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MUTUAL FUNDS IN INDIA

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Abstract

During the last few decades, the global financial scenario has witnessed several significant developments of which the initiation of new and innovative financial services is significant. A mutual fund means pooling the investments of a number of investors by way of investment in units of equal size. Mutual funds is known by different names in different countries. In the United Kingdom (UK), they are called "Investment Trusts" while in United States of America (USA) and most other countries, they are called "Investment Companies." The mutual fund industry in the present context is characterized by an increasing number of players, competition between the public and private funds and the rising prominence of this financial instrument in the Indian financial market. Hence the present overview of the mutual funds in India in the present article.

Mutual Fund Concept

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciation realised are shared by its unit holders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

Advantages of Mutual Funds

The advantages of investing in a Mutual Fund are as follows

- ♣ Professional Management
- ♣ Diversification
- ♣ Convenient Administration
- ♣ Returns Potential
- ♣ Low Costs
- ♣ Liquidity
- ♣ Transparency
- ♣ Flexibility
- ♣ Choice of schemes
- ♣ Tax benefits
- ♣ Well regulated

Types of Mutual Fund Schemes

Wide variety of Mutual Fund Schemes exist to cater to the needs like financial position, risk tolerance, returns expectations etc. The existing types of schemes in the Industry are given below.

By Structure

- Open – Ended Schemes
- Close – Ended Schemes
- Interval Schemes

By Investment Objectives

- Growth Schemes
- Income Schemes
- Balanced Schemes
- Money Market Schemes

Other Schemes

- Tax Saving Schemes
- Special Schemes

  Index Schemes

  Sector Specific Schemes

Prospects of Mutual Funds in India

The entry of private sector mutual funds in the market is likely to provide environment for competitiveness and more freedom of choice to investors. This is likely to give further boost to investments in the mutual funds. The important reasons promoting high potential for growth of mutual funds in the country are as follows:

- A large number of small savers are not happy with the low and fixed returns on bank deposits, post-office saving schemes etc. which hardly make up for inflationary impact on the value of money and they do not have the risk-taking attitude and ability to invest directly in the stock market.
- The mutual funds function as a forum for small investors in the capital market who are generally unable to get securities at the time of public issue by companies due to heavy over-subscription (even more than 100 times in some cases). Increase in minimum investment, reduction in public offer and preferential allotment to mutual funds in recent times have further restricted the scope of direct participation in capital market by small investors, thus pushing them to follow the route of mutual funds.
- The investment portfolio of mutual funds is so large that any setback to any security is easily absorbed by spurt in prices of some others and the principal amount of the investors remains well protected.
- The liberalized economic and trade policies and the resultant boom in the capital market has brought in its wake a golden period for mutual funds which have been benefited from the upsurge in equity prices in far greater proportion than individual investors.
- The mutual funds have been granted various tax incentives along with complete exemption from wealth tax. Further, private sector mutual funds have also been granted the same tax benefits as their counterparts in the public sector.

Analysis of this study

In order to understand and identify the growth of mutual funds, the measurement of trend (method of least square) is used. The formula used is as follows

$$\left.\begin{aligned} &Y=a+bx \\ &a = \sum Y / N \\ &b = \sum XY / \sum X^2 \end{aligned}\right\} \text{when } \sum x = 0$$

Table 1 shows the trends in mutual funds resource mobilization for the period from 1993 to 2004 in the public sector, Unit Trust of India (UTI), and private sector. The total mutual funds resource mobilization from the public increased from Rs.62,076 crores in 1993-94 to Rs.5,90,190 crores in 2003-04 with fluctuations. The highest amount of Rs.5, 90,190 crores was mobilized from public in 2003-04.The private sector mutual funds companies mobilized Rs.1,549 crores in 1993-94, later the amount decreased to Rs.312 crores in 1995-96 and again rose to Rs.5,34,649 crores in 2003-04. In respect of public sector, the amount mobilized from public was Rs.9,327 crores in 1993-94. It decreased in the following years, 1995-96 to 1997-98. But the year 2003-04 witnessed reversal of trend and accounted for Rs.31,548 crores. In the case of Unit Trust of India (UTI), the mobilized amount decreased from Rs.51,000 crores in 1993-1994 to Rs.9,500 crores in1994-95, later it increased to Rs.13,193 crores in 1998-1999. The overall analysis with the help of the Table vividly reveals that the private sector mutual funds companies have dominated in 2003-04. But UTI dominated in 1993-94. But the year 2003-2004 witnessed reversal of trend.

Table 1 also represents the measurement of trend (method of least squares). The total number of years taken for calculation is 11 i.e. N=11 (from 1994 to 2004). Y is taken as the total amount for each year. The variable X is taken as X = Year - 1999 so that $\sum X$ becomes zero. The linear model is built as Y= 41315.6909X+ 122256.45465. This shows an upward annual growth of 413145.691. As per this linearity assumption, the estimated amount for the year 2005 is Rs. 370150.6 crores.

Conclusion

In India, there are 38 Mutual Funds and over 935 schemes. All mutual funds in India are regulated by the Securities and Exchange Board of India. All investments, whether in shares, debentures or deposits, involve risk. Share value may go down depending upon the performance of the company, the industry, state of capital markets and the economy. Generally, however, longer the term, lesser the risk. Companies may default in payment of interest and principal on their debentures/bonds/deposits. While risk cannot be eliminated, skillful management can minimize risk. Mutual Funds help reduce risk through diversification and professional management. The experience and expertise of Mutual Funds managers in selecting fundamentally sound securities and timing their purchases and sales help them to build a diversified portfolio that minimizes risk and maximizes returns.

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Table- I

Trends in Mutual Fund Resource Mobilisation

(Rs.Crores)

Period	Gross Mobilization					
	Private Sector	Public Sector	UTI	Total Y	X	XY
1993-94	1549	9527	51000	62076	-5	-310380
1994-95	2084	2143	9500	13727	-4	-54908
1995-96	312	296	5900	6508	-3	-19524
1996-97	346	151	4280	4777	-2	-9554
1997-98	1974	332	9100	11406	-1	-11406
1998-99	7847	1671	13193	22710	0	0
1999-00	43726	3817	13698	61241	1	61241
2000-01	75009	5535	12413	92957	2	185914
2001-02	147798	12082	4643	164523	3	493569
2002-03	284096	23515	7096	314706	4	1258824
2003-04	534649	31548	23992	590190	5	2950950
Total				1344821	0	$\sum XY =$ 4544726

Source : www.sebi.gov.in

$a = \sum Y / N$

$= 1344821/11$

$\therefore a = 122256.4545$

$b = \sum XY / \sum X^2$

$= 4544726/110$

$\therefore b = 41315.6909$

The trend line is Y = 41315.6909 X+ 122256.4545. For the year 2004-05, the expected amount mobilized is Rs. 370150.6 crores.