Growth Of Mutual Funds In India

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Abstract

Mutual Funds in India are pecuniary instruments. A mutual fund is not an substitute investment option to stocks and bonds, rather it pools the money of a number of investors and invests this in stocks, bonds, money market instruments and other types of securities. The owner of a mutual fund unit gets a relative share of the fund’s gains, losses, income and operating cost. Mutual Fund is means of transportation for investment in stocks and Bonds. Each mutual fund has a specific affirmed objective. The fund’s objective is laid out in the fund's brochure, which is the legal article that contains information about the fund, its history, its officers and its performance. Some popular objectives of a mutual fund are: Fund Objective - What the fund will invest in; Equity (Growth) - Only in stocks; Debt (Income); Only in fixed-income securities; Money Market (including Gilt) - In short-term money market instruments (including government securities); Balanced - somewhat in stocks and partly in fixed-income securities, in order to maintain a 'balance' in returns and risk. The share value of the Mutual Funds in India is known as net asset value per share (NAV). The NAV is calculated on the total amount of the Mutual Funds in India, by dividing it with the number of shares issued and exceptional shares on daily basis. The company that puts together a mutual fund is called an AMC. An AMC may have several mutual fund schemes with comparable or varied investment objectives. The AMC hires a professional money manager, who buys and sells securities in line with the fund's stated objective. The Securities and Exchange Board of India (SEBI) mutual fund policy require that the fund’s objectives are obviously spelt out in the prospectus. In addition, every mutual fund has a board of directors that is supposed to represent the shareholders' interests, rather than the AMC’s.

Keywords: Mutual Fund in India

Introduction

The mutual fund is group of money managed by a specialized money manager. The money such collected has invested in capital market instruments such as shares, debentures, and other securities. The income earned through these funds and the capital gratitude has been shared by its unit's percentage to the numbers of units owned by them. Therefore, it is the most suitable investment for novice investors as it offers an opportunity to invest diversified professionally managed securities relatively at low cost.

Objectives of the Study

1: To know the concept and meaning of the Mutual Fund.

2: To study the historical evolution of Mutual Fund in India.

3: To analyses the growth trend of the mutual funds industry in India.

Research Methodology

The data for the study has been derived basically from secondary sources. The secondary sources include internet, journals, magazines, books, publications of various research agencies like, MFI, SEBI Handbook, RBI Report, UTI Annual Report, etc. The data has been properly analysed and interpreted to draw conclusion and inferences.

Concept and meaning of the Mutual Fund

A mutual fund is a business that brings together the money from more than a few investors and invests the pooled funds. It invests those funds in securities such as bonds, stocks and short-term debt. Some mutual funds, in fact, pool money from hundreds of thousands of investors. We call the total property of the mutual fund its *portfolio*.

Net Asset Value

When invest in a mutual fund you get allotted units based on the prevalent price of the scheme on that day. This price is called NAV or Net Asset Value. All open ended schemes (schemes that are open all the year around and thus one can buy or sell on a daily basis) declare NAV on a daily basis. Thus if you invested Rs. 12,000 in a scheme where the NAV is 12 you will get 12000/12=1000 units. It's the same when you want to sell (or redeem your units). You just multiply the NAV by the units to get the redemption (sale) value.

Open Ended Funds

Many funds are open ended. That is you can buy or sell units on any business day at the prevalent NAV. An open-ended fund or scheme is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period. Investors can conveniently buy and sell units at Net Asset Value (NAV) related prices which are declared on a daily basis. The key feature of open-end schemes is liquidity. There is no compulsory lock-in (other than ELSS etc.) mandated in these funds however they can have exit loads which are nothing but penalties introduced to ensure that investors adhere to the ideal holding pattern of the scheme.

Investment Objective

Investment objectives give you a flavor of the kind of instruments that the scheme would invest in. For example there could be funds that invest in equity, debt or both. The investment objective also indicates a broadly worded investment time frame. This term therefore is critical as it decides the fate of your investment. As a thumb rule over the longer term one needs to shield against inflation and in the short term against volatility. Therefore in the risk pecking order, liquid funds are the least volatile as they continuously invest in instruments that are extremely short term nature (that mature in a day/ few days) and at the tremendous other hand we have equity funds where the proceeds are not even remotely predictable over the short term and can be really volatile. Within debt funds too, funds having a lower average mellowness are ideal for short-term holdings as they are well protected from the fluctuating interest rate movements. However, holding them for more than their average maturity may not get you the optimal results. There can be a variety of types of debt funds based on the average maturity of the instruments invested in. Although debt funds are less risky than equity funds, they are still subject to market unpredictability. The level of precariousness therefore depends on the average maturity of the specific portfolio. The higher the average maturity, the greater the ambiguity in the short term, which is what results in superior volatility. Conversely, the lower the average maturity, the greater the certainty, which in turn lowers volatility.

Evolution of Mutual Funds in Indian

Mutual Funds in India origin in the second half of the 19th century. Financial connection of India and China was the first investment trust formed in India in 1869.However, the growth of investment trust business started only after 1930.The need for the enterprise of Unit Trust type of institution was felt in 1931 by the Indian Central Banking Enquiry Committee. The Committee observed in its report that an immeasurable benefit to India is bound to grow from the institution and proper working of unit trusts, and the support which they will give to the investor in the creation of transitional securities which do not exist now, in providing a channel for investment in industrial and other fields, where the primary investor would be too scared of too ignorant.

Different Phases of Growth of Indian Mutual Fund Industry

The growth of Mutual Funds in India is alienated into six different phases depending on the structural changes which have taken place in the mutual fund industry. The first phase of Indian mutual fund industry started with the establishment and growth of UTI during 1964-1987.In 1987 public sector banks and financial institutions were permitted to enter into mutual fund industry and this phase existed for six years that is from 1987-1993.With the emergence of privatization and liberalization of Indian economy, in 1993 Government of India allowed both Indian & Foreign Private sectors to enter into mutual fund industry. This was the third phase of growth of mutual fund industry started in 1993 and went till 1996.The fourth phase of growth started in 1996 with implementation of new SEBI regulation

Conclusion

Mutual Funds clearly have a significant role to play in monetary development of a developing economy like, India. The resources mobilized by mutual funds in India have recorded a two fold increase during the study period. Sector-wise study revealed that the share of private sector mutual funds in the capital mobilized was as high as 82 per cent. While the assets under management of public division mutual funds had recorded a jagged reduce that of private sector mutual funds have recorded an increase. This indicates the dominant role played by the private sector in the Indian joint fund industry. The recent trends of consolidation of mutual funds in Indian industry have given a new boost to the industry in terms of increased market share of mutual funds.

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