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Investment in Mutual Funds

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1. Introduction:
An investment can be described as perfect if it satisfies all the needs of all investors. Therefore, the starting point in searching for the perfect investment would be to examine investor needs. If all those needs are met by the investment, then that investment can be termed the perfect investment. Most investors and advisors spend a great deal of time understanding the merits of thousands of investment available in India. Savings form an important part of the economy of any nation. With the savings invested in various options available to the people, the money acts as the driver for growth of the economy. Indian financial system presents a plethora of avenues to the investors. Though certainly not the best or deepest of markets in the world. It has reasonable options for an ordinary man to invest his saving like mutual fund. Mutual fund is a type of financial intermediary that pools the funds of investors who seek the same general investment objective and invests them in a number of different types of financial claims (e.g., equity shares, bonds, money market instrument). These pooles funds provide thousands of investors with proportional investment managers. The term 'mutual' is used in the sense that all its returns, minus its expenses, are shared by the funds unit holders.

2. Structure of Mutual Fund:
Structure of Mutual Fund includes
1. Sponsor
2. Trustees
3. Asset Management Companies (AMC)
4. Custodian

Sponsor establishes the fund and gets if registered with SEBI and forms a trust, and appoints board of trustees. The trustees of mutual funds hold assets on behalf of the unit holders in the trust, appoint Asset Management Company and ensure that all the activities of the AMC are in accordance with the SEBI Regulations and appoint the custodian of the fund. The custodian, appointed by trustees hold the fund's securities in safekeeping, settles securities transactions for the fund, collects interests and dividends paid on securities, and records information on stocks splits and other corporate actions. The Asset Management Company floats schemes and manages them in accordance with the SEBI Regulations. As an investment intermediary, they offer a variety of services and advantages to the relatively small investors like lower risking through diversification, expert management and reducing cost due to economies of scale.

3. Importance of Investment in Mutual Fund:
Investments in stocks, bonds and other financial instruments require considerable expertise and constant supervision, to enable an investor to take informed decisions. Small investors usually do not have the necessary expertise and the time to undertake any study that can facilitate informed decisions. While this is the predominant reason for the popularity of mutual funds, there are many other benefits that can accrue to small investors.
- Diversification benefits
- Low- Transaction Costs
- Availability of various schemes
- Professional Management
- Liquidity
- Tax Benefits
- Flexibility
- Well Regulated

4. History of Indian Mutual Fund Industry
The origin of mutual fund industry in India is with the introduction of the concept of mutual fund by UTI in the year 1963. Though the growth was slow, but it accelerated from the year 1987 when non-UTI players entered the industry.

In the past decade, Indian mutual fund industry had seen a dramatic improvement, both qualities wise as well as volume (quantity wise). Before, the monopoly of the market had seen an ending phase; the Assets under Management (AUM) was ` 67bn. The private sector entry to the fund family raised the AUM to Rs. 470 bn in March 1993 and as on March 2007; total mutual funds are around 38 in no. with approximately in ` 3, 26,388 corers as Assets under Management.

Putting the AUM of the Indian mutual funds industry into comparison, the total of it is less than the deposits of SBI alone, constitute less than 11% of the total deposits held by the Indian banking industry.

The main reason of its poor growth is that the mutual fund industry in India is new in the country. Large sections of Indian investors are yet to be intellectuated with the concept. Hence, it is the prime responsibility of all mutual fund companies, to market the product correctly abreast of selling.

The mutual fund industry can be broadly put into four phases according to the development of the sector. Each phase is briefly described as under.

First Phase – 1964-87 (Establishment & Growth of UTI) :
Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was delinked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had ` 6,700 crores of assets under management.

Second Phase -1987-1993 (Entry of Public Sector Funds):
Entry of non-UTI mutual funds. SBI Mutual Fund was the first followed by Can bank Mutual Fund (Dee 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda£ Mutual Fund (Oct 92). LIC in 1989 and GIC in 1990. The end of 1993 marked ` 47,004 as assets under management.

Third Phase –1993 to 1996 (Introduction of Private Sector Funds)
In the history of mutual funds a new era was started with the entry of Private Sectors in the mutual funds industry during 1993 - 1996. During this period private domestic and foreign players were allowed in the mutual fund industry. Finally, in the year 1992-93, the Government allowed Private sector player to set up the Mutual Fund. As a result, a number of private sector mutual funds came up. With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund family.

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Some of them are Kothari Pioneer Mutual Fund, ICICI Mutual Fund, Birla Mutual Fund, Morgan Stanly Mutual Fund etc. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer which is now merged with Franklin Templeton, was the first Private Sector mutual fund registered in July 1993.

The rising number of mutual and increasing competition in the industry offers investors a wide choice as a result they began to give investors improved services. The Private sector funds provided an added benefit to the investor as these were generally setup as partnership or the joint venture with foreign mutual funds. The latter provided the technology and experience in managing the funds.

Thus, it was the phase of Private Sector funds entering in Mutual Fund Market thereby affecting investors, providing sufficient choice of fund, numerous managers as well as a big flow of funds.

Fourth Phase –1996 to 2003(Era of SEBI Regulations)
Although, in the year 1993 the Securities Exchange Board of India (SEBI) notified regulations bringing all Mutual Funds except UTI under a common regulatory frame work by issuing the Mutual Fund Regulations, but the Mutual Fund industry observed strong growth & strict regulation from SEBI after 1996 only. The number of operators of Mutual fund & thereby mobilization of funds increased as investors started investing more in Mutual funds. Due to these, protecting the investor's interest became an urgent need which has been catered by SEBI by introducing SEBI (Mutual Funds) Regulations, 1996.

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996.The number of Mutual Fund houses went on increasing, with many foreign Mutual Funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. At the end of January 2003, there were 33 Mutual Funds with total assets of ` 1,21,805 crores. However, the Unit Trust of India with ` 44,541 crores of AUM - Assets under Management was the leading one with all other mutual funds.

Fifth Phase – Since 2004 (Consolidation – Mergers - Schemes
After the year 2003, during this phase, the flow of funds into the mutual funds industry considerably increased. This was due to tax benefits and improvement in quality of investor service which has resulted into a positive growth in the mutual fund industry in India. However, in the year 2003, due to the revocation of the Unit Trust of India Act, 1963, UTI was bifurcated into two separate entities.

This Phase is known for division of UTI into separate entities. The phase had harsh experience for UTI. It was divided into two separate entities. One is the Specified Undertaking of the Unit Trust of India; running under the supervision & the mles framed by Government of India and does not come under the purview of the Mutual Fund Regulations. The Second is the UTI Mutual Fund Ltd, sponsored by SBI State Bank of India, PNB- Punjab National Bank, BOB - Bank of Baroda, and LIC Life Insurance Corporation of India. It is registered with SEBI and function under the Mutual Fund Regulations. With the division of the former UTI which had in March 2000 more than ` 76,000 crores of AUM (Asset Under Management) & with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.

As at the end of September, 2004, there were 29 funds, which manage (AUM) assets of ` 1,53,108 crore under 421 schemes which increased to ` 3,26,388 crore at the end of financial year 2006-2007 and further increased to ` 4,17,300/- crores up to the year 2009 and ` 6,75,000/- crores up to the year 2010.21 These occupies major portion of the Indian economy. Thus, mutual funds industry as a whole provides many advantages due to its nature & size of the business.

5. Association of Mutual Fund in India
With the increase in mutual fund players in India, a need for mutual fund association was generated to function as a non-profit organization. Hence Association of Mutual Funds in India (AMFI) was incorporated on 22nd August, 1995. AMFI is an apex of all Asset Management Companies which has been registered with SEBI. All the AMCs that have launched mutual fund schemes are its members till date. It functions under the supervision and guidelines of its board of directors. AMFI has brought the Indian mutual fund industry to a professional and healthy market with ethical lines enhancing and maintaining standards. It follows the principles of both protecting and promoting the interests of mutual funds as well their unit holders.

6. Scope and Objectives:
The present paper is based basically on secondary data. This paper attempts to analyze total resource mobilization by the mutual funds for last seven years period i.e. from March 2006 to March 2012. Major objectives of this paper are :
(1) To analyse total number of schemes under mutual funds.
(2) To analyze sector-wise as well as nature – wise resources mobilized by mutual industry.
(3) To analyze percentage – wise share of each sector and category in total resources mobilization.
(4) To calculate overall growth rate in order to show trends in total resource mobilization.

7. Performance of Mutual Funds:
The researcher has tried to prepare various tables, presenting data about total resources, mobilization by Indian Mutual Fund Industry over the time period of 2006 to 2012. The study further focuses upon sector-wise, nature-wise and category-wise resource mobilization and percentage-wise share of each sector in total resource mobilisation. The study also attempts to calculate growth rates to show trends in total resource mobilisation and no. of schemes of mutual fund industry under various types.

Table-1
Total No. of Schemes Under Mutual funds

Year	ELSS	Income	Balanced	Gilt	Lia/mm	Gold ETFs	Other ETFs	Equity	Fund of funds investing overseas	Total
March 2006	37(6.25)	251(42.40)	36(6.08)	29(4.90)	45(7.60)	-	-	194(32.77)	-	592(100)
March 2007	40(5.31)	365(48.41)	38(5.04)	28(3.71)	55(7.29)	1(0.13)	-	227(30.11)	-	754(100)
March 2008	42(4.39)	506(52.93)	37(3.87)	30(3.14)	58(6.07)	5(0.52)	8(0.84)	270(28.24)	-	956(100)
March 2009	47(4.70)	509(50.85)	35(3.50)	34(3.39)	56(5.60)	5(0.49)	12(1.20)	293(29.27)	10(1.00)	1001(100)
March 2010	48(5.44)	367(41.61)	33(3.74)	35(3.97)	56(6.35)	7(0.79)	14(1.59)	307(34.81)	15(1.70)	882(100)
March 2011	48(4.24)	591(52.26)	32(2.83)	37(3.27)	51(4.51)	10(0.88)	18(1.59)	328(29.10)	16(1.42)	1131(100)
March 2012	49(3.74)	775(59.21)	30(2.29)	42(3.21)	55(4.20)	14(1.07)	21(1.60)	303(23.15)	20(1.53)	1309(100)
Overall Growth rate	32.43%	208.76%	-16.67%	44.83%	22.22%	1300%	162.5%	56.19%	100%	--

Source : Complied and calculated from the data presented in AMFI publication.

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Note:
(1) Figures in brackets are percentage to total.
(2) Figures in brackets for the last raw (overall growth rate) are indices with the base year March 2006 at 100.

Table : 1 shows
(1) Gold ETF schemes have been introduced in 2007 and it grows speedily from 2007 to 2012 with the overall growth rate of 1300%.
(2) Other ETF schemes and fund of funds investing overseas have also introduced recently i.e. 2008 and 2009 respectively and get tremendous overall growth rate of 1625% and 100% respectively.
(3) Income schemes have shown the overall growth rate of 208.76% and balanced schemes have shown the negative overall growth rate of 16.67%.

Table-2
Sector wise total Resources Mobilised by Mutual Fund Industry
(` in crores)

Year	UTI	Public Sector	Private Sector	Total
March 2006	29519 (12.73)	20829 (8.98)	181514 (78.29)	231862 (100.00)
March 2007	37613 (10.47)	32205 (8.97)	289279 (80.56)	359097 (100.00)
March 2008	48983 (9.10)	46583 (8.65)	442942 (82.25)	538508 (100.00)
March 2009	48754 (9.88)	55351 (11.22)	389180 (78.90)	493285 (100.00)
March 2010	80218 (10.73)	92515 (12.38)	574792 (76.89)	747525 (100.00)
March 2011	67189 (9.59)	66804 (9.54)	566545 (80.87)	700538 (100.00)
March 2012	58922 (8.86)	66554 (10.01)	539316 (81.13)	664792 (100.00)
Overall Growth Rate	99.61%	219.53%	197.12%	--

Source : Complied and calculated from the data presented in AMFI publication.

Note:
(1) Figures in brackets are percentage to total.
(2) Figures in brackets for the last raw (overall growth rate) are indices with the base year March 2006 at 100.

Table 2 shows,
(1) Public sector has shown the highest overall growth rate of 219.53% while UTI has shown the lowest overall growth rate of 99.61%.
(2) Total resources mobilized in private sector have shown the highest in all the years from 2006 to 20012. But in overall growth rate it ranked 2nd with 197.12%.

Table-3
Category wise Resources Mobilization by Mutual Funds
(₹ in Crores)

Year	ELSS	Income	Balanced	Gilt	Lia/mm	Gold ETFs	Other ETFs	Equity	Fund of funds investing overseas	Total
March 2006	6589 (2.84)	60278 (26.00)	7493 (3.23)	3135 (1.35)	61500 (26.52)	-	-	92867 (40.06)	-	231862 (100.00)
March 2007	10211 (3.13)	119322 (36.56)	9110 (2.79)	2257 (0.69)	72006 (22.06)	96 (0.03)	-	113386 (34.74)	-	326388 (100.00)
March 2008	16020 (3.17)	220762 (43.70)	16283 (3.22)	2833 (0.56)	89402 (17.70)	483 (0.10)	2647 (0.52)	156722 (31.03)	-	505152 (100.00)
March 2009	12427 (2.98)	197343 (47.29)	10629 (2.55)	6413 (1.53)	90594 (21.71)	736 (0.18)	660 (0.16)	95817 (22.96)	2681 (0.64)	417300 (100.00)
March 2010	24066 (3.92)	311715 (50.77)	17246 (2.81)	3395 (0.55)	78094 (12.72)	1590 (0.26)	957 (0.16)	174054 (28.35)	2862 (0.46)	613979 (100.00)
March 2011	25569 (4.32)	291975 (49.30)	18445 (3.11)	3409 (0.58)	73666 (12.44)	4400 (0.74)	2516 (0.43)	169754 (28.66)	2516 (0.42)	592250 (100.00)
March 2012	23644 (4.03)	290844 (49.54)	16261 (2.77)	3659 (0.62)	80354 (13.68)	9886 (1.68)	1607 (0.27)	158432 (26.98)	2530 (0.43)	587217 (100.00)
Overall Growth rate	258.84%	382.50%	117.02%	16.71%	30.66%	10197.92%	-39.29%	70.60%	-5.63%	--

Source : Complied and calculated from the data presented in AMFI publication.

Note:
(1) Figures in brackets are percentage to total.
(2) Figures in brackets for the last raw (overall growth rate) are indices with the base year March 2006 at 100.

Table 3 shows,
(1) Gold ETF schemes have been introduced in 2006 and it has shown the tremendous overall growth rate of 10197.92% from the year 2007 to 2012.
(2) From the year 2006 to 2012 Income schemes have shown the overall growth rate of 382.50%.
(3) Other ETF schemes which were introduced in 2008 and fund of funds investing overseas which were introduced in 2009 have shown negative overall growth rate of 39.29% and 5.63% respectively.

8. Conclusion :
On the basis of the above analysis it can be concluded that the Gold ETFs schemes which have been started from the year 2007 has started growing rapidly during the period. After the Gold ETFs schemes Income schemes have undoubtedly emerged as the most popular schemes among the investors. Over the period from 2006 to 2012 among various sectors operating in mutual fund industry, public sector mutual funds have become the most prominent players in the industry. UTI mutual funds have on the other hand, have emerged as the least preferred ones.

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