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Journal of Management Science, Operations & Strategies, E- ISSN 2456-9305
Vol. 5, Issue, 01. 20-25p, March 2021

National Research & Journal Publication

Review Article

Emerging Trends of Capital Market and Mutual Fund in India

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Abstract

Mutual fund is a trust that pools money from a group of investors and invest the money which collected into asset classes that match the stated investment objectives of the scheme. Since the stated investment objective of a mutual fund scheme generally forms the basis for an investor's decision to contribute money to the pool, a mutual fund can not deviate from its stated objectives at any point of time. Every Mutual Fund is managed by a fund manager, who using his investment management skills and necessary research works ensures much better return than what an investor can manage on his own. The capital appreciation and other incomes earned from these investments are passed on to the investors in proportion of the number of units they own. When an investor subscribes for the units of a mutual fund, he becomes part owner of the assets of the fund in the same proportion as his contribution amount put up with the corpus. Mutual Fund investor is also known as a mutual fund shareholder or a unit holder.

Keyword: *- Mutual Fund, Capital, Shareholder, Investor, Money.*

Introduction

The Indian financial system based on four basic components like Financial Market, Financial Institutions, Financial Service, Financial Instruments. All are play important role for smooth activities for the transfer of the funds and allocation of the funds. The main aim of the Indian financial system is that providing the efficiently services to the capital market. The Indian capital market has been increasing tremendously during the second generation reforms. The first generation reforms started in 1991 with the concept of LPG. (Liberalization, privatization, Globalization)

Then after 1997 second generation reforms was started, still the it's going on, its include reforms of industrial investment, reforms of fiscal policy, reforms of ex- imp policy, reforms of public sector, reforms of financial sector, reforms of foreign investment through the institutional investors, reforms banking sectors. The economic development model adopted by India in the post independence era has been characterized by mixed economy with the public sector playing a dominating role and the activities in private industrial sector control measures emaciated form time to time. The last two decades have been a phenomenal expansion in the geographical coverage and the financial spread of our financial system.

The spared of the banking system has been a major factor in promoting financial intermediation in the economy and in the growth of financial savings with progressive liberalization of economic policies, there has been a rapid growth of capital market, money market and financial services industry including merchant banking, leasing and venture capital, leasing, hire purchasing. Consistent with the growth of financial sector and second generation reforms its need to fruition of the financial sector. It's also need to providing the efficient service to the investor mostly if the investors are supply small amount, in that point of view the mutual fund play vital for better service to the small investors. The main vision for the analysis for this study is to scrutinize the performance of five star rated mutual funds, given the weight of risk, return, and assets under management, net assets value, book value and price earnings ratio.

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank. The history of mutual funds in India can be broadly divided into four distinct phases.

First Phase: 1964-87

Unit Trust of India (UTI) was established on 1963 by an Act of parliament. It 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 dc-linked from the RBI and the industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Ps. 6,700 crores of assets under management.

Second Phase-1987-1993 (Entry of Public Sector Funds):

1987 marked the entry of non-UTI, public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first non-UTI Mutual Fund established in June 1987 followed by Can bank Mutual Fund (Dec. 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92). LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990.

Third Phase (1993-2002):

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 thud families. Also, 1993 was the year in which the first Mutual Fund Regulation 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) Regulation were substituted by a more comprehensive and revised Mutual Fund

Regulation in 1996. The industry now functions under the SEBI (Mutual Fund) Regulation 1996.

The number of mutual fund houses went on incensing 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 UII 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 function under the Mutual Fund Regulation. 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. As at the end of September 2004, there were 29 funds, which manage assets of Rs. 153108 crores under 421 schemes. The total assets under management of 32 funds have crossed Rs.4,86,129 crore in July 2007. Reliance Mutual fund remains the country’s largest fund house with the AMU of Rs. 67,598 crores in August 2007. ICICI Prudential MF was at the second rank with AMU of 50,612 crore in August 2007.

Mutual Fund

A fund established in the form of a trust by a sponsor to raise monies by the trustees through the sale of units to the public under one or more schemes for investing in securities in accordance with these regulations”.

Mutual fund is the pool of the money, based on the trust who invests the savings of a number of investors who shares a common financial goal, like the capital appreciation and dividend earning. The money thus collect is then invested in capital market instruments such as shares, debenture, and foreign market. Investors invest money and get the units as per the unit value which we called as NAV (net assets value). Mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in diversified portfolio management, good research team, professionally managed Indian stock as well as the foreign market, the main aim of the fund manager is to taking the scrip that have under value and future will rising, then fund manager sell out the stock. Fund manager concentration on risk – return trade off, where minimize the risk and maximize the return through diversification of the portfolio. The most common features of the mutual fund unit are low cost.

Characteristics of Mutual Funds

The specific characteristics of Indian Mutual Fund Schemes can be narrated as listed below:

Assurance of minimum returns:

In general mutual funds do not assure any minimum returns to their investors. However, Indian Mutual Fund Schemes launched during 1987 to 1990 assured specific returns till 1991, when the SEBI and Union Ministry of Finance order the mutual funds not to assure minimum returns. Recently, SEBI has formulated a policy that, mutual funds with a track record of five years will be allowed to offer fixed returns not exceeding one year period.

Multiple Options:

Most of the mutual fund schemes are offering different options to the investors under one scheme. For example, a growth oriented scheme may offer option of either regular income or re-investment of income. Under the regular income plan, dividend shall be distributed to investors and under the second dividend will be reinvested and total amount shall be paid at time of redumption.

Lock in Period:

Mutual Fund Schemes offer documents that contain a clause of lock-in period ranging from one year to three years. Till the completion of the minimum period the investors are to trade neither the units on the stock exchange nor to avail themselves of repurchase facility.

Liquidity:

Generally open-ended funds offer the facility of repurchase and the close ended are traded at stock exchange offering repurchase after a minimum lock in period of two to three years. Mutual funds also have a facility to pledge or mortgage at banks to obtain loan and can be transferred in favour of any individual.

Incentives to early subscribers:
Most of the close-ended mutual fund schemes are offering incentives to encourage early subscription to investors. This is more often in the tax planning schemes. For instance, if the scheme is open for a period of three months, the investor may be allowed a deduction from the amount to be invested at a certain specified rate, if the subscriptions were during the specified time limits.

Financial Markets & Mutual Funds
The financial sector in India consists of two broad segments, the organized and unorganized sectors. The former includes commercial banks, non-banking financial companies (NBFCs), development financial institutions (DFIs), mutual funds, insurance companies, pension and provident funds. The entry of private

sector banks, mutual funds and insurance companies has made a dent in the dominance of the public sector. Several new generation public sector banks have emerged and are successfully challenging the public sector banks. Mutual funds from the domestic and foreign private sectors have taken away a significant proportion of the market share of the UTI and public sector mutual funds.

Factors influencing the growth of mutual fund Industry

Standardization of operations:

Mutual fund operations like maintenance of investment accounts and the scheme accounts by outsourcing is restricted. Marketing strategies in consultation with marketing advisors have been established by the AMCs. The SEBI regulations with respect to offer documents, NAV computation, NAV reporting, valuation of investments, accounting standards, performance reports etc., have tended to create a certain level of homogenization of the Indian mutual fund products.

Technology:

Majority of the mutual funds have their own websites providing basic information relating to the schemes and enable purchase and redemption of units online for clients in select locations. Most significant influence of technology is seen in servicing investors through agencies. The advantages of technology resulted in lower distribution costs through online transactions, more customized and personal advice to customers and reaching out to the growing young and net-savvy population of India.

Product Innovation:

The tailor-made innovative schemes launched by the mutual fund houses have given investors option to choose funds which choose his investment needs. Schemes with systematic investment plan, automatic redemption plan, linking current accounts to money market mutual funds, cheque writing facility etc. are attempts to create homogeneity. Products such as Index funds, International funds, Ethical funds, Sectoral funds, Exchange traded funds, Pension funds, Children funds, Reality funds have galvanized the industry growth.

Competition and Efficiency:

Early in the reforms process, it is recognized that greater competition and innovation would be required so that the public received better financial services. It is true that some steps have been taken to increase competition between financial intermediaries both within and across categories. Banks and financial institutions have been allowed to enter each other territories.[5] Fields like mutual funds, leasing and merchant banking have been thrown open to the banks and their subsidiaries. The private sector has been allowed into fields like banking and mutual funds.

Conclusion

From the present study it has been found that Mutual Funds clearly have a significant role to play in the development of Indian economy. Their modus operandi of aggregating pools of saving from a large number of retail investors and deploying these resources in a variety of financial markets, based on different risk-return preferences simultaneously enhances efficiency, stability and financial inclusion of different types of investors. It is also relatively easy for them to be transparent about both their strategies and outcomes.

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