CHAPTER – I

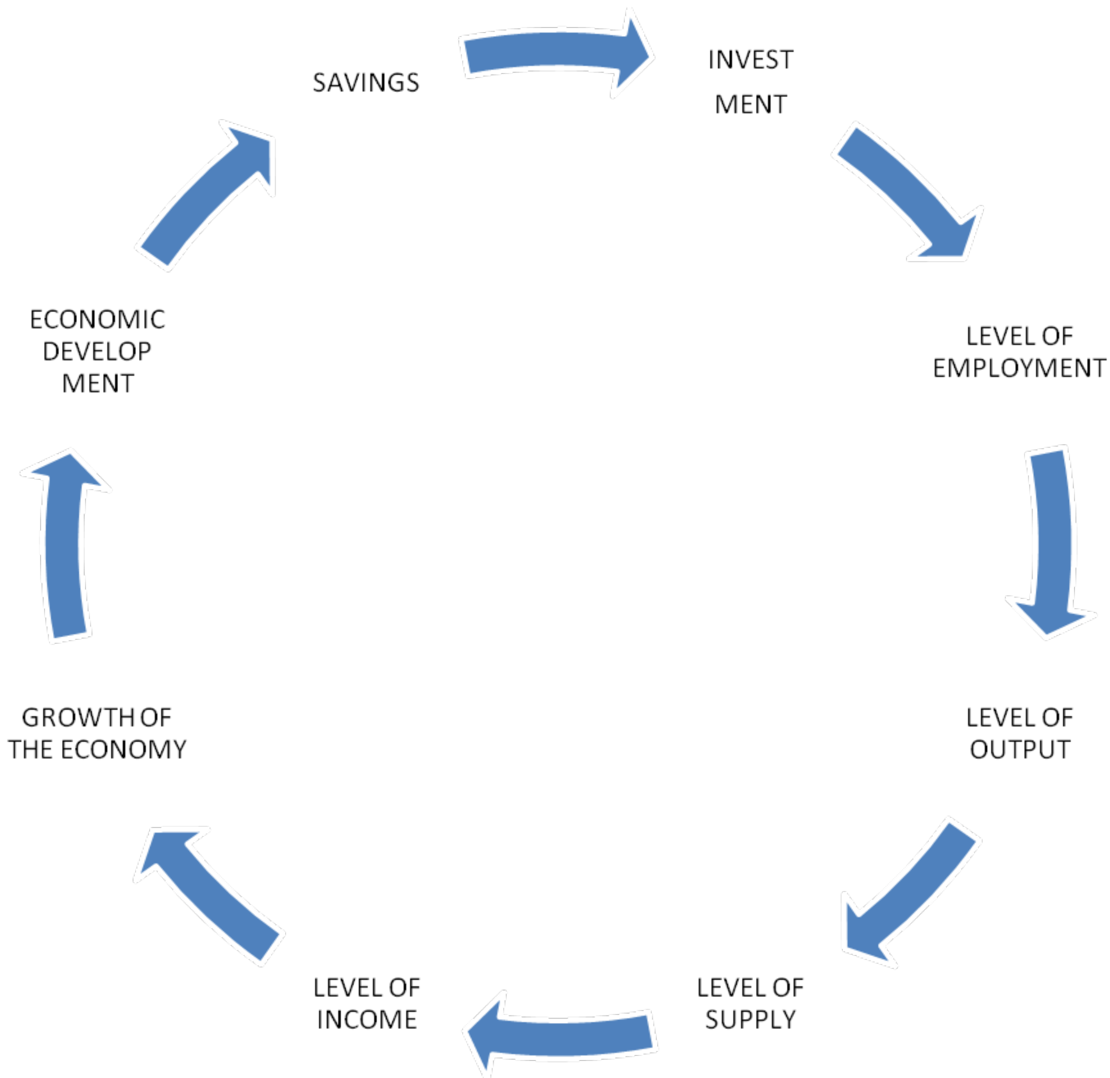
Objective: The objective of the first chapter is to focus on the role of savings in economic development, Small savings scenario in India, Andhra Pradesh and Visakhapatnam. It also covers components of financial system with a special focus on financial instruments of both long term and short term elaborating the mutual funds as one of the best investment vehicle.

INTRODUCTION:

Economic Development of any nation starts from Savings, especially for industrial development. The surplus income is savings. The traditional habit of thrift and savings adds a huge impetus for an economy leading to mobilization of resources for capital formation, which is a key source of funds for industrial growth (Mohanthy, 2006[1]). These savings should be channelised in such a way that it reaches the economy indirectly through Industrial development. Savings are the traditional pre-requisites to investment formation and they are influenced by number of factors. Primarily, Savings and investment behavior of the household sector is affected by the life cycle stage of the household (Rajarajan, 2000[2]). The Savings directly as well as indirectly form part of investment, thereby contributing a major share amongst the factors that lead to Economic Development. The savings contributed propel large proportion of economic development of a nation. The recent literature has emphasized the contribution of the financial system to economic growth coming as much through the efficiency of investment as due to the increase in savings and investment (DeGregario and Guidotti, 1995; Levine and Zervos, 1998[3]).

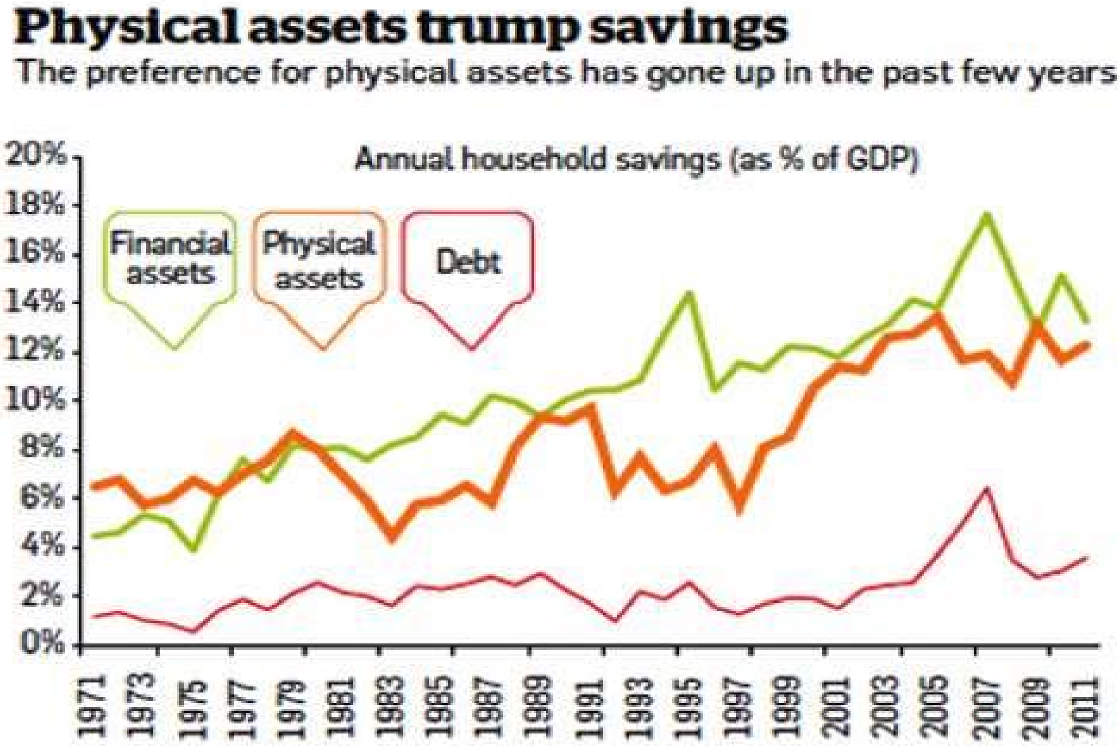
SAVINGS AND ECONOMIC DEVELOPMENT:

The dissimilar share of various sectors will not affect the long term growth of Capital formation (Ray, 2007[4]). The economic growth of a country depends on the progress of its financial markets. The progress also depends upon the structure of the financial system. The surplus of income which is diverted by savings or investment sustains the financial sector which finally leads to the development of the economy. The role of savings in economic development of any nation is highly significant.



The Government's steps to channel the financial savings are one of the major contributions for the rapid economic growth. The investor is therefore considered as a major contributor of funds towards industrial development. This prominent role of savings in Economic Development should be understood and recognized. With the increase in number of workingwomen working the family’s income increased resulting in higher savings. Savings has become more popular with people from all walks of life due to many reasons like provision for tax incentives, hedging against inflation, and availability of large and attractive investment alternatives and also increase in awareness through promotion. Savings diverted as investment will definitely lead to the industrial development, which in turn gives more and more employment opportunities. The trend of rising personal incomes has been witnessed not only amongst the young population, but also the high net worth individuals (HNI) segment, who have with them sizeable sums to invest. Increase in National Income as well as Per Capital income rise leads to more and more Savings, where the cycle of Economic Development again begins. Savings proved to be the major contributor towards Economic Development; this may be in detail studied. India’s households are saving less to sustain a minimum expenditure. Household savings has slowed down in Financial year 2011, dropping to 23% of the GDP from 25.5% in the previous year. This may be due to increase in consumer prices by 10.5% in the year 2010-11.

Figure: 1.1 GLOBAL SCENARIO OF SAVINGS:



Source: CMIE, Amfi Capitaline, SEbi, BSE, RBI India, NHB, World Gold Council.

As per the World Savings Scenerio, household savings in financial assets is drastically increasing compared to physcial assets and debt assets. This shows that Savings towards different financial assets is increasing due to the incresing awareness and improvement in confidence levels regarding returns as well as risk. People started beleiving in protection of the capital market and are also ready to accept risk at higher level. Investors are educated who are able to understand that by way of investment in financial assets both the investors as well as the economy develops.

SAVINGS IN INDIA:

India's savings rate is 28%, which is one of the highest in the world. In order to accelerate economic development of our country, it is not only necessary to increase the rate of savings but also to improve the holding pattern of such savings. Savings held in the form of currency or physical assets either remain idle or kept unproductive. The nature of Savings has changed considerably since independence, especially small savings in India. Savings in India are influenced by national and also international economic **factors**, some of which are explained below:

FACTORS INFLUENCING SAVINGS IN INDIA:

There are a number of factors affecting Indian Household Savings. According to Keynesian theory, the principal causal factor of savings is earnings or income and this stood firmly as a proven fact over the passage of time. The factors affecting Indian Household Savings may be categorized as interest rates, GDP, Income, Tax Savings, etc.,

Interest rates: The financial liberalization which was initiated in 1980s was pioneered in 1991. The Narasimham committee reduced the interest rates for attracting the common people also towards investment. Over the years, there has been a fall in the interest rates offered by banks which has resulted in fall of share of bank deposits (Ghosh and Pain, 2005)[5].

GDP Growth, Economic Liberalization: The economic liberalization steps taken in the 1980s (emphasized from the year 1991) has made a significant contribution to the growth rate in GDP (Gross Domestic Product)(mean growth rate 5.6%). From the period of 1996-97 through today, it is noticed that the GDP is constantly increasing, even though at a variable rate. The increase in GDP) resulted in a stable and considerable increase in Gross Domestic Savings.

Income: There is a reciprocal relationship between national savings and growth in per capita income. This theory of income formulated by Keynes is applicable for India.

Tax incentives: There has been a large extent of investment in this type of securities simply due to the dual benefits of State Cover and evasion of tax. The principal objective behind these modifications is to force people regarding savings and make people interested in the direction of capital market. Majority of the Indian Savings are from Small Savings.

SMALL SAVINGS SCENARIO IN INDIA:

Small savings are mainly in the form of Bank Deposits, Public Provident Funds, National Savings Certificates, Life Insurance Policies, etc., during the period 2001-10 improvement of capital market was observed in India. During the same period changes in small savings are also studied to understand whether these are diverted towards capital market or not.

TABLE: 1.1 SMALL SAVINGS SCENARIO IN INDIA (2001-10)

Year	Deposits	Certificates	Public Provident Funds	Total
2000-01	44869	33044	1398	**79311**
2001-02	51746	28078	1929	**81753**
2002-03	70214	33051	2337	**105602**
2003-04	94272	39170	2528	**135970**
2004-05	122616	33369	2534	**158519**
2005-06	130447	39812	3024	**173283**
2006-07	116303	34532	4065	**154836**
2007-08	104250	21364	3347	**123652**
2008-09	120770	22390	3652	**146801**
2009-10	179683	31683	4196	**215562**

Source: Reserve Bank of India, Hand book of Statistics on the Indian Economy, 2011.

Till 2005-06 Bank Deposits and Provident Funds were increasing with almost the same trend. Bank Deposits have started decreasing due to the reason that investor's trend is changing from fixed interest returns to flexible and high expected returns. Whereas investment in Public Provident Fund is continued in the same percentage of increase. Small savings come from different ways like from households, Corporate and Banks, out of which important sector is Domestic. Therefore there is need to understand the improved position of all **Domestic Small Savings** in India.

DOMESTSIC SAVINGS SCENARIO IN INDIA:

Domestic Savings are taken sector-wise in the following table to find out the contribution from different sectors. Mishra and Nayak (2006)[6] summarized that the statistical trend in savings and capital formation followed the traditional long linear growth set in the early sixties.

Table: 1.2 SECTOR-WISE DOMESTIC SAVINGS IN INDIA (2001-10 AT CURRENT PRICES):

(crore)

Year	**Household Sector**			**Private Corporate Sector**	**Public Sector**	**Gross Domestic Savings (4+5+6)**	**Net Domestic Savings**
	Financial Savings	**Physical Savings**	**Total (2+3)**				
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
(Base Year: 2004-05)							
2004-05	327956	435729	763685	212519	74499	**1050703**	730812
2005-06	438331	430845	869176	277157	88955	**1235288**	871575
2006-07	484303	510328	994631	338484	152929	**1486044**	1067433
2007-08	581935	537894	1119829	468707	248962	**1837498**	1352940
2008-09	600141	730892	1331033	438376	28938	**1798347**	1235057
2009-10	771527	764544	1536071	531403	139949	**2207423**	1551750
Source : Central Statistics Office (CSCO).							

Note: All values are represented in amounts of every sector along with total gross domestic savings.

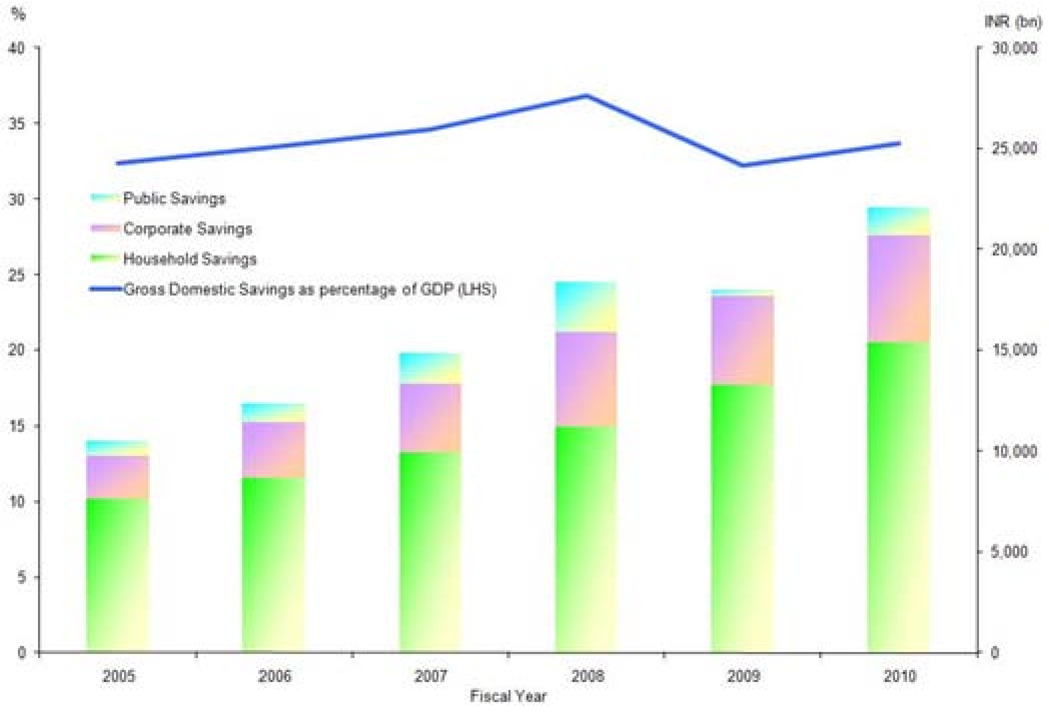
Financial Savings and Physical Savings together form Household Savings. Percentage increase in the share of financial savings is at a higher rate compared to physical savings. The declining trend of Public Sector may be attributed to negative Savings of Government administration (Salam & Kulsum, 2000[7]). The household sector which is comprised of the pure households, non corporate enterprises in agriculture, trade and industry and private non-profit making trusts, has retained a high savings rate in comparison to public sector savings and private corporate sector savings (Tamrakar and Mani, 2009[8]).

Rural Savings: The increase was even sharper for the rural sector where the household savings component tends to be the higher. Rural inflation was also about 1%. Food prices, especially cereals and vegetables during the period have increased by over 16%. Energy prices have also increased by over 15% due to increase in petroleum prices. Inflation has become a disincentive to save DK.Joshi, Ratings agency CRISIL's chief economist, said "In a high inflation environment, household savings would come under more pressure. Financial savings instruments were less preferred, especially in rural households.

India's Gross Domestic Savings as Percentage of GDP:

Gross Domestic Savings are the total savings of household, public and private sector savings. The changes in the pattern of saving of household sector are due to the impact of interest rates and other factors (Ghosh and Pain, 2005). Major portion of the India's Gross Domestic Savings contributes towards GDP.

Figure : 1.2 GROSS DOMESTIC SAVINGS AS A PERCENTAGE OF GDP:



Source: CEIC Data

CEIC says that India reported a 33.7% gross domestic savings as a percentage of Gross Domestic Product (GDP) in fiscal year 2010 as its economy picked up after the economic slowdown in 2009. The economic slowdown in 2009 saw gross domestic savings fall to 32.2% of the GDP, down from 36.9% in 2008. This increase in gross domestic savings groomed the Indian economy. The high savings rate has been one of the key sources of investment capital in Asia, providing funds for capital formation. Indeed, rising saving rates corresponding to substantial improvements in gross capital formation which rose to INR 23, 892 billion in 2009-2010 from INR19, 271 billion the previous year. While the household share of gross domestic savings declined from 74% to 69.6%. Household savings showed overall improvements, contributing INR 15, 361 billion in gross domestic savings, up from INR13, and 310 billion in 2008-2009. Indeed, household savings remain the largest source of savings, followed by private corporate savings with24.1%and public savings with 6.3%of gross domestic savings in 2009-2010.

Although adverse financial conditions in 2009 led to diminished corporate profitability and retained earnings, the fall of rate in corporate savings was reversed following recovery as gross domestic savings from corporations increased in 2009-2010. Gross domestic savings from private corporations increased to INR 5,314 billion in fiscal year 2010, up 21% compared to the previous year. In the same period, the public sector also saw a tremendous growth. The same increase in savings rate in corporate sector also may be expected in the near future. The literacy rate is 60%.

SMALL SAVINGS POSITION IN ANDHRA PRADESH:

The state of Andhra Pradesh is more or less agrarian economy contributing over 40% to the economic growth. The state has good number of well diversified industries in some cities like Hyderabad, Vijayawada and Visakhapatnam. The purchasing power is also high compared to other states. Therefore, there is good scope for study of savings in Andhra Pradesh. High price for essential goods took away as much as 55% of household incomes, leaving less for savings.

CHANGING PROFILE OF SAVINGS IN ANDHRA PRADESH:

Andhra Pradesh ranks as one of the top five largest economies of India with more than 41% contribution from agriculture followed by services and manufacturing. The Per capita Income at current prices is estimated at 39,597 in 2008-09 as against `35, 084 in 2007-08. The state has a diversified industrial base like Information Technology in Hyderabad, Steel in Visakhapatnam, textile in most of the coastal Andhra regions, tourism in Rayalaseema, Pharmaceuticals in Rangareddy district, etc., It is financially strong because of increased investment attitude which is witnessed with the increasing share after the Government's share or contribution. Improved capital based industries and high purchasing power is another attracting feature for savings.

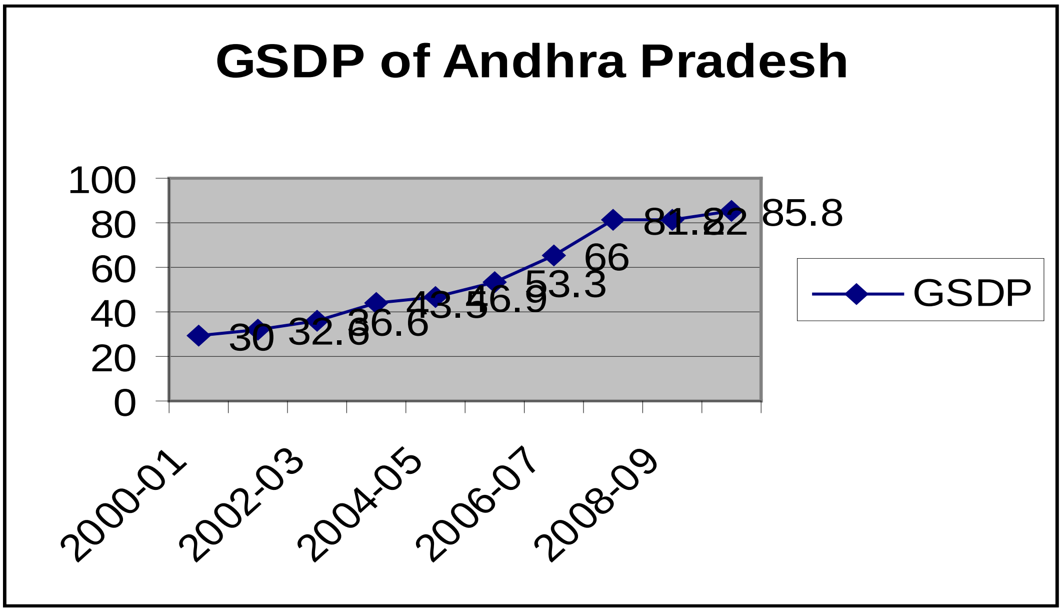
The GPSDP of state is growing at CAGR of 12% annually. The state government is committed towards creating a progressive business environment.

Table: 1.3 GROWTH OF GDP IN ANDHRA PRADESH DURING THE LAST DECADE:

Year	GSDP
2000-01	30.0
2001-02	32.6
2002-03	36.6
2003-04	43.5
2004-05	46.9
2005-06	53.3
2006-07	66.0
2007-08	81.2
2008-09	82.0
2009-10	85.8

Source: Andhra Pradesh Human Development Report, 2011.

Figure : 1.3 GSDP OF ANDHRA PRADESH



Source: SEBI handbook of statistics of Indian securities, 2011.

PROFILE OF VISAKHAPATNAM SAVINGS:

Its population growth rate over the decade 2001-2011 was 11.89 %. Visakhapatnam has a sex ratio of 1003 females for every 1000 males, and a literacy rate of 67.7 %.Visakhapatnam district has a population of 4,288,113 people of which 57.95% is urban as of 2011 census. The increase in population growth rate adds to savings, female ratio also contribute towards savings because of increase in working women. Increase in literacy rate improves the investment avenues of the investors.

FINANCIAL SYSTEM:

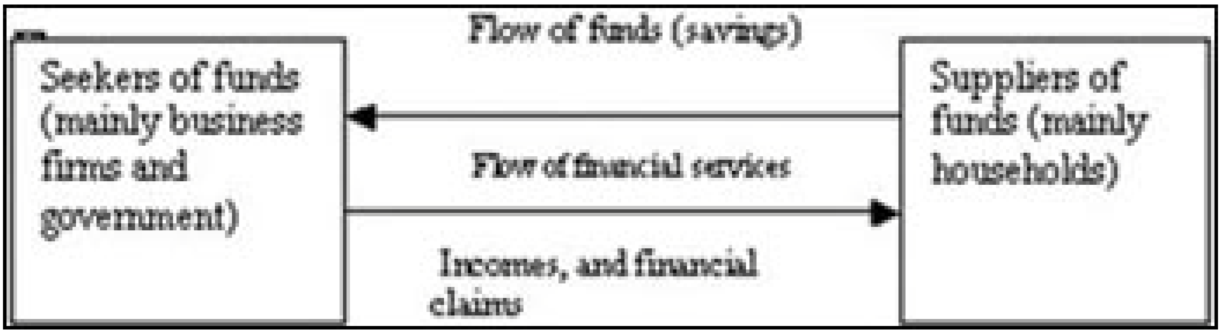
A financial system serves as a link between savers and investors. It also helps in utilizing the mobilized savings in an efficient and effective manner and also in converting savings into productive investment options. It leverages formation of capital by bringing together the supply of savings and the demand for these funds.

INDIAN FINANCIAL SYSTEM:

Over the last three decades the Indian Financial System has undergone major changes after the nationalization of banks in the year 1980s and this initiation during Liberalisation in 1991 has laid the roots for this change. The players in these markets can be segmented into a) savers/Funds providers, b) borrowers/Fund utilizes, c) Merchant middlemen and d) agent middle men (Surraiya,2007). Savings in economy has two specific episodes of variations in savings and investment behavior, which represented a significant difference from the overall trends, in 1980 and immediately post-liberalization i.e. 1991 – as investors attitude vary due to these outcomes of the deregulated economy (Athukorala & Sen, 2002[9]).

Funds in the form of savings flow from individuals, business firms and government organisations. The borrowing may belong to the same category.

Figure: 1.4 FLOWS OF FINANCIAL SERVICES:



Indian financial system has four main components may be classified into four:

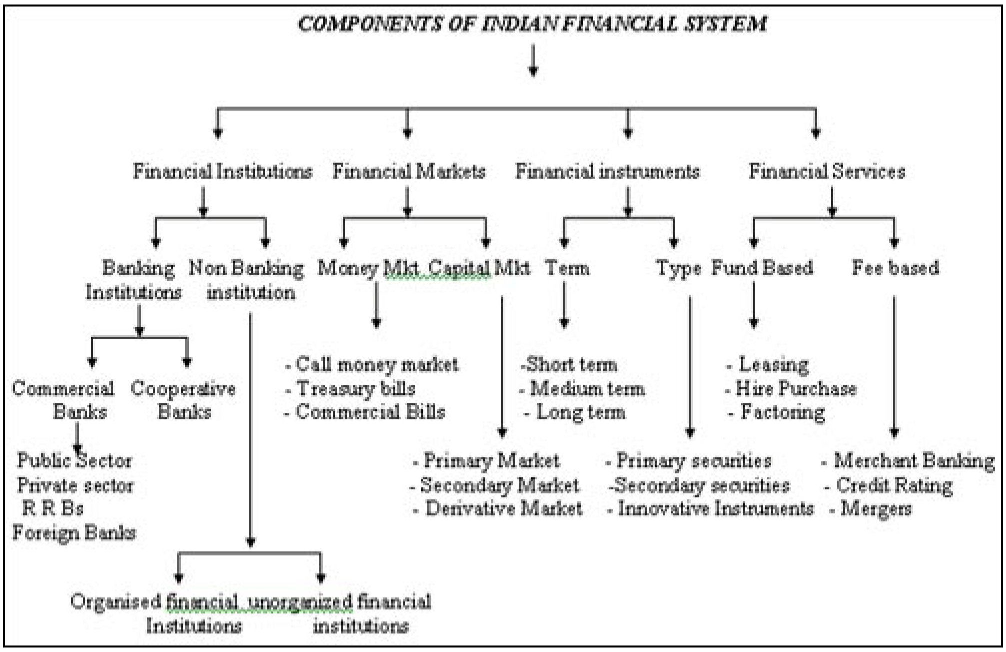
1.Financial Institutions

2. Financial Markets

3. Financial Instruments/Assets/Securities

4. Financial Services

Figure : 1.5 INDIAN FINANCIAL SYSTEM COMPONENTS:



Source: rbi.org.in

Financial Institutions: These institutions mobilize savings of the surplus units from individuals, banks and government organisations and allocate them in productive activities promising a better rate of return. They also act as financial intermediaries because they act as bridge between savers and borrowers. Financial institutions may be of banking or non-banking institutions. The regulatory body is RBI which controls and monitors all the financial institutions. The biggest financial institution at commercial scheduled banks is State Bank of India.

Financial Markets: Brigham and Eugene defined the financial market as a place where people and organisations wanting to borrow money are brought together with those having surplusfunds. The participants are investors or buyers of securities, borrowers or sellers of securities, intermediaries and regulatory bodies. Financial markets serve as intermediaries in mobilisation of savings. It assists in balanced economic growth. Financial markets are Money Market and Capital Market.

Capital Market: The capital market provides long-term funds for corporate, central and state governments. The overall growth of the Indian Capital market has been phenomenal since liberalization (Tripathy, 1996[10]). The capital market has sub-markets like debt market, equity market and derivative market. The road ahead for the mutual fund industry will be paved by the performance of the capital markets. The instruments which can be invested for long term can be called as Capital Market. While investing directly in the capital market one has to be analytical enough to judge the valuation of the stock and also understand the complex undertones of it. One needs to judge the right valuation for the existing stock too. It is very difficult for a small investor to keep track of the movements of the market. Mutual funds specialize in identification of stocks through dedicated experts in the field and this enables them to pick stocks at the right moment. In the current scenario, Indian Capital markets have experienced very high levels of volatility especially in recent years, after Global Financial Crisis in two different broad stages. In 1991, when India embarked on its economic reform programme the GDP was $278 billion. By 2001, 10 years after reforms led growth cycle this had touched $473 billion. But as the snowballing effect of sustained growth started taking shape in just six years, the GDP doubled, and by 2007, India was a trillion dollar economy. In the past four years, it added another $500 billion to the GDP. It is the belief of the economists that three factors — a savings rate that is upwards of 30%, strong domestic demand and a Young population — would spur India's GDP growth over the next decade at a sustained level of 9%, annually. The Government of India initiated economic reforms in the field of trade, industry and commerce to rejuvenate the economy and the Indian capital markets so as to facilitate the integration of Indian economy with the global economy (Tripathy, 2004[11]).

Money Market: When the stock market is extremely volatile and investors aren't sure where to invest their money, the money market can be a safe alternative. Money market funds are often considered to have less risk than their stock and bond counterparts. This is because these types of funds typically invest in low-risk vehicles such as Certificates of Deposit (CDs), Treasury bills (T-bills) and short-term Commercial Paper. In addition, the money market often generates a low single-digit return for investors, which in a down market can still be quite attractive.

Mutual Funds come under both Capital and Money Market, except Money Market Mutual Funds which come under only under Money Market. This seems to be an ideal option for the individual who does not have the time, knowledge and expertise to make a succession of judgments involving hard earned savings.

Financial Instruments: Financial instruments are the means and tools which provide the investors as well as borrowed to mobilise their funds. They represent a claim against the future income and wealth of the investors, for the payment of some of the money at a specified future date. An investment is the current commitment of money or other resources in the expectation of reaping future benefits. A large quantum of savings generated is the result of the contribution made by the household sector, corporate and government sector by way of investments in different financial instruments. There are many Short-term and Long-term Investment alternatives available to Indians, which may be evaluated on the basis of returns, safety, volatility, liquidity and convenience. At any given point of time, there are investment alternatives available to the investor ranging from traditional to innovative instruments. Preference of an investment alternative is dependent upon motives and behavior of investors (Qamar, 2003[12]). There are millions of small savers and majority of them belong to the middle class. The government of India increased interest rates on deposit schemes offered by post offices, savings account and Monthly Income Plans and Public Provident Fund (PPF). In the month of November, 2011 all these interest rates are hiked to attract more small investors, according to the suggestions given by Shyamala Gopinath Committee.

Investment options: With a control free ecoomy supported by expert banking facilities indian cpaital market offers a plenty of investment options both for residents and nonresidents. According to the objectives, the investors should thoughtfuly select the best available option in the caital market that meets one's requiremtns. The investor may also select more than one option to meet different needs. One should evaluate individual requiremtns for cash competence to risk involved and the amount of returns that the investor is expecting.

SAVINGS BANK DEPOSITS: It is one of the most primary, safest and easy options for the investors but offers 3-4% rate of interest.

FIXED BANK DEPOSITS: This suits investors who have not much appetite to returns and prefers only safety. This may be for duration of 6 months to one year. If the period of investment is less than 6 months the returns will be definitely lower than Money Market Fund. The period of investment may be from one week to 10 years. The rate of interest varies between 3.75% and 8.75% according to the period. For senior citizens it varies between 4.25% and 9.25%. This is one of the options, where one can also borrow at very cheaper rates.

POST OFFICE SAVINGS SCHEMES: These are the most popular because they reach even the remotest areas to even lower classes of people. They offer higher rate of return than Bank Fixed Deposits. This is more suitable when investors need regular monthly returns especially to retired people. The Post Office offers various schemes that include National Savings Certificates (NSC), National Savings Scheme (NSS), Kisan Vikas Patra, Monthly Income Schemes and Recurring Deposit Scheme. They are more attractive because they are tax exempted and less risky. The rate of interest offered is increased from 3.5% to 4% which is yet to be implemented. On Term Deposits interest is raised from 7.7% to 8.3%.

Public Provident Fund (PPF): PPF is supported by the Indian government and investment of minimum of 500 and maximum 1 lakh is required to be deposited. The prospective investor can create a PPF account in a gop or head post office or in any sub divisions of the nationalized banks. It falls under 80C of Income Tax Act. So investors could gain income tax deduction of up to 1 lakh. The basic rate of interest is 8 percent. The rate of interest of ppf is valuated yearly with a lock in tenure of maximum 15 years. This is one of the best fixed investments especially for high tax payers. This is one of the safest investments for small investors. The only disadvantage is that the amount cannot be withdrawn before 7 years after starting the deposit. Rate of interest is up to 2%. This is the best alternative and compulsory for all the government employees and optional to other working class groups**.**

COMPANY FIXED DEPOSITS: (FD) Maximum return can be earned with fixed income portfolio. Risk is associated with these instruments just like any other instrument. One should be careful in selecting the company. Only reputed companies may be chosen.

BONDS AND DEBENTURES: This is the best option for large investment who wants capital gains tax rebates. These are other fixed-income securities issued by companies. These are both available in Primary as well as in Secondary Market. A debenture is a document that either creates a debt or acknowledgements it, and it is a debt without collateral. One year Bonds and Debentures generally carry 5.10 to 5.30% rate of interest.

INVESTMENT IN STOCK MARKET: Indian stock market is very much fluctuating. One should be prepared to assume risk equivalent to the sum invested in the market. Investing in share market yields higher profits. Stock market cannot be considered as the safest investment options. To accuse a higher gains one must update oneself on the recent stock market news and events. The returns may be higher in long-term investment in Equity for at least five years. These may be invested through Primary market or Secondary Market. These instruments carry a high level of risk.

LIFE INSURANCE POLICIES: It is not a pure Investment Option, but a benefit for Life coverage and other health aspects. It gives returns according to the rate of premium. It covers some charges than other pure financial instruments. If a return of premium policy is viewed as an investment, rates of return are calculated based on the incremental cost above the cost of regular term insurance. A sampling of policies found returns in the range of 2.5% to 9%.

INVESTMENTS IN EQUITY: Private equity is atype of asset consisting of equity securities in private companies that are not publicly traded on stock exchange.

INVESTMENT IN (NRO) FUNDS: NRO is one of the best investment alternatives for NRIs who wish to deposit their income accused abroad and maintained in INR. The interest accrued on in this account is entitled under IT Act and is subject to 30% tax reduction to source.

SUPERIORITY OF MUTUAL FUNDS OVER INVESTMENT OPTIONS:

In case of company’s fixed deposits, they failed to check the malpractices indulged in by companies like non-payment of interest. Financially sound companies which declare dividends do not have a good track record.

Similarly Bank time-deposits though they are 100% risk-free up to a certain limit, do not earn a reasonable return in rhythm with the inflation rate which is often in double digits.

When shares investment is considered share market is a very delicate and complicated area and though one would be in a position to make handsome gains when the market is in boom, there is also a likelihood of the investors losing their money when they fail to correctly forecast the company/market trend. So, there is every reason to think that there would be a shift from bank or company deposits to mutual funds.

MUTUAL FUNDS:

It is one of the best Investment Vehicle through which one can invest in small amounts in different types of Financial Instruments. The money is handed over to an expert for constructing the best portfolio with maximum returns and minimum risk. The Indian economy has opened up and many developments have been taking place in the Indian Capital market and Money market with the help of financial system and financial intermediaries which foster savings and channels them to their most efficient use. It is also proved that mutual fund investment have a high degree of return, liquidity, varied option and also safety. Therefore, if there’s one such financial intermediary who has played a significant role in the development and **growth** of capital markets it would be the Mutual Funds.

Financial Services: The term financial services can be defined as "activities benefits and satisfaction connected with sale of money, that offers to users and customers, financial related value". The institutions which intermediate and facilitate financial activities through time are financial services.

The major changes in the Indian financial system can be put in two specific episodes of variations in saving-investment behavior. This represented a significant difference from the overall trends, firstly in 1980 and the second immediately post liberalization i.e., 1991 –as investors were wary of the outcomes of the deregulated economy (Attru-Korala & Sen, 2002) The regulations over the period have been reformed and liberalised in many ways to provide a better systematic and effective financial system.

Financial system can be developed with sound financial markets and innovative financial instruments. The post liberalization evolution of Indian financial services sector after liberalization has resulted in a big change in Capital market.

Financial Sector Reforms in India

The reforms in the financial sector were focused on creating efficient and stable financial institutions and markets. The approach to financial sector reforms in India was one of gradual and non-disruptive progress through a consultative process. The problem of financial repression in the sense of McKinnon – Shaw induced by administered interest rates pegged at unrealistically low levels" (Mc Kinnon,1973).

Financial liberalization hypothesis predicted a decrease in volatility in asset price and restrain excessive speculation in the post-reform period and discounts its macroeconomic effects (Grabel, 1995). Moreover, it was argued that a liquid market should be able to handle heavy trading without much price volatility (Ross, 1996).

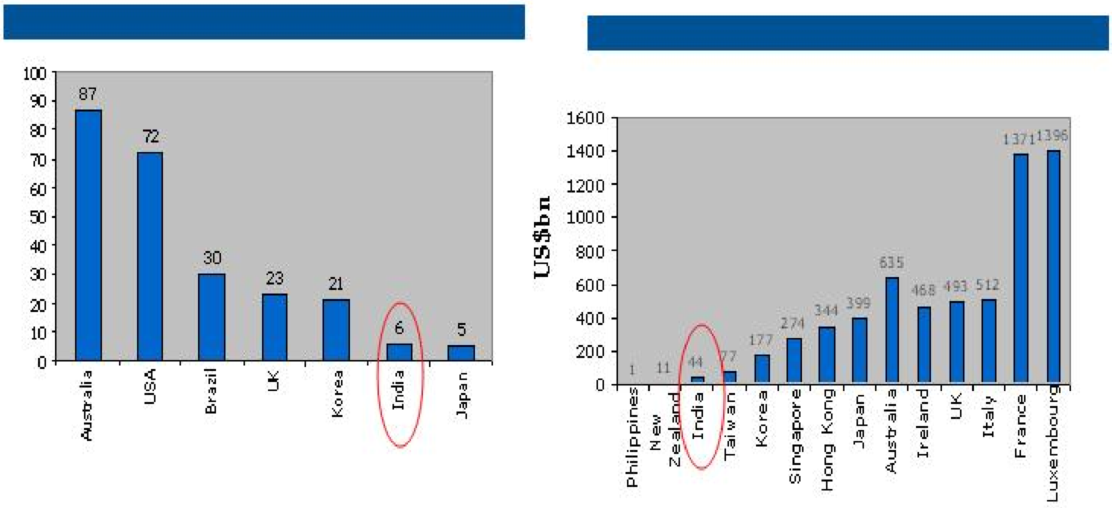
In the current scenario, Indian Financial Markets have experienced very high levels of volatility especially in recent years, especially after Liberalization and after Global Financial Crisis in two different broad stages. In 1991, when India embarked on its economic reform programme our GDP was $278 billion. By 2001, 10 years into reformed growth cycle this had touched $473 billion. The sustained growth started taking shape in just 6 years, the GDP doubled and by 2007, India was a trillion dollar economy. In the past four years, another $500 is added to GDP and is likely to be a $1.5 trillion economy by the end of this year. It is another belief that three factors – a savings rate that is upwards of 30% strong domestic demand and a young population would likely spur India's GDP growth over the next decade at a sustained level of 9% annually.

MUTUAL FUNDS REGULATIONS:

Mutual funds are regulated by SEBI (Mutual Funds) Regulations Act of 1996, which were one of the major financial reforms and also the establishment of AMFI for protecting the Investors. These regulatory measures and supervision have resulted in a substantial growth of the financial sector due to increased investor confidence in the system. Mutual funds are gradually moving to internationally acceptable norms for income recognition, asset classification and capital adequacy. This exposure to global practices may make an Indian investor more demanding, forcing the companies to adopt a customer-centric business model.

EVOLUTION AND GROWTH OF MUTUAL FUNDS: The emergence of mutual funds as an effective alternative investment instrument has led the researcher to undertake the present study of understanding preferences and perceptions of individual investors while selecting a particular fund. Mutual Funds have become a major attractive investment avenue throughout the globe**.**

Figure : 1.6 MUTUAL FUNDS AS A % OF GLOBAL INVESTMENT FUND (2010): If one goes by the number of investors in stocks and investors in mutual funds it is easy to see that asset allocation is still not favoring equity. Indian investors are grossly underweight in equity in their portfolios in the growth phase.



Source: Central statistical Organisations

In the year 2001, despite a long history, assets of mutual funds in India constituted less than 5 percent of Gross Domestic Product, which is very low compared to 25 percent in Brazil, and 33 percent in Korea. This is perhaps due to the reason that the industry has not won investors confidence to attract a growing share of household's financial savings. The IMFI is still unable to establish its worthiness among individual investors as a preferred vehicle of investment for their savings even after forty five years of its existence. The total **resources mobilized** by Mutual Funds are continuously increasing at a higher growth rate.

Mutual funds in India:

The efforts towards financialisation of savings and the general reluctance of the investing populous demand the active role of Mutual funds. The Indian household sector is characterized by a tendency to avoid risk as they lack the mental readiness to absorb the shocks of volatile capital market. Hence, to attract the surplus funds possessed by this sector into the Capital market, institutional intermediaries are required. Mutual funds act as intermediaries between the supply and demand for funds in the financial market. Financial market comprises of Money Market and Capital Market. Mutual Funds come under both Money market and Capital market. To develop these financial markets, certain measures are taken by SEBI.

MUTUAL FUNDS MOBILISATION:

Impact of Global recession is on the savings of the household sector and its channelization also towards the investment in financial assets

Table 1.6 : NET RESOURCES MOBILISED BY MUTUAL FUNDS:

(` In crore)					
Year	**UTI**	**Bank-sponsored mutual funds**	**Fl-sponsored mutual funds**	**Private sector mutual funds**	**Total (2 to 5)**
1	**2**	**3**	**4**	**5**	**6**
2000-01	322	249	1273	9292	**11136**
2001-02	-7284	863	406	16134	**10119**
2002-03	-9434	1033	861	12122	**4582**
2003-04	1050	4526	787	41510	**47873**
2004-05	-2467	706	-3384	7933	**2788**
2005-06	3424	5365	2112	41581	**52482**
2006-07	7326	3033	4226	79477	**94063**
2007-08	10678	7597	2178	128032	**148485**
2008-09	-3659	4489	5954	-31425	**-24641**
2009-10	15653	9855	4871	48166	**78545**
2010-11	-16636	1304	-16988	-15594	**-47914**
. Source : UTI and Respective Mutual Funds.					

In the year 200-01 Investment is more in Private Sector funds followed by Foreign Institutions Sponsored mutual funds due to the belief by the people and have more trust in Private sector in terms of higher quality in Portfolio management and higher returns.

In the year 2004-05 it increased by four times in both UTI and also in Private Sector, the reason may be due to increase in Savings rate. Investors increased their investment in both the sectors almost in equal percentages.

After recession in the years 2009 there was again fall in investment in both UTI as well as Private /sector Mutual funds and picked up in the year 2010.

Again the net decrease in the year 2011 may be due to continuous bearish trend in the stock market and value of the investment in equity fund has also made net decrease in Mutual funds during that period. The resources are mobilized in tremendous figures because it has number of **schemes** with different objectives and features.

The structural changes made by the government to accelerate Gross Domestic Product (GDP) did not yield the required results. Mishra and Nayak (2006) summarized that the statistical trend in savings and capital formation followed the traditional log linear growth set in the early sixties. Public sector savings decreased and private sector savings increased but the gross capital formation has lagged behind Gross Domestic Savings but there to of savings (as a percentage of GDP) in the household sector accelerated.

Table : 1.7 SCHEME-WISE RESOURCE MOBILIZATION AND ASSETS UNDER MANAGEMENT BY MUTUAL FUNDS AS ON MARCH 31, 2011

Schemes	No. of Schemes	Gross Funds Mobilised (` crore)	Repurchase/ Redemption (` crore)	Net Inflow/ Outflow of Funds (` crore)	Assets Under Management as on March 31, 2011 (` crore)	Percentage Variation over March 31, 2010
1	2	3	4	5	6	7
A. Debt Oriented Schemes						
i) Liquid/ Money Market	51	65,99,724	66,03,244	-3,520	73,666	-5.7
	(56)	(70,44,818)	(70,56,891)	(-12,074)	(78,094)	(-13.8)
	37	4,450	4,566	-116	3,409	0.4
Ii0 Gilt	(35)	(3,974)	(7,271)	(-3,297)	(3,395)	(-47.1)
	591	21,72,860	22,09,567	-36,707	2,91,975	-6.3
	(367)	(28,95,901)	(27,99,323)	(96,578)	(3,11,715)	(58.0)
	679	87,77,034	88,17,377	-40,343	3,69,049	-6.1
iii) Debt (other than assured returns)	(458)	(99,44,693)	(98,63,485)	(81,208)	(3,93,204)	(33.6)
B. Growth/ Equity Oriented Schemes						
i) ELSS	48	3,450	3,184	266	25,569	6.3
	(48)	(3,600)	(2,047)	(1,554)	(24,066)	(93.6)
	328	63,142	76,547	-13,405	1,69,753	-2.5
ii) Others	(307)	(61,114)	(60,519)	(595)	(1,74,055)	(81.7)
	376	66,592	79,730	-13,138	1,95,322	-1.5
Sub total (i+ii)	(355)	(64,714)	(62,566)	(2,149)	(1,98,121)	(83.0)
C. Balanced Schemes						
Balanced schemes	32	7,490	6,145	1,345	18,445	7.0
	(33)	(4,693)	(5,386)	(693)	(17,246)	(62.3)
D. Exchange Traded Fund						
i) Gold ETF	10	2,842	593	2,249	4,400	176.7
	(7)	(997)	(194)	(803)	(1,590)	(116.1)
ii) Other ETFs	18	4,867	3,479	1,388	2,516	163.1
	(14)	(2,538)	(2,558)	(-20)	(957)	(44.9)
	28	7,709	4,072	3,637	6,917	171.6
Sub total (i+ii)	(21)	(3,535)	(2,752)	(783)	(2,547)	(82.4)
E. Fund of Funds Investing Overseas						
Fund of Funds investing overseas	16	689	1,596	-907	2,516	12.1
	(15)	(1,387)	(1,754)	(-367)	(2,862)	(6.7)
TOTAL (A+B+C+D+E)	**1,131**	**88,59,515**	**89,08,920**	**-49,406**	**5,92,249**	**3.5**
	(882)	**(1,00,19,022)**	**(99,35,943)**	**(83,080)**	**(6,13,980)**	**(47.1)**

Source: AMFI Newsletter, June, 2011

The assets under management (AUM) of all the mutual funds decreased to (`5,92,249 crore at the end of March 31, 2011 from (`6,13,980 crore a year ago, indicating a short fall of 6.3 percent over the year 2011.The AUM was the highest for income/debt oriented schemes at (`3,69,049 crore and the AUM under growth/equity oriented scheme was (`95,322 crore. In terms of growth in AUM, Gold ETFs (176.7 percent) achieved the highest increase followed by other ETF schemes (163.1 percent) during the year. Mutual funds play an important role in mobilizing the household savings. Like in previous year, private sector mutual funds dominated resource mobilization efforts during 2010-11. There was a net outflow of ` 19,215 crore in 2010-11 by private sector mutual funds as compared to (`54,928 crore inflow in 2009-10. Public sector mutual fund and UTI mutual fund also witnessed net outflow of (`13,555 crore and (`16,636 crore in 2010-11 as compared to net inflow of (`12,499 crore and (`15,653 crore in 2009-10, respectively. Gross mobilization of resources under open-ended schemes during 2010-11 was (`86,65,727 crore, of which, about 78.0 percent was raised by the private sector mutual funds followed by public sector funds (13.1 percent) and UTI mutual fund (8.9 percent). Similarly, gross resources mobilized under close-ended schemes stood at (`1,28,874 crore in 2010-11, of which private sector mutual funds accounted for 87.1 percent followed by public sector mutual funds (10.8 percent) and UTI mutual fund (2.1 percent).

Table: 1.8 PERFORMANCES OF MF CATEGORIES DURING FY 2011

Fund Category	**Returns (%)**
Equity Infra	3.87
MIP – Short Term	4.95
Gilt Funds – Short Term	5.0
Gilt Medium & Long Term	5.08
Income Funds	5.45
FBA Rate – Long Term	6.40
MIP – Long Term	5.74
Short Term - Income	5.75
Liquid Funds	6.03
Ultra Short Term	6.20
FB – rating– Short Term	6.36
Arbitrage Funds	6.70
Equity Diversified	7.57
Equity Tax Plan	8.15
FoF – Equity	8.47

Hybrid Equity Oriented	8.71
Hybrid Debt Oriented	9.00
Equity Index	11.03
Equity Farma	13.48
Global Foreign Mutual Fund	18.01
Equity Info-tech	17.91
Equity – FMCG	25.76
Gold – ETFS	25.77
Equity – Banking	27.64

Source: amfi annual report 2010-11

Figure : 1.7 **PERFORMANCE OF MF CATEGORIES DURING FY 2011**

The performance of Mutual fund categories during the year 2011 when classified, the highest returns are with Equity Banking fund (27.64%) returns. It is even higher than Gold ETFs. During and after recession when the returns of all equity funds are negative.

Only Equity –FMCG is giving positive returns. When returns of all the funds are compared during the year 2011, it is less than Equity Banking and Gold ETFs. Infrastructure industry was having negative returns, because of which funds of this sector are giving the least returns.

ROLE OF INDIVIDUALS AS MAJOR PLAYERS IN MUTUAL FUNDS: It is clearly understood that Mutual Funds are meant especially for individual investors with the following table:

Table: 1.9 UNITHOLDING PATTERN OF MUTUAL FUNDS INDUSTRY (as on March 31, 2010)

Category	Number of Investors accounts	Percentage to total investors accounts	Net Assets ((` crore)	Percentage to total Net Assets
Individuals	46,327,683	97.07%	245,390.28	39.77%
NRIs	943,482	1.98%	27,428.86	4.45%
FIIs	216	0.00%	6,335.00	1.03%
Corporates/ Institutions/ Others	452,330	0.95%	337,812.58	54.75%
Total	47,723,711	100.00%	616,966.72	100.00%

Table 1.7 shows unit holding pattern of all mutual funds as on March 31, 2011. Individual investors accounted for 97.0 percent of the total number of investors' accounts and contributed 39.77 percent to total net assets. Corporate sector and institutions which formed only 0.95 per cent of the total number of investors accounts in the mutual fund industry, contributed a sizeable 54.75 percent of the total net assets in the mutual funds industry. NRIs and FIIs constituted a very small percentage of investors' accounts (1.9 percent) and contributed 4.45 percent to net assets.

Table: 1.10 UNITHOLDING PATTERN OF PUBLIC SECTOR SPONSORED MFS (INCLUDING UTI MF) (as on March 31, 2010)

Category	Number of Investors Accounts	Percentage to Total Investors Accounts	Net Assets (` Crores)	Percentage to Total Net Assets
Individuals	16,285,824	98.65%	54,217.94	39.90%
NRIs	155,691	0.95%	2,725.1	2.00%
FIIs	5	0.00%	130.65	0.10%
Corporates/ Institutions/ Others	66,474	0.40%	78,815.56	58.00%
TOTAL	**16,507,994**	**100.00%**	**135,889.25**	**100.00%**

Table: 1.11 UNITHOLDING PATTERN OF PRIVATE SECTOR MFS (as on March 31, 2010)

Category	**Number of Investors Accounts**	**Percentage to Total Investors Accounts**	**Net Assets ((` Crores)**	**Percentage to Total Assets**
Individuals	30,041,859	96.24%	191,172.34	39.74%
NRIs	787,791	2.52%	24,703.76	5.13%
FIIs	211	0.00%	6,204.35	1.29%
Corporates/Institutions/Others	385,856	1.24%	258,997.02	53.84%
TOTAL	**31,215,717**	**100.00%**	**481,077.47**	**100.00%**

UNITHOLDING PATTERN – PRIVATE/PUBLIC SECTOR SPONSORED MUTUAL FUNDS

From the analysis of data on unit holding pattern of Private Sector Mutual Funds and Public Sector Sponsored Mutual Funds, the following observations are made:-

1. Out of a total of 4.77 crore investors accounts in the mutual funds industry, (it is likely that there may be more than one folio of an investor which might have been counted more than once and therefore actual number of investors may be less) 3.12 crore investors accounts i.e. 65.41% of the total investors accounts are in private sector mutual funds whereas the 1.65 crore investors accounts i.e. 34.59% are with the public sector sponsored mutual funds which includes UTI Mutual Fund.
2. However, the private sector mutual funds manage 77.97% of the net assets whereas the public sector sponsored mutual funds own only 22.03% of the assets.

The number of schemes both open and close end when compared during the last two years, the details can be given as follows:

TABLE 1.12: TABLE SHOWING INCREASE IN NUMBER OF OPEN AND CLOSE END SCHEMES:

Name of the Scheme	**2009-10**	**2010-11**	**Change in Percentage**
Number of open-end schemes	641	727	13.42
Number of Close-end Schemes	202	368	82.18
Number of FMPs	117	456	290

Fund houses registered four-fold rise in the number of FMPs in 2010-11. According to data from the AMFI, the number of close-end schemes reached 368, against 202 last year, an increase of over 82%. In contrast, number of open-end schemes could grow up by 13% only.

Conclusion:

The way forward for the next couple of years for the mutual fund industry would be influenced hugely by the journey undertaken till this point of time and challenging demographic profile of investors. The rapid and unique growth of mutual fund managers is often over looked mutual fund industry is in significant growth post-crisis. Investors have deposited nearly $2 trillion of net inflows into stock and bond mutual funds since the start of 2009. In fact in 2011, assets managed by the global mutual fund industry has reached an all-time record of nearly $31 trillion. The rapid pace of engagement worldwide has served to reaffirm and strengthen mutual funds standing as investors' preferred vehicle for prudent savings investment and diversification. Indian mutual funds however reveal this multi-dimensional investment alternative and all the intricacies in a highly fashionable manner. It provides a lot of scope in the future to understand the scenario and make some fruitful investments for decent returns.

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