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Resource mobilization of mutual fund industry in India: An empirical analysis

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Abstract
A mutual fund is a company that pools money from many investors and invest the money in stocks, bonds, short term money market instruments, other securities or assets or some combinations of these instruments. This study is concerned with the performance of the mutual fund industry for the last fifteen years - from the 2000 to 2015. The study aims to know the current scenario of the Indian Mutual Fund industry, and also it is concerned with the analysis of institution wise resource mobilization, scheme wise and category wise performance of Asset Under Management and unit holding patterns of mutual funds in India. Besides these, it analyses the correlation between the net sales and net purchases of mutual funds. The mutual funds have their own merits and demerits compared to the direct investing in individual securities. But today mutual fund investment plays an important role in household finance. So many factors influence the performance of the mutual fund industry in India. The mutual fund industry faces a few problems which can be reduced through proper measures. The increasing number of households and rise in the income levels etc. provides wide scope to make investments in mutual funds.

Keywords: Mutual Funds, Resource Mobilization, Asset under Management

Introduction

The Indian mutual fund industry has been one of the fastest growing and most competitive segmentsof the financial sector.A Collective Investment Vehicle (CIV) is any entity that allows investors to pool their money and invest the pooled funds, instead of buying securities directly as individuals. The SEBI defines mutual fund as "A fund established in the form of a trust to raise money through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market instruments or gold or gold related instruments or real estate assets". The mutual fund industry in India started in 1963 with the formation of Unit Trust of India (UTI), at the initiative of the Government of India and the Reserve Bank. The history of mutual funds in India can be broadly divided into four phases[1]. In the first phase (1964–1987) UTI enjoyed monopoly status in the mutual fund industry. In the second phase (1987–1993) some public sector mutual funds set up by the public sector banks and LIC and GIC were launched. In the third phase (1993–2003) the government allowed private players to offer mutual fund schemes, giving Indian investors a wider choice of fund families. In the fourth phase, following the repeal of the Unit Trust of India Act 1963 in February 2003, UTI was bifurcated into two separate entities.The mutual fund includes different types or schemes based on financial position, risk tolerance and return expectations. Generally there are two classifications, Funds by structure or tenor and Funds by investment objective or Asset class. Funds by structure or tenor include open ended funds, closed ended funds and interval funds. The Funds by investment objective includes income funds, growth funds, balanced funds, liquid funds etc. the study is related to analyze the current scenario of mutual fund industry in India. The different categories of Collective Investment Vehicles in India are mutual funds (MFs); index funds; exchange traded funds and alternate investment funds. Among these mutual funds are considered to be a good investment as compared to others on the basis of return and safety.

Significance of the Study

Growth and development of an economy is not possible without a good financial system. Strong financial system indicates a strong economy. The financial system includes financial markets, financial instruments, financial services and financial intermediaries.

It allows funds to be allocated, invested or moved between the economic sectors. They enable individuals and companies to share the associated risk. Gross resource mobilization varies according to the nature of organization and schemes offered by them. A mutual fund is a pool of money from numerous investors who wish to save money. By investing in mutual funds, it enables to diversify the portfolio across a large number of securities to as to minimise risk. There will be other influencing factors like household investments in banks, insurance funds, mutual funds and share market etc. Even foreign institutional investors are also playing a vital role in the resource mobilization of the mutual funds in India. Hence, it is necessary to examine the net resource mobilization of mutual fund in India.

Objectives of the study

- To know the current scenario of mutual fund industry and to analyze the growth of resource mobilization of mutual fund industry in India.
- To analyze the institution wise, scheme wise and category wise performance and resource mobilization of mutual funds in India.
- To know the growth of Asset under Management of mutual fund in India and scheme wise resource mobilization based on asset under management.
- To know the present unit holding pattern of mutual funds in India.

Research Methodology and Data Collection

The study is based on secondary data and it includes statistics of hand book of Indian economy, Indian securities market review, SEBI hand book, AMFI,RBI reports etc. The data series collected from 2000-01 to 2014-15 from the above mentioned websites.

Period of the Study

The study is an attempt to analyse total resource mobilisation by the mutual fund industry in India for the past fifteen years period i.e. from 2000-01 to 2014-15.

Tools and Techniques

Data can be analysed with help of statistical tools such as averages, percentage and Correlation analysis etc are used. The data has been presented mainly in tabular form to make it understandable easily.

Table 1: Net Resource Mobilizations of Mutual Funds (Rs. in billions)

Year	UTI	Bank sponsored MFs	FI sponsored MFs	Private sector MFs	Total
2000-01	3.22	2.49	12.73	92.92	111.36
2001-02	-72.84	8.63	4.06	161.34	101.19
2002-03	-94.34	10.33	8.61	121.22	45.82
2003-04	10.50	45.26	7.87	415.10	478.73
2004-05	-24.67	7.06	-33.84	79.33	27.88
2005-06	34.24	53.65	21.12	415.81	524.82
2006-07	73.26	30.33	42.26	794.77	940.62
2007-08	106.78	75.97	21.78	1382.24	1586.77
2008-09	-41.12	44.89	59.54	-305.38	-242.08
2009-10	156.53	98.55	48.71	479.68	783.47
2010-11	-166.36	13.04	-169.88	-162.81	-486.00
2011-12	-31.79	3.89	-30.98	-395.25	-454.13
2012-13	46.29	67.08	22.41	652.84	788.62
2013-14	4.01	48.45	25.72	467.61	545.79
2014-15	-12.78	-7.00	-10.35	1123.9	1093.77
Total	**-9.07**	**502.62**	**29.76**	**5323.32**	**5846.63**

Source: RBI

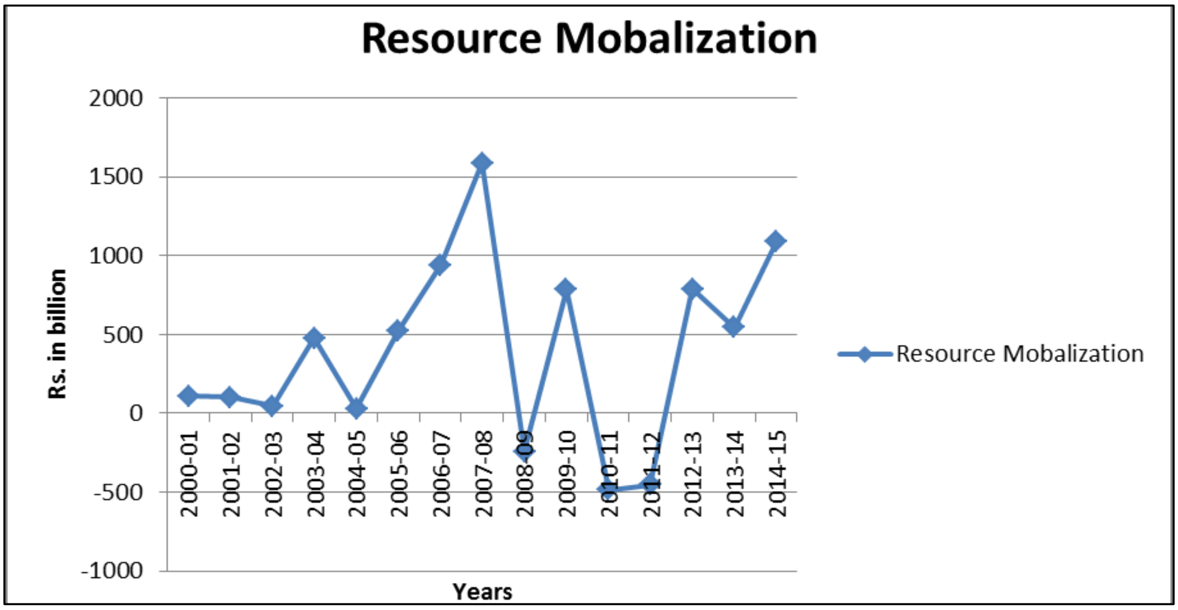

Fig 1: Net Resource Mobilizations

The above table shows that resource mobilization of mutual fund industry in India. Under resource mobilization of mutual fund includes total funds mobilized by UTI, Bank sponsored MFs, FI sponsored MFs and private sector mutual fund. The maximum resource mobilization was in the year 2007-08 in the mutual fund industry as compared to previous year. There was a sharp drop in the year 2008-09. This is mainly due to the global crisis and the private sector witnessed net outflows of Rs. 306 billion. The trend was reversed in 2009-10 and mobilized 785 billion. But in the subsequent two years, it again slow down. In 2012-13 the trend reversed again and in 2013-14 continues to record a positive net resource mobilization but a slower pace as compared to the preceding years. In the year 2014-15 it again increased to 1093.77 billion. It is a positive sign of growth mutual funds in India and the industry is now recovering from the impacts of financial crisis and other problems in the previous years. The decline in the net resource mobilization is mainly due to the bearish trend in the stock market and due to the impact of the financial crisis during 2008. As regards to the crisis the mutual funds faced the problem of illiquid funds and problem of immediate redemptions. The outflow increased and leads to decrease in the net resource mobilization. And again it could attain positive results mainly due to the factors such as increase in the household savings, comprehensive regulatory frameworks etc. the RBI announced certain measures to ease the liquidity pressure in the market.

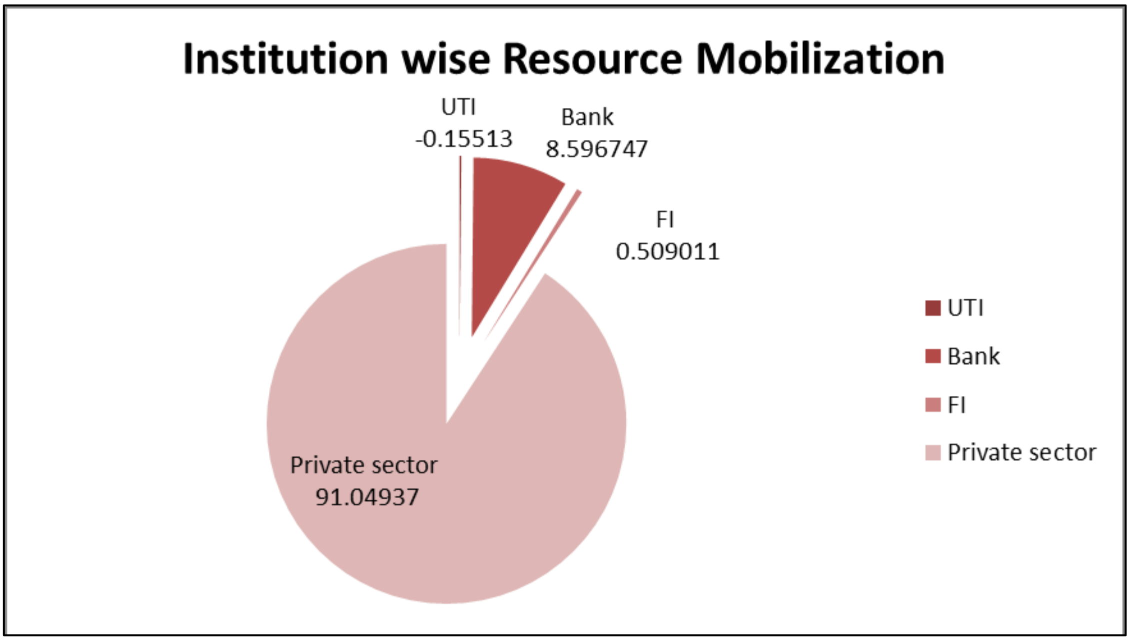

Fig 2: Institution wise Resource Mobilizations

The resource mobilization is done by three categories; banks, private sector and financial institutions. The resources mobilization from institutions varies year to year. Above figure shows the Institution wise resource Mobilization of Mutual Fund Industry for the last fifteen years. On an average, the majority portion of the resource mobilization is from private sector, for these last fifteen years it mobilized 91.05% followed by Bank 8.59%. Financial Institutions mobilized 0.51% in these years. And the UTI mobilized -0.15%.

Table 2: Net Resources Mobilized by Bank Sponsored Mutual Funds in India (Rs In billions)

Year	SBI MF	CanaraRobeco MF	Indian Bank MF	BOI MF	PNB	Baroda pioneer MF
2000-01	2.52	-0.05	-	-	0.02	-
2001-02	6.14	1.40	-	-	0.50	0.59
2002-03	6.86	2.37	-	-	0.14	0.96
2003-04	19.27	4.95	-	-	18.47	2.63
2004-05	10.24	-0.11	-	-	-	-3.07
2005-06	52.80	0.56	-	-	-	0.29
2006-07	32.08	-0.96	-	-	-	-0.79
2007-08	73.39	2.95	-	-	-	-0.38
2008-09	26.17	13.17	-	-	-	5.56
2009-10	54.37	31.30	-	-	-	12.88
2010-11	42.42	-24.17	-	-	-	-5.20
2011-12	4.22	-3.64	-	-	-	3.31
2012-13	44.99	-0.46	-	-	-	13.77
2013-14	63.49	-20.13	-	-	-	3.01
2014-15	-1.53	5.70	-	-	-	-15.65
Total	**437.43**	**12.88**	**0**	**0**	**19.13**	**17.91**

MF: Mutual Funds SBI: State Bank of India, BOI: Bank of India PNB: Punjab National Bank Notes: All schemes of Indian Bank MF, Bank of India MF, and PNB MF have been transferred to other mutual funds. (Source: RBI)

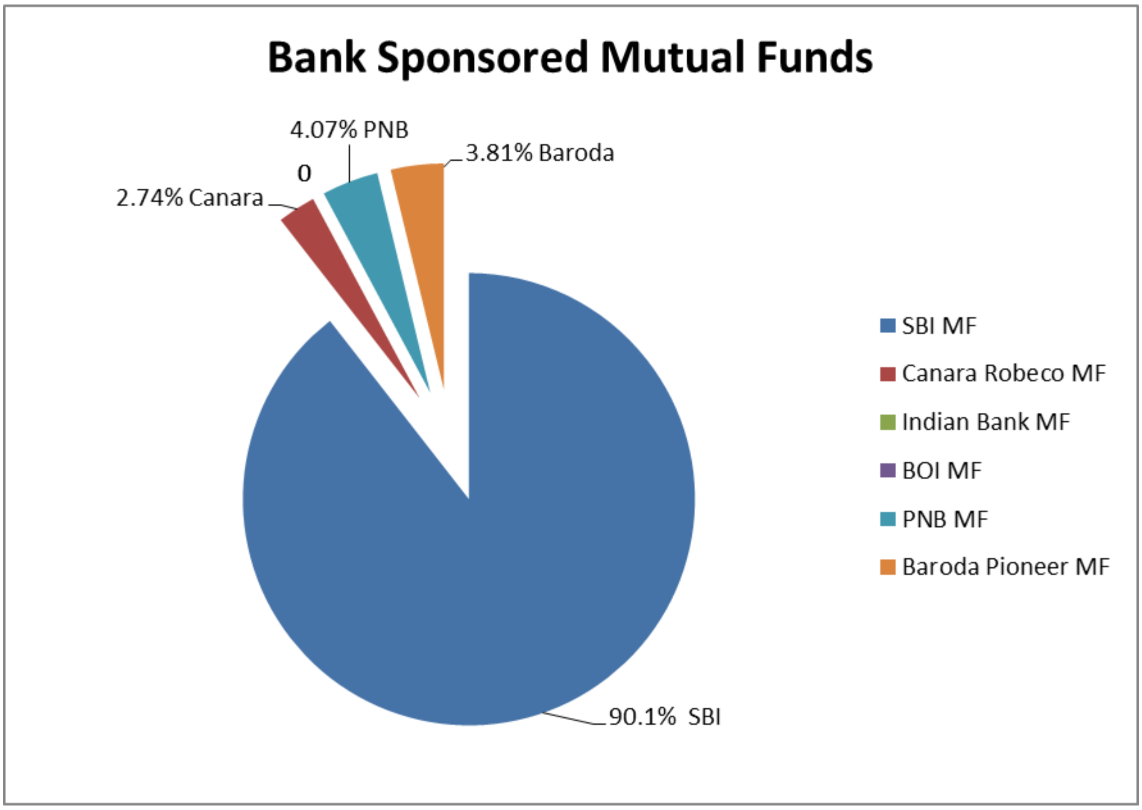

Fig 3: Net Resources Mobilized by Bank Sponsored Mutual Funds in India

In 1987, Government of India permitted the Commercial Banks in the public sector to form subsidiaries that would perform the functions of mutual funds through the amendment of Banking
Regulation Act, 1949 which earmarked as an end of an era of UTI as the sole participant in the mutual fund sector. A number of Commercial Banks in the public sector, such as State Bank of India, Canara Bank, Punjab National Bank, Indian Bank, Bank of India and Bank of Baroda started mutual funds. Government also permitted insurance companies like, Life Insurance Corporation of India and General Insurance Company of India to launch mutual funds to mobilize the savings of the small investors. In October 1989, the first regulatory guidelines were issued by RBI, but they were applicable only to the mutual funds sponsored by banks.
Above Figure shows the resources mobilized by bank sponsored mutual funds. State Bank of India mobilized 90.1%; Punjab National Bank comes thereafter with 4.07%, Bank of Baroda with 3.81% and Canara Bank 2.74%. All schemes of Indian Bank Mutual Funds, Bank Of India Mutual Funds, Punjab National Bank Mutual Funds have been transferred to other Mutual Funds.

Table 3: Net Resources Mobilized by Financial Institutions (FI) sponsored Mutual Funds (Rs. In billions)

Year	GIC MF	LIC MF	IDBI MF
2000-01	-0.43	5.66	7.50
2001-02	-0.56	6.40	-1.78
2002-03	-0.97	5.78	3.80
2003-04	-1.47	9.34	-
2004-05	-0.33	-33.51	-
2005-06	-	21.12	-
2006-07	-	42.26	-
2007-08	-	21.78	-
2008-09	-	59.54	-
2009-10	-	48.71	-
2010-11	-	-169.98	-
2011-12	-	-30.98	-
2012-13	-	13.12	7.84
2013-14	-	22.72	-12.01
2014-15	-	-10.45	0.51
Total	**-3.76**	**11.51**	**5.86**

Notes: All schemes of GIC MF and IDBI MF have been transferred to other mutual funds. *(Source: RBI)*

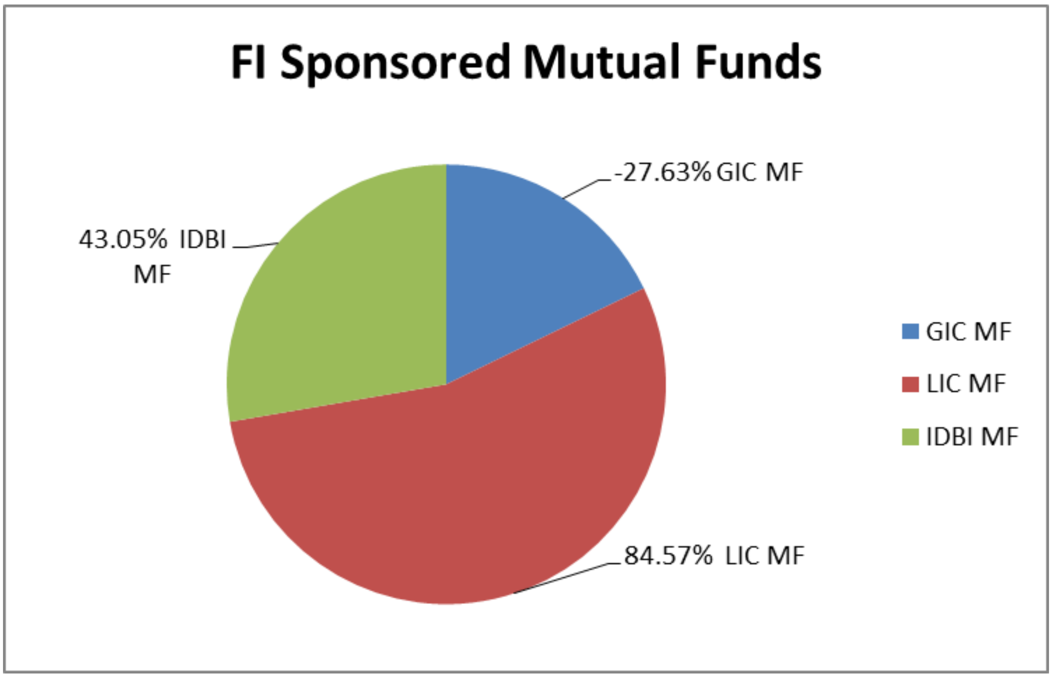

Fig 4: Net Resources Mobilized by Financial Institutions (FI) sponsored Mutual Funds

Above figure shows the resources mobilized by financial institutions sponsored mutual funds. Life Insurance Corporation of India mobilized 84.5%, IDBI comes thereafter with 43.05%, and GIC with -27.63%. All schemes of GIC MFs and IDBI MFs have been transferred to other mutual funds.

Table 4: Category wise Resource Mobilization (As per Maturity Period)
Resource Mobilisation by Mutual Funds- based on the Tenor of the Scheme

	2010-11	2011-12	2012-13	20013-14	2014-15
Open ended	97.81	97.81	98.89	98.35	99.45
Closed ended	1.454	1.987	0.99	1.48	0.519
Interval funds	0.733	0.199	0.108	0.165	0.022
Total %	**100**	**100**	**100**	**100**	**100**

(Note: as % of sales) Source: NSE

The open ended funds dominate over the other two schemes. There is a slight decrease but it covers about 99.45% in the year 2014-15. The closed ended schemes decreased to .519%. The interval funds are very less as compared to the open ended schemes.

Table 5: Scheme wise Resource Mobilization (based on assets under management)

	2010-11	2011-12	2012-13	2013-14	2014-15
Income funds	49.3	49.5	56.5	56	48
Growth funds	28.66	27	21.4	20	28
Balanced funds	03.11	02.8	02.3	2	2
Liquid funds	12.44	13.7	13.3	16	15
Gilt	0.58	0.60	01.2	1	1
ELSS	04.32	4.00	03.2	3	4
Gold	0.74	01.7	01.7	1	1
Other	0.42	0.30	0.20	1	1
Funds of funds	0.42	0.40	0.20	0.40	0
Total	**100**	**100**	**100**	**100**	**100**

Source: NSE

On the basis of scheme wise classification, the income funds are accounted for the majority portion of mutual funds. And during the last few years is shows increasing trend and in 2014 it decreased 0.5% than the previous year and in 2015 it again decreased to 48%. Growth funds are in second position and it decrease year after year. The liquid fund shows an increasing trend but there is a slight decrease in the year 2015.The investors highly prefer Income funds and Liquid funds because those funds gives stable return and have lesser risk as compared to others. The other mutual funds are accounted comparatively less portion of the industry and also it shows fluctuations.

Table 6: Unit holding Pattern of Mutual Funds (as percentage to total investor's folios)

	2010-11	2011-12	2012-13	2013-14	2014-15
Individuals	97.0	94.5	96.9	97.4	97.3
NRIs	01.9	01.9	01.8	01.7	1.8
FIIs	0.0	0.0	0.0	0.0	0.0
Corporate institutions & others	1.1	03.6	01.2	0.9	0.9

Source: SEBI

Table 7: Unit holding Pattern of Mutual Funds (as percentage to total net assets)

	2010-11	2011-12	2012-13	2013-14	2014-15
Individuals	23.40	48.20	45.73	44.7	46.9
NRIs	02.00	06.00	4.7	4.00	3.8
FIIs	01.80	0.90	0.96	01.6	1.6
Corporate institutions & others	72.80	44.90	48.61	49.6	47.6

Source: SEBI

The individual investors account for almost 97% of the total number of investors. But they contribute 46% of net assets. Comparatively decreasing share of net assets of individual investors in total net assets is mainly due to the lower penetration of mutual funds as an investment instrument among working population (age group of 18-59). They are not much aware of investing in mutual funds. The corporate or institutions sector account for only 1% of the total number of investors' account; but it contributes almost 50% of the net assets. It has an increasing trend over the last three years. The NRIs also has an increasing trend, whereas the FIIs remain same for the last three years.

Table 8: Correlation between Net Sales and Net Purchases for the Period 2001-2015 (Rs. In millions)

Year	Net sales	Net purchases	Net (Net Inflow)
2014-15	110862600	109829720	1032880
2013-14	97684010	97143180	540830
2012-13	72678850	71913460	765390
2011-12	68196790	68417020	-220230
2010-11	88595150	89089210	-494060
2009-10	100190230	99359420	830810
2008-09	54263530	54546500	-282970
2007-08	44643760	43105750	1538010
2006-07	19385920	18445120	940800
2005-06	10981580	10453820	527760
2004-05	8396620	8375080	21540
2003-04	5901900	5433810	468090
2002-03	3146730	3012250	134480
2001-02	164523	157348	7175
2000-01	92957	83829	9128

Source: NSE

Table 9: Correlations Matrix

		Net sales	Net purchase
Net sales	Pearson Correlation	1	1.000**
	Sig. (2-tailed)		.000
	N	15	15
Net purchase	Pearson Correlation	1.000**	1
	Sig. (2-tailed)	.000	
	N	15	15

**. Correlation is significant at the 0.01 level (2-tailed).

The correlation between the Net Sales and Net Purchases reveals that the relationship between mobilization and redemptions of the mutual fund industry in India. These two variables are directly related and highly positively correlated. For the last fifteen years the correlation is 1. It indicates that mobilization and redemption of funds are closely related and thus two variables are highly significant to each other i.e P value is less than 0.05.

Findings

- Mutual funds are an important intermediary in Indian financial system.
- It is found that during the entire period of the study total resource mobilized by mutual fund industry were 5847 Rs in billion.
- The majority portion of the resource mobilization is from private sector, for these last fifteen years it mobilized 91.05% followed by Bank 8.59%. Financial Institutions mobilized 0.51% and UTI mobilized -0.15%.
- Private sector mutual funds are having a lion share of 91 percent of the total resource mobilizd and UTI mutual fund had total lowest resource mobilized by mutual fund industry during this period.

- On the basis of classification of Bank Sponsored Mutual Funds, State Bank of India mobilized 90.1%; Punjab National Bank comes thereafter with 4.07%, Bank of Baroda with 3.81% and Canara Bank 2.74%.
- On the basis of classification of FI Sponsored Mutual Funds, Life Insurance Corporation of India mobilized 84.5%, IDBI comes thereafter with 43.05%, and GIC with -27.63%.
- The classification on the basis of maturity period (based on the tenor of scheme) open ended schemes covers about 99.45% in the year 2014-15. The closed ended schemes decreased to .519%. The interval funds are very less as compared to the open ended schemes.
- On the basis of scheme wise classification, the income funds are accounted for the majority portion of mutual funds. Growth funds are in second position and it decrease year after year. The liquid fund shows an increasing trend.
- The investors highly prefer Income funds and Liquid funds because those funds gives stable return and have lesser risk as compared to others.
- The individual investors account for almost 97% of the total number of investors. But they contribute 46% of net assets. The corporate or institutions sector account for only 1% of the total number of investors' account; but it contributes almost 50% of the net assets.

Conclusion

The mutual fund industry in India witnessed growth at a slower rate. It is recovering from the losses from the financial crisis and other factors. The important factors behind the growth in the mutual fund industry are raising household savings, comprehensive regulatory framework, favorable tax policies, introduction of new products etc. More investors, individuals, corporates and others should be attracted to the mutual fund industry. Attracting young and urban as well as the rural investors to this industry will help to enhance the growth potential. For this purpose various issues like low level of customer awareness, inadequate funds or distributors to retail investors, limited innovation in products, multiple regulatory frameworks, unwillingness to undertake even minimal risk, limited focus of public sector network on distribution of mutual funds etc. should be reduced. The rise in the income level of individuals, the increasing number of households, urbanization, enhanced financial literacy etc. is likely to be instrumental in the growth of mutual funds in India. These all factors points towards the future growth of mutual fund industry in India.

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