

Mutual Funds in India

The Mutual Funds Industry began in India in 1963 by the RBI backed Unit Trust of India; the UTI was supported by an Act passed in the parliament in the same year. The UTI launched a scheme in 1964, called Unit Scheme 64 also known as US 64, which became very popular among investors in India. For a period of 23 years, UTI remained the solo player in the Mutual Funds market. Then in 1987, State Bank of India launched the SBI Mutual Fund and was soon followed by Canara Bank, LIC and others followed suit. The guiding and regulatory force was the RBI and the public sector banks competed with one another. The results were not very optimistic as the investors burnt their fingers on slow growth and other types of mismanagement.

Kothari Pioneer Mutual Fund was the first private sector mutual fund in India. Launched in 1993, KPMF made quite an impression on the market. This was preceded by the economic liberalization policy of the government where the government warmed up to the idea of private sector and foreign investments in capital markets. In the years to follow, the market saw the entry of Franklin Templeton, Merrill Lynch, Fidelity and many more foreign players. The Association of Mutual Funds in India or AMFI started as the self regulatory body in 1996 and in 1997 Securities Exchange Board of India or SEBI took over the baton of being a regulatory body for all the Mutual Funds. In 2003, the UTI scam shook the Securities segment and the US 64 crisis was such that the government had to bail out the Fund. SEBI tightened its strictures, made disclosures mandatory and introduced risk parameters for each fund. Technology of trading platforms soon came to play at the Mutual Funds markets. This was when the Systematic Investment Plan or SIP gained traction over other investment modes.

The SIP is a consistent and disciplined method of investing that averages out the lump sum investment and builds wealth over a length of time. For example, a person wants to invest in tech stocks but cannot invest much. TCS hovers around the INR 3500 mark. The investor can open a SIP for Rs.5,000 and start investing in a Fund that buys Tech stocks. Every month his SIP would be invested along with the money of other investors and a sizable number of Tech stocks would be bought. If tech stocks gain in the markets, by the time our investor has reached the one-year mark and his investment has reached Rs.60,000, he might have the Tech Fund's units worth Rs. 72,000 or more. The Fund Managers make sure to hedge the fund from time to time shifting the money to winning stocks by exiting stocks that are losing money. For a salaried or self employed individual, SIP is a great way of investing.

Before exploring the characteristics of SIP, it is important to have a look at the various types of Mutual Funds. Mutual Funds may be classified as follows:

- **Asset Class** – Equity, Debt, Hybrid, Commodity, ELSS
- **Structure** – Open Ended, Close Ended, Intermittent
- **Goal** – Growth, Income, Liquid
- **Strategy** – Active, Passive, Thematic
- **Geography** – Domestic, International, Global
- **Special Mandates** – ESG, Shariah Compliant, Target Date

These are the various kinds of Funds available in the securities markets. All the funds are, in one way or the other, sub types of these broad types.

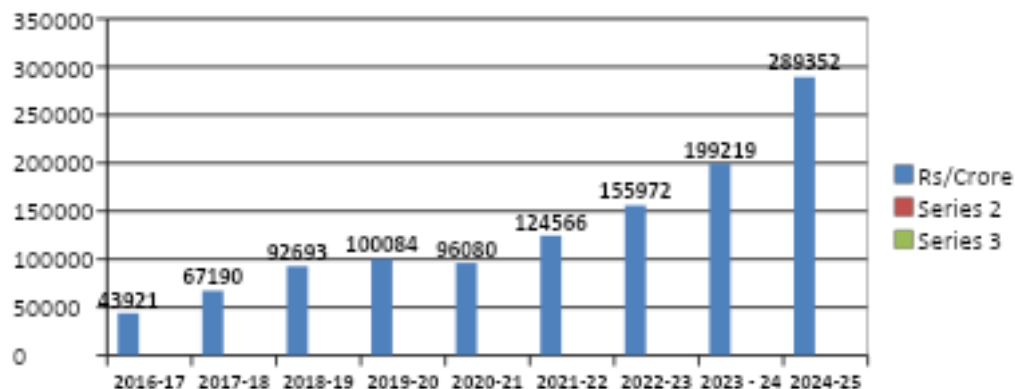
The principles of SIP work out as Rupee Cost Averaging in a Mutual Fund where depending on the fluctuation of Net Asset Value, the number of Units purchased goes up or down. Let us take an example of how the Unit – NAV ratio works out over a 6 month period on a monthly SIP of Rs. 1000 invested in a Mutual Fund.

Month	SIP Value	NAV	Units	Cum Units	Value
April	1000.00	100.00	10.00		
May	1000.00	90.00	11.11	21.11	1899.9
June	1000.00	110.00	9.09	30.20	3322
July	1000.00	105.00	9.52	39.72	4171
August	1000.00	115.00	8.70	48.42	5568.238
September	1000.00	120.00	8.33	56.75	6810.335

This chart clearly shows a ROI of 13.5% PA on the first six months of investment. SIP is such a method, provided the hedge fund managing is in order, the investor gets into an obsessive compulsive profit regime. After all, the investors on the bourses get an adrenaline rush from the spikes in the market. The principal of RCA is demonstrated here as the NAV goes up the number of units purchased is reduced and at the end of the 6-month period the investor has 56.75 units instead of 60 he might have had. But he has been endowed with a 13.5% ROI. Speaking of the Bourses and the adrenaline rush, majority of SIPs are in equities funds, however there are SIPs for Fixed Return Debt or Bonds Funds, Hybrid Funds which are a mix of Debt and Equities and Balanced Funds which are into Government Securities, Debt and Equities. These funds are classified to suit the security appetite of each investor.

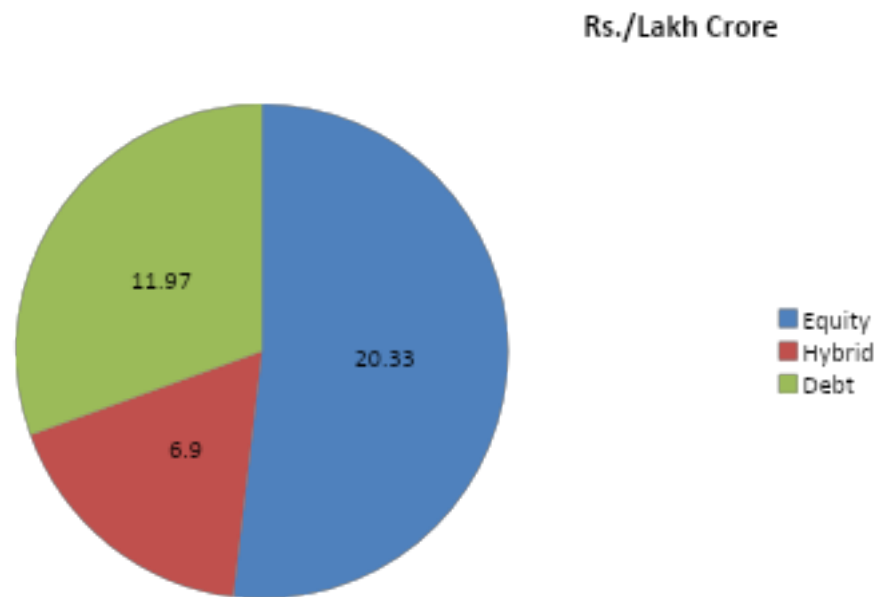
Apart from **Rupee Cost Averaging** and **Convenience of Investing in small amounts**, SIP also entails **lower risk** over Lump Sum investing should the markets take a downturn. SIP **handles Market Volatility** better than Lump Sum by giving a smooth ride to investors. SIP is better suited for Salaried investors and Small Businessmen with monthly or quarterly payment mandates.

Contributions of SIP as per AMFI data is as under:



In the last 9 fiscals, that is between 2016 and 2024, the Asset Under Management (AUM) from SIP has gone from 43921 Crores to 289352 Crores, a whopping 6.5 times increase. It had dipped marginally in 2020 – 21 owing to COVID 19 panic, but had shown a steady year-on-year growth. This is expected to touch 350,000 Crores by March 2026. This goes to show how the public consciousness on mutual funds is increasing. The number of SIP accounts has gone from 527 Lakhs to 875 Lakhs between April 2021 and March 2024, that is in just 3 fiscals.

Equity dominates the investment scenario in Mutual Funds, followed by Debt Funds, Followed by Hybrid Funds in India. The investments across these asset classes are as demonstrated:



Of the 22.5 Crore Mutual Funds Accounts in India, 91.6% are Retail Investors, 7.9% are Institutional Investors and only 0.6% are HNI Investors (AMFI – Dec 24). But to consider the sizes of the tickets across Asset Classes, 70.1% are Equity, 11.7% are in ETF, FoFs and 6.8% are invested in Hybrid Funds. AMFI Folio comparison shows, while Retail Investors are 92.7% into Equity, HNI show a peculiar character. HNI Investors are concentrated 25% in Liquid/ Money Market, 26.2% in Debt oriented funds and 24.3% in Hybrid Schemes. In such a comparison, it goes to show that the retail investors have a greater risk appetite than the HNI investors.

If the State GDP to AUM ratio is any indicator of prosperity, the Maharashtra steals the show at 90%, Delhi follows at 54% and Goa at 46%. Rest is the mediocre states so to say. Gujarat is at the 4th position at 26%, Haryana 23%, West Bengal 22% and Karnataka 21%. Remaining all the states come below the 20% mark, leading being Jharkhand at 19%. However, when it comes to per Capita AUM, Delhi leads, followed by Goa and followed by Maharashtra the only three-figure states above 2 Lacs; the remaining states are all in five-figures.

It may be said with confidence, based on the above discussion, that Mutual Funds as a vehicle of investment in India, is hitting in all four-cylinders and has a brightly lit highway ahead.