Growth of Mutual Funds in the Era of Recent Socio - Economic Advances in India

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Abstract : **- Mutual funds are the instruments used to mobilize savings into profitable investments. Since mutual funds accept small deposits, it is very feasible for the small investors to easily become the part of financial market. Mutual funds are linked to the financial market and give access to equity, debt and money market instruments. Since its beginning from 1963 to 2017, it has showed the remarkable rise in number of accounts as well as investment corpus. Mutual fund industry is experiencing the growth as AUM (Assets Under Management) have grown three and half fold in December 2017 more than in march 2012 i.e. 21.27 trillion in 2017 and 5.87 trillion in March 2012. Beginning from one player, now it is increased to 44 major players. Public, private and foreign financial undertakings are actively participating in expansion of mutual fund industry. Financial market suffered a major downfall in 2008 due to US meltdown which affected mutual funds industry. But, mutual funds gained its momentum from 2011-2012. After 2012, mutual fund industry has grown in huge numbers. Investors are influenced towards mutual funds as they can easily become the part of financial market and they are also disheartened by the sluggish growth of real estate, low return from gold and silver etc. As of Dec 31 2017, the number of folios in mutual funds stood at 55.4 million witnessing a growth of 15% CAGR over the last two years. The total number of accounts (SIP's) has risen and reached to 6.65 crores in which retail contribution amounts to 5.46 crores. As investors inclination towards mutual funds is increasing so companies are even focusing more to promote the investment. Now a day, the investors have started using the digital mode for purchase and repurchase of mutual funds units. With the help of digitalization, investors feel very easy to operate in financial market. All the mutual funds companies initiated online approach for investors as investors can easily invest through the mobile apps as well as from their websites. Even KYC norms are to be strictly followed as they help the investors to invest easily in mutual funds as per their convenience.**

This paper will highlight the growth of mutual funds in last ten years. It will also reflect the various reasons (macro economic factors) for the various fluctuations in mutual funds industry in last ten years.

Keywords: **Systematic investment plan, Association of Mutual Fund Industry, Know Your Customer, Assets under Management**

I. INTRODUCTION

Indian financial system consists of four components i.e. financial market, financial services, financial institutions and financial instruments. They all work together for building the strong financial system. It helps the investors to allocate the funds appropriately and earn good returns from them. There are many financial instruments like shares, debentures, bonds, insurance, PPFs, Mutual funds etc. Now a days, mutual funds is gaining popularity among investors as they acts as opportunity for small investors to become the part of financial market with very small amount of funds. Mutual funds are a pool of money based on the trust who invests the savings of a number of investors who shares a common financial goal, like capital appreciation and dividend earnings. The money thus collect is then invested in capital market in different instruments like shares, debentures, bonds, foreign exchange etc. Investors invest money in mutual funds and they are allotted a unit which is known as NAV (Net Asset value). Investors get an advantage of diversified portfolio which is professionally managed by professionals. Mutual funds provide a platform to investors to become the part of financial market.

Mutual funds offer schemes to as per the need/objective of different investors. Investors can easily decide to invest in schemes as per their needs and market exposure they are looking for. Mutual funds are also regulated by the Securities Exchange Board of India (SEBI). SEBI have constituted a separate regulatory body known as Association of Mutual Funds in India (AMFI). Mutual funds also plays a very important role in many different spheres like money mobilised from investors are translated into productive capital for various business entities in which the schemes invest. As large investors, mutual funds are able to monitor the activities of the controlling shareholders and management of the companies they invest in. With the help of digitalization, mutual fund industry is increasing its numbers. Now, investors can invest in mutual funds through online and offline mode. If the investors opt for offline mode, then they will contact the mutual fund office in their respective city. But, if the investor opt for online mode, then it is very easy and convenient for them through DEMAT account. Investors can directly deal with all trading activities by themselves. It is more feasible as investors can 24*7 on virtual platform.

This paper will highlight the growth of mutual funds in last ten years.

II. REVIEW OF LITERATURE

According to Bansal (1996), mutual funds are the instruments used by investors to become part of financial market. Mutual funds give the investors good returns as it is governed by the professionally managed team.

Amitabh Gupta (1996) highlights the growth of mutual funds from 1963 – till, his emphasis that after entrant of public and private sectors, this industry has grown many folds. Now investors have more alternatives and they can choose based on their own expectations. He also focused on the different types of risks. Basically, there are two types of risks. 1. Total risk 2. Systematic risks. Total risk is measured by standard deviation and systematic risk is measured by beta. Total risk is evaluated by portfolio managers and systematic risk is used by investors to judge about the performance of individual schemes.

As per the opinion of Kurian (2008), intermediaries play a very crucial role in expansion of mutual funds. Intermediaries provide clients with all explanation of all schemes. They provide all the paperwork to the client as per their requirements. Financial intermediaries always inspire clients to do investment in financial market.

According to workbook for NISM-series-V-A, dematerialization is a process whereby investors holding of investment in physical form are converted to digital form. It helps the investors to directly deal in mutual funds without any intermediaries. They can easily operate and it is feasible for them to execute. Demat facility was started by NSDL and CDSL. Dematerialization only requires the KYC formalities of investors.

As per Agarwal (2013), mutual fund industry is far behind as compared to international market due to awareness of mutual fund industry. Still, people are not ware about the advantages of mutual funds. To enhance its horizon, strong regulations and mechanism is required. It will increase the transparency among the investors.

According to Sharma, SEBI have initiated many measures to increase the market share of mutual funds. Still, mutual funds industry is far behind as compared to other investment alternatives. Distribution channels are facing difficulties in capturing the untapped market. They have not able to provide the facilities to every uncovered individual.

As per research conducted by Sundar , mutual funds is gaining momentum in the recent years as investors are getting a good profit from the investment schemes. Investors are choosing the schemes as per the need and desires of their investment goal. Investment managers are helping investors in selecting the appropriate schemes as per their investment goals. In last few years, Banking funds have shown drastically growth in terms of returns. Investors are inclined towards the banking mutual funds based on their past performance.

After reviewing many literatures, there are many macro economic factors which affect the growth of mutual funds. These factors are classified in respect of company and investors both. As there are many factors which

According to various research conducted in past by different authors, there are many gaps which came into limelight. Factors which may have a significant impact in respect of above may be classified as under:

In respect of Company:

- **Distribution cost:** Cost of establishment of network in cities. Particularly in B-15[3] cities is quite high. Companies want to expand in various cities but due to high charges, companies are withdrawing themselves.
- **Limited distribution network:** Number of branches in B-15[3] town are less or negligible. Even in big towns, number of branches is limited due to which companies are not able to increase their business corpus.
- **Complexity in nature:** As MF's are complex in nature i.e. schemes are designed as per company requirement not as per investor's requirement. Companies are inclined towards their own profit, they formulate such schemes is not in tune with investors objective.
- **Financial advisors:** They always try to convince people according to the schemes which are more profitable to them in terms of incentives rather than the interest and/or requirement/ objective of the investors.
- **Location disadvantages:** Due to unavailability of mutual funds offices, it is not easily approachable for every investor. Companies are confined to some areas for their operations.
- **Charges between the funds:** Charges are very high for switching between the schemes. If investor wishes to change the schemes, it will fetch them very high charges. Example switching between debt[4] and equity[5] will charge high load charges.
- **Brand image of companies:** Investors are inclined towards the brand image of the company. They prefer to invest in their mutual funds schemes of well known companies without comparing all the funds houses.
- **Product design:** Products are not customized as per the needs and desires of investors. Companies are inclined towards the schemes according to the market trends rather than customized schemes.
- **Higher risk effect price fluctuation:** Sensex[6] and nifty[7] are uncontrollable factors for mutual funds industry as financial market movement is random as no technical and fundamental analysis can depict the future appropriate fluctuations.

Investors

- **Lack of financial education and awareness:** Investors are less aware about the financial details of the mutual funds.
- **Traditional bias towards physical assets:** Investors are attracted towards the physical assets rather than the virtual assets. They prefer physical gold and silver as compared to the virtual schemes. Investors have less trust factor on virtual assets.
- **Behavioral aspect of investors:** Behavior factors like income, age, risk, return, tax advantage, dependents, safety etc. influence investors before choosing any investment avenues. Investors are still inclined towards PPF, NSC, POST OFFICE SAVINGS, etc. though mutual funds are giving higher returns as compared to them.
- **Location disadvantages:** It is not easy accessible for every investors due to unavailability of mutual funds offices. If investors are interested, then they are not getting appropriate place to flourish their investment. Due to less penetration of mutual funds intermediaries, investors are not able to expand their investment horizon.
- **Computer illiteracy:** As SEBI has initiated online trading on a very large scale. Investors have less inclination towards online trading as they don't trust online trading. Still, many investors don't know the procedure of online trading. They still rely on offline trading.
- **Ignorant of market**: Investors are not well versed about the functioning of mutual funds as less campaign and advertisements are done for mutual funds.
- **Constraints for the middle class people:** As there is minimum amount that's needs to be invested in mutual fund (5000 in lump sum and 6000 in SIP[8]), it is very difficult for the investors to invest. As minimum amount is attached with mutual funds, many investors withdraw themselves.
- **Lack of grievance mechanisms:** Investors are not having proper channel of grievance handling. SEBI and AMFI have taken initiation regarding the handling of grievance of investors; still many investors are not satisfied with the existing mechanism.
- **Lack of financial inclusion:** Investors are still unaware about the various advantages of financial inclusion. Still, in many areas, it is not prevalent and investors are less aware about the advantages of financial inclusion.

III. RESEARCH METHODOLOGY

Objective of the study

1. To find out the reasons for the fluctuations in AUM of mutual fund industry.
2. To highlight about the inclination of investors towards various schemes.
3. To know about the various factors affecting the growth of mutual funds.

Type of study: Descriptive study

Data type: Secondary data

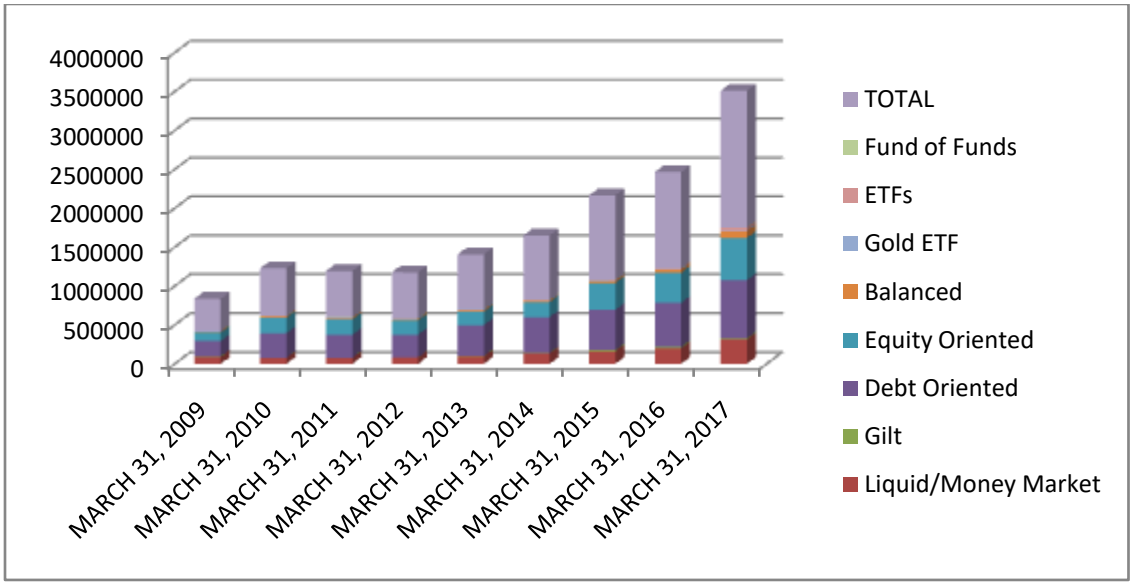
The paper will focus on the growth of mutual years in the last ten years with the help of various tools.

1. AUM of different categories of mutual funds will be analyzed in order to know the inclination of investors towards the specific sector.
2. Number of folios of nine years will be used for basis for comparison with a view of knowing the diversification process.

AUM details are as follows:

CATEGORY	MARCH 31, 2009	MARCH 31, 2010	MARCH 31, 2011	MARCH 31, 2012	MARCH 31, 2013	MARCH 31, 2014	MARCH 31, 2015	MARCH 31, 2016	MARCH 31, 2017
Liquid/ Money Market	90058.83	75752.81	74699.86	80048.58	93173.09	133279.92	162562.35	199403.71	314085.89
Gilt	5966.93	3461.03	3507.28	3659.59	8074.19	6114.68	14614.43	16306.17	14875.23
Debt Oriented	197452.68	314329.91	294217.42	291067.75	396787.82	460974.5	516951.12	567189.68	745690.91
Equity Oriented	109512.59	199810.8	197562.8	182402.95	172651.76	191683.9	345138.94	386402.96	543541.22
Balanced	11649.82	15783.06	17552.4	16455.98	16629.28	16792.62	26367.83	39145.81	84762.99
Gold ETF	743.14	1590.64	4400.2	9886.06	11647.82	8676.32	6654.87	6345.55	5479.81
ETFs	659.91	956.59	2516.43	1606.53	1476.67	4528.47	8059.93	16062.63	44435.64
Fund of Funds	2720.89	2861.15	2520.4	2531.27	2053.21	3192.17	2407.96	1966.99	1747.29
TOTAL	418764.8	614545.98	596976.79	587658.69	702493.85	825242.6	1082757.43	1232823.51	1754618.99

Source: https://www.amfiindia.com/research-information/amfi-monthly



Interpretation

In 2009, there was major downfall in financial market due to American break down, due to which investors were afraid of losing their money in financial market. They have invested in debt market to secure their money. Major contribution in AUM was debt funds as investors feel secured in debt funds. ETF's was the least preferred area of investors. Slowly, financial market improved, investors started taking risks but still, and they are more inclined towards debt schemes.

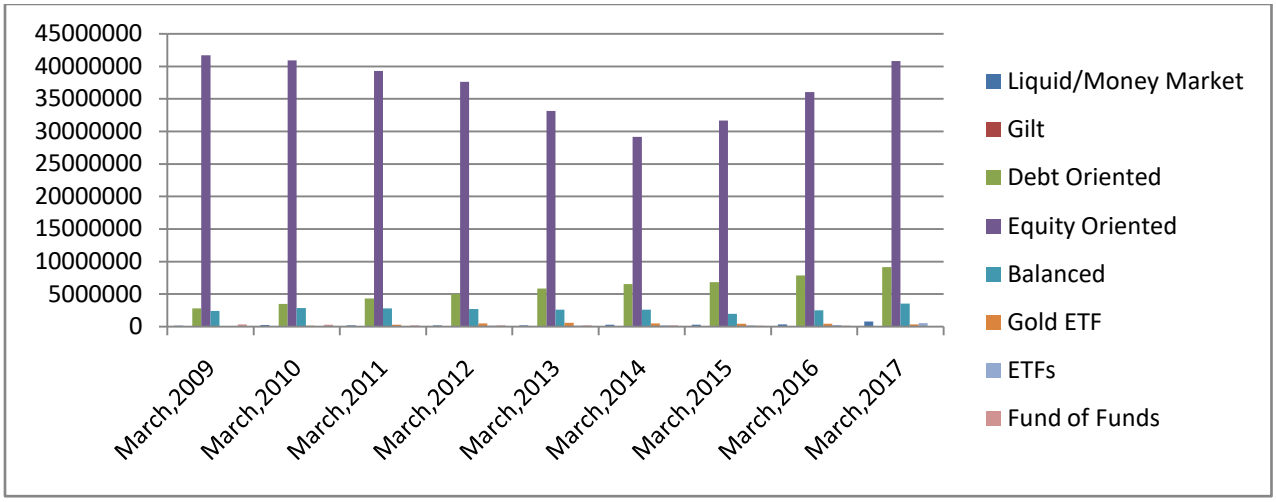
In 2010, we can easily see, with the help of data 314329.91 out of 614545.98. In 2011-13, there was major downfall in Sensex and nifty by around 24 %(SEBI website) which shatters the trust of investors which reduces the total AUM of mutual fund industry i.e. around 10% fall was observed in AUM. From 2013, financial market starts regaining itself as SEBI reduces load charges on the mutual fund schemes. It gives various tax advantages to the investors. Investors started diversify their portfolio by introducing various schemes in their portfolio.

In 2013, market boast up, still debt oriented schemes contributes approx 50% in total AUM. In 2014, contribution of debt oriented schemes was more than 60% in AUM , this highlights that investors prefer mutual funds more than bank deposits, NSc etc. From 2014 onwards, mutual funds industry gained the momentum and inclination of investors towards various schemes has risen. Even, ETF markets have contributed in AUM by 2.5%. Mutual funds industry now contributes major percentage in financial market.

Number of folios

Category	March,2009	March,2010	March,2011	March,2012	March,2013	March,2014	March,2015	March,2016	March,2017
Liquid/Money Market	171565	239539	193422	196192	209272	287996	311644	367194	788860
Gilt	49506	31501	29178	33453	63027	57298	65225	65164	86182
Debt Oriented	2811097	3467310	4305777	5020257	5866482	6522007	6835318	7891516	9124613
Equity Oriented	41704428	40928448	39278085	37637507	33167172	29180946	31691619	36025062	40826211
Balanced	2418487	2827918	2790050	2729438	2609480	2613308	1990516	2490458	3548912
Gold ETF	89429	147047	319679	475314	569169	502613	465765	425914	364110
ETFs	24985	36898	103122	148443	170445	202228	233961	271700	551017
Fund of Funds	328666	285401	215520	211895	173268	182014	146155	126016	109726
TOTAL	47598163	47964062	47234833	46452499	42828315	39548410	41740203	47663024	55399631

Source: https://www.amfiindia.com/research-information/aum-data/age-wise-folio-data



Interpretation

As per the above data, investors have shown diversification in the investment pattern. Investors are not inclined towards any particular schemes. They themselves distribute their risks in different schemes. Inclination of investors towards equity schemes have shown a decreasing phase as fear of fluctuation in market exists in the mind of investors. There is load of entry fee and exit fees.

Gold ETF is facing a tremendous increase as per investor's inclination. Investment in physical gold is very expensive as investors prefer ETF as it gives opportunity to them to invest.

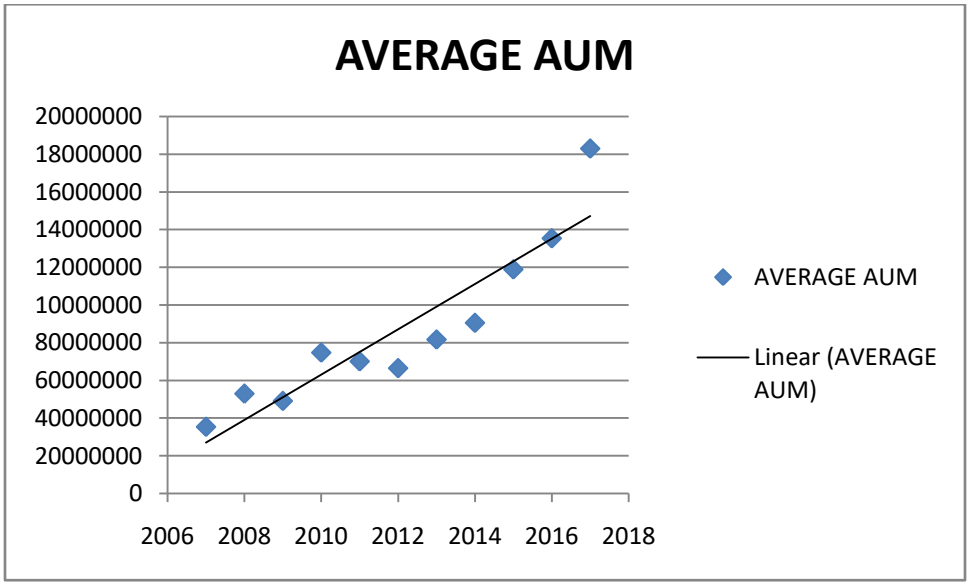
In 2009, equity schemes contribute 87% in total folios held by the investors. Rest all the other schemes, contribute only 13%, which shows though contribution towards debt was high but investors invest in more number in equity. From 2010-12, market slows down due to down fall in financial market, this impact the number of folios in equity.

From 2011-12, contribution of equity funds is decreasing as investors are losing their faith in financial market as Sensex and nifty are losing their momentum. From 2012-14, equity funds faces drastic downfall. Still it is recovering but it is still having the highest proportion among the various alternatives. It happens because of the fluctuations in financial market.

Average AUM is as follows:

YEAR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
AVERAGE AUM	3534899 2.4	52954325 .34	49080641 .98	74733890 .23	70080991 .12	66479156 .61	81665715 .79	90512071 .02	11886903 2.3	13534434 6.9	18295834 9.8

Source: https://www.amfiindia.com/research-information/aum-data/average-aum



Interpretation

1. Still, there is fear of fluctuations in share market, investors are afraid to become the part of this industry. This fact can be validated by seeing the AUM in 2012-2014. If you look the schemes, from 2012-2015, equity schemes were at their lowest peak. Slowly, after regaining of financial market, inclination of investors shifts to equity.
2. Investors feel more secured in doing investment in government holdings. This mindset can be easily judged by the investment pattern in Gilt securities. Though, Sensex and nifty was facing downfall in 2012-2014, still the trust of investors in government securities, haven't shifted.
3. Money market mutual funds always attract investors as they are not governed by Sensex and Nifty. Investors take risk only for one year. Investors know that their schemes will be redeemed after one year. Though return is not too high, then also they are satisfied by the low returns. In 2012-2013, 2013-2014, when market was down, investors are satisfied with low returns and maintain their confidence in money market mutual funds.

IV. CONCLUSION

As per the analysis, mutual funds industry is increasing at increasing rate. Though there are fluctuations in financial market in 2008, mutual funds are faced fluctuations in selling and distributions. In the initial years in 2008, there was a slow down but it recovered itself from 2012. From 2012, it is recovering itself at increasing rates. NAV is doubling itself after 5 year.

Mutual funds gaining momentum but still there are limitations like fluctuation in market, limited distribution area, psychological factors, lack of efficient financial advisors, location disadvantage, financial literacy, constraints for the poor people etc. Still, company needs to work out the various loopholes still present while distributing the mutual funds. There is a huge scope in mutual fund industry as investors are inclined towards them as they can enter in financial market with a very small amount. Companies need to be more investor oriented and schemes should be designed according to the needs and desires of the investors which will maintain their trust and enhances further opportunities. There are various factors still unnoticed regarding the growth of mutual funds. There is huge scope in the mutual fund industry to explore. Still, there is a untapped market for mutual funds.

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