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THE PERFORMANCE EVALUATION OF INDIAN MUTUAL FUND INDUSTRY-PAST, PRESENT AND FUTURE

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ABSTRACT
This article will discuss the past performance of the Indian mutual fund industry and the pace of growth it achieved after being succumbed to regulatory changes by SEBI, international factors and its non performance that affected the industry and its sentiments. It will also analyse the future implications of the current changes that are being implemented by the regulator. The returns generated by the equity funds and the growth of their Assets under Management and future implications of this relationship will also be analysed

KEYWORDS: SEBI, Mutual Fund Industry.

INTRODUCTION

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

First Phase – 1964-87

Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Rs.6,700 crores of assets under management.

Second Phase – 1987-1993 (Entry of Public Sector Funds)

1987 marked the entry of non- UTI, public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). 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). LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990.

At the end of 1993, the mutual fund industry had assets under management of Rs.47,004 crores.

Third Phase – 1993-2003 (Entry of Private Sector Funds)

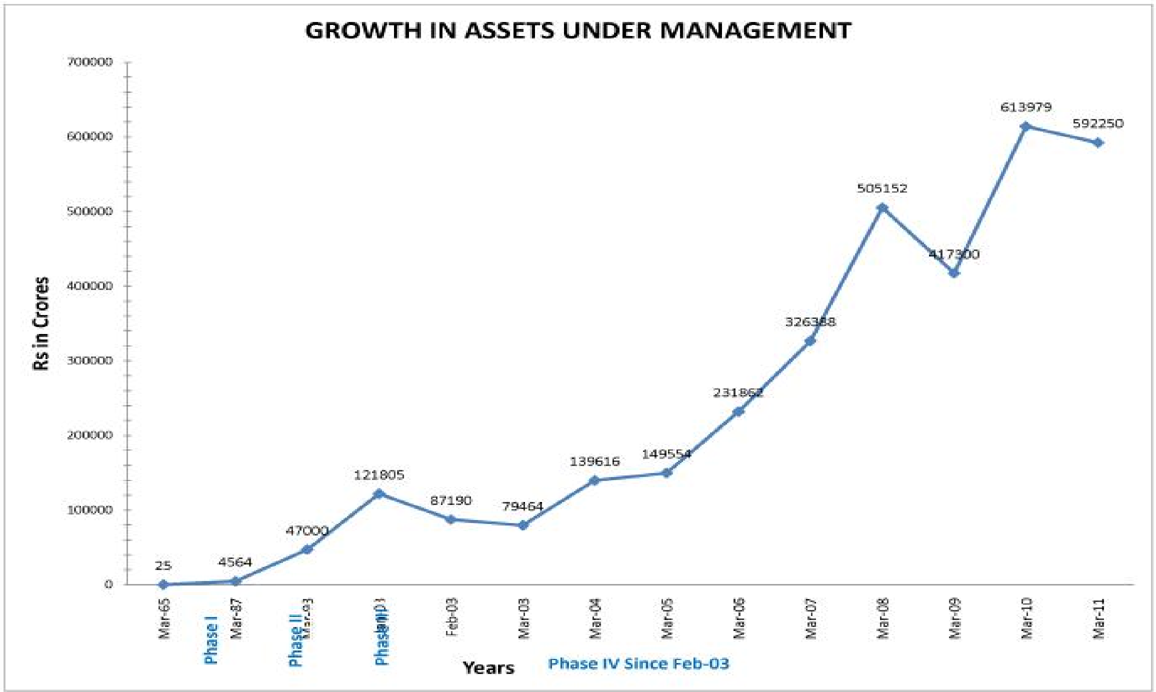
With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996.

The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,21,805 crores. The Unit Trust of India with Rs.44,541 crores of assets under management was way ahead of other mutual funds.

Fourth Phase – since February 2003

In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs.29,835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes. The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations.

The second is the UTI Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs.76, 000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.



Source- AMFI

The Present scenario

Mutual Fund industry in India is in a very nascent stage. Still growing, still evolving. There have been various initiatives on various fronts and now the industry has reached close to Rs 8 lakh crore. But if compared with the size of mutual fund industries of most developed countries such as China and Australia, we are much smaller in size.

When the Prime Minister took over the Finance Ministry from Pranab Mukherjee on his election as the President of the country, one of the first points the PM raised was that the mutual fund industry needs to be re-energised. Before this there had been various discussions which culminated into a circular issued by the Securities and Exchange Board of India on September 13, 2012.

The most important aspect of this circular is the introduction of a new cadre of distributors and also the rule on Top-15 and Beyond Top-15 cities. Thus the thrust would be towards penetration of mutual fund products into smaller towns. To support this initiative, AMFI quickly took a decision to reduce the registration fees for individuals from Rs 5,000 to Rs 3,000 from November 2012.

Remember, the fee of Rs 3000 is for three years, which amounts to only Rs 1,000 a year. For the new cadre of distributors introduced, the fee prescribed is Rs 1,500 for three years. Here the fee is only Rs 500 per year. During the quarter Oct-Dec 2012, we saw more than 700 new registrations.

To give further impetus to the whole exercise, AMFI decided to provide a window during which we would waive off the fees completely making the registration free of cost. This would mean that any individuals either in the normal cadre or the new cadre can register themselves as a distributor for the first time free of cost during five months from February 1, 2013 to June 30, 2013. All required formalities for registration, like passing the required certification, etc, need to be completed for registration.

Under the new cadre, the following two categories have also being included:

1) Intermediaries/Agents engaged in distribution of financial products e.g. Insurance agent, FD agent, National Savings Scheme products, PPF, etc registered with any other Financial Services Regulator.
2) Business correspondents

The new cadre that has been announced is a very interesting move. This cadre is allowed to sell only performing Diversified Equity Funds, Fixed Maturity Plans and Index Funds. These category funds come with low risk. Therefore, for the new cadre, who will undergo a very simple examination specially devised by NISM. With only simple products available for this cadre, they would be able to reach out to more people to sell these less risky products.

At present, we have close to 50,000 distributors registered with AMFI. With this move, we expect that about one lakh more distributors may be added to the fold. With such large force, the industry would then be in a position to grow, expand and penetrate into smaller towns. We also expect that the smaller towns will contribute more in the new cadre of distributors.

The market sentiments have improved. In a long-term perspective, there is no doubt about growth of Indian economy. In such a scenario, an important initiative that will do well for the development of the industry will be penetration by more feet on Street. With the introduction of the new type and the announcement of free registration will support in achieving this objective of more feet on street to sell mutual fund.

Major Changes and Future Expectations

There have been some major changes by SEBI for the mutual fund industry in the recent past. Entry load abolished in May 2009. Introduction of Direct schemes apart from the ongoing schemes in which less expense ratio will be charged for the former one resulting in better returns for the direct investors. Whole of the India is being divided into top 15 cities and beyond 15 cities in term of Asset under management, in which higher brokerages will be paid to the distributors of beyond 15 cities and lesser for top 15 so as to lure retail participation and promote mutual fund in remote areas. Stricter KYC norms for investors so as to check money laundering and black money. Proposed demarcation between advisor and agent in which advisor will be charging fees directly from investors and agent will get commission from the AMC. In this regard, a single person can't be both advisor and an agent.

The subprime crisis of USA shattered the stock markets across the globe. Indian stock market also succumbed to the pressure and sensex which was trading above 21000 in January 2008 came down to 8000 taking away wealth of thousand of investors. Mutual fund industry also faced the same fate and crores of rupees of investor lost in that period. FII inflows which are the backbone of Indian market came down. In fact it became negative in the years 2008 and 2009.

Exit of bigger and established fund houses like Fidelity and Standard Chartered also invoked the wave of pessimism in the market. Ongoing European Debt Crisis made people guessing about the future which is affecting the overall sentiments. Policy paralyses of the government and slow pace of cut in government spending send a very negative signal to international community to take exposure of Indian Market. Now in this scenario the future of the industry seems to be very bleak and overall scenario is very negative. There is a strong possibility that we may witness the increased mortality of mutual fund players including intermediaries. To contain the existing problems and disastrous future certain measures are required to be taken. One of the most important role that is being required to be played is by the financial planners who have been in the backseat for a very long time. Financial planners who are not full fledged agents of mutual fund but poised to play a very important role in the industry in future. It will take some time to when the Certified Financial Planners will emerge as a front runner but the level of awareness and support from the regulator is lacking.

Mutual fund Returns and AUM Growth

The growth of the mutual fund industry was because of the performance and their superiority over other instruments. The equity funds have played a very important role in the growth of this industry . Although the present assets under management of these funds are very less than 2 lakh crore, it can be improved by giving better returns. The funds that can stood the test of times i.e., bull markets, bear markets, bubbles, recessions, global upheavals, and local turmoil and continue to perform and produce results. To identify such funds, there has to be certain criteria like longevity, performance, resilience, stability and their fund managers. Below is the performance of some top funds

Daily Mutual Funds Performance Update - Equity

Report as on : 06-Mar-2013

-	NAV (Rs.)	AUM	P2P Compound Annualized (%)			
			1 Year	2 Year	3 Year	5 Year
Equity Diversified						
HDFC Equity Fund (G)	281.771	10,555.65	9.7	3	6.6	10.2
Reliance Growth Fund - RP (G)	459.093	5,628.89	8.2	3	1.7	5.8
Reliance Equity Oppor - RP (G)	42.338	4,593.77	19.4	13.1	12.1	12.6
ICICI Pru Dynamic Plan (G)	115.496	3,937.96	11.4	5.5	7.3	9.6
UTI Dividend Yield Fund (G)	33.292	3,682.39	6.9	3.7	6.2	10.5

Source- www.moneycontrol.com

Now if we analyse the above funds for one year, two year, three and five year's horizon they have been consistently performing at each and every level. This has resulted in the growth of their Asset under management. The above table indicates the direct relationship between the growth of AUM and the performance of the fund.

CONCLUSION AND SUGGESTIONS

In effect, it can be concluded by saying that all efforts at the moment are being synchronized towards attaining the objective of financial inclusion. The drive to expand reach beyond Tier 1 cities and make mutual fund offerings available to people in smaller towns and cities has indeed taken up the attention of the industry. However, several components of such an initiative, like investor awareness, broadening investor participation and product innovation, need to be aligned in order to fully establish inclusive growth. The industry needs to give due emphasis on the above factors, drawing out an efficient business and operating model to ensure that the inherent challenges that the industry is facing is efficiently dealt with. Designing a competent and all pervasive business model has all the more become important in the current scenario of changing business and regulatory legislations. At a time when amendments to key regulations are being analyzed in terms of impact on the business of the industry, it remains to be seen, how the pace and pattern of growth of the industry takes shape. Apart from that fund managers of the mutual fund have be to be more competitive and regulated so that they are able to beat the benchmark of their schemes consistently.

Investors and their financial planners should look for better funds to invest. Funds that are at least 5 years old and have ability to deliver higher than benchmark returns consistently. They must have the ability to withstand market downturns better than its benchmarks. Consistency of fund management principles and personnel. Their recent performances have not caused any concern keeping them investment worthy even today.

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