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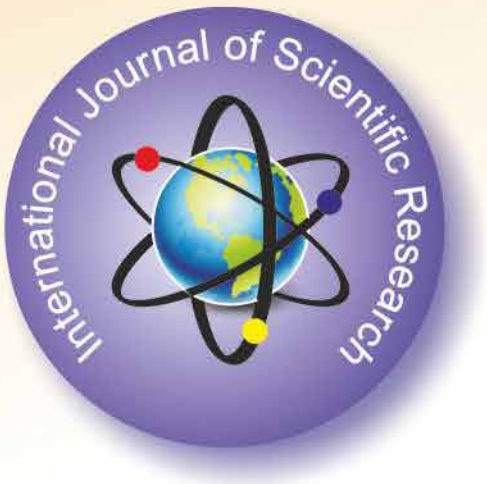

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Research Paper

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Growth and Performance of Mutual Fund Industry in India

Commerce

KEYWORDS : Security Exchange Board of India, Association of Mutual Funds of India, Net Asset Value.

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ABSTRACT

Mutual funds originated in U.K. in nineteenth century, but developed in the U.S.A. in the late 19th and early 20th century in the principle money canters of North East. In 1963 the concept of Mutual Funds was introduced in India with the formation of Unit Trust of India. In 1993 the private players were allowed to open shops in the country and today more than 34 mutual funds collectively manage Rs 6713575.19 cr under more than 840 schemes. mutual funds are link ultimate savers and ultimate borrowers as non-banking finance institution on large scales in required sector segment of our economy.

INTRODUCTION

Mutual funds originated in U.K. in nineteenth century, but developed in the U.S.A. in the late 19th and early 20th century in the principle money canters of North East. In 1963 the concept of Mutual Funds was introduced in India with the formation of Unit Trust of India. Till 1987, UTI continued to be the sole Mutual Fund, and then later some public sector banks and Life Insurance Corporation of India and General Insurance Corporation of India set up Mutual Funds. In 1993 the private players were allowed to open shops in the country and today more than 34 mutual funds collectively manage Rs 6713575.19 cr under more than 840 schemes. In 1964 the UTI launched its first scheme named as Unit Scheme 1964 (US-64), which attracted the largest number of investors in any single investment scheme over the years. In 1971 it launched ULIP, in 1986 the Children's Gift Growth Fund and India Fund which was the first offshore fund for India. In 1987 the Master share and in 1990's the Monthly Income Schemes which were offering assured returns. By the end of 1987, UTI's assets under management grew ten times to Rs 6700 crores. In the year 1987, The Indian Mutual Fund industry witnessed many public sector players entering the market. In November 1987, SBI Mutual Fund from the State Bank of India became the first non-UTI mutual fund in India. SBI Mutual Fund was later found by Canbank Mutual Fund, LIC Mutual Fund, Indian Bank Muatual Fund, Bank of India Mutual Fund, GIC Mutual Fund and PNB Mutual Fund. The permission given to private sector funds including foreign fund management companies to enter the Mutual Fund Industry was in the year 1993. Investors' 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.

MEANING

A mutual fund is just the connecting bridge or a financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective. The mutual fund will have a fund manager who is responsible for investing the gathered money into specific securities (stocks or bonds). When you invest in a mutual fund, you are buying units or portions of the mutual fund and thus on investing becomes a shareholder or unit holder of the fund.

CLASSIFICATION OF MUTUAL FUNDS

(A) BY STRUCTURE

(1) OPEN ENDED FUNDS: In these funds the Investors can buy and sell units of open-ended funds at NAV-related price every day. Open-end funds do not have a fixed maturity and it is available for subscription every day of the year.

(2) CLOSE ENDED FUNDS: These funds have a stipulated maturity period, which may vary from three to 15 years. They are open for subscription only during a specified period.

(3) INTERAL FUNDS: These funds combine the features of both open and close-ended funds. As they are open for sale and repurchased at a predetermined period.

(B) BY NATURE

(1) EQUITY FUNDS: These funds invest a maximum part of their corpus into equities holdings. The structure of the fund may vary different for different schemes and the fund manager's outlook on different stocks. Equity investments are meant for a longer time horizon, thus Equity funds rank high on the risk-return matrix. The Equity Funds are sub-classified depending upon their investment objective, as follows:

- Diversified Equity Funds
- Mid-Cap Funds
- Sector Specific Funds
- Tax Savings Funds (ELSS)

(2) DEBT FUNDS: The objective of these Funds is to invest in debt papers. Government authorities, private companies, banks and financial institutions are some of the major issuers of debt papers. By investing in debt instruments, these funds ensure low risk and provide stable income to the investors. Debt funds are further classified as:

(a) GILT FUNDS: Invest their corpus in securities issued by Government, popularly known as Government of India debt papers. These Funds carry zero Default risk but are associated with Interest Rate risk. These schemes are safer as they invest in papers backed by Government.

(b) INVESTMENT FUNDS: Invest a major portion into various debt instruments such as bonds, corporate debentures and Government securities.

(c) SHORT TERM PLANS: Meant for investment horizon for three to six months. These funds primarily invest in short term papers like Certificate of Deposits (CDs) and Commercial Papers (CPs). Some portion of the corpus is also invested in corporate debentures.

(d) LIQUID FUNDS: Also known as Money Market Schemes, These funds provides easy liquidity and preservation of capital. These schemes invest in short-term instruments like Treasury Bills, inter-bank call money market, CPs and CDs. These funds are meant for short-term cash management of corporate houses and are meant for an investment horizon of 1day to 3 months. These schemes rank low on risk-return matrix and are considered to be the safest amongst all categories of mutual funds.

(e) MIPs: Invests maximum of their total corpus in debt instruments while they take minimum exposure in equities. It gets benefit of both equity and debt market. These scheme ranks slightly high on the risk-return matrix when compared with other debt schemes.

(3) BALANCED FUNDS: The objective of balanced funds is to provide growth along with regular income. They invest their corpus in both equities and fixed income securities as indicated in the offer documents and are known for income and moderate growth.

(C) BY INVESTMENT OBJECTIVE

(a) GROWTH SCHEME: They normally invest most of their corpus in equities because their objective is to provide capital appreciation over the medium-to-long term.

(b) INCOME SCHEME: The aim of these funds is to provide regular and steady income to investors. They generally invest their corpus in fixed income securities like bonds, corporate debentures, and government securities.

(c) MONEY MARKET SCHEME: These funds strive to provide easy liquidity, preservation of capital and modest income. MMF's generally invest the corpus in safer short-term instruments mostly like treasury bills, certificates of deposit, commercial paper and inter-bank call money

(d) BALANCED SCHEME: Balanced Schemes aim to provide both growth and income by periodically distributing a part of the income and capital gains they earn. These schemes invest in both shares and fixed income securities, in the proportion indicated in their offer documents (normally 50:50).

(D) OTHER SCHEMES

- TAX SAVING SHEMES: This scheme or equity-linked savings schemes offer tax rebates to investors under section 88 of the Income Tax Act.

- SPECIAL SCHEMES: These schemes invest only in the industries specified in the offer document. Examples are InfoTech funds, FMCG funds, pharma funds, etc.

- INDEX SCHEMES: Index Funds invest their corpus on the specified index such as BSE Sensex, NSE index, etc. as mentioned in the offer document. They try to mimic the composition of the index in their portfolio.

- SECTOR SPECIFIC SCHEMES: These funds invest only in specified sectors like an industry or a group of industries or various segments like 'A' Group shares or initial public offerings.

PERFORMANCE OF MUTUAL FUNDS:

TABLE-I

RESOURCE MOBILIZATION BY MUTUAL FUNDS

(Rs. Crore)

Year	Gross Mobilization	Redemption	Net inflow/ outflow	Assets at end of period
2008-09	54,26,354	54,54,650	-28,246	4,71,300
2009-10	1,00,19,023	99,35,942	83,080	6,13,979
2010-11	88,59,515	89,08,921	-49,406	5,92,250
2011-12 (January)	56,34,752	55,74,281	60,471	6,59,153

It can be seen from the table-I that the net resource mobilization outflow by mutual funds amounted to Rs. 28,296 crores in the year 2008-09 and amounted to Rs.49,406 crores in the year 2010-11. The net resource mobilization inflow by mutual funds amounted to Rs.83,080 crores in the year 2009-10 and amounted to Rs. 60,471 crores in the year 2011-12(January). Thus the mutual funds redemption exceeded gross resource mobilization in the years 2008-09 and 2010-11, thereby making their net resource mobilization negative. In the year 2009-10 and 2011-12(January) the mutual funds are successful in keeping their net resource mobilization positive. Assets Under Management(AUM) of mutual funds were increased in the year 2009-10 and 2011-12(January) over the last year but declined in the year 2010-11 by 3.54% over the last year.

TABLE-II

PURCHASES / SALES BY MUTUAL FUNDS

(From January to December) (Rs. Crore)

Year	Gross Purchase	Gross sales	Net Investment
2005	78,271.44	64,634.15	13,637.71
2006	1,35,840.95	1,20,456.69	15,382.26
2007	1,86,800.52	1,80,140.20	6,661.00
2008	1,81,054.30	1,66,941.60	14,111.70
2009	1,81,535.60	1,86,559.50	-5,024.60
2010	1,59,151.80	1,86,786.90	-27,635.80
2011	1,31,729.70	1,25,488.40	6,241.20

It is evident from the table-II that the mutual funds were net buyers in the years 2005, 2006, 2007, 2008 and 2011. But the mutual funds were net sellers in the year 2009-10. In the year 2005, 2006, 2007, 2008, 2011 the mutual funds gross purchases were more than the gross sales, thereby making their net investment positive.

TABLE-III

PURCHASES / SALES BY MUTUAL FUNDS YEAR-2012 SO FAR

(Rs. Crore)

Year	Gross Purchase	Gross sales	Net Investment
January-2012	2,505.40	1,685.00	820.30
February-2012	8,871.60	9,269.70	-397.80
March-2012	9,065.60	9,635.80	-570.10
April-2012	10,585.00	12,134.10	-1,549.30
May-2012	14,940.40	17,111.50	-2,171.10
June-2012	10,421.40	12,279.50	-1,858.40

Table-III shows that months of the year 2012, in January, mutual funds were net buyers, but in February, March, April, May and June, mutual funds were net sellers due to global slowdown, crisis of the Europe economy, increase in inflation, down rating of Indian economy and IIP declined.

CONCLUSION:

Mutual fund industry has indeed come a very long way with more than 34 players in the market and more than 840 schemes. All the major cities of the country cover this industry. India's fund management industry should be one of the most promising in Asia given its potential for growth, with the sector accounting for less than 4 per cent of household savings. Thus, mutual funds are link ultimate savers and ultimate borrowers as non-banking finance institution on large scales in required sector segment of our economy.

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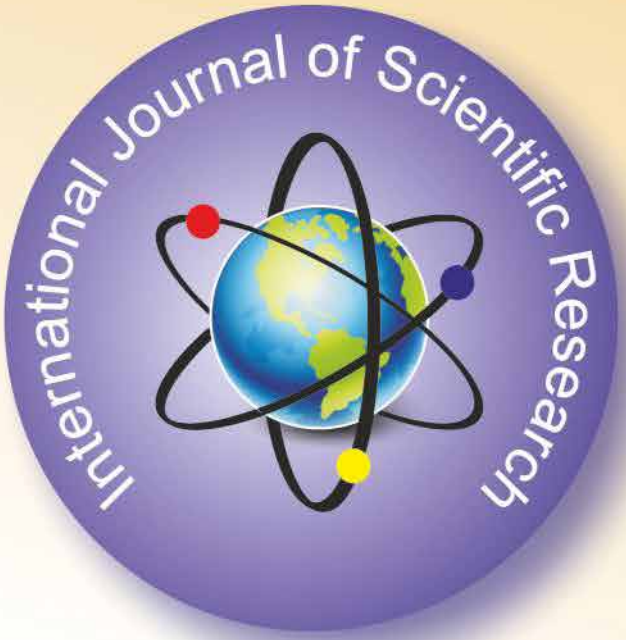

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