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GROWTH OF THE MUTUAL FUNDS – PERFORMANCE INTHEINDIANBUSINESSMARKET

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Statement ofTheProblem

In India a significant portion of the population is shifting their investmenttowards Mutual funds. Traditional investment such as gold, real estate, bank depositsetc are slowly losing their popularity. The main reason behind Mutual funds garneringattention as a popular investment vehicle is due to its ability to generate higher returnswhen compared to the conventional method of investment such as the ones mentionedabove.ThegrowthintheMutualfundindustrycanbeseenbytheincreaseintheAUM during the last decade. The Assets under management (AUM) of the IndianMutual fund industry has grown from Rs6.80 trillion as on June30th ,2012 to Rs35,64trillionasonJune30th2022,morethan5foldincreaseinaspanof10years.

The industries AUM has crossed the milestone of Rs10 trillion (Rs 10 lakhcrore) for the first time in May 2014 and in a short span of about three years, theAUM size had increased more than two folds and crossed Rs 20 trillion (Rs 20 lakhcrore) for the first time in August 2017. The AUM size crossed Rs 30 trillion (Rs 30lakh crore) for the first time in November 2020. The industry AUM stood at Rs 36.64trillion(Rs36.64lakhcrore)asonJune30th2022.

GrowthofMutualFundsinIndia

Encouraging stock market performance, inflation rate and attractive interestrates has led to a rise in the growth in the Indian mutual fund industry in the recentyears. In the year 2014, change in government and rise in expectations of people leadsto sudden growth in capital market. A parallel growth was also observed in the Indianmutual fund industry. Over the last 5 years, the Assets Under Management (AUM) ofIndian mutual fund industry grew from 67093099 lakhs in FY 2012 to 182958449lakhsinFY2019showingacompoundannualgrowthrate(CAGR)of22.21%.Further,theAUMofthe Indianmutualfundindustrywitnessedanexceptionalgrowth of 35.17% in FY2017. According to

Association of Mutual Funds in India(AMFI) data, AUM grew from Rs. 13.53 lakh crore in March 2016 to Rs. 18.29 lakhcrorein March 2019.

AUM penetration of the Indian mutual fund industry as a per cent of GDP isonly Approx. 6 percent (Paul, 2014). Despite the relatively low penetration of mutualfundsinIndia,themarketishighlyconcentrated.Though,thereare44AMCscurrently operating in the sector, the AUM of the industry is concentrated with fiveleading fund houses. Approx. 57 per cent of the total AUM is shared by, ICICI, HDFC,Reliance,BirlaSunLifeandSBIMutualfund.

Rank	FundHouses	AUM(inLakh)	Percentage(%)
1	ICICIPrudentialMutualFund	24296130.61	13.28
2	HDFCMutualFund	23717761.00	12.96
3	RelianceMutualFund	21089063.82	11.53
4	BirlaSunLifeMutual Fund	19504900.94	10.66
5	SBIMutualFund	15702527.68	8.58
	Others	78647965.78	42.99
	Total	182958349.83	100

SourceAMFI-ason31stMarch2019

PerformanceofMutualFunds InIndia

A strong financial market with broad participation is essential for a developedeconomy.WiththisbroadobjectiveIndia’sfirstmutualfundwasestablishmentin1963, namely, Unit Trust of India (UTI), at the initiative of the Government of Indiaand Reserve Bank of India ‘with a view to encouraging saving and investment andparticipation in the income, profits and gains accruing to the Corporation from theacquisition, holding, management and disposal of securities’.In the last few years theMFIndustryhasgrownsignificantly.

The Mutual Fund industry in India started in 1963 with formation of UTI in1963 by an Act of Parliament and functioned under the Regulatory and administrativecontrol of the Reserve Bank of India (RBI). In 1978, UTI was de-linked from the RBIandtheIndustrialDevelopmentBankofIndia(IDBI)tookovertheregulatoryandadministrativecontrolinplaceofRBI.UnitScheme1964(US’64)wasthefirst schemelaunchedbyUTI.Attheendof1988,UTIhadRs.6,700croresofAssetsUnderManagement(AUM).

Theyear1987markedtheentry ofpublicsectormutualfundssetupbyPublic SectorbanksandLifeInsuranceCorporationofIndia(LIC)andGeneralInsurance CorporationofIndia(GIC).SBIMutualFundwasthefirst‘non-UTI’mutual fund established in June 1987, followed by Canbank Mutual Fund (Dec. 1987),Punjab National Bank Mutual Fund (Aug. 1989), Indian Bank Mutual Fund (Nov1989), Bank of India (Jun 1990), Bank of Baroda Mutual Fund (Oct. 1992). LICestablished its mutual fund in June 1989, while GIC had set up its mutual fund inDecember 1990. At the end of 1993, the MF industry had assets under management ofRs.47,004crores.

MutualFunds Performancein IndianMarket

In February 2003, following the repeal of the Unit Trust of India Act 1963, UTIwas bifurcated into two separate entities, viz., the Specified Undertaking of the UnitTrust of India (SUUTI) and UTI Mutual Fund which functions under the SEBI MFRegulations.WiththebifurcationoftheerstwhileUTIandseveralmergerstaking placeamongdifferentprivatesectorfunds,theMFindustryentereditsfourthphaseofconsolidation.

Followingtheglobalmelt-downintheyear2009,securitiesmarketsalloverthe world had tanked and so was the case in India. Most investors who had entered thecapital market during the peak, had lost money and their faith in MF products wasshaken greatly. The abolition of Entry Load by SEBI, coupled with the after-effectsof the global financial crisis, deepened the adverse impact on the Indian MF Industry,which struggled to recover and remodel itself for over two years, in an attempt tomaintain its economic viability which is evident from the sluggish growth in MFIndustryAUMbetween2010to2020.

Taking cognizance of the lack of penetration of MFs, especially in tier II andtierIII cities,andtheneedforgreateralignmentoftheinterestofvariousstakeholders,SEBI introducedseveralprogressive measuresinSeptember2012.

- In due course, the measures did succeed in reversing the negative trend that hadset inaftertheglobalmelt-downandimprovedsignificantly afterthenewGovernment wasformedattheCenter. SinceMay2014,theIndustryhaswitnessed steady inflows and increase in the AUM as well as the number ofinvestorfolios(accounts).
- The Industry's AUM crossed the milestone ofRs.10 Trillion (Rs.10 LakhCrore) for the first time as on 31st May 2014 and in a short span of about threeyears the AUM size had increased more than two folds and crossed Rs.20trillion (20LakhCrore)forthe firsttimeinAugust2017.TheAUMsizecrossedRs.30trillion(Rs.30LakhCrore)forthefirsttimeinNovember2020.
- TheoverallsizeoftheIndianMFIndustryhasgrownfromRs.6.89trillionason 30th June2012 toRs.35.64 trillion ason 30th June 2022,more than5foldincrease inaspanof10years.
- TheMFIndustry'sAUMhasgrownfromRs.18.96trillionasonJune30,2017 to Rs.35.64 trillion as on June 30, 2022, around 2 fold increase in a spanof5years.
- The no. of investor folios has gone up from 5.82 crore folios as on 30-June-2017to13.47croreason30-June-2022,morethan2foldincreaseinaspanof5 years.
- On an average 12.74 lakh new folios are added every month in the last 5 yearssinceJune2017.

The growth in the size of the industry has been possible due to the twin effectsofthe regulatorymeasurestakenbySEBIinre-energizingtheMFIndustryinSeptember 2012 and the support from mutual fund distributors in expanding the retailbase.

MFDistributorshavebeenprovidingthemuch- n e e d e d lastmileconnectwith investors, particularly in smaller towns and this is not limited to just enablinginvestors to invest in appropriate schemes, but also in helping investors stay on coursethrough bouts of market volatility and thus experience the benefit of investing inmutualfunds.

MFdistributorshavealsohadamajorroleinpopularizingSystematicInvestment Plans (SIP) over the years. In April 2016, the no. of SIP accounts hascrossed 1 crore mark and as on 30th June 2022 the total no of SIP accounts are 5.55crore.

Finally, any search starting with the word best is unlikely to offer you the bestsolution. You should always choose a scheme that matches your investment objective,horizon and risk profile. Ifyou do not understand the basic mutual fund concepts orare totally new to mutual funds and investing, you should always seek the help of aMutualfundadvisor.

FutureofMutualfundMarket

The Indian Mutual Fund industry is said to have entered a high growth phaseand is projected to double in size in the next 5 years. According to K-Fin technologyprospectus the growth will be driven by major factors ranging from India's economicgrowth to tax benefits associated with Mutual fund investments. Here are the keyfactorsandhowtheywillimpactMutualfundpositively.

Accordingtothereporttheindustrywillbenefitfromthe Projected11%growth in nominal GDP between FY 2021 and FY 2025. "Economic growth coupledwith rise in middle income population and increase in financial savings is expected toboostMutualfundindustryinIndia."

Regulatory and government initiatives aimed at raising financialawarenessamong the masses will lead to higher penetration of Mutual funds. CRISIL researchbelievesthatinvestoreducation,coupledwithbetterriskmanagementandtransparency within the Mutual fund industry will boost investors confidencd and leadtoincreasedinvestmentsandgrowthinindustry.

Retirementplanningandtaxbenefits

Retirement planning is an untapped market in India and if channelled throughMutual funds has the potential to significantly improve penetration among households.In India substantial proportion of young population offers huge potential for Mutualfunds in retirement planning. Similarly, Tax benefits is likely to boost the growth ofmutualfunds.

RisksandchallengesofMutualFundIndustry

Mutual funds may have a lot of growth drivers but they face equal number ofchallengesthat range from taxation to competition from other financial products. Letuslookatthemonebyone(assharedintheprospectus)

StampDuty

Starting July 1st 2020, a stamp duty of 0.005% is charged on all Mutual fundpurchases. The duty has emerged a roadblock in the growth of Mutual funds as itmakes transactions costly. "This move has impacted large corporates , which mostlyputtheirmoneyin liquidfundsforshorterperiods",thereportsaid.

Downturn or Volatility in Mutual funds and other market -linked products Retailparticipation and inflows into Mutual funds and other market linked products areheavily influenced by market performance and sentiment. Any downturn or volatilitycould make investors shy away from market-linked products and push them towardslessriskyassets.

Summingup

The Indian Mutual funds industry has come a long way since its inception in1963. the industryhas witnessed sufficient growth on all parameters be it, number offund houses, number of schemes, funds mobilised, Assets under management etc., Thefund industry in the beginning consisted of UTI mutual fund only, but today theindustry consists of all the three sectors viz., public sector, private sector and foreignfund houses. Mutual fund industry has grown significantly during the last decade. TheassetsundermanagementhasgrownfromRs.6.80trillionason30thJune2012to 35.64trillionason30th June2022, morethanfivefoldincreaseinaspanof10 years.

Mutualfundindustry hasrecordedmorethansatisfactory growthsinceitsinceptions, however, the growth is more pronounced towards the private sector fundsand the public sector funds which dominated the fund industry in the country, havebeen overtaken by the private sector funds. One of the importantgoals of the mutualfund industry is to attract and mobilise major portion of the household savings inorder to enable the small savers to benefit from the economic growth by facilitatingthem to parktheir savings into the assetswhichyieldbetter risk adjusted returns.There is a failure on the part of mututal fund industry to reach out to thenook andcorner of the country. Even today major funds are mobilised from five cities namelyMumbai, Delhi, Chennai, Bangalore and Kolkata. Therefore, among other things, theneedistoincreasethepenetrationsrates.

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