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A SOCIO-ECONOMIC STUDY OF GROWTH OF MUTUAL FUND CULTURE IN INDIA

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ABSTRACT
A mutual fund is a financial intermediary and a common pool of money because there is a perfect transmission of money between savers (holders) and the securities in which they want to invest according to their pre-specified objective. This paper aims to introduce the attributes of India's mutual fund industry, its development since its inception with UTI, the entrance of public sector, private sector, and foreign enterprise, and the various schemes offered by companies, which started to address the requirements of small investors. The objective of the study is to reveal the Mutual Fund industry in India from its inception to its current position. Also, discusses the mutual fund industry's prospects, as well as some factors kept in mind while investing in mutual funds for making safe investments with appropriate returns. The study is based on secondary data. Various statistical methods, such as average, percentage, and CAGR, were used to analyze the data. The study infers that the mutual fund industry in India is expected a tremendous growth in the coming years.

KEYWORDS: Socio-Economic, Mutual Fund, India.

INTRODUCTION

A mutual fund is a financial intermediary and a common pool of money because there is a perfect transmission of money between savers (holders) and the securities in which they want to invest according to their pre-specified objective. the ownership of the fund is thus 'mutual' means all its yields, minus its expenses, are shared by all fund unitholders. The fund managers professionally managed the funds provided by the investors and the income earned and capital appreciation on these investments are distributed among investors after charging reasonable management expenses and taxes. Therefore, mutual funds work as an AMC (Asset Management Company) which provides a scope to all income groups to invest in a professionally handled diversified portfolio of securities at reasonably low prices. After investing through mutual funds, investors need not bother about anything because it is a professionally managed investment option and also has a professional fund managers team. The fund managers mainly concentrate on risk-return trade off because their main intention is to get maximum returns with bearing minimum risk through proper diversification of portfolio.

History of Mutual Funds

As per AMFI (Association of mutual funds in India), the history of the mutual fund industry in India evolved in 4 phases:

Phase 1(1964-1987): Establishment, growth, and monopoly of UTI (unit trust of India): the concept of mutual funds was launched in the sixties of the last century, by the establishment of the UTI act 1963. The first officially launched scheme by UTI was US-64 in 1964. UTI enjoyed the monopoly position. As a result, the progress of the industry was identical to the progress of UTI. In 1978 UTI was separated from RBI and administration control moved to the IDBI.

Phase 2 (1987-1993): Entrance of Public Sector Mutual Funds: the speed of growth of the mutual fund industry was very slow because of less competition till the end of the 1980s.the year 1987 marked the entrance of the public sector, the government allowed the commercial public sector banks and insurance companies to enter the mutual fund industry. The first non-UTI mutual fund was started by SBI (STATE BANK OF INDIA) in November 1987. after that, this step is followed by Canara Bank, Punjab national bank, Indian bank, bank of India, Bank of Baroda, LIC, GIC.

Phase 3 (1993-1996): Emergence of Private funds mutual funds: in 1993, a hallmark period in the mutual fund industry started with the permission granted to the private sector. The first crop introduced by the private sector was erstwhile Kothari Pioneer (presently merged with Franklin Templeton) in 1993. Also, the SEBI MF regulation 1993 was eliminated and new regulation of SEBI was announced in 1996.

Phase 4 (1996-1999): Growth and SEBI regulation act: the mutual fund industry mounted newer heights in terms of fund mobilization and several fund houses. In this phase, a comprehensive set of regulations was introduced for all mutual funds operating in India to protect the investors. Also, the AMFI and SEBI launched an investor awareness program designed to educate the investors regarding MF investments.

Phase 5 (1999-2004): Emergence of uniform and large mutual fund industry: in the year 1999 was concerned with the significant growth in terms of amount mobilized from small and household investors and also in terms of AUM (asset under management). During this phase UTI also functioned under the SEBI regulation act,1996, earlier it functioned under a separate law of the Indian parliament.

Phase 6 (2004- Present stage): Consolidation and growth: the industry witnessed a wave of mergers and acquisitions. The UTI scam in the year 1998 declined the overall AUM of the Mutual Fund industry but the industry improved over the year. The industry showed unique growth from 2005-to 2007. After the economic recession in 2009, the market all over the globe was at an all-time low. A lot of investors suffered a great number of losses. In 2012, SEBI launched several progressive measures to take more transparency and safety. After that mutual fund industry has experienced a continuous inflow and rise in the total AUM and also in the number of portfolios.

Types of Mutual Funds

Types based on structure:

- Open-Ended Scheme: The open-ended schemes do not have a fixed maturity period and are always available for redemption and purchase on a current NAV price, which is declared on any business day. These funds are favored for liquidity features. Also, open-ended funds can issue and redeem units at any time throughout the life of a scheme.
- Close-Ended Scheme: unlike open-ended funds, they have a fixed maturity period. Investors can purchase the units when these funds are open in the initial issue time, after closing this period schemes can be sold and purchased on the related stock exchange. These schemes cannot issue new units after the closing of the initial offer period, they can only issue bonus and right shares. The prices of units may vary at the stock exchange due to demand and supply, expectations of investors, and other market-related factors.

Types based on investment objectives:

- Equity Scheme (Growth Scheme): the main concentration of growth funds is on equity and equity-related stocks. They invest a major part of their amount in equity-related instruments. Equity funds provide capital appreciation, less tax liability, dividend reinvestment option, and pay-out option. These funds are riskier as compared to debt and hybrid funds.
- Hybrid Scheme (Balanced Fund): these schemes concentrate on both the equity instruments and debt instruments equally. Through hybrid funds, an investor can achieve both growth and income objectives. Balanced funds are less risky as compared to equity funds because loss is mitigated through holding a diversified portfolio and provides more return than debt funds. That is why they are often called "Balanced Fund".
- Debt Scheme (Income Fund): Debt schemes are those which invest only in debt-related instruments like a bond, debenture, government securities, etc. These schemes provide less risk and fewer returns that why they are considered comparatively safer. The foremost objective of debt schemes is to provide regular and stable income to investors.
- Money Market or Liquid Schemes: These funds are also income funds and invest in short-term instruments to offer easy liquidity, moderate-income, and protection of income. These funds invest in CP (Commercial Paper), CD (Certificate of Deposits), T-Bills (Treasury bills), etc.

Other types of mutual funds:

- Tax Saving Scheme: Investors are encouraged to invest in mutual fund schemes because of the tax rebate benefit offered through ELSS (Equity Linked Saving Scheme) under sec. 88 of Income Tax Act. Tax saving schemes have 3 years lock-in -period.
- Index Scheme: These schemes are also known as Exchange Traded Funds (ETF). Index schemes performance is a replica of a related index such as BSE Sensex, NSE Nifty, etc. Net Asset Value of these schemes would rise and fall according to market index movement but not always in the same number because of "tracking error".
- Sector Specific Scheme: these are the schemes that restrict their investing to one or more specified sectors. These sectors are already specified in offer documents. For instance, the Technology sector, Pharmaceuticals, real estate, etc. these schemes are riskier because of less diversification and also may provide higher returns.

REVIEW OF LITERATURE

[1] researched the current situation of mutual funds and their prospects for the future. The study concluded that the largest difficulty for mutual fund houses is customer awareness and financial literacy. Furthermore, when it comes to Tier-1 and Tier-2 cities, mutual fund institutions use a complete strategy.

[2] examined the expansion of the Indian mutual fund business and concluded that the industry is fictitious and that there is little question about mutual funds' inherent nature as a platform for small investors. also suggested that authorities create regulations and procedures that encourage retail investment in mutual funds.

[3] investigated the association between mutual fund AUM and India's GDP growth. They concluded that mutual funds have become an important resource mobilizer for the Indian financial sector. They recommended that in the case of black money, several reforms, such as suitable structures and laws, as well as a solid regulatory framework for investor protection, are essential.

[4] invstigated current trends in India's mutual fund business. According to the survey, India has a large mutual fund investor base, but when compared to other countries, India ranks far behind. They claimed that stricter rules, better client service, and higher returns could make mutual fund schemes more appealing to investors.

[5] examined the growth aspects of the mutual fund industry. The study concluded that the Indian mutual fund industry is expected to higher growth in coming years and also the SEBI framework contributed a lot to the industry but still people are not recognized mutual funds as a preferable investment.

[6] examined the mutual fund industry from Oct. 2016 to Sep. 2017. The study concluded the main reasons for growth are demonetization, GST implementation, awareness of the capital market among people in India.

[7] examined trends and themes that drive the recovery of the mutual fund industry. The study found the significant drives were to increase digital penetration, focus on cost management, industry consolidation also allow entry of new players.

OBJECTIVE OF STUDY

The core objective of the study is to reveal the Mutual Fund industry in India from its inception to its current position. Also, the additional objective is to study the reasons behind the growth of mutual funds in India.

RESEARCH METHODOLOGY

This study is analytical and descriptive and based on secondary data. The data were tabulated and analyzed for the conclusion. Many statistical methods, such as average, percentage, and CAGR, were used to analyze the data**.**

RESOURCE MOBILIZATION BY MUTUAL FUNDS

This section deals with the growth of the Indian mutual fund industry.

TABLE 1. Assets Under Management (Aum)

Years	**AUM (in crores)**	**% Increase/ Decrease**
1965	25	....
1987	4564	18156
1993	47000	929.79

2000	113005	140.43
2001	090587	-19.83
2002	100594	11.046
2003	079464	-21.00
2004	139616	75.69
2005	149554	07.12
2006	231862	55.03
2007	326388	40.77
2008	505152	54.77
2009	417300	-17.39
2010	613979	47.13
2011	700538	14.09
2012	664792	-5.10
2013	816657	22.84
2014	905120	10.83
2015	1188690	31.33
2016	1353443	13.86
2017	1829584	35.17
2018	2305212	25.99
2019	2448438	6.21
2020	2470882	0.91
2021 2022(in Jan.)	2753000 3888571	11.41 41.24
CAGR	23.34%	

Source: www.amfiindia.com

(Data pertaining to the month of March every year)

Table 1 shows that in 57 years of existence, the mutual fund industry achieved a CAGR of 23.34% in assets under management. From a little amount of Rs. 25 crores in 1965, it attained an impressive figure of Rs.38,88,571 crore in the year 2022. The table also shows the upwards and downwards trends (in % form) of AUM in different years.

TABLE 2. Cumulative growth in no. Of schemes

Years	**No. of Schemes**
1964-74	5
1974-86	10

1989	21
1993	59
1994	167
1999	277
2000	344
2002	417
2004	403
2005	451
2006	592
2007	756
2008	956
2009	1001
2010	882
2011	1131
2012	1309
2013	1294
2014	1638
2015	1884
2016	2420
2017	2281
2018	1998
2019	2042
2020	1952
2021	1789

Source: www.amfiindia.com

(Data pertaining to the month of March every year)

Table 2 is related to the growth of schemes. In 1964, there were only 5 schemes but it can be observed that the number of schemes increased after the entry of the private sector in 1993. In 2021 there are 1789 schemes offered by various AMCs. The number of schemes shows decreasing trends in the years 2018, 2020, and 2021 because of the categorization and rationalization of mutual fund schemes.

TABLE 3. CUMULATIVE GROWTH IN NO. OF AMCS

Years	**No. of schemes**
1964	01
1989	08

1993	09
1996	26
2000	33
2005	30
2006	30
2007	32
2008	35
2009	38
2010	38
2011	41
2012	44
2013	43
2014	46
2015	43
2016	42
2017	41
2018	41
2019	42
2020	43
2021	44
CAGR	6.86%

Source: www.amfiindia.com

(Data pertaining to the month of March every year)

Table 3 is related to the number of AMCs in India. It shows that there were only 9 AMCs in 1993, the number of AMCs in India reached the figure of 44 as of 31st March 2021. The cumulative growth in the number of AMCs is 6.86%.

TABLE 4. Aum To Gdp Ratio

Countries	**Share**
Australia	137%
USA	103%
France	75%
UK	59%
Brazil	65%
Germany	55%

S. Africa	42%
Japan	36%
Korea	29%
China	13%
Italy	11%
India	15%
Mexico	9%

World Average is 55%

Source: Cafemutual.com

Table 4 indicates the AUM to GDP of different countries. The developed countries like Australia, the USA, France, the UK, Brazil, etc. are the real beneficiaries of the mutual funds. There has been a constant growth in the mutual fund industry in India but it is still lesser in comparison to other countries. The share of the Indian mutual fund industry is in the increasing trend, its share was only 0.4% in 2011 and now it's 15% in 2021. It's quite appreciable.

Advantages of Mutual Funds/Opportunities of Mutual Funds

The mutual fund industry has enjoyed extensive growth in terms of the AUM as well as the investors' savings.it offers several advantages to the investors who invest in mutual funds as compared to direct investing in stocks or fixed return investment options.

- Professionally Managed Investment: the corpus amount pooled in the mutual funds is managed by professionals who decide investment strategies, have experience in security analysis, have good management skills, and are well experienced in changing conditions of the economy. Their decisions are based on the extensive research of market conditions, where they identify high yield securities and make a timely sale and purchase decisions.

- Risk Reduction Through Diversification: mutual funds based on the old axiom 'do not put all eggs into one basket. But a small investor with limited money cannot invest in the securities of different companies. hence, mutual fund managers always well diversify the investment by investing in different securities of different companies. This advantage is not possible in the case of any other investment avenue.

- Quick Liquidity: except for close-ended mutual funds, it offers instant liquidity facility through open-ended schemes. investors can be bought and sold their units at any time on a business day at the releases NAV.

- Variety Of Schemes: mutual fund offers investors a wide range of investment schemes. investors can choose any of these schemes according to their investment objective to accomplish their financial goal.

- Reduction in Cost Due to Bulk Transactions**:** mutual funds pay a lesser transaction cost because they purchase and sell a large number of securities at a time and get the advantage of standardization and economies of scale. these benefits finally reach the customers.

- Completely Protected: Mutual fund industry is subject to strict regulation under the SEBI MF regulation act, 1996, and also registered with AMFI which protects the interest of unitholders. All the AMCs provide full and comprehensive disclosure about their funds. They also have a neutral grievance redressal system that handled the grievances of investors.

- Tax Advantage: this also offers tax benefits for investing in tax planning schemes. one can invest up to 1.50 lakhs amount in tax-planning schemes of mutual funds mentioned under Sec.80 c tax deduction. ELSS (Equity linked saving scheme) is a tax-saving scheme of mutual funds.
- According to Your Financial Goal: there are a wide variety of mutual funds available in India with a wide variety of objectives and options for investors from all walks of life. It's very easy to find a mutual fund that matches your income, expenditure, and risk taste.

Disadvantages

Mutual funds have some drawbacks also.

- Diversification: it is one of the keys to successful investing, it lessens the risk associated with funds. but over-diversification of funds diminishes the risk on the one side and other side it will lessen the return also.
- Cost and Taxes: mutual funds charge various expenses to the investors for providing professional management. there is a range of fees that ultimately reduce the overall payout like redemption fees, operating fees, management fees, and also on some securities investors have to tax for receiving long term capital gain.
- Risk Related to Mutual Fund: mutual funds are similar to other investment options without having any guaranteed returns. In each offering document and online advertisement they mentioned: "mutual fund investment is subject to market risk".it only depends on the stock market. A fall in the market would cause a reduction in the worth of mutual fund shares.
- No Tailored Portfolio: Mutual fund doesn't offer customized portfolio as per investor's need. The portfolio of securities is only made by fund managers, investors have no right to interfere in their decisions. It led to complications in achieving their financial objective
- More Cash**:** mutual funds pool money from various investors, so everyday investors are investing as well as withdrawing their money. mutual funds have to retain a large amount of portfolio as cash to maintain liquidity for easy withdrawals. But ample cash retaining for liquidity is not working for investors and is also not advantageous.
- No Evaluation of Funds**:** one more disadvantage of mutual funds is that investors are unable to evaluate the funds of their portfolios. They don't have the opportunity to compare sales growth, EPS, price-earnings ratio, etc. of various funds. So, they enable to decide, unlike stocks which fund is better than another?

Factors to Be Kept in Mind While Choosing Mutual Funds

Following are some factors that should be kept in mind while choosing mutual funds:

- Check for Past Performance**:** Before investing your hard-earned money, investors must check the historical background of the mutual fund scheme, fund returns, and portfolio manager's decisions. Even the past performance is not a symbol of the future but still, it will help investors to figure out what you suppose to get in the future. Investors can make a comparison of previous two or three years' returns to check consistency in returns provided to unitholders. The historical data will also explain how the fund had performed in up(bull) and down (bear) trends in the market which will be helpful for the investors to understand the strength of a fund.

- Cost Factor: A high costs fund must achieve better returns than a low-cost fund. Even small variances in fees can translate into large changes in returns. So, before investing one must ensure about the cost and return. There is no need to spend an extra amount if it is delivering the same kind of returns as a low-cost fund.

- Match The Scheme's Risk with Your Risk Tolerance: mutual fund managers diversify its portfolio to reduce risk. The risk of the scheme fluctuates with the kind of assets it is invested in. most of the sector-specific schemes have high -risk because of less diversification and investing only in a specific sector. But if the investor wants to bear less risk, then he should opt for debt schemes with less risk. Most of the long-term investors who do not bother about risk will choose balanced schemes (combination of equities and debts).

- Know Your Fund Manager: The victory of a fund highly depends on the mutual fund manager. Most successful funds are run by the same portfolio managers. So, it's always sensible for the investors to ask about the fund manager before investing and also about their strategies that an AMC may have experienced.

- Remain Patience: market ups and downs are natural. Investors should understand that it is not mandatory to get significant results from the very first day. So, don't just pick a fund because it has shown a spurt in the current rally. Always confirm its returns are constant or not. In starting period, an investor can lose some money but they don't have to lose heart, keep patience and invest regularly.

- Meet Diversification Targets: before investing in a mutual fund, investors should always consider the level of diversification offers to their portfolio. Do not just restrict your investment to a few hot stocks available in the market. The long-term path for wealth creation is achieved through a well-diversified portfolio.

- Read The Prospectus Carefully: the offer document tells a lot about the fund. One must read the fund prospectus to get knowledge about their investment strategy and their risk culture. So, investors need to choose a particular scheme after considering their own financial goals and risk tolerance.

SEBI REGULATIONS

The mutual fund industry plays with the hard-earned money of the investors. if the strict rules and regulations could not be levied, it may be proved disadvantageous for the interest of unitholders. The Securities and Exchange Board of India (SEBI) had worked as the regulator in the Indian capital market with its first mutual fund regulations in 1993. After that these regulations were revised in 1996. Through these regulations, all mutual funds have been brought under a common regulation to ensure the transparency and safety of their unitholders. All mutual funds are mandatory to register with SEBI. Thus, there is a quality and trustworthiness check on every mutual fund company that wants to start their business.

- AMC has to take permission from the trustees before launching any mutual fund scheme. Also, they have to submit all details of the new scheme to the SEBI.

- According to SEBI regulations, there is compulsory for every AMCs to publish full details in offer documents regarding schemes offered for the interest of unitholders so that they will make a decision based on proper information.

- SEBI Regulations also prescribed strict instructions regarding advertisement and announcements given by various AMCs.

- SEBI made obligatory for all AMCs that close-ended schemes must be listed on stock exchanges within 6 months of the closing of the scheme.

- SEBI regulations act includes a provision that unit of close-ended schemes can be changed into open-ended schemes if the majority of unitholders agree. But this provision must be written in the offer document of the schemes.

- It is compulsory for all AMC to must disclose the minimum amount of subscriptions in the offer document. The entire money will be refunded in case the company enables to attain the level of subscription in a specified time.
- SEBI made it obligatory for all AMCs will have to mention the name of the person, all provisions, and sources responsible for certain returns.

CONCLUSION

India's mutual fund market is likely to grow dramatically. The SEBI regulatory framework has had a significant impact on the Indian mutual fund business, although there are still certain issues to address, such as disclosure and insolvency. In India, people move towards mutual funds investment but still, mutual funds are not regarded as a preferred investment option by the investor community. Fund houses use a comprehensive perspective and help to promote financial inclusion. The distribution channels have not been used to their full potential. Due to awareness of capital market growth among people in India, the future of this industry is very positive in India. Overall, we may infer that the mutual fund business should focus on long-term growth and profit rather than short-term gains.

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