

Saarth

E-Journal of Research

ISSN NO: 2395-339X

Indian Mutual Funds Industry:

Investor's Scenario

Dr. Mo. Ishak G. Patel*

Executive Summary

The Indian Mutual Funds Industry has witnessed a huge change since UTI was first established in 1963. From a single player the number of players has increased to 29 and the number of schemes has spiraled to 477. The last decade has been a period of rapid growth for the MF industry. The paper begins by analyzing the current scenario in the industry characterized by problems with distribution, low investor awareness and concentration of corporate investors. The comparison of the MF industry with global standards reveals that the industry still compares unfavorably with developed countries in terms of penetration, investor awareness, and diversity of products and the extent of use of risk management techniques. Further comparison reveals that the attitude of regulator towards investor protection and the governance of mutual funds are at par with global standards. The paper then analyses the future expectations from the mutual fund industry in terms of increased investor awareness, product diversity and improvement in penetration and distribution. In the end, I recommend certain steps that SEBI and the AMCs should take in order to build investor confidence and trust. These steps focus on investor education, increased accountability of various players, and development of AMFI as an SRO and regulation of corporate investments.

Introduction

Indian financial sector has undergone significant expansion during the last decade. A well developed infrastructure has been promoted to cater the needs of growing saving and expanding capital market of India. Of late, mutual funds have become a hot favorite of millions of people all over the world. The driving force of mutual funds is the 'safety of the principal' guaranteed, plus the added advantage of capital appreciation together with the income earned in the form of interest or dividend. Thus mutual funds act as a gateway to enter into big companies hitherto inaccessible to an ordinary investor with his small investment. A mutual fund collects the savings from small investors.

The growth of mutual funds in any economy is an indicator of the development of financial sector and the extent to which investors have faith in the regulatory environment. Mutual fund industry in India began with the establishment of Unit Trust of India, in 1963. Between 1987 and 1993 other entities belonging to the public sector were permitted to offer mutual funds. From 1993 onwards, private sector organizations were permitted to enter the market and the first mutual fund regulations were promulgated, which were subsequently replaced by the SEBI (Mutual Fund) Regulations of 1996. These private sector organizations comprised predominantly Indian and foreign joint ventures as well as purely Indian firms. In the last decade the mutual fund industry has been one of the fastest growing industries in the financial services sector, with the assets under management growing at a CAGR Of 13% between 1993 to 2011.

***Dr. Mo. Ishak G. Patel, Adiwasi Arts & Commerce College, Santrampur**

Saarth

E-Journal of Research

ISSN NO: 2395-339X

Current Scenario

Since private players were allowed in 1993, the Indian Mutual fund industry has witnessed a huge change in the way it operates, in the regulatory and investor attitude towards Mutual fund products. From a single player in 1987 today there are 29 mutual funds offering as many as 477 schemes. The total assets under management have risen to Rs. 1,95,784 crores. At the end of September 2011, there were 32 funds which manage assets of Rs.6,42,526 crores under 475 schemes as compared to assets worth Rs. 47,000 crores under management in March 1993. However, the accolades regarding the growth of the MF industry should be reserved until this growth is analyzed taking the MF industry in other developed countries in consideration. Here are certain statistics that reflect that Indian Mutual Fund industry still has a long way to go when compared to global standards.

Indian Mutual Fund; History

First Phase – 1964-87

Unit Trust of India (UTI) was established in 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 de-linked 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.

Second Phase – 1987-1993 (Entry of Public Sector Funds)

The year 1987 marked the entry of non- UTI, public sector banks, Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) to set up their mutual funds. SBI Mutual Fund was the first non- UTI Mutual Fund established in June 1987 followed by LIC, which established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990.

Third Phase – 1993-2003 (Entry of Private Sector Funds)

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 families. 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 (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993. 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.

Fourth Phase – since February 2003 In February 2003

following the repeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs.29, 835 crores as at the end of January 2003, representing broadly, the assets of u/s 64 schemes. (Assured return and certain other schemes). The Specified Undertaking of Unit Trust of India, functioning under an administrator and governed by the

Saarth

E-Journal of Research

ISSN NO: 2395-339X

rules 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, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs.76, 000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations. Recent mergers taking place among different private sector fund industry has entered its current phase of consolidation and growth. Apparently MFIs in India has undergone significant structural changes during the last four decades. After growing slowly for most of the times since its inception, the industry underwent significant growth rate since 1993.

The entry of private players has galvanized the sector as increased competition has forced industry players to focus on product innovation, market penetration identifying new channels of distribution and last but not the least improving investors' service. Entry of private players meant that not only the market share but also the mind share of investors was captured. These players went on high marketing pitch to create awareness among the investors about the advantages of investing in mutual funds. All these measures helped the industry grow significantly. At the end of December 2006, there were 32 funds which manage assts of Rs. 323597 crores under 475 schemes as compared to assets worth Rs. 47,000 crores under management in March 1993. Besides low interest rate era, tax holidays on some schemes, excellent performance of the stock market in the last couple of years have contributed to the growth of MFIs.

Investor's Perception

To examine the investors' perception, a sample of 400 Investors of Gujarat investing in mutual fund was selected.

- *34 per cent of the target population included business class*
- *50 per cent service class and the remaining*
- *16 per cent were professionals*

Investor's Age Group

Nearly three-fourth of the target population was in the age group of 25 to 50 years of age. One fourth of the target population was above 50 years of age and the balance 6 per cent below 25 years of age.

Investor's Income Group: Total Investment in Mutual Funds.

- *58% Investors 10,000 to 40,000 Rs*
- *26% Investors 40,000 to 50,000 Rs*
- *16% Investors Above 50,000 Rs*

The confidence level of the investors in the stock market and mutual funds

The confidence level of the investors in the stock market and mutual funds is almost the same.

Saarth

E-Journal of Research

ISSN NO: 2395-339X

- Nearly two-third of the investors demonstrated moderate confidence level in the stock market investment.
- nearly seven-tenth of the investors demonstrated moderate confidence level in mutual funds.
- Nearly one-fifth of the investors demonstrated high level of the confidence in opting both the stock market as well as mutual funds.

Ratio of Investment

The survey undertaken reveals that-

- 60 % of the investors invested 20 to 40% of the total investment in mutual funds.
- 10 % of the investors invested more than 50 % of the total investment in mutual funds.
- 30 % of the investors invested 10 % of the investment in mutual funds.

Duration of the Investments

- Nearly one-half of the investors prefer to keep their investment in mutual funds from one to three years.
- Investors do not want long term investment due to delayed realization of returns.
- Likewise, investors did not invest in one year mutual funds because of greater risk involved in them.
- Hence, investors are interested to keep investment for an average period in mutual funds.

Analysis of Micro Factors Influencing Mutual Funds

- 40% of the investors prefer to invest on the recommendations of their friends and relatives
- 30% investors depends upon the recommendation of their financial advisors.
- 30% the investors give more importance to their own analysis and perception and equal proportion thought that mutual fund managers image has got a major role to play while making mutual fund investment.

Attempt is also made to examine the macro factors influencing mutual fund investment. Different investors have different reasons as per their judgment and assessment. Safety of investment is the major factor (27 per cent) which influences their investment, and other thinks return or tax benefits as major factors for their investment. Liquidity and conscience is the least factor for mutual fund investment. Analysis of the most popular schemes of mutual fund investment reveals that investors like to invest more in Growth Shares because they wanted to get maximum returns by taking benefit of share market boom. Income share and monthly income plan are very popular among the old age investors and risk averters. On the other hand, balanced share is least popular among the investors.

The frequency of monitoring the investment in funds is representative of the awareness level of the investors. Nearly one-third of the investors monitor their investment on weekly basis; one-fourth on fortnightly and one-tenth on daily basis. Investors take the information about various mutual fund schemes from the electronic as well as print media such as magazines,

Saarth

E-Journal of Research

ISSN NO: 2395-339X

journals newspapers etc because experts give such types of information only. Investors do not want to rely on Hoarding and pamphlets being not easily available and that too at uneven time horizon. On the other hands, print media comes in the markets on weekly or monthly basis while electronic media is available 24 hrs a day like CNBC Channels. Eight-tenth of the mutual fund investors feel consented with their decision of investing in mutual funds. On the other hand, one-fifth of the respondents are not satisfied with their investment due to poor service after sales (9 %) other better paying avenues in the market (6 %) and longer redemption period (21 %).

Further, investors believed that mutual fund fetch more returns as compared to investment in stock market directly. But investment is slightly risky. Mutual funds also ensure sufficient liquidity as most of the schemes are open-ended. A lion's share of the present investors (three-fourth) is willing to reinvest in mutual funds. One half of the investors believe bright future of mutual fund industry. Only 5 % believe to be dark and 9 %, believe it a risky avenue. One-tenth of the investors believe that most of the people are not aware about the functioning of the mutual fund industry. Some steps must be taken to make the people more aware so that it can have a bright future.

Conclusion

Generally people have a traditional mind-set of investing in banks, post offices and government securities.

In the era of decline in interest rates, investors are looking for at other avenues and mutual funds is the foremost avenue. Awareness of the industry is the major factor for pushing the growth of industry. There is, therefore, a strong need for improving the awareness in a big way. Income funds are still a good option in which investors can have the benefit of regular income. But investors should remember the old maxim that *one should not put all the eggs in one basket*. Investors must diversify their investment across different mutual fund schemes considering their own investment needs, both short and long terms and their investment horizon. A fund past performance is no guarantee of its future performance. Investors should always take into consideration the fund's investment objectives as well as its styles. *Investors should not compare Apples with Oranges*. That fund must be compared within the same category. For example an equity diversified fund should compare with equity diversified and not with debt or balanced funds.

Some Suggestions to the Investors of Mutual Funds

Investors should follow the rules which will help them to meet their investment objectives: They are-

1. ***Know the risk profile***
2. ***Identify investment horizon***
3. ***Read the offer documents carefully***
4. ***Go through the fund fact sheet diversify across fund houses***
5. ***Don't chase incentives and track your investment***