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MUTUAL FUNDS: AN INTENSELY GROWING MARKET

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ABSTRACT

Mutual funds are an exceptional tool for investment. The MF industry is turning out to be the fastest growing and most competitive segment of India's financial sector, offering operational flexibility and attractive returns to investors (RBI, 2017). Compound annual growth rate (CAGR) of AUM of mutual funds in India has grown to 25 percent over the last five years (2013-2018). Matured financial market stimulates household savings. The transparency in operations due to SEBI, liberal foreign capital norms have resulted in the growth of mutual funds.. This article attempts to analyze recent developments in the industry, i.e., up to end-March 2018, with growing formalization and financialization of the Indian economy. The AUM has grown from INR 4.13 trillion in 2008 to INR 22.86 trillion in 2018 about 5.5 fold increases because of the contribution of the private and foreign players in the domestic market. MFs' investment in equities stood at INR 8.9 trillion at end-March 2018, which accounted for 6.2 percent of market capitalization of the BSE listed companies.

Keywords: *Mutual funds, AUM, CAGR, SEBI,* AMFI, *Financial Stability, Financial System.*

INTRODUCTION

The financial system facilitates the channeling of funds from savers to the investors of the economy through financial institution, instruments and markets. Indian Mutual Funds have strong financial stability to the financial system. Like banks, mutual funds are part of the Indian financial system. To manage personal savings is not an easy role for people. Individuals will have to decide for themselves that what is risky but rewarding. A Mutual Fund provides an opportunity to invest in diversified, professionally managed securities at a low cost. (Tripathy 2007, p 38). There are two major benefits. Firstly, mutual funds provide an opportunity for safe investment of money with a higher return. Secondly, due to the rules and regulations imposed by AMFI and SEBI, environment is getting better for mutual funds industry Now investor have a large number of options to choose from depending on the individual profile of fund manager because they carry professional expertise and vast knowledge.

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GROWTH OF THE MUTUAL FUND INDUSTRY

There are five expensive periods of the business as per AMFI .In the primary stage (1964-1987) UTI was shaped by an Act of the Parliaments and Unit Scheme 1964 was main MF conspire. The second stage (1987-1993) the foundation of State Bank of India (SBI) MF occurred in 1987. Their very own MFs were set up by a few other open segments banks, Life Insurance Corporation of India (LIC) and the General Insurance Corporation of India (GIC). By end of 1993 AUM achieved 470 billion. Another period in the Indian MF industry began in 1993 with foundation of SEBI in 1992.

In the third phase (1993- 2003), Indian investor were provided with huge and wide variety of Investment in mutual funds because private players were allowed to enter in the market. In 1996, SEBI notified new regulations and started regulating the market comprehensively. In fourth phase a number of foreign-sponsored MFs came and numerous mergers occurred. Complete AUM achieved INR 1,218.1 billion before the finish of January 2003. The fifth stage (May 2014 onwards) saw an enduring development in inflows and AUM, by the improved reach through more prominent financial specialist instruction.

Source: Securities and Exchange Board of India (SEBI)

LITERATURE REVIEW

- **Panigrahi, M.S. (1996)** examined that developments of the Mutual Fund industry from 1991-92 to 1994-95. He utilized different measurable techniques. The consider demonstrate that both UTI and other Mutual Funds saw proficient development the post-advancement period of investor and the number of plan. The Study underscored advancement of various mutual funds. To satisfy the needs of the investor.
- **Seema Sharma et al. (2016**) studied the relevance of mutual funds for the small investor and how mutual fund companies can capture the large market share. The study aimed to benefit the investor who has less knowledge about which fund to invest in and also less time for its research. The study concluded that in India, mutual funds had a lot of potentials to grow. Mutual fund companies had to create market innovative products and innovative product by chalking out distinct marketing strategies. The industry had to bring many innovative concepts such as high yield bond funds, principal protected funds, long-short funds, arbitrage funds, dynamic funds, precious metal funds, and so on. Education, of investor regarding various types of returns is a crucial factor to assist him/her in making informed decisions. Mutual funds develop a wide distribution network to tap investments from all corner and segments. There were 45MF companies registered with the SEBI at the end of March 2018 having AUM of INR 21,360.4 billion. Of the total AUM, 83 percent was held by private sector mutual funds and 17 percent by public sector mutual funds.

RECENT TRENDS IN MUTUAL FUNDS RESOURCE MOBILIZATION

Table 1: Ratio of MF AUM as percent of GDP and Net Mobilization by Mutual Funds as percent of Gross Domestic savings

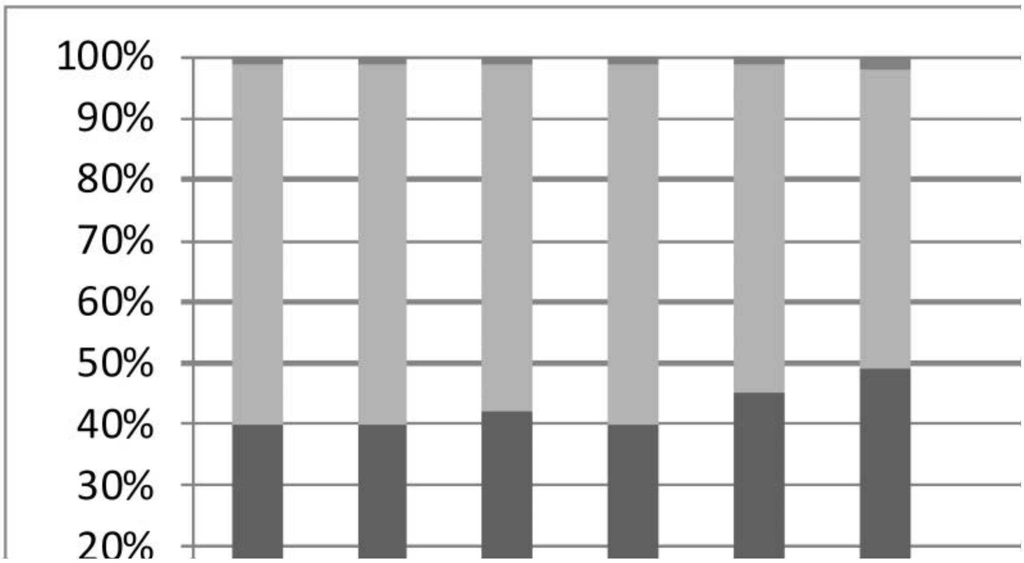
Year	MF AUM % of GDP	Net Mobilization by MFs as % of Gross Savings
2011-12	6.7	-0.7
2012-13	7.1	2.3
2013-14	7.3	1.5
2014-15	8.7	2.6
2015-16	9.0	3.1
2016-17	11.5	7.5
2017-18	12.7	-

Source: Ministry of statistics and Programme Implementation (MOSPI) and AMFI.

Interpretation

The above table 1 shows that ratios of AUM of mutual funds to GDP and net mobilization by Mutual funds to gross domestic savings have increased significantly over the years. The ratio of MF AUM as percent of GDP has increased from 6.7 % in 2011-12 year to 12.7% in 2017-18. Net Mobilization by mutual funds as percent of gross savings has also increased I.e. from(-07%) to 7.5% in 2016-17.

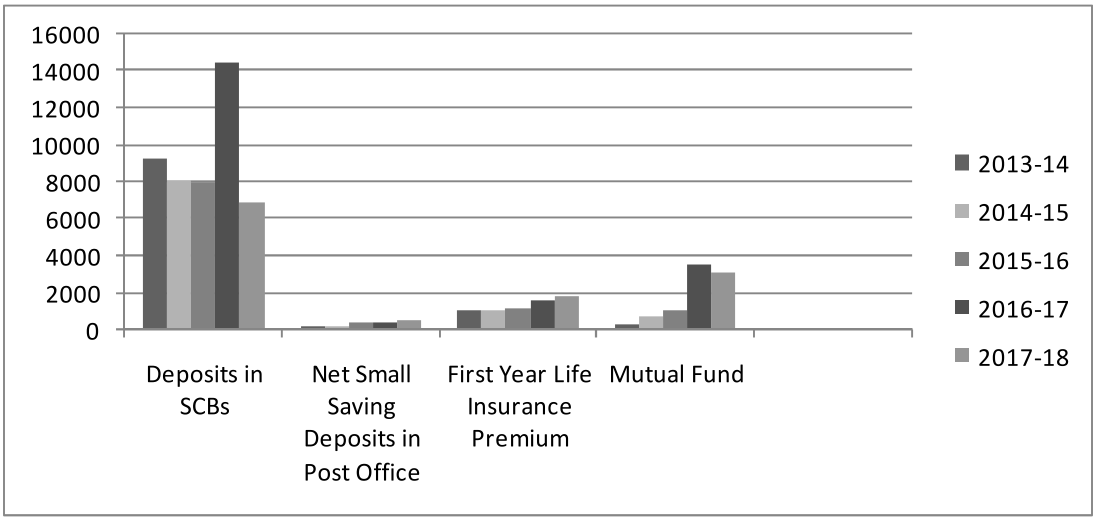
Chart 1: Changing Composition of Household Savings in India



Source: RBI

The above chart1 shows that mutual funds have been increasing because of households, sectors savings investment in mutual funds. Their investment in physical assets, gold and silver ornaments have been declined significantly. Demonetization, implementation of new regulations such as the Real Estate (Regulation and Development) Act, 2016 (RERA) have contributed in shifting savings from physical to financial Instrument.

Chart 2: Flow of Savings to Various Instruments during 2013-14 to 2017-18



Source: RBI, IRDAI and SEBI

Interpretation

Chart 2 shows flow of household savings to various instruments i.e. Schedule commercial banks, post office, insurance premium and Mutual funds During the period 2013-18, funds mobilized by MFs was significantly higher and reached a record in 2016-17, increasing by almost 3 times over the previous year, because of demonetization in November 2016.However, there was a decline in mutual funds mobilization in 2017-18 on account of higher net outflows from debt/income schemes on higher redemptions by corporate/institutional investors.

Table 2: Asset class wise disclosure of Assets Under Management & AAUM as on 31st March 2018

Rs. in Crore

Category	AUM as on 31-Mar-2018	Average AUM for the Quarter ended Mar 2018
Income	7,85,553	7,95,972
Infrastructure Debt Fund	2,468	1,924
Equity (other than ELSS	6,69,207	6,92,253
Balanced	1,72,151	1,88,099
Liquid/Money Market	3,35,525	4,56,241
Gilt	11,404	15,547
Equity-ELSS	80,583	77,849
GOLD ETF	4,806	4,860
Other ETF	72,888	70,933
Fund of Fund investing overseas	1,451	1,534
Total	**21,36,036**	**23,05,212**

Source: AMFI

Interpretation

The IMFI had the highest value of AUM from income schemes (Rs. 7, 85, 553 crores) followed by growth schemes (Rs. 6, 69,207) as on 31st March 2018. AAUM of income schemes was highest with Rs. 7, 95,972 crores followed by growth schemes. The performance of industry was impressive.

Utility of Mutual Fund

- **Professional Management:** Experienced and skilled professionals who are backed by a dedicated investment research team, analyses the prospects of companies and selects suitable investments to achieve the objectives of the scheme thus providing investor with better opportunities.
- **Diversification:** Mutual funds invest various in a number of companies in different sector. This reduces the risk because it rarely happens that all stocks move in the same direction.
- **Convenient Administration:** There are no such problems as bad delivers, delayed payments and unnecessary follow up with broker and companies in mutual fund investment. Mutual Funds save time and make contributing sample and helpful.
- **Return Potential:** Over a medium to long-haul, Mutual Funds have capability to give a higher return as they put resource into an enhanced bushel of chosen securities.
- **Low Costs:** Mutual Funds are a generally more affordable approach to put contrasted with legitimately putting resource into the capital markets.
- **Liquidity:** In Open-ended schemes, investors can get their cash quickly at net resource esteem related costs from the Mutual Fund itself. With close-ended schemes, they can sell their units on a stock exchange winning business sector cost.
- **Transparency:** Investors get standard data on the estimation their interest notwithstanding revelation on the particular speculation made by the plan.

CONCLUSION

The MF industry in India has emerged over time as one of the fastest growing and competitive part of financial system. Although, there is higher risks in such investments, Mutual funds have been attracting investors due to their professional management and scope for earning better returns as compared to traditional saving instruments. A powerful regulatory framework to protect investors has contributed in shifting preference of households towards mutual funds. The SEBI initiatives such as strengthening of the distribution network, enhanced concentration on investors awareness and increasing mutual funds availability in India. MFs in India have become major players in the equity and corporate bond markets. They are the biggest lenders in the CBLO (Collateralized Borrowing and Lending obligation) segment. Though MF witnessed 25 percent CAGR in a AUM over the five year (2013-18), But if we compare the current state of global MF industry with the Indian MF industry, more participation of retail investors is required in the Indian industry.

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