IOSR Journal of Business and Management (IOSR-JBM)
ISSN: 2278-487X. Volume 6, Issue 2 (Nov. - Dec. 2012), PP 27-29
www.iosrjournals.org

"Growth of Indian mutual fund industry in the past decade"

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Abstract: *The mutual fund industry has grown satisfactorily over the past decade. From the days when it was felt that a savings oriented institution like the unit trust of India needs to be established in the early 1960's, the industry has grown enormously in the past decade. In fact, the entire nature of the industry has completely not only in quantitative aspects. The mutual fund industry now proffers a very wide range of choices for investment to the potential investors. The industry has grown in stature to such an extent that it now acts as a reasonably strong counter-force to the foreign institutional investors in the stock markets during times of high volatility which is the hall mark of the sustained intermediate bull-runs in the stock markets This present paper makes an attempt to assess the growth of funds and suggests certain steps that need to be initiated by all players of the industry in a concerted manner to create an atmosphere that will take the Indian mutual fund industry to its next level of growth*
Key Words: *Mutual Fund, SEBI, AMU, AMFI, Stock market, funds, schemes*

I. Introduction

The mutual fund industry has grown satisfactorily over the past decade. From the days when it was felt that a savings oriented institution like the unit trust of India needs to be established in the early 1960's, the industry has grown enormously in the past decade. In fact, the entire nature of the industry has completely not only in quantitative aspects. The mutual fund industry now proffers a very wide range of choices for investment to the potential investors. The industry has grown in stature to such an extent that it now acts as a reasonably strong counter-force to the foreign institutional investors in the stock markets during times of high volatility which is the hall mark of the sustained intermediate bull-runs in the stock markets.

Mutual fund is an institutional arrangement where in savings of millions of investors are pooled together for investment in a diversified portfolio of securities to spread risk and to ensure steady return. These funds bring a wide variety of securities within the reach of essentially a mechanism of pooling together savings a large number of collective investments with an approved objective of attractive yield and appreciation in value. The mutual funds offer different investment objective such as growth, income and tax planning.

In recent times the Indian capital market has witnessed new trends, one of them being the spectacular growth of mutual funds. There are more than 600 schemes offered by mutual funds, and these funds have mobilized substantial amount of the household savings.

Apart from this role of imparting stability to the Indian stock markets. The mutual fund industry has gained the ability to offer wide variety of investment options for the Indian investor's population in general. Until in the recent past, the Indian investors were largely left with options like investing in bank deposits such other low return nature's investments. Those investors who sought to participate in the gains of the Indian capital markets which has been growing spectacularly on the back of the high levels of growth being turned in by the Indian economy had to involve in direct investment in stock markets which are prone to high levels of risk. Now, the investing population of the country has the choice of investing in mutual fund schemes that can match very well with the variegated investment needs of Indian investors. A wide mix of mutual fund investment options like high growth schemes, predominantly income schemes, tax savings scheme, are now available to the Indian investor both on the platform of open ended schemes and closed-ended platform. Aspects that are critical to the orderly growth of the industry like high liquidity for investors and assiduous regulations of the industry have improved significantly.

Another important development in the industry in recent times as been that top-notch managerial talent fined the mutual fund industry to be sufficiently attractive. In the past, since the mutual fund industry was primarily in the public sector, attracting talented fund manager's war very difficult. The entry of the private sector players and international fund housed to the Indian mutual fund industry in a big way has created an atmosphere in which it has become possible for the industry to attract high quality human resources to manage the mutual fund investment activities. The policy makers have also become sufficiently sensitized to the need to promote the mutual fund industry in a big way so that the pension funds management becomes less of knotty issue for various employers including the government itself. The policymaking with regard to the mutual fund industry has been considering the benefits of a highly developed mutual fund industry in order to maintain the domestic savings mobilization at a healthy level.

The securities and exchange board of India (SEBI) has been proactive in evolving a comprehensive regulatory framework with the objective of maintaining the growth of the mutual fund industry in a balanced manner, apart from ensuring that the interest of the small investors is not compromised by the fund managers. The Association of Mutual Fund Industry of India (AMFI), a voluntary organization of the industry players also has been proactive in ensuring that the industry grows to its fullest potential. It has been ensuring that various players like mutual fund managers, the trustees, the intermediaries and all other players involved in the industry play their roles in a transparent and investor friendly manner.

II. Growth Of Mutual Fund Industry

The Early stage of the industry:

The concept of mutual fund was introduced in India with the formation of unit trust of India (UTI) in 1963. It was set up by the Indian government by an act passed in the parliament. The first scheme launched by UTI was the now infamous Unit scheme 64 in 1964, which was the pioneer scheme of the industry in the country. It enjoyed substantial popularity among the small investors and continued to provide good returns for the considerable period until the stock market scam almost wiped out the net-worth of this scheme. Until 1978, the UTI functioned under the administrative and regulatory control of the reserve Bank on India. In 1978, the administrative control of the UTI was transferred to the industrial development Bank of India (IDBI), which was then a public financial institution. At the time of the entry of the non-UTI public sector financial institutions like banks and insurance companies in 1987, the mutual fund industry, consisting only of the UTI, had around Rs 6,700 crores of assets under management.

Second Phase: 1987-1993 (Entry of Public Sector Funds):

UTI continued to be the sole mutual fund until 1987 in the country. With the industry, the government allowed the public sector banks and insurance companies to enter the industry. The state bank of India (SBI) was the first non-UTI public sector institution to set up its mutual fund arm, the SBI Mutual fund, followed by canbank mutual fund (DEC 1987), Punjab National bank Mutual fund (NOV 1989), Indian bank mutual fund (NOV 89), Bank of India (Jun 90) and Bank of Baroda Mutual fund (Oct 92). The two insurance companies of the public sector. The LIC in 1989 and the GIC in 1990 started their mutual fund operations during the later part of this period. As the end of 1993 the industry achieved the mark of Rs 47,004 crores in the form of assets under management.

Third Phase: 1993 – 2003 (Entry of Private Sector Funds):

It was only in 1993 that private players were allowed to open shops in the country. With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wide choice of fund families. Also, 1993 was the year in which the first mutual fund Regulations, 'The 1993 SEBI (Mutual Fund) Regulations' came into being, under which all mutual funds, except UTI began to be registered and governed. The erstwhile Kothari pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993. Finally, in 1993 Kothari Pioneer (now merged with Franklin Templeton) became the first private sector mutual fund to start operations in the country. A host of private sector as well as foreign funds set up shop after that. In 1996, a comprehensive and revised Mutual Fund regulations, 'The 1993 SEBI (mutual fund) Regulations 1996. In 2003, the government bifurcated the erstwhile UTI. One entity manages the assets of US 64 and some assured return schemes. The other is a regular mutual fund working under the SEBI regulations. Thanks to the boom in the stock market, UTI managed to clean up its act and continue to enjoy the confidence to enjoy the confidence of several investors. The whole industry also came out of the controversy without any major setbacks.

Present Stage of the Industry:

Since the year 2003 from which the present stage of bull run in the Indian capital markets began, the mutual fund industry has grown with much higher momentum than was the case in any of the earlier stages. The figures presented in the ensuring table depict the higher growth momentum of the industry. While the growth in terms of the Assests under Management (AUM) was subdued over the period from 20050-2010, it has gained unprecedented momentum over the five year period until March 2010. Over this latter period of five years, the assests under management have grown from Rs 1, 49,554 crores to as high as 6, 16,967 crores as at the end of March 2010. The overall growth over the five year period from 2005 – 2010 has been more than 400 percent. The compounded annual growth rate of the industry over this period is as high as 38.35%. This high level of growth has obviously been triggered by the stupendous growth of the Indian capital markets over this period. The NSE index of select 50 stocks over this period has been around 42.60 percent. In absolute terms, the Nifty – 50 indexes grew from 978.20 points to 5,762.75 points over the same period. The growth of the capital markets in terms of BSE-30 share Sensex has been still higher at a CAGR of 46.05 percent. In absolute terms, this index grew from 3,048.72 points to 20,286.99 points. It is quite clear that the growth of the mutual fund industry has been in tune with that of the capital market (Table).

Apart from the quantitative growth that has been spectacular, the Indian mutual fund industry has grown qualitatively as well. The regulatory environment, under the watchful eyes of the SEBI has been consistently improving. The frequency of reporting by the mutual fund has increased. The media has taken an intense interest in the mutual fund industry developments and performance of the funds is reported and evaluated constantly. The higher growth prospect of the industry has attracted global players as well as top-notch fund management talent. Investors have become more aware of the investment dynamics.

Growth of the Indian Mutual fund industry over the period from 2000-2010(in Crores)

Year (ending 31st March)	Sales	Redemption	Assets under Management
2000	59,748	41,204	1,07,946
2001	92,957	83,829	90,587
2002	1,64,523	1,57,348	1,00,594
2003	3,14,673	3,01,225	1,09,299
2004	5,90,190	5,43,381	1,39,616
2005	8,39,662	8,37,508	1,49,554
2006	10,98,158	10,45,382	2,31,862
2007	19,38,592	18,44,512	3,26,388
2008	44,64,376	43,10,575	5,05,152
2009	54,26,353	54,54,650	4,17,300
2010	1,00,19,023	99,35,942	6,16,967

Sources: Compiled from the annual reports of SEBI and the quarterly reports of AMFI, & CRISL Ltd

III. Conclusion:

There is little doubt that the inherent nature of the mutual fund model as an investment platform for small investors is the most appropriate one for a country like India. Enabling wide democratic participation in the gains from the growth of the economy and the capital markets during the present phase of the supernormal growth of the Indian economy is certainly capable of making the long term growth of the Indian financial markets much healthier than otherwise. The mutual fund industry in about the past five years is apparently illusionary. Most of the growth in the assets under management has come not due to the increased retail participation. But due to the higher corporate investments in liquid schemes of the industry. The little growth that has been reported in the equity scheme as been possible due to the appreciation of the capital markets. Retail participation has to be deepened and widened as early as possible. The regulators and the policy makers need to take appropriate promotional steps to boost the retail participation in the mutual fund industry. A strong mutual fund industry can contribute to macro stability of the Indian financial markets as well to achieve efficient micro distributions of capital market gains.

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