AN EMPERICAL STUDY ON EMERGING INVESTMENT OF MUTUAL FUNDS IN INDIAN CAPITAL MARKET

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INTRODUCTION:

With the emergence of the capital market at the centre stage of the Indian financial system, the Indian capital market witnessed a significant institutional development in the form of diversified structure of mutual funds. A mutual fund is a special type of investment institution that acts as an investment conduit. It pools the savings particularly of small investors and invests them in a well diversified portfolio of sound investment. Mutual fund issue securities to the investors (knows as unit-holders) in accordance with the quantum of money invested by them. The profits (or losses) are shared by the investors in proportion to their investments. A mutual fund is set up in the form of a trust which has (i) sponsor (ii) Trustees (iii) assets management company (AMC) and (iv) Custodian. The trust is established by a sponsor (s) who is/are like promoter of a company.

The trustees of the mutual fund hold its property for the benefits of the unit holders. The AMC manages the funds by making investments in various types of securities. The custodian holds the securities of various schemes of the fund in its custody. The trustees are vested with the general power of superintendence and direction over AMC; they monitor the performance and compliance of the SEBI regulations by the mutual funds. As an investment intermediary, they offer a variety of services/ advantages to the relatively small investors like lower risk through diversification, expert management and reduced cost due to economies of scale.

Mutual funds came into existence in India with the setting up of UTI under UTI Act 1963. Since 1987, it remained the prerogative of UTI. In 1987, public sector banks and financialinstitutions were allowed to set up mutual fund units. SBI was the first bank to launch a mutual fund called SBI MF in July 1987 followed by several other banks.

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To enhance degree of competitiveness and provide the investors with wider outlets for investments, Govt. of India permitted entry of private sector in mutual fund business in 1993.

The opening up of asset management business to private sector saw international players like Morgan Stanley, Franklin Templeton, and Jardine Fleming along with host of domestic players entering the market.

TABLE 1

TOTAL NO.OF SCHEMES UNDER MUTUAL FUNDS

(Rupees in crores)

Year	Growth	ELSS	Income	Balanced	Gilt	Liq/MM	Total
March 2006	108 (31.39)	65 (18.90)	114 (33.14)	24 (6.98)	14 (4.07)	19 (5.52)	344
March 2007	110 (27.99)	80 (20.36)	126 (32.06)	32 (8.14)	19 (4.83)	26 (6.62)	393
March 2008	114 (27.34)	63 (15.11)	146 (35.01)	34 (8.15)	29 (6.95)	31 (7.43)	417
March 2009	120 (31.41)	47 (12.30)	117 (30.63)	35 (9.16)	31 (8.12)	32 (8.38)	382
March 2010	126 (31.27)	43 (10.67)	131 (32.51)	37 (9.18)	30 (7.44)	36 (8.93)	403
March 2011	151 (33.48)	37 (8.20)	159 (35.26)	35 (7.76)	30 (6.65)	39 (8.65)	451
Overall Growth Rate	39.81%	-43.08%	39.47%	45.83%	121.43%	105.26%	

Source AMFI Publication

Note: Figures in brackets denote percentage.

From Table 1 it is clear that Gilt schemes have shown the highest growth rate(121.43%) followed by liquid/MM schemes (105.26%) while income schemes have shown the lowest growth rare (39.47%). Still further ELSS equity has shown the negative growth rate of 43.08%. Although growth schemes have increased from 108 to 151 over the period, their overall share has remained has increased a little bit from 31.39% to 33.48%. Income schemes which were having the highest share at 33.14% in March 2006 still occupied the same with 35.26%. On the other hand, gilt funds have the minimum share ranging from 4.07% to 6.65% during the entire period of study. Liquid funds moved to 3rd rank from the 2nd rand from the bottom closely followed by the ELSS schemes.

TABLE 2

CATEGORY-WISE TOTAL NO.OF OPEN-ENDED SCHEMES

(Rupees in crores)

Year	Growth	ELSS	Income	Balanced	Gilt	Liq/MM	Total
March 2006	69 (39.43)	11 (6.28)	44 (25.14)	18 (10.29)	14 (8)	19 (10.86)	175
March 2007	91 (37.92)	18 (7.5)	60 (25)	28 (11.67)	19 (7.08)	26 (10.83)	240
March 2008	101 (33.22)	18 (5.92)	94 (30.92)	31 (10.20)	29 (9.54)	31 (10.20)	304
March 2009	120 (34.95)	47 (6.08)	117 (29.79)	35 (10.03)	31 (9.42)	32 (9.73)	382
March 2010	124 (34.16)	19 (5.23)	120 (33.06)	34 (9.37)	30 (8.26)	36 (9.92)	363
March 2011	149 (36.97)	20 (4.96)	131 (32.51)	34 (8.44)	30 (7.44)	39 (9.68)	403
Overall Growth Rate	115.94%	81.82%	197.73%	88.89%	114.29%	105.26%%	

Source AMFI Publication

Note: Figures in brackets denote percentage.

Table 2 shows the position of various categories among the open-ended schemes. It is visible from Table 2 that income schemes have shown the highest growth rate (197.73%) followed by growth schemes (115.94%), gilt schemes (114.29%), Liquid/money market schemes(105.26%), balanced schemes (88.89%), ELSS(81.82%), respectively. While income schemes have shown improvement in their share from 25.14% to 32.512% during the period of study, all other categories have shown a decline in their percentage share. However growth schemes continue to enjoy the first rank followed by income schemes. On the other hand, ELSS schemes continue to be at bottom during the entire period of study.

TABLE 3

CATEFGORY-WISE TOTAL NO.OF CLOSED-ENDED SCHEMES

(Rs.in crores)

Year	Growth	ELSS	Income	Balanced	Gilt	Total
March 2006	39 (39.43)	54 (6.28)	29 (25.14)	6 (10.29)	-	175
March 2007	19 (37.92)	62 (7.5)	31 (25)	4 (3.39)	2 (1.70)	118
March 2008	13 (14.94)	45 (51.72)	26 (29.89)	3 (3.45)	-	87
March 2009	5 (10.64)	27 (57.45)	13 (27.66)	2 (4.25)	-	47
March 2010	2 (5.00)	24 (60.00)	11 (27.50)	3 (7.50)	-	40
March 2011	2 (4.17)	17 (35.42)	28 (58.33)	1 (2.08)	-	48
Overall Growth Rate	-94.87%	-68.52%	-3.45%	-83.33%	-100%	-63.28%

Source AMFI Publication

Note: Figures in brackets denote percentage.

From Table 3 it is clear that no. of close-ended schemes in all the categories have been decreasing over the study period expect in year 2001 in which no. of ELSS and income schemes has increased. Most negative growth rate is shown by growth schemes (94.87%) followed by balanced schemes (83.33%), ELSS (68.52%) and income schemes (3.45%) respectively. Inspiteof decrease in no. of schemes under income funds category, its percentage share has increased from 22.66% to 58.33%. Growth schemes which were having the 2nd largest share (30.47%) in March 2006 moved 2nd rank from bottom having 4.17% share.

TABLE 4
SECTOR-WISE TOTAL RESOURCES MOBILISED BYMUTUAL FUNDS INDUSTRY

[Rs.in crores]

Year	UTI	Public sector	Private sector	Total
March 2006	76547 (67.74)	11412 (10.10)	25046 (22.16)	1130005 (100)
March 2007	58017 (64.04)	6840 (7.55)	25730 (28.41)	90587 (100)
March 2008	51434 (51.13)	8204 (8.25)	40956 (40.72)	100594 (100)
March 2009	13516 (17.01)	10426 (13.12)	55522 (69.87)	79464 (100)
March 2010	20617 (14.77)	14007 (10.03)	104992 (75.20)	139616 (100)
March 2011	20740 (13.87)	11373 (7.60)	117487 (78.53)	149600
Overall Growth Rate	-72.91%	-0.34%	369.08%	-29.68%

Source AMFI Publication
Note: Figures in brackets denote percentage.

It is clear from Table 4 that private sector has witnessed highest growth rate (369.08%) as opposed to negative growth rate witnessed by UTI (72.91%) and public sector (0.34%). UTI which was having the highest resources with it both in absolute and percentage terms moved to 2nd rank. It share has declined from 67.74% in March 2006 to 51.13% in March 2008 and then to 17.01%. Such a severe decline during 2008-2009 has been the split of UTI into two separate entities UTI-I and UTI-II. Share of public sector has decreased marginally in absolute terms from Rs. 11412 crores to Rs. 11373 crores over the study period but has decreased in percentage terms from 10.10% to 7.60%. Share of private sector has been continuously increasing over the study period which has now moved up from 2nd rank (22.16%) in March 2006 to top rank (78.53%) in March 2011. Not only this resources mobilised by private mutual funds have increased more than four times over the study period.

TABLE 5

NATURE-WISE RESOURCES MOBILISED BY MUTUAL FUNDS

(Rs.in crores)

Year	Open-ended	Close-ended	Assured Return	Total
March 2006	68833 (60.91)	21608 (19.12)	22564 (19.97)	1130005 (100)
March 2007	57293 (63.25)	13613 (15.03)	19681 (21.72)	90587 (100)
March 2008	71938 (71.51)	10977 (10.91)	17679 (17.58)	100594 (100)
March 2009	75071 (94.47)	4033 (5.07)	360 (0.46)	79464 (100)
March 2010	134523 (96.35)	5093 (3.65)		139616 (100)
March 2011	138029 (92.26)	11571 (7.73)		149600
Overall Growth Rate	100.53%	-46.45%	-100%	32.38%

Source AMFI Publication
Note: Figures in brackets denote percentage.

Table 5 shows that open-end funds have shown positive growth rate of (100.53%) as against negative growth rate shown by both close-ended (46.45%) and assured return schemes (100%). While open-ended funds continued to occupy topmost position both in absolute and percentage terms, the percentage share of both close-ended and assured return schemes has declined over the period. Further assured return schemes have moved down to bottom, second-position being occupied by close-ended funds over the period of study.

TABLE 6

CATEGORY-WISE RESOURCES MOBILISATION BY MUTUAL FUNDS

(Rs.in crores)

Year	Growth	ELSS	Income	Balanced	Gift	Liq/MM	Total
March 2006	30611 (27.09)	3036 (2.69)	48004 (42.48)	26757 (27.68)	2370 (2.09)	2227 (1.97)	1130005
March 2007	13483 (14.88)	2523 (2.78)	48863 (53.94)	19273 (21.28)	2317 (2.56)	4128 (4.56)	90587
March 2008	13852 (13.77)	1768 (1.76)	55788 (55.46)	16954 (16.85)	4163 (4.14)	8069 (8.02)	100594
March 2009	9887 (12.44)	1228 (1.55)	47564 (59.86)	3141 (3.95)	3910 (4.92)	13734 (17.28)	79464
March 2010	23613 (13.91)	1669 (1.20)	62524 (44.78)	4080 (2.92)	6026 (4.32)	41704 (29.87)	139691
March 2011	36757 (24.57)	1757 (1.15)	47605 (31.82)	4867 (3.25)	4576 (3.05)	54068 (36.14)	149600
Overall Growth Rate	20.08%	-43.12%	-0.83%	-81.81%	93.08%	2327.84%	-29.68%

Source AMFI Publication
Note: Figures in brackets denote percentage.

From Table 6 it is clear that Liquid/Money Market funds have shown the highest growth rate (2327.84%) followed by gilt funds (93.08%) and growth schemes (20.08%). On the other hand, highest negative growth rate has been experienced by balanced funds (81.81%) which is followed by ELSS (43.12%) and income funds (0.83%) respectively. Income schemes which were having largest share with 42.48% in March 2006 moved to 2nd rank with 31.82% share in March 2011. Liquid/Money Market funds which were having the lowest share at 1.97% in March 2006 moved to first rank with 36.14% share in March 2011. While growth schemes which occupied second rank with 27.09% share in March 2006 moved to third rank with 24.57% share in March 2011, balanced schemes have moved from third rank with 23.68% share to fourth rank. Gilt schemes occupied 5th rank during the entire period of study. ELSS schemes on the other hand have moved to last place. This shows that mutual fund resources have shifted from equity fund to debt funds over the period of study.

TABLE 7
NATURE-WISE RESOURCE MOBILISATION BY MUTUAL FUNDS UNDER DIFFERENT CATEGORIES

[Rs. in Crores]

Year	Growth Schemes		ELSS Schemes		Income Schemes		Balanced schemes		
	Open-ended	Close-ended	Open-ended	Close-ended	Open-ended	Close-ended	Assured Return	Open-ended	Close ended
March 2006	17478 (57.10)	13133 (42.90)	752 (24.77)	2284 (75.23)	20472 (42.65)	4968 (10.35)	22564 (47.00)	25534 (95.43)	1223 (4.57)
March 2007	8769 (65.04)	4714 (34.96)	324 (12.84)	2199 (87.16)	22769 (46.60)	6413 (13.12)	19681 (40.28)	19040 (98.78)	233 (0.12)
March 2008	8981 (64.84)	4871 (35.16)	418 (23.64)	1350 (76.36)	33587 (60.20)	4522 (8.11)	17689 (31.69)	16720 (98.62)	234 (1.38)
March 2009	8041 (81.33)	1846 (18.67)	350 (28.50)	878 (71.50)	46587 (97.95)	4522 (1.30)	17679 (0.75)	16720 (77.97)	234 (22.03)
March 2010	22154 (93.82)	1459 (6.18)	489 (29.30)	1180 (70.70)	60854 (97.33)	1670 (2.67)		3296 (80.78)	784 (19.22)
March 2011	35106 (95.51)	1651 (4.49)	708 (41.00)	1019 (59.00)	39408 (82.78)	8197 (17.22)		4163 (85.54)	704 (14.46)

Source AMFI Publication
Note: Figures in brackets denote percentage.

From the table it is clear that share of open-ended schemes in percentage terms under all the categories of mutual funds have increased except in case of balanced schemes. Under income schemes, assured return schemes used to occupy 47% in March 2006 of share which has reduced to a mere 0.75% in March 2008 and to nil in March 2011 and of open-ended schemes have increased from 42.65% to 82.78% over the study period. Under growth schemes, share of open-ended schemes have increased from 57.01% to 95.51% over the period of study. ELSS schemes showed increase from 24.77% in March 2006 to 41.01% in March 2011. Balanced schemes have shown a reversal in trend in year 2003 as resources mobilized under open-ended mutual fund schemes has decreased from 95.43% to 85.54%.

All the categories of mutual funds have shown decrease in absolute resource mobilization except in case of growth schemes where these have shown an increase of 20.08%

CONCLUSION

Thus it may be said at the end that gilt and liquid/MM schemes have grown significantly during the period. In term of resource mobilization, income, gilt and liquid/MM schemes have undoubtedly emerged as the most popular schemes among investors and these three accounts for more than 80% of the resources at the disposal of mutual fund industry. While open-ended schemes under all categories have increased considerably that of closed-ended schemes have depicted the reverse trend. Further, their share in total resources mobilized share has declined during the same period. Thus there is clear shift in mutual fund resources from equity funds to fixed income funds.

Among various sectors operating in mutual fund industry, private sector mutual funds have become the most prominent players in the industry. Public sectors mutual funds have, on the other hand, have emerged as the least preferred ones.

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