

Resource Mobilization by Indian Mutual Fund Industry

**Dr. Hitesh S. Viramgami*

1. INTRODUCTION:

A small investor faces many handicaps in the share market. He cannot afford the professional advice of professional investment consultants and cannot minimize his risk by spreading his limited funds over different industry groups. Mutual funds have come as a boon to the small and medium investors and they have emerged as the popular media through which small and medium investors can reap all the benefits of good investing. There is no other safe way for the small investors to enter the capital market except the mutual funds.

A mutual fund is a special type of investment institution, which acts as an investment conduit. It collects the savings of the community; especially of small investors and invests them in a well-diversified portfolio of sound investment. It is set-up in the form of a trust, which has

I - Sponsor

II - Trustees

III - Asset Management Company (ACM)

IV - Custodian

The trust is established by sponsor(s), who is like the promoter of a company. The trustees of the mutual funds hold its property for the benefit 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 the custody. The trustees are vested with the general power of supervision and direction over AMC and they monitor the performance and compliance of the SEBI regulations by the mutual funds. As an investment intermediary, they offer a variety of services and advantages to the relatively small investors like lower risk through diversification, expert management and reducing cost due to economies of scale. Thus mutual funds are an important part of the capital market providing the benefits of diversified portfolios and expert fund management to small investors.

The advantages of investing in a Mutual Fund are:

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

2. HISTORY OF INDIAN MUTUAL FUND INDUSTRY:

Mutual funds came into existence in India with the setting up of UTI under UTI Act, 1963. The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank. The history of mutual funds in India can be broadly divided into four distinct phases.

First Phase - 1964-87:

Unit Trust of India (UTI) was established in 1963 by an Act of the Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978, UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of

**Lecturer in Commerce, Shree V. R. Patel College of Commerce, Mehsana - 384002, Gujarat.*

E-mail : drhsviramgami@yahoo.co.in

1988, UTI had Rs.6,700 crores of assets under management.

Second Phase - 1987-1993 (Entry of Public Sector Funds):

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 assets under management of Rs.47,004 crores.

Third Phase - 1993-2003 (Entry of Private Sector Funds):

With the 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 families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be 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.

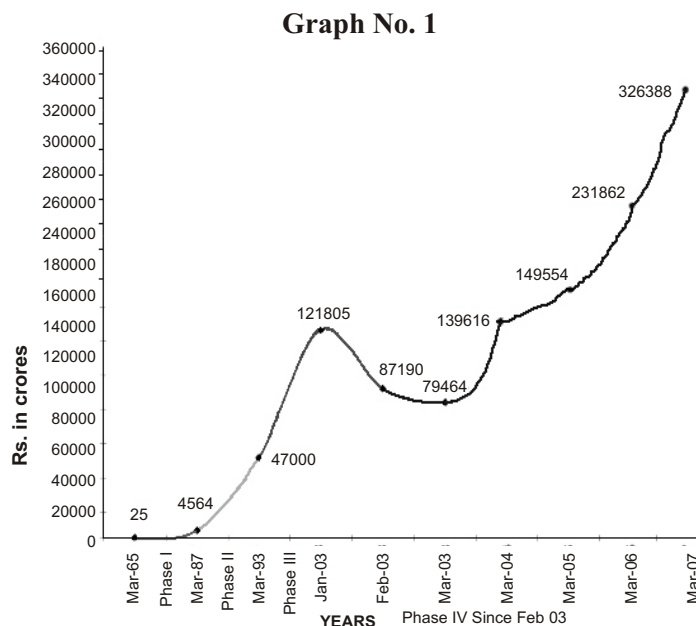
The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,21,805 crores. The Unit Trust of India with Rs.44,541 crores of assets under management was way ahead of other mutual funds.

Fourth Phase - since February 2003:

In February 2003, following the repeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs.29,835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes. The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India does not come under the purview of the Mutual Fund Regulations.

The second is the UTI Mutual Fund Ltd, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI, which had in March 2000 more than Rs.76,000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth. As at the end of September 2004, there were 29 funds, which manage assets of Rs.153108 crores under 403 schemes.

The below graph indicates the growth of assets over the years.



3. ASSOCIATION OF MUTUAL FUNDS IN INDIA (AMFI):

With the increase in mutual fund players in India, a need for mutual fund association was generated to function as a non-profit organization. Hence Association of Mutual Funds in India (AMFI) was incorporated on 22nd August, 1995. AMFI is an apex of all Asset Management Companies which has been registered with SEBI. All the AMCs that have launched mutual fund schemes are its members till date. It functions under the supervision and guidelines of its board of directors. AMFI has brought the Indian mutual fund industry to a professional and healthy market with ethical lines enhancing and maintaining standards. It follows the principles of both protecting and promoting the interests of mutual funds as well their unit holders.

4. THE PRESENT SCENE:

In U.K., mutual funds are the fourth largest financial force after banks, insurance companies and pension funds. With the emergence of mutual funds; a change is taking place in the composition of investors. The traditional investors, who used to invest in mutual funds, keeping in view the college education for children and retirement age, are giving way to youngest generation with shorter time horizon and greater expectations. There is a growth in the number of young people with growing expectations, which has started causing strains in mutual fund structure. The realization that no single investment product could meet all the financial needs of investors, had led the mutual funds to develop a wide variety of products. In order to meet the various investment objectives of various classed of small and medium investors, mutual funds are presumed to provide better returns, liquidity, safety, stability through professional expertise and sound portfolio of these funds.

In India, as mutual fund is a pool of public money, maximum care and caution is taken to invest in the right scrip for capital appreciation and returns on investment for its distribution to the investors. Therefore, the business of mutual fund is considered like to re-invest in any scrip in the market and to prove their performance through returns to investors. Therefore, it can be said that each mutual fund is a re-investment agency.

The performance of a mutual fund is dependent on the prudence of the management in selection of scrips, the diversity of investment in scrips and extent to which risks are minimized during investment. Investment in mutual fund is judged purely from the point of return given to the investors, management's expertise and types of schemes offered to the public. Prediction of any scheme performing better than those of any other mutual fund is generally not possible, especially of a growth scheme. This is purely because the investor is investing his money in mutual fund to enable the latter to further reinvest in short-term and long-term gains. Thus, mutual funds have developed as a decision maker for public investment and mutual funds are the vehicles through which savings from the individuals are mobilized to the capital market.

5. SCOPE AND OBJECTIVES:

The present paper is based basically on secondary data. This paper attempts to analyze total resource mobilization by the mutual funds for last eight years period i.e. March 2000 to March 2007. Major objectives of this paper are :-

- (1) To analyse total number of schemes under mutual funds.
- (2) To analyze sector-wise as well as nature-wise resources mobilized by mutual fund industry.
- (3) To analyze percentage-wise share of each sector and category in total resources mobilization.
- (4) To calculate overall growth rate in order to show trends in total resource mobilization.

6. PERFORMANCE OF MUTUAL FUNDS:

In this paper, an attempt has been done to measure performance of mutual funds in terms of number of schemes, sector-wise and category-wise resource mobilization as shown in tables 1 to 3 respectively.

Table 1 : Total number of schemes under mutual funds

Year	Growth	ELSS	Income	Balanced	Gilt	Liq/MM	Total
March 2000	108 (31.39)	65 (18.90)	114 (33.14)	24 (06.98)	14 (04.07)	19 (05.52)	344 (100)
March 2001	110 (27.99)	80 (20.36)	126 (32.06)	32 (08.14)	19 (04.83)	26 (06.62)	393 (100)
March 2002	114 (27.34)	63 (15.11)	146 (35.01)	34 (08.15)	29 (06.95)	31 (07.43)	417 (100)
March 2003	120 (31.41)	47 (12.30)	117 (30.63)	35 (09.16)	31 (08.12)	32 (08.38)	382 (100)
March 2004	126 (31.27)	43 (10.67)	131 (32.51)	37 (09.18)	30 (07.44)	36 (08.93)	403 (100)

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March 2005	151 (33.48)	37 (08.20)	159 (35.26)	35 (07.76)	30 (06.65)	39 (08.65)	451 (100)
March 2006	184 (34.26)	35 (06.52)	210 (39.12)	36 (06.70)	29 (05.40)	43 (08.00)	537 (100)
March 2007	227 (30.07)	40 (05.30)	367 (48.61)	38 (05.03)	28 (03.71)	55 (07.28)	755 (100)
Overall Growth Rate-%	110.02	-38.46	221.93	58.33	100.00	189.47	-----

Source: Compiled and calculated from the data presented in AMFI publication.

Note : (1) Figures in brackets are percentage to total.

(2) Figures in brackets for the last row (Overall growth rate) are indices with the base year March 2000 at 100.

Table -1 shows :-

1. Income schemes have shown the highest overall growth rate (221.93%) followed by liquid/MM schemes (189.47%) and growth schemes (110.02%).
2. Income schemes are having 1st rank since March 2000 to March 2007.
3. ELSS schemes have shown negative overall growth rate (38.46 %).

Table 2 : Sector-wise total resources mobilized by mutual fund industry

(Rs. in crores)

Year	UTI	Public Sector	Private Sector	Total
March-2000	76547 (67.74)	11412 (10.10)	25046 (22.16)	1130005 (100)
March-2001	58017 (64.04)	6840 (07.55)	25730 (28.41)	90587 (100)
March-2002	51434 (51.13)	8204 (08.25)	40956 (40.72)	100594 (100)
March-2003	13516 (17.01)	10426 (13.12)	55522 (69.87)	79464 (100)
March-2004	20617 (14.77)	14007 (10.03)	104992 (75.20)	139616 (100)
March-2005	20740 (13.87)	11373 (07.60)	117487 (78.53)	149600 (100)
March-2006	29519 (12.73)	20829 (08.98)	181514 (78.29)	231862 (100)
March-2007	35488 (10.88)	28725 (08.81)	262175 (80.31)	326388 (100)
Overall growth rate	-53.64 %	151.70 %	946.77 %	-----

Source: Compiled and calculated from the data presented in AMFI publication.

Note : (1) Figures in brackets are percentage to total.

(2) Figures in brackets for the last row (Overall growth rate) are indices with the base year March 2000 at 100.

Table - 2 shows:-

1. Private sector has shown the highest overall growth rate 946.77 % as opposed to negative overall growth rate by UTI -53.64 %.
2. UTI was having the highest resources with it during March 2000 to March 2002, standing at 1st rank. But its share has declined from 67.74 % in March 2000 to 51.13 % in March 2002 and to 10.88% in March 2007. Hence it moved to 2nd rank.
3. Share of public sector has decreased marginally from 10.10 % to 8.81 % over the study period. It was having 3rd rank during the study period. But its share has increased from Rs.11412 crores in March 2000 to Rs. 28725 crores in March 2007.
4. Remarkable hike in sector wise resources mobilization is observed during last two years.

Table 3 : Category-wise resources mobilization by mutual funds

(Rs. in crores.)

Year	Growth	ELSS	Income	Balanced	Gilt	Liq/MM	Total
March 2000	30611 (27.09)	3036 (02.69)	48004 (42.48)	26757 (27.68)	2370 (02.09)	2227 (01.97)	113005 (100.00)
March 2001	13483 (14.88)	2523 (02.78)	48863 (53.94)	19273 (21.28)	2317 (02.56)	4128 (04.56)	90587 (100.00)
March 2002	13852 (13.77)	1768 (01.76)	55788 (55.46)	16954 (16.85)	4163 (04.14)	8069 (08.02)	100594 (100.00)
March 2003	9887 (12.44)	1228 (01.55)	47564 (59.86)	3141 (03.95)	3910 (04.92)	13734 (17.28)	79464 (100.00)
March 2004	23613 (16.91)	1669 (01.20)	62524 (44.78)	4080 (02.92)	6026 (04.32)	41704 (29.87)	139691 (100.00)
March 2005	36757 (24.57)	1757 (01.15)	47603 (31.82)	4867 (03.25)	4576 (03.05)	54068 (36.14)	149600 (100.00)
March 2006	92867 (40.05)	6589 (02.84)	60278 (26.00)	7483 (03.23)	3155 (01.36)	61500 (26.52)	231882 (100.00)
March 2007	113386 (34.75)	10211 (03.13)	119322 (36.57)	9110 (02.79)	2257 (00.69)	72006 (22.07)	326292 (100.00)
Overall Growth Rate-%	270.40	236.33	148.57	-65.95	-04.77	3133.31	---

Source: Compiled and calculated from the data presented in AMFI publication.

Note : (1) Figures in brackets are percentage to total.

(2) Figures in brackets for the last row (Overall growth rate) are indices with the base year March 2000 at 100.

Table - 3 shows :-

1. Liquid/money market funds have shown the highest overall growth rate 3133.31% during the study period followed by Growth funds 270.40% and ELSS 236.33%
2. The balanced funds have shown the highest overall negative growth rate (-) 65.95%, which is followed by Gilt funds (-) 4.77 %.
3. Income funds which were having the largest share with 42.48 % in March 2000 has maintained the highest percentage-wise share in March 2007 too and Liquid / Money market fund which were having the lowest share with 1.97 % in March 2000 moved to 1st rank in terms of overall growth rate for the study period.
4. Remarkable hike in category-wise resources mobilization by mutual funds is observed during last two years.

7. MUTUAL FUNDS MAY SOON BE OPENED FOR PSUs :

It was published in The Economic Times dated 20th July, 2007 that public sector blue-chip companies like Indian Oil, ONGC, SAIL and GAIL may soon be able to invest a part of their surplus funds, estimated at around Rs. 25,0000 crore in SEBI regulated mutual funds. PSUs may be allowed to invest up to 30 % of their surplus. The Government however plans to move cautiously. The decision will be initially for one year and subsequently be reviewed. It is likely that PSUs will be allowed at to invest in public and private mutual funds. The Finance Minister has been in favor of allowing PSUs to invest in any mutual fund.

8. CONCLUSION:

On the basis of above analysis, it can be concluded that income schemes, Liquid/MM schemes, Growth schemes have shown growth during the study period. In terms of resources mobilization, liquid/money market, Growth, ELSS and Income funds have emerged as the most popular schemes among investors and these three account for more than about 70 % of the resources. Among various sectors operating in mutual fund industry, private sector mutual funds have become the most prominent players in the industry. Public sector blue-chip companies like Indian Oil, ONGC, SAIL and GAIL may soon be able to invest a part of their surplus funds, estimated at around Rs. 250000 crore in mutual funds in SEBI regulated mutual funds. It is obvious that mutual funds have opened salutary avenues for development of capital market and mobilizing savings. For their orderly growth, it should be remembered that investors' interest should be protected and they should not be prejudiced after investments made by them. The investment, services of higher order and equity should be guaranteed besides regular, timely payment of interest and principal according to promise made.

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SUGGESTIONS FOR IMPROVING THE EMPLOYEES COOPERATIVE THRIFT AND CREDIT SOCIETIES:

Following are some of the suggestions for improving the financial performances of the societies

1. The Societies should adopt innovative strategies for increasing their income.
2. Income other than interest received [other income] should be enhanced to meet the expenditure other than interest paid. That is the contingency and establishment expenses.
3. The Societies should improve their marketing methods and practices.
4. Full freedom should be given to the societies to fix the interest rate and should be allowed to follow democratic practices in decision making.
5. For the bright prospects of these societies, the government should conduct survey to improve their functioning and to ascertain their role in the economic development of the nation.

CONCLUSION

The present study concludes that the financial performance of Employees Cooperative Thrift and Credit Societies in Kanyakumari District is noteworthy during the period of study. Such a financially viable society faces certain problems like lack of computerisation, lack of innovation in their business and high establishment charges. If the authorities concerned properly rectify the problems of the societies, the prospects of the societies will be exemplary.

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