Chapter III

Growth of Mutual Fund Industry in India

The third chapter describes the growth of mutual funds in India. It gives the detail of the advent of mutual fund in 1774 in Dutch and 1890 in England, also it shows the UTI crises and bailout of 1998 and 2001. It also describe the growth of the mutual fund industry in India from 1964 to 1987 i.e. the monolithic phase of the industry and also the Broadening phase of the industry from 1987 to 92. It also gives the details regarding the emergence of the private sector mutual fund in 1993, growth and SEBI regulation in 1996, emergence of large and uniform industry from 1999 to 2004. With resources mobilized by mutual funds from 1992-2008.

A mutual fund is a single, large professionally managed investment organisation that combines the fund of many individual investor having similar investment objectives. It designs its schemes to meet the needs of different types of investors in terms of nature of investments, dividend distribution and liquidity etc. The entire income/profit is distributed to the investors in proportion of their investments.

Advent of mutual fund around the world

The advent of mutual funds in 1774 heralded a significant development in the democratization of investing, allowing the average person to participate in the markets through a reasonably priced, pooled product diversified to manage risk. That one small
fund saw the beginnings of a new financial services industry that has now grown to US$18.97 trillion in assets around the world.

The history of the mutual fund is more than two centuries old with the creation in 1774 of what’s believed to be the first (closed-end) mutual fund by Dutch merchant Adriaan Van Ketwich. Subscription to the fund, which Van Ketwich called “Eendragt Maakt Magt” (“unity creates strength”), was available to the public until all 2,000 units were purchased. After that, participation in the fund was available only by buying shares from existing shareholders in the open market. The fund’s prospectus required an annual accounting, which investors could view if they requested. Two subsequent funds set up in the Netherlands increased the emphasis on diversification to reduce risk, escalating its appeal to smaller investors with minimal capital.

These early mutual funds then took root in England and France before heading to the United States in the 1890s. Most of the first mutual funds were of the closed-end variety, issuing a fixed number of shares. What is hailed as the first modern-day mutual fund, Massachusetts Investors Trust, was created on March 21, 1924. It was the first mutual fund with an open-end capitalization, allowing for the continuous issue and redemption of shares by the investment company. After just one year, the fund grew to $3,92,000 in assets from $50,000. The fund went public in 1928 and eventually became known as MFS Investment Management. The first Canadian fund, Canadian Investment Fund Ltd. (CIF), was established in 1932, with assets of $51 million in 1951.

At the very dawn of commercial history, Egyptians and Phoenicians were selling shares in vessels and caravans in order to spread the risk
of these perilous ventures. Much later, in 1822, the Society General de Belgique was formed, which embodied the modern concept of risk sharing. The Foreign and Colonial Government Trust of London formed in 1868 was the real pioneer in the field of modern day concept of mutual fund. Later in 1873, the Scottish American Trust was established by Robert Flemming at Dundee. In England, the early institutions were created under legal form, known as the old English Trust. People who had experience in large trust estates were appointed as trustees and capital was entrusted to them for purchasing securities. British investment trusts were successful and are still popular with unit trusts.

Although in nineteenth century, many British investment trusts invested in American stocks, the first American investment trust was the closed-end Boston Personal Property Trust created in 1893. It was not until the 1920s that the US experienced a boom in closed-end investment trusts. The great bull markets of the 1920s and 1980s provided fertile soil for mutual funds. In their first incarnation and heydays, mutual funds played a central role in the robust stock market of the 1920s. The first mutual fund, the Massachusetts Investor Trust, was launched in Boston in 1924. After the 1929 stock market crash, these closed-end investment trusts were characterised as the “evil trusts” that manipulated the stock market and had a hand in causing the Great Crash of 1929. These changes added to the flourish of securities regulation that took place in the 1930s, which created the Securities and Exchange Commission (SEC). The SEC recommended the passage of legislation, which materialised in 1940. The Investment Companies Act of 1940 provides rules and regulations for the establishment and management of mutual funds.
Since 1940, the growth of open-end mutual funds has been dramatic. The growth of closed-end mutual funds has been slower and more erratic but they continue to exist.

**Growth of Mutual funds in India**

The Financial association of India and China was the first investment trust formed in India in 1869, however the growth of investment trust business started only in 1930. Need to establish the unit type of institution was felt in 1931 by Indian central banking inquiry committee which observed in the report that “an immeasurable benefit to India is bound to grow from the establishment and proper working of unit trust and the assistance which they give to the investors in the creation of - intermediate securities which to not exist now in providing a channel for investment in individual and other field where the primary investor would be too scared or to ignorant”. It was on this note that Prem Chand Roychand at Bombay established investment trust in 1933. Almost all the large industrial concern established investment trust and transferred their surplus funds to them. They were formed under company act providing opportunities for greater diversification of investment and risk was minimized because of vigilance of management. However these investment companies failed to mobilize household saving and small investors and high proportion of capital belonged to industrial group companies and their families that promoted the investment trust company. The committee of finance for private sector in India (1954) the Shroff committee’ reiterated the desirability of introducing unit trusts in the Indian capital market they observed that in order to increase capital availability for small industries, small savings had to be drawn into the investment market. This made unit trusts a suitable
choice. Thus the committee suggested on introduction of unit trusts both in the private and public sectors. In 1963, in an effort to provide an opportunity for middle and lower group to participate in capital markets, the government of India took initiative by passing the UT1 Act under which the Unit Trust of India was set up as statutory board. The designed role was to act as a mutual fund and the government announced exemptions under the provision of income tax as incentives to investors.

In 1985-86, Indian stock market witnessed a boom, which attracted a large number of small investors. The boom was short-lived and many companies which mobilized huge resources from small investors disappeared making them disgruntled and brought to light lack of protection for them in the stock market. The observers of the market felt the need of an institution that mobilized funds from the household sector and provide the benefit of diversification to investors. These funds were to be managed by professionals who are experts in the technicalities of stock market investment. Until 1987, UTI was a monolith institution as none was allowed to set up MFs. By July 1987, RBI worked out modalities for the establishment of mutual funds. Other public institutions like banks, financial institution and insurance companies, started establishing MFs following government’s decision to permit them. The private sector and foreign institutions were allowed to set up of MFs since 1993, subsequently, a number of private and foreign players have come up actively and swiftly. The number of MFs is increasing both in quantity offering investors a wide choice, increasing competition in the industry, thus jolting the hither, to complacent public sector-
dominated MFs into action. Today it manages large assets, which come from both corporate as well as retail investors.

The mutual fund industry in India has been in existence since 1964 when the Government of India established the Unit Trust of India (UTI) under the special act of parliament. For almost 23 years, the various schemes offered by UTI were the only options available to the Indian investors for investment in mutual funds. The monolithic structure of the mutual fund industries was, however, broken in the year 1987 when the Government of India allowed sector banks and public sector insurance corporations such as Life Insurance (LIC) and General Insurance Corporation of India (GIC) to launch their own funds. Later, in 1993, in the wake of policies of liberalization and globalization, the Government also permitted the private sector to enter into the mutual fund business.

Thus, at present, the industry has 3 types viz; (A) Public Sector Banks, (B) Financial Institutions and (C) the Private Sector. Of the total 35 players, 5 are in the public sector including the UTI, while the remaining 30 are in the private sector. The total asset under management of the industry stood at Rs 6,64,450 Crore as on May 31st 2009 while the share of public sector finance funds is Rs 1,09,414 Crore the remaining resources of Rs. 5,55,036 Crore are with private sector funds. As on May 31st 2009 the total no. of schemes offered by all the funds stood at 920, of which 595 are open ended, while the remaining 263 are closed ended and 62 are interval scheme in nature. During the past three and a half decades, the industry has grown several folds in terms of size and operations. This chapter is, therefore, devoted to the examination of the growth and development of Indian mutual funds industry can conveniently
be studied into 3 phases: (a) the monolithic phase from 1964-1987 (b) the broadening base of Industry phase 1987-1992 and (c) post 1992 phase emergence of a competitive market.

**UTI Crises and Bailout**

The very name of UTI smacked of safety and handsome returns for the multitude of Indian investors for over three decades. The organization flourished under the erstwhile closed-regime in the absence of competition. The US-64 crisis for the first time exposed the troubled situation at UTI as a result of the competitive forces unleashed by the deregulation of Indian financial markets. The dismal state of affairs at UTI is a result of a number of factors. It is a classic case of a state-owned organization perturbed by concomitant political interference, corruption, lack of accountability and transparency, etc. The impractical and populist financial measures perpetuated by the erstwhile socialist era have added fuel to the fire.

**The Genesis of Crises**

The First major crisis at UTI was in the year 1998. The adherence to unsustainable practices such as arbitrary fixing of the sales and repurchase prices, non-disclosure of the Net Asset Value (NAV) etc. have led to the negative reserves and crises at UTI. The second major reason is that of unsustainable levels of dividend pay outs, which UTI tried to uphold in spite of the fact that the performance of the scheme did not support them in the first place. UTI had been one of the most promising dividend payers in the mutual Fund industry. At
one point of time it paid a dividend of about 20 percent for four years in a row.

UTI has a portfolio of more than 80 schemes in operation. The sheer number of schemes makes it possible for UTI to operate inter-scheme transfers and transactions, which are unhealthy governance practices at their best. This tantamount to trading between the schemes \textit{inter se} rather than in the market

All these factors were contributing their bit to the impending downfall of UTI and brought its reserves into the red in October, 1998. This was for the first time in its thirty-year odd history that UTI found itself amidst trouble and so deep into it that it had to come public with it and seek the support of the government to bail it out from the crisis. The crisis put its very credibility in question. UTI was on the verge of losing its credibility in the eyes of the myriad investors who have parked their funds with it. The government is left with little choice but to step in and prop up its ailing prodigy since letting down UTI would be too much of a shock for most of the investors, whose main criteria in investing in UTI was the fact that it was state-run. But that would be far from a fitting end to the crisis and the possibility of recurrence of such crisis in future. There where various options that were open for the government to bring UTI back into proper shape.

The age of reforms brought about an increased activity in the equity markets of the country. During this era too, UTI stepped in to prop up the equity markets as and when required, at the behest of the government ignoring the economic rationale. This coupled with the lack of transparency and accountability has also been a major reason for the plight of UTI during the 1998 crisis.
Half-hearted Remedies

The crisis of 1998 brought into light major weaknesses in its operations and various loopholes in its management that needed to be rectified. The government came up with a bailout package in the form of Special Unit Scheme (SUS -99) pumping in a huge amount of Rs. 3300 Crore into UTI. But in order to avert recurrence of such crisis, a high level committee under the chairmanship of Mr. Deepak Farekh was setup to look into the mess and suggest remedies. The Committee came up with a set of 21 recommendations. The recommendations included reducing dividend pay- outs, maintaining a proper ratio of debt and equity in its investments, shifting US-64 into an NAV-driven price mechanism besides bringing it under the purview of SEBI. Most of these recommendations had to be implemented within a specified time frame and UTI for its part did try to implement some of these measures.

In the years that ensued, attempts were made to put a new lease of life into the ailing giant One such proposal was to divide UTI into smaller, manageable units. This proposal remained on paper. By early 2000, UTI was fast losing its market share in the Indian mutual fund industry to the upcoming private mutual funds. Its market share dropped from a virtual monopoly to around 60 percent levels. This was a clear indication that UTI was losing its charm with the investor community. The proposal to corporatize UTI too did not go beyond the paper work and thus things at UTI were not far away from the way they were prior to the 1998 crisis. This time again there were plenty of warning signals that cautioned about a major danger lurking in the corners for UTI and its 20 million investors. The downfall in the equity markets and the ensuing bloodbath in the
information technology, communication and entertainment (ICE) stocks hinted that UTI, which had taken positions in this segment at the very peak of the euphoria would land in trouble. UTI had bought some of the ICE stocks at sky-rocketing prices and the prices of these scrip’s were constantly battered down soon after, thus eroding a lot of value from these investments. Further the companies that UTI chose to invest in too were questionable.

During the boom period of Indian equity markets during 1999 and 2000 UTI had ample opportunities to shift its US-64 scheme to an NAV based price mechanism. The NAV of the scheme was higher than the administered price at certain points during this period offering it a very good opportunity to bring about the much-needed change. But UTI chose to squander this opportunity. As a result of these short failings UTI is forced to shift US-64 to an NAV based mode and to an NAV that is less than the face value of the US-64 units to the dismay of scores of its investors. Further UTI did not maintain the desired proportion of debt in the portfolio of US-64, which could have acted as a cushion during the downfall in the equity market. All this adds up to the mismanagement of the scheme and was bound to bring about havoc at UTI.

There are too many clumsy issues that surround its modus operandi. The nexus between politicians and corporate chieftains has led to brutal sacrifice of investors’ interests at the altar of other considerations. The sheer clout of UTI made it a juggernaut whose moves would have enormous impact on the market as well as the corporate in whose securities it invests. Any offload by UTI of a company’s stock was enough to scare the promoters of dilution of their stake in the company. This had acted as a major issue that
propelled politicians to restrict UTI from doing so. The best solution to ensure independence is to privatize UTI.

**Recurrence of Crisis**

In July 2001, for the second time in less than three years UTI again was in crisis. The trust on Unit Trust of India built over a long period is fast eroding in recent months. The UTI had been shouting from its rooftop that everything was fine till it was too late. The fact that situation was bad enough for UTI to freeze the repurchase and sale of its US-64 units for the first time ever in its 37 years history, was never even hinted to the retail investors. On the other hand, corporate either because of their ability to anticipate the state of affairs at UTI or because they had been tipped off withdrew most of their funds well before the crisis actually struck. This led to further allegations of insider trading in the US-64 scheme on top of the various complaints that already plague its operations.

The attitude of the government in handling UTI’s crisis was not been very appreciable either. There seems a lack of clarity in the policies of the Government as to its interference in the affairs of mutual fund, in the market-driven economy. The reluctance of the Government to let UTI operate like any other mutual fund is not in tune with the market reforms that successive Governments have been talking about. Moreover, repeated bailouts by the government instead of leaving UTI to the market forces, incentives UTI to continue with its complacent attitude and the investors to expect unrealistic returns and sovereign guarantee.
The decision of freezing the sale and repurchase of US-64 units is bound to have a long lasting impact on investors, markets and other mutual funds too. The psychological impact of UTI’s move would wipe out investor’s trust in the mutual fund industry as a whole. During the days following the announcement of the freeze many mutual funds witnessed heavy outflow of funds from their schemes. The decision to freeze comes as a severe blow to the investors irrespective of the fact that UTI wants to underplay the magnitude of such a drastic move.

**The Road Ahead**

In a significant departure from its customary pace, the government acted rather quickly and forced UTI to come up with a remedial package as early as fifteen days after the announcement. The chairman of UTI, P S Subramanyam was unceremoniously sent off from his position. UTI soon came out with a relief package, which is cleverly structured to reduce redemption pressures. In addition the relief package relaxes the freeze only for the 3000 units for each investor.

The government should disown UTI, leaving it to survive or perish on its own strengths and weaknesses. Rescuing it, every time it is in trouble, would only mean throwing good money after bad. The political class chose to ignore the discussion on UTI each time the parliament was in session.

After the announcement of the relief package UTI went ahead with a publicity program intended to boost the confidence of investors but
sadly the facts that were omitted in the campaign were the most useful ones.

The two major crises that have rocked the investor drive home the point that UTI should be left to the market forces rather than being propped up by the government every time it goes under at an enormous cost to the exchequer. The remedy to the problems of UTI is not frill protection but competition that would force it to mend its ways to survive.

**GENESIS OF INDIAN MUTUAL FUND INDUSTRY**

The genesis of mutual funds in India can be traced to the year 1963 when the Indian parliament enacted the Unit Trust of India (UTI) Act. The then, finance Minister, Government of India, Mr.T.T. Krishnamachari, stated the rationale for setting up of UTI in the Parliament in such erudite words: “UTI would provide an opportunity for the middle and lower income groups to acquire without much difficulty, property in the form of shares. This institution is intended to cater mainly to needs of individual investors whose means are small. The significance of the establishment of UTI is also reflected in the preamble of the UTI Act which reads as an act to provide for the establishment of a corporation with a view to encouraging saving & investment and participation in the income Profit and gains accruing to the corporation from the acquisition, holding, management and disposal of securities”. Thus, with establishment of UTI the seeds were sown for the emergence of a vibrant mutual fund industry in India.
PHASE I: THE MONOLITHIC PHASE (1964-1987)

During the initial phase which lasted for about 23 years the UTI was the only mutual fund operating in the country as a result the growth of the Industry is synonymous with the growth of UTI.

UTI began its operations in July 1964 by launching its first scheme, US-64, an open-ended scheme and collected rupees 24.67 crore interestingly this introductory scheme still remain the largest mutual fund scheme in the country with a corpus of approximately rupees 12,780 crore the resources mobilize in the following year witnessed a modest growth 5.15 per cent that was however, over shadowed by a very impressive growth in the next four years. In the year 1966-1967, UTI launch re-investment plan. However, it was only after a gap of 7 years that UTI launched its second scheme in 1971, the unit link insurance plan 1971 (ULIP). This scheme, too was an open ended one thus, by the end of its first decade of operation (1964-74) UTI had investible funds to the tune of Rs.172 crore. Thus, the first decade of UTI’s operations clearly reflect that the period was a formative one.

The second decade of operations of UTI was a period of consolidation and expansion. During this period, was delinked from RBI and it launched six new schemes. The invisibility funds rose to over Rs 1000 crore. Thus for nearly two decades the Indian investor had an opportunity to invest only in eight mutual fund schemes thereby indicating that lack of adequate competition is a major deterrent in the fast and healthy growth of any industry the role of UTI was subsequently enhanced to assume the role of the major development financial institution with the amendment of the UTI Act in 1985. During 1984-87, UTI launched several innovative and
widely accepted schemes such as Children’s Gift Growth Fund Unit scheme in 1986 and Master Share in October 1986, which was the first closed-ended scheme in India. Also, the first offshore fund India was launched in August 1986. It was a growth cum-income fund, listed at the London Stock Exchange. With new schemes receiving good response from the public, the investible funds of UTI grew to Rs.4,563.68 crore by the end of June 1987.

In sum, the growth of UTI during the first 23-year period (1964-1987) took place during the period when the economy was under a controlled regime, securities markets were not as relevant to industrial growth as they have become now and financial institutions were the major suppliers of long-term finance. While UTI raised resources both from the household savings as well as from the corporate sector, it deployed them often like a financial institution. For most part of its history, it remained a monopoly. Thus, it was only too, natural that the pace of growth of the mutual fund industry (that consisted only of UTI) during this period was slow due to the conditions prevalent then also due to lack of any competition.

**PHASE II: THE BROADENING BASE OF INDUSTRY (1987-92):**

The second phase witnessed the broadening of the base of the industry on account of the entry of mutual funds sponsored by commercial banks and public sector financial institutions. Followed by the government decision to permit nationalized banks to set up mutual funds, the State Bank of India (1987), Life Insurance Corporation (1989), General Insurance Corporation (1991), Canara Bank (1987), Indian Bank (1990), Bank of India (1990) and Punjab
National Bank (1990) set up mutual funds sponsored by public sector banks. During this period, the total assets of the industry grew to about 61,000 crores with the total number of schemes increasing to about 167 by the end of 1994.

The Indian capital market had undergone an unprecedented transformation in its over 100 years history by the end of 1987. Disintermediation was markedly visible. The capital markets had suddenly become more relevant for industrial and economic growth and the corporate sector begun to increasingly rely on them to meet their need for long term financing which hitherto was largely restricted to financial institutions. Thus, this period of five years (1987-92) witnessed rapid expansion of the capital market both in terms of total funds raised through the market and security turn over on the shop stock exchange. The total funds raised through the primary market increased from Rs.1, 474 crore in 1988 to Rs.5, 749 crore in 1992. The annual turnover of the Bombay Stock Exchange alone increased 9 fold from Rs.7, 913 crore to Rs.71, 777 crore during this period. The BSE sensex increased from 406 points to 3487 points signifying a phenomenal rise of 75% per cent. Thus, all these developments clearly reflect the phenomenal growth that took place in the Indian capital markets during this period.

In response to these changes, the Government of India permitted Public Sector Banks and Insurance Corporation to set up mutual funds in 1987. Thus, this period was marked by the entry of non-UTI Public-Sector mutual funds. The State Bank of India the large commercial bank in the country was the first bank to set up a mutual fund in November 1987. It was soon followed by Canara Bank, Bank of India, Punjab National Bank, and Bank of Baroda. In
addition the Public Sector Financial Institution such as the LIC and
GIC also entered the mutual fund business thus during the period
1987 to 1992 eight mutual funds has set-up, 6 by the public sector
banks and 2 by the Insurance Corporations, viz, LIC and GIC. on
examination it indicates that the investible resources which stood at
Rs.4,564 crore at the end of June 1987 grew exponentially to
Rs.37,973 crore by the end of June 1992, thereby registering a
compound growth of 55 per cent p.a. However, as in the earlier
period, much of this growth came from UTI, which continued to
remain the dominant player in the market.

Thus, during this period, not only the investible funds of the
public sector mutual funds increased substantially, but also the
number of schemes launched by them increased appreciably. The
total number of schemes available to the investors increased from 10
in 1986-87 to 116 by the end of 1992. In addition, mutual funds
designed a variety of schemes with different objectives such as
growth, income, balanced, tax planning etc. to suit the needs of
different types of investors. At the time, the investor base of the
funds also increased substantially during this period from 31 lakhs in
1987 to 81.65 lakhs at the end of 1990.

PHASE II: EMERGENCE OF PRIVATE FUNDS (1993-1996):
A new era in the mutual fund industry began in 1993 with the
permission granted for the entry of private sector funds. This gave
the Indian investors a broader choice of ‘fund families’ and
increasing competition to the existing public sector funds. Quite
significantly, foreign fund management companies were also allowed
to operate mutual funds, most of them coming into India through
their joint ventures with Indian promoters. These private funds have
brought in with them the latest product innovations, investment management techniques and investor-servicing technology that make the Indian mutual fund industry today a vibrant and growing financial intermediary. During the year 1993-94, five private sector mutual funds launched their schemes followed by six others in 1994-95. Initially, mobilisation of funds by the private mutual funds was slow. But, this segment of the fund industry began to witness much greater investor confidence in due course. One influencing factor was the development of SEBI’s regulatory framework for the Indian mutual fund industry. Yet another important factor has been the steadily improving performance of several fund houses. Investors in India now clearly saw the benefits of investing through mutual funds and became discerning and selective.

PHASE IV: GROWTH AND SEBI REGULATION (1996-99):

Since 1996, the mutual fund industry in India saw tighter regulation and higher growth. It scaled new heights in terms of mobilisation of funds and number of players. Deregulation and liberalisation of the Indian economy had introduced competition and provided impetus to the growth of the industry. Finally, most investors small or large started showing interest in mutual funds. Measures were taken both by SEBI to protect the investor and by the Government to enhance investors’ returns through tax benefits. A comprehensive set of regulations for all mutual funds operating in India was introduced with SEBI (Mutual Fund) Regulations, 1996. These regulations set uniform standards for all funds. The erstwhile UTI voluntarily adopted SEBI guidelines for its new schemes. Similarly, the budget of Union Government in 1999 took a big step in exempting all mutual fund dividends from income tax in the hands of investors.
Both the 1996 regulations and the 1999 Budget must be considered of historic importance, given their far-reaching impact on the fund industry. During this phase, both SEBI and AMFI launched Investor Awareness Programmes aimed at educating the investors about investing through mutual funds. AMFI published its booklet titled "Making Mutual Funds Work for You the Investors’ Guide.”

**PHASE V: EMERGENCE OF A LARGE AND UNIFORM INDUSTRY (1999 – 2011):**

The other major development in the fund industry has been the creation of a level playing field for all mutual funds operating in India. This happened in February 2003, when the UTI Act was repealed. Unit Trust of India no longer has a special legal status as a trust established by an Act of Parliament. Instead, it has also adopted the same structure as any other fund in India a Trust and an Asset Management Company. UTI Mutual Fund is the present name of the erstwhile Unit Trust of India. While UTI functioned under a separate law of Indian parliament earlier, UTI Mutual Fund is now under the SEBI’s (Mutual Funds) Regulations, 1996 like all other mutual funds in India. UTI Mutual Fund is still the largest player in the Indian fund industry. All SEBI compliant schemes of the erstwhile UTI are under its charge. All new schemes offered by UTI Mutual Fund are SEBI approved. Other schemes (US 64, Assured Return Schemes) of erstwhile UTI have been placed with a special undertaking administered by the Government of India. These schemes are being gradually wound up. The emergence of a uniform industry with the same structure, operations and regulations makes it easier for
distributors and investors to deal with any fund house in India. The year 1999 marked the beginning of a new phase in the history of the mutual fund industry in India, a phase of significant growth in terms of both amounts mobilised from investors and assets under management.

Table:- 3.1
Gross Fund Mobilisation from 1998 to 2011 (Rs. Crores)

<table>
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<tr>
<th>From</th>
<th>To</th>
<th>UTI</th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>01 April-98</td>
<td>31-March-99</td>
<td>11,679</td>
<td>1,732</td>
<td>7,966</td>
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<td>01 April-99</td>
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<td>13,536</td>
<td>4,039</td>
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<td>4,643</td>
<td>13,613</td>
<td>1,46,267</td>
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<td>01 April-02</td>
<td>31-March-03</td>
<td>5,505</td>
<td>22,923</td>
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<td>01 April-03</td>
<td>31-March-04</td>
<td>*</td>
<td>7,259*</td>
<td>58,435</td>
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<td>5,92,250</td>
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Source: - Compiled from AMFI yearly publication (1998-2011)

Note: - * UTI was re-organised into tow parts: one, the specified Undertaking; two, The UTI Mutual fund. In the above table, UTI Mutual fund data is included under “public Sector”

The Above table shows the gross fund mobilization of mutual fund industry from 1998 to 2005. It can be seen from the above table that during the period of 98-99 the UTI has dominated the mobilisation of fund with Rs. 11,679 Crore coming from it while the public sector fund got Rs. 1,732 Crore, the private sector mutual fund has a well established market in the year 98-99 it has mobilised an amount of Rs.7,966 Crore. Till the year 2002-2003 private sector has a full dominance in industry as can be seen from the above table that it has almost Rs.
2,20,551 Crore (89 %) of the fund mobilised during the year 2002-2003 with UTI having Rs. 5,505 Crore and public sector having raised an amount of Rs. 22,923 Crore.

Table No: - 3.2

Assets under Management from 1999 to 2006 (Rs. Crores)

<table>
<thead>
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<th>Year</th>
<th>UTI</th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31-March-99</td>
<td>53,320</td>
<td>8,292</td>
<td>6,860</td>
<td>68,472</td>
</tr>
<tr>
<td>31-March-00</td>
<td>76,547</td>
<td>11,412</td>
<td>25,046</td>
<td>113,005</td>
</tr>
<tr>
<td>31-March-01</td>
<td>58,017</td>
<td>6,840</td>
<td>25,730</td>
<td>90,587</td>
</tr>
<tr>
<td>31-March-02</td>
<td>51,434</td>
<td>8,204</td>
<td>40,956</td>
<td>100,594</td>
</tr>
<tr>
<td>31-March-03</td>
<td>44,541</td>
<td>12,228</td>
<td>65,036</td>
<td>121,805</td>
</tr>
<tr>
<td>31-March-04*</td>
<td>23,942*</td>
<td>55,522*</td>
<td>79,464*</td>
<td></td>
</tr>
<tr>
<td>31-March-05</td>
<td>34,624</td>
<td>1,04,992</td>
<td>1,39,616</td>
<td></td>
</tr>
<tr>
<td>31-March-06</td>
<td>50,348</td>
<td>1,81,514</td>
<td>2,31,862</td>
<td></td>
</tr>
</tbody>
</table>

Source: - Compiled from AMFI yearly publication (1998-2007)

Note: - * UTI was re-organised into tow parts: one, the specified Undertaking; two, The UTI Mutual fund. In the above table, UTI Mutual fund data is included under “public Sector”

The above table shows the Assets under management of the Indian mutual fund industry from the year 1999 to 2006. we can see from the above table that UTI has dominated the Indian mutual fund industry in the year 1999 UTI has the share of almost 78 % of the total AUM of the mutual fund industry i.e Rs. 53,320 Crore and that of public sector was Rs 8,292 Crore and private sector of Rs. 6,860 Crore. After the crisis of UTI in the year 2002 the dominance of the UTI has declined with private sector mutual fund started to dominate the industry from this year the AUM of the UTI in the 2003 was Rs. 44,541 Crore i.e only 37 % of the total AUM of the mutual fund industry of the year 2003, the AUM of the private sector mutual fund industry in the year 2003 was Rs. 65,036 Crore i.e 53 % of the total AUM of the mutual fund industry.
After the year 2003 the AUM of the mutual fund industry has been dominated by the private sector with the AUM of the private sector mutual fund has been gone to 78 % i.e Rs. 1,81,514 Crore in the year 2006.

**Table No:- 3.3**

**Cumulative Positions of Net Assets of Mutual Fund**
**Between 1999 to 2011 (RsCrores)**

<table>
<thead>
<tr>
<th>Year</th>
<th>UTI</th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31st 1999</td>
<td>53145.27</td>
<td>8250.62</td>
<td>6797.16 (9.97)</td>
<td>68193.08 (100)</td>
</tr>
<tr>
<td>March 31st 2000</td>
<td>72333.43</td>
<td>10144.78</td>
<td>25167.89 (23.32)</td>
<td>107646.1 (100)</td>
</tr>
<tr>
<td>March 31st 2001</td>
<td>58016.72</td>
<td>6628.01 (37.32)</td>
<td>25942.104 (28.64)</td>
<td>90586.87 (100)</td>
</tr>
<tr>
<td>March 31st 2002</td>
<td>51433.61</td>
<td>7701.6 (7.66)</td>
<td>41458.98 (41.21)</td>
<td>100594.19 (100)</td>
</tr>
<tr>
<td>March 31st 2003</td>
<td>45786.78</td>
<td>8219 (8.03)</td>
<td>483788.00 (47.26)</td>
<td>102393.55 (100)</td>
</tr>
<tr>
<td>March 31st 2011</td>
<td>58,534.72</td>
<td>64,647.11 (9.28)</td>
<td>573,555.69 (82.32)</td>
<td>696,737.53 (100)</td>
</tr>
</tbody>
</table>

**Source:** - Compiled from AMFI yearly publication (1998-2004)

**Note:** - Figures in bracket indicate market share of various players.

The above table shows the Cumulative Positions of Net Assets of Mutual Funds Between 1999 to 2003. We can see from the above table that UTI has dominated the mutual fund industry in India since it existence from the year 1963 to 2002 the share of the Net assets of mutual fund of UTI was 77.94 % in the year 1999 which was also continued in the coming year like 67 % in the year 2000, 64 % in the year 2001, 51% in the year 2002. As compared to UTI the share of private sector mutual fund has been progressed form the year 2000 onwards that can be seen from the above table that the share of private
sector mutual fund was 23 % in the year 2000 which has gone up to 47 % in the year 2003.

**Resources Mobilized by Mutual fund industry since 1964**

**Resource mobilized during 1964-1987:** The UTI 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 took over the regulatory and administrative control in place of RBI. At the end of 1988, UTI had 6,700 crores of assets under management.

**Resource mobilized during 1987-1993:** The second phase witnessed the broadening of the base of the industry on account of the entry of mutual funds sponsored by commercial banks and public sector financial institutions. Followed by the government decision to permit nationalized banks to set up mutual funds, the SBI, LIC, GIC, Canara Bank, Indian Bank, Bank of India and Punjab National Bank (1990) set up mutual funds sponsored by public sector banks. During this period, the total assets of the industry grew to about 61,000 crores.
Table No:- 3.4
Amount Mobilised & Assets Under management for the year 1992 to 1993

<table>
<thead>
<tr>
<th></th>
<th>Amount Mobilised (Rs. Crores)</th>
<th>Assets Under Management (Rs. Crores)</th>
<th>Mobilisation as % of Gross Domestic Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>UTI</td>
<td>11,057</td>
<td>38,247</td>
<td>5.2%</td>
</tr>
<tr>
<td>Public Sector</td>
<td>1,964</td>
<td>8,757</td>
<td>0.9%</td>
</tr>
<tr>
<td>Total</td>
<td>13,021</td>
<td>47,004</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

Source: - AMFI

The above table shows the AUM of the mutual fund industry for the year 1992 to 1993. We can see from the above table that UTI has mobilised an amount of Rs. 11,057 i.e 85 % of the total amount mobilized for that year with public sector raising only Rs. 1,964 Crore for that year. The AUM of UTI in the year 1992-1993 was Rs. 38,247 i.e 81 % of the total AUM of mutual fund industry and the AUM of public sector was only Rs. 8,757 Core in the year 1992-1993.

**Resource mobilized during 1993-94:**

The financial year 1993-94, the first year of operations of the private sector mutual funds, witnessed the launch of scheme by five private sector mutual funds, witnessed the launch of schemes by five private sector mutual funds viz. Kothari Pioneer Mutual Fund, ICICI Mutual Fund, Taurus Mutual Fund, Morgan Stanley Mutual Fund and 20th Century Mutual Fund, In all 6 schemes were launched by these five mutual funds and Mobilisation of funds by public sector funds were
Rs.386.72 crore while the UTI collected Rs.9,297.00 crore during the year. Thus, the total resources of Rs.11,243.24 crore were raised during the year.

**Resource Mobilized during 1994-95.**

During 1994-95, six more private sector mutual funds viz., Apply Mutual Fund, Shri Mutual Fund, JM Mutual Fund, CRB Mutual Fund, Birla Mutual Fund and Alliance Mutual Fund, entered the capital markets for the first time and collected Rs.1,321.79 crore. During the year, the number of schemes launched by them grew sharply to 14 from 6 last year. The industry as a whole raised Rs.11,274.57 crore from the market through a total of 35 schemes. Of which public sector mobilised Rs.1,341.78. Though the UTI launched only 6 new schemes, it’s mobilisation was much ahead at Rs.8,611.00 crore.

**Resources Mobilized during 1995-96.**

In 1995-96, mutual funds mobilised total resources of Rs.5,976.30 crore roughly half of what they could mobilise in 1994-95. In all 29 scheme by public sector mutual funds, which collected Rs.348.11 crore in contrast private sector mutual funds launch 14 schemes and mobilised Rs.133.03 crore from the market. However, UTI launch 7 schemes during the year and collected Rs.5,147 crores. UTI’s US-64 scheme could alone raise Rs.2,740 crore. Out of 29 scheme launched during the year, 24 schemes were closed ended while the remaining 5 open-ended. Of the total 29 schemes, 14 schemes were equity linked saving schemes (ELSS) or tax-saving schemes, followed by 8 income schemes, and 1 income cum growth scheme. Thus, tax-savings schemes continued to be popular among the mutual funds and the investors.
**Resources Mobilized during 1996-97.**
During 1996-97 the total resources mobilised by all the mutual funds (including the UTI) registered a tremendous growth of 73 percent at Rs.10,097 crore against Rs.5,976.30 crore collected in 1995-96. UTI alone mobilized Rs.9,600 crore from 7 new schemes the amount raised by public sector mutual funds. However, declined to Rs.151 crores from Rs.348.11 crore collected in 1995-96. There was a sharp decline in the no. of schemes launched from 8 in 1995-96 to only 4 in 1996-97. However private sector mutual fund mobilize Rs.346 crore against Rs.133 crore in 1995-96. The year saw the launch of as many as 22 new schemes in comparison to only 14 schemes launched in 1995-96.

**Resources Mobilized during 1997-98.**
The mobilization of resources by mutual funds during the year 1997-98, was higher at Rs.11,406 crore as compared to Rs.10,097 crore in 1996-97. The UTI maintained its status as the largest mobilized of funds with Rs.9,100 crore from 11 new schemes and its oldest scheme US-64. However, UTI’s mobilisation was lower as compared to Rs.9,600 crore it raised last year.

**Resources Mobilized during 1998-89.**
The mutual fund industry had one of its worst years in 1998-99 and reported a sharp decline in net resource mobilisation. There was a net outflow of Rs.950 crore during the entire year. By far the private sector mutual funds out perform the other player by mobalizing Rs.1,453 crore against Rs.335 crore mobilised by the public sector mutual funds. UTI also had a bad year with a net out flow of Rs.2,738 crore.
Resources Mobilized during 1999-2000

The mutual fund industry once again bounced back from a dismal last year on the back of sharp decline in interest rates and tax-breaks announced by the Government. During 1999-2000 the gross mobilisation of resources by the industry increased to Rs.61,241.23 crore from Rs.22,710.73 crore during 1998-99.

Resources Mobilized during 2000-2001

The phenomenal turn around of the mutual industry continued in the year 2000-2001. During the year the mutual funds industry launched 41 new schemes. Out of which 36 were open ended and 5 were closed ended. This clearly reflects the shift towards open-ended schemes. The volatile stock market also saw a changed in investors risk tolerance level with launching of 17 income schemes which collected Rs. 2,079 crores accounting for 54% of total collection of Rs.3,830 crores from new schemes.

Resources Mobilized during 2002-2003

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 Ltd, 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.

**Table No:- 3.5**  
**Assets in mutual fund industry from 1964 to 2011**

<table>
<thead>
<tr>
<th>Year</th>
<th>AUM (Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>25</td>
</tr>
<tr>
<td>1986</td>
<td>6700</td>
</tr>
<tr>
<td>1994</td>
<td>61028</td>
</tr>
<tr>
<td>2001</td>
<td>72084</td>
</tr>
<tr>
<td>2011</td>
<td>696,737.53</td>
</tr>
</tbody>
</table>
The above table shows the growth of AUM of mutual fund industry from the year 1964 to 2002. We can see from the above table that the total AUM of the mutual fund industry in the year 1964 was Rs.25 Crore, and the year 1986 it was Rs. 6,700 Crore, the industry has AUM of Rs. 61,028 Crore in the year 1994 which has grown to Rs. 1,02,394 Crore.

**Table No: - 3.6**

**Net Mobilization of Funds by MFs (1996-2002)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>UTI</td>
<td>9600</td>
<td>9100</td>
<td>2737.53</td>
<td>4548.32</td>
<td>323</td>
<td>-72084</td>
<td>-6039.67</td>
<td>58,534.72</td>
</tr>
<tr>
<td>Public Sector</td>
<td>151</td>
<td>332</td>
<td>335.16</td>
<td>744.92</td>
<td>-1044.5</td>
<td>1409.31</td>
<td>641.28</td>
<td>64,647.11</td>
</tr>
<tr>
<td>Private Sector</td>
<td>346</td>
<td>1942</td>
<td>1456.7</td>
<td>15166.48</td>
<td>9849.57</td>
<td>13049.89</td>
<td>6601.89</td>
<td>573,555.69</td>
</tr>
<tr>
<td>Total</td>
<td>10097</td>
<td>11406</td>
<td>949.67</td>
<td>18969.88</td>
<td>9128.07</td>
<td>7175.20</td>
<td>1203.50</td>
<td>696,737.53</td>
</tr>
</tbody>
</table>

*Source: SEBI bulletin 2003*

The above table shows the net mobilization of Mutual fund from 1996 to 2002. We can see from the above table that UTI has raised good amount in year 1996-1997 with amount of Rs. 9600 Crore, the net mobilisation of UTI has gone to negative in year 2001 & 2002. The mobilisation of the Public sector fund is steady with an amount of Rs. 151 Crore raised in year 1996-1997 to an amount of Rs. 641.28 Crore raised in the year 2002. The share of the private sector mutual fund has gone up with Rs. 346 Core was raised by the private sector mutual fund in the year 1996-1997 to an amount of Rs. 696,737.53 Crore raised in the year 2011.
Resources Mobilized during 2003-2009

As at the end of May, 2009, there were 35 funds, which manage assets of Rs.55036 crores under 421 schemes. The graph indicates the growth of assets over the years.

Graph No: - 3.1

Growth in assets under Management since 1965 till March 2011

The above graph shows the growth in assets under Management since 1965 till March 2011. From the above graph we can see that there is a tremendous growth in AUM of the Mutual fund industry from 1965 only two time the AUM of the mutual fund industry has come down once of the UTI crisis 2003 and second because of the world wide recession March 2009 and slow down in the Indian stock market but still the
mutual fund industry has grown very well from 1965 with only one mutual fund with an amount of 25 crore and now with 35 mutual fund players with an AUM of Rs 6,64,450 Crore as on May 31st 2009. 

At present, the mutual funds industry over the years has grown and there are 35 mutual funds registered with Securities & Exchange Board of India. Despite the falling markets, mutual funds have been able to generate good returns for their investors. Mutual funds have undergone considerable quantitative as well as qualitative changes. At present, the SEBI has permitted Indian mutual funds to invest in Global Depository Receipts/ American Depository Receipts of Indian companies. Further, the 1999-2000 budgets have showered liberal concessions on the mutual fund industry. The government’s decision to exempt them from income tax and the dividend being paid by mutual funds in the hands of the investors is welcomed by the investing public. The Indian mutual fund Industry has the potential to leap frog through the many huddles and hassles that lie on its way. The potential ad scope is evident from the ensuing study. Some developed economies have thawed the challenges to realise the fruits of patience in investing in various funds. While the Industry is dawning here, it has burgeoned elsewhere in japan, UK, and majorly in the US. Lessons well learnt could help place investor needs in a future worth expecting. Still in the time of recession and slowdown of the global market the industry has an AUM of more then Rs. 6,00,000 Crore in the year 2009.

Concluding remark:-
The two major crises that have rocked the investor drive home the point that UTI should be left to the market forces rather than being propped up by the government every time it goes under at an enormous cost to the exchequer. The remedy to the problems of UTI is not frill protection but
competition that would force it to mend its ways to survive. There is a tremendous growth in AUM of the Mutual fund industry from 1965 only two time the AUM of the mutual fund industry has come down once of the UTI crisis 2003 and second because of the world wide recession March 2009 and slow down in the Indian stock market but still the mutual fund industry ahs grown very well from 1965 with only one mutual fund with an amount of 25 crore and now with 35 mutual fund players with an AUM of Rs 6,64,450 Crore as on May 31st 2009.

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