A Study on Increasing Penetration of Mutual Funds in India

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ABSTRACT:*Presently there are multiple investment options available to investors in India. These options range from the traditional term deposits in banks to investment in the stock market. Each of these avenues of investment carries different degrees of risks as well as returns. Especially the purchases of shares have proven to be highly volatile in term of returns. Meanwhile the emergence of mutual funds as a safe avenue of investment into volatile market has drastically changed the investment business in India. Over the years the mutual fund industry has enlarged itself due to vast patronage from retail investors. At the end of year 2018, the mutual fund industry's asset under management rose by 13 percent to reach Rs. 24 trillion. This research paper attempts to study the phenomenal growth of mutual fund industry in India and reasons for its increasing penetration among common people.*

Key Words:*Mutual fund, Stock market, Investment, AMFI, AUM*

Introduction

India has traditionally been a country of people who believed in saving as against spending. Out of their regular income, people used to spend less and save more for meeting the needs in future. Their consumption in the present has traditionally been lesser for preparing for a better future. Largely, the savings for future have found a secure avenue of investment in gold and fixed deposit schemes offered by banks. However, over the past few years a significant shift towards alternative ways of investment has been emerging, wherein the preference towards mutual funds has risen at higher levels. The sharp decrease in fixed deposit interest rates and fluctuating return on gold has shown the people way towards alternative channels of investment.

What is a Mutual Fund

Mutual fund is an investment avenue for common people, who have willingness and capability to invest but lack an expert knowledge about investing. The Mutual fund is constituted by collecting the capital from individual investors at mass level, which is further invested in company shares, stocks or bonds. The Mutual fund is operated by an experienced portfolio manager, who invests the large amount of individual investors' money into different promising avenues.

There are several types of Mutual funds available.

i) Closed-End Mutual Funds

The close ended mutual funds issue certain number of shares to the investors. These shares are traded on major corporate stock exchanges. These types of mutual funds invest their pooled money into a specific area, sector or industry.

ii) Open-End Mutual Funds

The open ended mutual funds issue and redeem the shares on a continuous basis. The Net Asset Values (NAVs) of shared units are bought by the investors and at the same time these could be redeemed at the available current market price.

iii) Load Funds

The Load funds contain a fee component to be paid by the investors, who buy the units of Mutual fund. The fee component applied while purchasing of units is called "Entry Load", whereas the fee component applied while selling off units by investors is called "Exit Load".

iv) No Load Funds

The No Load mutual funds do not contain any fee components for investors.Mutual Funds issue different kinds of shares to its investors. These include the following:

i) Class A Shares

The class A shares charge certain fee from the investors at the time of investment. This amount could be a certain percentage of the total amount invested. After subtracting the fee amount from total investment, the remaining amount is used for purchase of shares in the fund.

ii) Class B Shares

The class B shares incur the exit fee for the investors. It means that the investors need not to pay any fee while purchasing the fund. However at the time of selling off, the investors need to pay certain charge, which keeps on decreasing by each passing year.

iii) Class C Shares

The class C shares do not levy any fee at the time of purchase of mutual fund by investors. However a moderate level fee is charged in case the investors sell off within a duration of one year.

Advantages of Mutual Fund

i) Diversification

The mutual fund facilitates diversification in investments. It means that the proportion of the amount to be invested gets diversified across different avenues, with the help of experienced and expert mutual fund managers. It results in reduction of risk towards loss which may incur in any particular avenue of investment.

ii) Simplicity

Simplicity in any investment refers to easy availability of pertinent information which is useful in decision making towards investment purposes. The mutual fund managers themselves collect the information and conduct research analysis, which becomes helpful for the investors while making investment decisions. The readily available information with respect to risk probability, expected returns, entry and exit loads etc. for different funds makes the task of investment simple for the investors.

iii) Liquidity

Liquidity refers to the possibility of redeeming the mutual fund units into monitory terms. The mutual funds are considered as better liquid options in investment because it becomes relatively easy for investors to sell it off and receive money against it in a very short amount of time. Thus the mutual funds provide better liquidity to its customers as against other investment options.

iv) Cost

One advantage of mutual funds is that these involve lesser cost of investment. These are better investment options with respect to cost involved, as the mutual fund managers normally charge the amount which ranges between 1% to 2% of the expense ratio. Therefore the mutual funds provide a cheaper option of investment to retail investors.

v) Tax Efficiency

As against other investment avenues, mutual funds carry the advantage of being tax efficient. Certain type of mutual funds, named as ELSS (Equity Linked Savings Scheme) provide tax exemption up to Rs. 1.5 lakhs to the investors, though such funds come with certain time restrictions in terms of lock-in period.

vi) Professional Management

The mutual funds are managed by experienced and specialist professionals who have years of experience of fund management. Therefore the retail investor, who does not have an expert knowledge about finance and investment may also attempt to invest his/her hard earned money by relying on the professional expertise of the fund managers.

vii) Investment With Small Amount

As against the other available modes of investment, the mutual funds provide an investment opportunity to people belonging to any income group, as it allow the investment of mount as small as Rs. 500. Therefore the investor need not to be a wealthy person in order to put his earnings into mutual fund.

Literature Review

Shah and Thomas (1994)studied the mutual fund schemes on different parameters and concluded that a few schemes managed to provide decent returns and it was due to
improper diversification undertaken among different schemes.

Yadav and Mishra (1996)analysed the closed ended mutual fund schemes and provided that the mean return of all the schemes was way above than overall market return. The reason suggested behind this fact was proper diversification amongst the portfolio.

Irissappane (2000)with the help of an in-depth study done on investments made in mutual funds by people in metro cities concluded that the investors expected to earn returns at par with the market.

Muthappan P K and Damodharan E (2006) examined the outcome of different mutual fund schemes and concluded that for majority of schemes, the returns and risks were not always in alignment with the planned objectives and at the same time the mutual fund schemes were not properly diversified.

Sanjay Kant Khare (2007) investigated the investment pattern among the investors and suggested about increasing scope of mutual funds in India as the retail investors did not want to directly enter into the share markets.

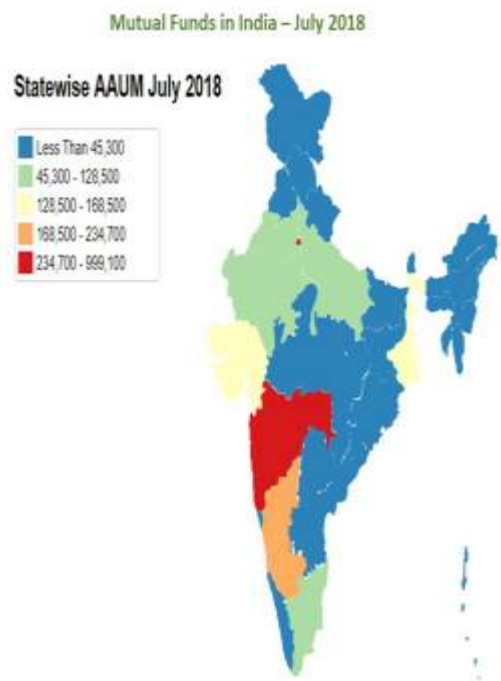
Patil S.R. (2010) evaluated the investment pattern among the investors. He observed that people used to reinvest in the similar mutual fund schemes on the advice of their mutual fund advisors and suggested that investors should be empowered in terms of providing them with detailed information and training on different aspects of investments.

Agrawal Deepak (2011) observed the significance of risk involvement in the mutual fund investments. He stated that no mutual fund scheme is beyond the impact of risks and it all depends upon the prudence and discretion of the fund manager as to upto what extent the impact of risk is minimised.

Thoufiqulla (2017) studied the performance of top five mutual funds in India and observed that the mutual fund industry has been able to attract the investors due to increasing market returns and the mutual fund companies are performing satisfactorily well.

Discussion

The mutual fund business in India started in 1963 after establishment of Unit Trust of India, which was formed as an initiative of Reserve Bank of India and Indian Government. However after the liberalization took place in 1993, the mutual fund industry opened itself for private competitors. The domestic as well as foreign companies entered into the market, which resulted in availability of wide variety of mutual fund schemes.In 1995 the Association of mutual funds industry (AMFI) was set up with the objective of providing professional and healthy growth to Indian mutual fund industry. The AMFI works as official representative of the mutual fund industry and provides consultations to country's market regulating body SEBI (Securities and Exchange Board of India). AMFI also plays a great role in studying the investment pattern of customers across the country. Following is the data published by it on state wise investment pattern across the country for the month of July 2018.



State or U/T	Avg. AUM (Rs. Cr.)	Composition		Per Capita (Rs.)
		Equity	Non-Equity	
Andaman & Nicobar	300	73%	27%	8,360
Andhra Pradesh	34,600	57%	43%	7,010
Arunachal Pradesh	600	38%	62%	4,600
Assam	10,300	55%	45%	3,310
Bihar	15,900	73%	27%	1,530
Chhattisgarh	12,200	56%	44%	4,760
Delhi	2,34,700	40%	60%	1,39,830
Goa	15,900	57%	43%	1,09,280
Gujarat	1,56,900	51%	49%	25,960
Haryana	1,16,300	27%	73%	45,880
Himachal Pradesh	4,300	55%	45%	6,250
Jammu & Kashmir	2,500	71%	29%	2,030
Jharkhand	18,300	70%	30%	5,530
Karnataka	1,68,500	43%	57%	27,580
Kerala	24,300	65%	35%	7,260
Madhya Pradesh	28,200	64%	36%	3,890
Maharashtra	9,99,100	31%	69%	88,910
Manipur	400	67%	33%	1,460
Meghalaya	1,700	51%	49%	5,670
Mizoram	300	30%	70%	2,830
Nagaland	600	61%	39%	3,020
Odisha	19,300	56%	44%	4,600
Punjab	27,200	60%	40%	9,790
Rajasthan	45,300	45%	55%	6,610
Sikkim	1,100	49%	51%	18,060
Tamil Nadu	1,10,800	45%	55%	15,350
Telangana	38,300	43%	57%	10,890
Tripura	1,100	46%	54%	3,110
Uttar Pradesh	93,900	59%	41%	4,700
Uttarakhand	7,800	63%	37%	7,690
West Bengal	1,28,500	49%	51%	14,080
Total	23,19,200			

Fig 1: State wise Asset Under Management July 2018
Source: https://www.paisabazaar.com

The information shown as above provide a great deal of insights into the prevailing scenario of mutual fund investment in India. The data shows that people from geographically small states seem to be more inclined towards equity schemes, as against non equity schemes, suggesting that people are willing to invest into

schemes which are having high component of risk. Also it shows that the state of Maharashtra leads in terms of amount of investment worth of Rs. 9 lakh Crores. At macro level it also suggests that the retail investment is increasing over the years and has reached to attain the majority share in mutual fund assets, against institutional investors.

In the recent years, the overall Asset under Management (AUM) of mutual fund industry is on a constant rise. By the end of 2018, the AUM has risen by 13% to reach Rs. 24 Lakh Crore as against Rs. 21 Lakh Crore at the end of 2017.

Graph1: Mutual Fund Assets Under Management (In Rs. Billion)
Source: Relakhs.com

Thus the addition of Rs. 3 lakh Crore in a single year is a promising trend, which will continue in upwards direction in coming years. Currently, a major contribution of fund inflow is coming through the Systematic Investment Plans(SIPs), which also shows the increasing trust of small and retail investors into the mutual funds.

Conclusion and Recommendation

The people of India are undergoing a major shift in their investment choices from traditional physical assets like gold and real estate to the new age financial assets like mutual funds. The increasing awareness among people is a major cause behind it. The institutions like AMFI are working meticulously on creating educational and awareness programs to ensure the maximum outreach among people. One such campaign " Mutual Fund SahiHai" is currently running very successfully as it has been able to add 32 Lakh new investors into mutual funds in a single year duration between 2017-1018. Thus the penetration into untapped market especially in lower tier cities in India is a must in order to grow the mutual industry further. However, only increasing the number of investors is not in the favour a healthy growth of industry. At the same time, it should also be ensured that the investors learn the basic requirements of investing into mutual funds by staying longer with their investments, which will also help the financial intermediaries in getting better margins thereby increasing the growth prospects of the industry.

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