



---

## Recent Trends and Growth of Mutual Fund Industry in India

**Naveen Sharma**

Research Scholar, Shimla, (Himachal Pradesh), INDIA

(Corresponding author: Naveen Sharma)

(Received 06 September 2014, Accepted 25 October 2014)

(Published by Research Trend, Website: [www.researchtrend.net](http://www.researchtrend.net))

**ABSTRACT:** Mutual fund is an important segment of the financial system. It is non-fund based special type of institution which acts as an investment conduit. It is a mechanism of pooling together the savings of large number of investor for collective investments with an avowed objective of attractive yields and appreciation in their value. The mutual fund industry in India has grown at a significant pace, registering CAGR of more than 20% in terms of assets under management (AUM) between FY05 to FY12. This growth is driven by several factors such as rising income levels, favorable demographics structure, low penetration levels, favorable policies, increasing investor awareness and booming economy among others. The objective of this paper is to study the origin and growth of mutual, to study and analyze the recent trends of AUMs and to study the Scheme-wise Resource Mobilization by Mutual Funds in India.

**Keywords:** Economy, Resource, Mutual Fund Resource Mobilizations, AUM, UTI

### I. INTRODUCTION

The Indian financial system based on four basic components like Financial Market, Financial Institutions, Financial Service, Financial Instruments. All are play important role for smooth activities for the transfer of the funds and allocation of the funds. The Indian mutual fund industry finds itself in an economic landscape which has undergone rapid changes over the past three years. The industry achieved a high water mark when it doubled its AUM from Rs. 3.6 trillion in FY2007 to Rs. 6.13 trillion in FY2010 – clocking an impressive growth rate of 16.2% per year. Since then the Indian economy (coupled with the emerging economies) has faced a slowdown – the most severe of which are happening as this report is being written. From an average GDP growth rate of 8-9% during the 2008-2011 years, the Indian economy is now growing at a lackluster 4.8% growth rate in Q2 2013. Coupled with a steep decline in the value of the Indian rupee, the mutual fund industry now finds itself in a capricious global economic environment. However, there is strong reason to believe that the Indian mutual fund industry has not yet seen its global peak and if proper measures are taken, the industry could get back on its growth path.

### II. NEED AND SIGNIFICANCE OF STUDY

Mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in diversified portfolio management, good research team, professionally managed Indian stock as well as the foreign market, the main aim of the fund manager is to taking the scrip that have under value and future will rising, then fund manager sell out the stock. Fund manager concentration on risk – return trade off, where minimize the risk and maximize the return through diversification of the portfolio.

#### Objectives of Study

1. To study the origin and growth of mutual fund industry in India.
2. To study and analyze the recent trends of AUMs and its geographical distribution in India.
3. To study the Scheme-wise Resource Mobilization by Mutual Funds in India.

### III. GROWTH OF MUTUAL FUNDS IN INDIA

The mutual fund industry in India began in 1963 with the formation of the Unit Trust of India (UTI) as an initiative of the Government of India and the Reserve Bank of India. Much later, in 1987, SBI Mutual Fund became the first non-UTI mutual fund in India.

Subsequently, the year 1993 heralded a new era in the mutual fund industry. This was marked by the entry of private companies in the sector. After the Securities and Exchange Board of India (SEBI) Act was passed in 1992, the SEBI

Mutual Fund Regulations came into being in 1996. Since then, the Mutual fund companies have continued to grow exponentially with foreign institutions setting shop in India, through joint ventures and acquisitions.

In February 2003, the UTI Act was repealed and UTI was stripped of its Special legal status as a trust formed by an Act of Parliament. The primary objective behind this was to bring all mutual fund players on the same level. UTI was re-organized into two parts:

- a) The Specified Undertaking,
- b) The UTI Mutual Fund

Presently Unit Trust of India operates under the name of UTI Mutual Fund and its past schemes (like US-64, Assured Return Schemes) are being gradually wound up. However, UTI Mutual Fund is still the largest player in the industry as shown in Table 1. In 1999, there was a significant growth in mobilization of funds from investors and assets under management which is supported by the following data as shown in Table 1.

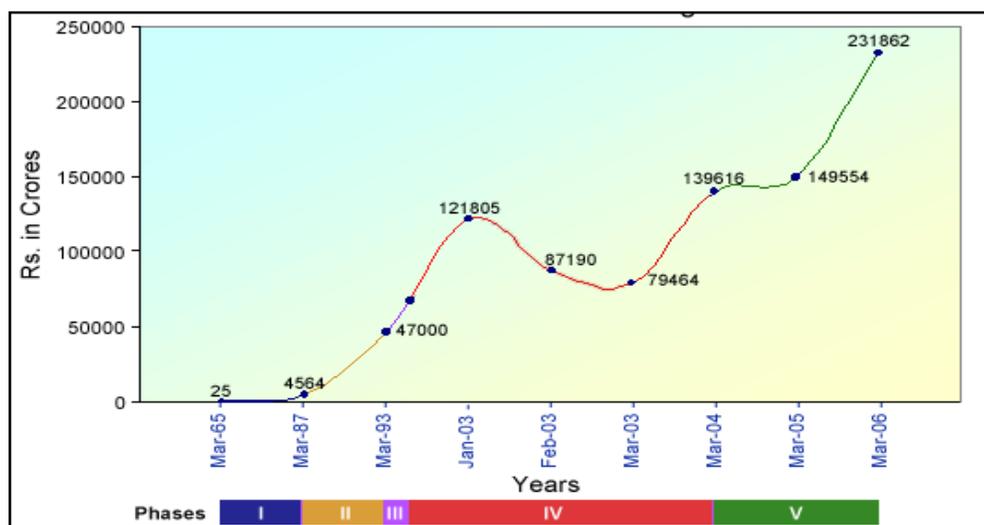
**Table 1: Gross Fund Mobilizations.**

Gross Fund Mobilisation (RS. CRORES)					
FROM	TO	UTI	PUBLIC SECTOR	PRIVATE SECTOR	TOTAL
01-April-98	31-March-99	11,679	1,732	7,966	21,377
01-April-99	31-March-00	13,536	4,039	42,173	59,748
01-April-00	31-March-01	12,413	6,192	74,352	92,957
01-April-01	31-March-02	4,643	13,613	1,46,267	1,64,523
01-April-02	31-Jan-03	5,505	22,923	2,20,551	2,48,979
01-Feb.-03	31-March-03	*	7,259*	58,435	65,694
01-April-03	31-March-04	-	68,558	5,21,632	5,90,190
01-April-04	31-March-05	-	1,03,246	7,36,416	8,39,662
01-April-05	31-March-06	-	1,83,446	9,14,712	10,98,158

**Table 2: UTI Mutual Fund.**

Assets Under Management (Rs. Crores)				
As On	UTI	Public Sector	Private Sector	Total
31-March-99	53,320	8,292	6,860	68,472

The industry has also witnessed several mergers and acquisitions recently, examples of which are acquisition of schemes of Alliance Mutual Fund by Birla Sun Life, Sun F&C Mutual Fund and PNB Mutual Fund by Principal Mutual Fund. Simultaneously, more international mutual fund players have entered India like Fidelity, Franklin Templeton Mutual Fund etc. There were 29 funds as at the end of March 2006 as shown in Fig.1.



**Fig. 1. Growth of Assets under Management.**

This is a continuing phase of growth of the industry through consolidation and entry of new international and private sector players.

#### IV. ANALYZE THE RECENT TRENDS OF AUMS

The mutual fund industry's performance is largely dependent on the macroeconomic environment. When the Indian economy was growing at an average of 9% during FY05 to FY08, the mutual fund industry registered an average growth of 50% in terms of AUM during the same period. In FY08, the industry's AUM stood at Rs. 5,051.5 bn compared with Rs. 1,495.5 bn of FY05. However, after witnessing several years of persistent growth, the industry recorded ~17% fall in AUM during FY09 to Rs. 4,173.0 bn, led by the impact of the global financial crisis when Indian economic growth moderated to 6.7%. With the signs of economic recovery, the AUM grew by around 47% y-o-y in FY10 to Rs. 6,139.8 bn. However, the industry is again witnessing a negative growth since FY11 due to the recurrence of fresh global economic and European sovereign debt concerns, affecting investor sentiments. This led to fall in AUM by 3.5% y-o-y to Rs. 5,922.5 bn in FY11 and a 0.8% y-o-y fall during FY12 to Rs. 5,872.2 bn. Thus, led by the macro-economic factors, MF investors preferred to book profits and exit from the schemes during FY11 and FY12. The Fig. 2 highlights the five-year trend in industry's AUM and number of schemes.

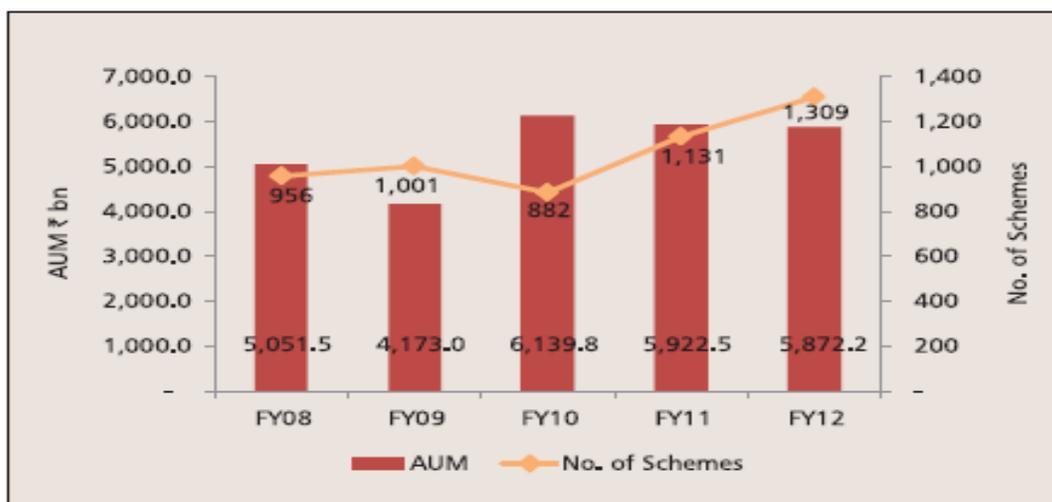


Fig. 2. AUMs and Number of Schemes.

#### V. GROWTH POTENTIAL OF INDIAN MUTUAL FUND INDUSTRY

As depicted in the chart below, although the increase in ratio of India's mutual fund (MF) industry's AUM to GDP has been considerable from 5% in FY05 to 11.3% in FY12, it is still very low compared with other developed nations share such as US, at over 75% (as on 2011). This low penetration levels implies huge growth opportunities.

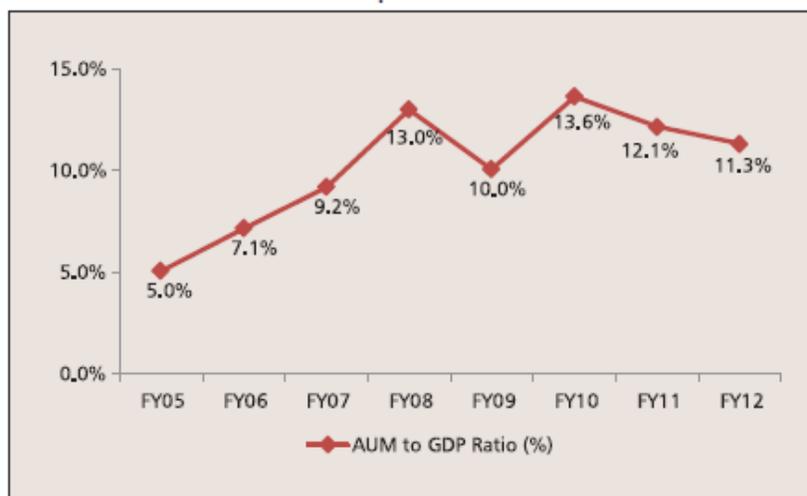


Fig. 3. Mutual Fund Penetration in India.

## VI. AUMS GEOGRAPHICAL DISTRIBUTION IN INDIA

Furthermore, presently the concentration of AMC's is limited to few major cities. They have shown a limited focus in tapping towns beyond the top 15 cities. The AUM from these top 15 cities accounted for more than 85% as on both Dec 2012 and Dec 2011 as shown in Fig. 4. The chart below exhibits geography-wise distribution of AUM as on Dec 2012.

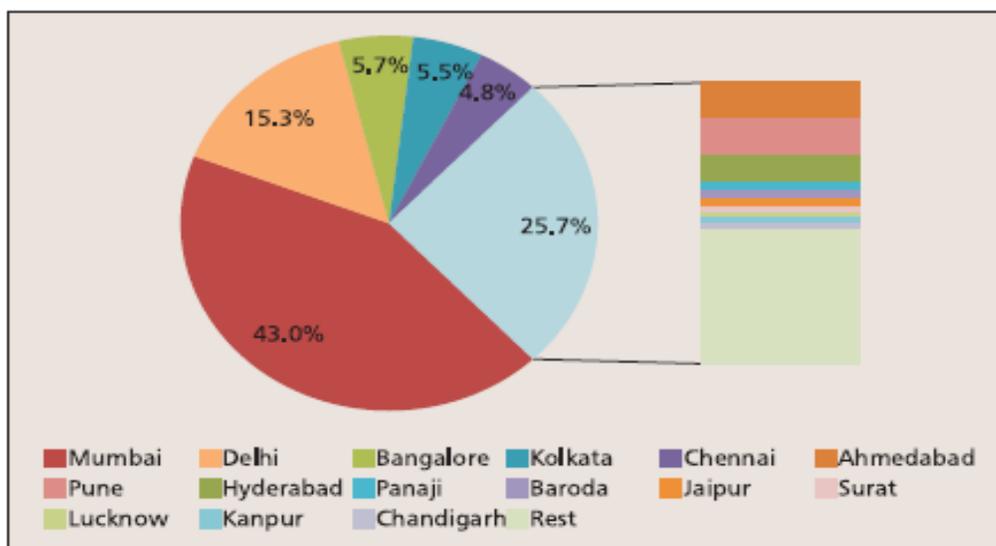


Fig. 4. AUM by Geography.

Out of the top 15 cities, Mumbai, Delhi, Bangalore, Kolkata, and Chennai, the top 5 metros, together accounted for more than 70% share during the same period. Even within the top 5 metros, Mumbai alone accounted for nearly 43% share. This is primarily due to limited distribution channels and limited investor awareness beyond these cities. This also underlines the huge untapped market opportunity from the rural India, beyond these major cities.

With an aim to expand the reach of MFs to tap beyond the urban landscape of the 15 major cities, in 2012, SEBI allowed MFs to charge a higher expense ratio (as a percentage of AUM). This ruling is expected to boost the AMC's interest in widening their reach.

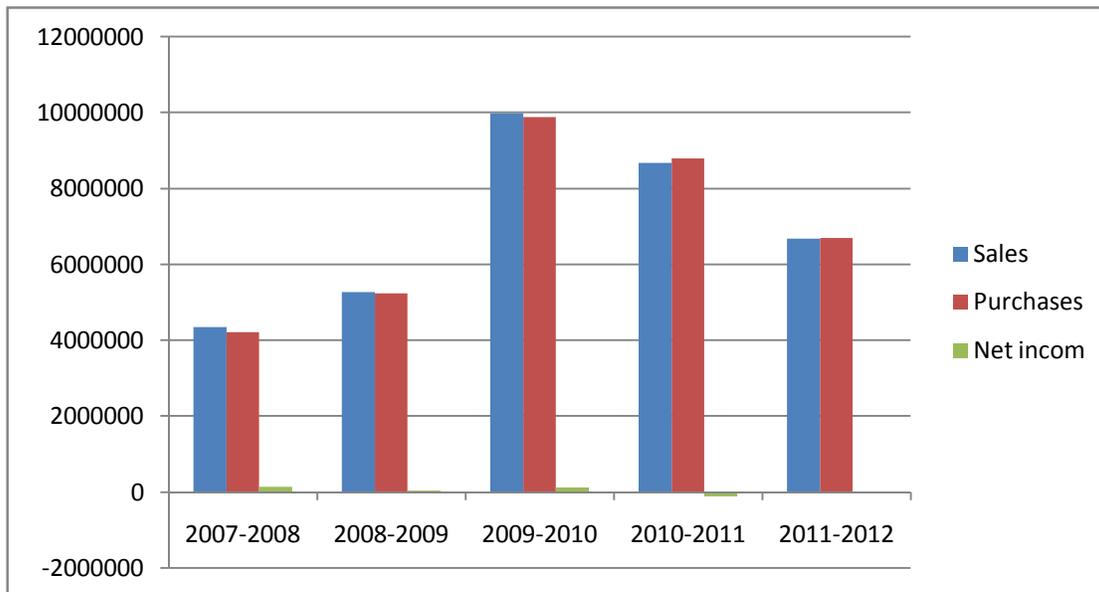
## VII. SCHEME-WISE RESOURCE MOBILIZATION BY MUTUAL FUNDS (CRORE)

**Types of Mutual Fund:** Wide variety of Mutual Fund Schemes exists to cater to the needs such as financial position, risk tolerance and return expectations etc. The table 3 and Fig. 5 gives an overview into the existing types of schemes in the Industry.

Table 3: Resource Mobilization by Open Ended Funds.

Year	Sales	Purchases	Net income
2007-2008	4337041	4203588	133453
2008-2009	5261429	5233301	28128
2009-2010	9976363	9869736	106627
2010-2011	8665727	8788945	-123218
2011-2012	6670526	6685523	-14997

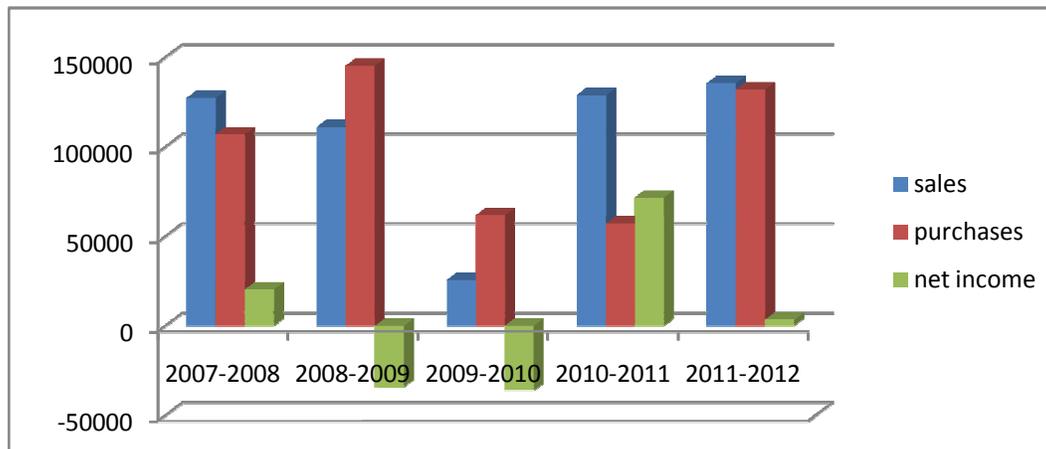
Above figure clearly interprets that most of investors invest in open end funds as compare to Close end funds. In open end funds there is continuous growth as net income is continuous increasing except in the year 2010-11 as shown in Table 4 and Fig. 6.



**Fig. 5.** Resource Mobilisation by Open end Funds.

**Table 4: Resource Mobilization by Closed end funds.**

Years	Sales	Purchases	Net Income
2007-2008	127334	106987	20348
2008-2009	111008	145198	-34191
2009-2010	25551	61683	-36132
2010-2011	128874	57216	71658
2011-2012	135513	132072	3441



**Fig. 6.** Resource Mobilization by Closed end funds.

## VII. CONCLUSION

The Indian mutual fund industry is one of the fastest growing and most competitive segments of the financial sector. As of August 2013, the total AUM stood at Rs. 7.66 trillion. However, growth rates of AMC's have come down from the peak levels seen in the early 2000s. One of the biggest reasons behind this is the lack of healthy participation from a large part of the country. The Indian economy is second largest economy in the world, but on 2008 and first quart of 2009 was international financial liquidity and global fund crisis. USA economy affect by sub- prime crisis that creates problem of international financial market, commodity market and foreign exchange market. But Indian economy less affects due to fast moving for consumer durable, growth of capital expenditure projects and service sector, Indian government easily attract foreign investors. Foreign Institutional Investors invest on Indian capital

market; it is continuously growing. The growth in the mutual fund industry is by and large governed by the macroeconomic factors affecting the country.

## REFERENCES

- [1]. Anagol, S., & Kim, H. H. (2012). The Impact of Shrouded Fees: Evidence from a Natural Experiment in the Indian Mutual Fund Market. *American Economic Review*, 576-593.
- [2]. Anagol, S., Marisetty, V. B., Sane, R., & Venugopal, B. G. (2013). On the Impact of Regulating Commissions: Evidence from the Indian Mutual Funds Market.
- [3]. Association of Mutual Funds in India. (2013). AMFI Quarterly Updates. Retrieved October 14, 2013, from [amfiindia.com: http://portal.amfiindia.com/spages/aqu](http://portal.amfiindia.com/spages/aqu) vol. 12, issue IV.pdf
- [4]. Barber, B., Zheng, L., & Odean, T. (2005). Out of Sight, Out of Mind: The Effects of Expenses on Mutual Fund Flows. *Journal of Business*, 2095-2120.
- [5]. Barth, J., Gerard, C. J., & Ross, L. (2001). The Regulation and Supervision of Banks around the World: SEBI (Mutual Funds) Regulations. (1996). Retrieved January 12, 2012, from SEBI Website.
- [6]. <http://www.sebi.gov.in/acts/MutualFunds.pdf>
- [7]. India online landscape, 2013 – [www.juxtconsultant.com](http://www.juxtconsultant.com)
- [8]. [http://www.business-standard.com/article/technology/rural-india-internet-penetration-still-hovers-low-at-6-7-113102200523\\_1.html](http://www.business-standard.com/article/technology/rural-india-internet-penetration-still-hovers-low-at-6-7-113102200523_1.html).
- [9]. SEBI Investment Advisers Regulations 2013.
- [10]. Securities and Exchange Board of India (Foreign Institutional Investors) Regulations. December 17, 2011, from SEBI Website: <http://www.sebi.gov.in/acts/fiiregu2009.pdf>
- [11]. Telecom Regulatory Authority of India (TRAI).