17.4	5.6	31.5	6.7	35.8	03.0
2011		17.5	1.6	34.4	7.8	36.2	02.4
2012		18.0	0.87	28.7	8.6	41.3	02.5
2013		18.5	0.87	28.1	7.0	42.1	03.2
2014		18.2	1.2	25.3	6.5	45.6	3.2
2015		16.5	0.81	25.2	7.3	47.7	02.5
2016		17.94	0.99	24.7	6	47	1.4
Average		14.8	2.92	21.44	6.49	30.89	14.23
CAGR		5.69%	-6.31%	15.93%	8.72%	10.50%	- 11.65%

The table 5 shows the holding pattern of assets under management by various AMCs. After 2003 UTI lost its individuality and consider under bank sponsored mutual funds. The Bank sponsored mutual funds held the 14.89% of AUM on an average. Institutional mutual funds are not in a strong position; they have only 2.29% of total AUM of the industry. Private sector is in very strong position as they held 73% of total AUM. Within private sector AMCs, joint ventures (predominantly Indian) and Indian AMC held 52% of the total AUM.

Table 6: Share of MFs in Households' Gross Financial Savings

Years	Share (%)
2001	1.3
2002	1.8
2003	1.3
2004	1.2
2005	0.4
2006	3.8
2007	4.8
2008	7.7

Mutual Funds other than UTI
Source: SEBI

The table 6 exhibits the share of Mutual funds in households' gross financial savings. It shows the slow but increasing trend over the years. In 2001, the share was only 1.3% and due to the increasing trend it reached on 7.7% in 2008. But when we compared it with other countries, it seems that Indian investors still adopting the traditional methods of investment.

Table 7: AUM to GDP ratio (as of Dec, 2014)

Countries	Share
United States	91.01%
United Kingdom	39.55%
Brazil	42.18%
Spain	19.48%
Mexico	9.25%
China	6.85%
India	6.57%

Source: www.deloitte.com

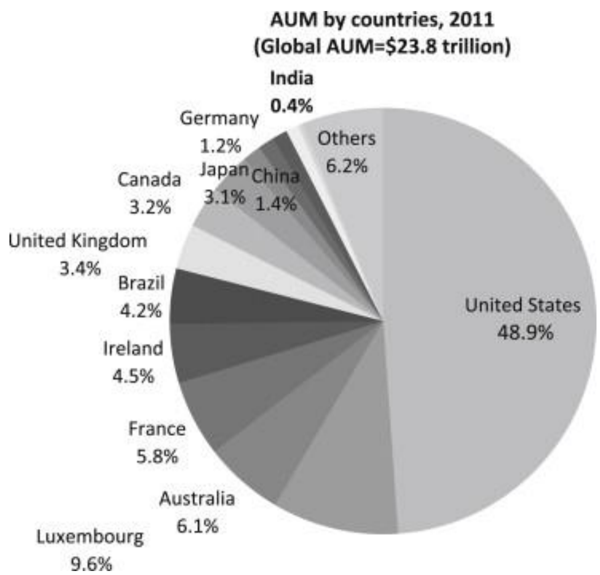

Figure 1: World Mutual Fund Industry

Source: www.deloitte.com

The Table 7 indicates the AUM to GDP of different countries. The developed countries like U.S, United Kingdom, Brazil etc. are the real beneficiaries of the mutual funds. There has been a continuous growth in the mutual fund industry in India but it is still lacking behind in comparison to other countries. Figure 1 also shows that the Indian mutual fund industry is very small at the global level. Its share was only 0.4% in world mutual fund industry in 2011.

Table 8: BIGGEST FUND HOUSES (as on 31st Mar.2016)

FUND HOUSE	NO OF SCHEMES	AUM (RS CR)
HDFC MUTUAL FUND	236	176,085
ICICI PRUDENTIAL MUTUAL FUND	431	175,964
RELIANCE MUTUAL FUND	289	159,370
BIRLA SUN LIFE MUTUAL FUND	251	136,785
SBI MUTUAL FUND	169	107,327

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The Table 8 shows the 5 biggest fund houses of india,with their number of schemes and AUM. As on 31 March,2016 the HDFC mutual fund is the biggest fund house in india with their 236 schemes and 176,085 crore of AUM.

Table 9: Status of Mutual Funds for the period April 1, 2015 to March 31, 2016

(Figures in Rs. Crore)

	Private Sector Mutual Funds	**Public Sector Mutual Funds**			**Grand Total**
	A	UTI (i)	Others (ii)	Sub-total (i)+(ii) B	A+B
Mobilisation of Funds	11,126,276.54	1,115,822.72	1,523,455.80	2,639,278.52	13,765,555.06
Repurchase / Redemption Amt.	11,034,883.03	1,100,406.85	1,496,084.65	2,596,491.50	13,631,374.53
Net Inflow/ Outflow (-ve) of funds	91,393.51	15,415.88	27,371.15	42,787.02	134,180.53
Cumulative Position of net assets as on March 31, 2016	1,022,032.97	94,878.92	115,911.63	210,790.56	1,232,823.53
	82.90%	7.70%	9.40%	17.10%	100%

Net assets of Rs.5391.78 crores pertaining to Funds of Funds Schemes for March 2016 is not included in the above data.

Source: SEBI

The Table 9 exhibits the status of net inflows/outflows of mutual funds in India. Private sector mutual funds cumulative position of net assets are 82.90% as compared to public sector mutual funds only 17.10% as on 31st March,2016.

Types of Mutual Fund Schemes:

There are a large variety of **Mutual Fund schemes** that satisfy to your needs, whatever your financial position, risk tolerance and return expectations. The MF companies have designed a large quality of investment products.

BASED ON STRUCTURE

Open -ended and Close-ended funds: Unless something specified on mutual fund, it is open-ended fund. Open-ended funds remain open for investors to invest in or exit from. This scheme facilitates the investors to buy or redeem the units during any business day at the current Net

Asset Value (NAV). The close-ended funds are also called fixed maturity fund. Investors can invest only for a short period of time during their 'New Fund Offer' period. Once this offer is over, one cannot invest. Some close ended schemes start as close ended but after the nearer to their redemption date it become open ended schemes.

3. MUTUAL FUNDS BASED ON FINANCIAL INSTRUMENTS

3.1.EQUITY FUNDS

A mutual fund that mostly invests in stocks is termed as Equity fund. These funds mostly invest in equities with a small portion in money market securities. The main objective behind this is to generate good returns by taking higher risk. So, these funds are only for risk bearing investors.
Equity funds can be sub-categorized as –

a) Growth funds
b) Mid- Cap funds
c) Value funds
d) Equity-income funds
e) Index funds and Exchange traded funds
f) Sector funds
g) Equity linked saving schemes

3.2.DEBT FUNDS (OR INCOME FUNDS/BOND FUNDS)

Debt funds mainly concentrate their investment in fixed income bearing securities like debentures, government securities etc. Traditionally these funds provide lower returns than equity funds. The main source of their returns is interest receipt and capital gain.
Debt funds can be sub-categorized as –

a) Corporate bond fund
b) Gilt schemes
c) Floating rate schemes
d) Bond index funds

3.3.HYBRID FUNDS

Funds in this category are invested in both equities and debt investments. They invest more than 65% of the corpus in equities and rest in debts. These funds are more stable than equity funds.
Hybrid funds can be sub-categorized as –

a) Balanced funds
b) Asset allocation funds

4. UNITHOLDERS' PROTECTION

Security Exchange Board of India (SEBI) introduced regulatory measures to protect the interest of small investors that proves it's useful for the long term growth of the industry. SEBI allowed tax deductions on many mutual funds schemes that have inspired the salaried income earners to invest in mutual fund schemes. Time to time SEBI has made many changes in MF regulations, to revive the mutual fund industry.

Table 10: Major 6 Changes Introduced by SEBI

Criteria	**Before**	**Now**
Expense Ratio Charged	Maximum 2.5% allowed (depending on the AUM)	Now additional 30 basis points are allowed if the fresh inflow's from smaller towns
Internal Limits on Expense Ratio	Internal Limits of 1.25% for Fund Management Charges, 0.5% for distribution costs	No internal limits now
Exit Load go	went to a separate fund used for marketing and sales	Added back to Scheme AUM, but will not benefit investors because of equivalent increase in expense ratio (limited to 20 basis points)
Direct Scheme of Mutual Funds	Earlier there was no distinction between a investment made by agent or directly with AMC	A new category called "Direct" has been introduced which will have a lower expense ratio.
Service Tax	Borne by AMC	Borne by Investors
Distinction between Advisor and Distributor	There was no distinction earlier	The regulations are now coming in . Advisor and Distributor will be separated.

source: http://www.jagoinvestor.com chauhan(n.d)

5. MAJOR REGULATORY CHANGES DONE BY SEBI

The table 10 exhibits the 6 major changes done by SEBI to revive the mutual fund industry. In Indian mutual fund industry 87% of mutual funds money (AUM) comes from top 15 cities, which means that very little amount (only 13%) of the AUM comes from the small cities in India. If the mutual funds are able to reach to small cities and also get more than 30% of its AUM from other top 15 cities, they can charge a 30 basis points expense ratio which is higher than its current expense ratio. So, big cities investors will have to face the burden of increased expense ratio.

Earlier there was an internal limit of expense ratio on AMC to charge up to 2.5% but now SEBI has been removed the internal limits of expense ratio. That means now more commissions to the distributors and more advertisement. For AMCs, this is very encouraging change.
In earlier, when an investor exit prematurely (before 1 year), he was charged an exit load and that money was transferred to a separate fund and used for sales and marketing. But now the entire exit load will be credited to the scheme account.

In 2013, SEBI has directed to every mutual fund house to offer a direct plan for every fund. Now the investors directly search and buy the mutual funds from AMC. This option is cheaper and makes sense because it does not involve distribution and other charges related with intermediaries.

SEBI has ruled that the service tax that earlier had been paid by the AMCs themselves. But now, it can be passed to the investors.

SEBI has introduced some minimum qualifications, registration and guidelines for financial advisors. The person who want to sell and earn money from financial products, and then he will not be able to advise the clients. The basic advice is considered as the extension of their work.

6. CONCLUSION

The mutual fund industry in India is expected a tremendous growth in a few years. The SEBI regulatory framework contributed a lot in indian mutual fund industry but still there are some matters to work on like disclosure and insolvency. In India, still the mutual funds are not recognised as preferable investment in investor's communities. Fund houses adopt a comprehensive approach and contribute towards financial inclusion. The distribution channels have not been utilised to a significant level. Overall, we can conclude that mutual fund industry has to make efforts towards the stable growth and sustained profit rather than short term growth.

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