Chapter-II

MUTUAL FUNDS IN INDIA: GROWTH OVERVIEW

Mutual fund is an important segment of the financial system in India. It is a mechanism for pooling the savings of large number of investors for collective investments with the objective of ensuring attractive yields and appreciation in their value.

The mutual funds industry is expected to play a vital role in financial intermediation in the Indian economy; hence mutual funds collective ability to draw investment funds and the mode of use of those funds are of considerable interest.

At the beginning of the mutual funds industry in the early 1960s, there was only one government owned fund, namely, the Unit Trust of India (UTI). Following the onset of the liberalisation of Indian economy, this industry was also was being liberalised since 1993. As a result, other asset management companies (AMCs) started coming in, resulting in the opening up of a wide range of choices of mutual fund products for the Indian investors. With the entry of the new players and launching of the new mutual fund products across asset classes, the growth of the industry got a fillip.

The Indian mutual funds industry, of late, has witnessed modest growth in the recent past. By the end of December, 2015, as many as 44 fund houses were doing their business in the Indian financial market, offering more than a thousand schemes over an asset base of ₹13.46 lakh crores. Investments in equity funds in 2015 were more than double to that of 2008. However, the fact that the AUM to GDP ratio of the industry still is lower than the industry counterparts in the developed and also in some of the emerging economies of the globe, points towards the latent potential for diverting wealth from physical assets to financial assets in India.

2.1. HISTORY OF MUTUAL FUNDS IN INDIA

The Indian Mutual Funds industry is still in a relatively nascent stage. The mutual funds were introduced in the year 1822 in Belgium. Soon thereafter, Great Britain and France followed suit. In UK in 1914, as many as 90 investment trusts were in operation (Subrahmanyam 2009: 213). The first mutual fund in USA under the name The Boston Personal Property Trust was established in the year 1893. As against these early global developments, mutual funds in India made a beginning only in the 1960s.

The history of mutual funds in India can be broadly divided into four distinct phases[1].

<u>First Phase: 1964-1987</u>:

The Unit Trust of India (UTI) came into being in 1963 by an Act of Parliament. In the initial years, UTI functioned under the Regulatory and Administrative control of the Reserve Bank of India. In 1978, the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control of UTI. The first scheme launched by UTI was the Unit Scheme 1964. By the end of 1988, UTI had ₹6,700 crores of assets under management.

<u>Second Phase: 1987-1993 (Entry of Public Sector Funds)</u>:

1987 marked the beginning of the second phase of growth of the industry since when mutual funds were being set-up by public sector banks and insurance corporations. Mutual funds were set up in this phase by State Bank

[1] Information furnished in this subsection is procured from www.amfiindia.com accessed on 22-07-2015.

of India (June, 1987), Canara Bank (December, 1987), Punjab National Bank (August, 1989), Indian Bank (November, 1989), Bank of India (June, 1990), Bank of Baroda (October, 1992), Life Insurance Corporation of India (LIC) (June, 1989) and General Insurance Corporation of India (GIC) (December, 1990). By the end of 1993, the mutual fund industry had assets under management to the tune of around ₹47,004 crores.

<u>Third Phase: 1993-2003 (Entry of Private Sector Funds)</u>:

The industry came within the ambit of liberalisation in 1993. The first private sector mutual fund (Kothari Pioneer, now merged with Franklin Templeton) was registered in July, 1993. In the wake of the outbreak of scams in the stock market (Harshad Mehta Scam) and the entry of the private sector into the field, a detailed regulatory framework having the Securities and Exchange Board of India (SEBI) in the centre stage was instituted. The 1993 set of SEBI (Mutual Fund) Regulations were replaced by a more comprehensive set of Mutual Fund Regulations in 1996 that remains in force till date.

The industry witnessed in this phase also the entry of foreign mutual funds. A new era of mergers and acquisitions began. By the end of January 2003, 33 mutual funds were operating with total assets of ₹1,21,805 crores. The Unit Trust of India was continuing as the industry leader with assets under management of around ₹44,541 crores.

<u>Fourth Phase: since February 2003</u>:

Following the repeal of the Unit Trust of India Act, 1963, the UTI was bifurcated into two separate entities in February 2003. The first of the two entities was the Specified Under taking of the Unit Trust of India with assets under management of ₹29,835 crores as at the end of January 2003 (representing broadly, the assets of US 64 scheme, assured return and certain other schemes). This entity functions under an administrator under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations.

The other entity was the UTI Mutual Fund, sponsored jointly by SBI, PNB, BOB and LIC, which was registered with SEBI and now functions under the Mutual Fund Regulations.

This fourth phase of the industry's growth is still continuing when with a continuing spate of mergers of different private sector firms, the mutual funds industry is consolidating its operations and growth.

2.2 TYPES OF MUTUAL FUNDS

Mutual funds may be of many types depending on operations, investment objectives or on a mix of other bases. The typology is shown below:

2.2.1 Classification by Operations

On the basis of operations of mutual funds schemes, they have been classified into open-ended, close-ended and interval funds. These have been discussed below in detail.

(i) Open-ended Funds

An open-ended fund allows investors to buy and sell its units at all the times based on its net asset value (NAV). As a result of this, the AUM of these funds goes on changing based on the frequency and volume of trade of its units. The prime advantage of these funds is the liquidity.

(ii) Closed-Ended Funds

The units of a close-ended fund remain open for subscription only during the initial offer period and can be sold only at maturity. Premature redemption is not allowed for such schemes. Therefore, the units of such schemes are compulsorily listed on a recognised stock exchange and subsequently the units can be traded on the stock exchange where it is listed.

(iii) Interval Funds

These possess the characteristics of both open-ended and close-ended funds. The units of these funds may be traded during pre-specified intervals at NAV based price.

2.2.2 Classification by Investment Objectives

Funds under this category are defined on the basis of their objectives. They serve the investment need of the different type of investors based on their risk and return profile. The classification of these funds is as follows:

(i) Growth Funds

Growth funds are driven by the objective to provide capital appreciation over medium to long term. The maximum of the corpus of these schemes are normally invested in equities and equity related instruments and therefore possess relatively high degree of risk.

(ii) Balanced Funds

The objective of the balanced funds is to provide both growth and regular income over a long period of time. These funds make investments in both equities and fixed income securities in a proportion as specified in their offer document. Normally, 60 percent of the corpus of these funds is invested in equities and the rest in debt. As a result of this, the NAV of such funds are expected to be less volatile than growth funds or pure equity funds.

(iii) Income Funds

The primary objective of income funds is to provide regular and steady income. These funds predominantly invest in fixed income securities such as bonds, corporate debentures and money market instruments and are less risky compared to growth funds. The returns from such funds are not affected by the fluctuations in the equity market but because of changes in the interest rates in the country.

(iv) Money Market/Liquid Funds

These funds provide easy liquidity, capital protection and moderate income. The corpus of these funds is exclusively invested in safer short term instruments such as treasury bills, certificates of deposits, commercial papers and interbank call money. The returns from these funds are relatively steady. Money market funds are particularly suitable for corporates as well as individual investors as it provides an appropriate avenue to temporarily invest their surplus funds for short periods.

(v) Gilt Funds

As the name suggests, Gilt funds make investments exclusively in government securities such as central government dated securities, state government securities and treasury bills. These are suitable for investors who are searching for risk free investments.

(vi) Floating Rate Fund

Floating rate funds are debt funds which invest about 75 to 100 per cent of their corpus in securities that pay a floating rate interest such as bank loans, bonds and other debt securities and the remaining in fixed income securities.

(vii) Fixed Maturity Plans (FMP)

The characteristics of Fixed Maturity Plans (FMPs) closely resemble to that of close-ended funds. These are the passively managed funds and make investments in securities such as certificate of deposits and commercial papers which are held in the portfolio till maturity. The tenure of FMPs ranges from 30 days to five years.

(viii) Monthly Income Plans (MIP)

Monthly income plans are primarily driven by the objective of generating regular income for its investors. To achieve this objective, the funds invest its corpus in fixed income securities so that the unitholders can be made monthly payment.

(ix) Sector Funds

The corpus of Sector funds is invested in a specified sector only such as pharma, biotech, IT or in specified products. As a result of this, the sector funds lack the benefit of diversification and possess high risk.

2.2.3 Others

Apart from the above mentioned classification, there are some other types of mutual funds also which are discussed below.

(i) Index Funds

Index funds are passively managed funds which imitate the portfolio of a particular index such as BSE Sensex, NSE Nifty, etc. and make investment of its corpus in the stocks comprising the index in the same proportion as they are held in the index. The value of the portfolio of such funds varies exactly in accordance with the variation in the value of the index it follows.

(ii) Tax Saving Funds

Tax Saving Funds, also known as equity-linked savings scheme (ELSS), allow investors to reap the benefit of tax exemption under the Section 88 of Income Tax Act and carry a lock-in-period of five years.

(iii) Exchange Traded Funds

These are open-ended funds which possess the characteristics of an index fund, and are traded on exchanges just like common stocks. Therefore, the prices of ETFs are subject to change throughout the trading day as they are bought and sold by the investors. As the ETFs are traded like common stock, they do not have any NAV, like the units of a mutual fund, calculated at the end of each trading day.

(iv) Gold Exchange Traded Funds

Gold ETFs are passively managed exchange traded funds that closely track the price of physical gold. Each unit of the ETF represent one gm of physical gold in the dematerialised form. But, unlike physical gold, these ETFs provide the benefit of liquidity and marketability as they can be traded on exchanges.

(v) Fund of Funds (FoF)

A Fund of Funds is an investment strategy of investing in the schemes of other mutual funds, instead of making direct investments in stocks or bonds. That is, the portfolio of a fund of funds scheme consists of the units of other mutual fund schemes. As a result, such schemes provide investors the benefit of broad diversification and hence are less risky.

(iv) Assured Return Scheme Funds

Assured return schemes promise the unitholders to deliver a specific return irrespective of performance of the scheme. As mandated by the regulator, SEBI, a scheme cannot promise a specific return unless such returns are fully guaranteed by the sponsor or AMC and this needs to be disclosed in the offer document.

(v) Capital Protection Oriented

The primary objective of these funds is to protect the capital, i.e. the principal, of the unitholders while trying to deliver a modest return. These closed-ended debt funds predominantly invest the majority of its corpus in the top-rated fixed income instruments with a limited exposure to equities.

(vi) Arbitrage Funds

Arbitrage funds are equity funds which try to take advantage of the mispricing between spot and futures derivatives markets for generating returns. The extent of return earned by the funds depends upon the existence of arbitrage opportunities which in turn depend on the volatility in equity markets - higher the volatility, better is the return.

(vii) International Funds

The portfolio of an international fund is constructed by drawing securities which are traded internationally around the globe. i.e., in foreign markets instead of domestic market. These funds are riskier than domestic funds and ensure higher return through greater diversification.

(viii) Load/No-Load Funds

A Load Fund is one that charges a fee for either buying or selling of units of its scheme. That is, each and every time an investor buys or sells units of the fund, s/he needs to pay a charge. A no-load fund, on the other hand, does not charge for entry or exit to it.

2.3 CURRENT STATUS OF INDUSTRY

There is rich diversity in the sector as the asset management industry offers a mix of traditional mutual fund products and alternatives (real estate and hedge funds). The investor universe that the industry taps covers insurance funds, pension funds, sovereign wealth funds (SWFs) and high net worth individuals (HNIs)/mass affluent/retail investors. The Indian asset management industry particularly has witnessed notable growth despite discontinuities in the recent years. India has been amongst the fastest growing markets for mutual funds since 2004; in the five-year period from 2004 to 2008 (as of December) the Indian mutual funds industry grew at 29 per cent CAGR as against the global average of 4 per cent. Over this period, the mutual funds industry in mature markets like the US and France grew at 4 per cent, while some of the emerging markets viz. China and Brazil exceeded the growth witnessed in the Indian market. After a sluggish growth post the financial crisis of 2009, Mutual Funds industry has been seeing double digit growth since 2012. AUM for Mutual Funds industry in India saw a year-on-year growth of 21.04 per cent in the year ending December, 2015.

As the Mutual Funds industry in India grows, riding on strong macroeconomic parameters, there is a lot of investor wealth lying untapped. An improvement in the economic environment over the last 3-4 years has helped all categories of mutual fund investors to increase their investment in mutual funds. Increase in personal income fuelled by growth in GDP has led to an improvement in the surplus available for household saving. Indian households saving pattern has for the first time in 15 years shown a decline in savings in physical assets, and the same has been channelized to financial assets. The industry garners less than 3 per cent of the incremental investible surplus from the household financial savings pie. As the culture shifts from savings to investments, there is a huge opportunity to gain additional market share.

Mature markets of USA and Europe have demonstrated lower CAGR for the 5-year period starting from the beginning of this decade. Higher growth in India represents the latent potential of the Indian market which can be tapped to improve the penetration of the mutual funds industry in India. Moreover, these mature economies have developed a high AUM/GDP ratio over the years. However, India is far behind the global average and a number of developing countries like Brazil, Spain and Mexico in terms of AUM/GDP ratio which is considered to be a key mutual fund penetration indicator. It clearly indicates that there is a huge scope of diverting wealth from physical assets to financial assets in India.

Sharp growth in the overall mutual funds market has clearly been unable to achieve the allied goal of increased penetration in the B15 market. A close comparison of the distribution of AUM between the top 15 cities by GDP (T15) and the remaining cities over the last four years reveals that the share of B15 cities (those below the top 15) has been stagnant, at 14 to 16 per cent of the industry's total AUM by the end of March 2015. Even within the T15 cities, the top five alone contribute to approximately 72 per cent of the total AUM at present which reflects an unprecedented potential for future growth of the industry.

The Indian mutual funds industry in terms of regulatory framework is believed to match up to the most developed markets globally. The regulator, Securities and Exchange Board of India (SEBI), has consistently introduced several regulatory measures and amendments aimed at protecting the interests of the small investor that augurs well for the long term growth of the industry. Based on the current initiatives undertaken by the government and regulatory bodies, McKinsey and CII had forecasted a GDP growth rate between 6.5 to 8 per cent to be attained over the next decade (CII & McKinsey 2015: 3).

An increase in GDP as well as good stock market performance over the last two–three years provided investors and especially retail investors with an opportunity to use mutual funds to create wealth. The shift in preference from traditional savings channels to mutual funds and other assets has been made possible due to the awareness building exercises undertaken by the AMCs, demographic shift in customer base as well as availability of products that match the needs of the customers. This has been accentuated by the roll-out and subsequent customer adoption initiatives that leveraged technology and the interplay amongst all these factors helped in the growth of the industry.

The current status of the Indian mutual funds industry is discussed in brief in the following paragraphs:

Average Assets under Management of AMCs under different categories as of 31st March, 2015 are shown in Table B-1.

Table B-1: AMC-wise Average Assets under Management (as on 31 March, 2015)

Sl. No.	Name of the Asset Management Company	Average Assets under Management (AAUM) (₹ in crore)	Percentage Share of AAUM
A	BANK SPONSORED		
(i)	Joint Ventures - Predominantly Indian		
1	BOI AXA Investment Managers Private Limited	3,518	0.30
2	Canara Robeco Asset Management Co. Ltd.	7,617	0.64
3	SBI Funds Management Private Ltd.	74,942	6.30
4	Union KBC Asset Management Company Pvt. Ltd	2,726	0.23
	Total A(i)	88,803	7.47
(ii)	Joint Ventures - Predominantly Foreign		
1	Baroda Pioneer Asset Management Company Limited	7,172	0.60
	Total A(ii)	7,172	0.60
(iii)	Others		
1	IDBI Asset Management Ltd.	7,344	0.62
2	UTI Asset Management Company Ltd.	92,751	7.80
	Total A(iii)	1,00,095	8.42
	Total A(i+ii+iii)	1,96,070	16.49
B	INSTITUTIONS		
(i)	Indian		
1	IIFCL Asset Management Co. Ltd.	331	0.03
	Total B(i)	331	0.03
(ii)	Joint Ventures - Predominantly Indian		
1	LIC NOMURA Mutual Fund Asset Management Co. Ltd.	9,313	0.78
	Total B(ii)	9,313	0.78
	Total B(i+ii)	9,644	0.81
C	PRIVATE SECTOR		
(i)	Indian		
1	Deutsche Asset management (India) Private Ltd.	22,427	1.89
2	Edelweiss Asset Management Limited	755	0.06
3	Escorts Asset Management Ltd.	253	0.02
4	IL&FS Infra Asset Management Limited	882	0.07
5	India Infoline Asset Management Co. Ltd.	346	0.03
6	Indiabulls Asset Management Company Ltd.	3,590	0.30
7	JM Financial Asset Management Ltd.	12,231	1.03
8	Kotak Mahindra Asset Management Co. Ltd.	41,378	3.48
9	L&T Investment Management Limited	22,497	1.89
10	Motilal Oswal Asset Management Co. Ltd.	2,114	0.18

Table B-1: (continued)

Sl. No.	Name of the Asset Management Company	Average Assets under Management (AAUM) (₹ in crore)	Percentage Share of AAUM
11	Peerless Funds Management Co. Ltd.	1,302	0.11
12	PPFAS Asset Management Pvt. Ltd.	575	0.05
13	Quantum Asset Management Co. Private Ltd.	575	0.05
14	Reliance Capital Asset Management Ltd.	1,37,124	11.54
15	Sahara Asset Management Co. Private Ltd.	144	0.01
16	Shriram Asset Management Co. Ltd	34	0.00
17	Sundaram Asset Management Company Limited	21,875	1.84
18	Tata Asset Management Ltd.	26,968	2.27
19	Taurus Asset Management Co. Ltd.	4,150	0.35
	Total C(i)	2,99,220	25.17
(ii)	Foreign		
1	BNP Paribas Asset Management India Private Limited	3,915	0.33
2	Franklin Templeton Asset Management (India) Private Ltd.	70,444	5.93
3	Goldman Sachs Asset Management (India) Private Limited	8,038	0.68
4	Mirae Asset Global Investment (India) Private Ltd.	1,818	0.15
5	Pramerica Asset Managers Private Limited	2,309	0.19
(iii)	Joint Ventures - Predominantly Indian		
1	Axis Asset Management Company Ltd.	26,624	2.24
2	Birla Sun Life Asset Management Co. Ltd.	1,19,752	10.07
3	DSP BlackRock Investment Managers Private Ltd.	37,838	3.18
4	HDFC Asset Management Co. Ltd.	1,61,634	13.60
5	ICICI Prudential Asset Management Co. Ltd.	1,48,559	12.50
6	IDFC Asset Management Company Limited	51,715	4.35
7	Religare Invesco Asset Management Company Private Limited	21,009	1.77
	Total C(iii)	5,67,131	47.71
(iv)	Joint Ventures Predominantly Foreign		
1	HSBC Asset Management (India) Private Ltd.	8,242	0.69
2	JP Morgan Asset Management (India) Private Ltd.	15,641	1.32
3	Principal Pnb Asset Management Co. Private Ltd.	6,218	0.52
	Total C(iv)	30,101	2.53
	Total C(i+ii+iii+iv)	9,82,976	82.69
	Total (A+B+C)	11,88,690	100.00

Source: Based on the data collected from AMFI Quarterly Newsletter - *Update*; various issues

Table B-1 represents the Category-wise average assets under management (AAUM) managed by the different AMCs. It is evident from the table that the combined AAUM of all the 43 asset management companies under the three broad categories (Bank Sponsored, Institutions and Private Sector) operating in India as on 31st March, 2015 is ₹11,88,690 crores, of which the share of private sector is found to be the highest, (over 80 per cent). Mutual funds sponsored by Banks contribute just over 16 per cent while the institution sponsored funds own the least (0.81 per cent). In the private sector, funds operating as joint-ventures and predominantly owned by Indian companies grab the highest share (48 per cent), followed by funds operating under full Indian ownership (25 per cent). It reflects the ownership of more than 70 per cent of AAUM under these two categories of AMCs. The remaining 27 per cent is jointly contributed by the rest of 17 AMCs in the private sector. The top-5 AMCs as per their share of AAUM are found to be HDFC Asset Management Company Limited (13.60 per cent), ICICI Prudential Asset Management Company Limited (12.50 per cent), Reliance Capital Asset Management Limited (11.54 per cent), Birla Sun Life Asset Management Company Limited (10.07 per cent) and UTI Asset Management Company Limited (7.80 per cent). The combined share of these five mutual funds is totalled to be more than 55 per cent, which means that more than half of the AAUM of the mutual funds industry is owned by only 5 AMCs and the rest is contributed by the remaining 38 AMCs. There are 25 AMCs whose individual share to total AAUM is found to be less than one per cent with the lowest coming from Shriram Asset Management Company.

Worldwide net assets of mutual funds from different regions of the world are depicted in Table B-2.

Table B-2: Worldwide Net Assets of Mutual Funds : 2004-2015
(U.S. mn $, year-end)

Year	World	Americas	US	Europe	Asia Pacific	India
2004	16164793	8792450	8106939	5640450	1677887	32846
2005	17771366	9764271	8904824	6002249	1939251	40546
2006	21807505	11469062	10396508	7803906	2456511	58219
2007	26129564	13421149	11999523	8934864	3678330	108582
2008	18974521	10579430	9601090	6288138	2037536	62805
2009	25088939	13355373	11889750	8912070	2715235	130284
2010	27374359	14591545	12825352	9573876	3067323	111421
2011	26578593	14583246	12680481	8949093	2921278	87519
2012	30213561	16488566	14393789	10257646	3322199	114489
2013	34462543	18864164	16725436	11715462	3740049	107895
2014	37072351	20009504	17849645	12858573	4057800	136834
2015	37190528	19557328	17752399	12772328	4738804	168186

Note: Years mentioned indicate calendar years (January-December). The figures shown show the status as at the end of the calendar year, i.e. December 31.

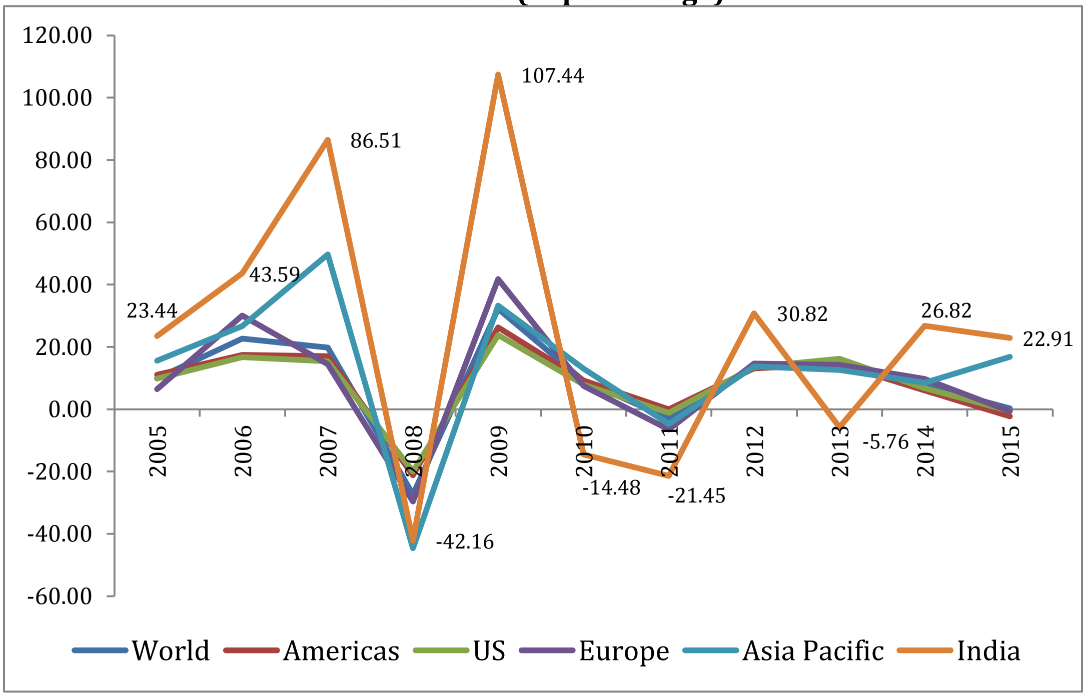
Source: "Worldwide Total Net Assets of Mutual Funds", in Investment Company Institute *Factbook*, various Issues.

Global trend in mutual funds business is assessed in terms of total net assets and net sales. The Indian mutual funds industry witnessed a modest growth in net assets (in US $ terms) as compared to her global counterparts during 2004 to 2015. While the net assets of mutual funds worldwide increased by 130 per cent and that of US and Europe increased by 119 per cent and 126 per cent respectively, Indian mutual funds' net assets grew by 412 per cent during 2004 to 2015. The net assets of mutual funds worldwide experienced a healthy growth rate during 2004-2007 growing by over 22 per cent in the year 2006 and close to 20 per cent during 2007. But, as an immediate effect of the global financial crisis, net assets worldwide declined sharply by over 27 per cent in

2008. There was a strong revival of over 32 per cent in 2009 and thereafter, barring the year 2011, the net assets of mutual funds worldwide maintained a moderate growth rate hovering around 10 per cent, except in the year 2015 during which the net assets increased merely by 0.32 per cent over the previous year. The year 2009 was found to be the best performing year for the mutual funds industry across the globe as the net assets of mutual funds worldwide increased by a record growth rate of over 32 per cent and that of Americas, US and Europe also increased by 26 per cent, 24 per cent and 42 per cent respectively. During the same year, Indian mutual funds industry recorded a growth rate of 107 per cent withstanding the highest ever decline of over 42 per cent during 2008 after recording high growth rate in the preceding three consecutive years. The Indian mutual funds industry performed comparatively much better during the 2005-09 period maintaining a healthy average growth rate of close to 44 per cent whereas the US and European mutual funds industry grew by only 9 per cent and just over 12 per cent respectively. The net assets of mutual funds worldwide increased by almost 11 per cent during the same period. But, during the post-financial crisis period, net assets across the major economies registered a uniform growth rate of approximately 7 percent barring the Asia Pacific region which grew at an average growth rate of almost 10 per cent during the same period.

Although Indian mutual funds industry performed exceptionally well in terms of growth in net assets as compared to other global players, but its share of net assets remains insignificant. Americas consistently seized almost 55 per cent share of global net assets and US has the world's largest mutual fund industry comprising almost half of the global share in terms of assets. But, from 2009 onwards, the US share of global net assets has declined marginally maintaining an average share of nearly 48 per cent of the total assets worldwide. Europe as a whole occupied the second position after US with an average share of over 34 per cent of the net assets worldwide. On the contrary, Asia Pacific's share of global net assets always remained very low contributing almost 10 per cent barring few years and India contributed not even one per cent to the total assets of mutual funds worldwide. During 2004, India's share to global net assets was merely 0.20 per cent wherefrom it increased continuously for four consecutive years and reached 0.42 per cent during 2007 before it slips to 0.33 per cent during 2008. But in 2009, it bounced back strongly to reach the historic level of 0.52 per cent. There has been significant ups and downs in India's share to global net assets of mutual funds during 2010 to 2014 but 2015 was found to be the revival year as the Indian mutual funds industry, after recovering a lot of its lost grounds, could recapture a share of 0.45 per cent of the total net assets worldwide.

Chart II. 1: Trend of Growth in Net Assets of Mutual Funds Worldwide: 2004-2015 (in percentage)



Source: Based on the data collected from "Worldwide Total Net Assets of Mutual Funds", in Investment Company Institute *Factbook*, various Issues.

Chart II.1 plots the trend of growth in flow of net assets to mutual funds among the major regions and countries across the world during the period of 2004-2015. It is reflected from the above chart that there has been significant ups and down in the net assets of mutual funds across the world during the period of the study and Indian mutual funds industry was no exception. The chart shows that there has been consistent growth in the net assets of mutual funds worldwide during 2005 to 2007, which declined significantly during 2008 as a fall out of global financial crisis. The post 2008 period reflects significant variation in the growth trend of net assets of mutual funds across the globe.

Net sales of mutual funds from major markets worldwide are shown in Table B-3.

Table B-3: Worldwide Net Sales of Mutual Funds: 2004-2015
(U.S. mn $, year-end)

Year	World	Americas	US	Europe	Asia Pacific	India
2004	55524	14064	8041	29306	11617	394
2005	56863	13766	7975	30060	12427	445
2006	61854	14474	8117	33151	13479	468
2007	66345	15457	8024	35210	14847	555
2008	69032	16459	8022	36780	14909	551
2009	75293	17732	8463	41862	14795	590
2010	77836	18916	8478	42712	15265	658
2011	81429	20884	8722	43400	16198	680
2012	82410	22291	8784	42449	16703	692
2013	88747	23322	9009	43092	21271	699
2014	98832	24378	9339	49335	23948	768
2015	100494	25230	9710	47427	26510	804

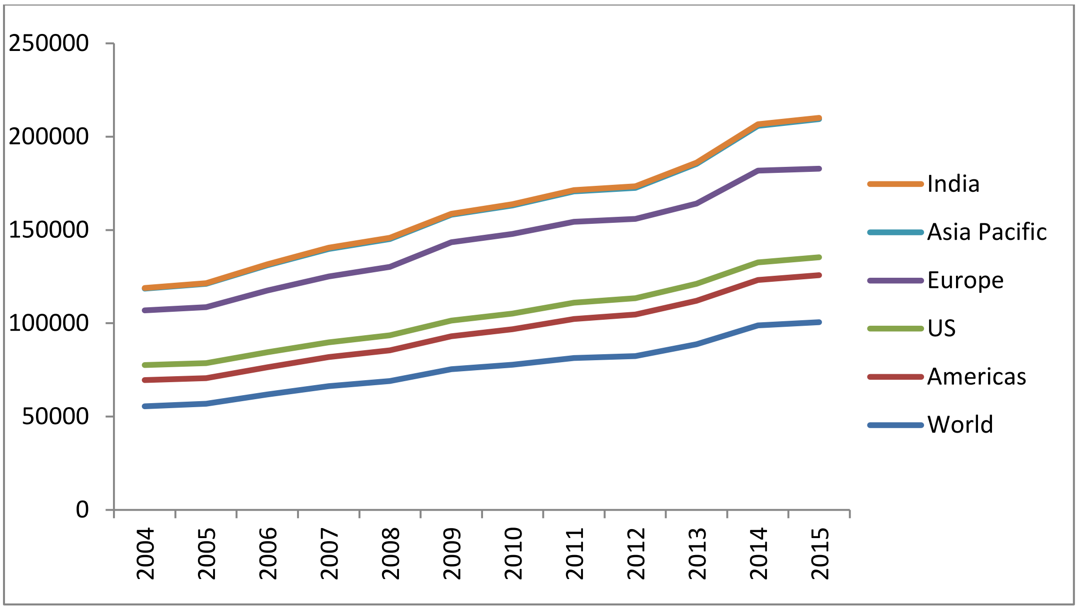
Note: Years mentioned indicate calendar years (January-December). The figures shown show the status as at the end of the calendar year, i.e. December 31.

Source: "Worldwide Net Sales of Mutual Funds", in Investment Company Institute *Factbook*, various Issues.

Investor demand for mutual funds worldwide, as measured by net new cash flow - the dollar value of new fund sales, less redemption - increased by 112 per cent during 2005 wherefrom it started declining gradually to experience negative growth (-82.09 per cent) in the year 2008, though the net flow was still positive in absolute terms. The growth in net sales of mutual funds worldwide experienced severe ups and downs during the post financial crisis period of 2008. After recovering during 2009 to grow by 76 per cent, the net sales worldwide increased by just over 4 per cent during 2010 and thereafter, declined by almost 32 per cent during 2011 before registering a record growth rate of above 254 per cent during 2012. During 2013 to 2015, the growth in net sales of mutual funds worldwide found to be very poor except during 2014 in which the net sales grew by almost 39 per cent. During 2005 to 2007, Indian mutual funds industry completely outperformed the major global markets in terms of growth in net sales. The growth in net sales in India was found to be approximately 1354 per cent during 2005 as compared to 154 percent in Americas, 166 percent for US, 65 percent for Europe and only 58 percent in Asia Pacific regions. This trend continued till 2007 during which the growth in net sales of Indian mutual funds was found to be almost double to that of Americas, US and Asia Pacific regions and more than 4 times the growth of global net sales during 2006 and 7 times to that during 2007. The net sales of mutual funds across the globe declined drastically during 2008 mainly driven by the global financial crisis and Europe topped the list with approximately 535 per cent fall in net sales followed by India with approximately 90 per cent decline in net sales. Globally, the net sale declined by 82 per cent which was 51 per cent in the Asia Pacific region, 50 per cent in the Americas and with almost 44 per cent negative growth in net sales, US was the least affected mutual fund market. The condition of European mutual funds industry worsened right from 2006 with net sales declining by 7 per cent which deepened consistently till 2011 except for the year 2010 wherein it recorded an improvement to the extent of over 54 per cent. During 2009, the scenario reversed completely and India bounced back to deliver growth of 1463 per cent (approx.) in net sales while the global mutual fund industry as a whole was also found to align itself in the same line by capturing a 76 per cent growth. But, the situation deteriorated for Americas, US, Europe and Asia Pacific regions during the same period as the growth in net sales of these markets decelerated further as compared to the previous year. The net sales in the Americas declined by 67 per cent and the same for US, Europe and Asia Pacific regions fell by almost 81 per cent, 158 per cent and 87 per cent respectively during the same year. The effect of financial crisis continued to persist in the year 2010 too during which all the major financial markets experienced significant decline in bringing new money to the mutual funds industry except Europe. For Indian mutual funds industry, the decline was found to be highest with 183 per cent fall in net inflow of funds, which was 122 per cent for Asia Pacific region, 105 per cent for US and approximately 53 per cent for Americas. Contrary to that, the European market registered a rise of 54 per cent in net sales and worldwide it increased by 5 per cent during the same period. The net sales of mutual funds across major financial markets around the world exhibited significant improvement during 2011 and 2012. In the year 2011, the net sales in the US market increased by 3020 per cent and that in Asia Pacific region grew by 1700 per cent. The Americas and Indian market experienced a growth of 206 per cent and 101 per cent respectively in the inflow of new cash flows during the same time. But, the net sales worldwide and in the European market witnessed a fall of almost 32 per cent and 100 per cent respectively in the same year. The trend of positive growth in net sales continued in the year 2012 too led by Europe. Its net sales increased from $282 million to $3,82,316 million. Indian mutual funds industry too recorded a growth rate of 2876 per cent in the same year. US market grew by 191 per cent followed by the Asia Pacific region, growing by 176 per cent and Americas by 139 per cent. After passing through many ups and downs since 2005, the net sales of mutual funds worldwide recorded a modest growth rate of 254 per cent, a triple digit growth for the first time during 2012. During 2013, once again the net sales of mutual fund industry across the major financial markets declined though the European market witnessed a growth of 27 per cent over the previous year. The net sales worldwide also increased by just over 5 per cent in the same time period. The Indian market experienced the worst hit thus declining by almost 83 per cent. The US and Americas markets also declined by approximately 5 per cent each while the fall in net sales in Asia Pacific region was over 7 per cent. In the year 2014, the mutual funds industry once again regained the investors' confidence and achieved positive growth in net sales.

The Indian market grew the highest recording a growth rate of close to 190 per cent followed by Asia Pacific region with 142 per cent and Europe with 27 per cent growth in net sales. Both the US and Americas grew by over 2.5 per cent each in the same year while the net sales worldwide increased by close to 39 per cent. India continued the growth rally in the year 2015 too thus growing by 320 per cent and so was the Asia Pacific region which also grew by 152 per cent. But, the net sales in Americas, US and European mutual funds industry declined by close to 33 per cent, 37 per cent and 11 per cent respectively whereas the net sales worldwide grew by 8.67 per cent during the same period.

Chart II. 2: Trend of Net Sales of Mutual Funds Worldwide: 2004-2015 (US mn$)

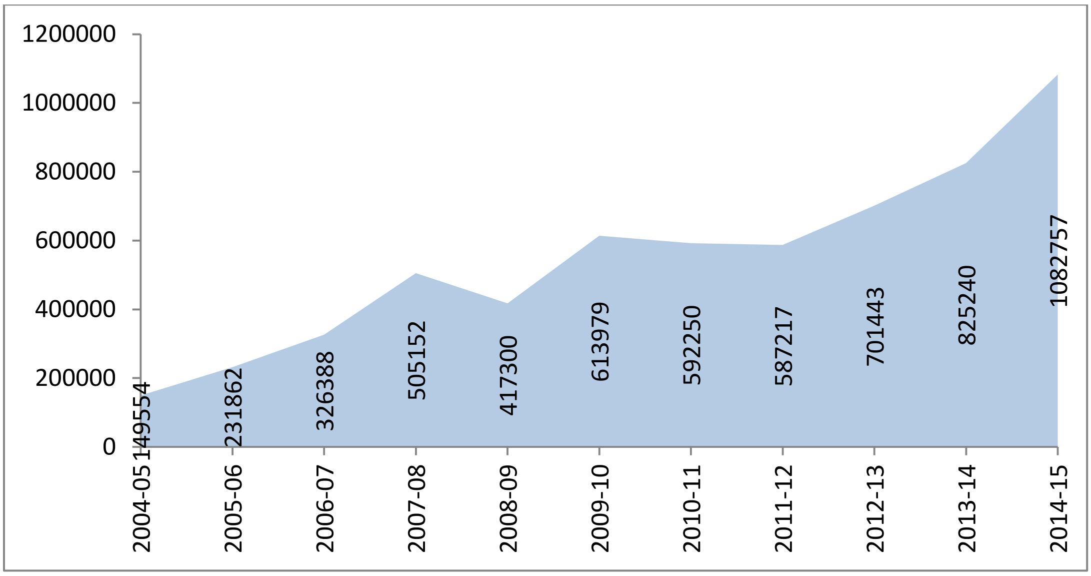


Source: Based on the data collected from "Worldwide Net Sales of Mutual Funds", in Investment Company Institute *Factbook*, various Issues.

Chart II. 2 reveals the trend of net sales of mutual funds worldwide during the period of 2004-2015. It is observed that the trend of net sales of mutual funds worldwide was increasing steadily during the period of the study with some fluctuations during 2011 to 2012. At the end of the study period, the net sales of mutual funds was found to be stagnated across the globe.

Growth in Assets under Management (AUM) of the Indian mutual funds industry as a whole during the study period is shown in Chart II. 3.

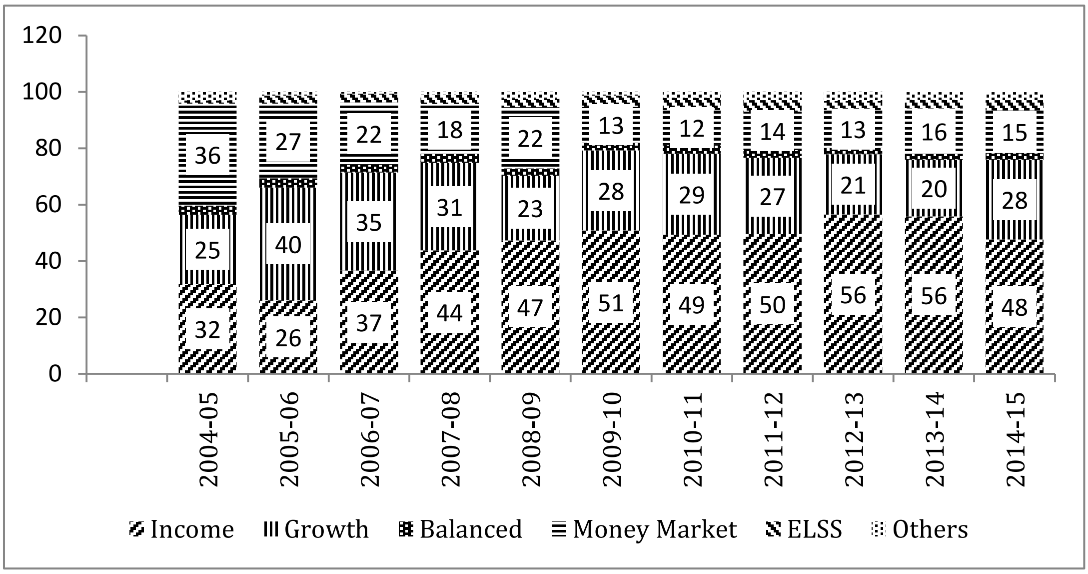
Chart II.3: Trend of Growth in Assets under Management of Indian Mutual Funds Industry: 2004-05 to 2014-15 (₹ in Crore)



Source: Based on the data collected from Securities and Exchange Board of India: *Annual Report*, various issues

Chart II. 3 reveals the trend of growth in combined assets under management of all the mutual funds operating in India. The assets under management (AUM) of the industry increased consistently during 2004-05 to 2007-08 at an average growth rate of 39.42 percent with the highest growth (55 per cent) achieved during the year-end 2006 to 2008. This was followed by a contraction of about 17 per cent at the end of March 2009 under the impact of global financial crisis and consequent liquidity shortage and uncertainties in the Indian financial markets. The combined effect of downfall in Indian stock market along with a decline in valuation of assets of equity mutual funds due to the equity price crash, the Indian mutual funds suffered an outflow of ₹28,296 crores. In other words, the panic in stock market led to increased redemption of funds in excess of the sales generated during the year (Table B-5 and Table B-6). By the end of March 2010, the combined AUM of Indian mutual funds increased by over 47 per cent. This may be because of the combined effect of significant rise in valuation of assets in the Indian stock market and also an increase in the net inflow of funds during the year. The Indian benchmark index, the Sensex, which was at sub-10,000 levels at end-March 2009, rose above 17,500 at end-March 2010. Lower policy rates also led to higher valuation of debt funds. This growth was in line with the trends of a revival in global mutual funds' assets and was accentuated by the landmark decision by the Indian regulator, Securities and Exchange Board of India (SEBI), to abolish entry load for all mutual funds effective from August 2009. The combined AUM of the Indian mutual funds experienced a slight decline in the succeeding two years being driven by net outflow of funds. The AUM declined by 3.54 per cent by the end of March 2011 and 0.85 per cent by the end of March 2012. Thereafter, the Indian mutual funds industry experienced consistent rise in the net inflow of funds fuelled by increased sales and comparatively low redemption which contributed together to generate over 19 per cent growth in AUM by the year ending March 2013 with a slightly lesser growth rate of 17.64 per cent by end-March, 2014 and increased by almost twice to grow by 31 per cent by the year ending March 2015 as compared to March 2014.

Chart II. 4: Category-wise Growth in Assets under Management of Indian Mutual Funds Industry (Values in Percentage)



Source: Based on the data collected from AMFI Quarterly Newsletter - *Update*; various issues

Chart II.4 represents the growth in category-wise share of assets under management of the Indian mutual funds industry during 2004-05 to 2014-15. A category-wise classification of AUM presented in this Chart shows that, the share of income funds to the total AUM increased consistently from 32 per cent to 51 percent between end-March 2005 and 2010. There was a two per cent decline in the share of income funds' assets by end-March 2011 and again grew by one per cent by March 2012. So, more or less, the share of income funds' assets remained stagnant for most part of 2010 and 2012. There was an increased jump in its share from 50 per cent during 2012 to 56 per cent during 2013 and between 2013 and 2014, the share of income funds assets remained constant at 56 per cent before it falls to 48 per cent in the next year.

It is observed from the chart that there has been significant growth in the share of equity funds between March, 2005 and March, 2006. It witnessed an increase from 25 per cent to 40 per cent during this period and from 2006 onward up to 2009, the share of equity funds in total mutual funds' assets declined quite sharply from 40 per cent to 23 per cent, before recovering through most of 2010 and 2011 to increase 29 per cent by end-March 2011. However, by the end of the year 2011, which was characterised by renewed global uncertainties coupled with domestic slow down, the share of equity mutual funds to total AUM started falling consistently and reached to 20 per cent during the end-March 2014.

On the other hand, the share of liquid/money market funds, which was more than that of both income and equity funds at the end of March, 2005, declined significantly during the recovery years and fell as low as 12 per cent by end-March 2011. For most part of the period during 2012 to 2015, though it failed to regain its share of pre-crisis period, the performance of liquid funds remained stagnant in terms its share to total assets of the mutual funds in India.

The sales of (funds mobilised/inflow into) and redemption from (outflow from) mutual funds give a clearer picture of the trends of the changes in the asset base of different categories of funds. In order to gain deeper insights into the movement of funds across the fund categories in the Indian mutual fund industry, the following section provides an in-depth analysis of net investment, sales and redemption of funds across the different categories and their impact on the movement of AUM and a simultaneous discussion is presented in combination of the three Tables (i.e. Table No. B-4, B-5 and B-6)

Category-wise net investment of all mutual funds during the period of the study is shown in Table B-4.

Table B-4: Category-wise Net Investment of Mutual Funds: 2004-2015 (as on March 31) (₹ in Crore)

Year	Sensex Closing Value	Income	Growth (Equity)	Balanced	Liquid/ Money Market	ELSS	Others*	Total
2005	6492.82	-14247	7294	345	10348	-194	-1345	2200
2006	11279.96	13977	31639	927	4205	3592	-1560	52779
2007	13072.1	60046	23753	1711	4985	4453	-964	93985
2008	15644.44	88457	40782	5768	14976	6151	434	153802
2009	9708.5	-32168	1055	61	-3599	2969	3385	-28296
2010	17527.77	96578	595	-693	-12074	1554	-2881	83080
2011	19445.22	-36707	-13405	1345	-3520	266	2614	-49406
2012	17404.2	-18529	264	382	-7104	-143	3105	-22024
2013	18835.77	82981	-12946	216	3226	-1641	4703	76539
2014	22386.27	40547	-7626	-1986	24098	-1642	-171	53782
2015	27957.49	4876	68121	9826	9781	2908	7587	103288

* 'Others' include funds under Gilt, Gold ETF, Other ETF and Fund of Fund schemes

Source: (i) Based on the data collected from AMFI Quarterly Newsletter - *Update*; various issues
(ii) Bombay Stock Exchnage (www.bseindia.com)

Table B-4 presents category-wise net investment (net inflow/outflow) to mutual funds during end-March 2005 to 2015. It is observed from the Table B-4 that net asset flows to equity mutual funds recorded a growth rate of more than 300 per cent at the end of March, 2006 over the same period previous year. Net flow to equity funds increased from over ₹7,000 crores at the end of

March 2005 to over ₹40,000 crores at the end of March 2008 (with a 25 per cent fall in net flow as on end-March 2007) wherefrom it declined to just ₹595 crores during the same period of 2010. This coincided with the period when the benchmark index, the Sensex, dived from above 20,000 recorded in January 2008 to nearly 8,000 by March 2009. Though Sensex made remarkable strides during March 2009 to March 2015 to increase from 8,000 marks to over 29,000; but it failed to boost investors' confidence to go for further investment to equity related products causing the equity inflow to come down further from ₹595 crores at the end of March 2010 to a net outflow of ₹7,626 crores by the year ending March 2014. By the end of March 2011 and 2013, in these two years, the outflow from equity mutual funds was even much steeper and was around ₹13,000 crores. However, this seemingly contradictory behaviour can be partially explained by looking at the sales and redemption figures during the same period which is discussed in the following section (Table B-5 and B-6). The performance of equity funds further deteriorated with net outflow of funds (41 per cent) during 2014, despite Sensex attaining newer heights of over 22,000, an all-time high till date. But, it provided the much needed impetus and the Indian mutual funds industry, during 2015, had modest performance in the equity market. The performance of equity mutual funds in terms of mobilization of funds increased by a growth rate of over 900 per cent over the previous year.

Income category had a net outflow of funds to the extent of ₹14,247 crores at the end of March, 2005 but it increased its size by close to 200 per cent and 300 per cent respectively during March, 2006 and 2007. Though, there was net inflow of funds, but the pace of growth slowed down to increase by 47 per cent during March 2008 after having two great years of performance. The category recorded a net outflow (₹32,168 crores) once again during 2009 and the fall was almost 136 per cent from the previous year. It made an excellent comeback in the next year to grow by over 400 per cent to record a net inflow of size ₹96,578 crores during March, 2010. After experiencing net outflow of funds during March, 2011 and 2012, once again the business improved in the next year to record a growth rate of close to 550 per cent. During 2014 and 2015, though, there was net positive inflow, but the fund size declined by 51 per cent and 88 per cent respectively. Overall, the performance of income funds remained unimpressive as it started with a net inflow of ₹13,977 crores in the year 2006 and at the end of the study period, its net inflow amounted to ₹4,876 crores.

Liquid or money market funds, on the other hand, recorded positive net inflow of funds during the financial year 2005 to 2008 with a decline of 59 per cent during 2006. But, during the years ending March, 2009, 2010, 2011 and 2012, these funds experienced continuous net outflows with the highest (₹12,074 crores) recorded in the year 2010. The continuous net outflows till March 2010 may be attributed to the combined effect of spells of acute liquidity crunch during the crisis period and lower short term interest rates thereafter; this is borne out by the fact that sales/mobilization by these funds increased by about 2 lac per cent, 22 per cent and 68 per cent respectively during the years ending March, 2008, 2009 and 2010, but except 2008, the redemptions equalled mobilization in the remaining two years (Table B-5 and B-6). During the next two years (2011 and 2012), the liquidity crisis induced by the tight monetary policy could explain the net withdrawal of funds from liquid category even in a rising interest regime. During end of March 2013, the funds recovered a lot and experienced an increase of 145 per cent in the net inflow of funds over the previous year with sales being marginally more than redemptions. The funds performed exceptionally well by the year ending March 2014 to record over 600 per cent growth in the net inflow of funds driven by close to 43 per cent rise in sales and almost equal growth in redemptions too. By the year end-March 2015, though there had been net inflow of funds, but it declined by over 59 per cent as compared to the previous year with sales and redemption also growing by just over 14 per cent each.

Among other fund categories, the performance of balance funds in terms of net inflows remained unimpressive. The net inflows to this sector increased very slowly from ₹345 crores to ₹5,768 crores during March 2005 to 2008. After recording a sharp drop in the previous two years, net flows to balanced funds registered a significant boost (₹1,345 crores) during the year ending March 2011; however, the volume remained at about one-fourth of the amount received in the pre-crisis year. The net inflows to the segment started falling once again in the years ending March 2012 and 2013 before it recorded net outflows of fund during March 2014 to the extent of almost ₹2,000 crores. By the year ending March 2015, the balance category of funds recorded a rise of nearly 600 per cent in the inflow of funds which may possibly be attributable to the sharp rise in the sales (348 per cent) of these schemes compared to just over three per cent increase in redemptions over the same period in the previous year.

Category-wise net sales by all mutual funds during the period of the study is shown in Table B-5.

Table B-5: Category-wise Sales by Mutual Funds: 2005-2015 (as on March 31) (₹ in crore)

Year	Income	Growth (Equity)	Balanced	Liquid / Money Market	ELSS	Others*	Total
2005	155719	37079	3755	638594	154	4361	839662
2006	168792	82086	4006	836859	3935	2480	1098158
2007	211026	89682	4473	1705	4669	1952	313507
2008	881345	119838	11488	3432738	6448	12519	4464376
2009	1180694	29481	2695	4187977	3324	22182	5426353
2010	2895901	61114	4693	7044818	3601	8896	10019023
2011	2172860	63142	7490	6599724	3450	12849	8859515
2012	803565	47921	5027	5946499	2698	13969	6819679
2013	835272	40738	5205	6365420	2626	18624	7267885
2014	600736	43432	3435	9098547	2661	18727	9767538
2015	493502	139828	15417	10405266	8343	23716	11086072

* 'Others' include funds under Gilt, Gold ETF, Other ETF and Fund of Fund schemes

Source: Based on the data collected from AMFI Quarterly Newsletter - *Update*; various issues

Table B-5 presents category-wise sales by all mutual funds during end-March 2005 to 2015. It is observed that the sales of equity mutual funds grew by 39 per cent at the end of March 2005 and 121 per cent during 2006, with a growth of nine per cent in the next year and increasing once again by 33 per cent during 2008. The modest growth in sales during 2006 may be attributable to the growth of Sensex which almost doubled during 2005-06 period over the previous year. Sales of equity mutual funds which fell by 75 per cent during the year ending March 2009, increased by over 100 per cent during the next year with economic recovery taking stronger hold and FII inflows increasing sharply (Table B-8) over the year leading to a steady upward movement of the Sensex. However, the redemptions were also higher during the same period (Table B-6), with risk aversion by retail investors keeping them away from equity markets in general. Equity-oriented funds are mostly held by retail investors and to a large extent by high net worth individuals (HNIs) (Chart II-5); the high rates of redemptions from equity mutual funds even during a period of high returns from equity (and equity mutual funds) and stronger economic growth indicate that retail investors collectively behaved more as short-term profit-takers than long term investors. During the end of March 2011, the sales of equity mutual funds increased marginally by just over three per cent, which was quite surprising, given the fact that the Sensex peaked during that period. During the year ending March 2012, there had been much improvement in the performance of equity mutual funds (in terms of mobilization of funds) in spite of the fact that the benchmark index, Sensex, lost almost 4000 pints during April-December, 2011 before reaching 17,000 marks by March 2012 from over 19,000 during April, 2011. The sales of equity schemes declined by 24 per cent during the same period over the previous year, but redemptions were also lower by over 37 per cent. Though the equity market remained more or less stable during April 2012 to March 2013 with some improvements observed during the first quarter of 2013, sales of equity schemes increased as compared to the previous year. The performance of equity mutual funds started improving during financial year 2014 with sales increased by over 6 per cent which was continued in the year 2015 too and the sales grew by more than 200 per cent as compared to the previous financial year.

The sale of income funds increased consistently during end of March 2005 to 2010 with the highest growth (317 per cent) recorded during 2008. However, for most of the post-2010 period up to March, 2015, the sales continued to decline with 2013 being the exception during which the funds recorded a moderate growth of four per cent over the previous year. The highest fall in sales was found to be during 2012 when the sales declined by 63 per cent.

For balanced funds, the highest growth in sales was achieved during 2008 in which it increased by 156 per cent after having six per cent and 11 per cent growth in the previous two years. This growth of 2008 was in line with the overall trend of the market as a whole. However, it also experienced the highest fall in sales in the succeeding year of its achieving the highest growth. The sales during the financial year 2009 declined by 76 per cent which is found to be the highest during the study period. It increased once again during 2010 and 2011 by 74 per cent and 59 per cent respectively before witnessing a 32 per cent fall during 2012. Balanced funds did exceptionally well during 2013 to 2015 period in which its sales increased from 3.5 per cent to almost 350 per cent, which contributed to a growth of 990 per cent in the funds net inflow in the same year.

In the category of liquid funds, the sales increased consistently during 2005 to 2010 except during 2007, when the sales declined by almost 100 per cent. The highest growth in sales came in the year 2008, when it increased by a growth rate of over two lakhs per cent. The sales declined during 2011 and 2012 by almost six per cent and 10 per cent respectively before it improved during 2013 to 2015 to grow by seven per cent, 43 per cent and 14 per cent in each of the year during the period.

Schemes under ELSS category recorded the highest growth in sales during 2006 with the sales increasing by 2400 per cent over the same period in the previous year. In the remaining years, the sales either declined or increased moderately except 2015, during which the sales increased by 213 per cent.

Category-wise net redemption by all mutual funds during the period of the study is shown in Table B-6.

Table B-6: Category-wise Redemption from Mutual Funds: 2005-2015 (as on March 31) (₹ in crore)

Year	Income	Growth (Equity)	Balanced	Liquid/ Money Market	ELSS	Others*	Total
2005	169965	29832	3410	628247	348	5706	837508
2006	154816	50450	3079	832654	343	4040	1045382
2007	150980	65930	2762	1621805	216	2819	1844512
2008	792889	79056	5720	3417761	297	14852	4310575
2009	1212862	28425	2635	4191576	356	17807	5453661
2010	2799323	60519	5386	7056891	2047	11776	5535942
2011	2209566	76547	6146	6603244	3184	10234	8908921
2012	822093	47657	4645	5953603	2840	10864	6841702
2013	752291	53669	4989	6362194	4282	13921	7191346
2014	560190	51059	5421	9074448	4302	18898	9714318
2015	488627	71707	5591	10395484	5435	16128	10982972

* 'Others' include funds under Gilt, Gold ETF, Other ETF and Fund of Fund schemes

Source: Based on the data collected from AMFI Quarterly Newsletter - *Update*; various issues

Table B-6 presents category-wise redemption from all mutual funds during end-March 2005 to 2015. It is observed from the table that the redemption of funds under income schemes declined during 2006 and 2007, but the schemes were under redemption pressure during 2008 when it increased by almost 425 per cent which was a major factor for the schemes to record a decline in net flow during the same period as the funds could not generate sufficient sales which can cover the high redemption. The rise in the growth of redemption continued during 2009 and 2010 too when it was found to increase by 53 per cent and 131 per cent respectively. However, during 2011 to 2015, the redemption declined gradually in each and every year.

For growth schemes, the redemption increased by 69 per cent during 2006, but as the sales increased by 121 per cent in the same year, there was a net inflow of funds to the tune of almost 200 per cent. The trend in redemption continued to persist till 2008 before it is reduced by 64 per cent in the year 2009. But this fall in redemption during 2009 could not help the funds to earn net inflow as the sales declined by 75 per cent in the same year which led to a net outflow of funds during the year. During 2010 too, as the redemption increased by 113 per cent with sales increasing by only 107 per cent, there was a decline in the net inflow of funds. Being driven by an increase in redemption of 26 per cent in the year 2011 with just 3 per cent rise in sale caused the funds to have a net out flow of ₹13,405 crores. However, the redemption declined by 38 per cent in the next year with a moderate increase of 12 per cent during 2013. It was again found to decline by almost 5 per cent at the end of March, 2014. During 2015, the redemption increased by 40 per cent and in spite of that, the inflow increased by almost 990 per cent as the sales of these schemes increased by 222 per cent in the same year.

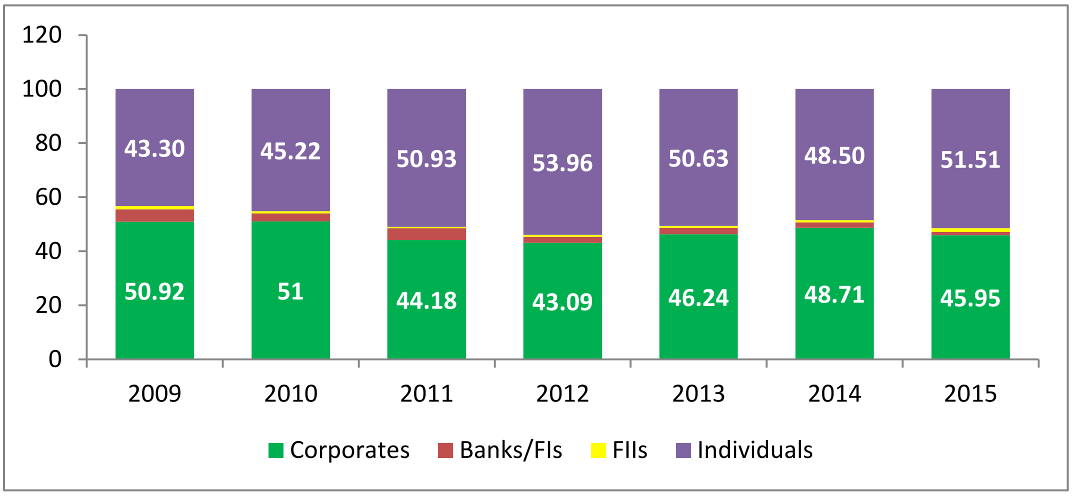
Redemption in balanced scheme was never a problem as observed from the table. For most of the period, the redemption in balanced scheme either increased moderately or declined except for the two years i.e. 2008 and 2010, during which the redemption was found to be increased by more than 100 percent over the preceding years.

There was a consistent rise in the redemption of funds under the liquid schemes during 2005 to 2010, with the highest (110 per cent) occurring during the year 2008, but during 2011 and 2012, the redemption declined by 6 per cent and 10 per cent respectively. Though the liquid funds were redeemed the most during 2008, but it also garnered a modest growth in sales during the same year too which enabled the funds to record a 200 per cent rise in their inflow. During 2013 to 2015, the redemption of liquid schemes increased by approximately seven per cent, 43 per cent and 15 per cent respectively. It can be noted that during 2010 to 2015, the rise or fall in sales of liquid schemes almost equalled their redemption.

Amongst the ELSS schemes, the redemption declined during 2006 and 2007, but increased gradually during 2008 to 2011 with the highest of 475 per cent recorded during 2010. During 2012, though the redemption declined by close to 11 per cent, the sales declined by almost 22 per cent which resulted in the net outflow of funds from the liquid schemes and it continued during 2013 and 2014 too. Because of the mismatch between the sales and redemption, the fund size depleted. During 2015, the redemption increased by 26 per cent, but sales grew by 213 per cent which resulted in an increase in the net inflow of funds by 277 per cent in the ELSS category.

The unit holding pattern of investors as percentage of total net assets during the end 0f March, 2009 to 2015 is shown in Chart II.5.

Chart II. 5: Unit Holding Pattern of All Mutual Funds (as Percentage of Total Net Assets) (as on 31st March)



Source: Based on data collected from Association of Mutual Funds in India (AMFI) (www.amfiindia.com)

Chart II.5 represents the investors-category-wise holding pattern as a percentage of net assets. It is observed from the chart that the individual investors' share to total net assets of all mutual funds in India increased gradually for four consecutive years since the record keeping started by AMFI in the year 2009 and was found to be highest with close to 54 per cent share at the end of March 31, 2012.

The industry had significantly high ownership from the institutional investors during end of March, 2009. Retail investors comprising 96.86 per cent in number terms (CII & KPMG 2009: 5), held approximately 43 per cent of the total industry AUM as at March, 2009, which is significantly lower than the retail participation in the US at 82 per cent of AUM as at December, 2008 (ICI Fact Book 2008: 154). Heavy dependence on institutional investors only increases the burden of redemption for the mutual fund industry, as redemption may occur simultaneously and may be of a large quantity. Dependence on institutional investors also leads to volatility in funds.

During 2010 too, participation in the mutual funds industry remained skewed towards the corporate investors, involving low participation from the retail sector. As of March 2010, the corporate sector contributed around 51 per cent of the total assets under management, while the retail segment contributed only around 45 per cent of the total assets under management, which was a meagre rise from 43 per cent reported in the previous year.

During 2011 and 2012, the retail participation improved significantly. The contribution of individual investors measured as percentage of total AUM increased from 45 per cent at the end of March, 2010 to 51 per cent at March, 2011 and the trend continued during 2012 too when the industry witnessed highest ever retail participation of 54 per cent at the end of March, 2012.

During end-March, 2013 and 2014, there had been a marginal decline in the share of individuals and was found to be approximately 50 per cent and 48 per cent respectively. Despite contributing to less than 50 per cent of AUM in March, 2014, individual investors hold more than 51 per cent of the total net assets of all mutual funds in India at the end of March, 2015. This may be attributable to the reasons like increasing emphasis of the regulator and fund houses on improving financial literacy and, in line with this, conducting increasing number of investor awareness programmes.

Changes in Financial Assets/Liabilities of the household sector during 2004-05 to 2012-13 is shown in Table B-7.

Table B-7: Changes in Financial Assets/Liabilities of the Household Sector (2005-2013) (₹ in crore) (as on March 31)

Items	2005 P	2006 P	2007 P	2008 P	2009 R	2010 R	2011 R	2012 R	2013 R
Financial Savings (Gross)	435706	595235	768967	715994	726884	991582	991310	956500	1096900
a) Currency	36977	52151	67194	81278	92188	96940	137131	108900	112100
b) Deposits	161416	280602	425050	374088	441063	467575	451680	549000	617000
i) With Commercial Banks	158393	274747	417228	360727	383679	413313	409360	498500	563200
ii) With Non-banking Companies	3370	6130	7873	3751	14742	19220	4390	20900	20400
iii) With Cooperative Banks and Societies	-134	-54	131	266	34154	36140	31110	29700	33300
iv) Trade Debt (Net)	-213	-222	-183	9345	8488	-1097	6820	4500	3200
c) Share and Debentures	4967	29268	51086	89134	-5070	45338	1730	-4500	34400
of which									
i) Private Corporate Business	6124	8034	10953	31565	7441	12578	6780	4100	3900
ii) Banking	263	366	403	766	231	954	810	100	0
iii) Bonds of Public Sector Undertakings	176	172	237	328	446	606	830	1100	1500
iv) Mutual Funds (including UTI)	**-1596**	**20695**	**40113**	**56475**	**-10450**	**33041**	**-11560**	**-10600**	**27400**
d) Claims on Government	106420	87168	40627	-28315	-27551	42872	41060	-27200	-9000
i) Investment in Government Securities	21313	14390	1667	-14714	271	389	340	-1800	500
ii) Investment in Small Savings, etc.	85106	72778	38960	-13601	-27822	42484	39900	-21800	-9400
e) Life Insurance Funds	69572	83540	114889	128930	152861	224487	220730	189300	179500
of which									
i) Life Funds of LIC and Private Insurance Companies	65577	80020	110965	124422	147795	217973	220000	190500	179900
f) Provident and Pension Funds	56354	62704	70992	70878	73397	114369	138970	136400	159600
P: Provisional; R: Revised									

Source: Based on the data collected from Reserve Bank of India: *Annual Report*, various issues.

Table B-7 presents the changes in financial assets/liabilities of the household sector during end of March, 2005 to 2013. The analysis is restricted up to 31st March, 2013 because of unavailability of data pertaining to 2014 and 2015. The scale of retail investor participation has remained a problem for equity mutual funds in India, whereas globally, mutual funds play an important role in mobilising household savings for deployment in capital market.

In India, over 50 per cent of household financial assets are held in the form of deposits with commercial banks, while life insurance funds constitute on an average, over 18 per cent of household financial assets. The share of mutual funds in households' financial assets is extremely small and it peaked at about 8 per cent during end-March, 2008, a significant increase from 3.47 per cent in the financial year 2006. The prime reason for this is attributed to lack of investor awareness, low levels of financial literacy and people in smaller towns and cities not aware of the combination of savings and attractive returns that investment in mutual funds can generate. This section of the population continues to follow the conservative approach of putting their savings in bank deposits, land or property and even gold.

There have been net outflows from financial savings, first witnessed during the year ending March, 2005 and then in the years of greater economic uncertainty like the financial years ending March 2009, 2011 and 2012. As of March, 2013, 46 per cent of total individual wealth in India is invested in physical assets (gold and real estate) (ICC & KPMG 2014: 11). Although, in the past few decades the investors have increasingly relied on financial assets to invest their savings; the contribution of mutual funds in the asset portfolio is very low. Insurance products constitute 17 per cent of the individual savings in financial assets, whereas the share of mutual funds is much lower at 2.50 per cent.

Net investment by mutual funds and foreign institutional investors during 2004-05 to 2014-15 is shown in Table B-8.

Table B-8: Net Investments by Mutual Funds and Foreign Institutional Investors (as on 31st March) (₹ in crore)

Year	MF			FII		
	Equity	Debt	Total	Equity	Debt	Total
2005	448	16987	17435	44123	1759	45881
2006	14302	36801	51103	48801	-7334	41467
2007	9062	52543	61606	25236	5605	30840
2008	16306	73790	90095	53404	12775	66179
2009	6984	81803	88787	-47706	1895	-45811
2010	-10512	180588	170076	110221	32438	142658
2011	-19802	249153	229352	110121	36317	146438
2012	-1358	334820	333463	43738	49988	93726
2013	-22749	473460	450711	140033	28334	168367
2014	-21224	543247	522023	79709	-28060	51649
2015	40722	587018	627741	111332	166126	277461

Source: Based on the data collected from Securities and Exchange Board of India: *Annual Report*, various issues

Mutual funds' aggregate investments in financial markets are determined by the amount of resources mobilised by them, while their investments in different segments of the financial markets are dependent on investors' preference for different classes of funds like debt or equity-oriented funds, and variations of these. Over the past years, mutual funds investment in equity had been overweighed by its investments in debt. Mutual funds combined investments in the Indian equity and debt markets dropped by more than 27 per cent by end-March, 2005 over the same period in the previous year. But, there was a strong recovery in the combined investments in the immediate next year and it grew by almost 193 per cent during the end-March, 2006 and thereafter by over 20 per cent in the next year. The tremendous growth in combined investments by mutual funds in the financial markets during end-March 2006 was exceptional considering the fact that the equity sector contributed almost 28 per cent to the total investment. This can be attributed to the high volume of net inflow to equity mutual funds as well as significant rise in the sales of equity schemes. At the end of March, 2006, the net inflow to equity mutual funds increased by over 333 per cent and the sales increased by almost 121 per cent over the same period of previous year. The effect of these two on combined investments was aggravated by comparatively much lesser growth in redemption during the same period. The redemption volume of equity mutual funds increased by 69 per cent at the end of March 2006 over the same period during 2005. The combined investments by mutual funds continued to rise and registered a growth of 46 per cent at the end of March 2008 over the previous year. The volume of investment by mutual funds to equity segment almost doubled during the same period and contributed almost 18 per cent to total investment in stock market. Mutual funds' combined investment in the Indian debt and equity market dipped immediately after the crisis. During March, 2009, the combined net investment was ₹88,787 crores compared to ₹90,095 crores by the year ending March, 2008 registering a fall of 1.5 per cent.

Mutual funds net investment in the securities market increased sharply in each financial year, growing by over 600 per cent between March 2009 and 2015. For the six consecutive years starting from end-March 2010 till the same period during 2015, the net investment of mutual funds increased by an average growth rate of 40.50 per cent with the highest growth (91.5 per cent) came during end-March 2010 and lowest (15.8 per cent) during the year ending March, 2014. This trend was mostly driven by the steep growth in mutual funds' investment in the debt market.

With debt-oriented funds attracting the highest amount of resources, mutual funds are one of the major investors in the debt segment of the Indian securities market. Mutual funds' investment in the Indian debt market has increased sharply in each financial year rising over 3355 per cent between the years ending March, 2005 and 2015. At the end of March, 2005, mutual funds' investment in debt market declined by over 33 per cent compared to the previous year. This may be the combined effect of sharp decline in the sales and mobilization of funds in the income category during the same period. The resource mobilization by the income funds declined by over 211 per cent and the sales fell by almost 10 per cent by end-March, 2005 over the previous year. In addition to that, there had been contribution from liquid funds too as liquid funds registered almost 58 per cent fall in the net inflow of funds, though the sales increased by 70 per cent, but the redemption also increased by close to 79 per cent. In the immediate next financial year, there had been recovery in the investment of mutual funds in the debt market as it increased by almost 54 per cent accompanied by close to 200 per cent rise in net mobilization and 121 per cent growth in sales of income funds during the same period. The redemption also increased by over 69 per cent over the previous year. The performance of liquid funds remained poor as there was net outflow of funds to the extent of 59 per cent from the liquid segment with over 31 per cent growth in the volume of both the sales and redemption during the same period. The growth of mutual funds' investment in the debt market remained more or less steady hovering around 30 per cent between end-March 2007 and 2008 before it faces a fall to more than 9 per cent during the post crisis period of end-March 2009 which was consistent with the overall trend persisting in the market as whole. But, in the next year, it grew by over 54 per cent as the net inflow to income funds increased by almost 400 per cent with 145 per cent rise in sales and 130 per cent growth in redemption of funds. The share of debt-market investment to the combined investment of mutual funds in the security market found to be more than 100 per cent between end-March 2010 and 2014 with marginal fall by the end of March 2015 because of poor performance of debt funds.

Though mutual funds investment in equity had been overweighed by investment in debt, mutual funds became major participants in the equity market since the financial year end-March 2006 with net investment increasing manifold over the previous year. But, right from the beginning of the study period, mutual fund investment in the equity market have fluctuated quite sharply. Being driven by steeper growth in redemption than sales during end-March 2005, there had been net outflow of funds from the equity schemes which led to over 65 per cent fall in mutual funds investment in equity market. Thereafter, there was a huge turnaround in the mutual funds' net investment in the equity market which increased by almost 3000 per cent at the end of March 2006. Mutual funds' investment in the equity market increased from ₹448 crores at the end of March 2005 to over ₹14,000 crores at the end of March, 2006. This was in line with the rising trend in Sensex and growth in mobilization of funds by the equity schemes. Between end March 2005 and 2006, Sensex almost doubled from 6154 to 11279 which led to a significant rise in asset prices in the equity market. The P/E ratio also increased significantly during the same period from 15.25 to 20.05. The high growth in sales combined with lesser redemption resulted in a modest inflow (net) of funds in the equity schemes. But, in the immediate next year, mutual funds' net investment in the equity market declined drastically registering a de-growth of over 36 per cent at the end of March 2007 as compared to the previous year. This trend in mutual funds' investment in equity market was in line with the sharp redemption pressure and the consequent net outflows faced by these funds. Mutual funds' (net) flows to equity market remained mostly positive during April 2007 to March 2008, a period when FIIs were making a tentative comeback to the Indian equity market after the first phase of global financial crisis. However, from August 2009, with the introduction of new set of regulations pertaining to the charging of entry and exit loads by all mutual funds, the industry's deployment of funds in the equity market suffered continuously for a prolonged period. Thereafter, even though equity prices in India recovered responding to the recovery taking place in the global financial markets and driven by significant FII inflows, mutual funds net flow to equity market continued to remain negative. During the year ending March 2011, mutual funds' net disinvestment in the equity market almost doubled over the previous year and this trend of mutual funds being the net seller in the equity market continued till end-March 2014. The continued net outflows may be attributable to both the net withdrawals from the funds and profit-taking by equity managers whose profits were under pressure since the new SEBI regulations of 2009. The financial year 2015 has been impressive for equity market in India with Sensex rising consistently and touching 30,000 marks for the first time in the history of BSE during March 2015. The mutual funds industry was no exception and was able to make a net positive investment after remaining as net seller for five consecutive years in the equity market. The net investment of mutual funds in the equity market increased by over 291 per cent between end-March 2014 and 2015 being driven by a significant rise of almost 222 per cent in the sales of equity schemes and a meagre 40 per cent growth in redemption during the same period.

2.4 SUMMING UP THE FINDINGS

The trend of the Indian mutual funds industry leads to some important revelations:

1. A total of 43 asset management companies operating in India, which are classified as Bank sponsored, Institution and Private Sector, were having a combined average assets under management of ₹11,88,690 crores, as on 31st March, 2015. More than 80 per cent of this combined AAUM were managed by private sector. Top five AMCs, as per their share of AAUM, were HDFC Asset Management Company Limited, ICICI Prudential Asset management Companies Limited, Reliance Capital Asset management Limited, Birla Sun Life Asset Management Company Limited and UTI Asset Management Company Limited. More than 55 percent of the total AAUM was found to be managed by these top five AMCs. There were twenty five AMCs whose share to total AAUM was less than one per cent. Shriram Asset Management Company was found to be the smallest mutual fund by the size of AAUM.

2. Comparison of Indian mutual funds industry with her global counterparts in terms of growth in net assets during the study period

reveals that the net asset worldwide increased by 130 per cent and that of US and Europe increased by 119 per cent and 126 per cent respectively. India recorded an increase of 412 per cent in net assets during 2004 to 2015. During 2009, which is considered as the revival period considering the aftermath of global financial crisis; the net assets of mutual funds worldwide increased by a growth rate of 32 per cent and that of Americas, US and Europe increased by 26 per cent, 24 per cent and 42 per cent respectively. But, India recorded a growth rate of 107 per cent. Despite registering a modest growth in net assets compared to global counterparts, India's share of total net assets worldwide remained a major cause of concern. While Americas maintained a share of 55 per cent of the global net assets and US contributed more than half to the world's mutual funds business with Europe occupying the second position with more than 34 per cent share, India's share remained less than 1 per cent to the total net assets worldwide.

3. Observing the trend of growth in net sales of mutual funds among the major players worldwide, it can be summarised that India had a much better performance in terms of growth in sales than US, Europe and the world as a whole. It was found that during 2005, when the sales in Americas increased by 154 per cent and that of US and Europe increased by 166 per cent and 65 per cent respectively, India experienced an increase of 1354 per cent in net sales during the same period and the trend continued to follow, even improved and in the year 2007, the net sales of Indian mutual funds industry outgrew the other major markets worldwide. During 2009 too, when the net sales of the mature markets worldwide declined, Indian mutual funds industry registered a growth in net sales by 1463 per cent. In the year 2010, when all the major markets experienced a decline in bringing new money with US lost 105 percent, Asia Pacific as a whole declined by 122 per cent and Americas lost 53 per cent, India's sale declined by

183 per cent. During 2012, the net sales of India increased by 2876 per cent while the growth in US was 191 per cent and that of Asia Pacific and Americas was 176 and 139 per cent respectively.

4. As on 31st March, 2015, the total assets under management (AUM) of the Indian mutual fund industry was found to be ₹10,82,757 crores, which was 624 per cent more than ₹1,49,554 crores recorded during the end of March, 2005. The growth of AUM reflected an overall upward trend during the entire period of the study growing with an average growth rate of almost 23 per cent. The highest growth in AUM during the period of the study was recorded almost 54 per cent during 2007-08 and the lowest (-17 per cent) during 2008-09. The AUM grew consistently during 2004-05 to 2007-08 registering an average growth rate of almost 40 per cent, which was dropped to 13 per cent during the post financial crisis period.

5. Income funds grabbed the highest share of the AUM-pie starting from 32 per cent during 2004-05 to 48 per cent at the end of March, 2015. The category had its largest share of 56 per cent of total AUM during 2012-13 to 2013-14. Growth fund occupied the second position, the share of which ranged between 20-40 per cent during 2005 to 2015. The highest share of 40 per cent was recorded during the FY-2006 while the lowest share was found to be occurring 2013-14. Among the other categories, liquid funds which had the highest share during 2004-05, experienced gradual decline in its share of AUM and was lowest during 2010-11. Though it recovered to some extent to grab a share of 15 per cent at the end-March, 2015. Funds under balanced and ELSS category performed relatively poor and their share to total AUM during the entire period of the study found to be very low.

6. During 2005 and 2008, the net inflow to equity funds increased from ₹7,000 crores to over ₹40,000 crores. During the period of the poor performance of the Indian stock market, between January, 2008 and

March, 2009, the inflow to equity schemes suffered a lot, which further deteriorated , even when the Sensex grew form 8000 points during March, 2009 to 29000 points during March, 2015. However, at the end of March, 2015 the equity inflow strengthened sufficiently to register a growth of 900 percent over the previous year.

7. During 2006 and 2007 when the inflow to income funds increased by close to 200 per cent and 300 per cent respectively, during 2009, its growth came to a halt and recorded a net outflow of ₹32,168 crores, a decline of 136 per cent over the previous year. However, it made a comeback during 2010 by registering a growth of 400 per cent in the net inflow of funds. Overall income fund exhibited poor performance during 2010 to 2015 considering the fact that, from a net positive inflow of ₹13,977 crores at the end of March, 2006, it ended with ₹4,876 crores of net flow at the end of the study period.

8. Indian mutual funds industry was dominated by institutional investors. During 2009 and 2010, the institutional investors contributed more than 50 per cent to the total assets under management, while the individual investors accounted for close to 45 per cent during the same period. However, at the end of March 2012, the retail participation was found to be highest (54 per cent). At the end of financial year 2013 and 2014, though the retail participation declined with proportional rise in the share of institutional investors, they turned out to be the majority shareholder of AUM having more than 51 per cent holding at the end of March, 2015, driven by increasing emphasis on imparting financial literacy and investors awareness programme from the regulator and the fund houses. Institutional share dropped to 46 per cent during the same period.

9. In India, more than half of the household financial assets are held in the form of deposits with commercial banks. Insurance constitute, on an average, 18 per cent of the same. Mutual funds grabbed a maximum

share of 8 per cent of household financial asset during 2008, making a significant rise from 3.47 per cent during 2006. The situation worsened during financial year 2009, 2011 and 2012 when the Indian mutual fund industry witnessed net outflow from household financial savings. As on March, 2013, the mutual funds share of household financial savings continued to remain extremely low at 2.50 per cent.

10. Mutual funds investment in equity segment of Indian stock market had been overweighed by its investment in debt. Mutual funds combined investment in financial market experienced a growth of 193 per cent at the end of March, 2006. The reason behind this may be attributed to the high volume of net inflow to equity mutual funds driven by significant rise in the sales of equity schemes. At the end of March 2008 too, the volume of investment to equity market by mutual funds almost doubled and contributed almost 18 per cent of total investment. During the 2009 to 2015, mutual funds net investment in the securities market increased consistently in each financial year, growing by more than 600 per cent. Mutual funds were found to be one of the major investor in the debt segment of the Indian securities market as the debt oriented schemes attracted the highest amount of funds from the investors. Mutual funds investment in the debt market increased steadily in each financial year by growing over 3355 per cent at the end of March, 2015 over the same period during 2005.

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