A DESCRIPTIVE STUDY OF MUTUAL FUNDS IN INDIA- ON APPRAISAL TO GROWTH

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Abstract

Mutual funds play a crucial role in the economic development of the respective countries. The active involvement of mutual funds in the economic development can be seen by their dominant presence in the money and capital markets world over. Their presence is, however, comparatively stronger in the economically advanced countries. The present study is aimed at finding the growth of mutual funds in India as a whole as well as by taking two giant of the industry i.e. SBI Mutual Funds and the Tata Mutual Funds as the sample of the study during duration of last 09 years starting from 2009-10 to 2017-18. Using public available data on various sources has been utilized to obtain the absolute amount as well as indexing value in percentage terms. The findings of the study have reported a tremendous growth in terms of size and index value not only in entire Indian mutual fund industry but also in both the sample companies under study.

Keywords: Mutual Funds, SBI Mutual Funds, Indexing Value

Introduction

There are a lot of investment avenues available today in the financial market for an investor with an investable surplus. A person can invest in Bank Deposits, Corporate Debentures, and Bonds where there is low risk but low return. He may invest in Stock of companies where the risk is high and the returns are also proportionately high. The recent trends in the Stock Market have shown that an average retail investor lost with periodic bearish tends. People began opting for portfolio managers with expertise in stock markets who would invest on their behalf. Thus we had wealth management services provided by many institutions. However, they proved too costly for a small investor. These investors have found a good shelter with the mutual funds. A mutual fund is the ideal investment vehicle for today's complex and modern financial scenario. Markets for equity shares, bonds and other fixed income instruments, real estate, derivatives and other assets have become mature and information driven. Price changes in these assets are driven by global events occurring in faraway places. A typical individual is unlikely to have the knowledge, skills, inclination and time to keep track of events, understand their implications and act speedily. An individual also finds it difficult to keep track of ownership of his assets, investments, brokerages dues and bank transactions etc. A mutual fund is the answer to all these situations.

Mutual funds play a crucial role in the economic development of the respective countries. The active involvement of mutual funds in the economic development can be seen by their dominant presence in the money and capital markets world over. Their presence is, however, comparatively stronger in the economically advanced countries. The role of the mutual funds in the form of financial intermediation, by way of resource mobilization, allocation of resources, and development of capital markets and growth of corporate sector is very conspicuous. Mutual funds also play an important role in the stock market by way of ensuring stability as supplier of large resources and through steady absorption of floating stocks.

Emergence of mutual funds in the Indian scenario is a product of constraints on the banking sector to tap the fruits of the capital market and the reluctance of the investors to take a direct plunge in complex and erratic capital market operations. Mutual fund entered the arena of this service sector in an admirable manner. The Indian Mutual Fund Industry is one among the top 15 nations in terms of assets under management, which has crossed USD 100 billion. As a globally significant player the Indian Mutual Fund Industry is attracting a bigger chunk of household investments and is expected to witness five to six times growth in the next seven to eight years. The present study analyses the growth of mutual funds in India.

Review of Literature

Muthappan P K and Damodharan E (2007) evaluated 40 schemes for the period April 1995 to March 2000. The study identified that majority of the schemes earned returns higher than the market but lower than 91 days Treasury bill rate. The average risk of the schemes was higher than the market. 15 schemes had an above average monthly return. Growth schemes earned average monthly return. The risk and return of the schemes were not always in conformity with their stated investment objectives. The sample schemes were not adequately diversified, as the average unique risk was 7.45 percent with an average diversification of 35.01 percent. 23 schemes outperformed both in terms of total risk and systematic risk. 19 schemes with positive alpha values indicated superior performance. The study concludes that; the Indian Mutual Funds were not properly diversified.

Panwar and Madhumathi (2009) in their study utilizes the example of private- sector and public-sector supported mutual funds of diverse network resources to examine the dissimilarities in individuality of possessions at hand, portfolio alterations, and changeable consequences of alterations on depositor functioning between 2002 and 2005. The research shows that public-sector supported funds are not different from private-sector supported funds specifically on procedural norms on returns percentage. Nevertheless, there is a noteworthy distinction among mutual funds supported by the public-sector and mutual funds supported by the private-sector regarding the average regular variation, standard variance and standard coefficient of variation (COV). The research also identified a numerical dissimilarity among funding groups regarding e SDAR (excess standard deviation adjusted returns) as a functional gauge. When residual variance (RV) is employed as the gauge of mutual fund group development features, there is a numerical variation among mutual funds supported by the public-sector mutual funds supported by the private-sector during the research time frame. The prototype developed on gauging the influence of branching out on mutual fund functioning and noted that a numerical variation between funding groups when RV is employed as a gauge of group branching out and e SDAR as a functional gauge. Residual Variance, nevertheless, has a straight influence on Sharpe fund functional gauge.

Agarwal (2010) in his research paper discusses the procedure to investigate the Indian Mutual Fund Industry valuation system with experiential theories on its assessment. The research paper in addition investigates information the fund-manager and fund-investor stages together. The research shows that the functioning is influenced by the saving and investment behavior of individuals and the other aspects of the self-assurance and allegiance of the fund Manager and benefits involve the functioning of the Indian mutual fund sector.

Acharya and Sidana (2011) tries to categorize hundred mutual funds using group investigation and employing a wide range of norms similar to the yearly total proceeds, the annualized 2 year proceeds, the annualized 5 year proceeds, beta, alpha, R-squared, mean and standard deviation and Sharpe's ratio. The information is gained from 'Value research online'. There is proof of discrepancy among the categorization of the purpose of saving and the proceeds gained by the mutual fund.

Lakshmi (2013) analyzes the functioning of the mutual funds sector in India by particularly making a reference to developing plans. The main aim of development plans with expansion chances assures utmost capital increase. Therefore, the investigator proposes to examine expansion plans with plans started in 1993 and at the same time functioning in a disciplined atmosphere. The objective of the study was to spot if mutual funds in India enjoyed a steady expansion, found the issues impacting the choice of the depositors and make out the opinions of fund managers, brokers and investors. Depositors opted for mutual funds based on steady income, security, profit and tax relief. The study also reveals that mostly private sector joint venture mutual funds in India were greatly popular among depositors and dealers. Dealers and depositors both find expansion plans succeeded by income plans a better option. Brokers / agents were the main source of information about mutual funds. In the depositors point of view mutual funds prefer the benefits of abundance while brokers choose mutual funds for its group diversification, liquidity of investment and professional management. For depositors, increase in capital was the deciding factor to choose a particular mutual fund plan. For traders, proceeds on their speculation and the security it offered was the norm to choose a particular mutual fund plan. At the same time for fund administrators, increase in the capital, liquidity and their environment happen to be the important reasons for choosing a certain mutual fund plan.

Kapil Sharma (2016) in his article explores the performance of few equity mutual funds in India and throws light on investing on the same. He says that mutual fund managers, use portfolio diversification as a strategy across various asset classes and within an asset class to enhance the performance of their schemes. The purpose of diversification is to cut down risk, he adds. His analysis proves that funds that were quick to adapt to changing market conditions jarred well he says. He concludes that mutual fund scheme has a defined investment objective and strategy. Equity mutual funds are one of the avenues if a person is looking for any real return on his/her investment i.e., returns are reasonably higher than the current rate inflation.

Tarnal Dutta Chaudhri (2017) examines the return distribution of select mutual fund schemes across various Asset Management Companies in India. The data period covers between August 1, 2005 and December 1, 2006. The AMC’s covered in the study include, SBI, KOTAK, TATA GROUP, LIC etc. The findings begin with the computation of daily returns, fund – wise, for each AMC. He concludes this article’s purpose is to examine the returns distribution of selected funds for a selected sample of AMC’s. All funds do well. It is during the bearish phase; the performance of mutual funds comes under the scanner. The results that occur during this phase, along with the return pattern across all AMC’s and all funds get diffused.

After studying the related reviews, it is found that there is a tremendous growth of mutual fund industry in recent years in India that has given a new dimension to Indian economy with the globalization of Indian financial market. Many of the studies related to different securities were available but there is a scarcity of research work on mutual fund industry. There is a possibility to conduct research to identify the trends of India’s mutual fund industry and analyze the growth of different mutual fund companies. Moreover, mutual fund players are slowly realizing the potential of middle class cities of India. Increased penetration is helping the industry improve its assets under management. Today most of the mutual funds are concentrating on the ‘A’ class cities. It is being observed that ‘B’ and ‘C’ class cities are growing rapidly. Soon mutual fund companies will find scope in the growing cities. After liberalization by Government of India in year 1991 the service industry has shown the tremendous change and vibration during last twenty years. Hence, there is big scope for expansion. So, there is need to conduct further studies to answer these matters, hence put some research implication for a researcher. By considering the research gap and to fulfill this gap, the proposed study on **“A Descriptive Study on Appraisal to Growth of Mutual Funds in India”** is taken as a topic.

Research Methodology

The proposed study will be conducted by the following methodology:

Research Design

The proposed study will be both descriptive and exploratory in nature.

Selection of sample

The study deals with the examination of activities involved in an economic analysis of growth of mutual funds by taking a data set from the entire mutual funds industry. The study has further analsed by taking two major company as the sample of entire industry and those are State Bank of India Mutual Fund (SBI Mutual Fund) and Tata Mutual Fund. The justification behind this selection is that SBI is the largest public sector bank of India whereas Tata mutual fund has attracted a large number of investor in last 09 years.

Data collection

The source of data is secondary in nature which include quantitative data and it has been collected by using governments authorities (SEBI, RBI), associations (AMFI, CII) and mutual funds websites (SBI, TMF, Value Research), various publication (monthly/quarterly/annual reports, research reports), journals, books, research papers, magazines, articles, fact-sheets published and unpublished documents of the mutual funds.

Analysis of Data

Data has been used by finding the index value in percentage by assuming the 2009-10 as the base year. The formula used for calculating the index value is to divide the current year value to base year value and multiply it with 100 to obtain value in percentage.

Findings and Analysis

The following Table-I shows tremendous growth till year 2014-15 except downturn in year 2011-12 and touched 2180.50% index growth vis-à-vis investment in this avenue touched the highest of Rs. 56,475 Crores of household savings in year 2014-15. As mutual funds invest into shares and share market plunged in year 2014-15 which saw flow in mutual funds later on (except year 2010), huge redemption pressure was seen in year 2017-18.

Table I – Summary of Mutual Funds Business in Indian Market

Year	Mutual Funds	
	Amount (Rs. Crores)*	Index Value (%)#
2009-10	2590	-
2010-11	4067	157.03
2011-12	1596	61.62
2012-13	22162	855.68
2013-14	34399	1328.15
2014-15	56475	2180.50
2015-16	10450	403.47
2016-17	33040	1275.68
2017-18	-11600	-447.88

Source: RBI Annual Policies from 2009-10 to 2017-18

*Mutual Funds include mutual funds of companies including UTI

#Index Value = P1/P0*100 (P0 = Year 2009-10)

(Index value (%) has been rounded off to nearest number after decimal)

As year 2012-15 had huge inflow because boom in economy and people started investment in mutual funds not only lump-sum but through small savings like SIP. But again tremendous changes have been seen in

2016-17 and 2017-18 that turned positive as well as negative flow which creates positive and negative impacts for future prospect in mutual funds industry.

Table II – Summary of Mutual Funds Business of SBI

Year	SBI MUTUAL FUND	
	Amount (Rs. Crores)*	Index Value (%)#
2009-10	3312	-
2010-11	5340	161.23
2011-12	6635	200.33
2012-13	13249	400.03
2013-14	17016	513.77
2014-15	26490	799.82
2015-16	27846	840.76
2016-17	36704	1108.21
2017-18	41672	1258.21

Source: RBI Annual Policies from 2009-10 to 2017-18
*Mutual Funds include mutual funds of companies including UTI
#Index Value = P1/P0*100 (P0 = Year 2009-10)
(Index value (%) has been rounded off to nearest number after decimal)

The Table-II shows assets under management of SBI mutual funds. SBI which is public sector sponsor mutual funds, showing consistent growth in terms of YOY basis, since year 2009-10 to year 2017-18 every year its AUM has been increasing and reached Rs. 41672 Crores in year 2017-18 from Rs. 3,312 Crores in year 2009-10 and showing 1258.21% index growth.

Table III – Summary of Mutual Funds Business of SBI

Year	TATA MUTUAL FUND	
	Amount (Rs. Crores)*	Index Value (%)#
2009-10	2419	-
2010-11	7240	299.30
2011-12	9543	394.50
2012-13	24670	1019.84
2013-14	46307	1914.30
2014-15	90938	3759.32
2015-16	80963	3346.96
2016-17	110413	4564.41
2017-18	101577	4199.13

Source: RBI Annual Policies from 2009-10 to 2017-18

*Mutual Funds include mutual funds of companies including UTI
#Index Value = P1/P0*100 (P0 = Year 2009-10)
(Index value (%) has been rounded off to nearest number after decimal)

The following Table-III clearly witness for the tremendous growth of Reliance assets under management, it was Rs. 2,419 Crores in year 2009-10 and reached Rs. 1,01,577 Crores in year 2017-18, year of year growth is also visible. It touched the highest level of Rs. 1,10,413 Crores in year 2016-17 that shows people belief over private sector mutual funds even global meltdown.

Conclusion

The findings of the study have clearly advocated that the mutual fund industry has shown a tremendous growth during the period under study. Moreover, the growth has collectively found in private as well as in public sector player with a similar deviation every year.

Furthermore, as data discussed above show that people trust over both the mutual funds, both the funds AUM are showing upward direction means investors are willing to invest not only public sector but private sector mutual fund also. Basically they look forward to returns, funds which performs better people betting on it either it belongs to public sector or private sector no meaning. Due to this reason, many private and foreign players are also foot printing in India and now their focus shifted from metro cities to Tier 2 and Tier 3 cities where there is huge scope for mutual fund expansion. However, Financial savings in India are still preferable in physical assets such as land, gold and silver. Proper channelization of Indian household savings in financial assets can lead to huge capital flows in various assets classes, thereby reducing the dependency on foreign capital flows.

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