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A Brief Study of the Growth of Mutual Fund in India (1964-2004)

Lalajee P. Thakor,
Adhoc Lecturer in Commerce and Accountancy, M.Com. , G-SET
Smt. T. S. R. Commerce College, College Campus,
Raj Mahel Road, Patan – 384265 (Gujarat)
E-mail: lalajithakor1025@gmail.com

Abstract: *The paper deals with what is stock market, its definitions, concept and its importance. The paper mainly focuses on the three basic factors such as money, market knowledge and most importantly, time to identify the stock market. Mutual Fund plays a very crucial life in one's as it inspires us to save for the better future – a way of investment and savings. Now the growth of Mutual Find is visible since many years and this brief study will analyze the facts about Mutual Fund from the years 1964 to 2004.*

Key Words: *Mutual Fund, stock market, market knowledge, investment and savings, growth.*

1. INTRODUCTION:

In order to invest in the stock market, one has three basic requirements. These three factors are money, market knowledge, and most importantly, time to identify the stock market on a regular basis. The average investor may not be able to understand the stock market at the same time, at the same time they may have enough time to track the market - even if they have sufficient funds to invest. In this case, the investor can redeem his money instead of making huge or fair earnings. Since small investors do not have the skills to invest in the securities market, mutual funds are very helpful for them to invest in the market. A group of investors working through a fund manager to buy a diverse portfolio of mutual fund stocks, debentures, stocks, bonds or other securities. Investing in a mutual fund is very easy as it minimizes risk through diversification and maximizes returns. Very expensive because of the fund's professional skills. An important factor in mutual funds is that mutual funds manage mutual fund

2. Concept of Mutual Fund:

Mutual funds pool money from the investing public and use that money to buy other securities, usually stocks and bonds. The value of the mutual fund company depends on the performance of the securities it decides to buy. So, when you buy a unit or share of a mutual fund, you are buying the performance of its portfolio or more precisely, a part of the portfolio's value. Investing in a share of a mutual fund is different from investing in shares of stock. Unlike stock, mutual fund shares do not give its holders any voting rights. A share of a mutual fund represents investments in many different stocks (or other securities) instead of just one holding. Mutual funds give small or individual investors access to professionally managed portfolios of equities, bonds and other securities. Each shareholder, therefore, participates proportionally in the gains or losses of the fund. Mutual funds invest in a vast number of securities, and performance is usually tracked as the change in the total market cap of the fund derived by the aggregating performance of the underlying Investment selection may take different forms: an investor can spend directly in securities like share & debenture of a company or can spend through an investment company known as mutual fund. A mutual fund offers an opportunity to invest in a diversified and professionally managed portfolio at a comparatively low cost.

3. Definition:

A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities such as stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

According to SEBI- "Mutual fund means a fund established in the form of a trust to raise money through the sale of units to the public or a section of public under one or more schemes for investing in securities".

According to Association of mutual funds in India-"A mutual fund is a trust that pools the savings of a number of investors who share Common financial goal. Anybody with an investible surplus of as little as a few thousand rupees can invest in mutual funds. These investors buy units of a particular mutual fund scheme that has a defined investment objective and strategy".

According to Encyclopedia Britanica- "Mutual fund is a company, which invests of funds of its subscribers in diversified securities and in exchange of such investments; units are issued as representing them."

4. Important Concept of related to Mutual Fund:

4.1 1. Net Asset Value (NAV): "Net Asset Value is the market value of the assets of the scheme minus its liabilities. Per unit of NAV is the net asset value of the scheme divided by the number of units outstanding on the valuation date."

NAV= NET Assets of the Scheme / Number of units outstanding on the date of NAV

NET Assets of the Scheme:

Market Value of Investment:

+Receivables
+Other assets
+Other accrued expense

Accrued expenses

-Other Payables
-Other liabilities.

4.2. Assets under Management (AUM):

The Mutual Fund manager organizes the funds by presenting a scheme which is then arranged in various known as Assets under Management.

AUN= NAV of the scheme* Number of units issued by the scheme

4.3 Type of Mutual Funds:

Broadly speaking, mutual funds have mainly two types of schemes.

A. Open-ended schemes:

Open ended-schemes are those schemes, where investors redeem the existing units, purchase or repurchase new units throughout the entire year, as per their convenience at NAV. Hence under open-ended schemes, investors can enter and exit the mutual find scheme at a time during the life of the fund. There is no fixed redemption period for open-ended schemes.

B. Close-ended schemes:

Close-ended schemes are those schemes which 2re open for subscription only during a specified period and have a stipulated maturity period. The maturity period of close-ended schemes generally vary from two to five years. The NAV of close-ended schemes is generally disclosed n weekly basis. Close-ended mutual funds are traded on the stock exchanges. Repurchase of such funds during the investing period may or may not be allowed. Some of the schemes have provision of repurchase facility after a certain period.

4.4 Growth of Mutual Fund Industries in India

The creation of Unit Trust of India marked the growth &development of the Indian mutual fund industry. The history of mutual fund industry can be better understood on the basic of its 5 phases.

- First phase (Establishment & Growth of Unit Trust of India 1964 to 1987)

The mutual fund industry was not in existence till the year 1964.It started its operation in the year 1964 with establishment of UTI by the act of parliament. On 1st feb.1964, UTI was establishment by UTI Act 1963. . It was set-up by the Reserve Bank of India and functioned under the Regulatory and Administrative control of 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.

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

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 Can bank Mutual Fund (December 1987), Punjab National Bank Mutual Fund (August 1989), Indian Bank Mutual Fund (November 89), Bank of Baroda Mutual Fund (October 1992) and so on. LIC established its mutual fund in June 1999, while GIC had set up mutual fund in December 1990.

- Third Phase (Entry of Private Sector Funds 1993 to 1996)

With the entry of private sector funds in 1993, a new era stared 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 Regulation came into being under which all mutual funds, expect 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) Regulation was substituted by and revised Mutual Fund Regulations in 1996. The industry

now functions under the SEBI (Mutual Fund) Regulation 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, 21.805crores. The Unit Trust of India with Rs. 44,541 crores of assets under management was way ahead of other mutual funds.

- Fourth Phase (1996 to 2003)

In February 2003, following the repeal of the Unit Trust of India Act, 1963, UTI was bifurcated into two separate entries. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs. 29,835crores 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 Regulation. 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 mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.

- Fifth Phase (Onwards- Consolidation-Mergers-Scheme from 2004)

After the year 2003, during this phase, the flow of funds into the mutual funds industry considerably increased. This was due to tax benefits and improvement in quality of investor service which has resulted into a positive growth in the mutual fund industry in India. However, in the year 2003, due to the revocation of the Unit Trust of India Act, 1963, UTI was bifurcated into two separate entities. This Phase is known for division of UTI into separate entities. The phase had harsh experience for UTI. It was divided into two separate entities. One is the Specified Undertaking of the Unit Trust of India; running under the supervision & the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations .The Second is the UTI Mutual Fund Ltd, sponsored by SBI State Bank of India. PNB-Punjab National Bank, BOB - Bank of Baroda, and LIC - Life Insurance Corporation of India. It is registered with SEBI and function under the Mutual Fund Regulations. With the division of the former UTI which had in March 2000 more than 76,000 crores of AUM (Asset Under Management) & 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. These occupies major portion of the Indian economy. Thus, mutual funds industry as a whole provides many advantages due to its nature & size of the business.

5. Changes to Mutual Fund Industry – SEBI Initiatives:

SEBI has dictated various initiatives and directives in order to regulate the mutual fund industry and to protect investor interests. These can be classified into three segments –

Protecting investor interests – SEBI has introduced various directives to protect investor interests. These are as follows:

- Promote transparency by introducing higher disclosures by an Asset Management Company (AMC).
- Prevent mis-selling by making changes to the commission structure.
- Merging me-too schemes and not giving approval to NFO issuances that are in non-compliance to this rule.
- Introducing “riskometer” info graphics in all mutual fund product brochures in a comprehensive and easily understandable format.

Increasing reach and lowering costs – SEBI offers the following solutions for increasing reach and lowering costs:

- Launching the MF Utility Portal that would enable investors to trade through a Common Account Number.
- Areas other than T15 will have differentiated TER for encouraging the sale of direct plans.
  Issuing consolidated account statements.

Safeguarding the health of mutual fund industry – In order to safeguard the health of the Indian Mutual Fund Industry, the following regulations are laid down by SEBI:

- Making it mandatory for AMCs to have a capital base of Rs. 500 Million by the year 2017, from its current value of Rs. 100 Million.
- Proposing the analysis of compensation details for assessing fixed costs of AMCs.
- Conducting stress tests on a regular basis.

Equity Mutual Fund

Equity Large Cap	1.Axis Blue chip Fund 2.Canara Robeco Blue chip Equity
Equity :Multi Cap	1.Motilal Oswal Multicap 35 Fund 2.3Kotak Standard Multicap Fund
Equity: Mid Cap	1.Invesco India Midcap Fund 2.L&T Midcap
Equity Large and Midcap	1.Sundaram Large and Midcap Fund 2.Invesco India Growth Opportunities Fund
Equity :Small Cap	1.L&T Emerging Business Fund 2.Hdfc Small Cap Fund
Equity:ELSS	1.Aditya Birla Sun Life Tax Relief 2.Invesco India Tax Plan

Debt Mutual Fund

Debt: Corporate Bond	1.ICICI Prudential Corporate Bond Fund 2. Kotak Corporate Bond Fund-Standard Plan
Debt :Credit Risk Fund	1.Franklin India Credit Risk Fund 2.Kotak Credit Risk Fund
Debt: Dynamic Bond Fund	1.Franklin India Dynamic Accrual Fund 2.Kotak Dynamic Bond Fund
Debt: Gilt	1.ICICI Prudential Gilt Fund 2.Reliance Gilt Securities
Debt: Medium Duration	1.Axis Strategic Bond Fund 2.Franklin India Income opportunities
Debt: Medium to Long Duration	1. ICICI Prudential Bond Fund 2.SBI Magnum Income Fund
Debt: Short Duration	1.HDFC Short Term Debt Fund 2. ICICI Prudential Short Term Fund

Hybrid Mutual Fund

Hybrid : Aggressive Hybrid	1.Principal Hybrid Equity Fund 2.Mirae Asset Hybrid Equity 3. ICICI Prudential Equity and Debt
Hybrid: Conservative Hybrid	1.ICICI Prudential Regular Saving Fund 2.UTI Regular Saving Fund
Hybrid : Arbitrage	1.Kotak Equity Arbitrage Fund 2.Reliance Arbitrage Fund

6. ADVANTAGE OF MUTUAL FUNDS:

A mutual fund as an investment intermediary offers a variety of services and advantage to the relatively small investors. The advantages derived from the investment in mutual funds are as below.

6.1. Benefits of professional management

An average investor cannot afford the professional advice of professional Investment consultants. Mutual funds are managed by professional managers. Hence, an average investor can get benefit of professional management.

6.2. Diversified Portfolio

It will be very risky to invest only in the single scrip Mutual Funds companies invest in a number of companies belong to different industries and sectors. It is known as diversification w the risk because the chances of being all investments declined at the same tin underlying principle is that if one investment in entire portfolio turns loss making, the other investments will compensate the same loss.

6.3. Tax benefits

Certain mutual fund schemes are specially designed to offer tax saving benefits to the investors. Dividend received from such schemes is tax free up to a specified limit and also exempted from capital gain taxation.

6.4. Small investors' instrument

Small investors cannot afford to invest in high value investments. Mutual fund collects saving of small investor and invest these savings in a diversified portfolio. Therefore, mutual fund is considered a good instrument for small investors.

6.5. Transparency

A mutual fund company discloses its portfolio every month. Hence, every investor can know where his savings have been invested. Investors are provided regular information by periodic account statement.

6.6. Easy Access

Trading on the major stock exchanges, mutual funds can be bought and sold with relative ease, making them highly liquid investments. Also, when it comes to certain types of assets, like foreign equities or exotic commodities, mutual funds are often the most feasible way—in fact, sometimes the only way—for individual investors to participate.

6.7. Liquidity

Listed schemes of mutual funds can be sold in the stock markets or at the current net assessed value to the scheme itself.

6.8. Ease of Investment

Automatic reinvestment of dividends and capitals gains, no responsibility of keeping record of share certificate of various companies, tax rules etc; less amount can be invested.

7. LIMITATIONS OF MUTUAL FUNDS:

7.1. Fluctuating Returns

Like many other investments without a guaranteed return, there is always the possibility that the value of your mutual fund will depreciate. Equity mutual funds experience price fluctuations, along with the stocks that make up the fund. The Federal Deposit Insurance Corporation (FDIC) does not back up mutual fund investments, and there is no guarantee of performance with any fund. Of course, almost every investment carries risk. It is especially important for investors in money market funds to know that, unlike their bank counterparts, these will not be insured by the FDIC.

7.2. Lack of Liquidity

A mutual fund allows you to request that your shares be converted into cash at any time, however, unlike stock that trades throughout the day, many mutual fund redemptions take place only at the end of each trading day.

7.3. Costs despite negative returns**:**

Investors must pay sales charges annual fees and other expenses regardless of how the fund performs; even if the fund went on to perform poorly.

7.4. Price uncertainty:

With an individual stock, you can obtain real time or close to real time pricing information with relative ease by checking financial websites or by calling your broker. You can also monitor how a stock's price changes from time to time .But with a mutual fund, the price at which you purchase or redeem shares will typically depend on the fund's net assets value (NAV), which the fund might not calculate until many hours after you have placed your order.

8. CONCLUSION:

A mutual fund is a fund that provides many investors' money to invest in equities, debentures, bonds and any other securities. A mutual fund can have equity funding, debt funding or a balanced funding. At present, the mutual funds industry in the Indian market has grown more and more in the future and will grow very much in the future. Funds are selected on quantitative parameters such as volatility, FMA model, risk-adjusted return and rolling return combined with qualitative analysis of fund performance and investment styles through regular interaction / due diligence procedures with fund managers.

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