

A Study on the Growth and Prospects of Indian Mutual Fund Industry



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Abstract

The Indian Mutual Fund Industry is a fast growing industry in the financial sector. Mutual Fund schemes have become the most preferred investment avenue in the recent past. Considering the high returns, liquidity, safety, professional management and comparative low risk, investors prefer the Mutual Fund route for their investment planning. The Mutual Fund Industry is a fast growing segment of the Indian Financial Market. It provides various schemes to the Investor to suit to their needs and risk return profile of different categories of investors. More and more investors have been pumping their money in the Mutual Fund Industry and it is the most desired investment avenue for the Investors. The main genesis of the performance of the Mutual Fund Scheme is to maximize the returns and minimize the risk involved in investing in securities.

The objective of the research is to give a direction to the Investors and Fund Managers for investing in potential high-performing schemes. The present research is concentrated on finding out the various factors affecting the performance of Mutual Fund Schemes. And In the research paper necessary graphs, charts and testing of the hypothesis performed was carried out.

Keywords: Factors, Performance, Mutual Fund.

Introduction

Mutual fund is the pool of the money, based on the trust who invests the savings of a number of investors who shares a common financial goal, like the capital appreciation and dividend earning. The money thus collect is then invested in capital market instruments such as shares, debenture, and foreign market. Investors invest money and get the units as per the unit value which we called as NAV (net assets value). Mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in diversified portfolio management, good research team, professionally managed Indian stock as well as the foreign market, the main aim of the fund manager is to taking the scrip that have under value and future will rising, then fund manager sell out the stock. Fund manager concentration on risk – return trade off, where minimize the risk and maximize the return through diversification of the portfolio. The most common features of the mutual fund unit are low cost. A Mutual fund is type of Investment Company that gathers assets form investors and collectively invests in stocks, bonds, or money market instruments.

Mutual funds account for only around 3% of the overall equity market capitalisation in India while they represent more than 30% of the market capitalisation in the US. The Indian mutual fund industry manages roughly \$87.5 billion of assets, which constitute only about 0.4% of the global assets under management. India where household savings are usually high, one would expect mutual funds to become popular once made available. One would expect that poorly finance literate Indian investors participate in the economy's growth by outsourcing the complex process of investing to mutual funds rather than trying to do it themselves.

For various reasons, mutual funds have not been the investment of choice for Indian households. Government estimates suggest that investments in security related investments, including mutual funds, have hovered around 45% of household savings for more than a decade despite significant governmental concessions. Physical assets such as real estate and gold along with the "safer" bank deposits continue to be sought after by Indian investors. Aside of structural reasons, lack of objective and scientific research on mutual funds has also hurt the promotion of the culture of investing through intermediaries among Indians.

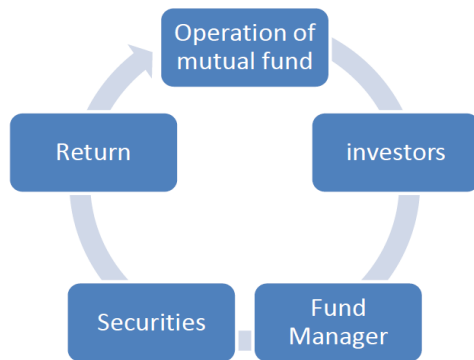
This paper is an attempt to examine the state of the Indian mutual fund industry with secondary data and view some of its challenges and opportunities from an academic point of view.

Mutual Fund Industry has witnessed exponential growth in the last decade the mutual fund industry in India started in 1963 with the formation

of Unit Trust of India, at the initiative of the Government of India and Reserve Bank then.

Organization Structure of Mutual Funds

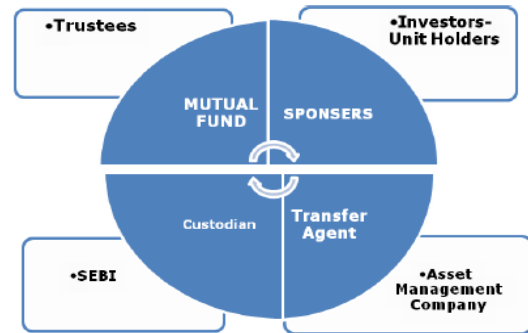
Mutual funds have organization structure as per the Security Exchange Board of India guideline, Security Exchange Board of India specified authority and responsibility of Trustee and Asset Management Companies. The objectives is to controlling, to promoted, to regulate, to protected the investors right and efficient trading of units. Operation of Mutual fund start with investors save their money on mutual fund, than Mutual Fund manager handling the funds and strategic investment on scrip. As per the objectives of particular scheme manager selected scrips. Unit value will become high when fund manager investment policy generate the return on capital market. Unit return depends on fund return and efficient capital market. Also affects international capital market, liquidity and at last economic policy. Below the graph indicates how the process was going on to investors to earn returns. Mutual fund manager having high responsibility inside of return and how to minimize the risk. When fund provided high return with high risk, investors attract to invest more fund for same scheme.



The Mutual fund organization as per the SEBI formation and necessary formation is needed for smooth activities of the companies and achieved the desired objectives. Transfer agent and custodian play a role for dematerialization of the fund and unit holders hold the account statement, but custody of the unit is on particular Asset Management Company. Custodian holds all the fund units on dematerialization form. Sponsor had decided the responsibility of custodian when investor to purchase the fund and to sell the unit. Application forms, transaction slip and other requests received by transfer agent, middle men between investors and Asset Management Companies.

Structure of the Industry

The industry comprises of the Asset Management Companies (AMC) or manufacturers of the Mutual Fund, Distributors comprising of Banks, Independent Financial Advisors (IFA), National Distributors, Direct customers, Investors – Retail and Corporate and the governing body is Securities and Exchange Board of India (Sebi). Currently there are over 41 Asset Management companies with 1216 Mutual Fund schemes.



Classification of Indian Mutual Funds based on official classification

Equity Funds & Debt Funds. Debt:

Liquid Funds

Invest in short term debt instruments with a 91D maturity.

Ultra Short Term Bond Fund

Invest in high credit quality instruments that mature in short period.

Floating Rate Funds

Invest into debt instruments with variable coupon rate that are linked to predetermined indices.

Short Term Income Funds

Invest into fixed income security having shorter maturity periods.

Dynamic Bond Funds

Invest into debt instruments like corporate bonds, government securities, money market instruments, securitized debt etc.

Income/Bond Fund

Invest into corporate bonds, government securities, money market instrument and securitized debt of varying maturities.

Short Term Gilt Fund

Invest into short-term government securities and into money market instruments.

Gilt Fund

Invest into government securities across various maturities and into money market instruments.

Fixed Maturity Plan

These are closed-ended funds by AMCs with a defined tenure. The underlying investments are into debt securities whose maturity mature on or before the date of maturity of the Scheme.

Equity : Diversified Equity Fund

Invest into well-diversified portfolio of equity stock.

Large Cap Funds

Invest mostly into companies having a large market capitalization. Large cap companies tend to be financially stable and are widely traded.

Mid/Small Cap Funds

Invest into medium and small sized companies that are smaller than large cap companies in their market capitalization.

Flexible Cap/Multi-Cap Funds

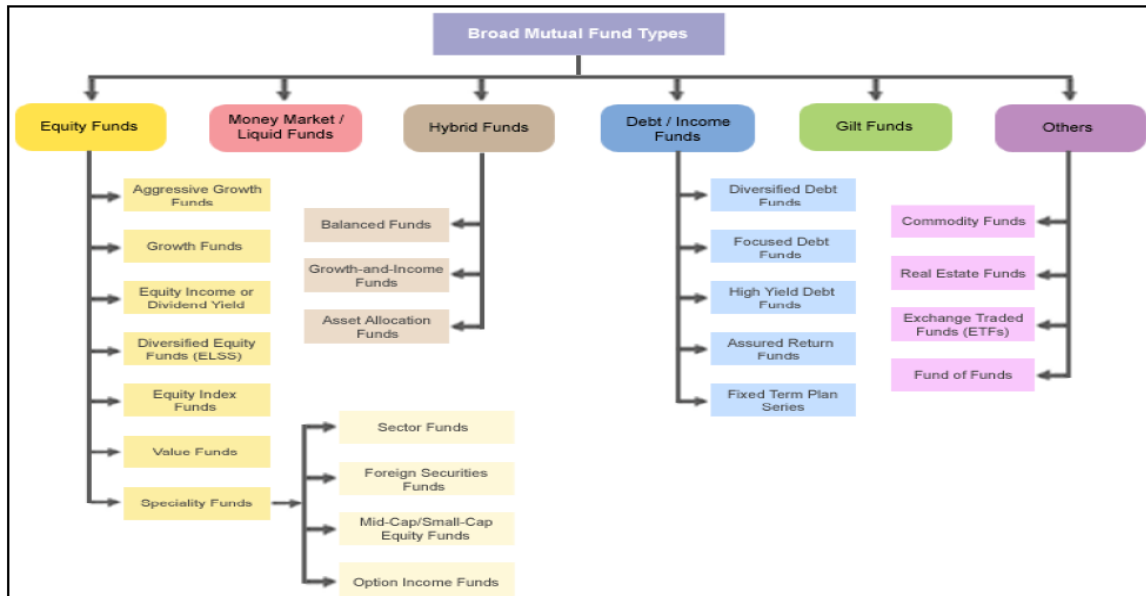
Invest into stock across market capitalization i.e. large, mid and small caps.

Hybrid Funds

These are predominantly debt fund, historically seen to be investing between 70%-95% into debt assets with the balance being invested into equity.

Balanced Fund

These funds attempt to provide a balanced exposure across debt and equity investments.



Literature Review

A survey of the academic finance literature on mutual funds studied by different scholars reveals wide variation in the factors affecting performance of mutual funds. An attempt has been made to review some existing literature available and having broad relatively with the subjective area.

Treynor, Jack L. (1965), - How to Rate the Management of Investment Funds, Harvard Business Review, Vol 43, No.1, Jan – Feb. , pp. 63-75. The Treynor depicts about scheme rate and fund manager investment style. The fund manager success in the side of selection of the scrip, fund provided first-rate return.

Applied Finance, Sept 2007 Volume 13 No: 9. The Institute of Chartered Financial Analysts of India, University Press ICFAI, how to maximum take the benefit for fluctuation of the capital market. Here the author accent how to take maximum benefits for fluctuation of capital market, trading of units

Journal Capital Market October 22, No: 04 2007, Volume XX11/17 issuing by capital market publishers India Pvt. Ltd, What is the future situation for the capital market and how much fund will come to the mutual fund industry. The data indicates how capital market reacts and take advantages of it.

E.J. Elton and M.J. Gurber (1996) have tried to prove that past performance is predictive of future risk adjusted performance and form a combination of actively managed portfolios with the same risk as a portfolio of index fund but higher mean return. The research paper weight on portfolio index return means market return and could fund provided same return.

Carhart, Mark M., 1997, on persistence in mutual fund performance, *Journal of Finance* 52, 57—82. On determination of the fund performance need to identification risk and measures fund return. The paper demonstrate how to identified scheme and diversification of the portfolio. The portfolio need to adjustment risk.

Jayadev, M (1996),- Mutual Fund Performance: An Analysis of Monthly Returnsll, Finance India, 10 (1) March, pp 73-84: The Mutual

Fund Performance shows the how the investor trade on unit, would Fund provided same return liked capital market provide.

Turan, M.S.; Bodla, B.S. and Mehta, Sushil Kumar (2001), —Performance Evaluation of Listed Schemes of Mutual Fund, Management Researcher, (July – December,), pp. 38 -66. Evaluation of the fund indicates schemes achieve the desired objective or not. The schemes have mentioned the objectives of the particular schemes.

Eugene, Fama (1972), —Components of Investment Performance, *The Journal of Finance*, June, pp. 551 – 567. The components of investment performance should shows sectors of investments and each of the sectors how much provided return, same fund provided return which shows the industry return, than diversification of the portfolio.

Jenson, Michael C. (1967), The Performance of Mutual Funds in the Period 1945 – 1964II, The Journal of Finance, Vol 23, No. 2, pp.389 – 416. The research paper indicates the past performance of the fund, predict the future demand of the fund, investors attract to invest in Mutual Fund.

Research Methodology

The research design is the conceptual framework within which researcher study is conducted and it construct the blue print for collection of data, measurement of data, statistical tools for analysis and analysis of variance. Research design included an outline of what the researcher will do from writing the hypothesis and its operational implication to the final analysis of data.

Good research design is often features like flexible, appropriate, efficient, and economical. Fund managers of the assets management company also do the research to identify the market and would find period to buy, to hold and to sell the scrip. Fund managers having good researcher team who continuous analysis of economic market, fundamental analysis, efficient market and technical analysis of the particular index. Mutual Fund researcher identifies the international financial market and how international financial instruments value could identified. Research

specified research processing and analyzing of the data.

Sampling Design

Universe

The universe of the study consists of the all the assets management companies (AMC), included selected five start mutual funds under the different objective of the study.

Sampling Unit

The sample unit included Equity Schemes Diversification Funds, Balanced Schemes, Income Balanced Schemes, Monthly Income Funds, Long – Term and Short – Term Funds. All the schemes rating the five starts by Mutual fund Insight.

Objectives of the Study

The objectives of the study may be summarized below

1. To evaluate the growth of mutual funds
2. To documents investments on selected assets allocation trends of mutual funds
3. To identified capital market return with security market return.
4. To evaluate the overall performance of mutual funds

Sources List

Sample should collect on secondary sources. It's included the mutual fund fact sheet and magazine the- Mutual Fund Insightll. and addition to others journals, magazines, articles, books and the publisher and unpublished documents of the mutual funds have been consider in the research.

Sample Period

Sample study should take from period January 2005 to December 2012.

Sample Size

Sample size of the study was as below:

1. Equity Diversified Mutual Fund 19th Schemes
2. Birla Sun Life Equity Fund
3. DSPML Equity Fund
4. Franklin India Prima Fund
5. HDFC Equity Fund
6. HDFC Top 200
7. Prudential Growth Fund
8. Kotak Opportunities Fund
9. Magnum Contra Fund
10. Magnum Global Fund
11. Reliance Growth Fund
12. Reliance Vision Fund
13. Sundaram Select Midcap Fund
14. Tata Pure Equity Fund

Hypothesis

The broader hypothesis for the study would be as under.

Ho:

There would be no significant difference in performance of various five starts Mutual Fund in various sectors.

H1:

There would be significant difference in performance of various five starts Mutual Fund in various sectors.

Data Collection

This study is completely based on the secondary data. This data is collected from various source specially from the journal – Mutual Funds – Insight - based on Value Research Magazines , and

addition to others journals, magazines, articles, books and the publisher and unpublished documents of the mutual funds have been consider in the research.

Total % of Assets of Main Financial intermediaries in Indian Households.

India 2008/9 2009/10 2009/10

Commercial Banks

52% 41.7% 42%

PF 10.1% 11.5% 9.1%

Mutual Funds -1.4% 3.3% -1.8%

LIC 21% 22% 24.2%

Source : From RBI

Mutual Funds account for very miniscule component of Indian Individual Investor's wallet.

Distribution of these Mutual Funds

1. Following is the breakup in % of AUM distributor wise as per CAMS which manages over 5 0% of the industry AUM as per Shah et all (2010):
2. Independent Financial Advisors (IFA) : 28%
3. Banks : 29% (PSU 4%)
4. Large Distributors : 36%
5. Direct : 6%
6. Market Share of Each type of Mutual Fund Manager :

(Source: Association of Mutual Funds in India)

Mutual Fund Fees in India

1. The expenses included in a Mutual Fund Product are Indirect Costs & Direct Costs.
2. Indirect Costs are the costs involved in the computation of NAV (Net asset Value). They include Initial Issue expenses and Annual Recurring Expenses.
3. Direct Costs include Entry Load, Exit Load, STT and Income Tax.

Summary of Charges in Open & Close Ended Schemes

There have been changes in the Fee structures of the Funds and currently as per August 2009 Sebi regulation, has done away with the entry load which used to be passed on to the distributor for sale of the fund. This has led to introduction of a structure where the distributor has now either charge the investor for the advise given or survive with the trail commissions. Post July 2011 there have been new drafts tabled on the model to follow- Advisory or Agent. The Indian Mutual Fund industry is in the midst of evolvement in terms of a regulatory framework and has witnessed drop in AUM's especially in 2009.Till such time as the industry structure mainly, fee structure evolves growth of AUM may not accelerate.

Limitation of the Study

1. The research done only selected a scheme which was related with five rating star and the value research magazine.
2. The data would not collect to the Assets Management Company data sheet, but collection from the market or secondary source.
3. The research analysis was based on the past performance of the only selected Equity Diversified Scheme.
4. Fund manager investment style based on capital market situation. It could not possible always pursue the mentioned objectives.

Conclusion

The Paper directs the Mutual Fund Investors and Mutual Fund Managers to invest in potential high

–Performance Schemes. Mutual Fund Investors react more strongly towards equity fund. Investors feel that the AMC should come up with innovative schemes and they react negatively towards load fees.

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