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Major Player of Mutual Funds Industry in India

Awadhesh Kumar Gupta[1]
[1]*Associate Professor, Commerce, P.P.N. (P.G.) College, Kanpur.*

Abstract

A Mutual Fund is a form of collective investment that pools money from many investors and invests the money in stocks, bonds, short-term money market instruments, and/or other securities. Now a day's these Mutual funds are very popular because they provide an excellent way for anyone to direct a portion of their income towards a particular investment. In order to help the small investors, mutual fund industry has come to occupy an important place. Mutual funds provide an easy way for small investors to make long-term, diversified, professionally managed investments at a reasonable cost. The purpose and objective of this article is to study meaning and nature of Mutual funds, procedure, importance of SEBI and its mechanism in India, also examine the growth of mutual funds and analyze the operations of mutual funds and suggest some measures to make it a successful scheme in India.

Keywords: Mutual Fund, Investment, Long Term, Short Term, Investor, Securities, SEBI.

Introduction

The most important factor shaping in today's global economy is the process of globalization. Indian companies are moving in search of low cast markets, technology is driving growth in production and competition is becoming more intense. A second factor is the fastest growth in private capital flows, mainly short-term flows by banks and financial institutions, portfolio flows by mutual funds and pension funds and foreign direct investment into India. A third factor is the increasing share of India and other emerging market economies in world trade.

The outburst in communication technology has led to greater integration of Indian financial markets across the world. The impact of these changes could be felt from the extremely buoyant activity in Indian stock markets. A number of foreign financial service providers have entered into the Indian financial market like Morgan Stanley, Templeton, and Goldman Sachs. Currently FII investment is at $ 6.5 Billion compared to $ 2 Billion in 2001. The stock market is booming with Sensex hovering around 16000-17000. SEBI has put in place appropriate guidelines and controls to regulate the markets in tune with the changing environment and attendant risks. All this is happening because of large amounts of investment in the country.

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People often invest in various asset classes to

- To beat Inflation
- To fund future needs
- To meet contingencies
- To maintain same standard of living after retirement

"Mutual funds are collective savings and investment vehicles where savings of small (or sometimes big) investors are pooled together to invest for their mutual benefit and returns distributed proportionately".

A mutual fund is nothing more than a coming together of a group of investors like you who contribute different sums of money to make up a large lump sum. The money collected is invested by the fund manager in stocks, bonds and other securities - across companies, industries and sectors and in some cases, across countries as well. As an investor, you are issued units in proportion to the money invested. Since you own units of the fund, it makes you less reliant on the success or failure of any individual stock, which would have been the case if you had invested directly in the shares of a single company.

The mutual fund will have a fund manager that trades the pooled money on a regular basis. Currently, the worldwide value of all mutual funds totals more than $26 trillion.

History of Mutual Funds Industry in India

The origin of mutual fund industry in India is with the introduction of the concept of mutual fund by UTI in the year 1963. Though the growth was slow, but it accelerated from the year 1987 when non-UTI players entered the industry. In the past decade, Indian mutual fund industry had seen a dramatic improvement, both quality wise as well as quantity wise. Before, the monopoly of the market had seen an ending phase, the Assets Under Management (AUM) was Rs. 67bn.

The private sector entry to the fund family rose the AUM to Rs. 470 bn in March1993 and till April 2004, it reached the height of 1,540 bn. Putting the AUM of the Indian Mutual Funds Industry into comparison, the total of it is less than the deposits of SBI alone, constitute less than 11% of the total deposits held by the Indian banking industry. The main reason of its poor growth is that the mutual fund industry in India is new in the country. Large sections of Indian investors are yet to be intellectuated with the concept. Hence, it is the prime responsibility of all mutual fund companies, to market the product correctly abreast of selling. Today, 32 mutual funds collectively manage Rs 6713575.19 Cr. under hundreds of schemes. The mutual fund industry can be broadly put into four phases according to the development of the sector. Each phase is briefly described as under.

The Evaluation of Mutual Funds Industry in India

The formation of Unit Trust of India marked the evolution of the Indian mutual fund industry in the year 1963. The primary objective at that time was to attract the small investors and it was made possible through the collective efforts of the Government of India and the Reserve Bank of India. The history of mutual fund industry in India can be better understood divided into following phases:

Phase 1- Establishment and Growth of Unit Trust of India-1964-87

Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Rs.6,700 crores of assets under management.

Phase 2 - 1987-1993 (Entry of Public Sector Funds)

Entry of non-UTI mutual funds. SBI Mutual Fund was the first followed by Canbank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92). LIC in 1989 and GIC in 1990. The end of 1993 marked Rs.47,004 as assets under management.

Phase 3 - 1993-1996 (Entry of Private Sector Funds)

With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were 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.

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996.

The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. By 1994-95, about 11 private sector funds had launched their schemes.

Phase 4- Growth and SEBI Regulation-1996-2004

The mutual fund industry witnessed robust growth and stricter regulation from the SEBI after the year 1996. The mobilisation of funds and the number of players operating in the industry reached new heights as investors started showing more interest in mutual funds.

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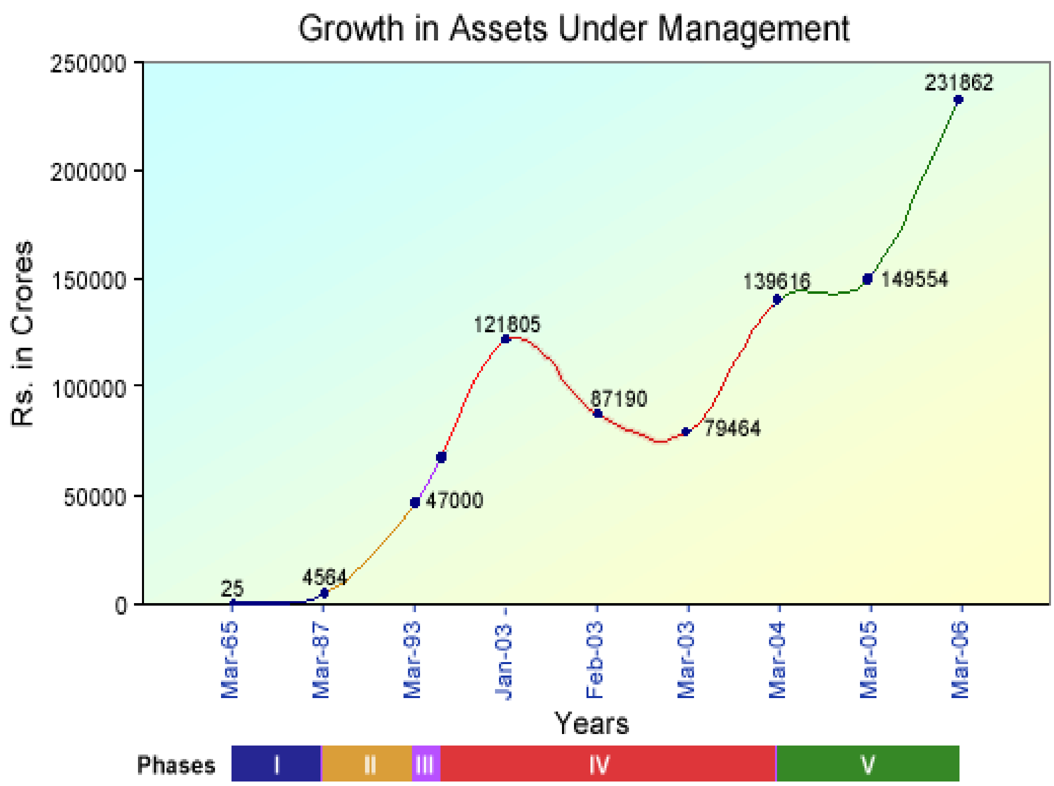
Invetors' interests were safeguarded by SEBI and the Government offered tax benefits to the investors in order to encourage them. SEBI (Mutual Funds) Regulations, 1996 was introduced by SEBI that set uniform standards for all mutual funds in India. The Union Budget in 1999 exempted all dividend incomes in the hands of investors from income tax. Various Investor Awareness Programmes were launched during this phase, both by SEBI and AMFI, with an objective to educate investors and make them informed about the mutual fund industry.

In February 2003, the UTI Act was repealed and UTI was stripped of its Special legal status as a trust formed by an Act of Parliament. The primary objective behind this was to bring all mutual fund players on the same level. UTI was re-organised into two parts: 1. The Specified Undertaking, 2. The UTI Mutual Fund

Phase 5- Growth and Consolidation-2004 Onwards

The industry has also witnessed several mergers and acquisitions recently, examples of which are acquisition of schemes of Alliance Mutual Fund by Birla Sun Life, Sun F&C Mutual Fund and PNB Mutual Fund by Principal Mutual Fund. Simultaneously, more international mutual fund players have entered India like Fidelity, Franklin Templeton Mutual Fund etc. There were 29 funds as at the end of March 2006. This is a continuing phase of growth of the industry through consolidation and entry of new international and private sector players.



The second is the UTI Mutual Fund Ltd, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs.76,000 crores of AUM and with the setting up of a UTI Mutual Fund, conforming 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 at the end of September, 2004, there were 29 funds, which manage assets of Rs.153108 crores under 421 schemes.

Structure of Indian Mutual Funds

Mutual fund industry is highly regulated by the government keeping in view of the protection of investor’s interest as well as to maintain operational transparency. In India SEBI Regulations Act, 1996, guides the formation and operation of Mutual Funds. A Mutual Fund comprises of 4 separate entities.

1. Sponsor
2. Board of Trusties
3. Asset Management Company
4. Custodian and Depositories
5. Distributors

Major players in Indian mutual fund industry and their AUM

The concept of mutual funds in India dates back to the year 1963. The era between 1963 and 1987 marked the existence of only one mutual fund company in India with Rs. 67bn assets under management (AUM), by the end of its monopoly era, the Unit Trust of India (UTI). By the end of the 80s decade, few other mutual fund companies in India took their position in mutual fund market. The new entries of mutual fund companies in India were SBI Mutual Fund, Canara bank Mutual Fund, Punjab National Bank Mutual Fund, Indian Bank Mutual Fund, Bank of India Mutual Fund. The succeeding decade showed a new horizon in Indian mutual fund industry. By the end of 1993, the total AUM of the industry was Rs. 470.04 bn. The private sector funds started penetrating the fund families. In the same year the first Mutual Fund Regulations came into existence with re-registering all mutual funds except UTI. The regulations were further given a revised shape in 1996.Kothari Pioneer was the first private sector mutual fund company in India which has now merged with Franklin Templeton. Just after ten years with private sector players penetration, the total assets rose up to Rs. 1218.05 bn. Today, 32 mutual funds collectively manage Rs 6713575.19 Cr. under hundreds of schemes. By 1994-95, about 11 private sector funds had launched their schemes.

Conclusion

Mutual fund have three tier –structure; a sponsor, an asset management company and a trustee company. The board of director of the AMC and the board of the trustee company are the two key levels of check and balance to safeguard the interest of the investors. Periodic report–weekly and monthly have to be provided by the AMC to the trustee company and by both to SEBI .such a structure is also intended to keep the fund operations within the confines of the law. The SEBI has recently put up the report titled; reform of mutual fund industry prepared in association with A.F. Ferguson and company for public comments. In a press release SEBI pointed out that Asian Development Bank on behalf of the finance government of India appointed a consultant to review the various aspects of the mutual fund industry in India.

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