

# An Analytical Study of Growth and Performance of Mutual Funds in India (With Special Reference to Tata Mutual Funds and Reliance Mutual Funds)

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**Abstract –** The mutual fund industry in India is seen to traverse a huge way after its incorporation in the year 1963. It is seen that the industry has experienced significant growth in terms of different parameters such as total houses of fund, total schemes, mobilization of funds, management of assets etc. In face of the crucial role that channels saving of household, a question arises stating whether the mutual industry in India has been successful in attaining the desired goal. The given study is seen to address the said concern. Studies detailed nature states that the industry of mutual fund is seen to record a considerable progress on several fronts which fails to use the potential totally. Based on all parameters, it occurs to deter the economy developed with majority of the economy rising in the world today. Further, the industry is seen to face significant challenges such as ratio of low penetration, absence of product differentiation, poor awareness of investors and lesser ability in communicating customers the desired value, poor interest in retail investors with respect to the industry of mutual funds and emerging the industry nature. On the basis of the analysis, the study further suggests recommendation that would address the given challenges.

**Keywords:** Assets Under Management, Mutual Funds, and Investors, House Hold Savings, Risk, & Return

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## I. INTRODUCTION

The Regulations of SEBI 1993 is seen to define the mutual fund (MF) as the establishment of a fund in a way to trust by the sponsors with the aim to leverage monies by the concerned Trustees via unit sale to general public based on few schemes that help invest in security in terms of the said regulations frequently [1].

As per the AMFI or Association of Mutual Funds in India, "A mutual fund can be deemed as the trust which would club the investors saving having a goal common to all. Individuals having an investible surplus even as much as few thousand bucks could initiate investment in mutual funds. An investor is expected to purchase a unit of the schemes of mutual fund having an objective and likewise strategy for investment."

Mutual fund could be stated as the financial instrument that lays a platform which enables a common person to convert a significant amount to a huge sum by carefully investing in the right scheme

as per the ability of taking risk. There exist arrays of investment opportunities which can be considered by the investors. They have the freedom to invest in any of the given scheme. It is seen that they have prompt access to the investment information. Mutual fund is financial instruments innovation that rises from the combination and permutations of the security secondary on the basis of objective of investment. This led to the upliftment of schemes of mutual fund on the basis of structure such as close ended or open ended that is dependent on the investment schemes such as balance scheme, growth scheme, money market scheme, income scheme, along with funds such as index funds, tax savings scheme, along with sector funds. There exists additional instruments innovative said to be Derivative Mutual Funds.

Mutual Funds is seen to extremely a source for successful investment having the knowledge power of several fund managers that has the ability to track the movements of managers, offer funds, as per the investors objective, risk diversification, greater liquidity, lower cost, operations

transparency, small investors affordability, under the regulations of SEBI etc. But tax rates that are higher, returns fluctuating, more diversification is thought to be mutual funds.

Owing to the rising emphasis in savings domestic along with their allocation and mobilization in terms of profitable investments, the scope and need for the operations of mutual fund is seen to rise [2]. An important class of the intermediary of finance is mutual funds that allow range of savers across the globe to be part of the benefits aided by the growth of capital market. This is termed to be the alternative vehicle of the users and suppliers intermediation of financial resources that are investable and gaining tremendous popularity in the India as well as abroad owing to greater return of investor and likewise low cost and risk. So, the mutual funds involvement in Indian economy transformation has deemed it crucial to see the services both in terms of the financial intermediary along with the pace settlers which play a crucial role in mobilization and allocation of funds effectively in market. Considering that the mutual funds attain immense potential for growth yet to fully capitalize the potential, it is important to first create and then market the products innovative along with strategies of distinct marketing. Also, the cultural equity is yet to be fully developed in the nation like education of investor has to be penetrated to attain benefits from mutual funds.

#### A. TATA Mutual Funds

Tata Mutual Fund is seen to attain the trust of huge investor having significant performance and a service that is world class.

Tata Mutual Fund is seen to offer option of investment for all, no matter if you are a salaried person or a businessman, a housewife, or a retired person, a capital builder, and the aggressive investor. Their flexible and varying plans of investment that lay huge emphasis on creation of long-term wealth along with consistent returns. Such funds are seen to boast transparency and risk control distinctly. So, irrespective of the profile of your investment, you always have a match here.

#### B. Reliance mutual funds

Another leading industry is Reliance Mutual Fund (RMF) having Rs 2, 33,628.56 Crores as the Average Asset under Management (January 2019 - March 2019) and the folios as 90.67 lakhs (March 31, 2019).

RMF being India's rapidly growing mutual funds, is seen to offer the investors with products of well-rounded portfolio that help map the requirements of the investors with its presence in around 300 cities (March 31, 2019) throughout the nation. RMF is seen to constantly endeavour the launch of products

innovative along with initiatives of customer service helping leverage investors value [3].

Reliance Mutual Fund (RMF) is set up under Indian Trust Act of 1882 with RCL, being the Sponsor or the Settler and RCTC: Reliance Capital Trustee Co. Limited being its Trustee.

The RMF is registered under the SEBI with the registration number as MF/022/95/1 on June 30, in the year 1995. Further on March 11, 2004 the name of Reliance Capital Mutual Fund altered to RMF under the letter no of SEBI as IMD/PSP/4958/2004 on the same date. RMF has been formed sp as to launch several schemes of mutual funds owing to which the public can attain unit and likewise contribute to the market capital and at the same time lay opportunity for the investors to invest under varied security.

## II. LITERATURE REVIEW

### A. Mutual Fund Industry

Origin of Mutual Fund Industry dates back to 1963 in India along with the setup of UTI or Unit Trust of India under the Indian Government initiative and RBI. The mutual funds history is seen to be present in 5 different phases:

- a) Establishment and Rise of Mutual fund (1967-87)
- b) Initiation of funds of Public Sector (1987-93)
- c) Emergence of funds of Private Sector (1993-96)
- d) Growth and Regulations of SEBI (1996-2004)
- e) Consolidation and Growth (2004 onwards)

Unit Trust of India (UTI) has been set up back in 1963 under the Parliament Act. The establishment was done by the RBI and was under the operation of RBI regulatory control until delinking between the two took place in 1978 following the transfer of the control in IDBI (Industrial Development Bank of India) hands. Industry of Mutual Fund in India saw emergence of players of public set in 1987! The Indian government then permitted the public sector Insurance corporations to aid Mutual Funds floating [4]. This permission was added to the funds of private sector consisting of the management company of foreign funds to be part of the industry of Mutual Funds in the year 1993. Post the entry of funds of private sector in 1993, there arose an era of transformation in Indian industry of Mutual Fund laying huge choice for the Indian investors and hence lead to the rise of huge industrial

competition. The industry of Mutual Fund has experienced growth along with SEBI's strict regulations post 1996. Several programs for investor awareness have been launched at the time of AMFI and SEBI. The industry has seen many managers' mergers along with acquisition after 2004 [5].

### **B. Current Status of Mutual Funds in India**

Indian Industry of Mutual Fund's Average Assets under Management (AAUM) during May 2018 accounted to be Rs23.43 lakh crore. Further, AUM as of May 31, 2018 was Rs 22.60 lakh crore. India's industry of MF saw the growth of AUM from Rs 5.05 trillion to Rs 22.60 trillion from 31st March 2008 to 31st May, 2018, that is four and half time more in a time of ten years. AUM of industry of MF they grew from Rs 7.01 trillion to Rs 22.60 trillion from 31st March, 2013 to 31st May 2018, thrice in 5 years. Also, the AUM Industry is seen to surpass the Rs 10 Trillion milestone in May 2014 for the first time and in just three years, size of AUM leveraged greater than two folds, crossing the mark of Rs 20 trillion in August 2017. AUM Industry was Rs 22.60 Trillion on 31st May, 2018. Sum total of account till 31st May 2018 was 7.35 crore, and folios given under the ELSS, Equity, and Balanced schemes, and the investment of retail is 6.13 crore [6].

### **C. Performance Measures of Mutual Funds**

The industry of Mutual Fund today has a total of 30 players with schemes greater than six hundred and is the scheme most preferred in India. But, owing to the presence of bundle of schemes, the investors of retail find hard to choose the AP scheme. Several factors like style of management and investment strategy are qualitative, however record of funds are also the important indicator. As the past performance cannot alone indicate the performance in future that is but the quantitative way to judge mutual funds efficiency it is important to seek past performance of mutual funds [7].

The companies of mutual funds are known by their respective AMCs worldwide and this is directly linked with skills selection of the superior stock. In order to aid growth of the Mutual Funds industry, AMCs are accountable as they choose stocks. On a different note, there has to be an indicator of the performance revealing the stock selection quality of AMCs [8].

One should not consider the return alone to help measure the mutual funds' performance, but also have the fund manager risk at several risk level attached [9]. Risk as linked to a fund is seen to be the fluctuations or the variability stating generated funds. Greater the fluctuations of a fund in a particular period, more with the associated risk.

### **D. Measures of Performance**

Measurements of a Portfolio can be done via the given ratios:

- a) The Sharpe Measure
- b) The Treynor Measure
- c) Jensen Model

*The Sharpe Measure:* Here, the funds' performance is judged based on the Sharpe Ratio that is generated funds ratio of returns above the return rate of risk free along with total associated risk [10]. As per Sharpe, this can be defined as the fund's total risk which is the major concern for the investors. Hence, the model sees the funds based on the reward earned for every risk unit. Technically, it is written as:

$$\text{Sharpe Index (Si)} = (\text{Ri} - \text{Rf})/\text{Si}$$

Here, Si is funds standard deviation. A positive and a high Sharpe Ratio reveal a superior performance risk-adjusted of funds where's the negative and a low Ratio indicates performance unfavorable.

*The Treynor Measure:* The model has been developed by Jack Treynor, and help measure the funds evaluation on the basis of the Index of Treynor [5]. The given index is the generated return ratio by the said fund above and over rate of return free from risk in a particular period along with the associated systematic risk. Technically, is represented as:

$$\text{Treynor's Index (Ti)} = (\text{Ri} - \text{Rf})/\text{Bi}$$

Here, Ri is return earned on fund, Rf is the return rate free from risk and Bi is funds beta. All investors that are risk-averse strive to maximize the given value. A positive and a high Treynor index reveal a superior performance risk-adjusted of funds where's the negative and a low index indicates performance unfavorable.

*Comparison of Sharpe and Treynor:* Both measures of Sharpe and Treynor are same as they both divide the premium of risk by measures of numerical risk. Appropriateness of total risk is seemed at the time of relationship evaluation of risk return for portfolios that are well-diversified. On contrary, the risk systematic is risk's relevant measure when the evaluation done is less as compared to the individual stocks or diversified portfolios. For the portfolio that is well-diversified, it is seen that the systematic risk is same as total risk. Rankings that rely on total risk (measure of Sharpe) and the systematic risk (measure of Treynor) need to be same for the portfolio that is well-diversified, since there occurs a reduction in total risk looping to systematic risk. So, funds that

are poorly diversified and has a higher rank on the Treynor measure, in comparison to the diversified funds would have a lower rank for the Sharpe measure. Compared with another fund that is highly diversified, will rank lower on Sharpe Measure [8].

*Jenson Model:* The model of Jenson's proposing a risk adjusting measure of performance. The above has been developed by Michael Jenson, deemed to be the differential Method of Return. Such a measure is seen to evaluate the generated return from funds vs. Expected returns from funds at the systematic risk level [1]. Two return surplus is Alpha that would measure the funds' performance as compared to actual returns in a particular period. The fund's return required at certain risk level (Bi) is calculated as:

$$R_i = R_f + B_i (R_m - R_f)$$

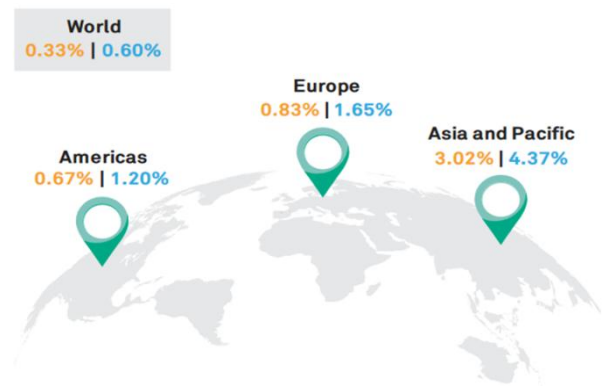
Here,  $R_m$  is the average return of market in a given period. Post calculations, alpha can be found by subtraction of the return required from actual fund return. Greater value for alpha show fund's superior performance & vice versa. Models limitation is that is seen to considers just the systematic risk and not the total risk linked to the fund and any ordinary investor fails to mitigate risks that are since he has primitive knowledge of market [4].

**E. Growth and development of mutual funds in India**

The Indian industry of Mutual funds started the journey back in 1963 and since then, it has emerged to be financial sector's important constituents. Next, the industry saw considerable expansion along with standardization with respect to the service and products offered under the regulatory mechanism, along with huge proliferation of funds of private sector both foreign and domestic. The fact being the offering of the nation's fund market as debt funds and plain vanilla equity for plethora of diverse products like Exchange Traded Fund's (ETFs), Gold Funds (GF), along with capital funds that are protection oriented also the native funds with it [5]. No doubt, the industry of mutual fund has traversed a long-way however the prime question being if it has used the full potential? It is important to analyse the growth so as to find an answer.

**Indian mutual funds making their mark globally and domestically**

Indian industry of Mutual Fund with its Assets under management is the proverbial drop in Fund Ocean as compared to the market which has seen a tremendous growth in the past few decades and has doubled as compared to the several regions as Europe & America along with region Asia-Pacific.



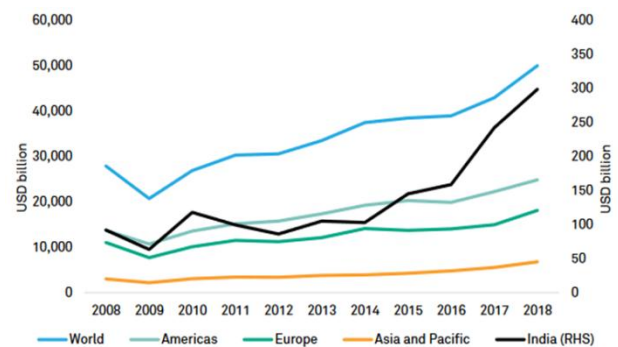
Data used for representation pertains to first quarter of the respective calendar year

Source: International Investment Funds Association (IIFA)

The growth of the share of industry is seen to be back from the industrial assets robust growth and further aided by the rising economy vigorous inflows, and leveraged participation, mainly by particular investors. The spur biggest is seen to be part of the greater financial savings and awareness growth of products among varied investors [10].

In the past few decades, the Indian industry of mutual fund rose to a total annual growth of 12.5% – which is double the growth rate seen across the world and mainly in the region that are developed (Europe and Americas). The region Asia-Pacific, with India as one of the part, is seen to grow by 8%.

**A. Growth of Indian MF assets versus the world and major regions**



Data used for representation pertains to first quarter of the respective calendar year for open-ended funds only

Source: IIFA

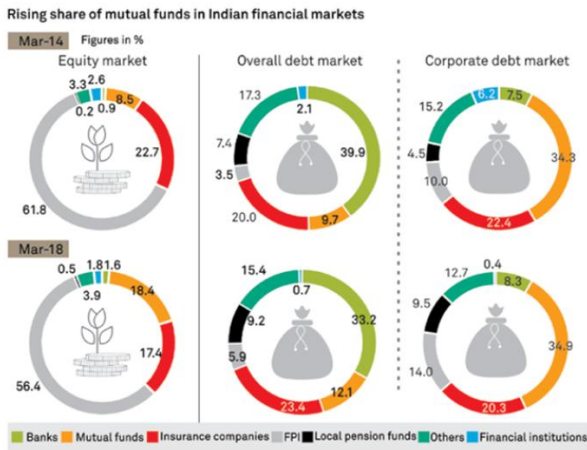
The above rate of growth is seen to turn the mutual fund industry fortunes in the financial markets domestic, promoting the presence amidst the financial investments. However, the industry has

been dwarfed by insurance and banks that is seen to take advantage from a long history.

Importantly, the mutual funds' being capital markets clout, both debt and equity is seen to increase. Yet, emergence of mutual funds in terms of the market's stabilizing agent against the global risks, mainly the foreign portfolio investors hot flows.

In terms of analysis per data on flowing money into the market of capital as strategy part of portfolio investment, share of mutual funds' of the equity markets is seen to rise from 8.5% on March 2014 to around 18.4% on March 2018, where fall of FPIs recorded from 61.8% to 56.4% at the same time of market capitalization.

Considering the overall market of debt, it is seen that still mutual funds hold a small share in comparison to the insurance company and bank having a mandated investment of their money's significant portion in corporate market G-secs, with their share being at 34.9% as the highest.



**Source: National Securities Depository Limited (NSDL), RBI**

Mutual funds consist of alternative funds, MFs, and FPIs portfolio managers consists of sub account, foreign institutional investors (FIIs), foreign depositors, qualified foreign investors (QFIs), along with corporates, brokers, bonds to convert foreign currency, depository receipts, nrls, Hindu undivided families(HUFs), partnership firms, overseas corporate bodies (OCBs), and exclusion of trusts Strategic investments.

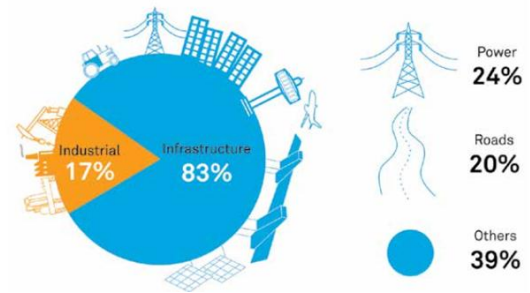
The mutual fund emergence in terms of financial markets strong player is effective for the market as well as, the investors. For investors, this lays a scope to shift from the instrument traditional benefiting from the market of capital and also from the growth story of India across huge term. The sticky money influx from the self-investors helps in deepening and the development of financial markets and at the same time offers alternative arrangements of funding for the corporate [7].

**• Mutual funds an able ally to funding and investment**

CRISIL analysis reveals that the India Inc. require a huge investment of Rs 56 trillion in the industrial and the infrastructure sectors in five years. Sectors related to Infrastructure own the greatest share and around 83% is backed by roads, power, and railways. Given the space of industrials, automobiles, oil & gas, and cement are among the top.

Owing to the banking sector lending riddled with non-performing asset worries, corporates require shifting the market of bond for mobilization of the requirements of funding. Several measures regulatory from RBI and SEBI is seen to promote the shift. Since they are the highest investors, a major role is played by mutual funds when funding for the funding India Inc.

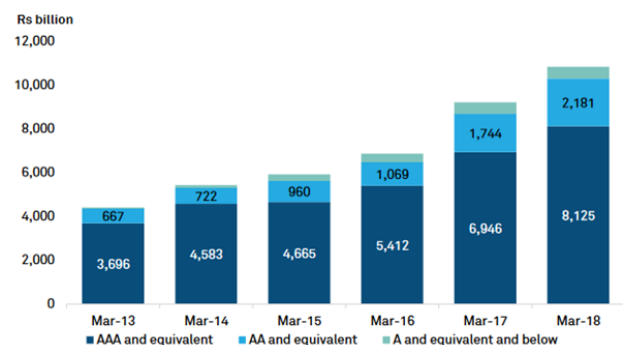
**B. Distribution of investment needs of India Inc.**



**Source: CRISIL Research**

Investment of Mutual funds in the spectrum of credit rating and so aid the deepening the dept. market of corporate as skewed currently towards the papers that are top-rated. Data reveal that the mutual funds leverage the security exposure to ones having ratted less 'AAA' same from 16% to 25% from 2013 to 2018. Hence, mutual funds are the best medium amidst investors and corporates having appetite of varied risk [8].

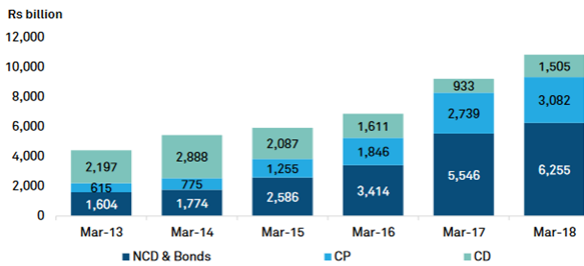
**Mutual funds broadening the credit spectrum for investments**



Data relating to the portfolio of months as shown by the company of asset management

Source: Research by CRISIL

**Asset allocation of MF debt investments**

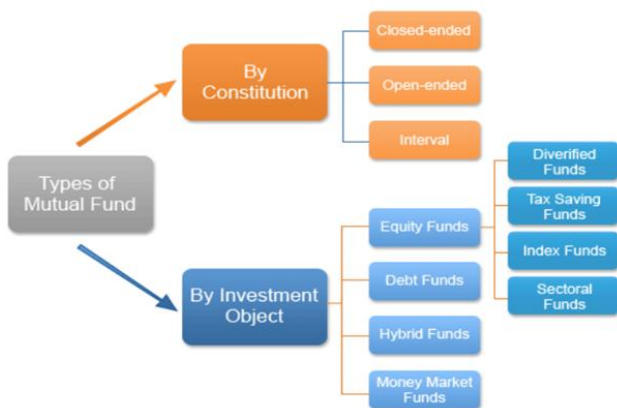


Data relating to the portfolio of months as shown by the company of asset management

Source: Research by CRISIL

**Growth in number of schemes**

A range of schemes are offered by Mutual funds that maps the need of varying investors. Various schemes as offered are structure dependent (Liquidity) into funds that are open ended and close ended. On the basis of objective of the investment, the above schemes then get classified into balance funds, growth funds, gilt funds, income funds, Tax saving, and the mutual funds of money market. The several schemes list is given below.



Source: AMFI website

**Funds mobilized**

The launch of plethora of schemes strives to map the needs of the investors so that funds get mobilized. So, schemes launched enable funds mobilization. Raising of the goal funds across the nation has tremendously risen.

**Assets under management of mutual funds**

It is expected that Mutual Funds play a major role when mobilizing savings of a particular household

and further efficiently manage the funds to aid investors with sufficient return. Even if there is a long way across the mutual fund industry, only a small spam has witnessed huge development.

**A. Mobilization of household savings**

Discussions had done earlier have drawn a clear picture showing that the Indian industry of mutual fund has traversed a long way since its inception in 1963 by the UTI. As of now, there exists a total of 51 mutual funds part of the domestic, domestic public and foreign private sector that offers bundle of products and schemes so as to aid investment both at the local and the global level. Given a huge time period, several innovations have made its way in the profile of products so as to map the investor's needs. However, the major question is whether the industry has used its full potential to attain the desired results or helped the saves to drive benefit from the nation's economic growth by experiencing savings to assets having returns risk-adjusted [9].

The sector of House Hold is seem to aid savings in terms of bank, currency, funds of life insurance, and non-banking deposits, pension and provident fund claims on the National government, and debentures and shares. To aid the growth of the economy, it is important to see savings as, type asset financial like share, deposits, and debentures; and for the contractual savings instead of the currency as they are doomed to lead to formation of unproductive assets such as gold. Also, savings direct transfer is most preferred as it is less costly. To initiate direct via shares or debentures, the route of mutual fund has been promoted for safety and significant other reasons. Due to this, several measures has been taken by regulators that promote HHS channelization of via mutual funds.

**Table 1: Distribution done Instrument-wise of financial assets of Household**

	2015-16				2016-17				2017-18	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Net Financial Assets (A-B)	4,689.1	1,685.0	2,507.8	2,568.4	5,037.3	4,593.4	-2,812.4	6,061.3	2,289.0	3,403.9
A. Gross Financial Assets	14.5	5.0	7.2	7.0	14.0	12.4	-7.3	14.8	5.8	8.3
B. Financial Liabilities	420.7	652.9	1,866.5	986.6	988.9	1,354.7	-1,433.3	2,851.4	585.9	2,174.5
Memo item:	1.3	1.9	5.4	2.7	2.7	3.6	-3.7	7.0	1.5	5.3
GDP	32,416.9	33,540.9	34,749.3	36,933.2	35,984.9	37,153.5	38,502.7	40,896.1	39,297.3	40,882.9

Source: Annual Reports by RBI

**III. CONCLUSION**

The Indian industry of mutual fund is traveled a huge way after its establishment in 1963. Further, the industry has experienced success on several aspects as funds houses, total schemes, mobilized funds, AUM etc. Also, the industry of mutual fund started with the prevalence of mutual fund od UTI only, but currently it has all the three prime sectors

as the private, public and the houses of foreign funds. .

With respect to the AUM or Assets under Management a significant growth was recorded by the industry. The thing that is visible is in lieu with the AUMs, the industry of mutual fund witnessed growth that is more than just satisfactory after inception, but, it is seen that growth is inclined more towards the funds of the private sector along with the public sector and further dominates the industry of mutual funds being suppressed by the private sector.

The selected schemes performance are evaluated based on Treynor, Sharpe, and the measures of Jensen's with results that help the investors to better assess the decision of investment.

The nation's retail investors still prefer sector of real estate and bank deposits. It is seen that there is a poor participation of the segment of retail via mutual funds owing to lack of awareness in the cultural aspects, financial literacy and behavioural factors. Few other factors include the lack of the industry to spread across the nation.

Even though, the Indian industry of mutual fund saw a significant growth in all fronts, it's potentially is not fully recognized. For most of the parameters, this is still behind the economic development and also behind world's emerging economies. Then the industry has been confronted to face several challenges such absence of product differentiation, poor ratio of penetration, absence of awareness among investor and inability to connect with customer the needed value, poor interest in the investors of retail and industry evolving nature. It is important that these issues are addressed so as to use the total potential of the industry. This can, be done be penetration of the industry in the tier II & tier III cities that seek higher investors awareness among all other aspects via education of investors and strategic initiatives. Along with this, the industry of mutual fund needs to render continuously the returns that are risk-adjusted to investors. This needs exhibition of stock selectivity superior by the fund managers and timing of market performance consistently along with having an eye on fund costs. Rendering the returns of risk-adjusted regularly automates the creation of the mutual fund niche.

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