

A Study on the Growth and Pattern of Indian Mutual Fund Industry

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ABSTRACT :

In the present study an attempt has been made to find out the growth and pattern in the Indian mutual fund industry after the entry of commercial banks in 1987. The Mutual Fund Industry in India which was established with the introduction of Unit Trust of India in 1963, by the Government of India has operated as the only player till 1987 after which the Government of India amended Banking Regulation Act in 1987 to allow commercial banks to start their own mutual fund in India. The private mutual fund companies could also start their mutual fund business after the economic reforms. Thus, in the present the growth and pattern in the mutual fund industry will be studied to know the status of the Indian mutual fund industry after the entry of commercial banks. To study the growth pattern in Indian mutual fund industry the researcher will be using line charts with annual growth rate for the three different phases used in the study together with the concentration ratios for that 4-firm and 8-firm and also Herfindahl Index (HI) to measure the concentration with the industry and complement the results of concentration ratios.

Key words : *Asset Under Management, Mutual funds, Concentration Ratio, HI Index, market share*

INTRODUCTION :

In today's financial market, mutual funds have created a buzz. Mutual Fund as an avenue of investment has been popular in Western countries long back and is also putting its mark in developing countries in India (Das & Shil, 2011). It plays a catalyst role to collect the savings from small investors and channelizing it to the capital market (Patel, 2017). Mutual funds are financial intermediaries which collect the savings of investors and invest them in a large and well diversified portfolio of financial assets with a view to reduce risks and to maximize the income and capital appreciation for distribution to the investors on a pro-rata basis (Gordon & Natarajan, 2016).

The Mutual Fund Industry in India was started in India with the establishment of Unit Trust of India in 1963, by the Government of India. UTI was established with the motive of enabling the common investors to participate in the growth of India's capital market by a channel of diversified fund management system to the investors the benefits of higher return, reduced risk, safety and liquidity (Kumar & Krishna, 2016). With the motive of providing a wider scope to small investors, the Government of India amended Banking Regulation Act in 1987 to allow commercial banks to start their own mutual fund in India (Gordon & Natarajan, 2016).

As the household sector has the major share in the aggregate net savings of the economy, banks in their search for mobilising the savings into productive ventures have chosen mutual funds (Srivastava, 2001). The banks were permitted to launch mutual funds as subsidiaries. SBI Mutual Fund was the first non-UTI Mutual Fund established in June 1987 followed by Canbank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92). (Srivastava, 2009, p. 504)

After a slow beginning, the mutual fund industry in India stayed inactive till 1987 mainly due to monopoly nature of the market where UTI was the sole operator in the industry and the nomenclature 'Mutual Fund' had not really gained much importance. However with the entry of five public sector banks and two insurance companies in the mutual fund business since 1987 and with the entry of private mutual fund companies in 1993 the situation has changed drastically and mutual fund as a financial instrument started to become popular, and awareness of investors towards this investment also increased. (Vaid, 2008, p. 122)

So, in this backdrop an attempt has been made to find out the growth and pattern of Indian mutual fund industry after the entry of commercial bank mutual funds.

REVIEW OF LITERATURE :

Mutual funds in India are an important constituent of the Indian financial system today. A large number of studies have been conducted in India and abroad covering different aspects of Mutual funds. The review has also helped the researcher in identifying research gaps.

Sankaran (2008) in his study reveals that Assets Under Management (AUM) has seen a huge growth since 1965 but over 40% of the assets under management in the industry is managed by the top 4 AMCs and among which 77.6% of the industry is controlled by the private sector. Pathak (2008) observed that though the AUM has increased significantly but if it is compared to insurance companies it is very low and suggested that Mutual Funds need to develop a wide distribution network, increased use of internet and development of alternative channels to increase its reach and tap investments from all corners and segments. Singh (2006) while investigating the growth in mutual funds found out the growth in Indian

mutual fund industry shows a positive trend in terms of resource mobilisation. Private sector mutual funds emerged as a leader in resource mobilisation since 1998-99. Babu(2005)has mentioned the period 1996-98 as the worst in the history of the mutual funds. He has mentioned that Private sector mutual funds were gaining the market share with their increased product offerings.

Srivastava (2009)has identified mismanagement of investment portfolio as the main reason for fall in the value of corporates of the mutual funds in the year 1997-98. Investors ranked mutual funds very low as an investment optionand not more than 15% of the investing community is reported to be interested in investment in mutual funds schemes. According to Avadhani (2009)investors started to lose confidence in mutual funds after the poor performance of UTI and many scams involving UTI and banks which resulted in the poor performance of mutual funds during 1995 to 1999 and thereafter the performance of public sector mutual funds showed a marked deterioration while the performance of private sector mutual funds revealed a relatively better performance. Machiraju (2007) in his study on resources mobilisation by mutual Funds found that in 1995-96 and 1996-97 the subdued stock market conditions, along with a perceived lack of transparency in the functioning of mutual funds, delayed refunds, poor accountability and lack of efficient service led to the poor performance to many mutual funds schemes resulting in low or even in negative returns, thereby eroding the investors' confidence.

According to Tripathy (2007)the change in mutual fund industry in Indiahas been noticed since the introduction of mutual fund regulation in 1993 and the mutual funds have done better in comparison to bank deposit.

Gordon and Natarajan (2009) have discussed the various reasons why commercial banks need to enter the field of mutual funds. They identified banking reach, investors' confidence and merchant banking experience as the key forces in favour of commercial banks to excel in mutual fund industry.

Among the various schemes offered, schemes of UTI& SBI were in demand inNorth-eastern states of India. (Sikider and Singh, 1996)

Sasidharan and Mathews (2008) have divided the mutual fund industry in India into four phases starting with the establishment of UTI in the first phase followed by the entry of public sector mutual fund in 1987 in the second phase and then the third phase covering 1993-2003, the entry of private sector mutual fund companies. The fourth phase however, starting from 2003 has emphasized on the bi-furcation of UTI.

The survey of above literature points to the fact that though several studies have been on the growth of Mutual Fund Industry in India, only few of these studies have comprehensively attempted to focus on the growth and pattern of the mutual fund industry. Indeed, this gap in the available literature on the subject provides the rationale for undertaking the proposed study.

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The objective of the proposed study will therefore be to find out the growth and pattern of Indian mutual fund industry since the entry of commercial banks in Indian mutual fund industry.

RESEARCH METHODOLOGY :

Research Design :

The mutual fund industry started in India with the incorporation of Unit Trust of India (UTI) in 1964. UTI was the only company doing mutual fund business in India till 1987. It was in 1987, the Government of India amended Banking Regulation Act in 1987 to permit commercial banks to launch mutual funds in India which was followed by the entry of private sector in 1993. (Association of Mutual Funds in India) Thus, for better understanding and analysis the study period has been divided in three phases :

- Phase 1 : 1987-1993 - Entry of Public Sector Funds
- Phase 2 : 1993-2003 - Entry of Private Sector Funds
- Phase 3 : Since February 2003

(Sasidharan & Mathews, 2008; Sharma & Sharma, 2008)

The study is an exploratory one and is mainly based on secondary data. As commercial banks entered the mutual fund industry in 1987, so the study period has been taken as 1987- 2016 to show the growth in the mutual fund industry in India and has been divided into three phases for better understanding. But to show the pattern, the researcher will show the concentration in the mutual fund industry in the third phase of the study period, as in the third phase with the increasing number of players the market and after the bifurcation UTI into UTI MF the phase has entered the phase of consolidation and growth (Association of Mutual Funds in India).

Data Source :

In the present study the data has been collected from the annual reports of the respective Asset Management Companies (AMCs), Reserve Bank of India website, Securities and Exchange Board of India website, AMFI website and business periodicals.

Tools and Techniques :

To study the growth in the Indian mutual fund industry after the entry of commercial banks the researcher will be using line charts and will be analysed for the three different phases used in the present study.

To analyse the pattern of Indian mutual fund industry Asset Under Management (AUM) held by different mutual fund companies has been taken from the beginning of third and current phase and so the study period is taken as March, 2003- December, 2016. The pattern in the industry will be measured by the concentration ratios for that 4-firm and

8-firm concentration ratios (CR4 and CR8) has been used. The concentration ratios will measure the percentage market share held by larger firms within the industry. The researcher will also use Herfindahl Index (HI) to measure the concentration with the industry and complement the results of concentration ratios. (Bikker & Haaf, 2002; Naldi & Flamini, 2014)

$$\text{HI Index} = \sum (\text{market share}_n)^2$$

The Remaining paper is organised as follows: Section 2 deals with the Results & Discussion. The paper concludes in Section 3.

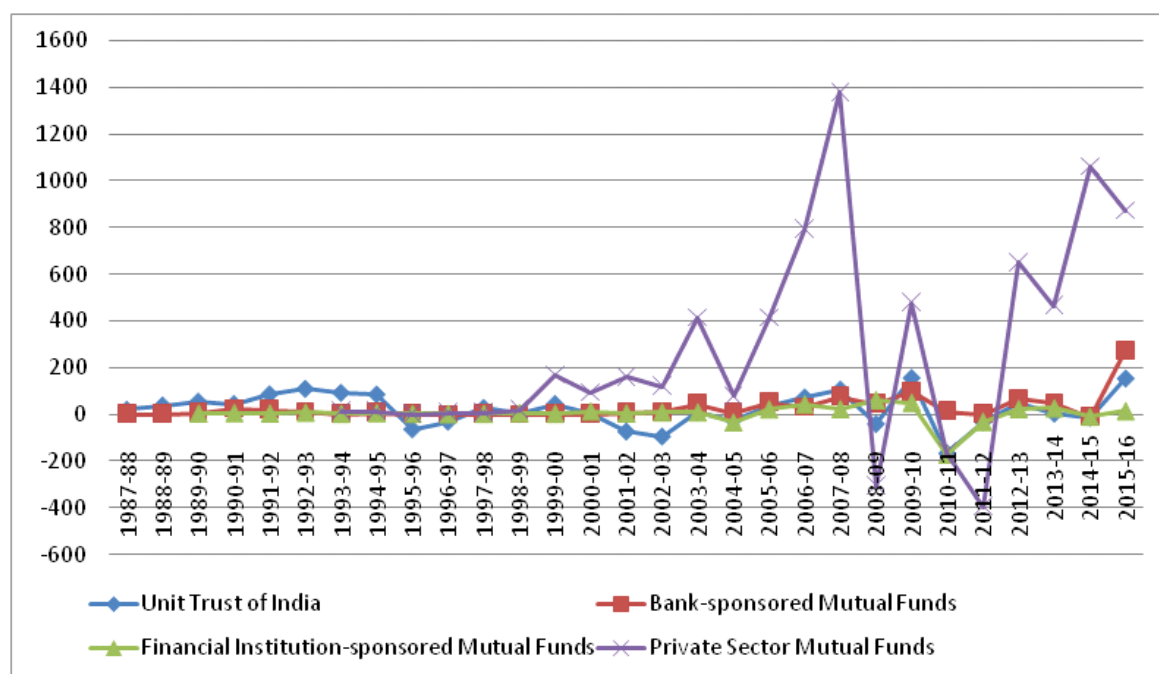
RESULTS AND DISCUSSION :

Growth analysis of Indian Mutual Fund Industry :

The Mutual Fund Industry in India has started by establishing the Unit Trust of India in the year 1963, by the Government of India. With the view to provide a wider choice to small investor, the Government of India amended Banking Regulation Act in 1987 to permit commercial banks to launch mutual funds in India. Subsequently, the year 1993 heralded a new era in the mutual fund industry. This was marked by the entry of private companies in the sector. After the Securities and Exchange Board of India (SEBI) Act was passed in 1992, the SEBI Mutual Fund Regulations came into being in 1996. Since then, the Mutual fund companies have continued to grow exponentially with foreign institutions setting shop in India, through joint ventures and acquisitions.

Figure 2.1.1 : Growth in Mutual Fund Industry in India from 1987-88 to 2015-16 in terms of Net AUM

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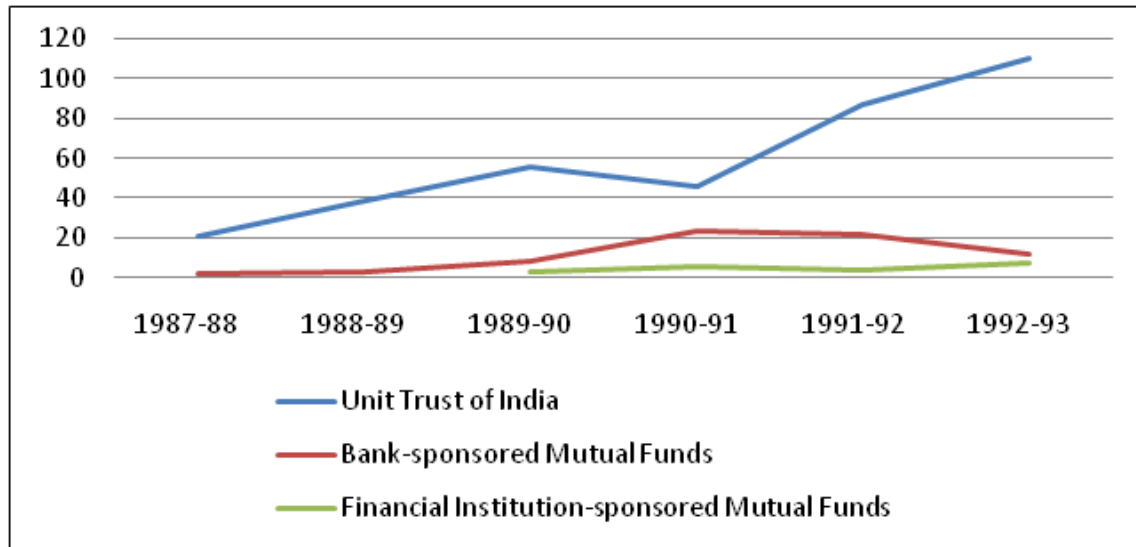


Source : www.sebi.gov.in

From the above figure, it can be seen that during the period 1987-88 to 2015-16, UTI and Commercial Bank mutual funds has shown less growth in net AUM in comparison to Private Sector mutual funds. UTI which was enjoying monopoly in mutual fund business till 1987 has not been able to enjoy the same after the entry of non-UTI mutual funds and has lost considerable amount of business to private sector mutual funds and also to some extent to commercial bank mutual funds.

During the first phase from 1987-1993, which can be marked by the entry of commercial banks and financial institutions in mutual fund industry, shows the dominance of UTI as the market leader.

Figure 2.1.2 : Growth in Phase 1 in terms of Net AUM, after the entry of Bank Sponsored Mutual Funds

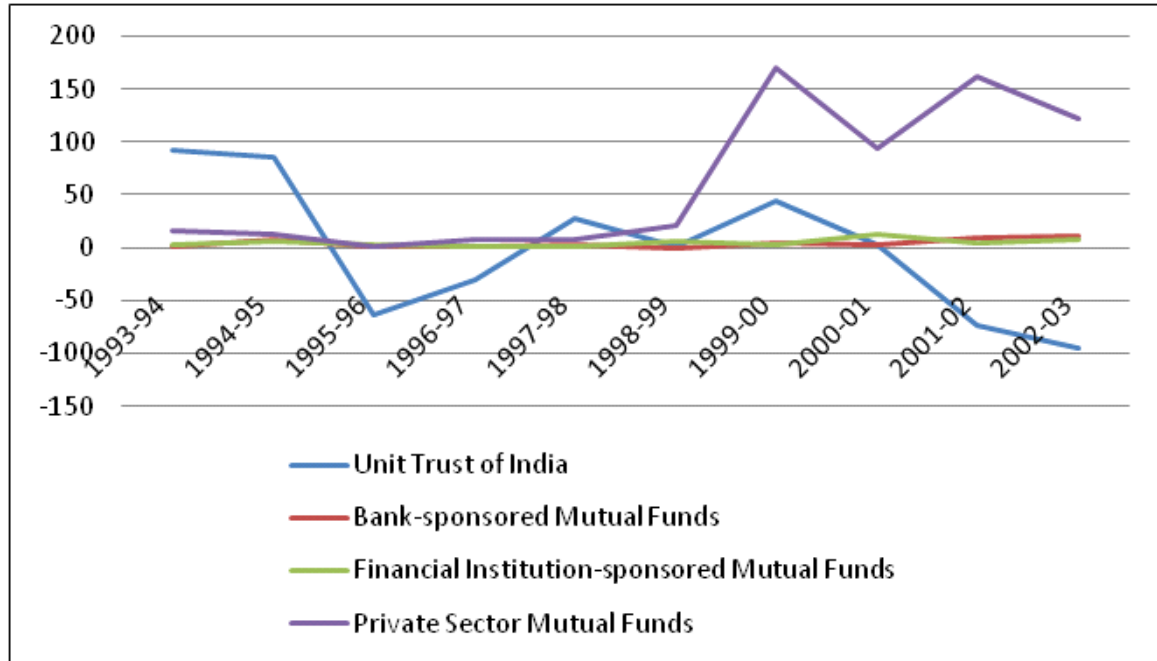


Source : www.sebi.gov.in

From the above figure it can be seen that after the entry of commercial banks and financial institutions UTI's growth rate has dipped down only in 1990-91 with the entry of financial institution mutual funds in 1989-90, apart from that the growth shows an increasing trend for UTI which has sharply increased since 1990-91. Commercial bank mutual funds and financial institution funds has shown some growth after inception by overall UTI continues to enjoy the monopoly.

With the entry of Private sector funds in 1993, a new era started in the Indian mutual funds industry, giving investors a wider choice of fund families. Private mutual fund companies were expected to give a tough competition to the existing players. Initially, after the introduction of private mutual funds till 1998-99, there was a head to head competition between the three non-UTI mutual fund and the performance of UTI dipped down.

Figure 2.1.3 : Growth in Phase 2 in terms of Net AUM, after the entry of Private Sector MF

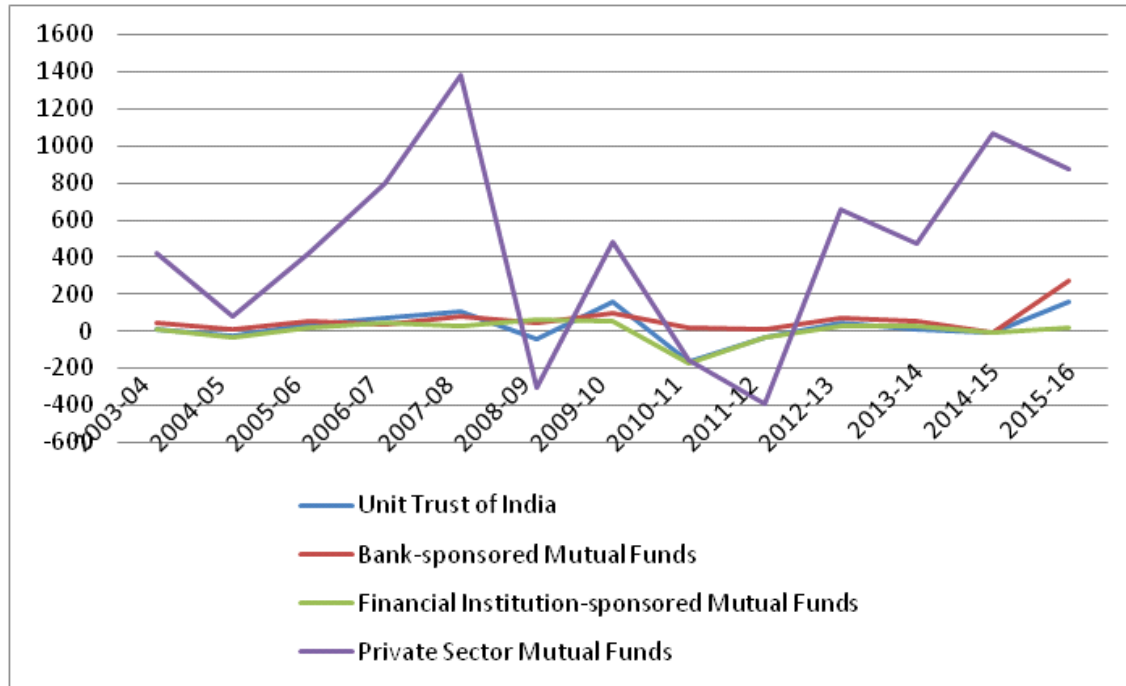


Source : www.sebi.gov.in

But in the second half of the second phase the growth rate of private sector mutual funds took off sharply since 1998-99. Commercial bank mutual funds and financial sector mutual funds continued to keep a steady growth rate at around 5-10%. But during that phase UTI could continue the growth rate maintained in the Phase I, UTI lost business and the growth rate went to negatives.

The fourth phase is the phase of consolidation, growth and expansion of Indian mutual fund industry. The number of mutual fund industry continued to increase with entry of new private mutual fund companies. The total gross AUM also increased considerably. All the players in the industry was try to put a strong grip on the market and were trying to increase market share. This phase also has seen many mergers, takeovers and shutdown of mutual fund companies.

Figure 2.1.4 : Growth in Phase 3 in terms of Net AUM, since 2003



Source : www.sebi.gov.in

The growth rate as can be seen from the above figure has shown an increase for all the sectors of mutual funds but private sector mutual funds has outperformed the others. UTI and financial institution mutual funds have shown ups and down in their growth rate but commercial bank mutual funds has shown a steady growth. In this phase private players have captured the market and have become market leader in terms of Net AUM.

2.2. Pattern analysis of Indian Mutual Fund Industry :

2.2.1. Concentration Ratio finds out how much majority of market share is concentrated to a few firms. It measures the dominance of few firms upon the entire industry.

Table 2.2.1A.
Four Firm Concentration and Eight Firm Concentration

	CR4	CR8
March'03	53.16164	75.36264
March'04	49.13581	70.80918

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March'05	45.54999	68.61116
March'06	44.63098	70.1874
March'07	47.00904	69.39743
March'08	47.28917	69.37034
March'09	49.73552	64.02138
March'10	49.15117	73.25557
March'11	48.34033	74.10856
March'12	46.82693	72.72887
March'13	46.12584	71.83098
March'14	47.19769	73.11946
March'15	49.34115	74.56142
December'16	53.44247	81.13822

Source : Author's own calculation

If CR4 ratio is considered, it is evident for the above table that almost 50% of the market share in the Indian mutual fund industry is held by four big firms. The total number of firms in Indian mutual fund industry as on December, 2016 is 44 (AllBankingSolutions, 2017) but if when the concentration ratio is considered it shows the dominance of few firms.

Now, form the CR8 ratio, it becomes more evident that the mutual firm industry is concentrated in hands of 8 major firms holding almost 80% of the total business in December, 2016. The CR8 ratio kept on increasing since 2009 and from 64% in March, 2009 it became 81% in December, 2016.

Table 2.2.1B
Concentration of Bank Sponsored Mutual Fund and Concentration Public Sector Mutual Fund

Year	CR BSMF	CRPSMF
March'03	8.4745763	31.581312
March'04	8.3251877	27.136611
March'05	9.539711	25.775909
March'06	9.9339357	25.560917
March'07	9.0100419	23.342713
March'08	8.7277296	21.199956
March'09	8.1565454	23.100956
March'10	7.8768711	24.586361
March'11	8.4618785	20.066560
March'12	9.1459772	19.321083

March'13	9.9275383	19.714470
March'14	9.8002423	19.440006
March'15	8.3486907	17.229366
December'16	10.73813	20.270282

Source : Author's own calculation

Now, here in the study report of the AUM concentration in mutual fund industry in India in terms of Commercial Bank mutual funds (hence forth will be referred as BSMF) and Public sector mutual funds (hence forth will be referred as PSMF) it can be seen that BSMF has been struggling to reach 10% of the market share and when we consider all the public sector mutual funds which includes UTI, BSMF and Financial institution mutual funds the market share has continuously being decreasing and as on December, 2016 it has only 20.27% of business concentration. On March, 2003 the CR PSMF was 31.58% and with continuous decline in concentration ratio it stood 20.27% in December, 2016. It clearly shows the dominance of private sector mutual funds in Indian mutual fund industry.

2.2.2. Herfindahl Index (HI)

Herfindahl Index (HI) is an improvement over the CR measure in the sense that it measures the monopoly power in an industry by incorporating all the firms. Here is the data on the AUM concentration of mutual fund companies in India divided into two phase 1993-94 to 2002-03 and 2003-04 to 2016, the phase 1987-88 to 1992-93 has been ignored as the number of firms were less and UTI enjoyed monopoly in the industry.

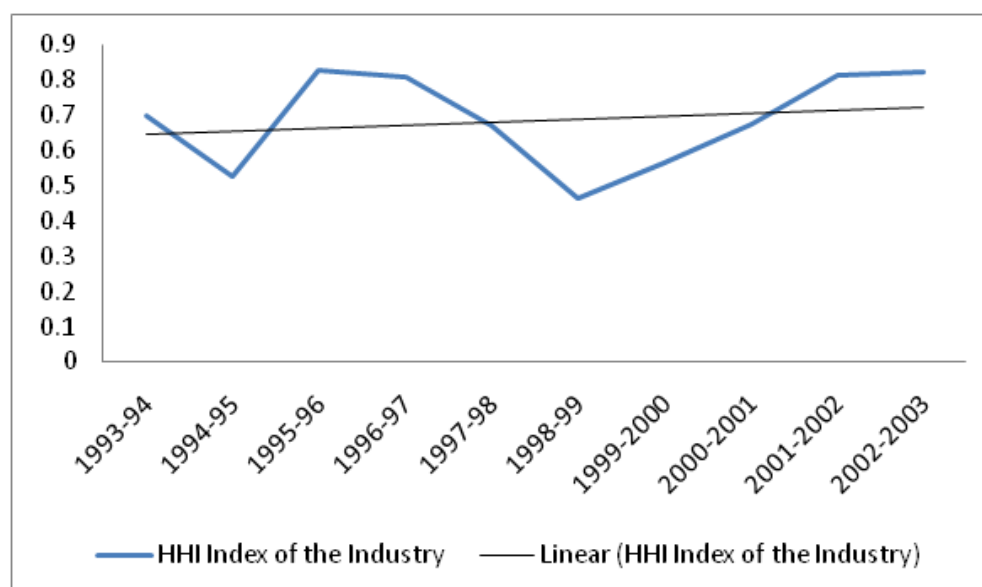
Table 2.2.2A
HI Index of the Industry during 1993-94 to 2002-2003

Year	HI Index of the Industry
1993-94	0.69916
1994-95	0.526377
1995-96	0.826248
1996-97	0.808989
1997-98	0.667325
1998-99	0.462248
1999-2000	0.563709
2000-2001	0.672499
2001-2002	0.813209
2002-2003	0.821016

Source : Authors' own calculation

From the table it can be seen that from 1993-94 the concentration of business in few hands has increased considerably in 2002-03. The concentration however reduced in 1998-99 because of various scams and mismanagements of funds in UTI, investors lost confidence in UTI and caused decrease in market share of UTI. But since 1999-2000 an increase in concentration can again be observed with the increasing market share of the private mutual funds. If the trend line of HI index can be seen in Figure 2.2.2A, it can be seen that the trend line moves slightly upward to the right, which signifies an increasing concentration in mutual fund industry during the period 1993-94 to 2002-03.

Figure 2.2.2A: HI index during 1993-94 to 2003-04



Source : Table 2.2.2A

During the period 2003-04 to 2015-16 the concentration has reduced from 0.82 in 2003-04 to 0.69 in 2015-16 as it can be seen from Table 2.2.2B. But 0.69 also signifies a concentrated market where only few firms are enjoying monopoly.

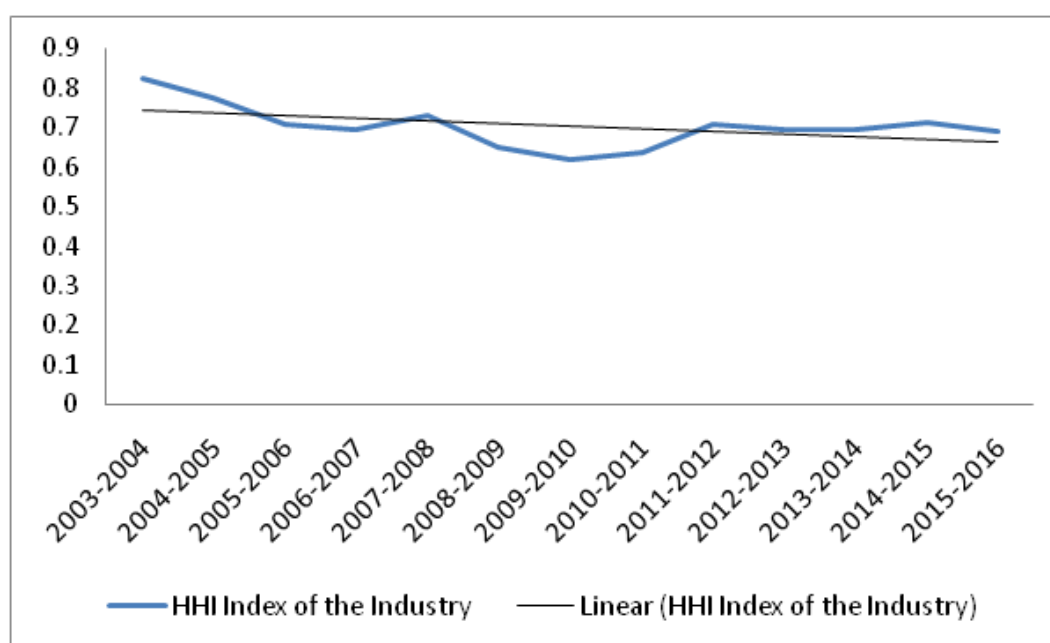
Table 2.2.2 B
HI Index of the Industry after 2003-2004

Year	HI Index of the Industry
2003-2004	0.825155
2004-2005	0.776839

2005-2006	0.708332
2006-2007	0.696796
2007-2008	0.728917
2008-2009	0.649051
2009-2010	0.618785
2010-2011	0.635361
2011-2012	0.708572
2012-2013	0.694294
2013-2014	0.694605
2014-2015	0.710992
2015-2016	0.690060

Source : Authors' own calculation

Figure 2.2.2B : HI index during after 2003-04



Source: Table 2.2.2B

The above figure shows a downward moving trend line which signifies reducing concentration. The concentration during this period has been fluctuating which clearly suggests some gain of business by the smaller firms.

3. Findings :

The mutual fund industry has seen a considerable growth in Net AUM since 1987. The Net AUM increased mainly after the introduction of private sector mutual funds. The commercial bank mutual funds and financial sector mutual funds has not been able to put a mark on the mutual fund industry as expected from them. The market has seen a continuous ups and down in growth rate but overall showed an increase which is evident from the line chart of different phases.

The concentration ratios also show the dominance of few firms in the industry. Nearly 80% of the business is held by only 8 firms and 50% business is held by 4 firms when there are more than 40 mutual fund companies in the industry. The mutual fund industry has always been concentrated in few hands initially during 1987-88 to 1997-98 by UTI and later from 1999-00 the private sectors funds took over major business from UTI and the firm became highly concentrated again. During 2008-09 the HII index has shown a little downfall in value but overall it remained above 65%, which makes the mutual fund industry highly concentrated in few big firms.

4. Conclusion :

The purpose of the study was to report about the growth and pattern in the Indian mutual fund industry after the entry of commercial banks in 1987. The study revealed that there not been any significant change in the pattern of concentration of business in mutual fund industry but it clearly showed a shift of business from the hands of UTI to private sector mutual funds. The commercial bank mutual funds and financial institution mutual funds failed to perform when they had to compete with the private mutual funds. The industry has seen a tremendous growth over the years and is expected to grow further with the flow of new schemes and new entrants in the industry.

The study however suffers from some limitations which cannot be ignored, academicians and other users should consider the limitations before its wider generalisation. Firstly, the study has considered line charts and different averages to show the growth in the mutual fund industry, the use of other statistical tool could have further clarified the growth trend in the industry. Secondly, to show the trend the researcher has used different concentration ratios only there are some other widely accepted factors to show the pattern of an industry. Finally, data used in the study is mainly secondary data, so the limitations of secondary cannot be ignored while applying he results.

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