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## 8. Evolution of MF Industry in India

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### Abstract

In India, evolution of MF industry can be categorized into four phases. The first phase during the years 1963-1987 saw Unit Trust of India consolidating its position by offering a variety of products and extending its reach throughout the country. The next phase (1987-93) marked the arrival of MFs sponsored by public sector banks and financial institutions. The third phase began in 1993 with the arrival of private sector players, both Indian and foreign. The fourth phase started with SEBI (Mutual Fund) Regulations, 1996.

Favorable economic and demographic factors such as rising income, rising saving rate, rising income earning-spending activity etc. have contributed in significant growth of Indian Mutual Fund Industry in past few years. Mutual funds have emerged as an important segment of financial market of India, especially as a result of the initiatives taken by the Govt. of India for resolving problems relating to UTI's US-64 and to liberalize tax liabilities on the incomes earned by the mutual funds.

This industry has undergone spectacular growth in recent years, making this study one of extreme interest. In this context, this paper is intended to study the growth of Indian Mutual Fund Industry.

### Introduction

Growth and developments of various mutual funds products in the Indian capital market has proved to be one of the most catalytic instruments in generating momentous investment growth in the capital market. In this context, close monitoring and evaluation of mutual funds has become essential. With emphasis on increase in domestic savings and improvement in deployment of investment through markets, the need and scope for mutual fund operation has increased tremendously. Thus the involvement of mutual funds in the transformation of The Indian economy has made it urgent too.

In India, evolution of MF industry can be categorized into four phases. The first phase during the years 1963-1987 saw Unit Trust of India consolidating its position by offering a variety of products and extending its reach throughout the country. The next phase (1987-93) marked the arrival of MFs sponsored by public sector banks and financial institutions. The third

phase began in 1993 with the arrival of private sector players, both Indian and foreign. The fourth phase started with SEBI (Mutual Fund) Regulations, 1996. Unit Trust of India (UTI) was established on 1963 by an Act of 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 purpose of establishing the UTI was to give a fillip to the equity market. In the wake of the Indo-China war in 1961, there was shortage of savings going into industrial investments for economic development. There was a need to mobilize adequate amount of risk capital for industrial enterprises (Indian Institute of Banking & Finance, 2004).

A new era in the MF industry began with the permission granted for the entry of private sector funds in 1993. Foreign asset management companies were allowed to enter the MF business. In the same year SEBI (Mutual Fund) Regulations also came into effect, under which all MFs, except UTI were to be registered and governed.

#### **Objectives of the Study**

- To study evolution of Indian Mutual Fund Industry.
- To study the growth of Indian Mutual Fund Industry.

#### **Research Methodology**

As the study is based on the secondary data, the research method involves visiting of various websites relating to mutual fund industry. Books and journals are also referred to collect past as well as current information about mutual fund industry in India. The various aspects studied included previous and current scenario of the Indian mutual fund industry.

#### **Features of Mutual Fund Industry in India**

Investment in mutual funds is generally made by the investors from middle income and higher income group.

The investors are largely based in metropolitan cities. The response from urban are is more as compared to the rural areas showing less penetration of mutual funds in the rural areas.

Mutual Fund Industry witnessed the growth of private sector funds very rapidly as compared to UTI and other state owned Asset Management Companies.

Asset Management Companies are divided into those that are predominantly owned by the state (UTI, bank sponsored and institutions) and those that are in the private sector.

The most important impediment to the Mutual fund industry is that it has to compete with attractive assured returns from different investment avenues.



### Growth of Mutual Funds in India

The Future of Mutual Funds in India is quite bright. Mutual Funds are one of the most popular forms of investments. The option available is to invest the money in stock market. But a common investor is not well informed and competent enough to understand the complexities involved in the price movement of securities in the financial market. This is where mutual funds come to rescue them.

By the year 1970, the industry had 361 Funds with combined total assets of 47.6 billion dollars in 10.7 million shareholder's account. However, from 1970 and onwards rising interest rates, stock market stagnation, inflation and investors some other reservations about the profitability of Mutual Funds, adversely affected the growth of mutual funds. Hence Mutual Funds realized the need to introduce new types of Mutual Funds, which were in tune with changing requirements and interests of the investors.

In the series of new product, the First Money Market Mutual Fund (MMMMF) e.g. The Reserve Fund" was started in November 1971. This new concept signaled a dramatic change in Mutual Fund Industry. Most importantly, it attracted new small and individual investors to mutual fund concept and sparked a surge of creativity in the industry.

The following table indicates the growth of net assets of Mutual Funds over the years in India.

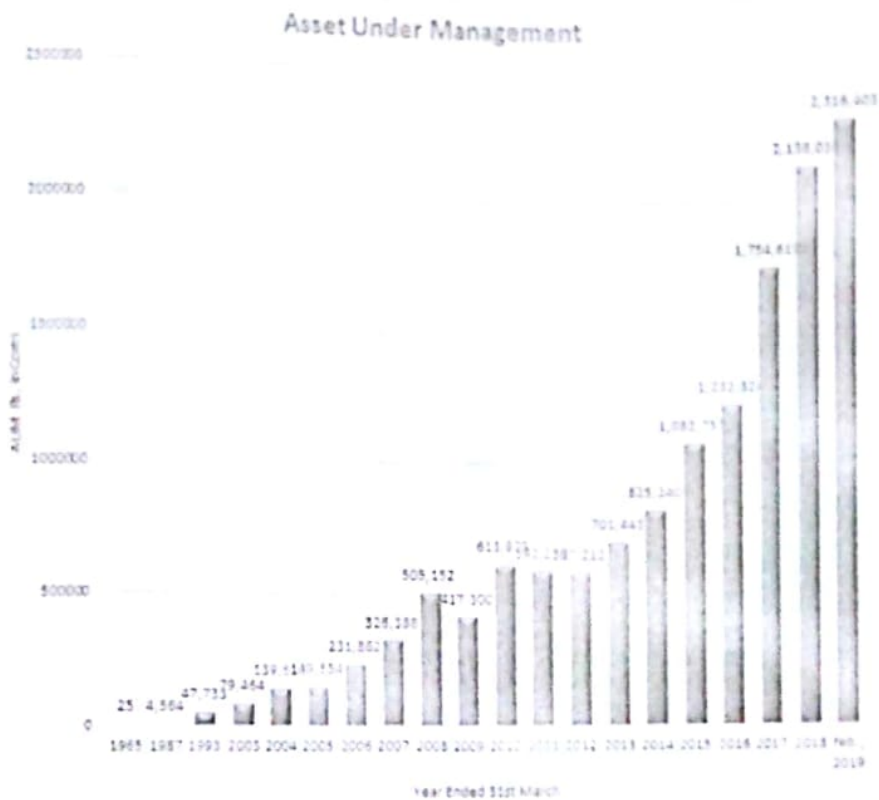
Table No. 1: Asset under Management in Indian Mutual Fund

Industry Year Ended 31st March	Asset Under Management (Rs. In Crores)
1965	25
1987	4,564
1993	47,733
2003	79,464
2004	139,616
2005	149,554
2006	231,862
2007	326,388
2008	505,152
2009	417,300
2010	613,979
2011	592,250
2012	587,212
2013	701,443
2014	825,240

2015	
2016	1,082,757
2017	1,232,824
2018	1,754,619
Feb., 2019	2,136,036

Source: - www. Amfiindia.com

The graphical representation of the above data is given below:



Indian MF industry witnessed an impressive growth till the year 2007-08 and gave an impression of becoming a mature industry. However, after several year of relentless growth the industry witnessed a fall in the net assets in the year 2008-09 and subsequently in the year 2010-11, suggesting it's vulnerability to local financial market and global economic crisis. During 2014-15 it has recorded a tremendous growth of 31.20%.

The AUM of the Indian MF Industry has grown from ₹ 5.05 trillion as on 31st March 2008 to ₹ 23.16 trillion as on 28th February 2019, more than fourfold increase in a span of about 11 years.

The Industry's AUM had crossed the milestone of ₹ 10 Trillion for the first time in May, 2014 and milestone of ₹ 20 Trillion for the first time in August, 2017. The MF Industry's AUM



has grown from ₹9.16 trillion as on 28th February, 2014 to ₹23.16 trillion as on 28th February, 2019, more than 2 ½ fold increase in a span of 5 years.

The total number of accounts (folios) as on February 28, 2019 stood at 8.18 crore as against 6.99 crore on February 28, 2018. That is within a year folios grew by 1.19 crores indicating that more and more investors are now attracted towards the Indian Mutual Fund Industry.

Indian economy is one of the fastest growing economies of the world. The saving of the country is now around 29%. Because of high growth potential, foreign investors are investing in Indian market. India is next emerging economy after the US and China. And hence sound financial market is of utmost importance. It is the financial market which channelizes savings of the people into the investment. Several international Funds are operating independently in India and some are expected to come in future. Foreign investors, local institutions and mutual funds are now playing a bigger role.

The tremendous growth of Indian mutual funds industry is an indicator of the efficient financial market. Indian mutual fund industry started with traditional products like equity fund, debt fund and balanced fund and later significantly increased its product base. Today, the industry has introduced a wide range of products such as money market funds, sector specific funds, index funds, gilt funds, insurance linked funds, exchange traded funds, and marching towards reality funds. The different types of schemes offered by the Indian mutual fund industry provides several options of investment to common man. What is noteworthy is that bulk of the mobilization has been by the private sector mutual funds rather than bank sponsored mutual funds.

Growth and developments of various mutual funds products in the Indian capital market has proved to be one of the most catalytic instruments in generating momentous investment growth in the capital market. In this context, close monitoring and evaluation of mutual funds has become essential. With emphasis on increase in domestic savings and improvement in deployment of investment through markets, the need and scope for mutual fund operation has increased tremendously. Thus the involvement of mutual funds in the transformation of Indian economy has made it urgent too.

### **Conclusion**

The mutual fund industry in India is quite sophisticated and successful because of participation of good and reputed Indian and international institutions. Further development of

capital market is possible with the improvements in mutual fund industry which will mobilize the saving on a wider scale.

Apart from the global economic environment, the future health of the MF industry in India is also likely to depend on several factors. Some of them are as follows;

- Overall economic development of the country measured through growth in the GDP;
- Change in the demographics of individuals;
- Structure of current and future social security system;
- Technological innovations;
- Enabling support from the regulator and government agencies;
- Bridging rural urban divide;
- Comprehensive investor awareness program;
- Understanding the behavior of MF investors particularly retail investors.

Thus if mutual funds have to grow fast, especially in rural areas appropriate schemes are to be devised to attract the saving of low income groups. This will surely help in long term in development of the industry.

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