

## **Funds Mobilization in Indian financial market – A Mutual Fund Perspective**

**Poojara J. G. \* & Christian S.R\*\***

\* Principal Incharge, Shri V.Z.Patel Commerce College, Anand

\*\*Assistant Professor, Shri D.N. Institute of PG Studies in Commerce, Anand

---

### **Abstract**

Innovation is the channel for growth. The growth of Indian Capital Market is not only sustainable but also remarkable during last decade. There are so many reasons behind it but one remarkable reason is the Mutual Fund Product. Mutual Funds are dynamic Financial Institutions (FIs) which play a crucial role in an economy by mobilizing savings and investing them in the capital market, thus establishing a link between saving and the capital market. Our research paper “Mutual Fund is an important intermediary in mobilization of funds in Indian financial market” reflects the growth of Mutual funds in Pre-Liberalization Era, Post-Liberalization Era, Net resources mobilization by Mutual Funds during 1970-71 to 1992-93 and Net resource mobilization by different private sector Mutual Funds. It also sketches bring to a close interpretation and concluded the innovative financial product like Mutual Fund is an important intermediary in mobilization of funds in Indian Financial Market.

## **Introduction**

Mutual Funds are dynamic Financial Institutions (FIs) which play a crucial role in an economy by mobilizing savings and investing them in the capital market, thus establishing a link between saving and the capital market.

In Mutual Funds many investors contribute to form a common pool of money. This pool of money is invested in accordance with stated objectives. The ownership of the fund is thus joint or 'mutual', the fund belongs to all investors. A single investor ownership of the fund is in the same proportion as the amount of the contribution made by him bears to the total amount of the fund.

The Securities & Exchange Board of India (SEBI) (Mutual Fund) regulations 1993 defines Mutual Funds as, " A fund established in the form of a trust by sponsor, to raise monies by the trustees through the sale of units to the public, under one or more schemes, for investing in securities in accordance with these regulations"

The Association of Mutual Funds in India (AMFI) defines; "Mutual Funds 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 defined investment objective and strategy."

In March 2010, the Indian Mutual Funds industry has 40 players. The number of public sector players has reduced from 11 to 5. The public sector has gradually receded in to the background, passing on a large chunk of market share to private sector players.

AMFI plays a pivotal role in setting up nourishing & developing the Indian Mutual Fund Industry. It is a protecting body for the investors as it formulates the guidelines to safeguard the investors & Mutual Fund sector. It should be taken into consideration that it's not a self-regulatory organization and there is no completion of the recommendations proposed by it on the

industry participants. It plays an advisory & counselor's role in the Mutual Fund Industry and its recommendations only be incorporated if it is graded lay SEBI and is included in the regulations.

### **Mutual Funds in Pre-Liberalization Era**

Mutual Funds made an opening in India in 1963 under the enactment of Unit Trust of India which came out with its debut scheme named US-64, an open-end scheme, which is in continuation till date. Up to 1986-87 it had launched 20 schemes, mobilizing net resources amounting to Rs. 4564 crore for these 23 long years up to 1986-87, Unit Trust of India enjoyed complete monopoly of the unit trust business in India. It remained one & the only Mutual Fund in India. Government of India amended Banking Regulations Act in 1986 and it also allowed commercial banks in the public sector to set-up Mutual Funds. This led to promotion of State Bank of India Mutual Fund by State Bank of India in July, 1987 followed by Canara Bank, Indian Bank, Bank of Baroda, Punjab National Bank and Bank of India. Further, permission was granted by the public sector to float Mutual Funds. The Mutual Funds were set up by the General Insurance Corporation in 1989 and Life Insurance Corporation in 1991. The Government of India following its New Economic Policy of Liberalization and Privatization opened the gates to private sector to launch Mutual Funds.

Reserve Bank of India in 1987 and Ministry of Finance, Government of India in 1987 worked to ensure smooth and efficient working of Mutual Fund industry and also issued certain guidelines within the frame work of which these funds were required to operate. The Government handed over the function of regulating Mutual Funds to Securities and Exchange Board of India (SEBI) in March 1991 and also issued guidelines in October 1991 for investors' protection and regulating the Indian capital market. Ultimately, government accorded a status of autonomous body to SEBI. Securities Exchange Board of India on 31<sup>st</sup> January, 1992. The idea behind according autonomous body status to Securities Exchange Board of India, perhaps, was to watch and control the working and implementation of guidelines more efficiently and closely, as it was felt that existing Mutual Funds had failed to line up to common investors' expectations in terms of; after sales service, timely delivery of unit certificates and dividend warrants, promptness in

grievance redressal, adequate and timely disclosure of information and under performance of most of the Mutual Funds as against market performance, investors' right adherence and so on.

The launching of private sector Mutual Funds that immediately stepped forward to grab the opportunity worked as a platform for the result of these drawbacks. They extensively advertised ensuring to overcome public sector weaknesses as their debut slogan.

They promised to introduce modern technology driven investor servicing and delivery system and provision of more frequent disclosure of Net Asset Value that was hailed and appreciated by common investor, to gain confidence of investors.

### **Mutual Funds in Post-Liberalization Era:**

During 1993-94 to 2004-05 the total net resources mobilized by Mutual Funds during the post liberalization era is clearly reflected in table 3. It's quite clear from this table that in 1993-94 which was its debut year, a strong opening was registered by private sector Mutual Funds. The bagged an amount of Rs. 1559.5 crores (13.88%) out of the total resources mobilized by all Mutual Funds of Rs. 11243.2 crores in the very first year of its initiation. Public sector i.e. bank sponsored mutual & FI-sponsored Mutual Fund scheme procured Rs. 386.7 crore (3.43%). Unit Trust of India however maintained the lead with Rs. 9297.0 crores (82.69%) due to its long standing and tax benefit the investment in its schemes enjoyed. Unit Trust of India and other public sector Mutual Funds started losing growth against private sector Mutual Funds in resource mobilization in the year 1995-1997. In the former case the figures stood at Rs. 3043.0 crores (-149.9%) indicating outflow whereas private sector walked out as a leader in resource mobilization bagging 863.3 crores (42.40%) leaving behind public sector Mutual Funds with 142.8 crore (7%).

Table 5 clearly states after being analyzed that it could be seen that after the entry of private sector Mutual Funds in the Indian Mutual Funds Industry, Unit Trust of India and other private sector institution sponsored Mutual Funds started losing its grip from the market. With an exception to the period of 1995-96 which witnessed the sluggishness in the market activity, private sector Mutual Funds growth index has shown the rising trend. On the other turn in funds mobilization, perhaps because of shattered confidence of investors compared to the bank sponsored Mutual Funds FI – sponsored Mutual Funds have put up a better show.

Often allegations and fingers have been pointed stating and emphasizing that at times under the premise of Securities and Exchange Board of India's supremacy, level playing field for all Mutual Funds does not course the Unit Trust of India. It had been accorded unfair advantage over the rest of the Mutual Funds in terms of borrowing of funds in times of need, limit of investment in one company's securities, announcing of guaranteed returns on its monthly income schemes, all schemes of Unit Trust of India considered as government approved securities by central government, etc. Also, investments made by charitable trusts, universities and other notified tax exempted institutions will not be subject to tax deduction at source if they are in Unit Trust of India's schemes.

#### **Net Resource Mobilization by Different Private Sector Mutual Funds:**

Up to 2000-01 which depicts the time period up to which this study was initially conducted that formed the bases for selection of Mutual Funds for performance evaluation shows the total resources mobilized by private sector Mutual Funds. Out of the total funds of Rs. 32990.6 crore mobilized by private sector Mutual Funds from 1993-94 till 2000-01, the major players were Prudential Industrial Credit and Investment Corporation of India with Rs. 3634.5 crore, Kothari Pioneer with Rs. 3819.4 crore, Templeton India with Rs. 2506.5 crore and Birla Mutual Fund with Rs. 3121.3 crore and so on.

According to table 7 the individual performance of private sector Mutual Funds inter up to 2003-04, out of the major funds, Prudential Industrial Credit and Investment Corporation of India Mutual Fund enjoyed maximum confidence of the investors, as there has not been any demand for redemption over these years. Next in the queue is Housing Development Finance Corporation Mutual Fund and Templeton India Mutual Fund followed by Birla Mutual Fund and Reliance capital Mutual Fund. Mutual Funds like ITC classic Thread Needle and H.B. got merged into Zurich India, on December 15, 1999 and Taurus Mutual Funds, on February 25, 1999. Securities Exchange Board of India, however, blacklisted CRB Mutual Fund because of misuse of funds.

The scenario of the Mutual Fund industry in India by taking lead in making it technology driven transparently managed organizations has been ontologically changed in the private sectors. In today technologically driven society, Mutual Funds also have adopted the change as a result of which all the Mutual Funds, except few new entrants have their websites which can display detailed information about the fund is available. Because of this prevailed transparency in the management of the funds. The websites of the Mutual Funds are regularly updated. Customer's complaints redressal is so prompt that on opening page of majority of fund's website the message reads as "all queries received before 4 p.m. will be responded on the same day". This shows the importance attached to customer service by this sector as against public sector. Day end net asset values of various schemes of the funds are always available on the website of respective Mutual Funds. Further, the concept of dematerialization has also helped the technology driven private sector Mutual Funds to grab the market share because timely transfer of dividend and other information. Though public sector Mutual Funds, too, have started going hi tech lately.

The latest position of different market players of Mutual Fund industry currently operating in India which is displayed in table no. 10. As per the Value Research, after the analyze of Mutual Fund schemes currently in operation and managed by them and size of net assets under their management on respective dates, It could be seen from the table that corpus size wise, Unit Trust of India still rules 50% of the Mutual Fund industry in India. However, private sectors including both foreign and Indian Mutual Funds like Prudential ICICI, Housing Development Finance Corporation, Birla, Templeton, Pioneer ITI and Alliance etc. in that order have shown enormous growth from asset under management point of view. The figures show the strength of Mutual Fund industry that can not be ignored. The corpus is being managed by the industry in 789 schemes which includes the options of growth or dividend given in a particular scheme. If we put it this way the Mutual Fund industry is the backbone of Indian economy, is not of place here. The function of capital reservoir for Indian economy the industry is performing a really gigantic task.

**Table 1: Net Resources Mobilized by Mutual Funds During 1970-71 to 1992-93**

Year (April-March)	UTI	Bank Sponsored	FI Sponsored	Private Sector	Total	Growth Index (UTI)
1970-71	18.0	-	-	-	18.0	1
1971-72	15.1	-	-	-	15.1	0.84
1972-73	23.2	-	-	-	23.2	1.29
1973-74	30.6	-	-	-	30.6	1.70
1974-75	17.2	-	-	-	17.2	0.95
1975-76	29.0	-	-	-	29.0	1.61
1976-77	34.6	-	-	-	34.6	1.92
1977-78	73.3	-	-	-	73.3	4.07
1978-79	101.5	-	-	-	101.5	5.64
1979-80	57.9	-	-	-	57.9	3.22
1980-81	52.1	-	-	-	52.1	2.89
1981-82	157.4	-	-	-	157.4	8.74
1982-83	166.9	-	-	-	166.9	9.27
1983-84	330.2	-	-	-	330.2	18.34
1984-85	756.2	-	-	-	756.2	42.01
1985-86	891.8	-	-	-	891.8	49.54
1986-87	1261.1	-	-	-	1261.1	70.06
1987-88	2059.4	250.3	-	-	2309.7	114.1
	(89.16)	(10.84)				
1988-89	3855.0	319.7	-	-	4174.8	214.2
	(92.34)	(7.66)				
1989-90	5583.6	888.1	315.3	-	6786.9	310.2
	(82.27)	13.08	(4.65)			
1990-91	4553.0	2351.9	603.5	-	7508.4	252.9
	(60.64)	(31.33)	(8.03)			
1991-92	8685.4	2140.4	427.1	-	11252.9	482.5
	(77.18)	(19.02)	(3.80)			
1992-93	11057	1204	760	-	13021.0	614.3
	(84.92)	(9.25)	(5.83)			

**Table 2: Growth Index with 1987-88 and 1989-90 as a base year**

	Growth Index 1987 – 88 = 100		Growth Index 1989-90 = 100		
	UTI	Bank Sponsored	UTI	Bank Sponsored	FI Sponsored
1987-88	1	1	-	-	-
1988-89	1.87	1.28	-	-	-
1989-90	2.71	3.55	1	1	1
1990-91	2.21	9.40	0.81	2.65	1.91
1991-92	4.21	8.55	1.55	2.41	1.35
1992-93	5.37	4.81	1.98	1.35	2.41

**Table 3: Net Resources Mobilized by Mutual Funds during 1993-94 to 2004-05**

Year	UTI	Public Sector	Private Sector	Total
1993-94	9297.0	386.7	1559.5	11243.2
	(82.69)	(3.43)	(13.88)	
1994-95	8611.0	1341.8	1321.8	11274.6
	(76.37)	(11.9)	(11.73)	
1995-96	-6314.0	348.1	133.0	-5832.9
	(108.25)*	(5.97)	(2.28)	
1996-97	-3043.0	142.8	863.6	-2036.7
	(-149.40)*	(7.00)	(42.40)	
1997-98	2875.0	440.3	748.6	4063.9
	(71.17)	(10.82)	(18.41)	
1998-99	-2737.53	335.16	1452.7	-949.67
	(-288.25)*	(35.29)	(152.96)	
1999-00	4548.32	-744.92	15166.48	-18969.88
	(23.97)	(-3.92)*	(79.95)	
2000-01	323.0	-1044.5	9849.57	9128.07
	(3.53)	(-11.43)*	(107.90)	
2001-02	-7284.0	1409.31	13049.89	7175.2
	(-101.51)*	(19.64)	(181.87)	
2002-03	-9434.1	1561.5	12069.44	4196.39
	(-224.81)*	(37.21)	(287.6)	
2003-04	1666.92	2597.01	42544.5	46808.43
	(3.56)**	(5.55)	(90.89)	
2004-05	-2676.9	-2722.29	7599.51	2200.32
	(-121.66)**	(-123.72)*		(345.38)

**Table No.4: Growth Index with 1993-94 = 100**

Year	UTI	Public Sector	Private Sector
1993-94	1	1	1
1994-95	0.93	3.47	0.85
1995-96	-0.68	0.90	0.08
1996-97	-0.33	0.37	0.55
1997-98	0.31	1.14	0.48
1998-99	0.02	0.87	0.93
1999-00	0.49	-1.93	9.72
2000-01	0.04	-2.70	6.31
2001-02	-0.78	3.64	8.36
2002-03	-1.01	4.03	7.74
2003-04	0.18	6.71	27.28
2004-05	-0.29	-7.04	4.87

**Table No 5: Funds Mobilized and Total Assets: Private, Public and UTI  
Status of Mutual Funds for the Period April 1998 – March 1999 (Figs. In Rs. Crores) (%)**

	Private Sector MFs	Public Sector MFs	UTI	Grand Total
Mobilization of Funds	7846.50	1671.34	13192.89	22710.73
	(34.55)	(7.36)	(58.09)	(100)
Repurchase Amount	6393.80	1336.18	15930.42	23660.40
	(27.02)	(5.65)	(67.33)	(100)
Net Inflow/Outflow (-) of Funds	1452.70	335.16	-2737.53	-949.67
	(152.96)	(35.29)	(-288.25)	(100)
Cumulative Position of Net	6797.16	8250.65	53145.27	68193.08
Assets on March, 99 (%)	(9.97%)	12.09%)	(77.94%)	

**Table No 6: Status of Mutual Funds for the Period April 1999 - March 2000**

(Figs. In Rs. Crores) (%)

	Private Sector MFs	Public Sector MFs	UTI	Grand Total
Mobilization of Funds	43725.66	3817.13	13698.44	61241.23
	(71.40)	(6.23)	(22.37)	(100)
Repurchase Amount	28559.18	4562.05	9150.12	42271.35
	(67.56)	(10.79)	(21.65)	(100)
Net Inflow/Outflow (-) of Funds	15166.48	-744.92	4548.32	18969.88
	(79.95)	(-3.93)	(23.98)	(100)
Cumulative Position of Net	25167.89	10444.78	72333.43	107946.10
Assets on March, 00 (%)	(23.32%)	(9.68%)	(67.00%)	

**Table No.7 - Status of Mutual Funds for the Period April 2003 – March 2004**

(Figs. In Rs. Crores) (%)

	Private Sector MFs	Public Sector MFs	UTI	Grand Total
Mobilization of Funds	534649.28	31548.19	23992.40	590189.87
	(90.69)	(5.34)	(4.07)	(100)
Repurchase Amount	492104.78	28951.18	22325.48	543381.44
	(90.56)	(5.33)	(4.11)	(100)
Net Inflow/Outflow (-) of Funds	42544.50	2597.01	1666.92	46808.43
	(90.89)	(5.55)	(3.56)	(100)
Cumulative Position of Net	107087.44	20616.96	11911.89	139616.29
Assets on March, 04 (%)	(76.70%)	(14.76%)	(8.54%)	

**Table No. 8: Status of Mutual Funds for the Period April 2004 – March 2005**

(Figs. In Rs. Crores) (%)

	Private Sector MFs	Public Sector MFs	UTI	Grand Total
Mobilization of Funds	736463.30	46656.08	56588.99	839708.37
	(87.70)	(5.56)	(6.74)	(100)
Repurchase Amount	728863.80	49378.37	59256.89	837508.06
	(87.03)	(5.89)	(7.08)	(100)
Net Inflow/Outflow (-) of Funds	7599.50	-2722.29	-2676.90	2200.32
	(345.38)	(-123.72)	(-121.66)	(100)
Cumulative Position of Net	117487.31	20739.57	11373.53	149600.41
Assets on March, 05 (%)	(78.53%)	(13.87%)	(7.60%)	

**Hypothesis Claim: 1**

**Mutual Fund is important intermediary in mobilization of funds in Indian financial market.**

Mutual Funds mobilize and channel funds towards securities market. The total sales of the Mutual Fund in India crossed Rs. 16.56 trillion in 2006. In a matter of two years the industry touched Rs.53 trillion in 2008 and reached Rs.94.89 trillion by 2010. The funds have grown so swiftly, more due to the changing demographic profile, increasing number of youths with investible surplus and growth in the economy. The dominating role of the private and foreign players in the domestic market has contributed towards the growth of AUM.

The Mutual Fund industry had undergone a lot of mergers, acquisitions and closures besides the entry of many new Mutual Funds. After 2005 we can see significant growth of new schemes launched to 314 in 2006 followed by 631 in 2007 and 703 schemes launched in 2009. In 2009 it decreased by 594 and it again increased to 352 in 2010.

The redemption of funds was the highest in the year 2010 at 95.80 trillion

Total redemption of funds in India crossed Rs. 15 trillion in 2006, in a matter of time period year by year the industry touched Rs. 34.57 trillion in 2007 followed by 53.03 trillion in 2008, Rs.88.70 trillion in 2009 and reached 95.80 trillion in 2010.

The Sales, the redemption and the number of schemes launched by the industry had shown a tremendous increase. There had been a paradigm shift in the type of Scheme launched from open-end to close-end category. Mutual Funds from Government sponsored sector and assured return category. Income schemes had shown a better performance than growth schemes in terms of number of schemes and fund raised. The industry had shown a consistency in performance leading to the best performance in 2010 in terms of funds mobilized.

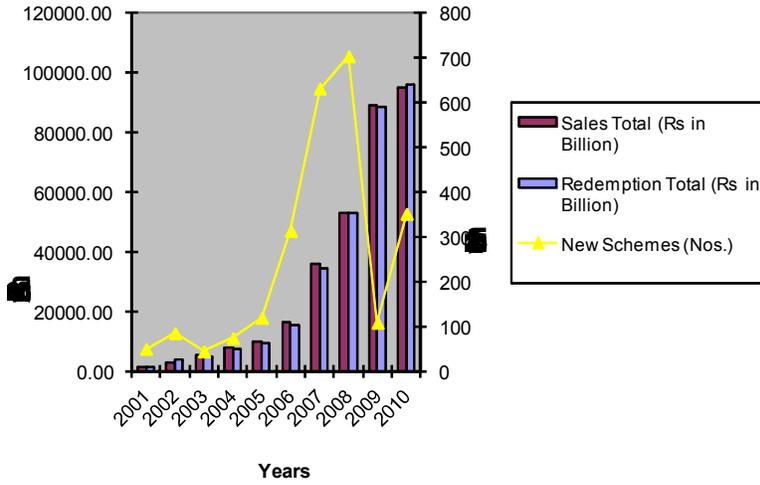
The Mutual Fund industry witnessed robust growth and stricter regulation from the SEBI after the year 1996. The mobilization of funds and the number of players operating in the industry

reached new heights as investors started showing more interest in Mutual Funds. Therefore “Mutual Fund is important intermediary in mobilization of funds in Indian financial market”.

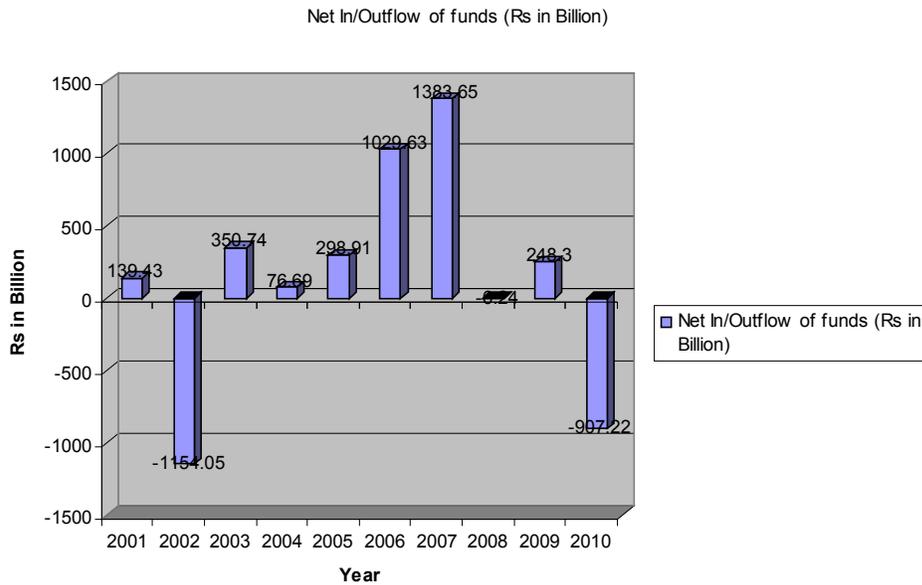
The above discussion can draw the following conclusions:-

- (1) Mutual Fund is an important intermediary in mobilization of funds in Indian financial market.
- (2) Prudential ICICI Mutual Fund, Housing Development Finance Corporation Mutual Fund, Franklin Templeton Investments, Birla Mutual Fund, Reliance Mutual Fund etc. are the funds leading in resource mobilization up to 2003-04 within the private sector.
- (3) Unit Trust of India still holds the maximum share, if compared to private sector Mutual Funds individually out of the total resource mobilized by all the Mutual Funds.
- (4) Out of the total schemes currently operative, as per scheme-wise break-up, debt or income schemes outnumbered the growth and balanced schemes. Further open-end schemes as against close-end ones in all the three categories are more than the double in number.
- (5) Positive growth has been registered by Mutual Funds in terms of resource mobilization so far during the period of the study.

Graph 1 Mobilization Chart



Graph: 2 Net In / Out Flow of Funds:



**References:**

**Books:**

- Gupta, K. Shashi and Sharma, R. k. (2006), “Financial Management”, Kalyani Publishers, New Delhi.
- Gupta, Mohit, (2009) “Mutual Fund, Portfolio creation, Using Industry Concentration”, The Lctain Journal of Management Research, Hydrabad.
- Pandey, I.M., (2007), “Financial Management”, Vikash Publishing house Pvt. Ltd. - New Delhi.
- Kishore, Ravi M., (2007) , “Financial Management” Taxmann Allied Services Pvt. Ltd. Haryana.
- Adajania, kayerad E., (2009), “How Your Fund Fared” Outlook money, New Delhi.
- Fama, E., “Components of /investment Performance”, Journal of Finance.

**Journals, Magazines & News Papers:**

- Fund Wealth Watch by NJ India Invest, Surat.
- The IUP Journal of Management Research, Hyderabad.
- Index Identities by Economic Times
- Financial Express
- Mutual Funds to Grow Published by Financial Express June,2004
- Gujarat Among Major Contributors to MF: AMFI Financial Express, December 2007

**Reports & Manuals of the Regulators & Institutions:**

- SEBI Annual Reports ( 2002 to 2009)
- RBI Annual Reports (2007 to 2009)
- UTI Annual Report (2007-2008)
- SEBI Investor Programme Guide
- AMFI Guidelines for intermediaries
- The Mutual Funds, Investor’s Hand Book, Money simplified, September, 2002

**Websites:**

- [www.amfindia.com](http://www.amfindia.com)
- [www.iupindia.org](http://www.iupindia.org)
- [www.mutualfundsindia.com](http://www.mutualfundsindia.com)
- [www.rbi.com](http://www.rbi.com)
- [www.sebi.com](http://www.sebi.com)
- [www.valueresearchonline.com](http://www.valueresearchonline.com)
- [www.businessworld.in](http://www.businessworld.in)
- [www.moneycontrol.com](http://www.moneycontrol.com)
- [www.nseindia.com](http://www.nseindia.com)
- [www.bseindia.com](http://www.bseindia.com)
- [www.nse2rich.com](http://www.nse2rich.com)
- [www.rrfinance.com](http://www.rrfinance.com)