ISSN 2454-8596
www.MyVedant.com

An International Multidisciplinary Research E-Journal

A STUDY OF MUTUAL FUNDS IN INDIA

Chandarana Nidhi V.

M.com, MPhil (Commerce)

Lecturer at Harivandana College

Saurashtra University

ISSN 2454-8596
www.MyVedant.com

VIDHYAYANA

An International Multidisciplinary Research E-Journal

ABSTRACT

Mutual Fund is four decade old in India. It was started by UTI during the year 1964 with few schemes for investors. During this short period, it has made huge growth in small investors. But now-a-days, its volume of investors and source of investment also growing tremendous level. Moreover Mutual Fund schemes have added new dimension to overcome financial risk of small investors and also in fund raising capacity of corporate sectors. This serves a bridge between small investors and corporate sectors. This paper make an attempt to identify current scenario of Indian Mutual Fund with its different schemes. It is also helpful in finding basics of Indian mutual fund at root level and findings reveals that investor consider Mutual Fund as flexible investment option and it creates interest of investment among retailers and small investors.

KEY WORDS

Mutual Fund, Asset Under Management, Scheme, SEBI, Investor

INTRODUCTION

A mutual fund is a financial intermediary that allows a group of investors to pool their money together with a pre determined investment objective. The mutual fund will have a fund manager who is responsible for investing the gathered money into specific securities (stocks or bonds). Mutual funds are considered as one of best available investments as compare to others. They are very cost efficient and also easy to invest in, thus by pooling money together in mutual fund, investors can purchase stocks or bonds with much lower trading cost than if they tried to do it on their own. But the biggest advantage to mutual fund is diversification, by minimizing risk and maximising returns. A mutual fund may be either open-ended or a closed-ended fund. An open-ended mutual fund does not have a set number of shares; it may be considered as a fluid capital stock. The number of shares changes as investors buys or sell their shares. Investors are able to buy and sell their shares of company at any time for market price.

MUTUAL FUND INDUSTRY IN INDIAN CONTEXT: A SNAPSHOT

The first mutual fund started in the Netherlands in 1822 by King William in through closed-end investment companies. The Boston Personal Property Trust, formed in 1893, was the first closed ended mutual fund in the U.S. The creation of the Alexander Fund in Philadelphia in 1907 was a significant step in the development towards what we know as the modern mutual fund. The Alexander fund featured semi-annual issues and permitted investors to make withdrawals on demand.

The growth of Mutual Fund Industry in India phased as under:

Phase 1: Formation and Growth of UTI (1964 to 1987) The phase 1 witnessed the incorporation and introduction of Unit Trust of India by passing an Act by Parliament. The incorporation of UTI was done by Reserve Bank of India. Post its incorporation, it was the only institution that accepted investments and offered mutual fund units. The first scheme launched by UTI was the Unit Scheme in the year 1964. Later in the years of 70s and 80s, UTI introduced various schemes as per the needs of Indian investors. The first ULIP (Unit Linked Insurance Plan) was introduced by UTI in the year 1971, while the 1st Indian Offshore Fund was launched in the year 1986. In this phase i.e. from the date of inception to the year 1987, the growth of UTI multiplied tremendously.

Phase 2: Establishment of Public Sector Funds (1987 to 1992) The year 1987 witnessed the establishment of public sector funds i.e. other public sector institutions like banks and NBFCs were allowed to start mutual fund houses. This resulted in opening up of economy and State Bank of India was the first bank to establish a mutual fund company in the year 1987. The footsteps of SBI were then followed by various other institutions like Canbank, Life Insurance Corporation of India, Indian Bank, Bank of India, General Insurance Corporation of India and Punjab National Bank introducing their own mutual fund companies. During this period, the asset under management under this sector increased from Rs. 6700 Crores to a whooping Rs. 47004 Crores as investors in India showed great interest in this financial tool and started investing a large part of their salary in Mutual funds.

Phase 3: Introduction of Private Sector Funds (1992 to 1997) After the successful introduction of Public Sector Funds, the mutual fund industry opened up and witnessed the establishment of private sector funds from the year 1993, giving Indian investors the extensive opportunity to choose mutual funds from public and private sector. On the other hand, it increased the competition for Indian mutual fund companies.

Phase 4: Growth and introduction of SEBI regulations (1997 to 1999) As the mutual fund sector was witnessing and achieving newer heights, it was important to create a body that created comprehensive rules and regulation for this industry and creating a responsible organisation to overlook the working of this sector. This gave birth to incorporation of SEBI Regulation in 1996. SEBI introduced standardization and set uniform rules and regulations for all funds. It was during this phase that SEBI and AMFI launched an awareness scheme for investors of mutual funds.

Phase 5: Emergence of a Large and Stable Industry (1999 to 2004) This phase witnessed the integration of the entire industry with a similar set of rules and regulations. The uniform and standardized operations and regulations made it easier for investors to invest in various mutual fund companies resulting in increase of asset under management from Rs. 68000 crores in previous phase to over Rs. 1.50 lakh crores during this phase.

Phase 6: Amalgamation and Growth (2004 onwards) The mutual fund industry has seen immense growth and globalisation since the day of its incorporation. From the year 2004, this industry witnessed integration as there were many mergers, demergers and acquisitions of companies and schemes like Allianz Mutual Fund taken over by Birla Sun Life, PNB mutual fund by Principal etc. Thus, since the year 2004, this industry is coping and integrating new players, dealing with mergers and acquisitions and continuing its journey towards growth.

REVIEW OF LITERATURE

1. Prof. Kalpesh P Prajapati and Prof. Mahesh K Patel (Jul 2012), have done a Comparative Study On Performance Evaluation of Mutual Fund Schemes Of Indian Companies. In this paper the performance evaluation of Indian mutual funds is carried out through relative performance index, risk-return analysis, Treynor's ratio, Sharp's ratio, Sharp's measure, Jensen's measure, and Fama's measure. The data used is daily closing NAVs. The source of data is website of Association of Mutual Funds in India (AMFI).

2. Rashmi Sharma and N. K. Pandya (2013), have done an overview of Investing in Mutual Fund. In this paper, structure of mutual fund, comparison between investments in mutual fund and other investment options and calculation of NAV etc. have been considered. In this paper, the impacts of various demographic factors on investors' attitude towards mutual fund have been studied. For measuring various phenomena and analyzing the collected data effectively and efficiently for drawing sound conclusions, drawing pie charts has been used and for analyzing the various factors responsible for investment in mutual funds.

3. Dhimen Jani and Dr. Rajeev Jain (Dec 2013), have studied Role of Mutual Funds in Indian Financial System as a Key Resource Mobiliser. This paper attempts to identify, the relationship between AUM mobilized by mutual fund companies and GDP growth of the

India. To find out correlation coefficient Kendall's tau b and spearman's correlation ship was applied, the data range was selected from 1998-99 to 2009-10.

4. Rajiv G. Sharma (Aug 2013) has done a Comparative Study on Public and Private Sector Mutual Funds in India. The study at first tests whether there is any relation between demographic profile of the investor and selection of mutual fund alternative from among public sector and private sector. For the purpose of analysis perceptions of selected investors from public and private sector mutual funds are taken into consideration. The major factors influencing the investors of public and private sectors mutual funds are identified. The factors under consideration to compare between perceptions of public and private sector mutual fund investors are Liquidity, Security, Flexibility, Service Quality, Returns and Tax benefits.

OBJECTIVE OF THE STUDY

1. To give overview about Indian Mutual Fund and its basic details.
2. To study and analyse current scenario of mutual Fund in India.

RESEARCH METHODOLOGY

ü Types of research: Descriptive research

ü Tools of Data Collection: Data are collected totally through secondary sources, percentage analysis method have been used to analyse current scenario.

ü Data Collection Method: Secondary data from different websites, articles, research papers, Association of Mutual funds in India (AMFI)

VIDHYAYANA

STRUCTURE OF MUTUAL FUND

The Mutual Funds in India are regulated by SEBI Mutual Fund Regulations, 1996. Under the regulations mutual fund is formed as a Public Trust under the Indian Trusts Act, 1882. Mutual fund in India follows a three tier structure:

- Sponsor

A mutual fund sponsor is basically promoter of the company i.e. any person who either itself or in association with another body corporate establishes a mutual fund. Not everyone can start a mutual fund, SEBI checks whether the person of integrity, whether he has enough experience in the financial sector. Once the SEBI is convinced, the sponsor creates a public trust.

- Trustee

A mutual fund in India needs to be constituted in the form of trust. The trust is created through a document called trust deed which is executed by the fund sponsor in favour of trustees. They may be seen as an internal regulator of a mutual fund. Therefore, the role of protecting the investors is that of the trustees. Trustees have to appoint all key personnel like Fund Managers, Auditors, Custodian, Registrar, Compliance Officer Etc, and to inform the SEBI about same.

- Asset management company (AMC)

Trustees appoint the AMC, to manage investor's money through an agreement called 'Investment Management Agreement'. The AMC structures various schemes, launches the scheme and mobilizes initial amount, manages the funds and give services to the investors. The mutual fund pays a small fee to the AMC for the management of the funds.

- Custodian

In Mutual funds, Asset Management Company buys different securities in the forms of Shares, bonds, gold etc. in different schemes. These Securities are bought in the name of Trust but they are not kept with the Trust. The responsibility of safe keeping the securities is on the custodian. They collect and account for the dividends and interest receivables on mutual fund investments. They also keep track of various corporate actions like bonus issue, rights issue, and stock split; buy back offers, open offer etc and act on these as per instructions of the Investment manager.

· Registrar & Transfer Agents (RTA)

Mutual fund investors are spread across the country so it is not possible to provide these services to investors at all these places by Asset Management Company. Instead, they use entities called as Registrars and Transfer agents, which perform the important role of maintaining investor's records. How many units will the investor get, at what price, what is the applicable NAV, how much money will he get in case of redemption, exit loads, etc is all taken care by the RTA.

TYPES OF MUTUAL FUND

Mutual funds can be classified into different categories, depending on they are structured and the nature of investments they make.

1) Funds based on maturity period:

Ø Open ended funds

Open ended funds allow investors to subscribe or redeem unit as per the prevailing Net Asset Value (NAV) on the continuous basis. Basically, what you get with open ended fund is liquidity and flexibility of time.

Ø Close ended funds

Listed on a stock exchange, these funds come with a fixed maturity dates, like 3-6 years. Investors can opt to subscribe to close ended fund at the time of initial launch.

Ø Interval Funds

These funds are hybrid of open ended and close ended funds. While they operate mainly as close ended funds, these funds can trade on stock exchange and are open for sale or redemption at predetermined intervals at the prevailing NAV.

2) Funds based on investment objective:

Ø Equity/Growth Funds

If you are investing in equity growth funds, then you are largely putting your money in stocks. The main objective of these funds is to achieve long-term capital growth. Equity funds invest at least 65%

of their corpus in equity and equity-related securities. These funds may invest in a wide range of industries/sectors or focus on one or more sectors. These funds are suitable to invest in if you have a higher risk appetite and you have a long-term financial goal.

Ø Debt/Income Funds

Following a simpler approach, debt/income funds usually invest 65% of the amount in fixed income securities such as bonds, corporate debentures, government securities (gilts) and money market instruments. These funds are likely to be less volatile than equity funds.

Ø Balanced Funds

With an aim to provide stability of returns and capital appreciation, balanced mutual funds invest in both equities and fixed income instruments. These funds generally tend to invest around 60% in equity and 40% in debt instruments such as bonds and debentures.

Ø Money Market/Liquid Funds

If you are looking for a fund that offers liquidity and capital preservation with moderate income, then this is a suitable choice. Money market/liquid funds invest in safer short-term instruments such as Treasury Bills, Certificates of Deposit and Commercial Paper for less than 91 days. These funds are ideal to invest in if you are a corporate or an individual investor and wish to earn moderate returns on surplus funds.

Ø Gilt Fund

Gilt mutual funds invest exclusively in government securities. The Gilt funds do not carry a credit risk – where the issuer of the security can default. However, it comes with an interest rate risk i.e. risk due to the rise or fall in interest rates.

3) Other Funds

Ø Tax Saving (Equity Linked Savings Schemes/ELSS) Funds

The Income Tax Act offers tax deduction under specific provisions of the Income Tax Act, 1961. Designed to generate capital growth, ELSS mutual funds invest primarily in equities and largely suit investors with a higher risk appetite for capital appreciation. Spread over medium to long-term, tax saving funds comes with a lock-in period of 3 years.

Ø Index Funds

Index funds are attached to a particular index such as the BSE SENSEX or the S&P CNX NIFTY. Their performance is linked to the results of that index. Here, the portfolio comprises stocks that represent an index and the weightage assigned to each stock is in line with the identified index. Hence, the returns will be more or less similar to those generated by the Index.

Ø Sector-specific Funds

Sector-specific funds invest in the securities of a specific sector or industry such as FMCG, Pharmaceuticals, IT, etc. The returns on these funds are directed by the performance of the respective sector/industries. Sector funds allow an investor to diversify funds across multiple companies within an industry. These funds tend to be riskier as the performance is directly linked to that of the overall sector.

CURRENT SCENARIO OF MUTUAL FUND IN INDIA

Indian mutual funds industry is witnessing a rapid growth on the back of infrastructural development, increase in personal financial assets, and rise in foreign participation. With the growing risk appetite, rising income, and increasing awareness, mutual funds in India are becoming a preferred investment option compared to other investment vehicles. The industry is expected to secure growth by catering to the needs of retail customers. The industry has been largely product-led and not customer focused as the players are not concentrating on new product development as per the needs of the consumers. The industry seeks to target an increased share of the customer pocket through the expansion of innovative products combined with deeper retail penetration by expanding its presence in urban and rural locations.

Indian Mutual Fund Industry is going through a very tough phase for the last couple of months, specifically for the last 12 months or so. The Assets Under Management (AUM) of the Indian Mutual Fund Industry reached ₹24 Trillion in 2018. Everyone was hoping that 2019 is going to be a spectacular year for the equity market. But so far the Indian Mutual Fund Industry in 2019 has been really very disappointing.

As you can see from the above SENSEX data that it was 37,852 points on 14 Aug 2018 and right after one year on 14 Aug 2019 it was closed at 37,311.53 points. So, the 1-year Sensex return is (-)1.43%. This disappointed the investors indeed.

We can see that NIFTY was at 11,435.10on 14 Aug 2018 and it was closed at 11,029.40 after one year on 14 Aug 2019. So, the 1-year NIFTY 50 return is (-)3.55%. Not really overwhelming for NIFTY 50 too.

Following table shows Asset under Management categorywise aggregates on the year ending March 31, 2019

TABLE- 1 ASSET UNDER MANAGEMENT AND FOLIOS – CATEGORY WISE – AGGREGATE – AS ON March 31, 2019

Types of Schemes	Investor Classification	AUM (Rs. Cr)	% to Total
Liquid/Money Market	Corporates	340002.16	77.94
	Banks/FIs	17593.08	4.03
	FIIs	40.5	0.01
	High Networth Individuals*	65561.28	15.03
	Retail	13026.86	2.99
	Total	436223.88	100
Gilt	Corporates	4840.74	59.77
	Banks/FIs	48.37	0.6

	FIIs	173.17	2.14
	High Networth Individuals*	2249.48	27.77
	Retail	787.34	9.72
	Total	8099.11	100
Debt Oriented	Corporates	371669.66	51.51
	Banks/FIs	8395.32	1.16
	FIIs	3320.71	0.46
	High Networth Individuals*	264684.92	36.68
	Retail	73497.33	10.19
	Total	721567.94	100
Equity Oriented	Corporates	105017.19	11.77
	Banks/FIs	1077.29	0.12
	FIIs	4194.51	0.47
	High Networth Individuals*	315363.81	35.35
	Retail	466448.23	52.29
	Total	892101.03	100
Balanced	Corporates	13442.13	7.44
	Banks/FIs	114.71	0.06
	FIIs	777.81	0.43

	High Networth Individuals*	98927.12	54.76
	Retail	67386.65	37.3
	Total	180648.42	100

Source: AMFI Reports

FINDINGS

The above chart and table shows percentagewise classification of different mutual fund schemes and investor classification of asset under management folios. Highest asset under management was shown in equity oriented schemes i.e. Rs.892101.03crore. Under Equity oriented scheme, retailers were highest contributors in it i.e. Rs.466448.23crore which is more than half of the total investment under that scheme. Lowest investment made in Gilt fund among all the schemes i.e. only Rs.8099.11crore. Thus, we can say that investors trust more on equity schemes than after on debt oriented and other investment schemes.

CONCLUSION

With the structural Liberalisation policies no doubt Indian economy is likely to return to high grow path in few years. Hence, mutual fund organisations are needed to upgrade their skills and technology. However, success of mutual fund would bright depending upon the suggestions. With regard to mutual fund investor I am of the viewed that the investors need to adopt two important skill for successful investment i.e. sense of timing and investment discipline. Both need to be adopted at the same time.

REFERENCES

1. Ms. Shalini Goyal and Ms. Dauly Bansal, (2013),A Study on Mutual Funds in India, International Journal of Scientific and Engineering Research,Volume-4, Issue-5, PP- 1481-1486.

2. Dr. Harshal K. Salunkhe,(2017), A Study of Mutual Fund Industry in India, Surya the Energy Management Research Journal, Vol-3, Issue-3.

3. BYJU.K,(2016), A Study on Awareness of Investment opportunities in Mutual Fund- Special Significance on SIP, international conference on "Research Avenue in Social Science" organize by SNGC, Coimbatore, Vol-1, Issue-3.

4. Dr. Binodkumar Singh,(2012), A Study on Investors' attitude towards Mutual Funds as an investment option, International Journal of Research in Management, vol-2, Issue-2.

5. R.Udhayasankar, K.Maran,(2018), Mutual Fund Investors perception in India –a study, International Journal of Engineering and technology,7(1.1) PP-60-63.

6. https://www.karvyonline.com/campaigns/seal/user/mutual-funds

7. https://www.slideshare.net/ritiruchi/mutual-fund-and-insurance-selling

8. https://www.principalindia.com/new-investor-basics/types-of-mutual-fund-schemes

9. https://arthikdisha.com/indian-mutual-fund-industry-2019-5-unknown-facts/