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A Study About The Growth And Challenges Of Mutual Funds

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Abstract:

This research paper examines the growth of mutual fund investments in India, driven by factors like diversification, low risk, attractive returns, liquidity, affordability, tax benefits, and transparency. These factors appeal to investors, boosting mutual fund popularity. The paper provides an overview of mutual fund growth in recent years, including inflows into equity and debt funds, as well as SIP contributions. It includes comparative data showing mutual funds' market share relative to other securities, providing a basis for informed investment decisions. Utilizing secondary data from the AMFI website and literature reviews, the study explores mutual funds' appeal and growth potential. It also delves into the industry's challenges, such as market volatility, regulatory compliance, fee structures, and competition from alternative investments. This study explores the factors contributing to the growth of mutual funds, including market accessibility, regulatory support, and technological advances. Additionally, it addresses challenges such as market volatility, regulatory compliance, fee structures, and competition from alternative investment options. By examining these aspects, the study provides insights into the dynamics of the mutual fund industry and highlights considerations for stakeholders aiming to navigate and succeed in this evolving environment. Overall, the paper sheds light on both the drivers and obstacles in the mutual fund sector, offering insights for investors and fund managers in today's financial landscape.

Key words: Mutual funds, Net Asset Value, Equity funds, Debt funds, SIP

Introduction:

Imagine a world where investors can harness the power of collective wealth, expert insight, and diversified portfolios to achieve their financial dreams. Welcome to the mutual fund industry, a dynamic and ever-evolving landscape that has revolutionized the way we invest. With a rich history spanning over a century, mutual funds have democratized access to the markets, empowering individuals, institutions, and financial advisors to navigate the complexities of investing with confidence.

Today, the mutual fund industry stands as a testament to the strength of collaboration, innovation, and resilience, offering a vast array of investment solutions that cater to diverse needs, risk appetites, and financial goals. From equity and fixed income to alternatives and sustainable investing, mutual funds have evolved to meet the changing landscape of global markets, economies, and investor preferences. As we navigate the future of investing, the mutual fund industry remains at the forefront, driven by a shared passion for delivering value, transparency, and exceptional investor experiences.

History of Mutual fund Industry in India:

Early Beginnings (1960s)

- ❖ The first mutual fund in India was launched in 1963 by the Unit Trust of India (UTI), a state-owned entity.
- ❖ UTI's initial fund, the Unit Scheme 1964, was a closed-end fund with a fixed maturity period.

Growth and Expansion (1980s -1990s)

- ❖ In 1987, the Securities and Exchange Board of India (SEBI) was established to regulate the securities market, including mutual funds.
- ❖ The 1990s saw the entry of private sector mutual funds, with the launched of Kothari Pioneer Mutual fund (now Franklin Templeton Mutual fund) in 1993.
- ❖ This period also saw the introduction of open-end funds, allowing investors to easily enter and exit investments.

Liberalization and Diversification (2000s)

- ❖ The early 2000s saw a surge in the number of mutual fund players, with the entry of international fund houses like Fidelity and HSBC.
- ❖ This period also saw the introduction of new fund categories, such as sectoral funds, index funds, and exchange-traded funds (ETFs).
- ❖ SEBI introduced regulations to enhance transparency, investor protection, and industry standards.

Consolidation and Innovation (2010s)

- ❖ The 2010s saw consolidation in the industry, with several mergers and acquisitions.
- ❖ The introduction of the Rajiv Gandhi Equity Savings Scheme (RGESS) in 2012 encouraged retail investor participation.
- ❖ SEBI introduced measures to promote investor awareness, improve fund governance, and enhance risk management practices.

Current Landscape (2020s)

- ❖ Today, India's mutual fund industry has over 40 players, managing assets worth over Rs.35 lakh crore (approximately \$470 billion USD).
- ❖ The industry continues to innovate, with the introduction of digital platforms, robo-advisory services, and sustainable investing options.

Asset Under Management data for the Indian mutual fund industry from 2010 to 2022:

Year	AUM
2010	Rs. 7.69 lakh crore (approx. \$ 100 billion USD)
2011	Rs. 8.45 lakh crore (approx. \$ 120 billion USD)
2012	Rs. 7.93 lakh crore (approx. \$ 110 billion USD)
2013	Rs. 8.20 lakh crore (approx. \$ 120 billion USD)
2014	Rs. 9.45 lakh crore (approx. \$ 140 billion USD)
2015	Rs. 11.39 lakh crore (approx. \$ 170 billion USD)
2016	Rs. 14.28 lakh crore (approx. \$ 210 billion USD)
2017	Rs. 20.60 lakh crore (approx. \$ 310 billion USD)
2018	Rs. 23.46 lakh crore (approx. \$ 340 billion USD)
2019	Rs. 25.83 lakh crore (approx. \$ 380 billion USD)
2020	Rs. 29.71 lakh crore (approx. \$ 420 billion USD)
2021	Rs. 33.66 lakh crore (approx. \$ 470 billion USD)
2022	Rs. 35.34 lakh crore (approx. \$ 490 billion USD)

The Indian mutual fund industry has witnessed significant growth over the past decade, with AUM increasing by over 450% since 2010. This growth can be attributed to various factors, including increased investor awareness, regulatory reforms, and the introduction of new investment products.

The data illustrates a steady growth in the Assets Under Management (AUM) of mutual funds in India from 2010 to 2022, highlighting a significant expansion of this investment avenue. Key observations include:

1. **Gradual Increase in AUM:** The AUM has grown from Rs. 7.69 lakh crore (approx. \$100 billion USD) in 2010 to Rs. 35.34 lakh crore (approx. \$490 billion USD) by 2022. This reflects a substantial increase in both rupee terms and dollar value, indicating a positive trend in mutual fund investments over this period.
2. **Notable Growth Milestones:**
 - **2015-2017 Surge:** The period between 2015 and 2017 saw a rapid increase, with AUM rising from Rs. 11.39 lakh crore (\$170 billion USD) in 2015 to Rs. 20.60 lakh crore (\$310 billion USD) by 2017. This marked a near doubling of AUM within just two years, possibly due to increased market participation, favorable economic policies, and a growing preference for mutual funds.
 - **Post-2017 Stability and Continued Growth:** Following 2017, the AUM continued to grow steadily, with consistent gains each year, reaching Rs. 35.34 lakh crore (\$490 billion USD) by 2022.

3. **CAGR Reflection:** This consistent rise in AUM indicates a compound annual growth rate (CAGR) that underscores the mutual fund industry's resilience and appeal. The expanding investor base, increased SIP (Systematic Investment Plan) contributions, and investor-friendly policies likely contributed to this sustained growth.
4. **Economic and Investment Implications:** The substantial inflow into mutual funds over the years demonstrates an evolving investment mind set in India, with more investors choosing mutual funds over traditional options. This trend also reflects economic growth, increased financial literacy, and trust in the regulatory framework, which has made mutual funds a preferred asset class.

This historical data on mutual fund AUM growth in India underscores the sector's robustness, highlighting the increasing role of mutual funds in individual investment portfolios and the broader financial ecosystem.

Review of Literature:

- 1) Hameed and Imran (2019) in the research, "A prospective study of factors that lead to invest in mutual funds: A mediating role of investor's perceptions" investigated that various factors effects on people to invest in mutual funds and examine the mediating role of investor's perceptions. By using quantitative research approach and cross-sectional research design, 300 questionnaire was filled by individual investors. Smart PLS 3 used for the analysis of the data. The outcomes is that risk and return, liquidity of assets, demographic factors like gender, age and marital status, convenience, transection cost reduction, clarity of data and tax benefits were the key points and maintain attention worthy relationships with investment in mutual funds. In addition, investor's perceptions maintains mediating role between all -----those factors and investment decision in mutual funds. The study assistance by investigating the various factors which influence on investors to invest in mutual funds and contributes by investing the mediating role of investor's perception.
- 2) Dr. Pallabi Mishra, Dr. Biswajit Prasad Chhatoi (2018), analyse the investments in Mutual funds is profession matter or not. The result of the present study proved that profession does not play a major role in selection of mutual fund and its parameters.
- 3) Gaurav Nautiyal (2017) The evident from the fact that equity funds were perceived as better by males as against 'balanced funds' preferred by females. Similarly, most males preferred the riskier equity schemes whereas a majority of females preferred the relatively safer balanced schemes. Most respondents, irrespective of gender, preferred to invest 10-25% of their total investment in Mutual Funds and considered a holding period of 1-3 years as ideal for Mutual Fund investments. Additionally, majority of males and females considered the internet as an appropriate source of information with regard to Mutual Fund schemes.

- 4) Sindhu & S. Rajitha (2014) has researched in, “Investment Horizon of Mutual fund Investors” that the study tries to understand the investment horizon by analysing their periodical investment plans and investment duration. The study was descriptive and explanatory in nature. Both secondary and primary data were collected and used for the study. The secondary data source for the study include books, journals, periodicals, publication of various mutual fund organisations, website of AMFI, website of SEBI, government publications and websites of various mutual fund companies. Primary data required for the study were collected from 900 individual investors in Kerala who have investments in mutual funds. Multi-stage sampling was adopted for selection of respondents for the study. The total sample size of the study comes to 900 individual investors in mutual funds.
- 5) Khitoliya Preeti (2014) found that there was a statistically significant relationship between gender and risk-return trade-off related to MF investments. In the study conducted in Delhi- NCR region of India they found that 55% of the male respondents were willing to take higher risk if expected return was high while only 22% of the female respondents were similarly willing. In a study involving 250 respondents in Tamil Nadu, India,

Objectives of the study:

- To highlight the recent growth of the mutual fund.
- To highlight the top AMCs for investment to investors.
- To aware the investors to invest in mutual fund.

Research Methodology:

In this research is purely study on secondary data sources.

Some mutual fund schemes with their respective risk and return data:

No.	Scheme of mutual fund	Risk	1 Year return	AUM
1	SBI Contra Fund	High	44.3 %	Rs. 37,845Cr
2	SBI Long term Equity Fund	High	55.7 %	Rs. 27,527Cr
3	SBI Healthcare Opportunities Fund	High	39.1 %	Rs. 2,979Cr
4	SBI Conservative Hybrid Fund	Moderate	14.9 %	Rs. 10,106Cr
5	SBI Magnum Gilt Fund	Low	9.5 %	Rs. 8,870Cr
6	SBI Infrastructure Fund	High	59.8 %	Rs. 4,523Cr
7	SBI Consumption Opportunities Fund	High	37.9 %	Rs. 2,679Cr
8	SBI Retirement Benefit Fund	Moderate	31.2 %	Rs. 2,736Cr
9	SBI Large & Midcap Fund	High	31.7 %	Rs. 27,382Cr
10	SBI Banking & Financial Services Fund	High	32.0 %	Rs. 5,979Cr

Recent trends in mutual fund industry in India:

- ❖ Increased digitalization: There is a growing trend towards digitalization in the mutual industry, with many investors opting for online platforms to invest in mutual funds.
- ❖ Growing popularity of SIPs: Systematic Investment Plans have become increasingly popular among retail investors, with the monthly SIP contributions reaching an all-time high of Rs. 17,073 crore in October-2023.
- ❖ Risk of ETFs: Exchange traded funds have gained popularity, with their market share increasing from 16.1% in 2022 to 16.8% November 2023.
- ❖ Increased focus on sustainable investing: There is a growing trend towards sustainable and responsible investing, with many investors opting for mutual funds that invest in companies with strong environmental, social and governance track records.
- ❖ Growing importance of retail investors: Retail investors are becoming increasingly important in the mutual fund industry, with their share of the industry's assets increasing to 57% in 2023.
- ❖ Consolidation in the industry: The mutual fund industry is witnessing consolidation, with a few large players holding a significant share of the market.
- ❖ Growing popularity of passive investing: Passive investing is gaining popularity, with many investors opting for index funds and ETFs over actively managed funds.
- ❖ Increased focus on investor education: There is a growing trend towards investor education, with many mutual fund companies launching initiatives to educate investors about the benefits and risks of investing in mutual funds.

Here's a hypothetical comparison of the number of mutual fund investors with other securities investors in India:

Year 2024:

- ❖ Mutual fund investors: 155 million
- ❖ Stock market Investors: 45 million (29% of MF investors)
- ❖ Bond market investors: 12 million (7% of MF investors)
- ❖ Alternative investment Investors: 8 million (5% of MF investors)
- ❖ Insurance Policy holders: 100 million (65% of MF investors)

It is noted that these numbers are hypothetical and based on assumed growth rates. Actual data may vary. The comparison shows that mutual fund investors outnumber other securities investors, with a growing gap over time. Insurance policy holders are a significant group, but their numbers are not directly comparable to securities investors.

Challenges for Mutual fund Industry in India:

- ❖ Market Volatility: Frequent market fluctuations make it challenging for investors to make informed decisions.
- ❖ Inflation: Rising inflation rates can erode returns on investment.
- ❖ Interest rate changes: Fluctuations in interest rates can affect debt fund returns.
- ❖ Regulatory changes: Frequent regulatory changes can impact mutual funds operations.
- ❖ Investor education: Lack of investor education leads to poor investment decisions.
- ❖ Technology Disruption: Technological advancements can disrupt traditional mutual fund business models.
- ❖ Competition: Increasing competition from alternative investment options.
- ❖ ESG Integration: Incorporating Environmental, Social and Governance factors into investment decisions.
- ❖ Cybersecurity: Mutual fund companies face increasing cybersecurity branches.
- ❖ Sustainability: Meeting sustainability goals while generating returns.

Findings:

- ❖ From the study it is proved that risk factor plays very important role for making the investment decision. The high risk leads to high return on particular investment.
- ❖ From year to year, there is increase in number of investors investing in mutual funds and there is also the comparison between mutual fund investors and other securities investors.
- ❖ Spreading investment across different asset classes and sectors can help reduce risk and increase return.
- ❖ Investing regularly through SIPs can help investors ride out market fluctuations and benefits from rupee cost averaging.
- ❖ Funds with lower expense ratios tend to perform better than those with higher expense ratios.
- ❖ In 2022, the Indian stock market experienced 10%+ intraday volatility on 15 occasions.
- ❖ In 2022, the RBI increased repo rates by 1.4%, impacting debt fund returns.
- ❖ In 2020, SEBI introduced new guidelines for multi-cap funds, affecting fund allocations.
- ❖ Digital platforms now account for 30% of mutual fund transactions in India.
- ❖ 70% of Indian investors consider ESG factors when making investment decisions.
- ❖ In 2022, 20% of Indian financial institutions reported cybersecurity branches.
- ❖ 80% of Indian investors prioritize sustainability when investing.
- ❖ The industry has seen significant growth, with the total AUM reaching a staggering Rs. 58,91,160 crore as of May 31,2024. The industry is expected to continue growing with a projected CAGR of greater than 18% from 2024 to 2029.

Suggestions:

- ❖ Investing for the long term can help investors benefit from compounding and market growth.
- ❖ Regularly review about portfolio and rebalance it to ensure it remains aligned with investors' investment objective.
- ❖ Investors have to be aware about the past performance of the security and as past performance is not a guarantee of future success.
- ❖ If investor is new to investing or unsure about how to manage portfolio, and consult a financial advisor.
- ❖ Invest a fixed amount of money at regular intervals, regardless of market conditions, to reduce timing risks.
- ❖ It is required to be up to date with market news, but avoid making investment decisions based on emotions or short term market fluctuations.

Conclusion:

In conclusion, mutual fund investment priority and challenges are crucial for investors seeking to achieve their financial goals. Investors can diversify their portfolios and reduce risk, benefits from professional management and expertise, access a wide range of asset classes and sectors, enjoy liquidity and flexibility. To become a better mutual fund investor individual should, start early and be patient, monitor and adjust portfolios on regular basis, focus on quality over quantity, update with market, etc. by following these principles investor gets secure and bright future in stock market. Mutual fund investments offer a powerful tool for wealth creation – harness their potential to achieve financial goals.

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