**MUTUAL FUND INDUSTRY IN INDIA- A SCENARIO**

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**ABSTRACT:**

The Mutual Fund Industry is a fast-growing sector in India. Mutual funds in India have become one of the most attractive ways for the average person to invest their surplus money. A mutual fund pools resources from thousands of investors and then diversifies its investment into many different holdings such as stocks, bonds, or government securities in order to provide high relative safety and returns. The income earned through these investments and the capital appreciation realized is shared by its unit holders in proportion to the number of units owned by them. Thus, a mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. The mutual fund industry in India was started in the year 1963 with the formation of Unit Trust of India. This paper explores the growth, Structure of Mutual Funds in India. It also states the several phases and expansion of the mutual fund industry across decades and current scenario of mutual fund industry in India.

Key words: Mutual funds, Schemes, Structure, Present scenario, AUM, AAUM

1. **INTRODUCTION**

A mutual fund is a collective investment vehicle that collects & pools money from a number of investors and invests the same in equities, bonds, government securities, money market instruments. The money collected in mutual fund scheme is invested by professional fund managers in stocks and bonds etc. in line with a scheme’s investment objective. The income / gains generated from this collective investment scheme are distributed proportionately amongst the investors, after deducting applicable expenses and levies, by calculating a scheme’s “Net Asset Value” or NAV. In return, mutual fund charges a small fee. In short, mutual fund is a collective pool of money contributed by several investors and managed by a professional Fund Manager. Mutual Funds in India are established in the form of a Trust under Indian Trust Act, 1882, in accordance with SEBI (Mutual Funds) Regulations, 1996.The fees and expenses charged by the mutual funds to manage a scheme are regulated and are subject to the limits specified by SEBI.

1. **THE STRUCTURE OF MUTUAL FUNDS**

The structure of Mutual Funds in India is a three-tier one that comes with other substantial components. It is not only about varying AMCs or banks creating or floating a variety of mutual fund schemes. However, there are a few other players that play a major role into the mutual fund structure. There are three distinct entities involved in the process – the sponsor (who creates a Mutual Fund), trustees and the asset management company (which oversees the fund management). The structure of Mutual Funds has come into existence due to SEBI (Securities and Exchange Board of India) Mutual Fund Regulations, 1996 that plays the role of a primary watchdog in all of the transactions. Under these regulations, a Mutual Fund is created as a Public Trust. We will look into the structure of Mutual Funds in a detailed manner. Read more at: https://www.fincash.com/l/structure-mutual-funds



**• Sponsor:**

A sponsor is a corporation that creates a mutual fund, either individually or in partnership with another company. This supporter is required to invest 40% of the wealth management firms' net worth.

**• Panel of Trustees:** A board of trustees is an autonomous third-party board that is responsible for safeguarding the unitholders' interests by holding and overseeing the mutual fund's stock.

 **• Asset Management Company (AMC):** The AMC is the investor's investment manager. This body is in charge of spending the money of investors in different stock market instruments.

 **• Custodian:** All mutual funds shall park their shares with a SEBI-registered custodian bank, according to SEBI regulations.

**HOW A MUTUAL FUND WORKS?**

One should avoid the temptation to review the fund's performance each time the market falls or jumps up significantly. For an actively-managed equity scheme, one must have patience and allow reasonable time - between 18 and 24 months - for the fund to generate returns in the portfolio.

When you invest in a mutual fund, you are pooling your money with many other investors. Mutual fund issues “Units” against the amount invested at the prevailing NAV. Returns from a mutual fund may include income distributions to investors out of dividends, interest, capital gains or other income earned by the mutual fund. You can also have capital gains (or losses) if you sell the mutual fund units for more (or less) than the amount you invested.

Mutual funds are ideal for investors who –

1. lack the knowledge or skill / experience of investing in stock markets directly.
2. want to grow their wealth, but do not have the inclination or time to research the stock market.
3. wish to invest only small amounts.

**WHY INVEST IN MUTUAL FUNDS?**

As investment goals vary from person to person – post-retirement expenses, money for children’s education or marriage, house purchase, etc. – the investment products required to achieve these goals too vary. Mutual funds provide certain distinct advantages over investing in individual securities. Mutual funds offer multiple choices for investment across equity shares, corporate bonds, government securities, and money market instruments, providing an excellent avenue for retail investors to participate and benefit from the uptrends in capital markets. The main advantages are that you can invest in a variety of securities for a relatively low cost and leave the investment decisions to a professional manager.

1. **OBJECTIVES OF THE STUDY**
2. To analyse the development and evaluation of the mutual funds industry in India.
3. To study the present scenario (AUM-Assets Under Management) of the mutual fund industry in India.
4. **HISTORY 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 FEBRAURY2003 - APRIL2014**

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 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 to "re-energize" the Indian Mutual Fund industry and increase MFs’ penetration.

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 Centre.

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 ₹ 6.59 trillion as on 31st January 2012 to ₹ 38.01 trillion as on 31st January 2022, more than 5½ fold increase in a span of 10 years.
* The MF Industry’s AUM has grown from ₹ 17.37 trillion as on January 31, 2017 to ₹38.01 trillion as on January 31, 2022, more than 2 fold increase in a span of 5 years.
* The no. of investor folios has gone up from 5.38 crore folios as on 31-Jan-2017 to 12.21 crore as on 31-January-2022, more than 2 fold increase in a span of 5 years.
* On an average 11.55 lakh new folios are added every month in the last 5 years since January 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 31st January 2022 the total no. of SIP Accounts are 5.05 crore.

1. **TYPES OF MUTUAL FUND SCHEMES**

Mutual funds come in many varieties, designed to meet different investor goals. Mutual funds can be broadly classified based on –

1. Organisation Structure – Open ended, Close ended, Interval
2. Management of Portfolio – Actively or Passively
3. Investment Objective – Growth, Income, Liquidity
4. Underlying Portfolio – Equity, Debt, Hybrid, Money market instruments, Multi Asset
5. Thematic / solution oriented – Tax saving, Retirement benefit, Child welfare, Arbitrage
6. Exchange Traded Funds
7. Overseas funds
8. Fund of funds

**V.1. SCHEME CLASSIFICATION BY ORGANIZATION STRUCTURE**

**V.1.1 Open-ended schemes**are perpetual, and open for subscription and repurchase on a continuous basis on all business days at the current NAV.

**V.1.2 Close-ended schemes** have a fixed maturity date. The units are issued at the time of the initial offer and redeemed only on maturity. The units of close-ended schemes are mandatorily listed to provide exit route before maturity and can be sold/traded on the stock exchanges.

**V.1.3 Interval schemes**allow purchase and redemption during specified transaction periods (intervals). The transaction period has to be for a minimum of 2 days and there should be at least a 15-day gap between two transaction periods. The units of interval schemes are also mandatorily listed on the stock exchanges.

**V.2. SCHEME CLASSIFICATION BY PORTFOLIO MANAGEMENT**

**V.2.1 Active Funds**

In an Active Fund, the Fund Manager is ‘Active’ in deciding whether to Buy, Hold, or Sell the underlying securities and in stock selection. Active funds adopt different strategies and styles to create and manage the portfolio.

* The investment strategy and style are described upfront in the Scheme Information document (offer document)
* Active funds expect to generate better returns (alpha) than the benchmark index.
* The risk and return in the fund will depend upon the strategy adopted.
* Active funds implement strategies to ‘select’ the stocks for the portfolio.

**V.2.2 Passive Funds**

Passive Funds hold a portfolio that replicates a stated Index or Benchmark e.g. –

* Index Funds
* Exchange Traded Funds (ETFs)

In a Passive Fund, the fund manager has a passive role, as the stock selection / Buy, Hold, Sell decision is driven by the Benchmark Index and the fund manager / dealer merely needs to replicate the same with minimal tracking error.

**ACTIVE V/S PASSIVE FUNDS**

Active Fund –

* Rely on professional fund managers who manage investments.
* Aim to outperform Benchmark Index
* Suited for investors who wish to take advantage of fund managers' alpha generation potential.

Passive Funds –

* Investment holdings mirror and closely track a benchmark index, e.g., Index Funds or Exchange Traded Funds (ETFs)
* Suited for investors who want to allocate exactly as per market index.
* Lower Expense ratio hence lower costs to investors and better liquidity

**CLASSIFICATION BY INVESTMENT OBJECTIVES**

Mutual funds offer products that cater to the different investment objectives of the investors such as –

1. Capital Appreciation (Growth)
2. Capital Preservation
3. Regular Income
4. Liquidity
5. Tax-Saving

Mutual funds also offer investment plans, such as Growth and Dividend options, to help tailor the investment to the investors’ needs.

**GROWTH FUNDS**

* Growth Funds are schemes that are designed to provide capital appreciation.
* Primarily invest in growth-oriented assets, such as equity
* Investment in growth-oriented funds require a medium to long-term investment horizon.
* Historically, Equity as an asset class has outperformed most other kind of investments held over the long term. However, returns from Growth funds tend to be volatile over the short-term since the prices of the underlying equity shares may change.
* Hence investors must be able to take volatility in the returns in the short-term.

**INCOME FUNDS**

* The objective of Income Funds is to provide regular and steady income to investors.
* Income funds invest in fixed income securities such as Corporate Bonds, Debentures and Government securities.
* The fund’s return is from the interest income earned on these investments as well as capital gains from any change in the value of the securities.
* The fund will distribute the income provided the portfolio generates the required returns. There is no guarantee of income.
* The returns will depend upon the tenor and credit quality of the securities held.

**LIQUID / OVERNIGHT /MONEY MARKET MUTUAL FUNDS**

* Liquid Schemes, Overnight Funds and Money market mutual fund are investment options for investors seeking liquidity and principal protection, with commensurate returns.
– The funds invest in money market instruments\* with maturities not exceeding 91 days.
– The return from the funds will depend upon the short-term interest rate prevalent in the market.
* These are ideal for investors who wish to park their surplus funds for short periods.
– Investors who use these funds for longer holding periods may be sacrificing better returns possible from products suitable for a longer holding period.

\* Money Market Instruments includes commercial papers, commercial bills, treasury bills, Government securities having an unexpired maturity up to one year, call or notice money, certificate of deposit, usance bills, and any other like instruments as specified by the Reserve Bank of India from time to time.

**CLASSIFICATION BY INVESTMENT PORTFOLIO**

* Mutual fund products can be classified based on their underlying portfolio composition
–The first level of categorization will be on the basis of the asset class the fund invests in, such as equity / debt / money market instruments or gold.
– The second level of categorization is on the basis of strategies and styles used to create the portfolio, such as, Income fund, Dynamic Bond Fund, Infrastructure fund, Large-cap/Mid-cap/Small-cap Equity fund, Value fund, etc.
– The portfolio composition flows out of the investment objectives of the scheme.
1. **RESEARCH METHODOLOGY**

The study is based on secondary data. Necessary data have been collected from books, investment periodicals such as capital market bulletin, RBI bulletin, newspapers like Economic Times, Financial Express and other financial magazines. Data have also been collected from various websites such as websites of SEBI, AMFI, RBI, ICRA online, SMC online and respective websites of the selected mutual funds

1. **THE CURRENT SCENARIO**

Table-I

|  |  |  |
| --- | --- | --- |
| Year | AUM | AAUM |
| 2012-2013 |  701,443.00  |  816,657.16 |
| 2013-2014 | 825,240.00 |  905,120.69 |
| 2014-2015 |  1,082,757.00 |  1,188,690.32 |
| 2015-2016 |  12,32,824 |  13,53,443 |
| 2016-2017 |  17,54,619 |  18,29,584 |
| 2017-2018 |  21,36,036 |  23,05,212 |
| 2018-2019 |  23,79,584  |  24,48,438 |
| 2019-2020 |  2,226,203  | 2,703,676  |
| 2020-2021 |  31,42,764  |  32,10,593 |
| 2021-2022 | 37,56,683  | 38,37,994 |
| 2022-2023 | 39,42,031 | 40,51,147 |

Data source: AMFI

**DATA INTERPRETATION**: It is observed from the table 1, the Average Assets Under Management (AAUM) of Indian Mutual Fund Industry for the month of August 2023 stood at ₹ 46,93,648 crore.

Assets Under Management (AUM) of Indian Mutual Fund Industry as on August 31, 2023 stood at ₹ 46,63,480 crore.

The AUM of the Indian MF Industry has grown from ₹7.66 trillion as on August 31, 2013 to ₹46.63 trillion as on August 31, 2023 more than 6 fold increase in a span of 10 years.

The MF Industry’s AUM has grown from ₹ 25.20 trillion as on August 31, 2018 to ₹46.63 trillion as on August 31, 2023, around 2 fold increase in a span of 5 years.

The Industry’s AUM had crossed the milestone of **₹10 Trillion** (₹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 ₹ 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 Industry AUM stood at ₹46.63 Trillion (₹ 46.63 Lakh Crore) as on August 31, 2023.

**The mutual fund industry has crossed a milestone of 10 crore folios during the month of May 2021.**

The total number of accounts (or folios as per mutual fund parlance) as on August 31, 2023 stood at 15.42 crore (154.2 million), while the number of folios under Equity, Hybrid and Solution Oriented Schemes, wherein the maximum investment is from retail segment stood at about 12.30 crore (123 million).

1. **CONCLUSION**

The outlook of the mutual fund industry is governed to a great extent by the economic situation in the country. The present economic scenario with sticky inflation and rising fuel prices is likely to adversely impact perceptions, resulting in depressed equity inflows into the market. Steps need to be taken to in still confidence in the minds of the investor and to encourage him to invest in mutual funds, even in times of uncertainty. Thus, it can be believed that the mutual fund industry manifests huge opportunity for growth and further penetration, and this can be achieved over time, with support from technology. The key lies in strengthening distribution networks and enhancing levels of investor education to increase presence in rural areas. In terms of opportunity, the infrastructure debt market has become very attractive, luring investors to invest in this space. Also, it is critical for the industry at this point to assess and capitalize the value that pension products bring to the growth of the mutual fund industry. Lastly, it may perhaps be useful if the mutual fund industry emulated some best practices from other industries and sectors to transition to the next level of growth.

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