



Cover Page



DOI: <http://ijmer.in.doi./2022/11.07.122>

EMERGING MARKETS OF MUTUAL FUNDS IN INDIA

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Abstract

Mutual Fund, today, has emerged as one of the most popular financial investment tool. The mutual fund industry is the rising and fast-growing segment of the Indian Financial Market. It provides a variety of schemes to suit the needs and risk return profile of different categories of investors. Mutual funds help the small and medium size investors to participate in today's complex and modern financial scenario. Investors can participate in the mutual fund by buying the units of the fund. In India a significant portion of the population is shifting their investment towards Mutual Funds. Traditional investment such as gold, real estate, bank deposits etc., are slowly losing their popularity. The reason for this is Mutual Funds are offering better returns in comparison with traditional investments. The growth in the Mutual Fund Industry can be seen by the increase in the Assets Under Management (AUM) during the last decade. The AUM of the Indian Mutual Fund Industry has grown from Rs. 6.8 trillion as on June 30th 2012 to 35.64 trillion as on June 30th 2022. There is failure on the part of mutual fund industry to reach out to the nook and corner of the country. Even today major funds are mobilised from five cities namely Mumbai, Delhi, Chennai, Bangalore and Kolkata. Therefore, among other things the need is to increase the penetrations rates.

Keywords: Mutual Funds, Debt Security Stock Market, Risk Factors, Rate of Interest, Economic Crises.

Introduction

Statement of the Problem

The principal role of the mutual funds is to serve its investments.

Prof John C. B. Ogle

In India a significant portion of the population is shifting their investment towards Mutual funds. Traditional investment such as gold, real estate, bank deposits etc are slowly losing their popularity. The main reason behind Mutual funds garnering attention as a popular investment vehicle is due to its ability to generate higher returns when compared to the conventional method of investment such as the ones mentioned above. The growth in the Mutual fund industry can be seen by the increase in the AUM during the last decade. The Assets under management (AUM) of the Indian Mutual fund industry has grown from Rs 6.80 trillion as on June 30th ,2012 to Rs 35,64 trillion as on June 30th 2022, more than 5-fold increase in a span of 10 years.

The industries AUM has crossed the milestone of Rs10 trillion (Rs 10 lakh crore) for the first time in May 2014 and in a short span of about three years, the AUM size had increased more than two folds and crossed Rs 20 trillion (Rs 20 lakh crore) for the first time in August 2017. The AUM size crossed Rs 30 trillion (Rs 30 lakh crore) for the first time in November 2020. The industry AUM stood at Rs 36.64 trillion (Rs 36.64 lakh crore) as on June 30th 2022.

Recent Trends in Mutual Funds in India

Encouraging stock market performance, inflation rate and attractive interest rates has led to a rise in the growth in the Indian mutual fund industry in the recent years. In the year 2014, change in government and rise in expectations of people leads to sudden growth in capital market. A parallel growth was also observed in the Indian mutual fund industry. Over the last 5 years, the Assets Under Management (AUM) of Indian mutual fund industry grew from 67093099 lakhs in FY 2012 to 182958449 lakhs in FY 2019 showing a compound annual growth rate (CAGR) of 22.21%. Further, the AUM of the Indian mutual fund industry witnessed an exceptional growth of 35.17% in FY2017. According to Association of Mutual Funds in India (AMFI) data, AUM grew from Rs. 13.53 lakh crore in March 2016 to Rs. 18.29 lakh crore in March 2019.

Market Share of Asset Management Companies

AUM penetration of the Indian mutual fund industry as a per cent of GDP is only Approx. 6 percent (Paul, 2014). Despite the relatively low penetration of mutual funds in India, the market is highly concentrated. Though, there are 44 AMCs currently operating in the sector, the AUM of the industry is concentrated with five leading fund houses. Approx. 57 per cent of the total AUM is shared by, ICICI, HDFC, Reliance, Birla Sun Life and SBI Mutual fund.



Cover Page



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Rank	Fund Houses	AUM (in Lakh)	Percentage (%)
1	ICICI Prudential Mutual Fund	24296130.61	13.28
2	HDFC Mutual Fund	23717761.00	12.96
3	Reliance Mutual Fund	21089063.82	11.53
4	Birla Sun Life Mutual Fund	19504900.94	10.66
5	SBI Mutual Fund	15702527.68	8.58
	Others	78647965.78	42.99
	Total	182958349.83	100

Source AMFI- as on 31st March 2019

Growth of Mutual Funds in India

A strong financial market with broad participation is essential for a developed economy. With this broad objective India's first mutual fund was establishment in 1963, namely, Unit Trust of India (UTI), at the initiative of the Government of India and Reserve Bank of India 'with a view to encouraging saving and investment and participation in the income, profits and gains accruing to the Corporation from the acquisition, holding, management and disposal of securities. In the last few years, the MF Industry has grown significantly. The history of Mutual Funds in India can be broadly divided into five distinct phases as follows:

First Phase 1964-1987

The Mutual Fund industry in India started in 1963 with formation of UTI in 1963 by an Act of Parliament and functioned under the Regulatory and administrative control of the Reserve Bank of India (RBI). In 1978, UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. Unit Scheme 1964 (US '64) was the first scheme launched by UTI. At the end of 1988, UTI had ₹ 6,700 crores of Assets Under Management (AUM).

Second Phase - 1987-1993 Entry of Public Sector Mutual Funds

The year 1987 marked the entry of public sector mutual funds set up by Public Sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first 'non-UTI' mutual fund established in June 1987, followed 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). LIC established its mutual fund in June 1989, while GIC had set up its mutual fund in December 1990. At the end of 1993, the MF industry had assets under management of ₹47,004 crores.

Third Phase - 1993 - 2003 Entry of Private Sector Mutual Funds

The Indian securities market gained greater importance with the establishment of SEBI in April 1992 to protect the interests of the investors in securities market and to promote the development of, and to regulate, the securities market. In the year 1993, the first set of SEBI Mutual Fund Regulations came into being for all mutual funds, except UTI. The erstwhile Kothari Pioneer (now merged with Franklin Templeton MF) was the first private sector MF registered in July 1993. With the entry of private sector funds in 1993, a new era began in the Indian MF industry, giving the Indian investors a wider choice of MF products. The initial SEBI MF Regulations were revised and replaced in 1996 with a comprehensive set of regulations, viz., SEBI (Mutual Fund) Regulations, 1996 which is currently applicable.

The number of MFs increased over the years, with many foreign sponsors setting up mutual funds in India. Also the MF industry witnessed several mergers and acquisitions during this phase. As at the end of January 2003, there were 33 MFs with total AUM of ₹1,21,805 crores, out of which UTI alone had AUM of ₹44,541 crores.

Fourth Phase - Since February 2003 -April 2014

In February 2003, following the repeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities, viz., the Specified Undertaking of the Unit Trust of India (SUUTI) and UTI Mutual Fund which functions under the SEBI MF Regulations. With the bifurcation of the erstwhile UTI and several mergers taking place among different private sector funds, the MF industry entered its fourth phase of consolidation.

Following the global melt-down in the year 2009, securities markets all over the world had tanked and so was the case in India. Most investors who had entered the capital market during the peak, had lost money and their faith in MF products was shaken



Cover Page



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greatly. The abolition of Entry Load by SEBI, coupled with the after-effects of the global financial crisis, deepened the adverse impact on the Indian MF Industry, which struggled to recover and remodel itself for over two years, in an attempt to maintain its economic viability which is evident from the sluggish growth in MF Industry AUM between 2010 to 2013.

Fifth (Current Phase) - Since May 2014

Taking cognisance of the lack of penetration of MFs, especially in tier II and tier III cities, and the need for greater alignment of the interest of various stakeholders, SEBI introduced several progressive measures in September 2012.

- ❖ In due course, the measures did succeed in reversing the negative trend that had set in after the global melt-down and improved significantly after the new Government was formed at the Center. Since May 2014, the Industry has witnessed steady inflows and increase in the AUM as well as the number of investor folios (accounts).
- ❖ The Industry's AUM crossed the milestone of ₹10 Trillion (₹10 Lakh Crore) for the first time as on 31st May 2014 and in a short span of about three years the AUM size had increased more than two folds and crossed ₹ 20 trillion (₹20 Lakh Crore) for the first time in August 2017. The AUM size crossed ₹ 30 trillion (₹30 Lakh Crore) for the first time in November 2020.
- ❖ The overall size of the Indian MF Industry has grown from ₹ 6.89 trillion as on 30th June 2012 to ₹ 35.64 trillion as on 30th June 2022, more than 5-fold increase in a span of 10 years.
- ❖ The MF Industry's AUM has grown from ₹ 18.96 trillion as on June 30, 2017 to ₹35.64 trillion as on June 30, 2022, around 2-fold increase in a span of 5 years.
- ❖ The no. of investor folios has gone up from 5.82 crore folios as on 30-June- 2017 to 13.47 crore as on 30-June-2022, more than 2-fold increase in a span of 5 years.
- ❖ On an average 12.74 lakh new folios are added every month in the last 5 years since June 2017.

The growth in the size of the industry has been possible due to the twin effects of the regulatory measures taken by SEBI in re-energising the MF Industry in September 2012 and the support from mutual fund distributors in expanding the retail base.

MF Distributors have been providing the much-needed last mile connect with investors, particularly in smaller towns and this is not limited to just enabling investors to invest in appropriate schemes, but also in helping investors stay on course through bouts of market volatility and thus experience the benefit of investing in mutual funds.

MF distributors have also had a major role in popularising Systematic Investment Plans (SIP) over the years. In April 2016, the no. of SIP accounts has crossed 1 crore mark and as on 30th June 2022 the total no of SIP accounts are 5.55 crore.

Investment in Mutual Funds

Top 10 Mutual funds to invest in 2022

There are basically five different Mutual fund categories - aggressive hybrid, large cap, mid cap, small cap, and flexi cap schemes.

Here is the list of top 10 schemes

- (a) Axis Bluechip Fund
- (b) Miras Asset large cap fund
- (c) Parg parikh Longterm Equity fund
- (d) UTI Fxexi cap fund
- (e) Axis Midcap fund
- (f) Kotak emerging Equity fund
- (g) Axis smallcap fund
- (h) SBI small cap fund
- (i) SBI Equity Hybrid fund
- (j) Mirae Asset Hybrid Equity fund

Aggressive hybrid schemes (Equity oriented hybrid schemes) are ideal for new comers to equity mutual funds. These schemes invest in a mix of equity (65% to 80%) and Debt (20% to 35%). Because of this Hybrid portfolio they are considered relatively less volatile than pure equity schemes. Aggressive hybrid schemes are the best investment vehicle for very conservative equity investors looking to create long term wealth without much volatility.



Cover Page



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Some equity investors want to play safe even while investing in stocks. Large cap schemes are must for such individuals. These schemes invest in top 100 stocks and they are relatively safer than other pure Equity Mutual fund schemes. They are also relatively less volatile than midcap and small cap schemes. In short, you should invest in large cap schemes if you are looking for modest returns with relative stability.

A regular Equity investor (one with a moderate risk appetite) looking to invest in stock market not beyond Flexicap Mutual funds (or Diversified equity schemes). These schemes invest across market capitalisation and sectors, based on the view of the fund manager. A regular investor can benefit from the uptrend in any of the sectors, categories of stocks by investing in these schemes.

What about aggressive investors looking to pocket extra returns by taking extreme risk? Well, they can bet on midcap and smallcap schemes. Midcap schemes invest mostly in medium size companies and smallcap funds invest in smaller companies in terms of market capitalisation. These schemes can be volatile, but they also have the potential to offer superior returns over a long period. You can invest in these Mutual fund categories if you have a long-term investment horizon and an appetite for higher risk.

Finally, any search starting with the word best is unlikely to offer you the best solution. You should always choose a scheme that matches your investment objective, horizon and risk profile. If you do not understand the basic mutual fund concepts or are totally new to mutual funds and investing, you should always seek the help of a Mutual fund advisor.

Future of Mutual fund industry

The Indian Mutual Fund industry is said to have entered a high growth phase and is projected to double in size in the next 5 years. According to K-Fin technology prospectus the growth will be driven by major factors ranging from India's economic growth to tax benefits associated with Mutual fund investments. Here are the key factors and how they will impact Mutual fund positively.

Economic growth

According to the report the industry will benefit from the Projected 11% growth in nominal GDP between FY 2021 and FY 2025. "Economic growth coupled with rise in middle income population and increase in financial savings is expected to boost Mutual fund industry in India."

Financial Inclusion and Investor Education

Regulatory and government initiatives aimed at raising financial awareness among the masses will lead to higher penetration of Mutual funds. CRISIL research believes that investor education, coupled with better risk management and transparency within the Mutual fund industry will boost investors confidence and lead to increased investments and growth in industry.

Retirement planning and tax benefits

Retirement planning is an untapped market in India and if channelled through Mutual funds has the potential to significantly improve penetration among households. In India substantial proportion of young population offers huge potential for Mutual funds in retirement planning. Similarly, Tax benefits is likely to boost the growth of mutual funds.

Risks and challenges of Mutual Fund Industry

Mutual funds may have a lot of growth drivers but they face equal number of challenges that range from taxation to competition from other financial products. Let us look at them one by one (as shared in the prospectus)

Stamp Duty

Starting July 1st 2020, a stamp duty of 0.005% is charged on all Mutual fund purchases. The duty has emerged a roadblock in the growth of Mutual funds as it makes transactions costly. "This move has impacted large corporates, which mostly put their money in liquid funds for shorter periods", the report said.

Downturn or Volatility in Mutual funds and other market-linked products Retail participation and inflows into Mutual funds and other market linked products are heavily influenced by market performance and sentiment. Any downturn or volatility could make investors shy away from market-linked products and push them towards less risky assets.

Competition from other financial instruments

ULIP's pose strong competition to Mutual funds." Insurance products such as unit-linked investment products (ULIP's) which provide dual benefits of protection and long-term savings are competing for market share.



Cover Page



DOI: <http://ijmer.in.doi./2022/11.07.122>

Conclusion

The Indian Mutual funds industry has come a long way since its inception in 1963. The industry has witnessed sufficient growth on all parameters be it, number of fund houses, number of schemes, funds mobilised, Assets under management etc., The fund industry in the beginning consisted of UTI mutual fund only, but today the industry consists of all the three sectors viz., public sector, private sector and foreign fund houses. Mutual fund industry has grown significantly during the last decade. The assets under management has grown from Rs. 6.80 trillion as on 30th June 2012 to 35.64 trillion as on 30th June 2022, more than fivefold increase in a span of 10 years.

Mutual fund industry has recorded more than satisfactory growth since its inception; however, the growth is more pronounced towards the private sector funds and the public sector funds which dominated the fund industry in the country, have been overtaken by the private sector funds. One of the important goals of the mutual fund industry is to attract and mobilise major portion of the household savings in order to enable the small savers to benefit from the economic growth by facilitating them to park their savings into the assets which yield better risk adjusted returns. There is a failure on the part of mutual fund industry to reach out to the nook and corner of the country. Even today major funds are mobilised from five cities namely Mumbai, Delhi, Chennai, Bangalore and Kolkata. Therefore, among other things, the need is to increase the penetrations rates.

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