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Growth and performance of Indian mutual funds industry

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ABSTRACT

The Indian mutual fund industry has come a long way since its inception in 1963. The industry witnessed sufficient growth on all parameters - the number of fund houses, the number of schemes, funds mobilized, assets under management, etc. Given the critical role of channeling household savings, the question is - has the Indian mutual industry succeeded in achieving its' goal? This study addresses this concern. The detailed nature of the current study suggests that the mutual fund industry has recorded significant progress on all fronts yet it has not been able to utilize its potential fully. On almost on all parameters, it is far behind the developed economies and even most of the emerging economies of the world. Moreover, the industry faces a number of challenges like low penetration ratio, lack of product differentiation, lack of investor awareness and ability to communicate value to customers, lack of interest of retail investors towards mutual funds and evolving nature of the industry. Based on the analysis the study suggests some recommendation to address these challenges

Key Words:

Mutual Funds, Assets under Management, House Hold Savings, Risk, Returns, Investors

INTRODUCTION

With the increasing emphasis in domestic savings and their mobilization and allocation towards profitable investments, the need and scope of mutual fund operations has increased. The mutual funds is one of the important classes of financial intermediaries which enables millions of small and large savers spread across the country as well as internationally to participate in and derive the benefits of the capital market growth. It is an alternative vehicle of intermediation between the suppliers and users of investable financial resources which is becoming increasingly popular in India and aboard due to higher investor return and relativity low risk and cost. Thus the involvement of mutual funds in the transformation of Indian economy has made it urgent to view their services not only as financial intermediary but also as pace settlers as they are playing role in mobilizing and efficient allocation of investable funds through markets. The fact is that the mutual funds have a lot of potential to grow but to capitalize the potential fully, it would need to create and market innovative products and frame distinct marketing strategies. Moreover, the equity culture has not yet developed fully in the country as such, investor education would be equally important for greater penetration of mutual funds.

The history of mutual funds dates back to 19th century with its origin to Great Britain. Robert Fileming set-up in 1868 the first investment trust under the title 'Foreign and Colonial Investment Trust' to manage the finances of moneyed classes of Scotland by spreading the investment and other investment trusts which were subsequently set-up in Britain and the US, resembled today's close-ended mutual fund schemes. The first mutual fund in the US namely, Massachusetts Investors' Trusts, was set up in 1924. In India, the mutual fund industry started in 1963, however, its history has been divided into four phases.

Phase I (1964-87)

This phase started with setting up of Unit Trust of India (UTI), the first mutual fund set up in the public sector under the UTI Act 1963, which launched its first unit scheme in 1964 namely US-64 with a major objective of mobilizing savings through the sale of units and investing them in corporate securities for maximizing yields and capital appreciation. It was the first open ended scheme and the most popular scheme in the history of mutual funds in India. UTI's investible funds, at market value grew from INR 49 crore in 1965

to INR 219 crore in 1970-71 to INR 1,126 crores in 1980-81 and further to INR 5,068 crores in 1987. Its investor base as on 1987 had grown to about two million investors. In 1986 it launched its first equity growth fund which proved to be a grand marketing success. In the same year it had also launched Indian Fund- the first Indian offshore fund for overseas investors, which was listed on the London Stock Exchange (LSE). Being the only mutual fund till 1987, UTI enjoyed monopoly in the market and had experienced a consistent growth during this phase.

Phase II (1987-92)

The second phase witnessed the entry of other mutual funds sponsored by nationalized banks and insurance companies. In 1987, State Bank of India (SBI) and Canara Bank have set up SBI mutual fund and Canara Bank mutual fund under the Indian Trust Act, 1882. In 1988, UTI floated another offshore fund namely, The India Growth Fund which was listed on the New York Stock Exchange (NYSE). By 1990, the two nationalized insurance companies- LIC & GIC and three nationalized banks namely, Indian Bank, Bank of India, and Punjab National Bank (PNB) have established wholly owned mutual fund subsidiaries. In October 1989, the first regulatory guidelines were issues by RBI, but these were applicable only to the mutual funds sponsored by banks. Subsequently, the government of India issued comprehensive guidelines in 1990 which were applicable to all mutual funds. With the entry of public sector funds during this phase, there was a tremendous growth in the size of mutual fund industry with investible funds at market value, increasing to INR 53,462 crores and the number of investors had increased to over 23 million. The buoyant equity markets in 1991-92 and the tax benefit under equity linked saving schemes enhanced the attractiveness of equity funds during the Phase II.

Phase III (1992-97)

In this phase, two important developments have taken place in the Indian mutual fund industry. One, that the mutual funds were brought under the ambit of SEBI which issued Mutual Fund regulations in 1993 bringing all funds except UTI under a common regulatory framework. Another development was the permission granted to private domestic and foreign players to launch funds. Consequently Kothari group of companies, in joint venture with Pioneer, a US fund company, set up the first private mutual fund in 1993 under the title ‘Kothari Pioneer’ Mutual Fund. Several other private sector mutual

funds were set up during this phase. UTI launched a new scheme namely: Master-gain in 1992 which was a phenomenal success with a subscription of INR 4,700 crore from 63 lakh applicants. With the opening up of mutual fund industry to private sector including foreign players, the industry's investible funds at market value increased to INR 78,655 crore and the number of investors increased to 50 million. However, during 1995 and 1996, the mutual fund industry witnessed a decline. During these two years, the unit holders suffered from an erosion in the value of their investments due to a decline in the Net Asset Values (NAVs) of the equity funds. A lack of performance of the Public Sector Undertakings (PSU) funds and miserable failure of foreign funds like Morgan Stanley eroded the confidence of investors in fund managers and their perception about mutual funds turned negative. As a result of this, the average annual sales of mutual funds declined from about INR 13,000 crores in 1919-94 to about INR 9,000 crore in 1995 and 1996.

Phase IV (1997 onwards)

This phase was characterized by a more positive sentiment in the capital market, tax benefits to the investments in funds and improved quality of investor services by the mutual funds. As a result there has been a significant growth in the flow of funds in to the mutual funds. Investable funds, at market value of the industry rose to INR 1,10,000 crore in 2000 with UTI having 68 percent of market share. However, the UTI dropped a bombshell in 2000-01 on the investing public by disclosing the NAV of US-64 just at INR 5.81 as against the face value of INR 10.00 per unit which reversed the growing trend of fund flows towards the mutual fund industry. In fact this was the biggest shock of the year to the investors. Coupled with this, the crumbling global equity markets, a sluggish economy coupled with some bad investment decisions made life tough for big funds across the world in 2001-02. The consequences of this were also felt strongly in India as well. Owing to this, pioneer ITI, JP Morgan and Newton Investment management pulled out of Indian market and Bank of India mutual fund liquidated all its assets in 2002. Moreover, due to the growing competition both from Public and Private sector MFs and consequently upon the debacle of US-64, UTI lost most of its market share to other funds.

Post 2004, the industry witnessed several mergers and acquisitions. Besides many more international fund players have entered India like Fidelity, Franklin Templeton mutual

fund etc. These developments and the positive sentiment in the equity market since 2005 to 2008 have taken the mutual fund industry out of stagnation.

GROWTH AND DEVELOPMENT OF MUTUAL FUNDS IN INDIA

The Mutual funds industry that started its journey in the country in 1963 has turned as one of the important constituents of the financial sector. The industry has witnessed sufficient expansion and standardization in terms of products and services offered, regulatory mechanism, and the proliferation of large number of private sector funds both domestic and foreign. The fact is that the fund market in the country has graduated from offering plain vanilla equity and debt funds, to an array of diverse products such as Gold Funds (GF), Exchange Traded Funds (ETFs), and capital protection oriented funds and even the native funds (Fozia, 2013). Truly, the mutual fund industry in the country has come from long-way but the moot question is that whether it has realized its potential fully. In order to answer this question, we would need to critically analyze its growth. For this purpose in the following para's the growth that the mutual funds industry has achieved over a certain period of time has been analyzed in respect of the following parameters:

- Number of funds
- Fund Schemes offered
- Mobilization of Funds
- Assets Under Management
- Household Savings mobilized
- Performance of AMCs in terms of earnings and profitability

GROWTH IN NUMBER OF FUNDS

As already stated that the first mutual fund namely UTI was established in 1963 which dominated the industry in the country till 1992. With the entry of other public sector and private sector funds, it gradually lost its dominance. As can be seen from Table 1.1 that the number of mutual funds which were 31 in 1997-98 have grown to 41 in 2010-11 at a compound growth rate of 2 percent which doesn't compare well with the growth rates in

other emerging economies of the world. As compared to 2 percent growth rate in India, the mutual fund industry worldwide has registered a compound growth rate of 40 percent during 1990-2009 as becomes clear from the data detailed in Table 1.2. During the said period, the number of private sector funds have grown from 21 funds in 1997-98 to 35 funds in 2010-11 at a compound growth rate of 4 percent. Compared to this, the public sector funds have witnessed a significant decline. The number of funds which were 10 in 1997-98 has declined to 6 funds in 2010-11 at a negative compound growth rate of 4 percent. What emerges from the date detailed in Table 1.1 is that during the period between 1997-98 to 2010-11 mutual fund industry in India was characterized by a significant decline in the number public sector funds and somewhat sufficient growth in the private sector funds. As on 2011 the mutual fund industry in the country is dominated by the private sector funds. Though India has achieved sufficient growth in the number of fund houses over a period of time but the mutual funds market is highly concentrated. Out of the 44 AMCs operating in India, approximately 80 percent, of the AUM is concentrated with 11 leading players in the market. These funds includes HDFC Mutual Fund (13 percent), Reliance Mutual Fund (12 percent), ICICI Prudential (10 percent), UTI (9 percent), Birla Sun Life (9 percent), SBI Mutual Funds(7 percent), Franklin Templeton (5 percent), IDFC Mutual Fund (5 percent), Kotak Mahindra Mutual Fund (4 percent), DSP Black Rock Mutual Fund (4 percent) and Axis Mutual Fund (2 percent). The remaining 33 Mutual Funds account for 20 percent of AUMs as on 2013. The remaining 33 mutual funds account for 20 percent of AUMs as on 2013. This is indicative of the fact that the market is highly concentrated. Therefore, for the healthy growth of the industry, the need is to see the disbursement of the business across the fund houses.

Table 1.1: Growth in Number of Mutual Funds (Sector-Wise)

Year	Public Sector	Private Sector	Total	CAGR (In %age)
1997-98	10	21	31	
1998-99	10	22	32	3
1999-00	11	21	32	0
2000-01	11	24	35	9

2001-02	10	25	35	0
2002-03	9	24	33	-6
2003-04	8	23	31	-6
2004-05	6	23	29	-6
2005-06	5	24	29	0
2006-07	5	25	30	3
2007-08	5	28	33	10
2008-09	5	30	35	6
2009-10	5	33	38	9
2010-11	6	35	41	8
CGR **(In %age)**	-4	4	2	

Note: CAGR stands for compound annual growth rate & CGR stands for compound growth rate.
Source: Figures compiled from AMFI Reports

Table 1.2: Total Number of Mutual Funds/Schemes around the world

Year	Mutual Funds	Year	Mutual Funds
1940	8	2001	52849
1945	73	2002	54110
1950	103	2003	54569
1960	161	2004	55524
1970	361	2005	56868
1975	426	2006	61506
1980	564	2007	61506
1985	1531	2008	69032
1990	3000	2009	65735

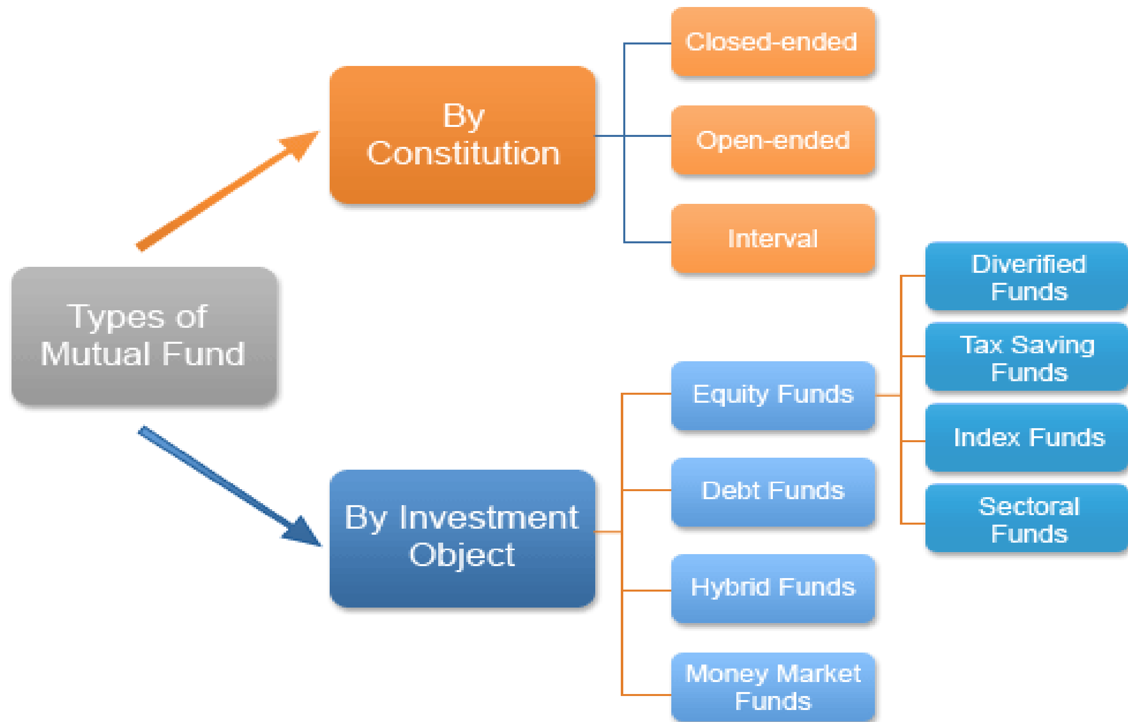
Source: Mutual Fund Fact Book, 1990, SEBI Handbook of Statistics

GROWTH IN NUMBER OF SCHEMES

Mutual funds offer family of schemes to suit varying needs of investors. The different schemes offered are classified on the basis of their structure (Liquidity) into open ended funds and close ended funds. Based on the investment objective, these schemes are further classified into growth funds, balanced funds (Debt and Equity), income funds (debt) Tax

saving, Gilt funds and money market mutual funds. The list of different types of fund/ schemes are given in Figure 1.1.

Fig. 1.1: Different Types of Fund Schemes



Source: AMFI website

To meet the varying needs of the investing public, the mutual fund companies in the country have been continuously launching new schemes. As becomes clear from the data detailed out in Table 1.3 that throughout the period under study (1997-98 to 2010-11) 2,933 new schemes have been launched. The maximum number of new schemes i.e. 2269 or 77.36 percent of the schemes have been launched during 2006-07 to 2010-11. The launching of new schemes have grown at a compound rate of 23 percent from 1997-98 to 2010-11. Majority of the new scheme launched during the period included Regular Income Scheme (81.79 percent) and Growth Schemes (11.56 percent). As becomes clear from the data detailed in Table 1.3 the two schemes together accounted for 93.35 percent of new schemes launched during the period. The rest of the schemes, i.e. Balanced, Equity Linked Saving Scheme (ELSS) Gilt, Money Market (MM) and other schemes accounted for 1.09 percent, 1.36 percent, 1.16 percent, 1.98 percent and 1.06 percent of the new schemes launched respectively. What becomes clear from the above discussion is that the

Indian mutual fund industry has launched good number of new schemes, however, majority of the new schemes launched during the period were Regular Income Schemes followed by Growth Schemes.

Table 1.3: New Schemes Launched (category wise)

Year	Income	Growth	Balanced	ELSS	Gilt	MM	Other	Total
1997-98	25	13	1	4	0	0	-	43
1998-99	19	11	0	2	0	8	-	40
1999-00	14	25	8	3	12	2	-	64
2000-01	17	8	6	4	1	5	-	41
2001-02	53	17	2	0	9	9	-	90
2002-03	32	17	1	0	1	2	-	53
2003-04	29	10	2	0	2	3	-	46
2004-05	52	36	4	0	0	5	-	97
2005-06	130	46	1	8	-	5	-	190
2006-07	366	32	2	7	-	6	1	414
2007-08	539	55	2	3	2	5	6	612
2008-09	504	27	-	7	4	3	6	551
2009-10	138	19	2	2	1	3	9	174
2010-11	481	23	1		2	2	9	518
Total	2399	339	32	40	34	58	31	2933
%age to the total	81.79	11.56	1.09	1.36	1.16	1.98	1.06	100

Note: CAGR stands for compound annual growth rate.
Source: Figures compiled from AMFI Reports

Perusal of data detailed out in Table 1.4 also reveals that the total number of schemes in operation have grown from 235 schemes in 1997-98 to 1,131 schemes at a compound growth rate of 14 percent which compares well with the growth rates of other developing economies. Category-wise, Income, Growth, Balanced, Gilt, Money Market and other schemes have grown at a compound growth rate of 18 percent, 13 percent, 4 percent, 6 percent, 7.9 percent and 37.2 percent respectively as becomes clear from the data detailed out in Table 1.5. It can also be seen from the above referred table that ELSS is the only scheme which has recorded negative compound growth rate of 2 percent in the number of schemes in operation during the period. The number of schemes in operation as on

2010-11 are dominated by regular income scheme which account of 52.25 percent of the total schemes in operation. The growth scheme as on 2010-11 accounted for 29 percent of the total schemes in operation. As such these two schemes accounted for 81.25 percent of the total schemes in operation in 2010-11 and rest of the schemes namely Balanced, ELSS, Gilt, Money Market and other schemes accounted for 2.82 percent, 4.24 percent, 3.27 percent, 4.51 percent and 3.89 percent respectively. Thus it can be safely concluded that the scene in the Indian mutual fund industry is dominated by the Regular Income Schemes followed by the Growth Schemes right through the period under study i.e. 1997-98 to 2010-11.

Table 1.4: New Schemes Launched & Total Schemes in Operation

	New schemes launched		**Total schemes**	
	Number	**percent**	**Number**	**CAGR (in %age)**
1997-98	43	18.30	235	18
1998-99	40	14.44	277	22
1999-00	64	18.99	337	17
2000-01	41	10.43	393	6
2001-02	90	21.58	417	-8
2002-03	53	13.87	382	5
2003-04	46	11.41	403	12
2004-05	97	21.51	451	31
2005-06	190	32.09	592	28
2006-07	414	54.76	756	26
2007-08	612	64.02	956	5
2008-09	551	55.04	1001	-12
2009-10	174	19.72	882	28
2010-11	518	0	1131	

Note: CAGR stands for compound annual growth rate
Source: Figures compiled from AMFI Reports

Table 1.5: Total Schemes in Operation Category Wise

Year	Income	Growth	Balanced	ELSS	Gilt	MMMF	Others	Total
1997-98	84	74	19	58	0	0	-	235
1998-99	100	83	17	60	0	17	-	277
1999-00	113	105	23	65	13	18	-	337
2000-01	126	110	32	80	19	26	-	393
2001-02	146	114	34	63	29	31	-	417
2002-03	117	120	35	47	31	32	-	382
2003-04	131	126	37	43	30	36	-	403
2004-05	159	151	35	37	30	39	-	451
2005-06	251	194	36	37	29	45	-	592
2006-07	367	227	38	40	28	55	1	756
2007-08	506	270	37	42	30	58	13	956
2008-09	509	293	35	47	34	56	22	1001
2009-10	367	307	33	48	35	56	36	882
2010-11	591	328	32	48	37	51	44	1131
CGR (in %age)	**18**	**13**	**4**	**-2**	**6**	**7.9**	**37.2**	**14**

Note:

- CGR stands for compound growth rate.
- ELSS stands for equity linked saving scheme
- MMMF stands for money market mutual funds

Source: Figures Compiled from AMFI Reports

FUNDS MOBILIZED

Launching more and more new schemes are aimed at meeting the varied needs of the investing public in order to mobilize more funds. As such launching new schemes serves the purpose only when such schemes have enabled to mobilize more and more funds. The total funds raised by the mutual fund industry in the country has increased from INR 18,701 crores in 1997-98 to INR 88,59,515 crores in 2010-11 thereby having registered a compound growth rate of 67 percent as becomes clear from Table 1.6. It can be seen from the said table that public sector mutual funds were major mobiliser of funds in the years 1997-98 and 1998-99 accounting for 82.69 percent and 65.50 percent respectively of the total funds mobilized. After 1998-99, the private sector mutual funds dominated the mutual fund industry in terms of funds mobilized. The private sector funds which

accounted for just 34.50 percent of the total funds mobilized in 1998-97 have increased its share to 71.40 percent in 1999-00 which kept increasing up to 2003-04 to 90.59 percent. However, the share of private sector mutual funds declined after 2003-04 to 76.84 percent of the total funds mobilized in 2009-10. But surprisingly in 2010-11 the share of private sector mutual funds declined sharply to 21.86 percent only which seems to be an exceptional event. What emerges from the above is that mutual industry in the country has witnessed some growth in the amount of funds mobilized over the period under study. Further, private sector funds which accounted for little portion of the funds mobilized in 1997-98, have overtaken public sector funds significantly and till 2009-10 these funds occupied dominant place with respect to the mobilization of funds. Category wise: Regular Income Funds accounted for major portion of the funds mobilized in the years from 1997-98 to 1999-00 with a total contribution of 68.33 percent, 64.27 percent and 29.64 percent respectively followed by Balance Funds in 1997-98 which accounted for 25.19 percent. In 1998-99, the other major contributor was Money Market Funds which accounted for 25.95 percent of the total funds mobilized. After 2000-01, most of the funds in the industry were mobilized in Money Market Funds whose share in 1998-99 was 25.95 which had increased to 83.92 percent in 2006-07 and as on 2010-11 it remained at 74.49 percent. As against this the Income Scheme which accounted for a major portion of the funds mobilized in 1997-98 had witnessed a steady decline in its share of funds mobilized during the reference period (1997-98 to 2010-11). Its share had declined from 68.33 percent in 1997-98 to a low of 10.89 percent in 2006-07 and as on today it accounted for 24.52 percent only. After 2000-01 the other schemes namely Growth, Balanced, ELSS, Gilt, Money Market and other schemes contributed very little to the total funds mobilized. The combined share of these schemes ranged only between 4 to 5 percent which is negligible by all standards. From the above discussion, two inferences can be drawn that over a period of time, the Money Market Mutual Funds (MMMF) emerged as a major contributor to the funds mobilized and since 2000-01 it continues to dominate the industry in terms of funds mobilized. Contrary, the Income Scheme which was initially dominant schemes gradually lost its ground to the MMMF and had witnessed a sharp decline in the share of funds mobilized during the period. Among other schemes, except ELSS and Growth Schemes, all other schemes have registered little or no growth in the funds mobilized. The Growth & ELSS Scheme have

registered sufficient growth in the funds mobilized during the period but right from the beginning ELSS Scheme accounted for very little portion of the funds mobilized, but is gaining popularity. The Growth Scheme which continued to be one of the important schemes till 2000-01 witnessed significant decline in its share to the total funds mobilized by the industry and as on 2010-11 its contribution has been negligible.

Table 1.6: Category Wise Funds Raised by Total Schemes in Operation

(INR in Crores)

Year	Income	Growth	Balanced	ELSS	Gilt	MMMF	Other	Total
1997-98	12779	1187	4711	24	0	0	-	18701
1998-99	13738	1923	161	8	0	5547	-	21377
1999-00	17707	15020	5717	247	5132	15925	-	59748
2000-01	26674	17996	7701	214	4160	36212	-	92957
2001-02	51021	1983	477	33	6439	104570	-	164523
2002-03	109423	4618	361	22	5202	195047	-	314673
2003-04	172939	26642	2523	53	12387	375646	-	590190
2004-05	155719	37079	3755	154	4361	638594	-	839662
2005-06	168792	82086	4006	3935	2480	836859	-	1098158
2006-07	21106	89682	4473	4669	1853	1626790	99	1748672
2007-08	881345	119833	11488	6448	3180	3432738	9339	4464371
2008-09	1180694	29481	2695	3324	14696	4187977	7486	5426353
2009-10	2895901	61114	4693	3601	3974	7044818	4922	10019023
2010-11	2172860	63142	7490	3450	4450	6599724	8399	8859515
CGR (in % age)	53.00	39.00	4.00	51.00	-	-	-	67.00

Note:

- CGR stands for compound growth rate
- ELSS stands for equity linked saving scheme
- MMMF stands for money market mutual funds
- Others include Gold ETF, other ETF & FOF overseas

Source: Figures Compiled from AMFI Reports

ASSETS UNDER MANAGEMENT OF MUTUAL FUNDS

Mutual Funds are expected to play a crucial role of mobilizing particularly household savings and to manage the funds efficiently so as to provide sufficient return to the investors. Although, the Indian mutual funds have to go a long way in its role play on the

above referred lines yet, over a period of time it has achieved some noticeable growth & development. As becomes clear from the data detailed in Table 1.7 that the net assets under the management of mutual funds have increased from INR 68,984 crore in 1997-98 to INR 5,92,250 crore in 2010-11 at a compound growth rate of 20 percent. It can also be seen from the above referred table that during the reference period, the maximum growth has been recorded by the private sector mutual funds and the public sector mutual funds have gained little growth. The private sector mutual funds have recorded a compound growth rate of 48 percent in the net assets under its management during the period 1997-98 to 2010-11. Compared to this phenomenal growth rate, the net assets under the management of public sector mutual funds have grown just at a compound growth rate of 6 percent during the same period which by all means is dismal. Of the two sectors, the public sector mutual funds have witnessed a sharp decline in its share of the total net assets under the management of mutual funds. From the data presented in Table 1.7 reveals that 94.07 percent of the total assets were under the management of public sector funds in 1997-98 which had declined to 22.1 percent in 2010-11. This sharp decline is due to the increasing dominance of the private sector mutual funds in India. The private sector mutual funds which were an insignificant player in the industry in 1997-98 with a total share of 5.93 percent of the total assets under its management, have witnessed significant spurt in its business share. The assets under its management have witnessed an increasing trend and have increased from 5.93 percent in 1997-98 to 77.9 percent in 2010-11. The fact that becomes evident from the data presented in Table 1.7 is that the public sector mutual funds have lost its dominating role to the private sector mutual funds. Based on multiple parameters, the private sector mutual funds as on 2011 are major and dominating player in the Indian mutual fund industry.

Table 1.7: Assets Under Management as on March 31 Category Wise

Year	Income	Growth	Balanced	ELSS	Gilt	MMMF	Other	Total
1997-98	NA	NA	NA	NA	NA	NA	-	68984
1998-99	48372	14622	1909	2477	0	1092	-	68472
1999-00	49859	26927	26757	4865	2370	2227	-	113005
2000-01	48863	13483	19273	2523	2317	4128	-	90587
2001-02	55788	13852	16954	1768	4163	8069	-	100594
2002-03	47564	9887	3141	1228	3910	13734	-	79464
2003-04	62524	23613	4080	1669	6026	41704	-	139616
2004-05	47605	36711	4867	1727	4576	54068	-	149554
2005-06	60278	92867	7493	6589	3135	61500	-	231862
2006-07	119322	113386	9110	10211	2257	72006	96	326388
2007-08	220762	156722	16283	16020	2833	89402	3130	505152
2008-09	197343	95817	10629	12427	6413	90594	4077	417300
2009-10	311715	174054	17246	24066	3395	78094	5409	613979
2010-11	291975	169754	18445	25569	3409	73666	9432	592250

Note:

- ELSS stands for equity linked saving scheme
- MMMF stands for money market mutual funds
- Others include Gold ETF, other ETF & FOF overseas

Source: Figures Compiled from AMFI Reports

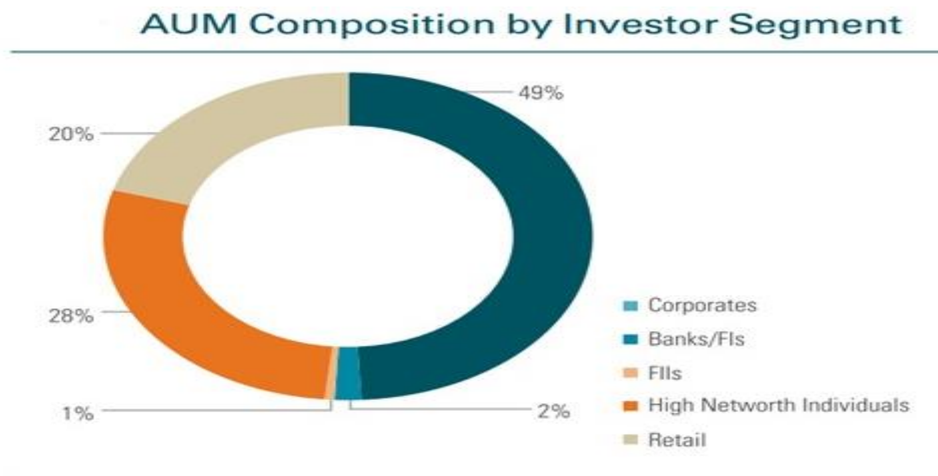
AUM Composition by Product, Investor and Geographical Distribution

The product category of Indian mutual fund is broadly classified into six categories namely: Liquid/Money Market, Equity Oriented, Debt Oriented, Balanced, Gilt and Gold ETFS. Gilt category constitute a major position of the AUMs as on 2013. It can be seen from figure 1.2 that Debt Oriented accounted for 57 percent of the AUMs as on 2013, and its share has increased from 50 percent in 2011 to 57 percent in 2013. The share of Gilt and Liquid/Money Market segment which was negligible at one point of time is showing an increasing trend and as on 2013, it accounted for 16 percent of the total AUMs. The Equity Oriented Funds account for only 22 percent of the total AUMs as on 2013. Compared to this the Balanced Schemes account for 2 percent of AUM. It becomes quite clear that very little portion of the funds are channelized towards Gold ETFS, Balanced

and Liquid/Money Market. The other fact is that the Debt Oriented Funds have recorded significant growth during the last few years. These have recorded significant growth due to the popularity of gold as an investment for Indians as well as due to lowering of administrative charges.

Figure 1.2

Figure 1.3



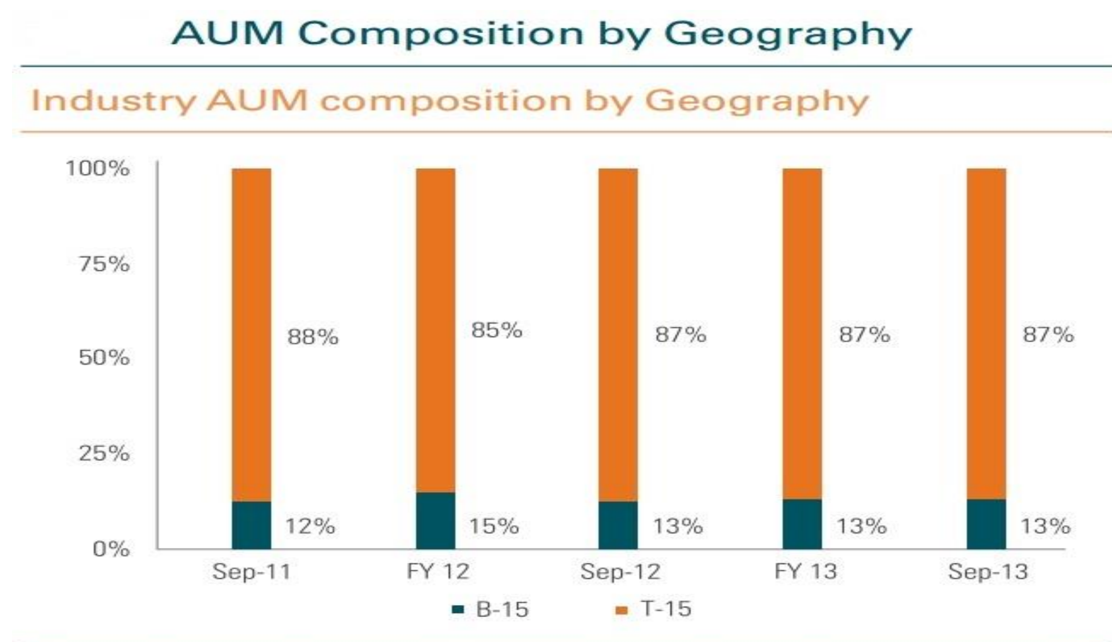
While looking at the AUM composition by investor segment, it can be seen from figure 1.3 that corporate investments constitute 49 percent of AUM followed by High Net Worth Investors. Both of these categories of investors prefer Debt/Money Market funds rather

than the equity. The retail investments account for 20 percent of AUM. These also prefer debt oriented funds rather than equity.

As on 2013, out of the total Equity AUM, Retail investment constitute mere 1.95 percent, which is indicative of poor Equity culture among the retail investing public in the country. Equity AUM mainly consists of FII investment.

As such on the basis of the above, it can be concluded that the mutual funds have not yet achieved a breakthrough in penetrating deep into the retail segment. Retail investors in the country continue to prefer bank deposits and the real estate sector as viable investment avenues for putting their savings.

Figure 1.4



The poor participation of retail segment through mutual fund route is due to very low levels of awareness & financial literacy, shown capital market growth, and the cultural & behavioral factors. The other important factor is the failure of the mutual fund industry to penetrate across the cities and towns of the country. As can be seen from Figure 1.4 that top five cities namely Mumbai, Delhi, Chennai, Bangalore and Calcutta contribute 74 percent of the total funds mobalised. All other remaining cities contribute with 26 percent of the total funds with the bottom 75 cities with only 5 percent. Therefore, increasing

penetration ratio is need of the hour. The key to combating this challenge is to ensure a wider distribution reach and greater investor awareness through investor education drives.

MOBILIZATION OF HOUSEHOLD SAVINGS

The earlier discussion has made it clear that the Indian mutual fund industry has come a long way since 1963 when the first mutual fund was established by the UTI. Today, there are 51 mutual funds belonging to public sector, domestic private sector and foreign private sector funds offering wide variety of schemes and products to the investing public at the national and international level. Over a period of time significant innovations have been made in its product profile to meet the varied needs of the investing public. But the question is has the Indian mutual industry fully realized its goal of mobilizing major portion of household savings or enabled the small savers to benefit from the economic growth that the country has been witnessing by facilitating them to park their savings into the assets which yield better risk-adjusted returns.

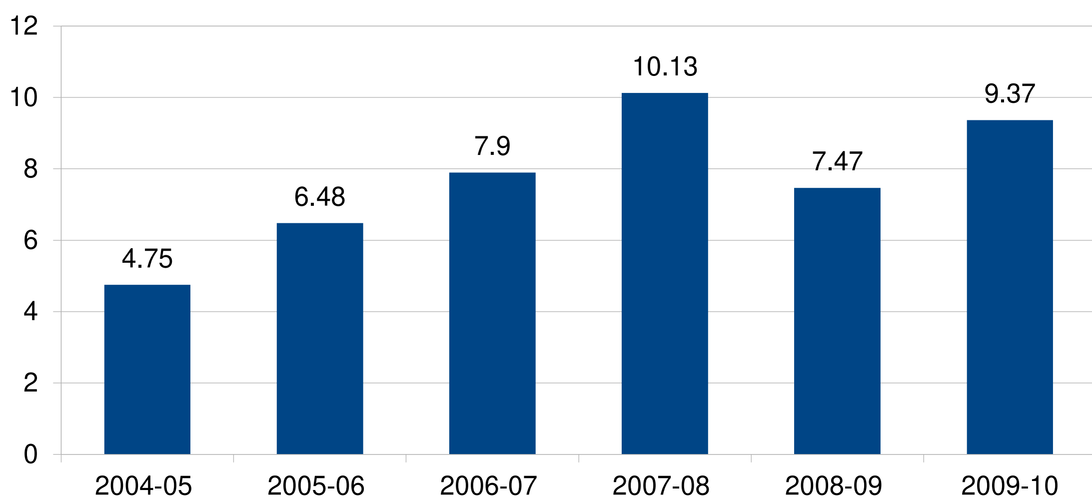
According to the World Bank, Gross domestic savings (percent of GDP) in India was last measured at 29 in 2011. Gross domestic savings are calculated as GDP less final consumption expenditure (total consumption).

Figure 1.5: Gross domestic savings (percent of GDP) in India

Source: World Bank historical data

Gross Domestic Savings (GDS) as a percentage of Gross Domestic Product (GDP) in India is highest in the world. Perusal of figure 1.5 reveals that as on 2009-10, the GDS as a percentage of GDP is 33.7 percent which was just 16.9 percent in 1975-76. From the data presented in the above mentioned table it becomes clear that India has witnessed a steady growth in GDS as a percentage of GDP which was 16.9 percent in 1975-76, had increased gradually to 24.4 percent in 1995-96 then declined marginally to 23.7 percent in 2001-02. In the first part of the decade of 2001, it has recorded significant growth from 23.7 percent in 2001-02 to 34.2 percent in 2005-06. The other fact that becomes clear from the data presented in the table is that the major contribution to GDS in the country has remained from House Hold Sector (HHS) right from the beginning. It can be seen from the table that as on 2009-10, the HHS accounted for 69.7 percent of the total GDS which had peaked to 93 percent in 2001-02. The other fact that emerges from the data is that the HHS has recorded a steady growth in its contribution to GDS. The share of HHS was 64 percent in 1975-76 which had increased to 93 percent in 2001-02. However, between 1975-76 to 2009-10 it had remained in the range between 64 percent to 93 percent. What emerges from the above is that the GDS as a percentage of GDP has recorded steady growth and most of the savings come from the HHS in the country.

Figure 1.6



Source: Compiled from AMFI reports

Sufficient and increasing GDS will serve the purpose only when the savings are channelized into productive assets. The financial institutions have a role to play in this direction. Since mutual funds are one of the important financial intermediaries whose role in the mobilization of household savings in particular is crucial. Mutual fund industry in the country has come a long way to assist the transfer of HHS to the real sector of the economy. This fact becomes evident from the increasing share of Assets Under the Management (AUM) of mutual funds to GDP. As indicated by the Figure 1.6 that the ratio of AUM to GDP increased gradually from 4.75 percent in 2004-05 to 9.37 percent in 2009-10. However, the ratio of 9.37 percent is significantly lower than the ratio of AUM to GDP in developed countries of the world where it ranges between 20 percent to 70 percent. Among the category of emerging economics, Brazil has AUM to GDP ratio of 40 percent and around 33 percent for South Africa. As such the mutual fund industry has to go a long way in fully realizing its role of mobilizing savings particularly of the HHS.

The House Hold Sector saves in the form of currency, bank and non-banking deposits, life insurance fund, provident and pension fund claims on government, and shares & debentures. For economic growth, it is necessary that the savings are held in financial assets such as deposits, shares & debentures; and in the form of contractual savings rather than in currency which is likely to result in the creation of unproductive assets like gold. Further, direct transfer of savings is preferred for the reason being less costly. For direct transfers through the instruments of shares & debentures, the mutual fund route is being encouraged for safety and other reasons. Owing to this fact, number of measures were taken by the regulator to encourage channelization of HHS through mutual funds.

Table 1.8: Instrument-wise Distribution of Household financial Assets (in percent)

Financial Assets	96-97	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11
Currency	8.6	9.7	8.9	11.2	8.5	8.7	10.2	11.4	12.7	9.8	13.3
Fixed Income (a+b+C)	84.5	81.8	86.9	81.6	85.4	84	80.6	78.2	88	85.6	87.1
a) Deposits	48.1	39.4	40.9	38.8	37.0	47.1	49.1	52.2	60.7	47.2	47.3
b) Insurance/ Provident Fund	29.4	30.3	31.1	27.3	28.9	24.7	28.8	27.9	31.1	34.1	33.3
c) Small Savings	7	12.1	14.9	15.5	19.5	12.2	2.7	-1.9	-3.8	4.3	6.5
Securities market (d+e+f)	7	8.5	4.2	7.5	6	7.3	9.3	10.3	-3.5	4.6	-4
d) Mutual funds	0.3	1.8	1.3	1.2	0.4	3.6	5.3	7.9	-1.4	3.3	-1.8
e) Govt. Securities	0.4	5.8	2.5	7.5	4.9	2.4	0.3	-2.1	0.0	0.0	0
f) Other securities	6.3	0.9	0.4	-1.2	0.7	1.3	3.7	4.5	-2.1	1.3	-2.2
Total		100	100	100	100	100	100	100	100	100	100

Source: Handbook of statistics Indian securities market and RBI Annual Reports

Perusal of data about the household sectors financial assets portfolio detailed out in Table 1.8 reveals that households held a large proportion of their savings in the form of deposits (both banking & non-banking). As can be seen from the above stated table that the deposits which were 48.1 percent in 1996-97 have decreased to 37 percent in 2004-05 and then increased to 52.2 percent and 60.7 percent in 2006-07 and 2007-08 respectively. The spurt in bank deposits in 2006-08 was due to a recession in the Indian capital market during the period, however the fact that becomes clear is that the bank deposits continues to constitute a major form in which house hold savings are held in India throughout the period 1996-97 to 2010-11. The other fact is that it has witnessed a marginal decline from 48.1 percent in 1996-97 to 47.3 percent in 2010-11 of total household savings. It can also be seen from the Table 1.9 that the contractual savings or savings under provident fund schemes, pension and life insurance funds were the next preferred form of savings for the Indian savers during the period. As such it can be concluded that mutual funds is not the preferred choice for household sector for parking savings. Therefore, the need of the hour is that the mutual fund industry is to find out ways and means for attracting more and more funds from the house hold sector, which carries a great socio-economic sense.

CONCLUSION

The Indian mutual fund industry has come a long way since its inception in 1963. The industry has witnessed sufficient growth on all parameters be it; number of fund houses, No. of schemes, funds mobalised, assets under management etc. The fund industry in the beginning consisted of UTI mutual fund only, but today the industry consists of all the three sectors viz. public sector, private sector and foreign fund houses. The fund houses which were just 31 in 1997-98, have grown to 44 funds as on 2013. Similarly the number of schemes in operation have grown from 235 in 1997-98 to 1,131 schemes at a compound growth rate of 14 percent. The major schemes in operation are regular Income Schemes which account for 52 percent of the total schemes, followed by Growth Schemes with 29 percent of the total schemes. ELSS is the only scheme which has recorded negative growth during the period.

The total funds raised by the industry in the country has increased from INR 18,701crore in 1997-98 to INR 88,59,515 crore in 2010-11 at a compound growth rate of 67 percent. The public sector mutual funds were major mobiliser of funds up to 1998-99. With around

66 percent share, but 1999 onwards, private sector mutual funds dominated the industry in terms of funds mobalised with a share of 90.59 percent as on 2003-04.

The Money Market Mutual Fund (MMMFs) emerged as a major contributor to the funds mobalised and since 2000-01 it continues to dominate the industry in terms of funds mobalised. Contrary the Income Scheme which was initially the major contributor, has gradually lost its ground to the MMMFs.

In terms of Assets Under Management (AUM), the industry recorded significant growth. The net assets under the management have increased from INR 68,984 crore in 1997-98 to INR 5,92,250 crore in 2010-11 at a compound rate of 20 percent. Category-wise, the private sector funds have recorded a compound growth rate of 48 percent as against the growth rate of 6 percent by the public sector funds, indicating thereby that the dominating place of private sector funds which at one point of time accounted for only 5.93 percent of AUMs which as on 2010-11 account for 77.9 percent. One thing that is evident, is that in-terms of AUMs, mutual fund industry has recorded more than satisfactory growth since its inception, however, the growth is more pronounced towards the private sector funds and the public sector funds which dominated the fund industry in the country, have been overtaken by the private sector funds.

Product wise Indian fund industry is broadly consisted of six product categories viz. Liquid & Money Market, Equity Oriented, Debt Oriented, Balanced, Gilt and Gold ETFs. The industry is dominated by Gilt and Liquid Money Market and these product categories account for around 73 percent of AUMs in 2013. The equity oriented funds account for only 1 percent of the total AUMs as on 2013. Besides, the Gold ETFs have recorded significant growth during the last few years from a much smaller base.

While looking at AUM composition by investor segment, corporate investments constitute nearly half of the AUMs, followed by high net worth investors. The retail segment account for just 20 percent of AUMs. As such, it can be inferred that the mutual funds have failed to penetrate deep into the retail segment. Retail investors in the country continue to prefer bank deposits and the real estate sector. The poor participation of the retail segment through mutual funds is reported due to very low levels of awareness in financial literacy, cultural and behavioral factors. The other important factor is the failure of the mutual fund industry to reach out to the nook and corner of the country. The top

five cities namely: Mumbai, Delhi, Chennai, Bangalore and Kolkata contribute 74 percent of the total funds mobalised. Therefore, among other things, the need is to increase the penetration ratio.

One of the important goals of the mutual fund industry is to attract and mobalise major portion of the House Hold Savings (HHS) in order to enable the small savers to benefit from the economic growth by facilitating them to park their savings into the assets which yield better risk-adjusted returns. Therefore, the question arises, has the Indian mutual industry succeeded in achieving this goal? The fact about it is that the Gross Domestic Saving (GDS) as a percentage of GDP has recorded significant growth and the HHS account for three quarter of the GDS. Although the mutual fund industry has succeeded in increasing its share from the GDS but the ratio of AUM to GDP is much lower than the developed countries of the world. Further, the house hold sector which account for major position of the Gross Domestic Savings have shown least preference for mutual funds, rather these have been found to prefer most deposits, both banking and non-banking.

Though, the mutual fund industry has recorded significant progress on all fronts yet it has not been able to utilize its potential fully. On almost on all parameters it is far behind the developed economics and even most of the emerging economics of the world. The industry is confronted with number of challenges like low penetration ratio, lack of product differentiation, lack of investor awareness and ability to communicate value to customers, lack of interest of retail investors towards mutual funds and evolving nature of the industry. Therefore, if the industry has to utilize its potential fully, it has to address these challenges. To address these challenges the need is to penetrate into the tier II & tier III cities which among other things would require to seek more awareness of the investors through strategic initiatives and investor education drives. Apart from this, the mutual fund industry has to continually deliver superior risk-adjusted returns to the investors. This would require the fund managers on the one hand to exhibit superior stock selectivity and market timing performance consistently and on the other hand to keep the fund costs under check. Delivering superior risk-adjusted returns consistently will automatically create a niche for the mutual funds.

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