

A Study of Comprehensive Analysis of Mutual Funds in India

Dr. Prasad H K*

*Associate Professor, Department of Commerce Maharani's Women's Commerce and Management College, Mysuru -570023.

Citation: Dr. Prasad H K (2024). A Study of Comprehensive Analysis of Mutual Funds in India, *Educational Administration: Theory and Practice*. 30(4), 11217-11220

Doi: 10.53555/kuey.v30i4.9919

ARTICLE INFO

ABSTRACT

The aim of this research paper is to study the trends, performance, and investors in Indian industry an analysis of mutual funds in India based on secondary data. As mutual funds have gained tremendous popularity in the nation as an investment vehicle, the paper examines the development, growth and the performance of the mutual funds in India in the last 10 years. This analysis is made using secondary data that has been established using the reports and reports on economic sectors from government agencies, financial institutions, and industry publications. This comparative study aims at understanding the various types of mutual funds, returns, risk-adjusted return performance, and investor choice. Together, the results are intended to provide a comprehensive perspective on the mutual fund industry, its market dynamics, challenges, and opportunities. This study will help investors, policy makers, and financial analysts alike to gain a basic understanding when considering investments in mutual funds in India.

Keywords: Mutual funds, Analysis, Growth, Evaluation, Performance, India.

Introduction:

Over the last two decades, the landscape of the mutual fund industry in India has changed remarkably and reached the point where it is now the perennial second fiddle in the Indian financial landscape. From 2024 onwards, the market incumbent has witnessed a phenomenal rise in AUM due to greater awareness, a broader investing culture and an essentially larger middle class. Mutual funds have become a key component in the diversified portfolios of millions of investors across the country, serving both as a tool for wealth creation and risk mitigation by pooling money from multiple investors and investing in a diversified portfolio of shares, fixed income and other securities. Through this research, we attempt to study the mutual fund in India front, how far has it progressed, the investor behaviour and preferences regarding this alternative as a location of investment, the performance of the funds in terms of their return vis-a-vis risk, and the regulatory environment governing it now and in the past. Through most of the early nineties, mutual funds were regarded by most people as one more high-net-worth (HNWI) product. Over the years, mutual funds gained considerable popularity among retail investors since the liberalization of the Indian economy, the entry of private sector mutual funds, and rising market literacy. This development and the government and regulators have played a pivotal and instrumental role in driving financial inclusion and creating an investor-friendly ecosystem. The market regulator, the Securities and Exchange Board of India (SEBI), has already initiated a series of reforms, starting from the introduction of direct plans, stringent norms for disclosures, and bringing transparency to fund management to protect investor interests and standardise practices among mutual funds. In India Mutual Funds are classified into different types based on the nature of their securities, risk appetite, and investment objective. They can be equity funds, debt funds, hybrid funds or even liquid funds. Because each category caters to investors having different levels of risk appetite, ranging from the very high (equity funds) to the very low (debt funds). Equity funds have witnessed the highest rise on the back of stock market investments and debt funds have remained a steady market for conservative investors looking for steady returns with lower volatility.

Further, the Indian mutual fund industry is also one of the fastest-growing in terms of retail investors who are coming in due to digital and technology-favoured investment products. Due to the advent of online platforms and apps, investing in mutual funds has become easy and convenient, to the extent that even small investors today can easily enter the market without much hassle. The most prominent technological advancement in this context is that millions of new investors, especially from the younger generation, who are better equipped

with technology and more willing to consider alternatives beyond a traditional savings account or fixed deposit, can now access the mutual fund market. An equally important reason for the growth of mutual funds in our country has been the push towards financial literacy. The government and private sector efforts to sensitize the investors about the importance of investing in mutual funds have been successful. Moreover, with greater financial inclusion, a growing chunk of our population is moving away from traditional savings and is looking for avenues of better return on investment. In this sense, Mutual funds have emerged as a prime instrument for accumulating Long Term wealth, preparing for retirement and saving tax too. While the size of the mutual fund industry has been increasing in India, it still continues to face a number of challenges. Market volatility, investor sentiments turning, and the impact of macroeconomic factors such as inflation, interest rates, and geopolitics are serious risk factors. Lastly, the industry must combat the perception of skepticism about mutual funds that still exists in many investors — often out of a desperation of knowledge.

The study employs secondary sources, collecting data from the various government reports, various financial institutions, and also from the mutual fund database, to find out the different aspects of Thus, this mutual fund industry in India. The main aims are to analyse the historical performance of mutual funds, assess the comparability of risk-adjusted returns across categories, and measure the impact of regulatory changes on the industry's growth. The analyses conducted through this study will help the reader gain insights into the state of mutual fund in India, their landscape and role in Indian economy.

Review of Literature:

Chawla and Gupta (2020) examined the growth trajectory of mutual funds in India, highlighting the significant rise in the retail investor base. Their study emphasizes the role of regulatory reforms, such as enhanced transparency and investor protection measures, in promoting mutual fund investments. The authors argue that these regulatory changes have fostered investor confidence, driving growth in both the number of investors and the assets under management. The paper concludes that the evolution of the mutual fund industry is intrinsically tied to the regulatory environment, which continues to evolve in response to market needs.

Sharma and Kumar (2019) focused on the critical role played by asset management companies (AMCs) in managing mutual funds. They discuss how operational efficiencies within AMCs influence the performance of mutual funds, particularly in navigating volatile market conditions. The authors emphasize that AMCs must adopt efficient fund management strategies to ensure consistent returns for investors. They suggest that the success of mutual funds depends heavily on the ability of AMCs to maintain operational excellence while adapting to changing market dynamics and investor expectations.

Raghavan (2018) investigated the factors influencing investor preferences towards mutual funds in India, particularly focusing on risk tolerance, investment objectives, and past performance. His findings suggest that younger investors are increasingly favoring equity funds due to their higher potential returns, despite their inherent volatility. Raghavan's study highlights the growing trend of risk-taking among younger demographics, which is reshaping investment strategies in the mutual fund industry. The paper underscores the need for investors to align their portfolio choices with their financial goals and risk appetite.

Patel (2021) conducted an analysis of the performance of equity mutual funds in India, identifying their potential for high returns but also their higher volatility compared to other fund types like debt and hybrid funds. Patel stresses the importance of diversification and risk management strategies for investors opting for equity funds. He suggests that while equity funds can offer substantial long-term gains, their volatility necessitates a more cautious and strategic approach to portfolio management, particularly for those with lower risk tolerance.

Singh and Reddy (2017) assessed the regulatory framework governing mutual funds in India, focusing on its impact on investor protection. They argue that the introduction of stronger regulations has significantly bolstered investor confidence, thereby promoting growth in the mutual fund industry. Their study emphasizes that regulatory measures such as enhanced disclosure norms and the implementation of direct plans have created a more transparent and secure environment for investors, which has contributed to the increased participation of retail investors in the market.

Bhattacharya (2020) explored the risk-adjusted returns of various mutual fund categories in India, with a particular focus on hybrid funds. His analysis suggests that hybrid funds offer a more balanced risk-return profile compared to pure equity funds, making them more attractive to conservative investors seeking stability. Bhattacharya's findings indicate that investors who are risk-averse may benefit from the diversification provided by hybrid funds, which combine the growth potential of equities with the stability of debt instruments.

Ghosh (2019) studied the impact of global financial markets on Indian mutual funds, particularly those with international exposure. His research found that mutual funds with global investments experienced heightened volatility during global economic downturns, which significantly impacted their returns. Ghosh's study emphasizes the importance of understanding the correlation between global and local markets, especially for investors in mutual funds with international holdings. He concludes that while global exposure can offer diversification benefits, it also introduces significant risk during periods of global economic instability.

Mehta and Jain (2018) conducted a comparative analysis of debt and equity mutual funds in India, focusing on their risk and return profiles. They found that debt funds are generally less volatile and offer lower returns

compared to equity funds, making them suitable for risk-averse investors. On the other hand, equity funds provide higher returns but come with increased risk, making them a better fit for investors with a higher risk tolerance and long-term investment horizons. The authors recommend that investors choose between these funds based on their financial goals and risk preferences.

Kumar and Singh (2021) provided an in-depth analysis of the mutual fund distribution network in India, highlighting the transformative impact of digital platforms. Their study shows that digital platforms have revolutionized the way mutual funds are distributed, making them more accessible to a larger pool of investors. These platforms enable easy tracking of investments and offer a wide variety of funds, which has led to increased participation in the mutual fund market. Kumar and Singh suggest that the digital shift is critical for the future growth and democratization of mutual fund investments in India

Objectives of the Study:

1. To analyze the historical performance of equity mutual funds in India over the past decade.
2. To compare the risk-adjusted returns of debt, hybrid, and equity mutual funds in India.
3. To assess the impact of regulatory changes on mutual fund growth and investor participation in India.

Analysis of Objectives:

Historical Performance of Equity Mutual Funds

Year	Return (%)	Nifty 50 Return (%)	Performance Difference (%)	AUM (in crores)
2018-19	18.5	9.3	9.2	12,000
2019-20	15.3	10.4	4.9	14,500
2020-21	20.1	28.7	-8.6	18,000
2021-22	-3.4	3.2	-6.6	21,500
2022-23	18.2	12.5	5.7	24,000

Source: Report of Association of Mutual Funds of India

Performance of the fund since 2018-19 to 2022-23; comparison with Nifty 50 In three of those five years, it outperformed the index, with the outperformance being the highest in 2018-19 (9.2%). It also provided outperformance of 4.9% and 5.7% over the index in 2019-20 and 2022-23 respectively. In other years, however, it did even worse: -8.6% worse in 2020-21 and -6.6% in 2021-22. While the fund had these hit and miss returns, the fund continued to grow assets with AUM increasing from ₹ 12000 crores in 2018-19 to ₹24000 crores in FY 2022-23. Such steady growth shows either very long term interest of the investors or booming years in the pasts of the technology capabilities.

Risk-Adjusted Returns Comparison

Fund Category	Sharpe Ratio	Standard Deviation (%)	Alpha (%)	Beta	AUM (in crores)
Equity	0.91	22.5	5.3	1.12	50,000
Debt	1.12	8.2	3.1	0.35	35,000
Hybrid	0.85	15.0	4.0	0.9	45,000

Source: Report of Association of Mutual Funds of India

Across the categories of fund performance metrics lies most of the contributions to the behaviour of risk and return. With a high Sharpe ratio (1.12), they provide the best risk-adjusted returns, coupled with low volatility (8.2%) and low beta (0.35), and their protection characteristics make them ideal for conservative investors. Above all, equity funds are highly volatile (22.5%) and tend to have a beta greater than 1 (1.12): commensurate with our findings, equity funds do have a higher alpha (5.3%). Great fit for aggressive long-term investors. Hybrid funds fall somewhere in between, with medium Sharpe ratio (0.85) and volatility (15%). At 0.9 their beta suggests even slightly less sensitivity to the market. Looking at AUM, equity funds lead at ₹50,000 crores, indicating significant investor interest, followed by hybrid (₹45,000 crores) followed by debt (₹35,000 crores). All in all – each category caters to different investor requirements for risk tolerance and returns.

Impact of Regulatory Changes

Year	Regulatory Change	Impact on AUM (%)	Impact on Investor Participation (%)	Impact on Fund Performance (%)
2016	SEBI's Direct Plan Launch	+5.4	+8.3	+4.2
2017	KYC Norms Update	+3.2	+12.5	+2.0
2018	Reclassification of Funds	+7.0	+10.0	+6.3
2019	Banning of Unregulated Schemes	+10.2	+15.0	+5.8
2020	Increased Transparency Measures	+8.5	+20.0	+7.4

Source: Report of Association of Mutual Funds of India

During the 2016–2020 period SEBI made major regulatory changes that had a big impact on the mutual fund industry in India. Launched in 2016, the Direct Plan contributed 5.4% to AUM, 8.3% to investor participation, and 4.2% to fund performance, due to the preliminary gains from lower expense ratios. KYC norms were eased in 2017 opening it up to more investors (12.5%) and marginally increased performance. In response to the 2018 fund reclassification streamlined offerings which saw an uptick of 7% y/y AUM and 6.3% y/y improvement in performance, aiding investor clarity. Despite investors not fully trust in regulated products, the strongest impact of the unregulated schemes ban was observed in terms of investor participation (15%) and AUM growth (10.2%) in 2019. GovernancePff 2020 transparency measures brought the biggest performance increase (7.4%) and a 20% rise in the number of participating companies - further confirming the important role of governance drives investment confidence. In general, regulatory interventions consistently achieved sustainable impact on improving market integrity, increasing investor base, and fund performance.

Conclusion:

India's mutual-fund sector has grown impressively thanks to regulatory changes, greater investor sensitivity and booming digital platforms. This strategic approach has exhibited promise in wealth generation, particularly for equities and hybrid segment mutual funds even as investment in mutual funds carries some risk. The implementation of comprehensive regulatory frameworks has created an environment that has increased investor confidence and is expected to facilitate further market growth. Although equity funds can provide good returns, they also have a high deviation from the average return, and thus, diversification and risk management become important techniques. In reality, growth of digital based platforms brought about a revolution in mutual fund distribution that democratized investments for most people. Overall, the mutual fund space continues to be an integral part of the Indian financial industry, offering different investment options for risk-averse and risk-seeking investors alike.

References:

1. Bhattacharya, P. (2020). *Risk-adjusted returns of mutual funds: A study of Indian market trends*. *Journal of Financial Analysis*, 15(3), 45-59.
2. Chawla, S., & Gupta, R. (2020). *The evolution of mutual funds in India: A growth story*. *Indian Financial Journal*, 18(2), 62-78.
3. Ghosh, S. (2019). *Global financial markets and their impact on Indian mutual funds*. *Financial Research Review*, 17(4), 33-48.
4. Kumar, A., & Singh, R. (2021). *Impact of digital platforms on mutual fund distribution in India*. *Indian Journal of Financial Studies*, 14(1), 75-89.
5. Mehta, S., & Jain, P. (2018). *Debt vs equity: A comparative analysis of mutual fund investments in India*. *Investment Strategies*, 22(5), 11-23.
6. Patel, A. (2021). *Performance of equity mutual funds in India: An analytical review*. *Journal of Financial Markets*, 10(3), 52-66.
7. Raghavan, R. (2018). *Investor preferences in Indian mutual funds: A behavioral approach*. *Indian Journal of Investment Research*, 12(2), 102-115.
8. Sharma, S., & Kumar, N. (2019). *The role of asset management companies in mutual fund performance*. *Investment Review*, 23(4), 59-70.
9. Singh, A., & Reddy, K. (2017). *Regulatory impact on Indian mutual fund growth*. *Indian Regulatory Review*, 8(1), 18-27.
10. Reports of Associations of Mutual Funds of India.