Growth and Development of Mutual Fund Industry with reference to Banking Sector Funds: An Indian Perspective

Vijayalakshmi Sundar*

*Research Assistant, Pondicherry University, Puducherry, INDIA. E-Mail: vijisundar.pu@gmail.com

Abstract—Mutual funds in India are becoming an ideal investment choice compared to safe investments such as Fixed Deposits and postal which gives comparatively low returns. Since the year 2003 from which the present stage of bull run in the Indian capital markets began, the mutual fund industry While the growth in terms of the AUM was subdued over the period from 2009-2013, it has gained unprecedented momentum over the four year period until March 2013. The growth of the capital markets in terms of BSE -30 shares Sensex has been still higher, and the banking sector has been on a roll over the last couple of years, throwing up huge opportunities for wealth creation on the way. As the Indian economy does well with over recent times, banks tend to be one of the biggest beneficiaries. In fact, post the global financial crisis of 2008 and 2009, the banking index delivered a return of 82% during May 2009 until October 2010, compared to a return of 40% delivered by the broader market. Investment in banking sector funds is one of the best avenue which guarantees stable return with medium risk when compare to other sectors.

Keywords—Asset under Management; Banking Sector; Mutual Fund; Performance Evaluation.

Abbreviations—Asset Under Management (AUM); Bombay Stock Exchange (BSE); Securities and Exchange Board of India (SEBI); Unit Trust of India (UTI).

I. INTRODUCTION

The unit holders of mutual funds are able to gain their investment advantage by diversifying, which might be beyond their financial means individually. The objectives of this research is intended to assess the growth of development of mutual funds in India, also to know the development of banking sector funds in India. A mutual fund is a managed group of owned securities of several corporations. These corporations get dividends on the shares that they hold and realize capital gains or losses on their securities transacted. Gupta Amitabh (2001) stated mutual funds represent a perfect investment choice in India on account of its increasing esteem. It is considered as the most appropriate investment for the common man as it provides the opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. Fredman et al., (1997), the mutual fund machinists actively manage the portfolio of securities and receive income which is ultimately passed on to the unit holders. The Mutual fund industry India is fully regulated by SEBI and the industry functions within the comprehensive SEBI mutual funds Regulations 1993 that aims to protect the interest of investor.

The Indian mutual fund industry had a quick growth as a result of country’s infrastructural development, growth in personal financial assets, and increase in foreign participation. The industry withstands with growing risk appetite, increasing income, and growing awareness, mutual funds in India are becoming an ideal investment choice compared to safe investments such as Fixed Deposits and postal which give comparatively low returns. During these two decades, the total assets managed by the mutual fund industry have grown from two per cent to eight per cent of the Gross Domestic Product (GDP). This indeed looks like decent growth, Bhatt (1996) stated as it is important to look at the growth of equity assets. The reason is that the mutual fund industry in India is indeed two separate industries one is a retail-oriented equity investment management industry and another is a corporate deposit service that comprises the fixed-income funds. There is some connection but this is the basic detachment. Naturally, there’s nothing wrong in placing large amounts of corporate cash, as it is an important service in a financial system and mutual funds do it better than banks says Dhirendra Kumar (2013).
II. Inception of Mutual Funds

In the year 1822 the Mutual fund was first introduced in Belgium later it extent to Great Britain and France. Mutual funds became popular in the United States in the 1920s and continue to be popular since the 1930s, mainly open-ended Mutual funds. According to Mutual fund source after World War II, in 1980s and 1990s Mutual funds had experienced a period of incredible growth. With the formation of UTI, the Mutual fund industry in India started in 1963 at the initiative of the Government of India and RBI. In the year 1978 IDBI took UTI over the regulatory and administrative control from the RBI. In the year 1964, UTI launched its first Unit Scheme. Later at the end of 1988 UTI had Rs.6, 700 crores of AUM.

III. Entry of Public Sector Funds

According to AMFI, he year 1987 marked the entry of non-UTI, public sector Mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual fund was the first non-UTI Mutual fund established in June 1987 followed by Canbank Mutual fund (Dec 87), Punjab National Bank Mutual fund (Aug 89), Indian Bank Mutual fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual fund (Oct 92). LIC established its Mutual fund in June 1989 while GIC had set up its mutual fund in December 1990. At the end of 1993, the Mutual fund industry had AUM of Rs.47, 004 crores [www.amfiindia.com].

IV. Entry of Private Sector Funds

In 1993 a new era started in the Indian Mutual fund industry giving the Indian investors a wider choice of fund schemes by the entry of private sector funds. Also it was the year in which the first Mutual fund Regulations came into being, under which all the Mutual funds, except UTI were registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector Mutual fund registered in July 1993. The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996. The number of Mutual fund houses went on increasing, with many foreign Mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. From 1996 to 2003 the total distribution of AUM increased from 68,984 crores to 79,464 crores. As at the end of January 2003, there were 33 Mutual funds with total assets of Rs. 1, 21,805 crores. The UTI with Rs.44, 541 crores of AUM was way ahead of other Mutual funds [www.sebi.gov.in].

V. Present Status of MF Industry

Since the year 2003 from which the present stage of bull run in the Indian capital markets began, the Mutual fund industry While the growth in terms of the AUM was subdued over the period from 2009-2013, it has gained unprecedented momentum over the four year period until March 2013. Over this latter period of four years, the assets under management have grown from Rs 417,300 crores to as high as 816,657 crores as at the end of March 2013. The compound annual growth rate of the industry over this period is as high as 40%.

This high level of growth has obviously been triggered by the stupendous growth of the Indian capital markets over this period. The NSE index of select 50 stocks over this period has been around 42.60 percent and the Nifty – 50 indexes grew from 2674.6 points to 5697.35 points over the same period.

According to AMFI, the growth of the capital markets in terms of BSE-30 share Sensex has been still higher, in absolute terms; this index grew from 3,301.67 points to 18,835.77 points It is quite clear that the growth of the Mutual fund industry has been in tune with that of the capital market not only the quantitative growth, but also the Indian Mutual fund industry has shown qualitative growth as well. The regulatory environment, under the watchful eyes of the SEBI has been consistently improving. The frequency of reporting by the Mutual fund has increased. The media plays a powerful role for the developments of Mutual fund industry as the fund performance have been reported and evaluated constantly. The advanced growth prospect of the industry has attracted global players as well as splendid fund management talent. Awareness on investment dynamics has become more among the investors. Below is Growth of the Indian Mutual fund industry over the period from 2003-2013 (in Crores).

<table>
<thead>
<tr>
<th>Year (As on 31 March)</th>
<th>Sales</th>
<th>Redemption</th>
<th>AUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>5,90,190</td>
<td>5,43,381</td>
<td>1,39,616</td>
</tr>
<tr>
<td>2005</td>
<td>8,39,662</td>
<td>8,37,508</td>
<td>1,49,554</td>
</tr>
<tr>
<td>2006</td>
<td>10,98,158</td>
<td>10,45,382</td>
<td>2,31,862</td>
</tr>
<tr>
<td>2007</td>
<td>19,38,592</td>
<td>18,44,512</td>
<td>3,26,388</td>
</tr>
<tr>
<td>2008</td>
<td>44,64,376</td>
<td>43,10,575</td>
<td>5,05,152</td>
</tr>
<tr>
<td>2009</td>
<td>54,26,353</td>
<td>5,45,650</td>
<td>417,300</td>
</tr>
<tr>
<td>2010</td>
<td>10,019,023</td>
<td>9,935,942</td>
<td>613,979</td>
</tr>
<tr>
<td>2011</td>
<td>8,859,515</td>
<td>8,908,921</td>
<td>700,538</td>
</tr>
<tr>
<td>2012</td>
<td>6,819,679</td>
<td>6,841,702</td>
<td>664,792</td>
</tr>
<tr>
<td>2013</td>
<td>7,267,885</td>
<td>7,191,346</td>
<td>816,657</td>
</tr>
</tbody>
</table>

According to the latest statistics from the Association of Mutual funds in India, the average AUM of the 44-member industry stood at a new high at Rs 8.16 lakh crore for the quarter ended 31 March. This is a rise of 2.67% in the sequential quarter. According to Chandan Kishore Kant (2013), though the AUM growth of overall industry remained low, sector fund did better performance than industry’s average. The Mutual fund industry, besieged by net redemptions by investors and adverse global and local market conditions, shrank by 1.6% in terms of AUM during the year
It was seen in 2006 that there was increased investor participation in the industry when market was booming, leading to fund inflows that enabling the AUM to grow at a pace greater than the Sensex. However, volatile market conditions in following two years have led to net withdrawals by investors to the tune of 22,023 crore in 2011-12, which was leading to a further drop in AUM, in addition to the drop caused by adverse market movements. The Mutual fund industry is primarily debt-oriented with debt funds forming 64% of the AUM. As in the past, increased equity participation is the need of the hour for the Mutual fund industry. The global economic crisis wherein the world flirted with a 1930s-style Great Depression pushed AUM down and the decline did not last more than a year. In 2009, AUM shot up by a whopping 61.6%. This was because of bond funds which experienced strong net inflows and equity markets rallied hard from their abysmal lows in February 2009. The below figure indicates the growth of assets over the years with BSE Sensex points.

The figure 2 shows the investor-wise pattern of asset holding for year ended 2012. The investor-wise pattern of asset-holding as well as investor accounts that the individual investors accounted for 97.07 of total investors account and contribute 37.0% of the total net assets as on March 31, 2009. They were followed by NRIs, who constituted a meager 1.90 percent of the total number of investor accounts. On the other hand, the corporate/institutions accounted for 72.80 percent of the net assets of the Mutual fund industry in 2011–2012, followed by individuals, who accounted for 23.40 percent. The corporate/institutions saw the highest increase in net assets among the four categories, with a year-on-year improvement of 18.05 percent in 2011–2012. The chart reveals corporate holds maximum assets as on 2012 followed by Individual investors. NRIs and FIIs are holding 2% each who are the lowest among the categories.

VI. INSTITUTION-WISE RESOURCE MOBILIZATION

The resource mobilization through the route of Mutual funds is done broadly by three categories, namely, banks, private sector, and institutions. The structure of the institution-wise resource mobilization is depicted below gives the details of the sales, purchases and AUM. The private sector Mutual funds accounted for 79 percent of the resource mobilization (sales) by the Mutual fund industry in 2012–2013. These private sector Mutual funds witnessed a net outflow of 5,766,729 crore, compared to a net inflow of 5,622,189 crore in 2011–2012. In 2012–2013, bank-sponsored Mutual funds mobilized resources worth 1,465,565 crore, which was 24.22 percent higher than the resource mobilization in 2011-12 (1,179,842 Crore). The bank-sponsored schemes accounted for 20.16 percent of the gross resource mobilization in 2012–2013. In net terms, the bank-sponsored Mutual funds witnessed an outflow of 1,452,750 Crore in 2012–2013 [www.mutualfundsresource.com].

VII. INDIAN MUTUAL FUND INDUSTRY: GROWTH AND DEVELOPMENTS

Dhirendra Kumar (2013) stated that the factors which can be largely attributed the impressive growth in the Indian Mutual fund industry are rising household savings, advantageous tax policies, and introduction of several new products, investor education and the role of distributors. The household’s income levels have grown significantly, in the last few years which ultimately leading to adequate increase in household’s
The Indian Mutual funds retail market, growing at a CAGR of about 30%, is forecasted to reach US$ 300 Billion by 2015. Individual investors make up for 96.86% of the total number of investor accounts and contribute 36.9% of the net AUM. The Rs. 7.2 trillion Indian Mutual fund industry is revisiting its business model to be in sync with the new norms put in place by the capital market regulator, the SEBI. India has 44 AMC’s in that, some of them are planning to start their own distribution business instead of selling funds through third-party distributors and they plan to cut the commission of the distributors by 25-30 basis points (bps) and shift their focus from frequent blending of funds to managing money for the longer term.

Besides, SEBI has introduced various regulatory measures in order to protect the interest of small investors that augurs well for the long term growth of the industry. The tax benefits allowed on Mutual fund schemes is qualified for tax deductions under section 80C of the Income Tax Act also have helped Mutual funds to evolve as the preferred form of investment among the salaried income earners. Further, the Indian Mutual fund industries which are started with equity fund, debt fund and balanced fund has significantly expanded its portfolio. And today, the industry has introduced an selection of products such as liquid/money market funds, sector funds, index funds, gilt funds, capital protection schemes, exchange traded funds, etc. The wide variety of schemes offered by the Indian Mutual fund industry provides numerous options of investment to common man.

VIII. INDIAN BANKING SECTOR: GROWTH AND DEVELOPMENT

Sector funds offer some obvious advantages to the investor in the way that when the market goes high, some sectors are at the vanguard. The sectors like banking and fast moving consumer goods have done well in the past couple of years. The sector funds can help to reduce portfolio risk while these funds belong to the top end of the risk range, under certain circumstances. In a portfolio of multiple Mutual funds, a sector fund can reduce portfolio risk provided the sector has a low correlation with the other equity funds and has low sensitivity to macro-economic factors. The sector holding as on year ended 31st March 2013 shown in the chart below.

![Figure 4: Sector wise Holding 31 March 201](image)

The Indian Banking sector is one of the important banking systems in the world. Which has been proved during the 2008 global financial crisis which created the great impact in the profitability of Indian banking sector to a small extent unlike its international outwits. As Indian banking sector is one of the major sectors that are driving the economy, the profitability of this sector as measured by NIM is high and this fact has been even highlighted by the Governor of Reserve bank of India in the speech of BANCON 2010. The Governor also has stated in the same speech that the NIM of Indian Banks is higher as compared to NIMs of the banks in other emerging markets. Hence, the banking sector is one of the most preferred investment sectors in India. This is evident from the investments according to Manjunath Gaddi (2011) the Mutual funds have in the banking space which have never fallen below 12.7% of the total equity investments by fund houses. Below figure indicates the AUM for banking sector for the period between 2009 and 2013.

![Figure 5: AUM: Indian Banking Sector](image)
for sector wise Mutual fund exposure before August 2009, when the equity funds had arrayed Rs 22,587 crore i.e.12.73 per cent in banking sector Sudip Bandhopadhya (2012). The Mutual funds had propelled in Rs 42,022 crore in the banking shares at the end of November, while their exposure in the sector was at 20.59 per cent of the equity AUM. The year 2012 has seen a consistent growth in investment in banking stocks by the industry’s equity fund managers and their exposure has risen from 17.23 per cent of total AUM in January 2012 to 21.15 per cent in December.

In absolute terms, fund infusion has grown from Rs 32,380 crore to Rs 43,659 crore. Market experts believe that expectation of rate cuts from RBI has made equity fund managers raise their exposure in the sector. Additionally, the passage of the Banking (Amendment) Bill, which paves the way for entry of more players and investments in the sector, had also given a boost to the sector. In December 2012, banking was followed by software sector which have attracted Rs 16,467 crore or 7.98 per cent of AUM, pharmaceuticals saw an investment of Rs 15,667 crore or 7.58 per cent of AUM and consumer non-durables witnessed a deployment of Rs 15,498 crore or 7.51 Per cent of the AUM. The banking sector has been on a roll over the last couple of years, throwing up huge opportunities for wealth creation on the way. As the Indian economy does well with over recent times, banks tend to be one of the biggest beneficiaries. In fact, post the global financial crisis of 2008 and 2009, the banking index delivered a return of 82% during May 2009 until October 2010, compared to a return of 40% delivered by the broader market. In the recent studies of sector based funds revealed that banking sector Mutual funds topped the performance charts. Investment in banking sector funds is one of the best avenue which guarantees stable return with medium risk when compare to other sectors.

IX. Conclusion

Indian MFs have emerged as strong financial intermediaries and they play a significant role in bringing stability into the financial system and efficiency in resource allocation. Mutual Funds operations utilized the public money of investors, hence Fund Managers have to use this public money in a proper way and distribute reasonable returns to investors. Fund Managers must find the portfolio allocation under risk and returns proposition. After that they have to select the stocks for fund allocation. In general, high level of risk provides high returns, hence Fund Managers are recommended continue to select the correct stocks according to the expectations of investors. In the recent studies of sector based funds revealed that banking sector Mutual funds topped the performance charts. Investment in banking sector funds is one of the best avenue which guarantees stable return with medium risk when compare to other sectors.

References


Vijayalakshmi Sundar is Project Assistant at Department of Commerce, Pondicherry University, Puducherry, India. She has acquired Master of Philosophy (M.Phil) from Department of Commerce, KMCPGS, Puducherry. Her area of research is Finance.