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Trends in Mutual Funds Schemes in India

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ABSTRACT:

These days, the "mutual fund industry" is among the most prominent. Finding the best course of action and investment option has become increasingly challenging due to the proliferation of investment opportunities. Our primary objectives in this paper are to comprehend the several key ideas surrounding mutual funds as well as to identify trends and patterns in the different mutual fund schemes available in India. According to the results of the current study, there is a tendency that is moving more people toward "open-ended schemes" than "closed-ended" ones. There is a downward trend in the expansion of close-ended schemes following the positive trend that lasted until the year 2015–16. Nonetheless, the rise of open-ended schemes was sluggish but steady, leading us to believe that in the future, "open-ended schemes" will continue to trend positively while close-ended schemes will continue to decline.

Keywords: *Mutual Funds, Reserve Bank of India, Open Ended Schemes, LIC, Close Ended Schemes.*

1. INTRODUCTION:

Retail investors are becoming more drawn to financial assets than physical ones, which is why the "Indian mutual fund industry" is booming these days. Mutual funds are renowned for their superior returns and ease of use when compared to other financial assets. In addition to these perks, another reason mutual funds are well-liked is that they give investors tax advantages, capital growth, and consistent income. Because they are managed by knowledgeable and experienced portfolio managers who combine the money gathered from numerous and diverse investors in a variety of financial market instruments, "including equities, debt, and money market instruments, mutual funds" are able to satisfy every type of investor. In this approach, the mutual fund sector assists in the regulation of the money, debt, and stock markets in addition to helping investors obtain substantial profits.

When the "Government of India and the Reserve Bank of India (RBI)" together founded Unit Trust of India (UTI) in 1963, the idea of mutual funds became popular in India. Allowing households and small investors to share in business profits was the sole motivation for starting of UTI. The mutual fund business saw its next significant growth in 1987 when public sector banks, "General Insurance Corporation of India (GIC)", and "Life Insurance Corporation of India (LIC)", jointly entered the market and introduced public sector mutual funds. All of the big public sector banks had introduced their mutual funds to the market by the end of 1992. Subsequently, in 1993, the SEBI Mutual Fund Regulations came into effect, and with them came private sector companies. With this it has spread the area for all type of investors may be a small one or large one, and the regulations were later updated in 1996.

Similar to every other financial sector on the planet, the subprime crisis of 2009 had a negative impact on the "mutual fund industry" in India as well. In order to regain the trust of investors who had been disillusioned with the "mutual fund industry" due to the aftermath of the subprime crisis, SEBI implemented a number of positive initiatives in 2012. Since 2014, the "Indian mutual fund industry" has advanced significantly as a result of SEBI's proactive actions. The primary goal of implementing the aforementioned steps was to boost the mutual fund industry's penetration in "Tier II and Tier III Indian cities", and "SEBI" was largely successful in accomplishing this goal. Through their ability to draw in and follow up with retail clients in small towns and cities across the nation, mutual fund distributors also significantly contributed to the development of the "mutual fund industry's" massive customer base.

The "Indian mutual fund sector" has steadily improved its standing in the economy since 2014. Currently, this sector of the nation's financial market is among the strongest. As of August 31, 2024, the nation's "mutual fund industry" had "assets under management" (AUM) of Rs 66.70 trillion and 20.45 crores of investor folios, according to the "Association of Mutual Funds of India (AMFI)". These data have been two time in approximately five years. As of August 2024, the number of Systematic Investment Plan (SIP) accounts in India was around 9.61 crore. "SIPs" are a type of "mutual fund investment" where a fixed amount is invested in a "mutual fund scheme" at regular intervals.

2. INDICATORS OF MUTUAL FUNDS

The outcome of any scheme is dependent on a number of things. Several significant factors have been examined and are listed below:

2.1 Ownership of Mutual Fund-

Mutual funds might be either foreign or domestic. Mutual funds are classified as domestic if they are registered in the same nation as their sponsors; foreign funds are registered in a different nation and are not affiliated with the sponsors' country. It has been noted that domestic mutual funds typically outperform foreign ones due to the fact that local fund managers are familiar with both investor psychology and local laws and regulations.

2.2 Turnover Ratio-

A portfolio of securities is what a mutual fund is made up of. The turnover ratio is the frequency with which these securities in a portfolio have been added, removed, or otherwise modified. A growth fund investor will favor a mutual fund with a greater turnover ratio since fund managers continually move money from less aggressive to more aggressive securities in order to achieve growth. Similar to this, an investor seeking consistent income will put money into a mutual fund with a low turnover ratio since sustained holding of a single security over an extended length of time can result in consistent income in the form of interest and dividends.

2.3 Performance Persistence-

The term "performance persistence" refers to a mutual fund's consistent historical few-year performance. Put differently, performance persistence displays a mutual fund's performance pattern. Persistence in performance can have both positive and negative effects. If a mutual fund's performance has been trending increasing over time, then performance persistence is good; if the fund's performance has been steadily dropping over time, then performance persistence is negative. Performance persistence, then, tells potential investors how a mutual fund will perform going forward and, consequently, whether or not to participate in that specific mutual fund.

2.4 Investment Style-

A specific mutual fund scheme's investment strategy may be aggressive, conservative, or balanced. Investors who seek a consistent return on their capital should consider funds with an aggressive investment style; conversely, those who view their assets as a reliable source of income should consider funds with a conservative investment approach. Those who require both growth and consistent income from their investments should adopt a balanced approach.

2.5 Mutual Fund Manager-

The “mutual fund” manager is in charge of allocating investor funds to the chosen securities. How effectively and wisely the mutual fund manager has constructed the portfolio for his clients will determine whether or not the “mutual fund” is able to meet the goals of the investors.

2.6 Asset Size-

Likewise referred to as Asset value of each security that makes up a mutual fund's portfolio is what management refers to as the asset size of the fund. It has been noted that mutual funds with larger asset sizes typically outperform those with smaller assets. The benefits of economies of scale that a mutual fund with a large asset size enjoys may be the cause of this. A layperson can evaluate several “mutual fund schemes” and determine the historical performance of a specific “mutual fund” by using asset value.

2.7 Expense Ratio-

Mutual funds impose certain fees on its clients for a range of services. This fee pays for a variety of an AMC's running costs, including marketing, documentation, and advertising costs. The calculation of a mutual fund's expense ratio involves dividing the total amount of investment by the customer's operational cost. Generally speaking, a mutual fund's expenditure ratio and NAV have an inverse connection. Therefore, a lower expense ratio mutual fund scheme will produce a higher net asset value (NAV), assisting an investor in selecting which mutual fund scheme to participate in.

2.8 Load Fees-

The commission that the investor or client must pay when purchasing or selling mutual fund units is known as a load charge. The costs paid when purchasing mutual fund units are referred to as entry load, whereas the fees paid when selling units are referred to as exit load. When buying a mutual fund plan, it is important to consider the load fees since they will lower the total amount invested and, consequently, the number of units the investor will ultimately receive.

3. REVIEW OF LITERATURE:

The study that has already been done on the subject by different researchers is summarized in this section. A review of the literature outlines the goal of previous studies, the research methods used, the studies' conclusions, and the research gaps.

Redman, Gullett and Manakyan (2000), computed return risk rate of five international mutual fund portfolios “global, foreign, Europe, Pacific, and international” and contrasted them with the “Vanguard Index 500”, which represents the US market, and a portfolio that solely consists of investments in US stocks. Three distinct time periods were included in the selected period: 1985 to 1994, 1985 to 1989, and 1990 to 1994. “Jensen's Alpha, Treynor's Index, and Sharpe's Index” are the statistical methods that were employed. The analysis showed that all international funds performed better between 1985 and 1989 than the study's benchmarks. From 1990 to 1994, the local funds in the country has made better return as compared with the international funds in terms of risk-adjusted returns. Finally, from 1985 to 1994, the risk-adjusted return of the global fund portfolio outperformed the benchmarks.

Tripathy (2004) computed and contrasted the “return and risk” of 31 mutual fund company plans. The researcher used a variety of statistical methods, including the Sharpe, Treynor, Sharpe “differential return, rate of return, Jensen, and Fama's” decomposition measures, and selected a 7-year period between 1994–1995 and 2001–2002. The investigation came to the conclusion that risk and reward do not have a linear connection. Furthermore, the most important attribute of a fund manager that determines whether a mutual fund plan succeeds or fails is stock selection. The analysis also verified the extreme volatility of mutual fund performance.

Ali, Rehman and Naseem (2011) examined the return and risk characteristics of ten mutual funds that are available on Pakistan's financial markets. They conducted a survey from 2006 to 2008 and divided mutual funds into two categories: conventional and Islamic. For the analysis, four statistical methods were used: the “Treynor measure” “Jenson differential measure” “Sharpe measure” and Fama French measure. According to the analysis, Islamic funds outperformed traditional mutual funds. It was also noted that a deficiency in diversification was the primary cause of the bulk of mutual funds' underperformance. According to the survey, the Pakistani mutual fund business will undoubtedly draw in more investor savings if it can provide a wide range of funds.

Alexandri M.B. (2013) examined 37 equity “mutual funds” that are active in Indonesia's financial markets to identify the key elements influencing the nation's mutual fund sector. The selected study period was from 2008 to 2011. The study found that the key variables influencing mutual fund performance in Indonesia include stock selection, fund age, expense ratio, market timing, and overall risk. The two elements that characterize the skill of the investment manager—market timing and stock selection criteria—are the most significant determinants among these five as well. If the “fund manager is an expert” in his profession, this will undoubtedly improve the performance of mutual funds.

Sowmiya (2014) examined the results of two mutual fund schemes, the Franklin Templeton India Flexi Fund Scheme and the "Birla Sun Life Equity Fund Scheme", in order to determine which plan may produce the highest returns at the lowest risk. Statistical variables such as "standard deviation" "Sharpe ratio" "alpha" "beta" "r-squared" and return on assets were used in the 2013 study. The analysis showed that Birla Sun Life Fund Scheme did better for a portion of the year. Additionally, it was discovered that for every scheme included in the analysis, the risk associated was far larger than the rewards.

Jain, Singal and Dwivedi (2014) examined 14 research papers to determine which statistical instruments are more useful for assessing mutual fund performance both domestically and internationally. According to the study, there are three measures that are more reliable and efficient for evaluating mutual fund performance worldwide: Treynor, Jenson, and Sharpe. But these days, regression analysis and Fama's decomposition tool are becoming more and more popular for evaluating the performance of different "mutual fund schemes"

Choudhary and Chawla (2014) evaluated and contrasted the results of eight different Indian diversified equities mutual fund schemes from 2005 to 2013. The following metrics were used to analyze the "performance of mutual fund" schemes: Treynor's Performance Index, Sharpe's Measure, "Coefficient of Determination" "Standard Deviation" "Beta" and Average Returns. 75 percent of the funds were able to produce exceptional returns, according to the report. Sixty-two percent of the schemes were deemed less hazardous than the market as a whole, and the eight schemes that were the subject of the analysis all seemed to have quite diversified portfolios.

Anwar and Arif (2016) examined the results of 31 Bangladeshi mutual funds with a growth focus. For this reason, weekly NAV and weekly close price of Index were used to compute "Treynor's ratio" "Jensen's alpha" and "Sharpe's ratio". The outcomes showed how miserable the mutual fund business is in Bangladesh. The performance of the funds lagged behind the market index. The danger was outweighed by the returns. Since the "mutual fund industry" is still in its early stages of development, fund managers build their portfolios using a defensive strategy.

Igbinosa S.O. (2019) investigated 95 Nigerian mutual funds to see whether or not certain mutual funds outperform the market in terms of returns. The study also aimed to investigate the connection between mutual fund performance and portfolio. Statistical methods including the Treynor and Mazuy model, Jensen alpha, Information ratio, Sharpe's ratio, and Treynor ratio were used for this aim. According to the study, funds for bonds, fixed income securities, and real estate typically yield returns that are higher than those of the market index. In addition to these three products, money market funds and equities funds outperformed the market index.

Tripathi and Japee (2020) examined the monetary results of fifteen mutual fund schemes between 2015 and 2019. For three distinct categories of mutual fund schemes—large cap, mid size, and small cap funds—they computed risk and return ratios using four statistical tools: Jenson's Alpha, Beta, Sharpe Ratio, and Standard Deviation. The majority of funds fared well in the extremely volatile market, according to the report. However, all mutual fund schemes suffered because of the gloomy pattern that NIFTY followed in 2019. The experts strongly advised using the aforementioned statistical tools prior to making any decisions or investing in any mutual fund plan.

However, majority of the above studies concentrates on risk and return analysis . Moreover, the studies conducted with the objective of analysing growth of mutual funds (for instance Sahadevan &Raju, 1997 and Gupta Amitabh, 2002) are too old and are of no use now a days due to very old data and parameters. More ever no study is found on finding the trends and patterns. Thus, there was an urgent need to conduct a fresh study to analyse the growth and pattern of mutual fund schemes. In view of this, the present research work is an attempt to find answer by studying the growth of "mutual funds industry" in India.

4. RESEARCH OBJECTIVES:

The objectives of the current research are:

4.1 To get the familiarity about the various terms in Mutual Fund Industry.

4.2 To find out the trend and pattern of Mutual Fund Schemes.

5. RESEARCH METHODOLOGY:

The data is form "AMFI" taken for a period of 2010-11 to 2023-24. The data is presented through various tables and charts.

6. DATA ANALYSIS AND INTERPRETATION:

Trend of Mutual Fund Schemes in India

Year	Open Ended Schemes	Change (%)	Close Ended Schemes	Change (%)
2010-11	727	--	368	--
2011-12	745	2.48%	530	44.02%
2012-13	751	0.81%	501	-5.47%
2013-14	777	3.46%	796	58.88%
2014-15	810	4.25%	1,002	25.88%
2015-16	829	2.35%	1,513	51.00%
2016-17	829	0.00%	1,388	-8.26%
2017-18	840	1.33%	1,127	-18.80%
2018-19	894	6.43%	1,119	-0.71%
2019-20	967	8.17%	926	-17.25%
2020-21	1018	5.27%	696	-24.84%
2021-22	1120	10.01%	354	-49.14%
2022-23	1278	14.11%	165	-53.39%
2023-24	1418	10.95%	111	-32.73%

Table:1

Source: - Compiled by Researcher from Reports SEBI

Table 1 depicts the data of "open ended and close ended schemes" in India from 2010-11 to 2023-24. Form the table it is very much clear that there is a very consistent growth in the "open ended schemes" in India but in case of "close ended schemes" the growth pattern was continued up to the year 2015-16 and thereafter there is a sharp decline in the number of schemes in case of "close ended schemes". The highest number of mutual fund schemes in case of "open ended schemes" are in the year 2023-24 and in case of "close ended schemes" it was in the year 2015-16. The maximum growth in case of open ended schemes was found in the year 2022-23 and in case of "close ended schemes" it was found in the year 2013-14.

Percentage Change in Mutual Fund Schemes

Year	Open Ended Schemes Change (%)	Close Ended Schemes Change (%)
2010-11	0%	0%
2011-12	2.48%	44.02%
2012-13	0.81%	-5.47%
2013-14	3.46%	58.88%
2014-15	4.25%	25.88%
2015-16	2.35%	51.00%
2016-17	0.00%	-8.26%
2017-18	1.33%	-18.80%
2018-19	6.43%	-0.71%
2019-20	8.17%	-17.25%
2020-21	5.27%	-24.84%
2021-22	10.01%	-49.14%
2022-23	14.11%	-53.39%
2023-24	10.95%	-32.73%

Table:2

Source: - Compiled by Researcher from Reports of SEBI

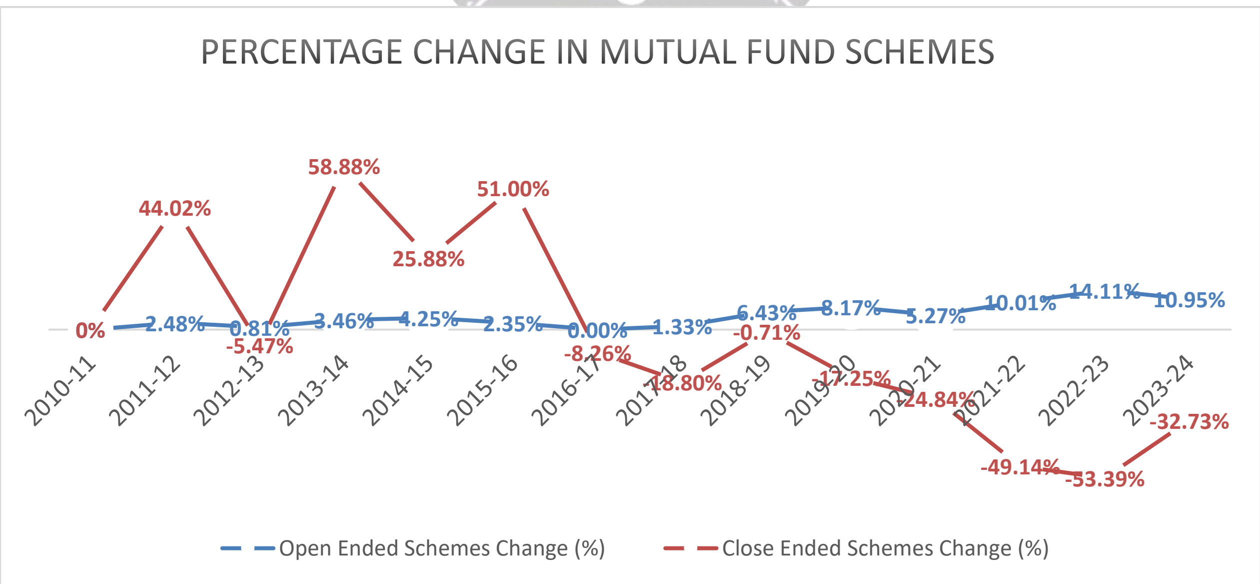

Fig.1

Table 2 and Figure 1 shows the percentage change in Indian mutual fund plans. It is evident that the percentage change for open-ended schemes consistently stayed positive, but the trend for closed-ended schemes exhibits significant fluctuations. It was never negative in the case of open-ended schemes, but it was proven to be negative in close-ended schemes.

7. CONCLUSION:

From the above research it can be concluded that there is a positive trend of movements towards open ended schemes as compared to the "close ended schemes". Up the year 2015-16 there is a positive trend towards "close ended schemes" but after that there is a downfall in the growth of close ended schemes. But in case of "open ended schemes" the growth was slow but has a consistent trend and thus we can conclude that in future too there will be a positive trend towards open ended schemes and there will be a downfall trend in case of "close ended schemes".

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