

Performance Analysis of Mutual Fund Industry in India

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Abstract—*The Mutual Fund Industry of India has become a significant part of the investment pattern in the country since its origin in 1963. The Industry has become a significant constituent of the financial sector in India. It has evidenced an acceptable standardization in terms of products offered, regulatory norms, increase in the number of Fund houses, Asset under management etc. The Indian Mutual Fund Industry has graduated from offering simple vanilla debt and equity funds, to diverse and customized schemes like Exchange Traded Funds, Fund of Funds, ELSS, Specialized Funds etc. The growth of the mutual fund industry was at a very fast pace over the last few years with advent diverse products according to the need of the investors and number of players entering into the market. The paper analyses the growth of the industry on the basis of Total Assets under Management, Number of Schemes offered, Household Savings Mobilized, Number of AMC's and Investor's behavior towards mutual Funds.*

Keywords: *Mutual Fund, Financial Sector, Growth, AMC's.*

Indian Mutual Fund Industry

The Mutual Fund Industry of India has become a significant part of the investment pattern in the country since its origin in 1963. The mutual fund Industry has witnessed a commendable growth on various parameters like introduction of new schemes in the market, mobilization of funds, increase in AUM, Increase in the number of mutual fund houses etc. The industry has played a vital role in channelizing the savings of the household sector. The total asset under management has grown to 23.26 trillion as on April 30, 2018.¹ But the industry still lags behind in channelizing the savings and contributing to the overall financial savings as compared to other countries in the world. The AUM to the GDP ratio of India is mere 10% as compared to the global average of 55%. This evidences the immense scope of mutual fund Industry in India. Post demonetization, the investment in the physical assets has become less attractive. Also decrease in the bank deposit rate has shifted the Investors towards financial assets. The growth of Indian mutual fund industry has been 18% in the past 10 years which is expected to be 20% in the coming next 5 years.

Objective of the study

- Understanding the growth of the mutual fund industry in terms of Assets under Management, introduction of New Schemes in the market and gradual increase in the number of fund houses over the years.
- Understanding the investment pattern of the individual investors.
- Identification of the major factors influencing the growth of Mutual Fund Industry in India.

Methodology

The study considers the use of the secondary data collected from fact sheets, newspapers, journals, books and various websites

Performance of Indian Mutual Fund Industry

The Indian mutual fund Industry has become a significant constituent of the financial sector in India. The industry has evidenced an acceptable standardization in terms of products offered, regulatory norms, increase in the number of Fund houses, Asset under management etc. The Indian Mutual Fund Industry has graduated from offering simple vanilla debt and equity funds, to diverse and customized schemes like Exchange Traded Funds, Fund of Funds, ELSS, Specialized Funds etc. The growth of the mutual fund industry was at a very fast pace over the last few years with advent diverse products according to the need of the investors and number of players entering into the market. One of the main characteristics of mutual fund market is that the high percentage of shares is held by corporations and domestic institutional investors. Individual investors prefer more of equity funds whereas corporate and institutional investors prefer investing in short term money market products and bond funds

¹ <https://www.amfiindia.com/indian-mutual>

The performance of the Mutual Fund Industry is analyzed in terms of following parameters:

- Total Assets under Management
- Number of Schemes offered
- Household Savings Mobilized
- Number of AMC's
- Investor's behavior towards mutual Funds.

Total Assets under Management

Asset under management means the market value of the total investments managed by the asset management company.

Table 3: 1 Category Wise Disclosure of AUM²

Year(As on 31st March)	Income	Equity (other than ELSS)	Balanced	Liquid/ Money Market	Gilt	Equity - ELSS	GOLD ETF	Other ETF	Fund of Fund investing overseas	Infrastructure Debt Fund	Total
2011-2012	290,844.00	158,432.00	16,261.00	80,354.00	3,659.00	23,644.00	9,886.00	1,607.00	2,530.00		587,217.00
2012-2013	395,985.00	149,777.00	16,307.00	93,392.00	8,074.00	22,731.00	11,648.00	1,476.00	2,053.00		701,443.00
2013-2014	460,671.00	165,560.00	16,793.00	133,280.00	6,115.00	25,547.00	8,676.00	4,528.00	3,191.00	879	825,240.00
2014-2015	515,773.00	305,669.00	26,368.00	162,562.00	14,614.00	39,470.00	6,655.00	8,060.00	2,408.00	1,178.00	1,082,757.00
2015-2016	5,65,459	3,44,707	39,146	1,99,404	16,306	41,696	6,346	16,063	1,967	1,730	12,32,824.00
2016-2017	7,43,783	4,82,138	84,763	3,14,086	14,875	61,403	5,480	44,436	1,747	1,908	17,54,619.00

The total asset under management has approximately three fold increases in the year 2016-2017 as compared to Year 2011-2012. The AUM has increased from INR 587,217 Crore in the Year 2011-2012 to INR 17, 54,619 Crore in the Year 2016-2017. The Income fund has shown an increase of 155% whereas the equities and Balanced Fund has shown an increase of 204.3% and 421.27% respectively in the Year 2016-2017 as compared with Year 2011-2012. The highest increase in the AUM is witnessed by Other ETF's followed by Balanced Fund, Gilt edged Securities, Liquid and Money Market funds, Equities and then Income Fund. The total asset under management has decreased in Gold ETF's and Fund OF Fund to the extent of 44.57% and 30.95% respectively in the time span of 6 years. The total asset under management has witnessed an increase of approximately 200% in the Year 2016-2017 as compared to Year 2011-2012.

Number Schemes

The Indian Mutual Fund Industry offers diverse products to suit the investment needs of the investors. The various schemes offered by the Industry are:

- **Income Oriented Schemes:** Income Oriented schemes also known as debt schemes includes the diverse portfolio including Liquid/Money Market schemes, Gilt, Debt and schemes related to Infrastructure development.
- **Growth/Equity Oriented Schemes:** Growth Oriented schemes include Equity linked savings scheme and other equity schemes.
- **Balanced Schemes:** The portfolio comprises of investment in both equity and debt instruments.
- **Exchange Traded Fund:** ETF's are passively managed portfolio and it includes Gold ETF and other ETF.
- **Fund of Fund investing overseas:** These are the schemes making an investment in the other mutual fund schemes abroad.

Table 3: 2 Number of Schemes on the basis of Investment Objective

Type of Schemes	Number of Schemes					
	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Income Oriented Schemes	872	857	1178	1346	1831	1675
Growth Oriented Schemes	352	347	363	434	473	484
Balanced Schemes	30	32	30	25	28	30
Exchange Traded Fund	35	37	40	48	58	63
Fund of Fund	20	21	27	31	30	29
Total	1,309	1294	1638	1884	2420	2281

Source: www.sebi.gov.in

² Compiled from amfiindia.com

The Indian Mutual Fund industry offers 2281 schemes in the year 2016-2017 to suit the investment requirements of the investors. The Industry has introduced 803 new schemes in the category of Income/Debt oriented schemes followed by 132 growth oriented schemes, 28 ETF's and 9 Fund of Funds in the Year 2016-2017 as compared to Year 2011-2012. 156 Debt schemes and one Fund of Fund have been withdrawn in the Year 2016-2017 as compared with Year 2015-2016. There has been a gradual increase in the introduction of schemes YOY to meet the risk return requirements of the investors except in the Year 2012-2013 when few of the Income and Equity schemes have been withdrawn from the market.

Household Savings Mobilized

The savings of the household sector has increased from INR 22352.80 Billion in the Year 2012-2013 to INR 26215.31 Billion in the Year 2015-2016.³ The total contribution of the household savings to the Gross savings in the country is 68.5% in the Year 2015-2016. Financial savings have also increased gradually as compared to physical savings. RBI reports shows that there has been an increase of 20% in financial savings in the Year 2016-2017 as compared to Year 2016-2017. The mutual Fund plays a major role in channelizing the savings of the investors into productive purposes which leads to overall development of the economy.

The details of the instruments of investment are as follows:⁴

- Life Insurance Fund includes Central or State Governments employees' insurance funds and postal insurance funds.
- Shares and Debentures include investment in shares and debentures of credit / non-credit societies and investment in mutual funds (other than Specified Undertaking of the UTI).
- Bank advances includes' advances by scheduled commercial banks and 'co-operative banks & societies'.
- Loans and advances from other financial institutions' include advances by non-banking finance companies, housing finance companies and insurance corporations

The Details regarding the financial savings of Household sector are given in the table below.

Table 3: 3 Financial Assets of the Household (In Billion)

Instruments	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Currency	1,062.42	1,115.21	995.2	1,333.45	2,005.18	-3,168.12
Bank deposits	5,259.70	5,750.80	6,393.04	6,027.27	6,220.94	10,957.71
Non-banking deposits	100.21	279.11	228.16	335.24	366.55	341.42
Life Insurance Fund	1,956.73	1,799.49	2,044.69	2,992.96	2,660.63	4,406.53
Provident & Pension Fund	956.8	1,564.79	1,778.41	1,887.77	2,768.54	2,960.78
Claims on Government	-218.89	-71.09	230.53	9.69	666.39	836.97
Shares & Debentures	165.22	170.27	189.3	198.19	413.17	1,825.78

Source: Compiled from RBI Handbook on Statistics

The above data reveals that there has been a sheer increase in the investment in shares and debentures and bank deposits. The investment in shares and debentures is inclusive of investment in mutual funds. There has been a gradual increase in the AUM of the Mutual Fund Industry and it has increased by 40% in the Year 2016-2017.⁵ This evidences that the mutual funds are playing a vital role in channelizing the savings of the household sector. The introduction of the SIP has been the major motivating force behind the mounting popularity of mutual Funds among retail investors.

Number of Asset Management Companies

Asset Management companies manages the portfolio of the investors. The AMC's make invests the corpus into various portfolios according to the requirements of the investors. AMC's also calculate the Net asset values for the mutual fund schemes. The increase in the income and low mutual fund penetration poses a great opportunity for growth of the Mutual Fund industry in India. The details of various AMC's operating in India are as follows:

Table 3: 4 Number of AMC's

Sl No.	Name of AMC	Date of Incorporation
1	SBI Funds Management Private Limited	1992
2	Baroda Pioneer Asset Management Company Limited	1992
3	Canara Robeco Asset Management Company Limited	1993

³ www.rbi.org.in

⁴ Central Statistics Organization

⁵ Sbi.gov.in

4	Taurus Asset Management Company Limited	1993
5	ICICI Prudential Asset Mgmt. Company Limited	1993
6	LIC Mutual Fund Asset Management Limited	1994
7	JM Financial Asset Management Limited	1994
8	Shriram Asset Management Co. Ltd.	1994
9	Tata Asset Management Limited	1994
10	Aditya Birla Sun Life AMC Limited	1994
11	Principal Pnb Asset Management Co. Pvt. Ltd.	1994
12	Escorts Asset Management Limited	1995
13	Sahara Asset Management Company Private Limited	1995
14	Franklin Templeton Asset Management (India) Private Limited	1995
15	Reliance Nippon Life Asset Management Limited	1995
16	L&T Investment Management Limited	1996
17	Sundaram Asset Management Company Limited	1996
18	DSP BlackRock Investment Managers Private Limited	1996
19	Kotak Mahindra Asset Management Company Limited	1998
20	IDFC Asset Management Company Limited	1999
21	HDFC Asset Management Company Limited	1999
Sl No.	Name of AMC	Date of Incorporation
22	HSBC Asset Management (India) Private Ltd.	2001
23	UTI Asset Management Company Ltd	2002
24	BNP Paribas Asset Management India Private Limited	2003
25	Quantum Asset Management Company Private Limited	2005
26	Invesco Asset Management (India) Private Limited	2005
27	Mirae Asset Global Investments (India) Pvt. Ltd.	2006
28	BOI AXA Investment Managers Private Limited	2007
29	Edelweiss Asset Management Limited	2007
30	Indiabulls Asset Management Company Ltd.	2008
31	Motilal Oswal Asset Management Company Limited	2008
32	Union Asset Management Company Private Limited	2009
33	Essel Finance AMC Limited	2009
34	IDBI Asset Management Ltd.	2010
35	IIFL Asset Management Ltd	2010
36	DHFL Pramerica Asset Managers Private Limited	2010
37	PPFAS Asset Management Pvt. Ltd.	2011
38	IIFCL Asset Management Co. Ltd.	2012
39	SREI Mutual Fund Asset Management Pvt. Ltd.	2012
40	IL&FS Infra Asset Management Limited	2013
41	Mahindra Asset Management Company Pvt. Ltd.	2016

Source: Compiled from www.amfiindia.com

As per the data reflected on the website of AMFI, there is 41 AMC's operating in India as on January, 2018. The growing number of AMC's reflects the increasing potential of Mutual Fund in the Indian Financial Sector.

Investor's Behavior

The investment pattern of the investors has shifted from physical assets to financial assets in the past few years especially after Demonetization. Mutual funds are also playing a significant role in channelizing the savings. As per AMFI, there is a significant increase in the AUM in the Year 2016-2017 as compared to Year 2015-2016. The major contributor to the increase in AUM is the introduction of SIP's by the fund houses.

The change in the investors' attitude towards Mutual Fund is analyzed on the basis of following parameters:

Individual Investor asset composition

Table 3: 5 Individual Investor Asset Compositions (In Crore)

Schemes	2017	2018
Debt oriented Schemes	295,294	323,388
Equity Oriented Schemes	516,657	792,350
Liquid/ Money Market	33,925	43,911
ETF's/ FOF's	6,859	6,838

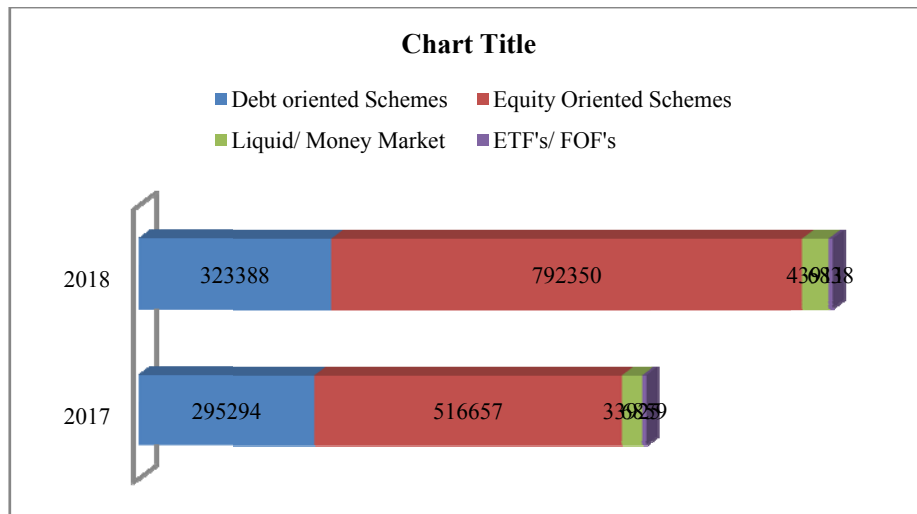


Figure 3: 1 Individual Investor Asset Compositions (In crore)

Source: Compiled from www.amfiindia.com

There has been an increase of 36.79% in the holdings of mutual fund by Individual Investor in the Year 2017-18 over Year 2016-2017. The highest increase is in the equity savings followed by debt oriented schemes and Liquid/ Money market instruments. The investment pattern shows the active participation of the investors in the equity and Debt market. Mutual funds portfolios are professionally managed which encourages the retail investors to participate in the market.

Composition of Investor's holding

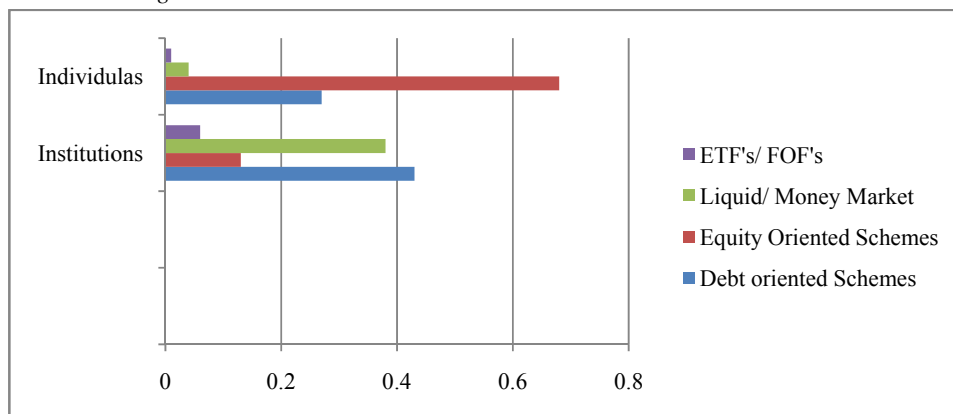


Figure 3: 2 Composition of Investor's holding

Source: Compiled from www.amfiindia.com

The graph shows the preference of the individual and Institutional Investors. Individual Investors are primarily holding growth oriented schemes whereas Institutional investors are holding more of Debt schemes. 81% of the institutional savings are in debt oriented schemes and money market instruments whereas the 68% of the individual investors holding are in equity oriented schemes.

Growth Drivers for Indian Mutual Fund Industry

As per the Economic Survey, India will emerge among top three growing economies by Year 2020. According to EY's 2015 India Attractiveness Survey, "32% of the respondents ranked India as the most attractive investment destination globally, while 60% placed the country among the top three investment destinations."⁶ The major factors influencing the growth of Mutual Fund Industry in India are as follows:

⁶ www.ey.com/.../ey-2015-india-attractiveness-survey

- **Progressing Macro Economic Indicators:** The increasing GDP growth rate, higher per capita income, improved infrastructure, increased pace of creation of wealth will contribute to the development of financial system of the country. The stable and progressive financial system is vital for the overall development of the country.
- **Lower penetration of Mutual Fund Industry:** The AUM to the GDP ratio of India is mere 10% as compared to the global average of 55%. This evidences the immense scope of mutual fund Industry in India. Mutual fund has received a trivial share of the wallet of the Investors due to lack of financial literacy and awareness among the Investors in India.
- **Favorable Demographic variables:** India will get the benefit of favorable demographics as the 64% of the India's population will be under the working age group by 2021. Decreasing Dependency ratio, rising level of income and rising affluent middle class will give a boost to the investment Industry in India.
- **Initiatives by the Government:** Government has taken various initiatives to boost the investment and revitalize the growth of the Indian Economy. Few initiatives taken by the government are Make in India, Digital India, introduction of various schemes to expand the financial inclusion in the country etc. All these have increased the attractiveness of the Indian market to foreign investors and increased foreign investments in the country.

Conclusion

The Indian Mutual Fund Industry has shown a tremendous growth in terms of Assets under Management, introduction of New Schemes in the market and gradual increase in the number of fund houses over the year. All these factors have made the Industry a vital part of the financial system of India. The investment pattern of the individual investors has also shifted from investment in Physical assets to Investment in financial assets. The introduction of Systematic Investment plan has further encouraged the investors to participate in the capital market. The increased proportion of household savings is invested in shares and debentures which are inclusive of investment in Mutual Funds.

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