



MUTUAL FUNDS IN INDIA - EMERGING PROSPECTS, ISSUES AND CHALLENGES

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KEYWORDS :

MUTUAL FUNDS IN INDIA – AN INTRODUCTION:

Mutual funds are playing an important role in Indian capital market. Mutual Funds in India are financial instruments. A mutual fund is not an alternative investment option to stocks and bonds, rather it pools the money of several investors and invests this in stocks, bonds, money market instruments and other types of securities. The owner of a mutual fund unit gets a proportional share of the fund's gains, losses, income and expenses.

- Mutual Fund is vehicle for investment in stocks and Bonds.
- Each mutual fund has a specific stated objective. The fund's objective is laid out in the fund's prospectus, which is the legal document that contains information about the fund, its history, its officers and its performance.

Some popular objectives of a mutual fund are -
Fund Objective

What the fund will invest in
Equity (Growth)

Only in stocks
Debt (Income)

Only in fixed-income securities
Money Market (including Gilt)

In short-term money market instruments (including government securities)
Balanced

Partly in stocks and partly in fixed-income securities, in order to maintain a 'balance' in returns and risk. The share value of the Mutual Funds in India is known as net asset value per share (NAV). The NAV is calculated on the total amount of the Mutual Funds in India, by dividing it with the number of shares issued and outstanding shares on daily basis.

The company that puts together a mutual fund is called an AMC. An AMC may have several mutual fund schemes with similar or varied investment objectives. The AMC hires a professional money manager, who buys and sells securities in line with the fund's stated objective. The Securities and Exchange Board of India (SEBI) mutual fund regulations require that the fund's objectives are clearly spelt out in the prospectus. In addition, every mutual fund has a board of directors that is supposed to represent the shareholders' interests, rather than the AMC's.

BENEFITS OF INVESTING THROUGH MUTUAL FUNDS:

- Professional Money Management
- Diversification
- Liquidity
- Affordability
- Convenience
- Flexibility and variety
- Tax benefits on Investment in Mutual Funds

GROWTH OF MUTUAL FUND INDUSTRY IN INDIA:

The Indian mutual fund industry is one of the fastest growing sectors in the Indian capital and financial markets. The mutual fund industry in India has seen dramatic improvements in quantity as well as quality of product and service offerings in recent years. The concept of mutual funds was introduced in India with the formation of Unit Trust of India in 1963. The first scheme launched by UTI was the now infamous Unit Scheme 64 in 1964. UTI continued to be the sole mutual fund until 1987, when some public sector banks and Life Insurance Corporation of India and General Insurance Corporation of India set up mutual funds. It was only in 1993 that private players were allowed to open shops in the country. Today, 32 mutual funds collectively manage Rs 6713575.19 cr under hundreds of schemes.

The industry has steadily grown over the decade. For example, before the public sector mutual funds entry, UTI was managing around Rs 6,700 crore on its own. Public sector mutual funds also helped accelerate the growth of assets under management. UTI and its public sector counterparts were managing around Rs 47,000 crore when Kothari Pioneer, the first private sector mutual fund, set up shop in 1993. Before the US 64 fiasco, there were 33 mutual funds with total assets of Rs 1, 21,805 crore as on January 2013. The UTI was way ahead of other mutual funds with Rs 44,541 crore assets under management. The industry overall has performed well over the years. Of course, there were a few funds houses, which disappointed investors. However, overall performance has been good. However, lack of awareness still impedes the growth of the mutual fund industry. Unlike developed countries, most of the household savings still go to bank deposits in India.

In the year 2018, the mutual fund industry in India was worth Rs 1,50,537 crores.

The mutual fund industry is expected to grow at a rate of 13.4% over the next 10 years.

Mutual funds assets under management grew by 96% between the end of 1997 and June 2013 and as a result it rose from 8% of GDP to 15%. The industry has grown in size and manages total assets of more than \$30351 million. Of the various sectors, the private sector accounts for nearly 91% of the resources mobilized showing their overwhelming dominance in the market. Individuals constitute 98.04% of the total number of investors and contribute US \$12062 million, which is 55.16% of the net assets under management.

Mutual fund SIP accounts stood at 3.20 crores and the total amount collected through SIP during year may 2020 was Rs.8,123 crores

Future of Mutual Funds in India-Facts on growth:

Important aspects related to the future of mutual funds in India are -

- The growth rate was 100% in 6 previous years.
- The saving rate in India is 23%.
- There is a huge scope in the future for the expansion of the

mutual funds industry.

- A number of foreign based assets management companies are venturing into Indian markets.
- The Securities Exchange Board of India has allowed the introduction of commodity mutual funds.
- The emphasis is being given on the effective corporate governance of Mutual Funds.
- The Mutual funds in India has the scope of penetrating into the rural and semi urban areas.
- Financial planners are introduced into the market, which would provide the people with better financial planning.

Source: Business maps India

MUTUAL FUND- EMERGING CHALLENGES

Growth Versus Governance – A Right Mix:

The Indian Mutual Fund industry has held its ground in the midst of adversities in capital market. As number of player in the market increases, competition may force fund houses to comply not only with the laid down regulations and concentrate more on growth but endeavor in creating excellence in governance as well. In this challenging environment, the debate of growth versus governance is surely set to assume greater significance.

Administration and Distribution:

No discussion on mutual funds can be complete without touching upon the aspect of distribution. A lot has been spoken about the need to increase penetration of mutual funds in Tier II and Tier III cities. Rural participation in mutual funds continues to be poor. Such poor penetration has much to do with lack of investor awareness, inefficiencies in fund transfer mechanisms, presence of safer substitutes and cost of establishing presence in smaller areas. Fund houses cannot fight this battle single handedly. They need adequate support in terms of banking infra structure, distribution services and technological solutions to ensure a sustainable cost-benefit model of growth.

Investor Education- A thrust on financial planning:

The efforts taken by the industry and AMFI towards investor education are definitely showing results. The media is also making a fair share of its contribution. Today, we have news channels, running dedicated shows for mutual funds, wherein fundamentals of investing in mutual funds are explained and queries of investors are answered by experts. However, the fact remains that in our country mutual funds are sold rather than bought. And this trend has been observed uniformly across all classes of investors and for all kinds of products. This is where professional help is required. The economic boom in our country has led to the emergence of a very strong Small and Medium Enterprise (SME) sector.

The Technological Backbone:

Fund houses have introduced interesting technological innovations such as transacting through the internet, net asset value updates on mobile phones, unit balance alerts via SMS messages, transacting through ATM cards etc.

However, these innovations currently cater to the already pampered urban class of investors. The internet revolution in our country is yet to penetrate to the grass root levels. The per capita usage of internet in our country is still very low compared not only to the developed countries but also as compared to our developing peers. Mobile telephony comparatively has grown exponentially. Herein lies another important challenge for the industry. It is very important to strike the right balance while choosing to invest in technological advancements.

Diminishing Talent Pool:

Print media these days has dedicated space to capture resource movements between companies, especially in the

financial services sector. The acute shortage of talented resources is slowly but surely showing its impact. The pool of talented people is diminishing and staff costs are soaring. The key challenge is to find a permanent solution to tide over this acute shortage. One possible solution could be for the industry through AMFI to tie up with universities and colleges to offer programmes dedicated to the financial services industry in general and the mutual fund industry in particular, which would cover various critical aspects of the financial services industry ranging from fund management, research, analysis, treasury, operations and accounting.

Pressures on Margins:

To effectively tide over the challenges, fund houses will have to expand their cost budgets which may put pressure on margins in the short run. Reduced margins may have the effect of funds houses flexing their muscles to garner a higher market share of assets under management to enjoy the benefits of economies of scale. This will surely benefit the investors in the long run as they would be able to enjoy better service standards and more product differentiation. Increasing regulations may also bring about an increase in the cost of compliance.

Consolidation in the Industry:

Increasing challenges and growing competition may make it difficult for the smaller players to survive. With more and more new players keen on entering the market, a new wave of consolidation may spark of by way of mergers and acquisitions in the industry.

Innovation and Product Differentiation:

Global fund houses are set to make their presence felt in India in a big way. Some of these fund houses are known globally for their specialization in structured products and offering an array of different choices to the investors. With competition hotting up in India and most fund houses offering the same bouquet of products to the investors, product differentiation could take centre stage going forward. Innovative distribution models and service standards would also be a key distinguishing factor amongst players.

Increasing Trend on Outsourcing:

With the industry facing a shortage of talented resources, there is an increasing trend amongst players to outsource the non-core functions and utilize the limited available resources only for core functions to be performed in house. This is a norm in mature markets for global fund houses which may set a similar trend in our industry as well. Sensing this, more players have entered the fund accounting service provider market in the last one year.

CONCLUSION

Having crossed the Rubicon and introducing the next generation products to the investors, funds house have to now roll up their sleeves and get back to the drawing board to find effective solutions to newly emerging challenges. These are interesting times for the industry. It is rightly said that Change is the only constant. The sea of changes in the financial and economic scenario in our country has brought with it a fresh wave of opportunities. These opportunities and challenges can only lead to the betterment of the investment community at large. The message to the investors is Happy Investing!!

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