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Research Paper Management

Status Of Mutual Fund In India

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ABSTRACT

A mutual fund is a pool of money contributed by individuals who have similar financial goals. A mutual fund collects the savings from small investors, and reinvests them in various securities such as equities, debentures, bonds and or money market investments. Thus, Mutual funds are corporations, which pool funds by selling their own units and reduce risk diversification. Till 1986 the UTI was the only mutual fund organization in India. From thereon, public sector banks and insurance companies were allowed to set up subsidiaries to undertake mutual fund business. From 1992 onwards the mutual fund was opened to the private sector. The UTI continues to be the dominant player in the mutual fund industry, even though its share has decreased over time by the private sector entrants in the field. It gained momentum only in 1980 though it began in the year 1964. The functions of mutual funds are similar to those of other financial intermediaries. Some of the important advantages of mutual funds are, channelizing savings for investment, providing better yield, offering tax benefits, introducing flexible investment schedule, providing greater liquidity, promoting industrial development, supporting capital market, keeping the money market active and so on. Though there are many benefits in the mutual fund, the public has fear over the terms and returns from the mutual fund. Particularly in rural areas, many publics even by the investors do not know it. They prefer to invest in some other areas than in mutual fund. There is no awareness about the mutual fund and its benefits. Keeping the above views in mind the researchers tried to write an article on "STATUS OF MUTUAL FUND IN INDIA". By this article the researchers will analyze the real problems in marketing of mutual fund, reason for the problems and measures to market various schemes of mutual fund to bring the knowledge about the mutual fund and eliminate fear over mutual fund in India.

Keywords : Swimmers, multinutrient chocolate bar, athletic performance

INTRODUCTION

The financial market plays a crucial role in the economic development of a country by facilitating the allocation of scarce resources. By transferring resources from the savers to the borrowers, it directs resources from the idle to the productive sector, thus accelerating investment activities in the economy. Economies in the world can be classified into two major categories. They are spending money and saving economy. Of these two Indian economy is a saving economy. This gives an interesting question regarding the nature of savings or investment. Savings are of many types namely bank deposits, post office deposits, treasury bills, company deposits and debentures, mutual funds, investment in primary market. Investments in secondary market mutual funds do play a vital role in the structure of the Indian economy.

A mutual fund is a pool of money contributed by individuals who have similar financial goals. A mutual fund collects the savings from small investors, and reinvests them in various securities such as equities, debentures, bonds and or money market investments. Thus, Mutual funds are corporations, which pool funds by selling their own units and reduce risk diversification. Till 1986 the UTI was the only mutual fund organization in India. From thereon, public sector banks and insurance companies were allowed to set up subsidiaries to undertake mutual fund business. From 1992 onwards the mutual fund was opened to the private sector. The UTI continues to be the dominant player in the mutual fund industry, even though its share has decreased over time by the private sector entrants in the field. It gained momentum only in 1980 though it began in the year 1964. The functions of mutual funds are similar to those of other financial intermediaries.

Some of the important advantages of mutual funds are channelising savings for investment, providing better yield, offering tax benefits, introducing flexible investment schedule, providing greater liquidity, promoting industrial development, supporting capital market, keeping the money market active and so on.

GROWTH AND OPPORTUNITIES

The mutual funds industry has been growing annually at the rate of 9% for the past 5 years is expected to double the current Assets under Management (AUM) by the end of March 2010, according to AMFL Further, the annual composite growths rate the industry is expected to be around 13% in the next 10 years. The industry had 25 mutual funds offering 80 different schemes as on 30.09.1995, and today it has 30 players currently offering 581 schemes as on 30th December 2006. The schemes are more diverse and offer a wide array of choice to investors, with the total Assets under Management (AUM) increasing from Rs.1,01,565 crore in January 2000 to Rs.2,65,534 crore. By June 2006, according to Association of Mutual Funds in India (AMFI), the industry's growth has been nothing but exceptional. Mutual funds today form 1 / 10th of the banking industry's size.

What has driven this growth? A slew of factors have contributed to surge in the industry's growth. First and foremost, buoyant domestic economy coupled with a booming stock market has been one of the major drivers of growths in recent times, particularly in the last five years. Second, significant factor facilitating this growth has been a conductive regulatory regime; increased efforts by SEBI to improve market surveillance and removal of long-term capital gains have also provided strong impetus to the growth. Third, increased focuses on product and distribution innovations on part of the industry players have also helped fuel the growth. Fourth, the entry of new players both foreign as well as local, has helped the industry to expand well as local, has helped the industry to expand further. Finally, increased penetration is helping the industry improve its asset under management.

The share of UTI and Public Sector Banks was nearly 57% in 2001 and that of private sector was 38%. The situation started reversing thereafter. The share of private sector rise to 79% of the total AUM of all companies put together. Of the total 30 players, 25 are in private sector. Out of 25 private sector mutual funds, 10 are in Indian private sector, 5 are in joint ventures, and predominantly Indian and remaining 9 are in joint ventures mainly foreign Mutual funds. Of the total 80% share of private sector 21% belong to Indian companies, 32% to Indian joint ventures and 27% to foreign joint ventures.

ASSETS MANAGEMENT COMPANY (AMC) WISE
UTI Mutual Fund is the largest fund house in the country in terms of the number of investors. It lost the number one position in terms of AUM to Reliance Mutual Fund Industry. Now the Reliance Mutual Fund is India's No.1 in the Assets (46,036 crore) under Management Company. The second position was ICICI Prudential Mutual Fund (Rs.37,869.58 crores) and third position was UTI (Rs.33,582.65 crores) and followed by Franklin Templeton (Rs.22,018.76 crores).

SHARPE RATIO
William F Sharpe developed a method of measuring return per unit of risk in 1966. The reward to variability ratio attempted by Sharpe is referred to as the Sharpe ratio. In fact, this ratio is simply the ratio of the reward, defined as the realized portfolio return Rp in excess of the risk free rates Rf, to the variability of return as measured by the standard deviation of returns (σp).

Sharpe measure = (Avg. Rp – Avg. Rf) / σp

Where

Avg. Rp is the average monthly return of the fund

Avg. Rf is the average risk free return

σp is the standard deviation of the return

ANALYSIS
The performance of the selected schemes of mutual funds is analyzed using the Sharpe Index. The Table 1 shows that all the schemes have positive return and out of 12 schemes, 11 schemes have higher return than risk free return.

TABLE 1

DETAILS OF VARIOUS SCHEMES UNDER MUTUAL FUND AND THEIR RETURNS TO THE INVESTORS

Sl. No.	SCHEME NAME	FUND RETURN (Avg. Rp)	RISK FREE RETURN (Avg. Rf)	SDP	SHARPE (SCHEME)	SHARPE (MARKET PROXY)	EXCESS	RANK
1.	Chola gilt investment plan (G)	0.0086	0.0055	0.0129	0.233	0.2259	0.0071	6
2.	Chola growth fund (D)	0.1172	0.0055	0.0814	0.0203	0.2259	-0.2056	11
3.	Escorts balanced fund (D)	0.0155	0.0055	0.0547	0.1703	0.2259	-0.0556	7
4.	Escorts growth plan (D)	0.0134	0.0055	0.0862	0.0915	0.2259	-0.1345	9
5.	Escorts income (G)	0.0303	0.0055	0.0747	0.3315	0.2259	-0.1056	3
6.	Grindlays SSIF – STP (G)	0.005	0.0055	0.0025	-0.1292	0.2259	-0.4451	10
7.	HDFC Balanced fund (G)	0.0351	0.0055	0.1947	0.1516	0.2259	-0.0743	8
8.	HDFC gilt long term (D)	0.0066	0.0055	0.0124	0.0877	0.2259	-0.1382	10
9.	HDFC growth fund (G)	0.0365	0.0055	0.0695	0.4459	0.2259	0.2199	1
10.	UTI Mahila unit scheme	0.0136	0.0055	0.0224	0.358	0.2259	0.1321	2
11.	UTI MNC fund	0.0227	0.0055	0.0615	0.2789	0.2259	0.0529	4
12.	UTI Nifty Index fund	0.0226	0.0055	0.0705	0.2416	0.2259	0.0157	5

50% i.e. out of 12 schemes, 6 schemes have higher return than market return (benchmark) 41.66% of schemes have the return higher than risk free return but less than market return. Sharpe index clearly indicates that out sample schemes have not yielded reasonable return to the risk undertaken by the AMC.

The mutual fund industry has grown 25% in the first six months this year, accumulating assets worth over Rs.4 trillion on the back of bullish sentiments in the stock market and robust economic growth in the country. The assets under management of all the 32 mutual funds in the country jumped up 24.6% to Rs.4,00,842.12 crore in June as Against Rs.3.21,488.47 crore in December last year.

"The mutual fund industry is on a robust growth path and investors should look at the long-term underlying trend. In six months mutual funds have grown 25% while on year-on-year terms it is a whopping 50% growth", said AMFI chairman AP Kurien. Fund houses have collectively added a neat Rs.79,353.65 crore to their kitty within first six months of 2007, the latest data from the Association of Mutual Funds in India (AMFI) Show Reliance MF is the largest fund house in the country with AUMs of Rs.59,857.01 crore till June.

The Anil Ambani Group firm has added over Rs.22,929.09 crore to its wealth in the last six months. Besides, ICICI Prudential is ranked second with AUM of Rs.43,613.75 crore, a growth of over 30% in just six months. In December 2006, ICICI Pru's AUM had stood at Rs.33,304.57 crore.

Meanwhile, Public Sector UTI MF, which was at the top in terms of AUM last year, has dropped to third place with AUM of Rs.39,031.87 crore in June. UTI MF has witnessed just 2.4% growth in its assets over the six months, the AMFI data show. Interestingly, the total AUMs of all mutual funds have witnessed a 3% fall in June, as compared to Rs.4,13,968.64 crore in May.

"The month-to-month changes in the AUMs are because of withdrawals by institutions, trust etc. when in need of some liquidity and the money is again invested after some time, so it is a changing trend", Kurien added. Reliance MF added about Rs.700 crore to its AUM in June, while ICICI Prudential dipped over 13% or Rs.7,000 crore and assets of UTI MF declined about Rs.1000 crore in the month.

Other fund houses of HDFC and Franklin Templeton maintain there fourth and fifth positions in terms of fourth and fifth positions in terms of AUM. Their assets under managements stand at Rs.35,629.81 crore and Rs.26,469.44 crore respectively in June.

CHALLENGES

Though India enjoys a good savings rate, the mutual fund industry gets very little out of this compared to the AUM of the India Mutual Fund Industry, bank deposit worth is very high. Also, as compared to developed markets where mutual fund's play a dominant role, the Indian Mutual fund industry is way behind. In the US, for instance, comparison, the Indian Mutual Fund Industry accounts for just-6% of the country's GDP as compared to the 87% in case of Australia and 72% in case of US.

MAJOR CHALLENGES

1. POOR REACH: Lack of deeper distribution networks and channels is hurting the industry. Indian mutual fund industry has not been able to penetrate deeper into the country and has been limited the metros and "A" class cities. If the mutual fund industry comes up with better distribution models and increase its reach it could tap into a huge potential investor markets of the rural and other "B" and "C" class cities, which are also witnessing good growth in disposable incomes.
2. DOMINATION OF BANKS: The biggest hindrance to the growth of the industry lies in its inability to attract the saving of the public. A large pool of money in savings in India is still with the state-run and private banks.
3. IMPACT OF THE GLOBAL DEVELOPMENT: Fluctuations in the global markets and financial system will now be evident as the Indian markets get linked to other foreign markets. Managing risks in such scenario will be a key challenge for the Indian mutual fund Industry.
4. OPERATIONAL HASSLES: Operational inefficiencies are still hampering the growth prospects of the industry lengthy transaction cycles and old fashioned returns distribution models like cheque-base returns are preventing the industry to grow at good rates.
5. LACK OF INVESTMENT ADVISORS: The lack of investment advisors, especially to give personalized investment advice to the investors is creating road blocks for the growth in mutual funds. Further, the awareness levels in India about the mutual fund industry largely restricted to the high-income investors and A class cities. Lacks of access, distribution models and advisors in the 'B' and 'C' class cities and the rural areas have blocked a large pool of potential investors for the industry.

CONCLUSION

In spite of the above bottlenecks, the mutual fund industry is having a good prospect in our country. The factors are, a support from SEBI, declining bank deposits interest rate, opening of the market to the foreign investors, the entry of large domestic institutional investors, increased focus on product innovation. Security and liquidity, tax concessions etc. would go a long way in making mutual funds an increasingly popular, lucrative and coefficient vehicle for investment. If mutual funds ensure, creating awareness among retail investors, controlling operational costs, deeper penetration in rural areas, curbing unethical practices, spreading the mutual fund culture, maintaining transparency and flexibility and creating a good rapport with the investors, their future will be bright.

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