MUTUAL FUND INDUSTRY IN INDIA - AN EMPIRICAL ANALYSIS

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ABSTRACT

The purpose of this study is to examine the growth in the Indian Mutual Fund industry. The data used for the study is secondary. The first part sets out the introduction and Evaluation of the mutual fund industry and various regulatory drives taken by the Securities and Exchange Board of India (SEBI). The part second discusses the resource mobilization by the Indian mutual fund industry and how the industry build-up with the intercontinental mutual fund industry. The last part of the current study provides some concluding observations, that the mutual fund industry in India is maturing with the largescale investors and increasing geographical area. While the penetration of the mutual fund industry in India, as measured by the Assets Under Management (AUM)/GDP ratio, is still low compared with the global average.

KEYWORDS
Asset under Management, Financial, Industry, Investor, Mutual Funds.

INTRODUCTION

Mutual funds are indispensable institutions for financial development and inclusion as they aggregate savings from a large number of investors, including retail investors, and deploy these resources in financial markets, based on different risk-return preferences. In a mutual fund, the investment is actively managed by professional portfolio managers who managed the fund by taking the advantage of present and expected market conditions. A mutual fund provides benefits to its investors by capital appreciation together with tax benefits. There has been a phenomenal expansion of the mutual fund segment in India as evident in the growth of the sheer size of Assets Under Management (AUM) within a span of five financial years-from 12.3 lakh crore at the end of 2015-16 to 31.4 lakh crore at the end of 2020-21 (AMFI 2021). The Indian mutual fund industry emerges to be the fastest growing and competitive segment in India's financial sector as credit intermediation is shifting from the traditional supremacy of the banking sector to the non-banking sector, including the assets management industry. With various investment opportunities and operational flexibility, the mutual fund industry is also providing a magnificent return to investors (RBI, 2017). As of now, there are 45 Assets Management Companies (AMC) registered with the Securities and Exchange Board of India (SEBI). The net assets under management as of 31st March 2021 are ₹31,42,763.54 crore. There is immense potential in the Indian mutual fund industry as the share of mutual fund investment to GDP/Saving is still very low, though it has grown significantly over the year. With the increase in size and influence of financial institutions and markets, household savings have been shifting from physical assets to financial assets. Moreover, the mutual fund plays an important role through efficient allocation of resources in equity, debts, and the money market.

STATEMENT OF THE PROBLEM

India ranked 7th in terms of nominal GDP, yet in terms of mutual fund assets under management, India rank 17th. In a country of 1.3 billion people, less than 2 percent invest in mutual funds whereas in developed economies like the US this figure is much higher. Investments in mutual funds are an important part of the financial sector and have increased over the last decades (Anderson ad

Ahmed, 2005, p.1). Although a large number of studies have been carried out on the growth and financial performance of mutual funds in India (Boston Analytics, 2010), (PWC, 2013), not much light has been shed on the present circumstances and developments in India's mutual funds' industry. Today this is the most common form of investment. We also believe the mutual fund industry is a relevant area to investigate in terms of commerce and business Administration. The topic is interesting since many people are affected by mutual funds considering their savings and pension. Therefore, a topic that needs to be further researched, moreover the relation between fund characteristics and its performance is complex and, from the investor's point of view, the topic is still current and further research is important to present the updated information about the risk-adjusted return of mutual fund performance in terms of their characteristic.

OBJECTIVE OF THE STUDY

The primary objective of the present research paper is to evaluate the developments in the Indian mutual fund industry. Other objectives are as follows: -

- To analyze the resource mobilization by the mutual fund industry.
- To analyze the sector-wise status of resource mobilization by mutual fund industry.
- To analyzethe scheme-wise status of resource mobilization by mutual fund industry.

LITERATURE REVIEW

This section provides a brief description of research work conducted in the field of mutual funds. Some of these studies are based on abroad and Indian mutual funds, which have been reviewed to identify the research gap and significance for the present study

(Fredman and Wiles, 1993). The mutual fund machinists actively manage the portfolio of securities and receive income which is ultimately passed on to the unitholder.

(La Porta *et al.,* 2000) Laws, regulations, and governance characteristics play an important role in the financial sector. The study examines the role of laws governing investor protection, transparency of reporting, Insider trading, taxation, the quality of enforcement of the laws, potential conflicts of interest between the fund and the investors.

(Sharpe, 1966, p. 132) Findings from the study showed a positive relationship between low expense ratio and fund performance. Moreover, Sharpe (1966, p. 133) investigated if fund size affected fund performance and found a positive relationship, although not statistically significant.

(Rao and Venkateswar, 1998) In the Indian context, studied UTI's performance for the period 1964-69 to 1993-94 and found that there is significate growth in the fund mobilized by UTI.

(Baral and Das, 2016) Mutual funds have a significant role to play in the financial development of a developing economy like India. The resources mobilized by mutual funds in India have recorded a two-fold increase during the study period. Sector-wise analysis revealed that the share of private sector mutual funds in the resources mobilized was as high as 82 percent.

(Mishra, 2012) Through using time series econometric this article finds that there is a direct relationship between the growth in the real gross domestic product and total gross fund mobilization in long run, in developing countries like India.

(Panda, 2016) The study highlights the drawback of mutual fund schemes, that once the issue is over the mutual fund are inevitable to invest the fund as per investment objectives as authorized in the offer documents. Thus, there is no option to invest in other securities, which may provide higher returns.

(Mohanan, 2006) This study finds that assets under management by mutual fundsgrew by 96 percent from 1997 to June 2003 as a result of this the AMU as a percentage of GDP rose from 8 percent to 15 percent. As per this study, the Indian mutual fund industry is one of the fastest-growing sectors in the Indian financial and capital market.

(Sharma, 2016) The study analyzed the various development phase in mutual fund industries since the creation of UTI and the entry of public and private players in the finance sectors. This study finds that the main cause of underdevelopment of a country is its poor capital management and suggests that proper mobilization of savings is very important for a sound financial system.

(Kanodia, 2017) This study reviews the various papers on mutual fund performance and growth and concludes that there is a correlation between the mutual fund and market return. And suggest that there should be more focus on the evaluation of ratios performance and ranks.

RESEARCH METHODOLOGY

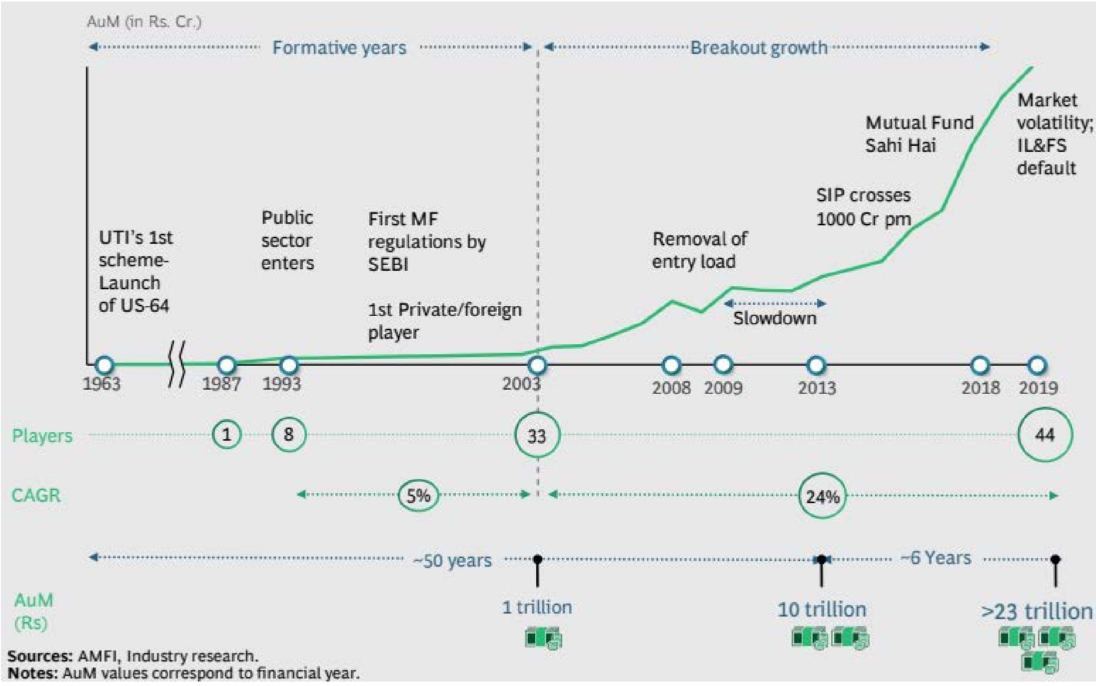
Methodologies used in the study are analytical and empirical. The empirical analysis is based on the statistical analysis of secondary data. The secondary source includes journals, magazines, books, websites, publications of various research agencies like CRISIL, AMFI, SEBI annual report, UTI annual report, etc. The data has been properly analyzed and interpreted to draw conclusions and inferences.

EVOLUTION OF MUTUAL FUND INDUSTRY IN INDIA

The mutual fund industry started in 1963 in India with the enactment of the Unit Trust of India (UTI), at the initiative of the Reserve bank of India and the government of India. According to AMFI the evolution of Indian mutual fund industries is divided into five broad phases.

THE FIRST PHASE (1964-1987)

The 1st phase started in 1963, with the establishment of Unit Trust of India (UTI) by the act of parliament.Itoperates under the regulatory and administrative control of the Reserve Bank of India (RBI). UTI was separated from RBI in 1978 and the regulatory and administrative control was taken over by The Industrial Development Bank of India (IDBI). The first mutual fund scheme was introduced by the UTI was Unit Scheme 1964 (US'64). UTI had an Asset under Management (AUM) of ₹ 6,700 crores at the end of the year 1988.



THE SECOND PHASE (1987-1993)

The 2nd phase started with the development of a public sector mutual fund set up by the public sector bank and the life insurance corporation of India (LIC) and the General Insurance Corporation of India (GIC). In June 1987 State Bank of India (SBI) mutual fund was 1st non-UTI mutual fund accompanied by Canbank Mutual Fund (Dec.1987), Punjab National Bank Mutual Fund (Aug. 1989), Indian Bank Mutual Fund (Nov. 1989), Bank of India (Jun. 1990), Bank of Baroda Mutual Fund (Oct. 1992), the Life Insurance Corporation of India (LIC) established its mutual fund in June 1989 and General Insurance Corporation (GIC) also set up their mutual fund by Dec. 1990 and the industries AMU had reached ₹47,004 crores by the end of 1993. Securities and Exchange Board of India (SEBI) was established on 12 April 1988 and it was given statutory powers on 30 January 1992 through the SEBI Act, 1992. The formation of SEBI in India was to safeguard investors'rightsand to strengthen them.

THE THIRD PHASE (1993-2003)

The 3rd phase was started with the entry of private mutual fund players as erstwhile Kothari Pioneer mutual fund (now merged with Franklin Templeton) registered in July1993. Now a new generation began in mutual fund Industries as the SEBI started regulating Indian mutual fund industries (except UTI). In 1996 the previous SEBI mutual fund regulation was replaced by a new comprehensive set of SEBI mutual fund regulation Act 1996, which is applicable at present. During this phase, there were several mergers and acquisitions and many foreign sponsors' mutual funds were started operation in India. There were 33 mutual fund Assets Management Companies (AMC) with a total of ₹1,21,805 crores, Assets under Management (AUM), from which individually UTI had AMU of ₹44,541 crores.

THE FOURTH PHASE (2003-APRIL 2014)

The mutual fund industries set foot in its fourth phase of consolidation with the revoke of UTI Act 1963 in February 2003. This led to the decoupling of UTI into two separate entities, i.e., the Specified Undertaking of the Unit Trust of India (SUUTI) and UTI mutual fund. This phase came across a global Economic collapse in 2009, which led to a financial crisis and several mergers were noted among private-sector mutual funds. Most of the investors have lost their faith in mutual fund products, the industry's growth was interrupted due to global meltdown andthere was sluggish growth in mutual fund AUM between 2010 to 2013.

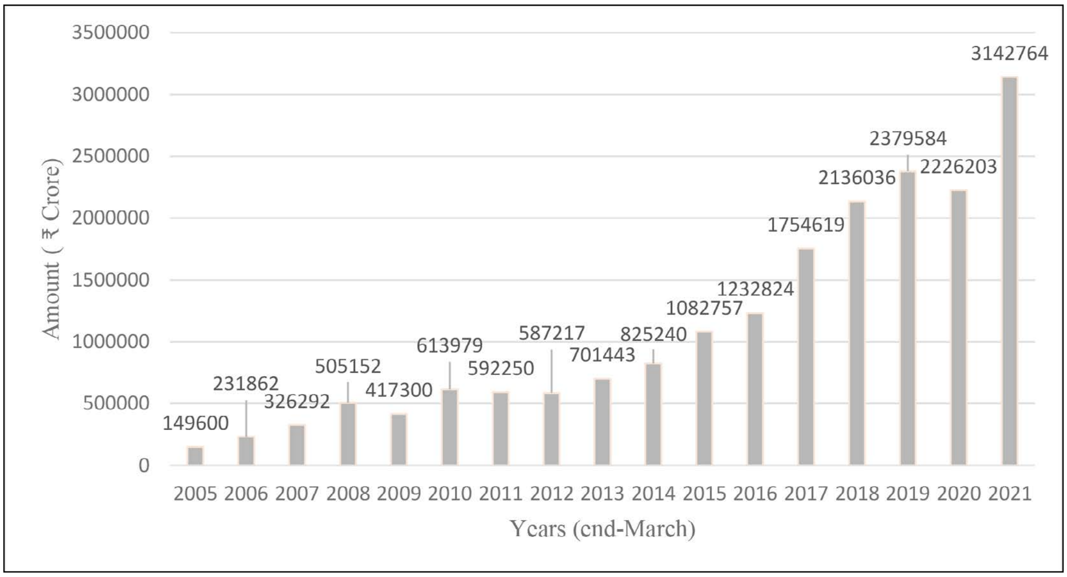
THE FIFTH PHASE (MAY 2014 ONWARDS)

In the 5th phase the SEBI has initiated several progressive regulatory measures in September 2012, as a result of which the industry has observed regular inflows and increases in the AUM. The SEBI's regulatory measures amplified the distribution networks and includedmany new personnel from postal agents, retired government officials, and bank officers. The accessibility of mutual fund products improved with greater transparency, which enhance the number of investors folios.

RECENT TRENDS IN RESOURCE MOBILISATION

The mutual fund industry has come a long way with current net Assets under Management (AMU) as of 31st March 2021 being ₹31,42,763.54 crore. For the first time the Indian mutual fund industries breakthrough the AUM of ₹10 lakh crore on 31 May 2014. Within three years of a short period, the AMU size had enlarged to 20 lakh crores in August 2017.

EXHIBIT-1: ASSETS UNDER MANAGEMENT (AUM)

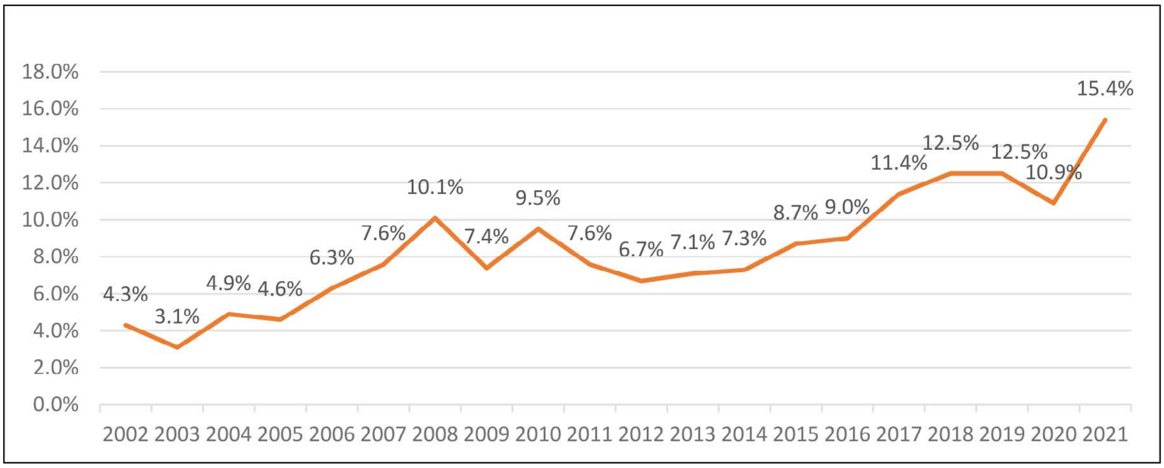


Source: SEBI and AMFI

By the side of November 2020, the AUM size of the mutual fund industry achieves a landmark and crossed 30 lakh crores. The overall amount of the mutual fund industry's AUM has grown from ₹7,31,000 crores as of 31st May 2011 to 33,06,000 crores as of 31st May 2021, within 10 years there is a growth of 4.5 times (Exhibit: 1). The average annual funds assembled by the mutual fund industry were notably higher at ₹1,802,003.83 crores for the period 2015-20 as against 733,814.33 crores during 2010-15. However, for the period 2020, there was a decrease in fund mobilization because of excessive net outflows due to higher redemptions pressure by institutional investors.

In the financial year 2021, the Indian's mutual fund industry's Assets under Management (AMU) to Gross Domestic Product (GDP) ratio have reached an unprecedented level of 15.4 percent, which is backed by the outstanding performance of the stock markets in the current financial year (Exhibit: 2). In March 2020, due to the effect of Covid-19, the crash in the Indian stock market this ratio has plunged to a 4-year-low of 10.9 percent.

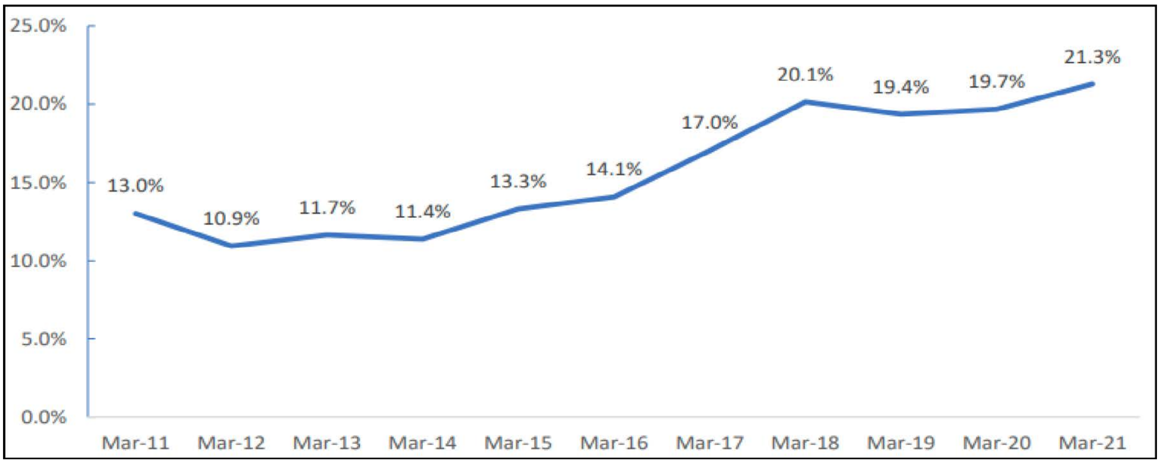
EXHIBIT-2: MUTUAL FUND AUM (AS A % OF GDP)



Note: Based on the end of fiscal AMU and GDP at current price | Source: AMFI, IMF, CRISIL Research.

Beforethe outbreak of covid-19, the AUM to GDP ratio had risen continuously over the six financial years and made a peak of 12.5 percent. There is a considerable increase in the ratios of AUM of mutual funds to GDP over the year. In the financial year 2021, the mutual fund AUM to total bank deposit ratio has been increased to a new high of 21.3 percent.

EXHIBIT-3: MUTUAL FUND AUM (AS A % OF TOTAL BANKING DEPOSITS)



Note: QAAUM for mutual fund considered | Source: RBI, AMFI, CRISIL Research.

SECTOR-WISE TOTAL RESOURCE MOBILIZATION BY MUTUAL FUND

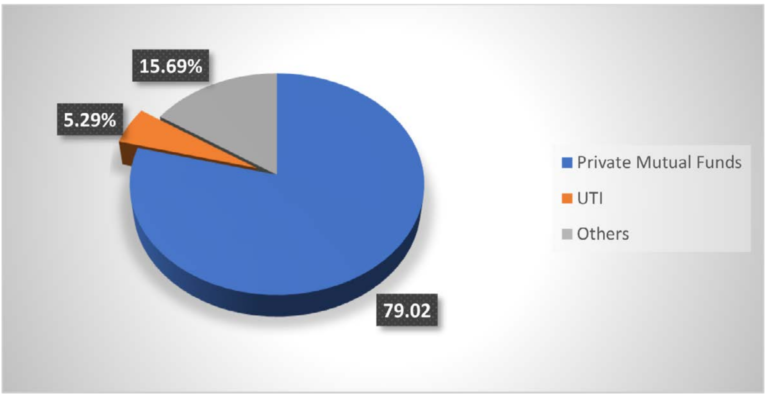
TABLE-1. SECTOR-WISE MOBILIZATION OF NET ASSETS AS OF MARCH 31ST (₹ IN CRORE)

Position of net assets as of March 31	Private Sector Mutual Funds A	Public Sector Mutual Funds B			Grand Total
year		UTI (I)	Others (II)	Sub-total (I) + (II)	A+B
2015	9,17,762.35	79,009.87	85,985.01	1,64,994.88	10,82,757.24
	84.76 %	7.30 %	7.94 %	15.24 %	100 %
2016	10,22,032.97	94,878.92	1,15,911.63	2,10,790.56	12,32,823.53
	82.90 %	7.70 %	9.40 %	17.10 %	100 %
2017	14,80,637.72	1,32,123.33	1,76,285.96	3,08,409.30	17,89,047.02
	82.76%	7.31%	10.04%	17.34%	100%
2018	17,65,740.49	1,35,957.16	2,34,338.10	3,70,295.26	21,36,035.75
	82.66 %	6.36 %	10.97 %	17.34 %	100 %
2019	19,21,800.26	1,42,327.82	3,15,456.05	4,57,783.87	23,79,584.13
	80.76%	5.98%	13.26%	19.24%	100.00%
2020	17,59,175.31	1,17,806.12	3,49,221.44	4,67,027.56	22,26,202.87
	79.02%	5.29%	15.69%	20.98%	100.00%
2021	25,94,987.86	-	-	5,47,775.68	31,42,763.54
	82.57%	-	-	17.43%	100.00%

Note: Assets pertaining to Funds of Funds Schemes (Domestic) for March are not included in the above data.
Source: AMFI

Table 1 shows the sector-wise position of fund mobilization by the Indian mutual fund industry during 2015-2021. It is observed from the table that total assets mobilized by private sector mutual funds are increased from ₹ 9,17,762.35 in the year 2015 to ₹ 25,94,987.86 as of 31st March 2021. The influence of private sector mutual funds is more in overall net resource (assets) mobilization by all mutual fund companies in the country is observed from Table 1. The participation of private sector mutual funds in total resource mobilization was 84.76 percent in the year 2015 with a nominal decrease it is 82.57 percent as of 31st March 2021.

EXHIBIT-4. SECTOR-WISE STATUS OF MUTUAL FUNDS AS OF 31ST MARCH 2020



Source: AMFI

The resource mobilization by the public sector mutual fund industry in India is mainly divided into two categories i.e., the UTI and others. Above table 1 shows that total assets mobilized by public sector mutual fundsare increased from ₹1,64,994.88 in the year 2015 to ₹ 5,47,775.68 on 31st March 2021, with a share of 17.43 percent in total assets. The participation of UTI in total assetsis ₹ 1,17,806.12 with a share of 5.29 percent as of 31st March 2020. (Exhibit 4)

SCHEME-WISE TOTAL RESOURCE MOBILIZATION BY MUTUAL FUND

Table 2 shows the position of scheme-wise fund mobilization of the Indian mutual fund industry during 2015-2021. On the ground of scheme-wise classification, it is observed that the Debt-oriented scheme (Income scheme) of the mutual fund hold a maximum position in fund mobilization. But it can be depicted from the table that it is in decreasing trends as it accounts for 64.10 percent in 2015 and it contributes 46.62 percent in 2021 in total fund mobilization. Equity-oriented scheme (Growth scheme) holds 2nd position in resource mobilization, which accounts for 32 percent on average with marginal change in trends from 2015 to 2021.

TABLE-2. SCHEME-WISE MOBILIZATIONS OF NET ASSETS AS OF MARCH 31ST (₹ IN CRORE)

year	Income/ Debt Oriented Schemes	Growth/ Equity Oriented Schemes	Balanced Schemes	Exchange-Traded Fund	Fund of Fund (Overseas)	Total	Fund of Fund (Domestic)
2015	6,94,127.68	3,45,138.94	26,367.84	14,714.80	2,407.98	10,82,757.24	5,924.54
	64.10 %	31.88 %	2.45 %	1.35 %	0.22 %	100 %	-
2016	7,82,899.57	3,86,403.01	39,145.79	22,408.18	1,966.97	12,32,823.53	5,391.78
	63.50 %	31.35 %	3.18 %	1.81 %	0.16 %	100 %	-
2017	10,74,652.03	5,43,541.26	84,763.02	49,915.47	1,747.30	17,54,619.08	5,346.44
	61.24 %	30.98 %	4.83 %	2.85 %	0.10 %	100 %	-
2018	11,34,949.71	7,49,789.73	1,72,151.25	77,694.06	1,450.99	21,36,035.75	4,271.04
	53.14 %	35.11 %	8.05 %	3.63 %	0.07 %	100 %	-
2019	11,65,891.02	8,92,101.02	1,80,648.41	1,39,072.28	1,871.39	23,79,584.13	4,320.92
	49.00 %	37.50 %	7.59 %	5.84 %	0.07 %	100 %	-
2020	11,88,006.71	6,11,203.85	2,62,149.87	1,62,500.73	2,734.36	22,26,202.87	12,257.11
	53.37 %	27.45 %	11.77 %	7.29 %	0.12 %	100 %	-
2021	14,64,871.50	10,13,309.17	3,42,957.25	3,09,217.70	12,407.91	31,42,763.54	27,325.48
	46.62 %	32.25 %	10.91 %	9.83 %	0.39 %	100 %	-

Note: Assets pertaining to Funds of Funds Schemes (Domestic) for March are not included in the above data.
Source: AMFI

The balanced scheme shows an increasing trendin fund mobilization which increased to 10.91 percent as of March 31st, 2021 from 2.45 percent in 2015. The exchange-traded fund also shows an increasing trend as it increased to 9.83 percent as of 31st march 2021 from just 1.35 percent in 2015. The analysis from scheme-wise resource mobilization shows that investors highly prefer

Debt-oriented schemes (income schemes) and balanced funds because these funds give stable returns and have less risk in comparison to others schemes.

FINDINGS

- The study found from 2014 onwards several regulatory measures were taken by the SEBI to rationalize mutual fund schemes in order to bring uniformity, which plays a crucial role in the development of the mutual fund industry in India.
- The study noticed that there is a shift in saving from physical assets to financial investments mainly due to the implementation of several new regulations such as demonetization, Benami transactions (prohibition) amendment Act 2016, and Real estate regulation and development Act 2016 (RERA).
- The Indian mutual fund industry recorded the highest ever resource mobilization as net Assets under Management (AUM) recorded more than ₹ 30 trillion in the financial year 2021.
- The mutual fund net Assets under Management (AUM) as a percentage of GDP has touched a record high of 15.4 percent in the financial year 2021.
- The study also found that mutual fund net Assets under Management (AUM) to total bank deposit ratio increased to 31.3 percent in the financial year 2021.
- On the basis of sector-wise classification,the study found thata major portion of the resource is mobilized by the private sector mutual funds companies, as of 31st March 2021 it is 82.57 percent of total net assets under management.
- On the basis of scheme-wise classification, the study found that Debt-oriented schemes (Income schemes) account for the majority of mutual funds and it is in decreasing trends as it decreases to 46.62 percent from 64.10 percent between 2015 to 2021.
- The Equity oriented schemes (Growth schemes) account for the second position of mutual funds and on average it contributes 32.36 percent during 2015-2021.
- The Balanced schemes are in increasing trends as the study shows the Balanced scheme increased to 10.91 percent from 2.45 percent during 2015-2021.
- The Exchange-traded funds are also in increasing trends as the study shows the Exchange-traded fund increased to 9.83 percent from 1.35 percent during 2015 to 2021.

CONCLUSION

The mutual fund is one of the important investment instruments in the Indian financial market. Mutual funds facilitate efficient channelization of savings and expand investment opportunities. This industry is among the fastest-growing and profitable segments in the Indian financial system. In recent years the SEBI's regulatory and reform initiatives like an emphasis on investor education and financial awareness, greater disclosure from assets management companies helps in the development of mutual fund industries. The Assets under Management (AUM) of the mutual fund industry stood at ₹ 31,24,764 Crores in the financial year 2020-2021. Even though the Indian mutual fund industry is still far behind the global financial market. "In the long term, i.e., between march 2021 and march 2026, the overall industry's AUM is projected to sustain a high growth trajectory of 11-13 percent compounded annual growth rate, reaching ₹ 57 trillion," (**CRISIL research**).

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