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MUTUAL FUND INDUSTRY IN INDIA: EVOLUTION AND GROWTH

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ABSTRACT

In this modern era, mutual fund industry is growing very fast by satisfying the needs of the investors. A mutual fund is an investment option which creates a bridge between investors and corporate world. Mutual funds are a type of investment, which takes money from investors and makes investments based on a mentioned investment objective. Mutual fund also provides an investment option for investors those who are not aware about the stock market but still want to invest their funds with a small amount of money. Because of this, the concept of mutual fund is gaining more recognition and importance among the investors. This article presents an overview of the mutual fund industry in India and its evolution and growth. Moreover, this paper makes an attempt to educate the society about the growth and importance of mutual fund industry.

***(Keywords:** Mutual Fund, Investors, Investment, Growth*)

1.0 INTRODUCTION

A mutual fund is a financial medial that acts as an investment vehicle, pools the savings of number of investors in a diversified portfolio of securities like stocks, debentures, bonds etc. Mutual funds are a type of investment, it takes money from investors and it makes investments based on a mentioned investment objective. The income generated through these investments and the capital appreciation realized is shared by all the investors in proportion to the number of units that are being owned by them. According to SEBI (Mutual Funds) Regulations, 1996, a mutual fund is “a fund established in the form of a trust to raise money through the sale' of units to the public or a section of the public under one or more schemes for investing in securities including money market instruments." A mutual fund serves as a bridge between the investor and the securities market by collecting the savings from investors and investing them in the stock market to generate returns. A mutual fund is a pure financial medial that performs the functions of buying and selling different types of securities on behalf of its investors for positive rate of return. Mutual funds are well diversified and professionally managed portfolio which offers an investment opportunity to investors to invest in a basket of securities in the capital market with low cost. Mutual fund investors need not worry about the return, because if the investment is undertaken properly, the return will be in proportion with the risk which is assumed by the investor. In mutual funds investors can invest their savings directly or also through a professional financial advisor.

A mutual fund is a setup which is in the form of a trust, which has four key constituents; Sponsor, Trustees, Assets Management Company (AMC), Custodian. The Sponsor is a person who establishes and promotes mutual fund and appoints board of trustees. Trustee is usually a company or board of trustees who safeguards the interests of the investors. AMC is appointed by the Trustees who act as an investment manager of the mutual funds for making investment in various types of securities. The AMC is to be approved by SEBI to act as an asset management company. Custodian is an agency which is registered with SEBI, and it holds the securities of various schemes of mutual funds which are in its custody and they are responsible for maintaining the securities bought. These are the four key constituents which are responsible for the management of mutual funds.

2.0 HISTORICAL PERSPECTIVE

In 1963 an initiative has been taken by Government of India and Reserve Bank of India to start Mutual Fund industry along with the formation of Unit Trust of India (UTI). The history of mutual funds in India can be broadly classified into four different phases. The first phase was from 1964 until 1987. The second phase was from 1987 until 1993. The third phase was from 1993 until 2003 and the last phase began in 2003.

2.1 First Phase - 1964-1987

It was the first phase (1964–1987) of Indian mutual fund industry during which UTI enjoyed a complete freedom. Unit Trust of India (UTI) was well-established in 1963 and it was introduced with the help of Reserve Bank of India. UTI was working under the regulation and administration control of the Reserve Bank of India. UTI was separated from the RBI in 1978 and the regulation and administration control was taken over by the Industrial Development Bank of India (IDBI) as a substitution for RBI. Unit Scheme 1964 was the first and foremost scheme launched by UTI. UTI had Rs. 6,700 crores of assets under management at the end of 1988.

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

The possessor ship of UTI came to an end in 1987. When the Government of India allowed commercial banks in public sector to erect subsidiaries to operate the functions of mutual funds. State Bank of India Mutual Fund was the first and foremost non-UTI mutual fund which was 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 Mutual Fund (June, 1990), Bank of Baroda Mutual Fund (Oct., 1992). Life Insurance Corporation of India (LIC), established its mutual fund in June 1989 while General Insurance Corporation of India (GIC), had set up its mutual fund in December 1990. These mutual funds expanded the investor community and investible funds.

The mutual fund industry had assets under management of Rs. 47,004 crores at the end of 1993. Ultimately, in the second phase (The investment Trust 1987-1993) Government of India allowed public sector banks and financial institutions to set up mutual funds.

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

Third phase (1993–2003) started with the new entry of private sector and foreign funds. A new stage started in the Indian mutual fund industry, with the access of private sector funds in 1993. This stage started giving a wide variety of investment opportunities to the Indian investors. The erstwhile Kothari Pioneer was the first private sector mutual fund which was registered in July 1993. The 1993 SEBI Regulations were replaced by a more absolute and rectified Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996. The number of mutual funds went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. At the end of January 2003, there were 33 mutual funds with total assets of Rs. 1, 21,805 crores.

2.4 Fourth Phase – Since February 2003

The fourth phase (since 2003 till date) is the age of consolidation and growth. In February 2003, the Unit Trust of India Act 1963 was revoked and therefore UTI was divided into two substances. They are as follows:

1. Specified Undertaking of the Unit Trust of India. As at the end of January 2003 Specified Undertaking of the Unit Trust of India had assets of Rs. 29,835 crores. Also it exhibiting the assets of US 64 scheme, assured return

and other schemes. The Specified Undertaking of Unit Trust of India, operating under an administrator and the rules which are framed by Government of India.

2. UTI Mutual Fund sponsored by SBI, PNB, BOB and LIC. It is enrolled with SEBI and working under the Mutual Fund Regulations. With the separation of the erstwhile UTI along with the setting up of a UTI Mutual Fund, comply to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.

As on 31st march 2013 mutual funds schemes are classified into wide varieties of schemes such as Open-Ended, Close-Ended, Interval, Growth, Income, Balanced, Equity Linked Savings Scheme (ELSS).

3.0 GROWTH OF MUTUAL FUND INDUSTRY IN INDIA:

The Asset size of India's mutual fund (MF) industry has grown 14 per cent to Rs 13.53 lakh crore in the financial year 2016, from Rs 11.88 lakh crore in the financial year 2015. In the financial year ended March 2016, the equity segment saw record flows of Rs 75,000 crore. ICICI Prudential AMC, which has been fast chasing HDFC MF, managed to topple the latter from the top slot by a small margin of about Rs 100 crore, as its asset size grew to Rs 1,75,880.86 crore. HDFC MF, on the other hand, had assets worth Rs 1,75,779 crore. Reliance mutual fund managed to hold the third position in terms of asset size. Its AUM grew 15.52 per cent in financial year 2016 to Rs 1,58,408.44 crore, becoming the third fund house to cross the Rs 1.5-lakh crore mark. It was followed by Birla Sun Life Mutual Fund, with asset size of Rs 1,36,503.41 crore. Meanwhile, during the March quarter, SBI Mutual Fund replaced UTI AMC in the list of top five largest fund houses as fifth largest fund houses in terms of assets size.

According to the data from the Association of Mutual Funds in India (Amfi), SBI MF in financial year 2016 recorded a growth of 42 per cent in assets size to Rs 1,06,780.77 crore, from Rs 74,942 crore last year. UTI is now dropped to sixth position with an assets under management (AUM) size of Rs 1,06,309 crore. Dinesh Khara, managing director of SBI MF, said, “Enhanced engagement with distributors, consistence performance of our schemes and marketing in B-15 and beyond cities, with strong SBI brand helped us achieve this milestone.”

4.0 CONCLUSION:

From the above discussion, it can be concluded that Indian mutual fund industry is in its Growth stage and possesses a wonderful scope for development. Indian Mutual funds have played a significant role in bringing stability into the financial system and efficiency in resource allocation. Mutual Funds operations utilized the public money of investors, hence Fund Managers have to use this money in a proper way and distribute reasonable returns to investors. All the investor's should come together to face the mutual funds key issues and challenges which may arise in the future. Keeping in mind the issues and challenges, the asset management firms need to focus on these challenges so to enable mutual fund occupying a place in the investment era.

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