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DECADAL ANALYSIS OFRESOURCE MOBILIZATION BY INDIAN MUTUAL FUND INDUSTRY

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ABSTRACT:

Mutual fund is the suitable investment vehicle for the common man as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. Anybody with an investible surplus of as little as a few thousand rupees can invest in mutual funds. A mutual fund is the ideal investment vehicle for today's complex and modern financial scenario. A mutual fund operates as a financial intermediary as it sells its units to the public and invests the proceeds in a large number of market securities. It is widely believed that mutual fund is a retail product designed to target small investors, salaried people and others who are scared by the swings of stock market. The mutual fund industry is composed of public and private sector fund houses which mobilize the small savings of large investing population through various need-based schemes designed for heterogeneous groups. However due to heavy redemptions, the net resources mobilization is reduced considerably. The purpose of this paper is to study the gross and net resources mobilization by public and private sector mutual funds during the decade of 2004-05 to 2013-14.

KEY WORDS: *Mutual Funds, Gross Resource Mobilization, Redemptions, Net Mobilization, Public Sector Mutual Funds, Private Sector Mutual Funds*

1:INTRODUCTION

Mutual fund is the suitable investment vehicle for the common man as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. Anybody with an investible surplus of as little as a few thousand rupees can invest in mutual funds. A mutual fund is the ideal investment vehicle for today's complex and modern financial scenario. Markets for equity shares, bonds and other fixed income instruments, real estate, derivatives and other assets have become mature and information driven. Price changes in these assets are driven by global events occurring in far-away places, a typical individual is unlikely to have the knowledge, skill, time to keep track of events, understand their implications and act speedily. Therefore, an individual finds it difficult to keep track of ownership of assets, investments, brokerage dues and bank transactions etc. A mutual fund is the right answer to this situation. It appoints professionally-qualified and experienced staff that manages each of these functions on a full-time basis. Now mutual fund industry is a rapidly growing sector in Indian financial market.

For a common man, a mutual fund is the most suitable investment as it offers an opportunity to invest in diversified portfolio management under the supervision of Fund Managers, who possess expertise in investment. The small investors have a very good option of reaping the benefits of share market in the form of mutual funds. Since its inception in 1964 as UTI, mutual funds industry in India has passed through different phases and a number of ups and downs. Now MF industry has become one of the important ingredients of Indian capital market. The present paper focuses on the resource mobilization by public and private sector mutual funds in India

2: MUTUAL FUNDS: THE HISTORICAL BACKDROP

In India, the concept of mutual fund was actually coined in 1964, by the then visionary Finance Minister Hon'bleT.T.Krishnamachari. Based on the recommendations of the Central Banking Enquiry Committee and Shroff Committee, the Government of India established Unit Trust of India in 1964 by passing the special Act in Parliament (i.e. Unit Trust of India Act, 1963) , to operate as a financial institution as well as an investment trust by way of launching US 64 on 1st July, 1964. Its primary objective was to provide investors from middle and lower income groups with a route to invest in the equity market. It was also meant to encourage household savings. US-64 was the first ever mutual fund scheme launched in Indian market, which mobilized the savings of Rs. 246.7 million. SBI Mutual Fund became the second mutual fund in the Indian market when it was launched in 1987, till then UTI enjoyed a monopoly in India. By then US-64 had grown to Rs. 32.69 billion and overall asset base of UTI was Rs. 67.38 billion with 25 different schemes.Thus, the mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank of India.

Till 1987, UTI was dominating and the only mutual fund in India. The next phase (1987-93) marked the arrival of mutual funds sponsored by public sector banks and financial institutions. Those were non-UTI mutual funds. In 1986 public sector banks and financial institutions were given permission to establish mutual funds.

A new era in the mutual fund industry began with the permission granted for the entry of private sector funds in 1993. Foreign asset management companies were allowed to enter the mutual fund business.Liberalization was the turning point to the industry as private players were allowed to participate in the industry for the first time.

3: AFTERMATH OF LPG

Especially since liberalization, the financial services in India have undergone radical changes and have been responding to the varied needs of the economy. It is true that the reforms in financial sector, economic liberalization and globalization of Indian capital market has generated and augmented the interest of the investors in equity shares. However, the lack of adequate knowledge of the capital market and professional expertise, the ordinary investors are still hesitant to invest their hard-earned money in the corporate securities like 'equity' and 'debentures' directly. Instead, they prefer an indirect mode to reap the benefits of capital market. The advent of mutual funds has helped in garnering the investible funds of this category of small investors in a significant way. As the mutual funds are managed by expert professional managers, the investors feel relieved from emotional stress, confusion and over-burdened information involved in buying and selling of corporate securities.

Mutual funds have provided a much comfortable option for that kind of investors who cannot and do not want to play directly with the small size of their available savings. Instead they prefer mutual fund which is a trust that pools the savings of a number of investors with similar investment objectives, invest in corporate securities on their behalf and distribute the gain among them. A mutual fund operates as a financial intermediary as it sells its units to the public and invests the proceeds in a large number of market securities. The mutual funds play major role in reducing risk through diversification and provide the ordinary investor with expert selection and professional monitoring of investments backed by excellent customer service. It is widely believed that mutual fund is a retail product designed to target small investors, salaried people and others who are scared by the swings of stock market. At the retail level, the investors are unique and are a highly heterogeneous group, for whom the mutual fund houses have evolved a number of need-based schemes of investment. The mutual fund industry is composed of public and private sector fund houses which mobilizes the small savings of large investing population through various schemes. However due to heavy redemptions, the net resources mobilization is reduced considerably.

The decade of 90_s was remarked as the era of 'equity cult', in which the equity shares was the most favoured investment avenue available for the investing community. Due to that fact, the Indian capital market registered an impressive growth and hence the stock market gained the confidence of the investors. The year 1992-93 marked the turning point in the history of Indian capital market. Due to phenomenal increase in the domestic savings, improvement in deployment of investment through vibrant capital market, and the ill-effects of stock scam made the investors to search for a new investment avenue where they can minimize the risk for a reasonable return.By that time, the erstwhile UTI-dominated Indian mutual fund industry had undergone the significant changes. The entry of public sector banks sponsored mutual funds in 1987 and then private sector funds had opened new vistas for investors. The good performance of the economy and the low interest rates on bank deposits and tax concessions, contributed to the growth of the mutual funds in India. Mutual fund was widely accepted by investors as an indirect mode of reaping the benefits of share market. The mutual fund industry gained significance due to regulatory measures taken by the government at appropriate times and a plethora of fund houses and their schemes.

4: STATEMENT OF THE PROBLEM

In the light of foregoing discussion, the statement of the problem is defined and captioned as, *"Decadal Analysis of Resource Mobilization by Indian Mutual Fund Industry"*

5: OBJECTIVES OF THE STUDY

The prime objective of the study is to analyze the resources mobilized by Indian mutual fund industry during 2004-05 to 2013-14.

6: HYPOTHESES

The following null hypotheses were set for the study.

1) There is no difference between gross resource mobilization by public and private sector mutual funds.
2) There is no difference between redemptions of public and private sector mutual funds.
3) There is no difference between net resource mobilization by public and private sector mutual funds.

7: RESOURCE MOBILIZATION BY MUTUAL FUNDS DURING 2004-05 TO 2013-14

Resource mobilisation is one of the prime objectives of mutual funds. As financial intermediary mutual funds are expected to mobilize maximum savings of the socity towards productive channel through securities market. In the beginning the velocity of mobilizing resources by mutual fund industry was very slow, obviously because of dominance of single player (UTI). But since 1987 and again since 1993 the resouce mobilisation by mutual fund industry has got momentum. However, as yet the Indian mutual fund industry has not attained maturity because the funds had to redeem money to investors due to several reasons. This has reduced the net resource mobilization by the industry. The following three tables present the gross resource mobilization, redemptions and net resource mobilizationby the Indian mutual fund industry during the study period.

7.1:Gross Resource Mobilization

Gross resource mobilization (GRM) refers to the total resouces mobilized, i.e. resources before redemptions.

Table: 1

Gross Resource Mobilization by Indian Mutual Funds Industry during 2004-05 to 2013-14

Period		Mutual Funds (Rs. In Crores)				
		Public Sector		Public Sector (Combined)	Private Sector	Total
From	To	UTI	Bank & FI Sponsored			
1/02/2004	31/03/2005	46656 (5.56)	56589 (6.74)	103245 (12.30)	736463 (87.70)	839708 (100.00)
1/04/2005	31/03/2006	46220 (4.21)	137226 (12.50)	183446 (16.71)	914703 (83.29)	1098149 (100.00)
1/04/2006	31/03/2007	124607 (6.43)	214013 (11.04)	338620 (17.47)	1599972 (82.54)	1938493 (100.00)
1/04/2007	31/03/2008	337498 (7.56)	346126 (7.75)	683624 (15.31)	3780753 (84.69)	4464377 (100.00)
1/04/2008	31/03/2009	423131 (7.80)	710472 (13.09)	1133603 (20.89)	4292751 (79.11)	5426354 (100.00)
1/04/2009	31/03/2010	881851 (8.81)	1438688 (14.36)	2320539 (23.16)	7698483 (76.84)	10019022 (100.00)
1/04/2010	31/03/2011	783858 (8.85)	1152733 (13.01)	1936591 (21.86)	6922924 (78.14)	8859515 (100.00)
1/04/2011	31/03/2012	522453 (7.66)	613482 (9.00)	1135935 (16.66)	5683774 (83.34)	6819679 (100.00)
1/04/2012	31/03/2013	633350 (8.71)	706598 (9.72)	1339948 (18.44)	5927946 (81.56)	7267885 (100.00)
1/04/2013	31/03/2014	802352 (8.21)	916351 (9.38)	1718703 (17.59)	8049397 (82.41)	9768100 (100.00)
Descriptive Statistics			**Mean**	**1089425**	**4560717**	
			S.D.	**761426.40**	**2750587**	
			C.V. (%)	**69.89**	**60.31**	
			CAGR(%)	**32.47**	**27.02**	
			Median	**1135000**	**4988000**	

	Minimum	103245	736364
	Maximum	2320539	8049397
	Std. Error	240800	869800
	Skewness	0.1375	-0.2154
	Kurtosis	1.632	1.454

Source:*www.amfinidia.com& indiinfoline.com*

It can be understood from the above table that in 6 concecutive years from 2004-05 to 2009-10 the gross resource mobilization (GRM) have increased, however, during next three years i.e. from 2010-11 to 2013-14 it has slided down. It is in the year 2013-14 it has improved. In total gross resource mobilization, the private sector MFs have a big share of 82.41% while public sector MFs have only 17.59% share. This is due to the existence of more number of AMCs in private sector than public sector and launching of more need-based schemes than public sector. Even in public sector MFs, the gross resources mobilized by Bank and Financial Institution-sponsored MFs have greater share (10.66%) than UTI (7.38 %). However, the compounding average growth rate (CAGR) of private sector MFs (32.47%) is more than public sector MFs (27.02%) However, the descriptive statistics reveal that gross resource mobilization of the public sector MFs has been more consistent than the private sector MFs as denoted by their C.V. of 60.31 and 69.89% respectively.

7.2: REDEMPTIONS

The mutual funds have to redeem the investment to unit-holders with accumulated returns as and when demanded as the liquidity regarde ad the crux of MF investment. However, the increased redemptions reduce the net resourcemobilization (NRM). and resultantly AUM. The redemtions of Indian MF industry during FY 2004-05 to 2013-14 were as follows.

Table: 2

Redemptions by Indian Mutual Funds Industry during 2004-05 to 2013-14

(Rs. in Cr.)					
Financial Year	**UTI**	**Public Sector Banks & FIs**	**Public Sector Combined**	**Private Sector**	**Total**
2004-05	49378# (5.90)	59216# (7.07)	108594 (12.97)	728914 (87.03)	837508 (100.00)
2005-06	42796 (4.09)	130847 (12.52)	173643 (16.61)	871727 (83.39)	1045370 (100.00)
2006-07	120381 (6.53)	203293 (11.02)	323674 (17.55)	1520834 (82.45)	1844508 (100.00)
2007-08	327678 (7.60)	335448 (7.78)	663126 (15.38)	3647449 (84.62)	4310575 (100.00)
2008-09	426790 (7.82)	701092 (12.85)	1127882 (20.68)	4326768 (79.32)	5454650 (100.00)
2009-10	866198 (8.72)	1426189 (14.35)	2292387 (23.07)	7643556 (76.93)	9935943 (100.00)
2010-11	800494 (8.98)	1166288 (13.09)	1966782 (22.08)	6942139 (77.92)	8908921 (100.00)
2011-12	525637 (7.68)	616877 (9.02)	1142514 (16.70)	5699189 (83.30)	6841703 (100.00)
2012-13	633303.71	706508.51	1339812	5927293.16	7267105

	(8.71)	(9.72)	(18.44)	(81.56)	(100.00)
2013-14	802347.99 (8.21)	916276.83 (9.38)	1718625 (17.59)	8048851.21 (82.41)	9767476 (100.00)
Descriptive Statistics		**Mean**	1085703.9	4535672	
		S.D.	763646.925	2767280.3	
		C.V. (%)	70.34	42.91	
		Median	1135000	5013000	
		Minimum	108594	728914	
		Maximum	2292387	8048851.21	
		Std. Error	241500	875100	
		Skewness	0.1252	-0.2143	
		Kurtosis	1.588	1.437	

 # Redemptios are more than gross funds mobilisation

Source: *www.amfiindia.com&http/www.sebi.gov.in/investor/handbook2013 reached 4/4/2014*

The above table reveals that during 2004-05 to 2013-14 the redemtions have increased year after after. Therefore, even though the gross resources have increased during the study period, the net resource mobilization (NRM) has not increased. Out of total redemptions, the private sector MF's mean redemptions were Rs. 45,35,672.04 (81.09%) , which was around 4.5 times of public sector MF's mean redemptions of Rs. 10,85,703.9 (18.10%) The descriptive statistics show that there was abrupt redemptions in public sector MFs than private sector, as indicated by their respective C.V.of 70.34% and 42.91%.

7.3: Net Resource Mobilization

Because of heavy redemptions, the net resourc mobilzation by Indian mutual fund industry has been very less as shown in the following table.

Table: 3

Net Resource Mobilization by Indian Mutual Fund Industry during 2004-05 to 2013-14

Year	(Rs. In Corres)					
	Public Sector Mutual Funds			Private Sector Mutual Funds		
	Gross Resource Mobilization (GRM)	Redemptions	Net Resource Mobilization (NRM) (c/a*100)	Gross Resource Mobilization (GRM)	Redemptions	Net Resource Mobilization (NRM) (f/d*100)
	A	B	C	D	e	F
2004-05	103245 (12.30)	108594 (12.97)	-5349 (-5.18)	736463 (87.70)	728914 (87.03)	7549 (1.02)
2005-06	183446 (16.71)	173643 (16.61)	9803 (5.34)	914703 (83.29)	871727 (83.39)	42976 (4.70)
2006-07	338620 (17.47)	323674 (17.55)	14946 (4.41)	1599972 (82.54)	1520834 (82.45)	79138 (4.95)
2007-08	683624 (15.31)	663126 (15.38)	20498 (2.99)	3780753 (84.69)	3647449 (84.62)	133304 (3.53)
2008-09	1133603	1127882	5721	4292751	4326768	-34017

	(20.89)	(20.68)	(0.50)	(79.11)	(79.32)	(-0.79)
2009-10	2320539 (23.16)	2292387 (23.07)	28152 (1.21)	7698483 (76.84)	7643556 (76.93)	54927 (0.71)
2010-11	1936591 (21.86)	1966782 (22.08)	-30191 (-1.55)	6922924 (78.14)	6942139 (77.92)	-19215 (-0.28)
2011-12	1135935 (16.66)	1142514 (16.70)	-6579 (-0.58)	5683774 (83.34)	5699189 (83.30)	-15415 (-0.27)
2012-13	1339948 (18.44)	1339812 (18.44)	136 (0.01)	5927946 (81.56)	5927293.16 (81.56)	652.84 (0.01)
2013-14	1718703 (17.59)	1718625 (17.59)	78 (0.004)	8049397 (82.41)	8048851.21 (82.40)	545.79 (0.006)
Descriptive Statistics		**Mean**	**3722**	**Mean**		**25040**
		S.D.	**16360**	**S.D.**		**52120**
		C.V. (%)	**4.397**	**C.V. (%)**		**2.081**
		Median	**2929**	**Median**		**4101**
		Minimum	**-30191**	**Minimum**		**-34017**
		Maximum	**28152**	**Maximum**		**133304**
		Standard Error	**5175**	**Standard Error**		**16480**
		Skewness	**-0.5068**	**Skewness**		**0.8367**
		Kurtosis	**2.78**	**Kurtosis**		**2.505**

Source: *Values computed by researcher*

The above table reveals that net resource mobilization (NRM) of public sector MFs has dropped considerably to Rs. -30191/- Cr. (i.e. redemptions more than the gross resources mobilized in that year) in the year 2010-11 from the highest of Rs. 28,152/- Cr.in the immediately preceding year. As regards the private sector MFs, the net resource mobilization has reduced from the highest of Rs. 1,33,304/- Cr.in FY 2007-08 to Rs. – 34,017/- Cr.in FY 2008-09.

During the study period, it was only in the year 2005-06 that the public sector MFs could have highest net resource mobilization (NRM) of 5.34% of the gross resource mobilization (GRM) in that year and in FY, it has the lowest NRM of – 5. 18% of GRM. The private sector MFs has the highest NRM of 4.95% in the year 2006-07 while the lowest (-0.79%) in the year 2008-09.

The private sector MFs have more consistent growth in net resource mobilization than public sector MFs as revealed by their respective C.V. of 2.081% and 4.397%.

8: TESTING OF HYPOTHESES

The hypoheteses of the study are tested by using 2-tailed Paired ‘t’ test, for which the data have to be normally distributed. Therefore, first the Shapiro-Wilk test is used to confirm that the data are normally distributed. As the Shapiro Wilk test (W) is found to be more than 0.05, it is confirmed that the data rae normally distributed . Then 2-tailed Paired ‘t’ test has been applied and the results are presented in following tables.

1) H_0: *There is no difference between gross resource mobilization by public and private sector mutual funds.*

Shapiro Wilk Test (W)	2-tailedPaired 't' test	Dof	Std. Error	Confidence Interval		p-value	Sig.
0.9151	5.3996	9	622880.316	-4925587.57	-2016994.83	0.0004	Extremely Significant

2) H_0:*There is no difference between redemptions of public and private sector mutual funds.*

Shapiro Wilk Test (W)	2- tailed Paired 't' test	Dof	Std. Error	Confidence Interval		p-value	Sig.
0.9134	3.8004	9	907799.378	-5357184.87	-1545751.41	0.0013	Very Significant

3) H_0: *There is no difference between net resource mobilization by public and private sector mutual funds.*

Shapiro Wilk Test (W)	2- tailed Paired 't' test	Dof	Std. Error	Confidence Interval		p-value	Sig.
0.9072	1.5962	9	13358.70	-51542.53	8896.41	0.1449	Not Significant

The hypothesis no.1 and 2 are rejected which leads to conclude that there is significant difference between the Gross Resource Mobilization (GRM) and Redemptions by public and private sector mutual funds during the study period. However, the third null hypothesis is accepted which means that there is no significant difference between Net Resource Mobilization (NRM) by public and private sector mutual funds.

9: CONCLUDING REMARKS

Indian mutual fund industry has been taking the firm roots in India, which is evident from the quantum of resource mobilization and its growth rate.The phase wise opening up the industry to public and private sectors and stringent regulatory mechanism has helped to develop the industry. Private sector has been excelling in respect of resource mobilization. Howrever, due to heavy redemptions, net resource mobilization has reduced. Small investors are the true long-term partners of mutual funds than big investors. Therfore, the efforts to attract the small retail investors towards mutual funds by offering them the handsome returns at low or moderate risk would go a long way in increasing resource mobilization. Introduction of truly innovative need-based mutual fund schemes would also be the concrtere contributor towrads this end.

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