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## Emergence and Expansion of Mutual Funds as a Dominant Investment Avenue in India

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### Abstract

Mutual funds have rapidly emerged as one of the most significant and fast-growing investment avenues in India's financial landscape, attracting investors across diverse demographic segments. Over the past decade, the industry has witnessed substantial expansion in terms of Assets under Management (AUM), investor folios, and monthly systematic investment plan (SIP) inflows. This growth reflects not only increasing investor awareness and confidence in market-linked instruments but also the impact of regulatory reforms, digital innovation, and financial inclusion initiatives. Unlike traditional savings instruments such as bank fixed deposits, gold, or real estate, mutual funds offer diversified portfolios managed by professionals, tailored risk-return profiles, and flexible investment options. This article examines the drivers behind the surge in mutual fund investments, including the popularization of SIPs, enhanced retail participation beyond metropolitan regions, and comparative advantages over conventional instruments. The analysis integrates real data and industry statistics from 2024–2025, providing empirical evidence of the industry's growth trajectory. It also discusses investor behavior, challenges such as market volatility and financial literacy gaps, and future prospects for sustained expansion. The findings highlight that mutual funds are not only democratizing access to financial markets but are also becoming a cornerstone of long-term wealth creation strategies for individual and institutional investors alike.

**Keywords:** Mutual Funds, Systematic Investment Plans (SIPs), Financial Inclusion, Investment Growth.

### Introduction

Investment behavior in India has undergone a noteworthy transformation in the last two decades, reflecting changes in economic aspirations, income patterns, and risk perceptions of individuals. Historically, Indian households have displayed a deep preference for traditional and tangible assets—such as bank fixed deposits, gold, and real estate—primarily driven by cultural perceptions of security and guaranteed returns. For generations, these instruments symbolized stability, and the lack of formal financial literacy reinforced conservative investment patterns. However, with globalization, increased access to information, rising disposable incomes, and evolving financial market

reforms, the expectations and priorities of investors have gradually shifted toward market-linked instruments that offer higher long-term wealth creation potential. Mutual funds have, therefore, emerged at the forefront of this financial transition. A mutual fund operates as a managed investment vehicle that pools the savings of numerous investors and deploys them across a diversified portfolio of securities, such as equity, debt, government bonds, and money market instruments. This enables investors to benefit from professional fund management, reduced transactional burdens, risk diversification, and lower entry barriers, making financial markets accessible to both seasoned investors and beginners. The Securities and Exchange Board of India (SEBI) plays a crucial regulatory role, strengthening governance, transparency, and investor protection. In recent years, the growing popularity of Systematic Investment Plans (SIPs) has revolutionized retail investment, allowing individuals to invest small amounts at regular intervals. This approach aligns well with the financial capacities of middle-class earners and promotes disciplined savings habits. SIPs have particularly attracted younger working professionals, reflecting a generational shift toward planned wealth accumulation rather than sporadic investment. Campaigns such as “Mutual Funds Sahi Hai,” investor education initiatives, and financial awareness programs conducted by Asset Management Companies (AMCs) and SEBI have increased understanding and trust among potential investors. As a result, mutual funds are no longer perceived as complex or risky instruments reserved for affluent or urban populations. Instead, they are increasingly being adopted in semi-urban and rural regions, pointing to inclusive financial growth. Moreover, broader macroeconomic trends—such as inflationary pressures diminishing the attractiveness of fixed-return products, declining bank deposit rates, and higher aspirations for wealth creation—have played a catalytic role. Individuals are now seeking instruments that balance risk and return and offer transparency, liquidity, and flexibility. Mutual funds meet these criteria more effectively compared to many conventional savings avenues. The empirical data from Assets under Management (AUM), rising SIP accounts, and expanding investor folios provide concrete evidence of this sector’s unprecedented growth.

## **Analysis**

- **Exceptional Growth in Assets under Management**

Assets under management (AUM) serve as a key indicator of the mutual fund industry’s scale. India’s mutual fund AUM has reached unprecedented levels in 2025:

- By November 2025, the industry’s AUM touched ₹80.80 lakh crores, an 18.7% increase year-on-year compared with approximately ₹68.08 lakh crores in November 2024, reflecting robust growth momentum.
- Earlier in mid-2025, industry AUM figures ranged from about ₹72.2 lakh crores to over ₹75.61 lakh crores, demonstrating continued expansion.

This escalation underscores increasing investor trust and participation, especially in equity-oriented funds that dominate the total AUM composition. The expansion is supported by both inflows and mark-to-market gains.

- **Surge in Systematic Investment Plans (SIPs)**

SIPs have revolutionized the way mutual funds are perceived by retail investors:

- SIP AUM crossed the ₹15 lakh crores mark in June 2025, accounting for over 20% of total industry AUM.
- Annual SIP contributions grew by about 45% in FY25, reaching nearly ₹3 lakh crores compared to approx ₹2 lakh crores in FY24.

The exponential increase in SIP contributions highlights the shift toward disciplined, long-term investing. Monthly SIP inflows have repeatedly reached record highs, with figures often exceeding ₹26,000–₹28,000 crores per month between May and July 2025.

Researchers have also noted that SIPs benefit from rupee-cost averaging and the power of compounding over time, attracting both new and long-term investors.

- **Expansion of Mutual Fund Folios and Investor Base**

Folio counts represent the number of individual investment accounts with mutual funds:

- Mutual fund folios in India reached an all-time high of 22.5 crores by December 2024, with monthly SIP registrations exceeding 54 lakh.
- Retail investor folios accounted for nearly 17.89 crores, indicating strong participation from individual investors.

The impressive folio growth reflects widening financial inclusion and investors' confidence in mutual funds for achieving long-term financial goals.

- **Retail Participation and Geographical Penetration**

The mutual fund industry has also seen broader penetration outside urban centers:

- Non-metro and B30 (below top 30 cities) areas now contribute approximately 18% of total industry AUM, indicating deeper reach into smaller towns.
- Individual investors dominate equity mutual fund ownership, with an 88% share in some segments of the industry.

Such trends highlight that mutual funds are not confined to metropolitan affluent investors but have wound their way into diverse demographics and geographies.

- **Equity and Thematic Investment Trends**

Equity mutual funds continue to attract strong inflows:

- Equity fund inflows increased sharply at various points through 2025, with one monthly report indicating an 81% jump in net inflows to ₹42,702 crores.

Thematic and sectoral funds have also seen heightened investor interest, reflecting strategic shifts toward targeted market segments.

- **Comparison with Traditional Investment Options**

Mutual funds have gained popularity partly because they offer superior advantages compared to alternative investments.

- Bank fixed deposits offer assured returns but are susceptible to inflation erosion.
- Gold, although culturally valued, lacks liquidity and incurs storage costs.
- Real estate requires substantial capital and suffers from illiquidity.
- Direct equity investment demands expertise and exposes investors to concentrated risk.

Mutual funds overcome these drawbacks by offering:

- professional fund management
- diversification
- liquidity
- lower capital requirements
- regulated frameworks
- transparency

Thus, mutual funds strike a balance between traditional risk-free instruments and high-risk market investments, making them suitable for modern financial planning.

### **Role of Technology and Digital Platforms**

Advances in fintech and digital distribution have played a critical role in mutual fund growth:

- Easy online account opening and paperless KYC have lowered entry barriers.
- Mobile and web applications facilitate SIP setup, portfolio tracking, and automated investing.

These innovations enable broader accessibility, especially among younger investors and first-time participants.

### **Challenges and Risk Considerations**

While mutual funds have experienced remarkable growth, they are not without challenges. Market volatility remains one of the most significant risks. Short-term price fluctuations may deter novice investors, especially during economic downturns. Moreover, despite regulatory safeguards, instances of mis-selling and unrealistic performance expectations still exist in some distribution channels.

Financial literacy gaps persist, especially in rural areas. Investors may not fully understand risk-return trade-offs, leading to misplaced expectations. To address this, continuous investor education and transparent communication by AMCs, distributors, and regulators are paramount.

### **Conclusion**

The rapid growth of mutual funds in India marks a significant shift from traditional saving habits to informed and goal-oriented investing. Over the past decade, mutual funds have become a leading investment avenue due to regulatory reforms, technology, and increasing financial literacy. Offering diversification, professional management, liquidity, and accessibility, they appeal to both conservative and aggressive investors. Systematic Investment Plans (SIPs) have played a major role in democratizing

investments by allowing small, regular contributions aligned with monthly incomes. This has encouraged disciplined saving and long-term wealth creation, particularly among young and middle-class investors. SEBI regulations and governance reforms have strengthened investor confidence through transparency, standardized risk measures, scheme rationalization, and grievance mechanisms. Moreover, fintech platforms, online KYC, and digital payments have reduced entry barriers and expanded reach to tier-2 and tier-3 cities.

Mutual funds hold advantages over traditional assets in terms of returns, flexibility, liquidity, and investor protection. However, challenges like market volatility, misinformation, and low financial literacy—especially in rural areas—still exist, highlighting the need for continued investor education and responsible marketing. Looking forward, the industry shows strong prospects supported by rising incomes, urbanization, financial inclusion, and growing emphasis on retirement and long-term planning. New areas such as ESG funds, passive funds, and international exposure are expected to further expand the sector. Overall, mutual funds have become a key tool for wealth creation and financial empowerment, moving investors toward a balanced, risk-aware approach. As India advances toward a more inclusive financial system, mutual funds are set to remain central to personal finance and capital market development.

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