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Article

An Empirical Study on Mutual Fund Performance in India with Reference to Sustainable Business Development

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Abstract: Mutual funds have become one of the most attractive ways for the average person to invest their surplus money. A mutual fund pools resources from thousands of investors and then diversifies its investment into many different holdings such as stocks, bonds, or government securities in order to provide high relative safety and returns. Mutual funds have already attracted the attention of worldwide investors and academicians but most of the existing research available is on either accelerating the return on funds or comparing it with benchmark fund schemes. The academic literature on the measurement of mutual fund performance stretches back over 50 years. A large number of studies on the financial performance of mutual funds have been carried out during the past, in the developed and developing countries. Investment industry in India has gone through huge pace of reinventions, given changes in monetary and political policies of government. In the same line the study attempts to identify the major changes which can be marked for mutual fund as investment options. Most of the funds also offer retirement plan choices traditional. Things to investigate before invest in a mutual fund are how long the fund has been in existence, average annual rate of return, the tenure of the fund managers, investment objectives, type of companies the fund invested in, and costs the fund charges. This paper explores the various types of mutual funds with its various features, pros and cons of different schemes and evaluation of mutual fund investments. This will help to the investors in many ways like, selection process to determine long and short term investment needs. The performance of the mutual fund industry can be examined in terms of: the nature of the growth of the industry itself, long-term impact of the growth on the economy in general and the financial market in particular, and the benefits to investors in terms of returns on their investments.

Keywords - Performance, Mutual fund, longterm, Investor, Return on investment.

INTRODUCTION

Mutual fund is a financial intermediary just like a bank because there is perfect transmission of money between holder (saver) and the securities in which the fund invests. Mutual Fund Industry showed the satisfactory growth over the past decade. Mutual Fund defined as an institutional investment vehicle through which customers pool their monetary resources towards the common objectives to spread the risk and to ensure steady return. After investing in mutual fund schemes, the investor need not bother about anything because mutual fund is a professionally managed investment option and also having the professional fund management teams that takes the responsibility of investing in stocks and shares after due analysis and research.

THE HISTORY OF MUTUAL FUND INDUSTRY

Historically, mutual funds in foreign countries began as private enterprise, known as investment trust. It was launched by a single individual who used his financial judgment abilities for the benefit of a group. The AMFI (Association of Mutual Fund in India) has classified the four decades of mutual fund in India into four phases.

Phase I (1963-1987): Growth of UTI: The concept of mutual fund was launched in India with the establishment of Unit Trust of India in 1963. It was establishment by an act of parliament. The first scheme introduced by UTI was US-64 IN 1964, which was the pioneer scheme of the industry in the country. UTI enjoyed the monopoly and continued to provide good returns.

Until 1978, the UTI functioned under the control of the Reserve Bank of India (RBI).in 1978. The control transferred to the industrial development Bank of India (IDBI). player during that time, as a result, the growth of the industry was synonymous with the growth of UTI.

MEANING OF MUTUAL FUND

Mutual funds are open-ended investment companies that pool investors' money into a fund operated by a portfolio manager. This manager then turns around and invests this large pool of shareholder money in a portfolio of various assets, or combinations of assets.

HOW IT WORKS (EXAMPLE)

Mutual funds may include investments in stocks, bonds, options, futures, currencies, treasuries and money market securities. Depending on the stated objective of the fund, each will vary in regard to content and risk.

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.

ENTRY OF PUBLIC SECTOR FUNDS

According to AMFI, he year1987 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.

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].

REVIEW OF LITERATURE

Gupta & Shivani (2011) conducted a study on mutual funds current state and future outlook. They concluded that low awareness level & financial literacy of customers is the biggest challenge for mutual fund houses. Further the mutual fund houses adopt a comprehensive approach while covering Tier-1 and Tier-2 cities.

M.B. Umarani (2012) analyzed the growth of i\Indian mutual fund industry and pointed out that mutual fund industry is illusionary and also there is little doubt on the inherent nature of mutual funds that it's a investment platform for small investors. She suggested that regulators need to make regulation & policies that will boost the retail participation in the mutual fund industry.

Jani & Jain (2013) analyzed the relationship between AUM mobilized by mutual fund and GDP growth of the India. They concluded that mutual fund has become a key resource mobilizer for Indian financial system. They suggested that some improvements like proper structure & regulations are required in the case of black money and also proper regulatory framework for the investor's protection.

Chauhan & Adhav (2015) studied the recent trends in mutual funds industry in India. The study highlighted that in India investor base of mutual funds is high but when we compare India with other nations, it is still lacking far behind. They suggested that strong regulations, better services to the investors, and high returns could make mutual fund schemes more investor friendly.

PRESENT STAGE OF THE INDUSTRY

Since the year 2003 from which the present stage of bull run in the Indian capital markets began, the mutual fund industry has grown with much higher momentum than was the case in any of the earlier stages. The figures presented in the ensuring table depict the higher growth momentum of the industry. While the growth in terms of the Assests under Management (AUM) was subdued over the period from 2015-2020, it has gained unprecedented momentum over the five year period until March 2020. Over this latter period of five years, the assests under management have grown from Rs 1, 49,554 crores to as high as 6, 16,967 crores as at the end of March 2020. The overall growth over the five year period from 2015 – 2020 has been more than 400 percent. The compounded annual growth rate of the industry over this period is as high as 38.35%. 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. In absolute terms, the Nifty – 50 indexes grew from 978.20 points to 5,762.75 points over the same period. The growth of the capital markets in terms of BSE-30 share Sensex has been still higher at a CAGR of 46.05 percent. In absolute terms, this indexgrew from 3,048.72 points to 20,286.99 points. It is quite clear that the growth of the mutual fund industry has been in tune with that of the capital market (Table). Apart from the quantitative growth that has been spectacular, the Indian mutual fund industry has grown qualitatively 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 has taken an intense interest in the mutual fund industry developments and performance of the funds is reported and evaluated constantly. The higher growth prospect of the industry has attracted global players as well as top-notch fund management talent. Investors have become more aware of the investment dynamics

Year (ending 31st March)	Sales	Redemption	Assets under Management
2010	59,748	41,204	1,07,946
2011	92,957	83,829	90,587
2012	1,64,523	1,57,348	1,00,594
2013	3,14,673	3,01,225	1,09,299
2014	5,90,190	5,43,381	1,39,616
2015	8,39,662	8,37,508	1,49,554
2016	10,98,158	10,45,382	2,31,862
2017	19,38,592	18,44,512	3,26,388
2018	44,64,376	43,10,575	5,05,152
2019	54,26,353	54,54,650	4,17,300
2020	1,00,19,023	99,35,942	6,16,967

CONCLUSION

There is little doubt that the inherent nature of the mutual fund model as an investment platform for small investors is the most appropriate one for a country like India. Enabling wide democratic participation in the gains from the growth of the economy and the capital markets during the present phase of the supernormal growth of the Indian economy is certainly capable of making the long term growth of the Indian financial markets much healthier than otherwise. The mutual fund industry in about the past five years is apparently illusionary. Most of the growth in the assets under management has come not due to the increased retail participation. But due to the higher corporate investments in liquid schemes of the industry. The little growth that has been reported in the equity scheme as been possible due to the appreciation of the capital markets. Retail participation has to be deepened and widened as early as possible. The regulators and the policy makers need to take appropriate promotional steps to boost the retail participation in the mutual fund industry. A strong mutual fund industry can contribute to macro stability of the Indian financial markets as well to achieve efficient micro distributions of capital market gains.

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