CHAPTER – 1

INTRODUCTION

The Mutual Fund Industry in India was started with a humble beginning by establishing the Unit Trust of India in the year 1963, by the Government of India. "The main aim of the UTI was to enable the common investors to participate in the prosperity of capital market through portfolio management aimed at reasonable return, liquidity and safety and to contribute to India's industrial development by channelising household savings into corporate investment"[1]. By the year 1993, UTI occupied nearly 80 per cent of the market share and developed manifold in terms of number of investors, investable funds, reserves with wide marketing network and efficient leadership[2]. The Chartered Financial Analyst had commented that, "Mutual Funds today form 1/10th of the banking industry's size. If we compare this an indication in the current interest rate scenario, Mutual Fund has ample shelf-space to grow into an industry like the banking industry in India"[3]

Concept of Mutual Fund:

SEBI (Mutual Funds) Regulations 1993, define Mutual Fund as follows[4]

> "a fund established in the form of a trust by a sponsor to raise monies by the trustees through the sale of units to the public

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[1] Sinha H .K. and Meera Singh, *Mutual Funds and Indian Capital Markets*, Kaushika Publishers, 2004 New Delhi. p.44.
[2] Bhatt. R.S. *UTI and Mutual Funds,* UTI Institute of Capital Markets, Mumbai, 1996, p.31
[3] Chartered Financial Analyst, July 2005 – 74.
[4] Jayadev. M. *Investment Policy and performance of Mutual Funds,* Kanishka Publishers Distributors, New Delhi.

under one or more schemes for investing in securities in accordance with these regulations".

Frank Reilly defines, Mutual Funds "as financial intermediaries which bring a wide variety of securities with in the reach of the most modest investors".

Characteristics of Mutual Funds[5]

The specific characteristics of Indian Mutual Fund Schemes, can be narrated as listed below.

- **Assurance of minimum returns:**

In general mutual funds do not assure any minimum returns to their investors. However, Indian Mutual Fund Schemes launched during 1987 to 1990 assured specific returns till 1991, when the SEBI and Union Ministry of Finance order the mutual funds not to assure minimum returns. Recently, SEBI has formulated a policy that, mutual funds with a track record of five years will be allowed to offer fixed returns not exceeding one year period.

- **Multiple Options:**

Most of the mutual fund schemes are offering different options to the investors under one scheme. For example, a growth oriented scheme may offer option of either regular income or re-investment of income. Under the regular income plan, dividend shall be distributed to investors and under the second dividend will be reinvested and total amount shall be paid at time of redumption.

[5] Sadak. H. *Mutual Funds in India.* Response Books, New Delhi.

- **Lock in Period:**

Mutual Fund Schemes offer documents that contain a clause of lock-in period ranging from one year to three years. Till the completion of the minimum period the investors are to trade neither the units on the stock exchange nor to avail themselves of repurchase facility.

- **Liquidity :**

Generally open-ended funds offer the facility of repurchase and the close-ended are traded at stock exchange offering repurchase after a minimum lock in period of two to three years. Mutual funds also have a facility to pledge or mortgage at banks to obtain loan and can be transferred in favour of any individual.

- **Incentives to early subscribers:**

Most of the close-ended mutual fund schemes are offering incentives to encourage early subscription to investors. This is more often in the tax planning schemes. For instance, if the scheme is open for a period of three months, the investor may be allowed a deduction from the amount to be invested at a certain specified rate, if the subscriptions were during the specified time limits.

Capital Market – Indian Experience

India has been following liberalized and open economic policies since the advent of comprehensive economic reforms and structural adjustment program in 1991. The balance of payments crisis of 1991 led to the introduction of this new program, which aimed at more liberal policy towards foreign trade and investments. A continuous debate is taking place in this regard, particularly with reference to benefits and costs of economic reforms[6].

Economists by and large, tend to view free trade and open investment policies as positive forces and expect countries pursuing these policies to benefit significantly. Contrary to this some argue that free trade and investment policies favour the rich and hold a different view of globalisation of production process, market for goods and services as well as financial markets has heightened the debate on the impact of trade and open economic policies on economic growth, poverty and income distribution.

In the early years of the reforms, the Indian Capital Markets continued to display the growth and vibrancy that have been presented since the mid 1980s. However, this soon petered out and the capital markets ended a decade of reforms at a lower level on most dimensions than at the start of the reforms. During the period from January 1984 to October 1992 the market delivered a compounded annual returns at about 32 per cent in rupee terms (the market index went up more than eleven times) and 16 per cent in dollar terms (the dollar adjusted index went up nearly 4 times). By contrast, during the two decades from 1965 to 1984 the market had delivered a compounded annual returns of less than 6 per cent in rupee terms and less than one per cent in dollar terms.

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[6] Rama Krishna. G., *Volatility in Trade Openness Capital Inflows and Economic Growth*, ICFAI University Press: 2005. p.8

As a consequence of this explosive growth, a number of investors was attracted to the capital market. The capital market that used to attract only about 3 per cent of household financial savings in the 1970s and early 1980s absorbed 10 per cent of household financial savings by the end of the 1980s. This figure rose to a whopping 23 per cent in 1991-92.

Most of this growth stopped or reversed in the later half of the 1990s. At the end of February 2002, the market index in rupee terms was only about 7 per cent above the post scam level of October 1992. The average market index during the first eleven months of 2001-2002 was almost exactly the same as in October 1992. This means zero return in rupee terms in about 9 years. In dollar terms, the average index in the first eleven months of 2001-02 was less than half of what it was in October 1992.

The poor performance of stock market during the post reform period is due principally to a sharp fall in the price-earning ratio. In the last couple of years, the P/E ratio has halved from the levels of around 30 reached in the early years of the reforms. The P/E ratio is now back to pre-reform (late 1980s) level. The share of households savings flowing into the capital market (which had reached 23 per cent in 1992) fell back to about 5 per cent by the late 1990s. This is approximately the same level as in the early 1980s and sharply lower than in the late 1980s and early 1990s[7]

[7] Centre for Civil Society, http://www.ccsindia.org. p.24.

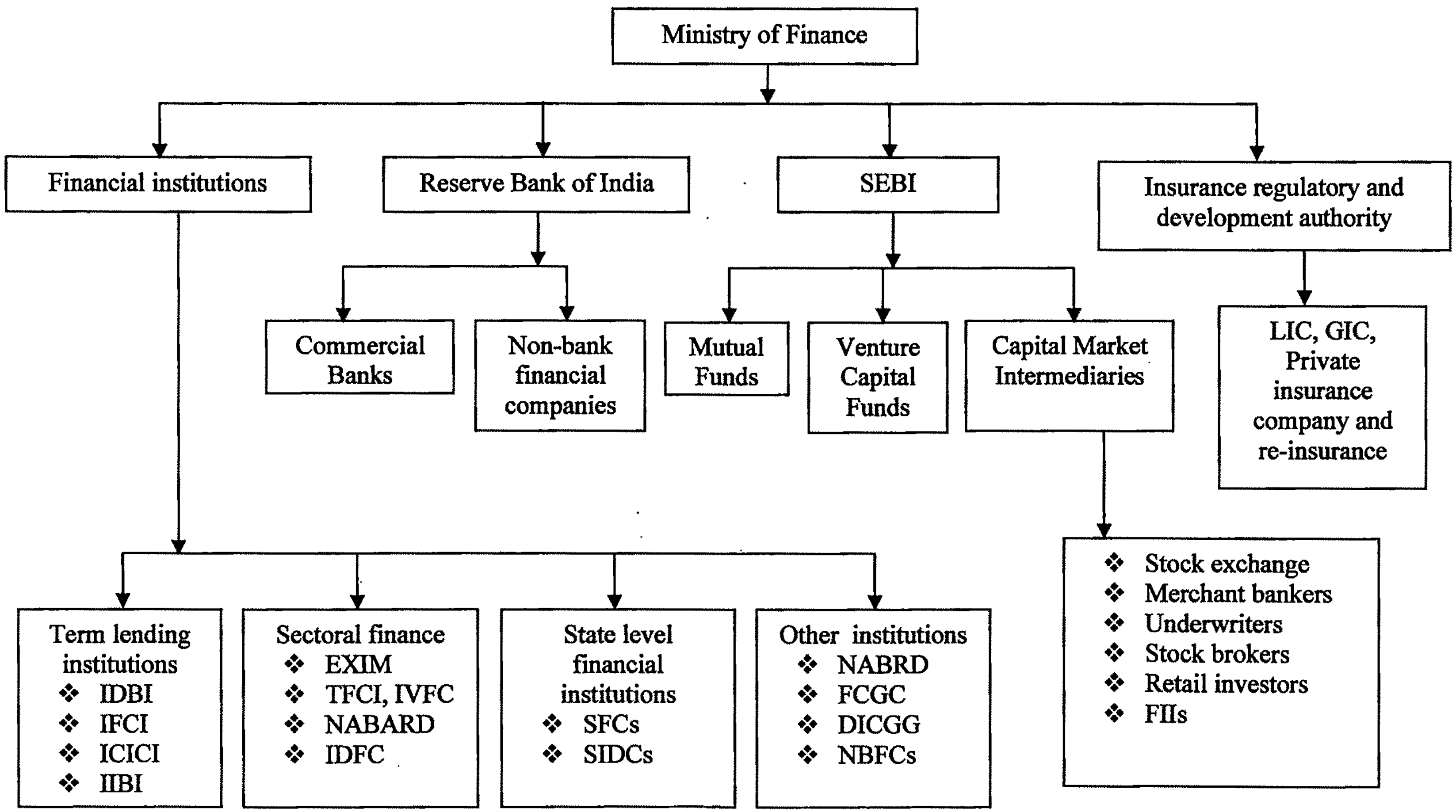
As far as mutual funds are concerned they got Rs. 1,02,000 crore Assets Under Management as on 30 September 2001. This represents about 20 per cent of the market capitalization, but since 70 per cent of the mutual fund assets are in schemes that are predominantly debt oriented, and other 17 per cent are in balanced funds, the actual equity holding of the mutual funds probably amounts to only about 5.7 per cent of the market capitalization[8].

Financial Markets & Mutual Funds

The financial sector in India consists of two broad segments, the organized and unorganized sectors. The former includes commercial banks, non-banking financial companies (NBFCs), development financial institutions (DFIs), mutual funds, insurance companies, pension and provident funds. The entry of private sector banks, mutual funds and insurance companies has made a dent in the dominance of the public sector. Several new generation public sector banks have emerged and are successfully challenging the public sector banks. Mutual funds from the domestic and foreign private sectors have taken away a significant proportion of the market share of the UTI and public sector mutual funds. The financial institutions that are operating in the organized sector can be grouped into the following categories as represented here under.

[8] Jayanth R. Varma, "*Indian Financial Sector After a decade of Reforms*", Centre for Civic Society, www.ccsindia.org

Figure 1.1
Structure of the Indian Financial Market



Source : H. Sadhak, **Mutual Funds in India** (Marketing strategies and investment practices)

Response Books, New Delhi- 110017, P.37

Growth of Mutual Fund Industry

The Indian Mutual Fund Industry is witnessing a rapid growth as a result of infrastructure development, increase in personal financial assets, rise in foreign participation, growing risk appetite, rising income, and increasing awareness mutual funds are becoming a preferred investment option compared to other investment vehicles such as bank fixed deposits and post office savings.

- After deregulation of India's mutual fund industry in the early 1990s, significant changes have been witnessed both in the structure and the content. For example, the number of players in the industry has gone up significantly and also there was a sharp shift from the closed ended schemes to the open-ended schemes as the phase of deregulation is getting advanced. Similarly there were so many other developments in the industry in recent years.
- After deregulation in 1994, the Indian mutual fund industry had only 11 players with an Assets Under Management of Rs. 62,430 crore. Out of this, 82.8 per cent was contributed by the UTI and public sector with close-ended funds as favourates[9]. Now the priorities of the investors have changed. As on 31 March, 2009 the number of players in the industry rose up to 35 with an Assets Under Management of Rs. 4,17,300 crore. Out of this 80 per cent has been contributed by the 30 private sector players (including foreign players). At present the open-ended schemes are the favourite schemes of investors[10]

[9] www.amfiindia.com
[10] www.valueresearch.com

- Of the total Assets Under Management as on 31 March 2009, an amount of Rs. 3,25,161 (78%) was contributed by the open-ended schemes and the rest was by close-ended schemes. Scheme wise, major share has been occupied by the growth schemes and income schemes. Out of the total Assets Under Management as on 31 March 2009, Rs.1,97,343 (47%) and Rs. 95,817 (23%) are belonging to growth and income schemes respectively[11].

- The mutual fund industry in India has come a long way since the formation of Unit Trust of India in 1963. During the past 45 years, the industry has seen many significant structural changes. The entry of private sector, foreign players and bifurcation of the UTI, which helped expand the market. After deregulation, many Indian and foreign companies formed as Joint Ventures to get the benefit of large scale economies and contributed major share of 42 per cent of Assets Under Management on 31st March 2009 from 20.1 per cent on 31 March 2000. The share of Assets Under Management of Joint venture predominantly Indian has also increased from 8.6 per cent to 37 per cent for the above period[12]

Growth of UTI

The UTI, which got only 1.32 lakh unit holding accounts with an investible funds of Rs. 24.67 crore and 0.07 crore reserves and provisions in 1964-65 have

[11] www.mutualfundsindia.com
[12] AMFI Quarterly and Monthly Reports

grown up tremendously and reached to 498 lakh unit holding accounts with an investible funds of Rs. 59,619 crore and Rs. 11,094 crore reserves by 1994-95. It clearly shows the growing prominence and strength in the financial market and fulfilled the desires of the investors and government. During the above period, its gross income also has gone up from Rs.1.53 crore to Rs. 7,995 crore. Resource mobilization has also gone up from Rs. 300 crore to Rs. 11,057 crore during the period of a decade from 1983-84 to 1992-93[13]. The different tailor-made schemes which are suitable to the different needs of investors like children gift fund to senior citizens fund are showing their competitive nature and dedication.

By the year 1994-95, the aim of the UTI had fulfilled by its vast network spreading over 48 offices with 2,381 employees and 85,000 agents. The distribution of the highest income of Rs. 5,179 crore in 1993-94 to the unit holders and payment of highest dividend of 26 per cent in 1992-93 shows their rich performance.

Subsequently with the setting up of mutual fund subsidiaries by the public sector banks (1987) LIC (1989) and GIC (1991), the monopoly power of the UTI has come to an end. These companies have mobilized a maximum of Rs. 2,956 crore (39%) during the year 1990-91, but after the entry of private players, this has been decreased[14]. But UTI still continues to be the market leader due to dynamic nature of shifting investment priorities from fixed income securities to equity vis-a-vis.

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[13] Bhatt R.S. *Unit Trust of India and Mutual Funds – A Study,* UTI Institute of Capital Markets, Mumbai, 1996, p.31.

[14] RBI Report on Currently and Finance 1993-94

However, the genesis of the payment crisis and fiscal deficit in 1991 had resulted in the structural reforms in the financial and capital market, which led to deregulation of various sectors. This has led to wider participation in different sectors by a number of private players since 1993. Due to cut-throat competition from private and foreign players on the one hand and the subsequent fall of stock prices because of Harshad Mehta Scam on the other hand adversely impacted the UTI, resulting in decline in trading profits and payment of high dividend.

In the light of the above facts and due to the bifurcation of UTI in the year 2003, the share of public sector including the UTI has drastically fallen down to 9 per cent of the total assets and 35.32 per cent (1.53 crore) unit holding accounts of the total mutual fund industry to 31-03-2009.

Factors contributing for the Growth of Mutual Funds

A slew of factors have contributed for the growth of mutual fund industry in India during the past two decades.

- The first and foremost reason is delivering of substantial returns by equity and debt-oriented funds. Different periods of outstanding performance aided by strong bull runs in the late 1990s, which saw the stock prices shooting through the roof, as well as the current bullish fervour which has helped equity- oriented funds deliver substantial returns.

- Debt funds too have been benefited by the soft bias in the interest rates. The volatility in the bond prices has also helped debt-oriented funds deliver handsome returns.
- Significant changes in the investment environment such as increased competition, on going reforms which allow mutual funds to invest abroad as well as in derivative instruments helped for growth of the industry.
- Unlike monopoly of UTI in the past, mutual fund industry now-a-days has been backed by FIIs and domestic market. "As per the ASSOCHAM estimates, the cumulative FII investments in the country had already touched a high of $ 40 billion by the end of October 2005. And domestic mutual funds emerged as a strong counter balance to FIIs during 2005. During the year they pumped in an unbelievable Rs. 13,190 crore into the stock market"[15]
- The transparency in operations and disclosure practices related to the NAV, stock selection strategies, portfolio churning costs, rationale for expense charges and investment related risks also fueled the growth of the industry.
- Stringent regulatory environment of the SEBI, investor awareness programmes offered by the AMFI, entry of foreign players with strong financial and research capabilities, potential entry of employee pension and provident funds and a slew of innovative schemes to cater to the different needs have attracted the investors.

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[15] "Hope or Fear", Mutual Fund Insight, Value Research, p.22

Other Factors

Other factors influencing the growth of mutual fund industry are

- **Standardization of operations :**

Mutual fund operations like maintenance of investment accounts and the scheme accounts by outsourcing is restricted. Marketing strategies in consultation with marketing advisors have been established by the AMCs. The SEBI regulations with respect to offer documents, NAV computation, NAV reporting, valuation of investments, accounting standards, performance reports etc., have tended to create a certain level of homogenization of the Indian mutual fund products.

- **Technology:**

Majority of the mutual funds have their own websites providing basic information relating to the schemes and enable purchase and redemption of units online for clients in select locations.

Most significant influence of technology is seen in servicing investors through agencies. The advantages of technology resulted in lower distribution costs through online transactions, more customized and personal advice to customers and reaching out to the growing young and net-savvy population of India[16].

[16] Sethu G. and Rachana Baid, *Trends and structures of the Indian Mutual Fund Industry,* Portfolio organizer, March 2003. The ICFAI University Press, P.16

- **Product Innovation:**

The tailor-made innovative schemes launched by the mutual fund houses have given investors option to choose funds which choose his investment needs. Schemes with systematic investment plan, automatic redemption plan, linking current accounts to money market mutual funds, cheque writing facility etc. are attempts to create homogeneity. Products such as Index funds, International funds, Ethical funds, Sectoral funds, Exchange traded funds, Pension funds, Children funds, Reality funds have galvanized the industry growth.

- **Competition and Efficiency :**

Early in the reforms process, it is recognized that greater competition and innovation would be required so that the public received better financial services. It is true that some steps have been taken to increase competition between financial intermediaries both within and across categories. Banks and financial institutions have been allowed to enter each other territories. Fields like mutual funds, leasing and merchant banking have been thrown open to the banks and their subsidiaries. The private sector has been allowed into fields like banking and mutual funds.

Issues and Challenges

The Indian mutual fund industry has strived hard for handling certain key challenges for further growth of the industry.

- The household savings rate in the country is approximately 37 per cent which though seems to be minute, compared to that of 40 per cent of East Asians, is significant when compared to the negative savings by the US residents.[17] Though India enjoys good savings rate, the mutual fund industry gets very little out of this. A large pool of money savings in India is still with banks. If this money is channelized into mutual funds, it will help India to match other well developed markets like USA and Canada.
- Another issue facing the industry is that till now the Indian mutual funds have focused on the 'A' Class cities and haven't made much impact on the B and C class cities and the rural areas, which have also increased in income levels and spending levels.
- Lack of deeper distribution networks and channels is hurting the growth of the industry. If the mutual fund industry comes up with better distribution models and increase its reach, it could tap into a huge potential investors market.
- Operational inefficiencies like lengthy transaction cycle, old fashioned return distribution models like cheque based returns by some of the mutual funds are hampering the growth prospects of the industry.

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[17] "Mutual Funds in India-on a growth Trial", Mutual Fund Special 2005, *Chartered Financial Analyst*, p.7.

- Investment in technology takeup huge capital and is pretty risky for the mutual fund companies to invest in. The rapid obsolescence of technology and huge upfront investment costs are also getting in the way of the mutual funds from embracing the technology wave.
- Lack of investment advisors, especially to give personalized investment advice to the investors is creating roadblocks for the growth in mutual funds.
- Fluctuations in the global markets and financial systems will now be evident as the Indian markets get linked to other financial markets. Managing risk in such a scenario will be a key challenge for the Indian Mutual Fund Industry.
- Despite a significant growth in the number of schemes and Assets Under Management of mutual funds in India in recent years, their level of penetration remains limited in comparison with other countries. This is reflected in the small size of Assets Under Management by them (amounting to less than 5 per cent of GDP as against 70 per cent in the US, 61 per cent in France and 37 per cent in Brazil) and small share of Household savings in units of mutual funds[18].
- Although the share of liquidity oriented schemes has increased significantly in recent years, these still account for less than 25 per cent of the assets of the industry. Most of the funds mobilized by mutual funds are through liquid / money market schemes, which remain attractive for parking of funds by corporates and large institutional investors with a short term perspective. A high dependence on corporates for funds implies a lesser role for retail investors[19].

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[18] "*Mutual Fund Industry in India-Current Issues,*" RBI Annual Report-2008-09, p. 1568
[19] Ibid

Table –1.1 Trends in Savings and Investment in Mutual Funds

(Percentage of GDP)

Year	Gross Domestic savings (at current prices)	House hold sector savings (at current prices)	Financial savings (at current prices)	Investment in shares and debenture (at current prices)	Investment in Mutual funds (resources mobilized including UTI)
1991-92	22.03	16.96	9.58	2.43	1.72
1992-93	21.77	17.51	8.74	1.85	1.74
1993-94	22.53	18.42	11.02	1.72	1.31
1994-95	24.83	19.68	11.92	1.72	1.11
1995-96	25.15	18.19	8.90	0.77	-0.49
1996-97	23.19	17.05	10.35	0.76	-0.15
1997-98	23.13	17.63	9.64	0.33	0.27
1998-99	21.54	18.79	10.38	0.40	0.15
1999-2000	24.09	20.77	10.52	0.88	0.15
2000-01	23.37	21.56	10.35	0.29	0.53
2001-02	23.95	22.45	11.18	0.30	0.35
2002-03	26.07	23.33	10.30	0.24	0.15
2003-04	28.13	23.77	11.39	0.14	1.73
2004-05	31.12	21.58	10.19	0.28	1.34
2005-06	34.28	24.10	11.74	0.94	2.58
2006-07	35.77	24.10	11.91	1.15	3.04
2007-08	37.7	24.3	16.57	2.06	4.63

Source: 1) National Income Statistics, Centre for Monitoring Indian Economy, various issues 2) RBI : Report on Currency and Finance, various issues.
Financial Savings include: Currency, Net deposit, shares and debentures, Net claims on Government Life Insurance Fund, Provident and Pension Fund.

Figure 1.2

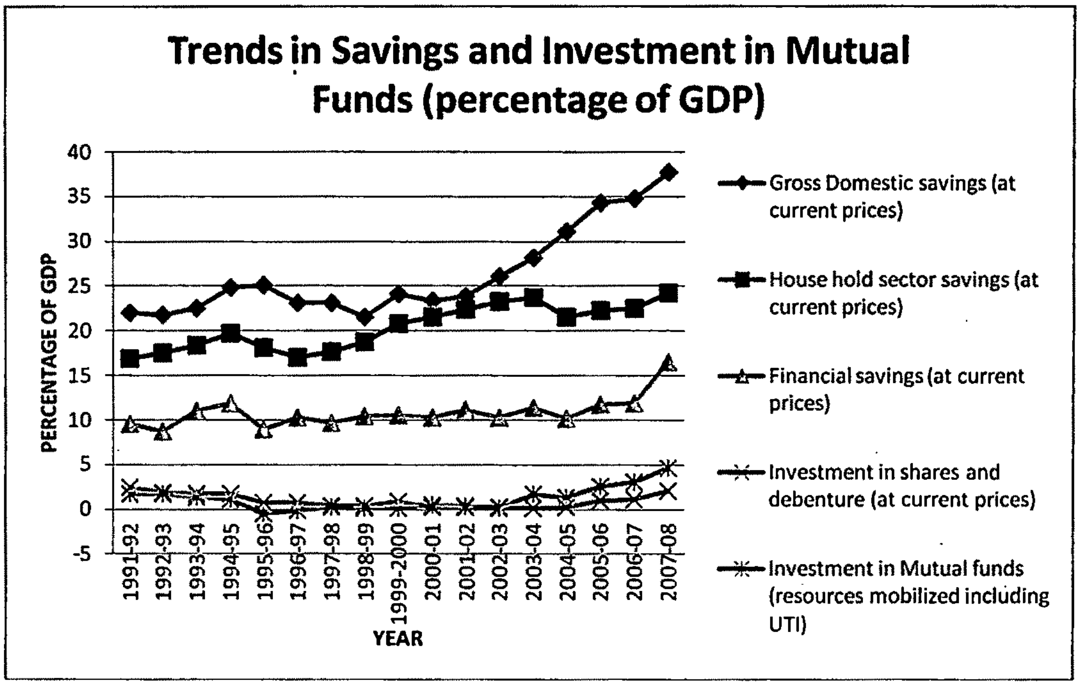

Table 1.2 CORRELATION

	GDS	*HHS*	*FS*	*Inv.,S*	*Inv.,MF*
GDS	1				
HHS	0.649138	1			
FS	0.546297	0.612417	1		
Inv.,S	-0.20157	-0.54407	-0.09418	1	
Inv.,MF	0.640262	0.297447	0.455894	0.413154	1

Table 1.3 ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*F crit*
Between Groups	8776.392	4	2194.098	293.8898	2.485885
Within Groups	597.2573	80	7.465716		
Total	9373.649	84			

Trends in Savings and Investment in Mutual Funds:

Table 1.1 shows the relationship between the GDP and the percentage of savings and investment in mutual funds in different years. The table shows that though there is an increasing tendency in all the savings in all most all the years, the investment in shares and debentures and mutual funds showed negative effect.

It is observed from the table that there is an increasing tendency in Gross Domestic Savings (GDS), House Hold Savings (HHS) and Financial Savings (FS) in all the years except the years from 1996-97 to 1998-1999. In the case of investment in shares and debentures there is a declining tendency in all the years, except the year 1999-2000 and 2005-08. And in the case of investment in mutual funds also there is a declining tendency in all the years, except 2003-04 - 2006-08. More over, it has become negative in the year 1995-96 and 1996-97. It is quite exiting that for the year 2003-04 it has jumped to 1.73 per cent. This is mainly due to a sharp rise in the resource mobilized by private mutual funds to Rs. 42,873 crore aided mainly by the buoyancy of secondary market. The same situation had been repeated for the years 2005-06 and 2006-08.

The share of investment in mutual funds in GDS and FS in 1991-92 and 1992-93 were 7.9 per cent and 18.8 per cent respectively. The above shares have come down to 5.1 per cent and 10.4 per cent for the years 1993-94 and 1994-95 and became negative for the years 1995-96 and 1996-97. During the years 1997-98 to 1999-2000, it was 0.82 per cent and 1.89 per cent respectively. And there was a sharp increase in both the percentages in the year 2003-04 and reached to 6.15 per cent and 15.19 per cent respectively. Due to bullish trend in the secondary market many investors were attracted towards mutual funds, thereby the above percentages have further increased and reached to 12 per cent and 28 per cent respectively for the year 2007-08.

It is clear, that even though there is an increasing tendency in all the savings in all most all the years, the investment in shares and debentures and mutual funds showed negative effect in almost all the years. The statistical analysis of the table also proves that the correlation between different savings and investment in shares and debentures (Table.1.2) is also negative. Though the correlation between different savings and investment in mutual funds is positive due to rise in investment during the last four years, it is not significant. Moreover, the calculated value F (293.8898) is greater than the table value of F (2.485885) at 5 per cent level of significance. Hence it is concluded that there is a significant difference between different savings and investments.

Regulatory Initiatives[20]

After the UTI debacle, the SEBI has taken several measures to develop a comprehensive regulatory framework for mutual funds in association with the Association of Mutual Funds of India (AMFI). Regulatory guidelines relating to insider trading, late trading, switching assets, minimum number of investors for each scheme and marketing of mutual funds have now been issued to protect small investors. The SEBI has also been closely monitoring investment decisions in unlisted securities and mergers between schemes and fund houses.

- "As far as insider trading by the fund managers on their personal accounts is concerned, SEBI has issued regulations that trustees furnish a certificate to it stating that they have satisfied themselves and that there have been no instances of insider trading by any of the trustees, directors or key personal of the asset management companies.
- about the switching of assets by distributors and intermediaries to earn commission, SEBI has issued letters to Asset Management Companies (AMC) to check such irregularities.
- to restrict the large investors and institutions using buying at todays closing price after the trading had closed, SEBI has now stipulated uniform cutoff timings for all transaction request to control late trading. Time stamping has been made mandatory to avoid the occurrence of such incidents.

[20] Amit Singh Sisodia and Ravi Babu Adusumalli, "Mutual Fund Regulations- Facilitating growth", *Chartered Financial Analyst*, MF Special-2005, p.42.

- to serve the small and retail investors from the institutional investors, SEBI has stipulated that mutual fund schemes should have minimum 20 investors and no single investors should account for 25 per cent corpus of the scheme.
- to control the high expense ratio of Indian mutual funds, SEBI has fixed the expenses ratio of 2.5 per cent for equity and 2.25 per cent in the debt schemes. The SEBI has also clearly notified that service tax expenses should be included in the total expense ratio limit.
- The SEBI has given approval to mutual funds to invest in unlisted companies equities and equity related instruments for upto 5 per cent of the NAVs in case of open-ended funds and 10 per cent in case of close-ended funds subject to the price per share paid for unlisted stocks cannot be more than the price arrived at on the basis of a formula.
- Before going in for any merger, mutual fund should inform the investors and SEBI about possible post merger implications[21].
- The "AMFI is also doing its level best for the growth of the industry doing research to find the standards interacting with the regulators like SEBI, as the voice of the industry and doing investor education by conducting online test. It also recognized the need to establish a minimum level of risk management system confirming to international standards".
- On September 14, 2005, the SEBI came out with new guidelines for the use of derivatives related to hedging, portfolio rebalancing, use of index futures and options and position limit for each of the scheme[22].

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[21] Kurian AP, "AMFIs decade long Existence", *Chartered Financial Analyst.* MF Special-2005, p.52.
[22] www.sebi.gov.in

Future of Mutual Funds

The future looks bright for the industry in India going by a recent study conducted by the Associated Chamber of Commerce and Industry of India (Assocham) and the AMFI. The report predicts that the mutual fund industry is expected to jump sharply from its present share of 6 per cent in GDP to 40 per cent in the next 10 years, provided the country's growth rate consistently exceeds at the rate of 6 per cent per annum. The report says that by 2014, the size of the mutual fund industry is estimated to go up to over Rs. 1,65,000 crore. It suggests that India is going to follow the pattern seen in the developed markets such as the US where the size of the industry is 70 per cent of the GDP. The worldwide size of the industry is about 37 per cent of the GDP.

While addressing a one-day national seminar on "Investment opportunities in mutual funds" organized by the Federation of Andhra Pradesh Chamber of Commerce and Industry (FAPCCI), Hyderabad, the Executive Director, SEBI, said that the industry has been growing at a rate of 10 per cent to 15 per cent per annum on an average, and the growth rate could be accelerated in view of the positive economic conditions[23].

[23] Business Line, dated 29-08-2004

Summary

Mutual funds segment as an investment avenue is playing a significant role in the changing economic scenario of Indian capital and financial markets. Though the penetration of mutual funds is limited to urban areas and not reached to rural and retail investors, it had grown significantly in terms of the asset base and helping to fuel the growth of the economy.

For any country, savings play a vital role in investment. India's gross domestic savings are very high, unlike other developed nations. But these savings are not effectively diverted to mutual funds. UTI, the only player till 1987 failed to attract the savings and to fulfill the desires of investors. The monopoly of the UTI, after two and half decade had broken by allowing commercial banks and insurance companies in the mutual fund industry. With the liberalization of economic policies and deregulation of mutual fund industry, many private and foreign institutional investors entered. Thereafter, competition and efficiency between public and private sectors have grown. The trends are summarized as hereunder.

- During the period from January 1984 to October 1992 the market delivered a compounded annual returns of about 32 per cent in rupee terms and 16 per cent in dollar terms as against to the 6 per cent and one per cent during the two decades from 1965 to 1984.

- As a consequence of this explosive growth a number of investors were attracted to the capital market. And capital market which attracted 3 per cent of household financial savings in the year 1970 increased to 23 per cent by the year 1991-92. Again it fell back to 5 per cent by late 1990s due to poor performance of the stock market during the post reforms period.
- The share of mutual funds in the total market capitalization is 20 per cent in the year 2001. Since most of the mutual fund assets are in debt oriented schemes the actual equity holding of the mutual funds probably amounts to only 5.7 per cent of the market capitalization.
- The UTI had only 1.32 lakh unit holding accounts with an investible funds of Rs. 24.67 crore, Rs. 0.07 crore reserves and Rs. 1.53 crore gross income in the year 1964-65.
- For the year 1994-95 it had tremendously increased to 498 lakh unit holding accounts with an investible funds of Rs. 59,619 crore, Rs. 11,094 crore reserves and Rs. 7,995 crore gross income.
- Due to cut throat competition from the private and foreign players since 1993 on the one hand and bifurcation of the UTI on the other hand the share of public sector, particularly UTI has drastically fallen down to 9 per cent of the total assets and 35.32 per cent (1.53 crore) unit holding accounts of the total mutual fund industry for the year 31 March 2009. This share has been occupied by the private and foreign mutual fund.

- Reasons for the impressive growth of mutual fund industry in India in different periods is outstanding performance of stock market aided by strong bull runs, volatility in the bond prices, increased competition, on going reforms, stringent regulatory environment and strong support of domestic and FIIs.
- Major issue facing the mutual fund industry to-day is though India enjoys good savings rate of 28 per cent, the mutual fund industry gets very little out of this. A large pool of money savings in India is still with banks.
- Though there is an increase in Gross Domestic Savings, Household Savings and Financial Savings as a percentage of the GDP, from the year 1991-92 to 2006-07, the percentage of investment in mutual funds has decreased in almost all the years except the years 2005-06 and 2006-07.
- An other issue is till now the Indian mutual fund industry has not focused on the B and C class cities and the rural areas, which have also increased in income levels and spending levels.
- After the UTI debacle, the SEBI has taken several measures and issued regulatory guidelines relating to insider trading, late trading, switching assets, minimum number of investors for each scheme. Other guide lines were also issued to control the high expense ratio, approval to mutual funds to invest in unlisted companies.

Need for the Study:

Against this backdrop, the present study has been taken up with a broad aim of appraising the over all growth performance of the Mutual Fund Industry in India especially after the 'open up' of the industry. Many studies were taken up to evaluate the performance of Mutual Fund Industry in India. However, there were very few studies which attempted and examined the relative performance of the public and private mutual funds in terms of resource mobilization, investment behaviour and general efficiency. The present study attempts to pursue the research on these lines and also attempts to elicit the opinions of the investors in various funds before submitting the suggestions.