



The Performance and Challenges of Mutual Funds in India

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Abstract:

Since its inception in 1963, the Indian mutual fund industry has undergone significant growth across various metrics, including the number of fund houses, schemes, funds mobilized, and assets under management. A key objective of the mutual fund industry is to attract and mobilize a significant portion of Household Savings (HHS), thereby enabling small savers to benefit from economic growth by investing in assets that offer better risk-adjusted returns. However, despite notable progress, the industry has not fully realized its potential. It lags behind developed economies and many emerging economies in several aspects. Challenges such as low penetration ratio, lack of product differentiation, limited investor awareness and ability to convey value to customers, waning interest of retail investors in mutual funds, and the evolving nature of the industry pose significant hurdles. The study suggests that to fully leverage its potential, the industry must address these challenges.

Keywords: Mutual Funds, Assets under Management, House Hold Savings, Risk, Returns, Investors

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I. INTRODUCTION

As the focus on domestic savings and their effective mobilization and allocation towards profitable investments grows, the importance and scope of mutual fund operations have increased. Mutual funds represent a crucial category of financial intermediaries, enabling both small and large savers across the country and internationally to participate in and benefit from the growth of capital markets. They serve as an alternative vehicle of intermediation between the suppliers and users of investable financial resources, gaining popularity in India and abroad due to their potential for higher investor returns and relatively low risk and cost. Consequently, the involvement of mutual funds in the transformation of the Indian economy necessitates viewing their services not only as financial intermediaries but also as pace setters, facilitating the mobilization and efficient allocation of investable funds through markets.

While mutual funds possess significant growth potential, fully capitalizing on this potential requires the creation and marketing of innovative products and the development of distinct marketing strategies. Additionally, given that the equity culture has not yet fully developed in the country, investor education plays an equally important role in fostering greater penetration of mutual funds.

The history of mutual funds can be traced back to the 19th century, originating in Great Britain. Robert Fleming established the first investment trust, titled the 'Foreign and Colonial Investment Trust,' in 1868 to manage the

finances of the affluent classes of Scotland by diversifying investments. Other investment trusts established in Britain and the US during this period resembled today's close-ended mutual fund schemes. The first mutual fund in the US, the Massachusetts Investors' Trust, was established in 1924. In India, the mutual fund industry began in 1963, with its history divided into four distinct phases.

II. GROWTH AND DEVELOPMENT OF MUTUAL FUNDS IN INDIA

Since its inception in 1963, the mutual funds industry has emerged as a significant component of the financial sector in the country. Over the years, it has experienced considerable expansion and standardization in various aspects, including the range of products and services offered, regulatory frameworks, and the proliferation of numerous private sector funds, both domestic and foreign. What began with the provision of basic equity and debt funds has evolved into a diverse array of products, including Gold Funds (GF), Exchange Traded Funds (ETFs), and capital protection-oriented funds, among others.

Undoubtedly, the mutual fund industry in the country has made significant progress, but the key question remains: has it fully realized its potential? Answering this question requires a critical analysis of its growth trajectory. In the paragraphs that follow, we will examine the industry's growth over a specific period of time, focusing on the following parameters:

1. Number of funds and fund schemes offered
2. Mobilization of funds
3. Assets under management
4. Household savings mobilized
5. Performance of Asset Management Companies (AMCs) in terms of earnings and profitability

III. GROWTH IN NUMBER OF FUNDS

As previously mentioned, the first mutual fund, UTI, was established in 1963 and held a dominant position in the industry until 1992. However, with the entry of other public and private sector funds, its dominance gradually waned. From 31 mutual funds in 1997-98, the number grew to 41 in 2010-11, representing a compound growth rate of 2 percent, which pales in comparison to the growth rates observed in other emerging economies worldwide, as evidenced by the data in Table 1.2, showing a compound growth rate of 40 percent during 1990-2009.

During this period, the number of private sector funds increased from 21 in 1997-98 to 35 in 2010-11, with a compound growth rate of 4 percent, while public sector funds experienced a notable decline. The number of public sector funds decreased from 10 in 1997-98 to 6 in 2010-11, with a negative compound growth rate of 4 percent. This indicates a significant decline in public sector funds and relatively modest growth in private sector funds, resulting in private sector funds dominating the mutual fund industry in India by 2011.

Despite India's considerable growth in the number of fund houses over time, the mutual funds market remains highly concentrated. Approximately 80 percent of the Assets Under Management (AUM) are concentrated among 11 leading players in the market, including HDFC Mutual Fund (13 percent), Reliance Mutual Fund (12 percent), ICICI Prudential (10 percent), UTI (9 percent), Birla Sun Life (9 percent), SBI Mutual Funds (7 percent), Franklin Templeton (5 percent), IDFC Mutual Fund (5 percent), Kotak Mahindra Mutual Fund (4 percent), DSP Black Rock Mutual Fund (4 percent), and Axis Mutual Fund (2 percent). The remaining 33 mutual funds collectively account for 20 percent of AUMs as of 2013, indicating a highly concentrated market. To ensure the healthy growth of the industry, it is imperative to distribute business across a broader spectrum of fund houses.

Table 1.1: Growth in Number of Mutual Funds (Sector-Wise)

Year	Public Sector	Private Sector	Total	CAGR (In %age)
1997-98	10	21	31	
1998-99	10	22	32	3
1999-00	11	21	32	0
2000-01	11	24	35	9
2001-02	10	25	35	0
2002-03	9	24	33	-6
2003-04	8	23	31	-6
2004-05	6	23	29	-6

2005-06	5	24	29	0
2006-07	5	25	30	3
2007-08	5	28	33	10
2008-09	5	30	35	6
2009-10	5	33	38	9
2010-11	6	35	41	8
CGR (In %age)	-4	4	2	

Note: CAGR stands for compound annual growth rate & CGR stands for compound growth rate. Source: Figures compiled from AMFI Reports

Table 1.2: Total Number of Mutual Funds/Schemes around the world

Year	Mutual Funds	Year	Mutual Funds
1940	8	2001	52849
1945	73	2002	54110
1950	103	2003	54569
1960	161	2004	55524
1970	361	2005	56868
1975	426	2006	61506
1980	564	2007	61506
1985	1531	2008	69032
1990	3000	2009	65735

Source: Mutual Fund Fact Book, 1990, SEBI Handbook of Statistics

IV. GROWTH IN NUMBER OF SCHEMES

Mutual funds provide a range of schemes tailored to meet the diverse needs of investors. These schemes are categorized based on their structure (liquidity) into open-ended funds and close-ended funds. Furthermore, they are classified according to their investment objective into growth funds, balanced funds (debt and equity), income funds (debt), tax-saving funds, gilt funds, and money market mutual funds.

To cater to the evolving needs of investors, mutual fund companies in the country have consistently introduced new schemes. As depicted in Table 1.3, a total of 2,933 new schemes were launched during the study period (1997-98 to 2010-11). The majority of these new schemes, comprising 77.36 percent or 2,269 schemes, were introduced between 2006-07 and 2010-11. The launch of new schemes witnessed a compound growth rate of 23 percent from 1997-98 to 2010-11.

Among the new schemes launched during this period, Regular Income Schemes accounted for the highest proportion at 81.79 percent, followed by Growth Schemes at 11.56 percent. Together, these two types of schemes constituted 93.35 percent of the total new schemes introduced. The remaining new schemes, including Balanced, Equity Linked Saving Scheme (ELSS), Gilt, Money Market (MM), and others, represented smaller proportions of 1.09 percent, 1.36 percent, 1.16 percent, 1.98 percent, and 1.06 percent, respectively.

Overall, the Indian mutual fund industry has introduced a significant number of new schemes, with Regular Income Schemes and Growth Schemes being the most prevalent among them.

Table 1.3: New Schemes Launched (category wise)

Year	Income	Growth	Balanced	ELSS	Gilt	MM	Other	Total
1997-98	25	13	1	4	0	0	-	43
1998-99	19	11	0	2	0	8	-	40
1999-00	14	25	8	3	12	2	-	64
2000-01	17	8	6	4	1	5	-	41
2001-02	53	17	2	0	9	9	-	90
2002-03	32	17	1	0	1	2	-	53
2003-04	29	10	2	0	2	3	-	46
2004-05	52	36	4	0	0	5	-	97
2005-06	130	46	1	8	-	5	-	190
2006-07	366	32	2	7	-	6	1	414
2007-08	539	55	2	3	2	5	6	612
2008-09	504	27	-	7	4	3	6	551
2009-10	138	19	2	2	1	3	9	174
2010-11	481	23	1		2	2	9	518
Total	2399	339	32	40	34	58	31	2933
%age to the total	81.79	11.56	1.09	1.36	1.16	1.98	1.06	100

Note: CAGR stands for compound annual growth rate.

Source: Figures compiled from AMFI Reports

An examination of the data presented in Table 1.4 reveals that the total number of schemes in operation has increased from 235 schemes in 1997-98 to 1,131 schemes, reflecting a compound growth rate of 14 percent. This growth rate is comparable to that of other developing economies. When analyzed by category, Income, Growth, Balanced, Gilt, Money Market, and other schemes have grown at compound growth rates of 18 percent, 13 percent, 4 percent, 6 percent, 7.9 percent, and 37.2 percent, respectively, as outlined in Table 1.5. Furthermore, Table 1.5 indicates that ELSS is the only scheme that has experienced a negative compound growth rate of 2 percent in the number of schemes in operation over the study period. As of 2010-11, the number of schemes in operation is primarily dominated by Regular Income Schemes, accounting for 52.25 percent of the total schemes. Growth Schemes follow closely, representing 29 percent of the total schemes. Together, these two categories comprise 81.25 percent of the total schemes in operation in 2010-11. The remaining schemes, including Balanced, ELSS, Gilt, Money Market, and others, account for 2.82 percent, 4.24 percent, 3.27 percent, 4.51 percent, and 3.89 percent, respectively.

In conclusion, the Indian mutual fund industry is largely characterized by Regular Income Schemes, followed by Growth Schemes, throughout the period from 1997-98 to 2010-11.

Table 1.4: New Schemes Launched & Total Schemes in Operation

	New schemes launched		Total schemes	
	Number	percent	Number	CAGR (in %age)
1997-98	43	18.30	235	18
1998-99	40	14.44	277	22
1999-00	64	18.99	337	17
2000-01	41	10.43	393	6
2001-02	90	21.58	417	-8
2002-03	53	13.87	382	5
2003-04	46	11.41	403	12
2004-05	97	21.51	451	31
2005-06	190	32.09	592	28
2006-07	414	54.76	756	26
2007-08	612	64.02	956	5
2008-09	551	55.04	1001	-12
2009-10	174	19.72	882	28
2010-11	518	0	1131	

Note: CAGR stands for compound annual growth rate

Source: Figures compiled from AMFI Reports

Table 1.5: Total Schemes in Operation Category Wise

Year	Income	Growth	Balanced	ELSS	Gilt	MMMF	Others	Total
1997-98	84	74	19	58	0	0	-	235
1998-99	100	83	17	60	0	17	-	277
1999-00	113	105	23	65	13	18	-	337
2000-01	126	110	32	80	19	26	-	393
2001-02	146	114	34	63	29	31	-	417
2002-03	117	120	35	47	31	32	-	382
2003-04	131	126	37	43	30	36	-	403
2004-05	159	151	35	37	30	39	-	451
2005-06	251	194	36	37	29	45	-	592
2006-07	367	227	38	40	28	55	1	756
2007-08	506	270	37	42	30	58	13	956
2008-09	509	293	35	47	34	56	22	1001
2009-10	367	307	33	48	35	56	36	882
2010-11	591	328	32	48	37	51	44	1131
CGR (in %age)	18	13	4	-2	6	7.9	37.2	14

Note:

CGR stands for compound growth rate.

ELSS stands for equity linked saving scheme

MMMF stands for money market mutual funds

Source: Figures Compiled from AMFI Reports

V. FUNDS MOBILIZED

The introduction of numerous new schemes aims to cater to the diverse needs of investors and enhance fund mobilization. However, the effectiveness of launching new schemes lies in their ability to attract more funds. Over the years, the total funds raised by the mutual fund industry in India have surged from INR 18,701 crores in 1997-98 to INR 88,59,515 crores in 2010-11, representing a remarkable compound growth rate of 67 percent, as illustrated in Table 1.6.

Table 1.6 indicates that public sector mutual funds were the primary contributors to fund mobilization in 1997-98 and 1998-99, accounting for 82.69 percent and 65.50 percent of the total funds raised, respectively. However, the dominance shifted to private sector mutual funds thereafter. Despite accounting for only 34.50 percent of total funds mobilized in 1997-98, private sector funds steadily increased their share, peaking at 90.59 percent in 2003-04. However, their share declined to 76.84 percent in 2009-10, and remarkably dropped to 21.86 percent in 2010-11, marking an exceptional event.

The data reveals a notable growth in the amount of funds mobilized by the mutual fund industry during the study period. Private sector funds, initially a minor contributor in 1997-98, surpassed public sector funds significantly by 2009-10. Category-wise, Regular Income Funds dominated fund mobilization in 1997-98, 1998-99, and 1999-00, accounting for 68.33 percent, 64.27 percent, and 29.64 percent, respectively. Money Market Funds emerged as the primary contributor after 2000-01, representing 83.92 percent in 2006-07 and remaining at 74.49 percent in 2010-11. In contrast, the Income Scheme witnessed a decline in its share of funds mobilized over the period.

From the above analysis, it is evident that Money Market Mutual Funds (MMMF) emerged as the major contributor to funds mobilized over time, dominating the industry since 2000-01. Conversely, the Income Scheme witnessed a decline in its contribution, while other schemes, except ELSS and Growth Schemes, experienced minimal growth in funds mobilized.

Table 1.6: Category Wise Funds Raised by Total Schemes in Operation (INR in Crores)

Year	Income	Growth	Balanced	ELSS	Gilt	MMMF	Other	Total
1997-98	12779	1187	4711	24	0	0	-	18701
1998-99	13738	1923	161	8	0	5547	-	21377
1999-00	17707	15020	5717	247	5132	15925	-	59748
2000-01	26674	17996	7701	214	4160	36212	-	92957
2001-02	51021	1983	477	33	6439	104570	-	164523
2002-03	109423	4618	361	22	5202	195047	-	314673
2003-04	172939	26642	2523	53	12387	375646	-	590190
2004-05	155719	37079	3755	154	4361	638594	-	839662
2005-06	168792	82086	4006	3935	2480	836859	-	1098158
2006-07	21106	89682	4473	4669	1853	1626790	99	1748672
2007-08	881345	119833	11488	6448	3180	3432738	9339	4464371
2008-09	1180694	29481	2695	3324	14696	4187977	7486	5426353
2009-10	2895901	61114	4693	3601	3974	7044818	4922	10019023
2010-11	2172860	63142	7490	3450	4450	6599724	8399	8859515
CGR (in % age)	53.00	39.00	4.00	51.00	-	-	-	67.00

Note:

CGR stands for compound growth rate

ELSS stands for equity linked saving scheme

MMMF stands for money market mutual funds

Others include Gold ETF, other ETF & FOF overseas

Source: Figures Compiled from AMFI Reports

VI. ASSETS UNDER MANAGEMENT OF MUTUAL FUNDS

Mutual funds are crucial in mobilizing household savings and efficiently managing funds to provide adequate returns to investors. While the Indian mutual fund sector still has room for improvement in fulfilling these roles, it has witnessed notable growth and development over time. As illustrated in Table 1.7, the net assets under management of mutual funds have surged from INR 68,984 crore in 1997-98 to INR 5,92,250 crore in 2010-11, marking a compound growth rate of 20 percent.

During the reference period, private sector mutual funds experienced significant growth compared to their public sector counterparts. Private sector mutual funds recorded an impressive compound growth rate of 48 percent in net assets under management from 1997-98 to 2010-11. In contrast, public sector mutual funds grew at a meager compound growth rate of 6 percent during the same period, which is comparatively low.

The share of total net assets managed by public sector mutual funds witnessed a sharp decline, plummeting from 94.07 percent in 1997-98 to 22.1 percent in 2010-11. This decline is attributed to the increasing dominance of private sector mutual funds in India. Private sector mutual funds, which held a minor share of 5.93 percent in 1997-98, saw a remarkable increase in their market share, rising to 77.9 percent by 2010-11.

The data presented in Table 1.7 underscores the diminishing dominance of public sector mutual funds in favor of private sector players. As of 2011, private sector mutual funds emerge as the major and dominant players in the Indian mutual fund industry, evident across various metrics.

Table 1.7: Assets under Management as on March 31 category wise

Year	Income	Growth	Balanced	ELSS	Gilt	MMMF	Other	Total
1997-98	NA	NA	NA	NA	NA	NA	-	68984
1998-99	48372	14622	1909	2477	0	1092	-	68472
1999-00	49859	26927	26757	4865	2370	2227	-	113005
2000-01	48863	13483	19273	2523	2317	4128	-	90587
2001-02	55788	13852	16954	1768	4163	8069	-	100594
2002-03	47564	9887	3141	1228	3910	13734	-	79464
2003-04	62524	23613	4080	1669	6026	41704	-	139616
2004-05	47605	36711	4867	1727	4576	54068	-	149554
2005-06	60278	92867	7493	6589	3135	61500	-	231862
2006-07	119322	113386	9110	10211	2257	72006	96	326388
2007-08	220762	156722	16283	16020	2833	89402	3130	505152
2008-09	197343	95817	10629	12427	6413	90594	4077	417300
2009-10	311715	174054	17246	24066	3395	78094	5409	613979
2010-11	291975	169754	18445	25569	3409	73666	9432	592250

Note:

ELSS stands for equity linked saving scheme

MMMF stands for money market mutual funds

Others include Gold ETF, other ETF & FOF overseas

Source: Figures Compiled from AMFI Reports

AUM Composition by Product, Investor and Geographical Distribution

The product categories of Indian mutual funds are broadly classified into six categories: Liquid/Money Market, Equity Oriented, Debt Oriented, Balanced, Gilt, and Gold ETFs. As of 2013, Debt Oriented funds accounted for 57 percent of the Assets Under Management (AUM), showing an increase from 50 percent in 2011. The Gilt and Liquid/Money Market segments, which previously had negligible shares, have witnessed growth and collectively accounted for 16 percent of total AUMs in 2013. Equity Oriented funds represented only 22 percent of the total AUMs, while Balanced Schemes accounted for just 2 percent. This indicates a relatively small allocation of funds towards Gold ETFs, Balanced, and Liquid/Money Market categories.

Corporate investments constitute 49 percent of the AUM, followed by High Net Worth Investors, both of which show a preference for Debt/Money Market funds over equity. Retail investments make up 20 percent of the AUM, with a similar inclination towards debt-oriented funds over equity. As of 2013, Retail investments contributed only 1.95 percent to the total Equity AUM, reflecting a lack of enthusiasm for equity investment among retail investors. Equity AUM primarily consists of Foreign Institutional Investor (FII) investments.

Overall, mutual funds have not yet made significant inroads into the retail segment. Retail investors in India still favor bank deposits and the real estate sector as preferred investment avenues for their savings.

The limited participation of retail investors through mutual funds can be attributed to factors such as low levels of awareness and financial literacy, subdued capital market growth, and cultural and behavioral considerations. Additionally, the mutual fund industry's failure to penetrate beyond major cities like Mumbai, Delhi, Chennai, Bangalore, and Kolkata is evident, with these cities contributing 74 percent of total funds mobilized. In contrast, the bottom 75 cities contribute a mere 5 percent, highlighting the need for increased penetration across the country. Addressing this challenge requires expanding distribution networks and enhancing investor awareness through educational initiatives.

VII. MOBILIZATION OF HOUSEHOLD SAVINGS

The Indian mutual fund industry has made significant strides since its establishment in 1963 by UTI, with a total of 51 mutual funds now operating in the public sector, domestic private sector, and foreign private sector. These funds offer a wide range of schemes and products catering to the diverse needs of investors nationally and internationally. Despite these advancements, the key question remains: has the Indian mutual fund industry fully achieved its goal of mobilizing a substantial portion of household savings and providing small savers with opportunities to benefit from the country's economic growth through investments yielding better risk-adjusted returns?

According to the World Bank, India's Gross Domestic Savings (GDS) as a percentage of GDP was 29 in 2011, indicating a steady increase from 16.9 percent in 1975-76. The data reveals a gradual growth trajectory for GDS as a percentage of GDP, with significant contributions originating from the Household Sector (HHS). As of 2009-10, HHS accounted for 69.7 percent of total GDS, peaking at 93 percent in 2001-02. This underscores the significant role of HHS in savings mobilization, with a consistent increase in its contribution over time.

However, the efficacy of sufficient and increasing GDS lies in channelizing savings into productive assets, necessitating the role of financial institutions. Mutual funds, as crucial financial intermediaries, play a pivotal role in mobilizing household savings, particularly from HHS, into the real sector of the economy. This is evident from the rising share of Assets under Management (AUM) of mutual funds as a percentage of GDP, increasing from 4.75 percent in 2004-05 to 9.37 percent in 2009-10. Despite this growth, the ratio remains significantly lower compared to developed countries, where it ranges between 20 percent to 70 percent, and emerging economies like Brazil and South Africa, which have ratios around 40 percent and 33 percent, respectively.

The HHS typically saves through various financial instruments such as currency, bank and nonbanking deposits, life insurance funds, provident and pension fund claims, and shares & debentures. To foster economic growth, it is imperative to channelize savings into financial assets like deposits and shares & debentures, and towards contractual savings, rather than holding them in unproductive assets like gold. Direct transfer of savings, particularly through shares & debentures, is preferred for its cost-effectiveness and safety, prompting regulators to encourage channelization of HHS savings through mutual funds by implementing various measures.

Table 1.8: Instrument-wise Distribution of Household financial Assets (in percent)

Financial Assets	96-97	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11
Currency	8.6	9.7	8.9	11.2	8.5	8.7	10.2	11.4	12.7	9.8	13.3
Fixed Income (a+b+c)	84.5	81.8	86.9	81.6	85.4	84	80.6	78.2	88	85.6	87.1
a) Deposits	48.1	39.4	40.9	38.8	37.0	47.1	49.1	52.2	60.7	47.2	47.3
b) Insurance/ Provident Fund	29.4	30.3	31.1	27.3	28.9	24.7	28.8	27.9	31.1	34.1	33.3
c) Small Savings	7	12.1	14.9	15.5	19.5	12.2	2.7	-1.9	-3.8	4.3	6.5
Securities market (d+e+f)	7	8.5	4.2	7.5	6	7.3	9.3	10.3	-3.5	4.6	-4
d) Mutual funds	0.3	1.8	1.3	1.2	0.4	3.6	5.3	7.9	-1.4	3.3	-1.8
e) Govt. Securities	0.4	5.8	2.5	7.5	4.9	2.4	0.3	-2.1	0.0	0.0	0
f) Other securities	6.3	0.9	0.4	-1.2	0.7	1.3	3.7	4.5	-2.1	1.3	-2.2
Total		100	100	100	100	100	100	100	100	100	100

Source: Handbook of statistics Indian securities market and RBI Annual Reports

Examination of the data provided in Table 1.8 regarding the financial assets portfolio of the household sector highlights that households predominantly allocated a significant portion of their savings to deposits, encompassing both banking and non-banking entities. The table illustrates a trend wherein deposits constituted 48.1 percent of household savings in 1996-97, experiencing a decline to 37 percent in 2004-05, followed by an increase to 52.2 percent and 60.7 percent in 2006-07 and 2007-08, respectively. The surge in bank deposits during 2006-08 can be attributed to a recession in the Indian capital market during that period. Nonetheless, it is evident that bank deposits consistently remained the primary form in which household savings were held in India from 1996-97 to 2010-11. Although there was a marginal decline from 48.1 percent in 1996-97 to 47.3 percent in 2010-11 of the total household savings, bank deposits continued to be predominant.

Table 1.9 further indicates that contractual savings, including savings under provident fund schemes, pension funds, and life insurance funds, emerged as the subsequent preferred avenue for Indian savers during the period

under review. Consequently, mutual funds were not the preferred choice for the household sector to park their savings. Thus, it is imperative for the mutual fund industry to devise strategies to attract a larger share of funds from the household sector, which holds significant socio-economic implications.

VIII. CONCLUSION

Since its inception in 1963, the Indian mutual fund industry has made significant strides in various aspects such as the number of fund houses, schemes offered, funds mobilized, and assets under management. Initially dominated by UTI mutual fund, the industry has evolved to include public sector, private sector, and foreign fund houses, with the number of funds growing from 31 in 1997-98 to 44 in 2013. Similarly, the number of schemes has seen a compound growth rate of 14 percent, increasing from 235 to 1,131 during the same period. Notably, regular income schemes constitute 52 percent of total schemes, followed by growth schemes at 29 percent.

The total funds raised by the industry have seen remarkable growth, surging from INR 18,701 crore in 1997-98 to INR 88,59,515 crores in 2010-11, at a compound growth rate of 67 percent. While public sector mutual funds initially led in funds mobilized, private sector mutual funds took over from 1999 onwards, dominating with a share of 90.59 percent as of 2003-04. Money Market Mutual Funds emerged as major contributors to funds mobilized, surpassing income schemes.

In terms of assets under management (AUM), the industry has witnessed substantial growth, with net assets increasing from INR 68,984 crore in 1997-98 to INR 5,92,250 crore in 2010-11, at a compound rate of 20 percent. Private sector funds recorded a compound growth rate of 48 percent, compared to 6 percent for public sector funds, leading to private sector funds accounting for 77.9 percent of AUMs as of 2010-11.

Product-wise, the industry is dominated by Gilt and Liquid Money Market categories, comprising around 73 percent of AUMs in 2013, while equity-oriented funds constitute only 1 percent. Corporate investments make up nearly half of AUMs, followed by high net worth investors, with retail investors contributing only 20 percent. This suggests that mutual funds have not penetrated deeply into the retail segment, as retail investors continue to prefer bank deposits and real estate.

Despite notable progress, the industry faces challenges such as low penetration ratio, lack of product differentiation, and investor awareness. To fully realize its potential, the industry must address these challenges by penetrating tier II & tier III cities, raising investor awareness through strategic initiatives and education drives, and consistently delivering superior risk-adjusted returns to investors.

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