Advances in Economics and Business Management (AEBM)
p-ISSN: 2394-1545; e-ISSN: 2394-1553; Volume 4, Issue 1; January-March, 2017, pp. 8-12

http://www.krishisanskriti.org/Publication.html

Growth of Indian Mutual Fund Industry: An Empirical Analysis

Bhawna Kadyan

Department of Commerce Kurukshetra University, Kurukshetra
E-mail: bhawnakadyan92@gmail.com

Abstract—*The Mutual Fund Industry is a fast growing sector of the Indian Financial Markets. They have become major vehicle for mobilization of savings, especially from the small and household savers for investment in the capital market. Mutual Funds entered the Indian Capital Market in 1964 with a view to provide the benefit of diversification of risk, assured returns, and professional management. A Mutual Fund is the ideal investment vehicle for today's complex and modern financial scenario. 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 industry is the most preferred investment avenue in India. It is most suitable for common people as it provides the opportunity to invest in a diversified & professionally managed portfolio at low cost. These funds are invested in a number of companies across a broad section of industries and sectors to attract the investors. In the present study an attempt has been made to know the progress of mutual fund industry in India over the last 12 years i.e. 1st April 2003 to 31st march 2015. The study depicts the growth of mutual funds in terms of net assets under management in public sector, private sector and UTI, total number of schemes, percentage share of the schemes over total schemes.*

Keywords*: Asset under management (AUM), Public sector, private sector, UTI Mutual Fund.*

1. INTRODUCTION:

A 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 yields.

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".

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. The history of Mutual funds in India can be broadly divided into four distinct phases:

- **First phase: 1964-1987;**

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.

- **Second phase: 1987-1993(Entry of Public sector funds)**

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 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 established 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.

- **Third phase: 1993-2003(Entry of Private sector funds)**

With the entry of Private sector funds in 1993, a new era started in Indian mutual fund industry. 1993 was the year in which the first Mutual Fund regulations came into being under which all Mutual Funds, except UTI were to be registered and governed. 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.

- **Fourth phase: Since February 2003**

In February 2003, following the repeal of Unit Trust of India Act 1963, UTI was bifurcated into two separate entities. 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 U.S 64 schemes, assured return and certain other schemes. The specified undertaking of UTI, 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 had in March 2000 more than Rs 76000 cores of assets 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. 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, an Asset Management Company** and **a Custodian**.

2. REVIEW OF LITERATURE:

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 applied partial regression for estimating the traditional CAPM. Study applied these procedures to price appreciation data for the market and 28 mutual funds for the period of 1973-1974. The results indicated a good deal of non consistency in the risk-return relationships. The results showed some weak positive relationships and some weak negative relationships between betas and the rate of return for the market. On the other hand results showed some weak positive relationships and some weak negative relationships between betas and alphas. However, no general, statistically significant relationships of either type were **Cumby and Jack (1990)** compared the performance of internationally diversified mutual funds with international equity index and Morgan Stanley Index for the United States. The study period ranged from 1982 to 1988. A sample of 15 U.S based internationally diversified mutual funds was taken for analysis. The performance was then compared with the help of Jensen (1968) measure and positive period weighing measure. The results concluded that the performance of funds individually or as a whole was not higher than the performance of international equity index. **Henri Servaes and Peter Tufano (2012)** studied the mutual fund industry in 56 countries and examined where the financial innovation has flourished. The mutual fund industry was larger in the countries with stronger rules, laws and regulations and where mutual fund investor's rights were protected. The industry was also larger in the countries where population is more educated, trading costs were lower and in which defined contribution pension plans were more prevalent. The industry was smaller in the countries where barriers to entry were higher. The results indicated that laws and regulations, supply side and demand side factors simultaneously affect the size of mutual fund industry. The study concluded that increased number of mutual funds all over the world mainly in developed countries was an indication of investor's preference for this indirect mode of low risky investment **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. **Srinivas Yadav and Hemanth N.C (2014)** the study analyzed the performance of equity growth mutual funds by taking 15 equity growth schemes as sample across 10 AMCs. The study period was 3 years ranged from 1 June 2010 to 31 May 2013.The daily normal returns of the schemes were used as the returns and average returns were used to find out the ratios under different measures. The systematic risk was measured by beta values which were calculated by taking S&P CNX Nifty as benchmark. The average return on 364 day Treasury bill for three periods was 7 percent, 8.40 percent and 7.9 percent for 2010-11, 2011-12, and 2012-13 respectively. The study showed that many schemes failed to beat the benchmark return in the long run. It could be attributed mainly to the disproportionate risk and return relationship and low average beta of the schemes. **Ramanujam V & Bhuvneshwari A (2015)** analyzed the growth of Mutual Funds for ten years i.e. march 2004 to march 2014. Growth of Indian Mutual funds was presented by the following parameters; growth of assets under management, sector wise mutual fund sale, sector wise mutual fund redemption & scheme wise resource mobilization by mutual funds. 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 the growth of 35 percent. This showed that investor preference towards financial assets is increasing.

3. OBJECTIVES OF THE STUDY:

- To analyze the sector wise assets under management of Indian mutual fund industry
- To analyze the growth in mutual fund schemes over a number of years.
- To describe the policy framework & growth of mutual fund in India.

4. DATA COLLECTION:

The present study is based on secondary data which is collected from online sources, published research articles of related topic, journals, books, various annual reports of SEBI, handbook of statistics on Indian securities market Different search engines like Google, Chrome, Yahoo and Bing are used to access the required data for research purpose.

5. PERIOD OF STUDY:

The study period is confined to 1 April 2003 to 31 March 2015.

6. TOOLS AND TECHNIQUES USED:

For the present study data drawn from various sources are analyzed with help of statistical tools such as averages, percentage and ratios are used. The data has been presented mainly in tabular form to make it understandable easily.

Table 1.1 below shows the assets under management of UTI Mutual Fund, Non-UTI Public Sector Mutual Funds and Private Sector Mutual Funds for twelve years (1 April 2003 to 31 March 2015).

Table 1.1: Net Assets under Management of Indian Mutual Fund Industry

Year	UTI MF (Rs. cores)	Non UTI Public Sector MF (Rs. crores)	Private Sector MF (Rs. cores)	Total(Rs crores)	Growth Rate(% age)
2003-04	-	34624	104992	139616	
2004-05	-	32113	104992	148886	6.64
2005-06	-	50348	181514	231862	35.5
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 (%)	**8.34**	**10.33**	**20.49**	**19.54**	

***Source*: Compiled from data published in Annual Reports of SEBI**

It is observed from the table that during the entire period of study the total net assets under management of Indian mutual fund industry is increased from Rs. 139616 cores in the year 2003-04 to Rs. 1188690 cores during 2014-15 registering CAGR(compound annual growth rate) of 19.54 percent. Private sector mutual fund industry plays a dominant role in market as the net assets under management in this sector increased from Rs. 104992 cores in 2003-04 to Rs. 983307 cores in 2014-15 showing the highest CAGR of 20.4 percent. the net assets under management in public sector increased from Rs. 34624 cores in 2003-04 to Rs. 112633 cores during 2014-15 having CAGR of 10.33 percent. Lastly net assets in UTI mutual funds increased from Rs. 35488 cores in 2006-07 to Rs. 92750 cores in 2014-15 showing the CAGR of 8.344 percent. 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.

Table1 2 show the percentage share of net assets under management of different sectors mutual funds.

Table 1.2: Percentage share of Net assets under Management of Indian mutual fund industry

Year	Net Assets(% age share)		
	UTI MF	**Non UTI Public Sector MF**	**Private Sector MF**
2003-04	-	24.8	75.2
2004-05	-	21.56	70.5
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**	**13.27**	**79.08**

Source: SEBI Annual Reports

It is found from the above table that the share of Private Sector Mutual Funds rose substantially from 75.2 percent in 2003-04 to 82.72 percent in 2015, while the share of UTI and Non-UTI Public Sector Mutual Funds together constitute only 17.28 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 24.8 percent in the year 2004 with a total decline of -15.32 percent. Similarly due to bifurcation of UTI, the share of UTI Mutual Funds have declined to a very low level of 7.80 percent in the year 2015 from 11.02 percent in year 2007 with a total decrease of -3.22 percent. But during the same period the Private Sector Mutual Funds have increased by 7.52 percent. The growth rate declined to -7.32 percent in 2008-09 from 64.52 percent in the 2007-08 with a further fall to -5.14 percent in 2011-12. The industry started gaining in the year 2015 showing year on year growth rate of 31.33 percent. 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.

Table 1.3 below shows the total number of Mutual Funds schemes in India over a number of years. The table below indicates that total number of Mutual Fund Schemes increased from 429 in March 2004 to 2201 in March 2015 registering an overall growth rate of 413.1 percent. The number of income schemes has been highest throughout the study period.

Table 1.3: Total No of Schemes under Mutual Funds

Year	Inc.	Gro.	Bal.	Liq.	Gilt	ELSS
2004	143	142	38	39	30	37
2005	188	178	36	43	30	34
2006	253	207	36	50	28	35
2007	412	253	38	58	28	39
2008	539	290	35	57	32	44
2009	309	304	33	57	35	49
2010	443	324	32	51	36	48
2011	696	306	30	55	39	48
2012	775	303	30	55	42	49
2013	760	298	32	55	42	49
2014	1077	311	30	53	44	52
2015	1517	416	27	54	41	58

Source: Compiled from AMFI Annual Reports

The number of income schemes increased from 143 in March 2004 to 1517 in March 2015.Such growth was followed by Growth schemes as these schemes increased from 142 to 416 in the year 2015. Further, the no. of balanced schemes was 38 in 2004 and these were reduced to 27 in 2015 showing declining growth rate. The share of gilt, liquid and ELSS schemes in total has increased over a number of years. There is steep fall in total number of schemes in the year 2009. In 2008 total schemes were 1023 and in next year the schemes were reduced to 819 because of ban on entry load in 2009 which reduced the ability of distributors to sell mutual funds in market. Earlier distributors were paid Rs 2.25(per hundred rupees) as compensation by AMC's, which was deducted as entry load from scheme amount. The average commission paid to them was 1.78 in 2008, which came down to 0.98 in 2009. The entry load ban not only lowered the distributors' commission but also compelled them to go out of mutual funds business. As a result, the participation of households in mutual funds has declined and there is large reduction in mutual fund schemes in India during that time period.

Table1.4 depicts the percentage share of different mutual fund schemes in India to the total. Income funds have recorded highest growth over a number of years

Table 1.4: Percentage share of Mutual Fund Schemes

Year	Inc.	Gro.	Bal.	Liq.	Gilt	ELSS
2004	33.33	33.10	8.86	9.09	7	8.62
2005	36.94	34.97	7.07	8.45	5.89	6.68
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
2008	52.69	28.35	3.42	5.57	3.13	4.30
2009	37.73	37.12	4.03	6.96	4.27	5.98
2010	45.39	33.20	3.28	4.92	3.69	4.92
2011	56.77	24.96	2.45	4.49	3.18	3.92
2012	59.21	23.15	2.29	4.20	3.21	3.74
2013	58.73	23.03	2.47	4.25	3.25	3.79
2014	65.91	19.03	1.84	3.24	2.69	3.18
2015	68.92	18.90	1.23	2.45	1.86	2.64
Avg	**50.52**	**12.00**	**3.95**	**5.73**	**3.84**	**4.85**

Source: **Compiled from AMFI Annual Reports**

The percentage with respect to the total number of mutual fund schemes ranges from 33.33 percent 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 33.10 percent 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 they constitute very less proportion in total portfolio

7. CONCLUSION:

Mutual funds registered growth both in terms of net asset under management and total no of the schemes. The total net assets under management of Indian mutual fund industry is increased from Rs. 139616 crores in year 2003-04 to Rs. 1188690 crores during 2014-15 registering compounded average growth rate of 19.54 percent.The net asset under management in private sector has increased from Rs.104992 crores in 2003-04 to Rs. 983307 cores in 2014-15 showing highest CAGR of 20.4 percent. The net asset under management in public sector increased from Rs. 34624 cores in 2003-04 to Rs. 112633 crores during CAGR of 10.33 percent. Net assets in UTI mutual fund increased from Rs. 35488 crores in 2006-07 to Rs. 92750 crores in 2014-15 showing CAGR of 8.34 percent. So, it may be concluded that growth rate for UTI mutual fund schemes has been less than the growth rate for public sector and private sector mutual fund schemes during the study period.

Total number of mutual fund schemes increased from 429 in 2004 to 2201 in 2015 registering an overall growth rate of 413.1 percent. The share of private sector mutual fund in Indian mutual fund industry rose substantially from 75.2 percent in 2003-04 to 82.72 percent in 2015. While the share of UTI and Non-UTI public sector mutual funds together constitutes only 17.28 percent during the corresponding period. Among the schemes, income schemes showed the highest growth rate. Income schemes increased from 143 in 2004 to 1517 in 2015. Such growth is followed by growth schemes as such schemes increased from 142 to 416 in 2015. Balanced schemes showed declining growth rate as such schemes were 38 in 2004 and reduced to 27 in 2015. The share of gilt, liquid and ELSS schemes in total has increased over the no of years.

REFERENCES:

[1] Boudreaux and Suzanne (2007), "Empirical analysis of International Mutual Fund performance", International Business & Economics Research Journal, Vol.6, pp.19-22.

[2] Mittal, Sanjiv and Gupta, Sunil (2008), "Preference & Pattern of investment in Mutual Fund", Tecnia Journal of Management studies, Vol. 2, No.2, pp. 25-30.

[3] Batra, G.S. and Anjum, Bimal (2012), "Performance evaluation of selected open ended Mutual Funds in India", International Journal of Marketing, Financial services & Management Research, Vol.1, No.1. ISSN: 2277-3662, pp.29-38.

[4] Narayanasamy, R. and Rathnamani, V.(2013), "Performance evaluation of equity mutal funds", International Journal of Business & Management Invention, Vol. 2, Issue 4, ISSN(online): 2319-8028, pp.18-24.

[5] Baral, K. and Kumar, Kishore.(2016), "Mutual Fund Industry in India:A growth trend Analysis",International Journal of Multidisciplinary Research & development, Vol.3, Issue 1, ISSN: 2349-5979, pp. 1-13.

[6] Vijaya, B. and Talwar, Prakash (2015), "Growth of resource mobilization by Indian Mutual Fund Industry: An Empirical Analysis", Tactful Management Research Journal, Vol.3, Issue 5, ISSN: 2319-7943, pp.1-8.

WEBSITES:

[1] www.amfiindia.com

[2] www.mutualfundsindia.com

[3] www.moneycontrol.com

[4] www.investopedia.com