

THE GROWTH IN NET FLOW OF MUTUAL FUNDS: A CATEGORY WISE ANALYSIS

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ABSTRACT

This paper focuses on the net flow of mutual funds and analyses yearly growth of in different categories of mutual funds. Mutual Funds are form of trust created for the purpose of pooling of funds for varied objectives for those investors who don't manage funds themselves rather is done by Asset Management Company (AMC). Mutual Funds are required to be registered with SEBI and is regulated under the SEBI (MF) Regulation 1996. This paper would look into the growth analysis of Mutual funds in India in different categories and the interpretation would be discussed. During the research we see that except for the ELSS- Equity Mutual Funds and ETFs (other than Gold ETFs) has consistent growth. Also, Gold ETFs and Fund of Funds Investing Overseas Mutual Funds are constantly seeing Net Outflow. Equity Mutual remains the Mutual Fund to see highest Net Inflow in terms amount followed by Balanced Mutual funds. In total the Mutual funds have seen constant growth in terms of Net Inflow except during 2017-18. Mutual Funds provide a way to the investors who earlier were unable to invest due to constraints of finance, time, or expertise can do through using Mutual Funds. The different categories provide different options depending upon the need of investors. The different categories provide different options depending upon the need of investors.

KEYWORDS: *Mutual Fund, Investors, Categories, Net Inflow/(Outflow).*

Introduction

This paper focuses on the net flow of mutual funds and analyses yearly growth in different categories of mutual funds. Mutual Funds are form of trust created for the purpose of pooling of funds for varied objectives for those investors who don't manage funds themselves rather is done by Asset Management Company (AMC). Mutual Funds are required to be registered with SEBI and is regulated under the SEBI (MF) Regulation 1996. MFs are considered tool for those small investors and others that are unable to directly invest in the share market be it equity or debt. These small investors can participate and reap the benefits of growth in the share market instruments via Mutual Funds. Not only financial constraint but also the limitation of not having expertise and knowledge, or enough time to track makes Mutual Funds a convenient way or tool of investment for the people. The profit or for that matter appreciation of investment depends on performance of stock in which funds are invested and thus also in performance of the share market. MFs are thus those financial Intermediaries which invest in diversified portfolio of assets through pooling financial resources from various units. This paper would look into the growth analysis of Mutual funds in India in different categories and the interpretation would be discussed.

Literature Review

Many studies has been done in past on the growth and financial performance of MFs. Following those studies, research work evaluations has been done. Author will present literature reviewed for this paper in following paragraphs:

De Bondt and Thaler (1985) submitted that mean reversion in prices of stock is backed by investor's retrogression which is based upon investor's psychology to overvalue firm's recent performance in forming future expected results which is also known as endowment effect.

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Ippolito (1992) states that an investor is ready to invest in those funds or schemes which have resulted in good rewards and most investors' are attracted by those funds or schemes that are performing better over the worst. Goetzman (1997) opined that investor's psychology affects mutual fund selection for investment and to withdraw from the fund.

Gupta (1994) surveyed household investor to find investors' preferences to invest in mutual funds and other available financial assets. The findings of the study were more relevant, at that time, to the policy makers and mutual funds to design the financial products for the future.

In 1995, Malkiel, B.J. shows us precisely the extent of survivorship bias with the performance. When looked in total, funds set underperforming benchmark portfolios after expenses carried by management and other gross expenses. There is significant Survivorship Bias present. Also, 1970s saw some consistency in returns then in 1980s, there was no consistency in returns.

In 1999, Louis, K.C. and Lakonishok, C.C. stated investment style of Mutual Funds. It was noted that funds' style cluster around a broad market benchmark. Whenever funds deviate from benchmarks, funds with greater performances are then preferred.

Redman, A.L. and Manakyan, H. (2001) have given information the risk-adjusted returns using Sharpe's Index, Treynor's Index, and Jensen's. The results show that for 1985 through 1994 the portfolios of international mutual funds outperformed the U. S. market and the portfolio of U. S. mutual funds under Sharpe's and Treynor's indices. During 1985-1989, the international fund portfolio outperformed both the U. S. market and the domestic fund portfolio, while the portfolio of Pacific Rim funds outperformed both benchmark portfolios. Returns declined below the stock market and domestic mutual funds during 1990-1994.

Tahseen, A.A and Narayana, S. (2012) have discussed consumer attitudes towards financial investments have always been a challenge for the finance companies due to limited risk appetite of consumers which are largely attributed to both cognitive and affective components of attitude.

Vyas, R. (2013) have mentioned in his study that mutual fund companies should come forward with full support for the investors in terms of advisory services, participation of investor in portfolio design, ensure full disclosure of related information to investor, proper consultancy should be given by mutual fund companies to the investors in understanding terms and conditions of different mutual fund schemes, such type of fund designing should be promoted that will ensure to satisfy needs of investors, mutual fund information should be published in investor friendly language and style, proper system to educate investors should be developed by mutual fund companies to analyse risk in investment s made by them, etc.

Juwairiya, P.P (2014) says systematic investment plan is the best option planned for small investors who wish to invest small amounts regularly to build wealth over a long period of time.

Kumar, S. & Kumar, V. (2014) in their study it is mention that "Mutual fund is a kind of investment that uses money from many investors to invest in stocks, bonds or other types of investment and the fund manager decides how to invest the money.

History of Mutual Funds

The Mutual funds in its present form was first known to be introduced in Belgium in the year 1822. From there on it spread to other parts of Europe such as Great Britain and France. During 1920s and 30s, Open- end Mutual Funds became more and more popular in United states and then it was noticed that during world war II there was huge growth in MFs. In 1989 and 1990, LIC and GIC established their Mutual Funds respectively. A new era came into existence for Mutual Funds in 1993 when private sector was opened for the mutual funds that provided wide range of choices to the investors. Once private sector was allowed many more foreign mutual funds set up funds in India. These numbers went on shoot up with more mutual fund houses and other corporate firms. Industry also witnessed many more mergers and acquisitions. As on October 2018, there were 1,910 different schemes with Asset under Management Rs. 23,32,979 crore. Currently there are many huge Asset Management Companies in India among them ICICI Prudential Mutual Fund is the largest in 2018 with Asset Under Management size of approx. Rs. 3 lakh Crore. Followed by HDFC Mutual Fund, Aditya Birla Sun Life Mutual Fund, Reliance Mutual Fund, SBI Mutual Fund and UTI Mutual Fund being other five respectively.

Objectives of the Study

The main objective of the research paper is to see and analyse the growth streak of the net flow of funds of Mutual Funds.

- To understand the trend in Mutual Funds' net inflow/(outflow) in different MF categories.
- Whether there is similarity among the growth pattern of the different categories.

Research Methodology

This study is based on secondary data collected from Association of Mutual Funds of India (AMFI) quarterly reports published on the websites and uses tables & charts for analysis. The period of study is from 2014-15 to 2017-18. The analysis is done for the 10 different Mutual Fund Categories separately using charts to show trend analysis over the period.

Data Analysis

Data here presented is in form of Net Inflow/(outflow) is reached through subtracting purchases and redemptions from the sales for that particular period for that particular category. We will be analysing whether the category sees continuous growth in the flow in the stated time period or there is fluctuation in the pattern.

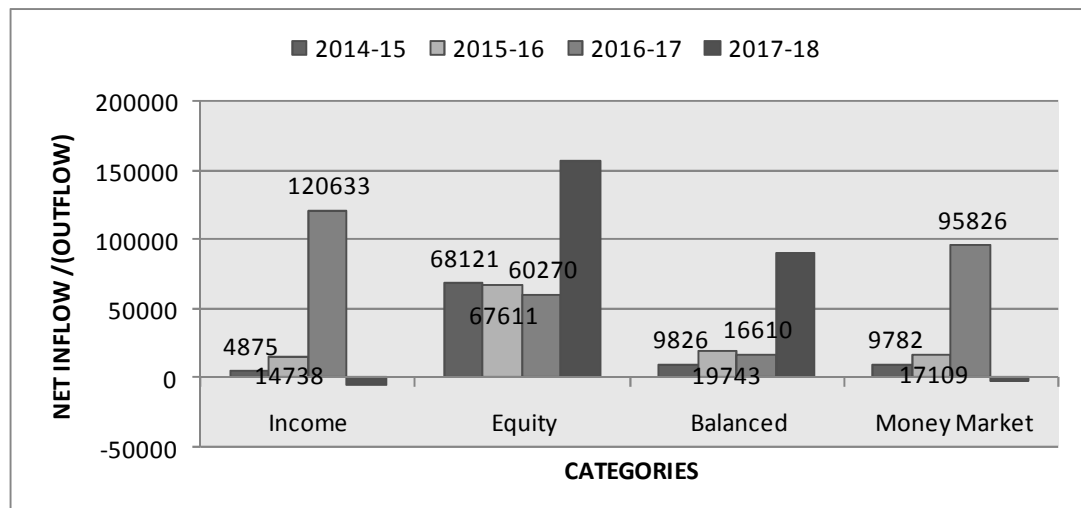
Table 1: Net Inflow/ (Outflow) Data of Mutual Funds - Category Wise (Rs. In Crore)

Category	Net Inflow/ (Outflow) for the Year			
	2014-15	2015-16	2016-17	2017-18
Income	4875	14738	120633	(5851)
Infrastructure debt fund	188	403	-	340
Equity	68121	67611	60270	156753
Balanced	9826	19743	16610	89757
Liquid/money market	9782	17109	95826	(2936)
Gilt	7712	759	(3306)	(3277)
Elss- equity	2908	6413	10097	14316
Gold etfs	(1475)	(903)	(775)	(835)
Other etfs	2251	8724	24054	23958
Fund of funds investing overseas	(900)	(417)	(360)	(428)
Total	103288	134180	343049	271797

Source: Association of Mutual Funds in India (AMFI)

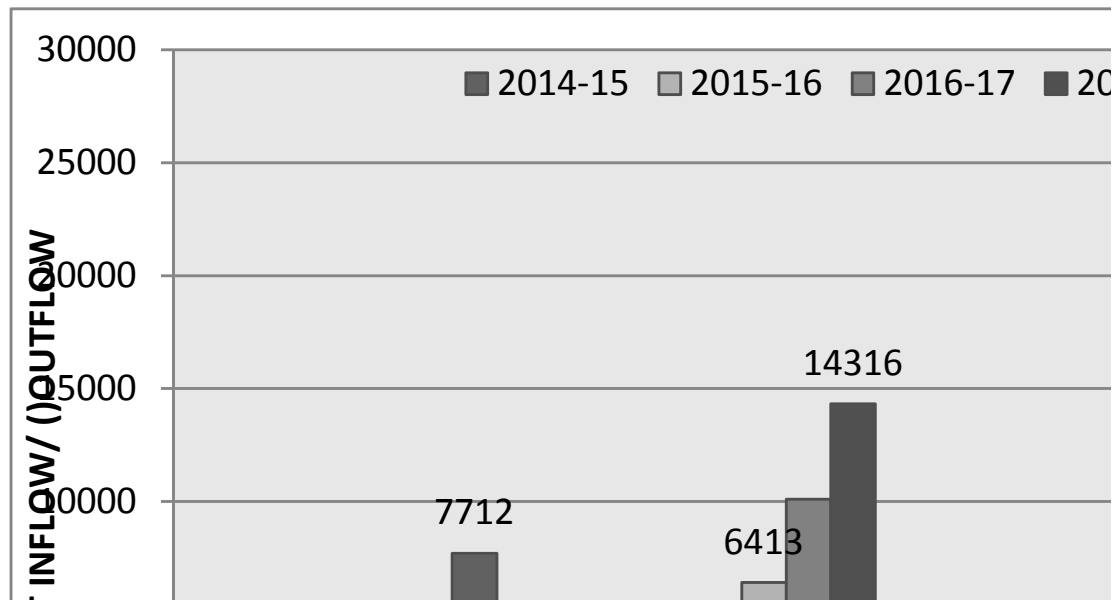
Following is the Chart showing trend analysis of four different categories of Mutual Funds. The Net Flow of categories shown in Figure 1 consists of most of the flow in terms of percentages in comparison to other six categories show in Figure 2 thus presented separately.

Figure 1: Showing Net Flow of Categories of Mutual Funds



Following is the Figure 2, showing Net flow for the six different categories of Mutual Fund over the course of four years i.e. 2014-15 to 2017-18.

Figure 2: Net Flow of Categories of Mutual Fund



Interpretation

In this section of the research paper, we will interpret the results of the data presented in the charts and will try to see pattern in the mutual fund categories as in how they moving and there is some common trend among the different categories:

- In figure 1, none of the four categories show constant increase in the net flow or for that matter there is no consistent pattern to the net flow of the mutual funds inflow.
- Income Mutual funds sees constant growth in the years 2014-15, 2015-16 and 2016-17 when Net Inflow increases from Rs.4875 crore to Rs.120633 crore. Then during 2017-18 there is huge drop in flow and Income Mutual Funds sees Net Outflow of Rs.5851 crore.
- Similar to the Income Mutual Funds, Money/ Liquidity Market Mutual Funds sees growth from 2014-15 to 2016-17 i.e. Rs.9782 crore to Rs.95826 crore then comes slum of 2017-18 where Money Market Mutual Funds notices Net Outflow of Rs.2936 crore.
- Equity Mutual Funds and Balanced Mutual Funds sees different trends in Comparison to other two categories as both see growth in first two years and there is slight drop in 2016-17. But in 2017-18 they record a tremendous growth of manifold in Net Inflow.
- Equity Mutual Funds records Net Inflow of Rs.68121 crore and Rs.67611 crore during 2014-15 and 2015-16 respectively. Then during 2016-17 Net Inflow drops to Rs.60270 crore. And during 2017-18, Net Inflow shoots up to Rs.156753 crore.
- Balanced Mutual Funds records Net Inflow of Rs.9826 crore and Rs.19743 crore during 2014-15 and 2015-16 respectively. Then during 2016-17 Net Inflow drops to Rs.16610 crore. And during 2017-18, Net Inflow sees tremendous manifold growth to Rs.89757 crore.
- In figure 2, there are two categories which constantly remain at Net Outflow. Gold ETFs and Flow of Fund Investing Overseas Mutual Funds show Net Outflow during all four years.
- ELSS- Equity on the other hand seems the only category which is showing consistent growth in Net Inflow among all categories of the Mutual Funds. Net Inflow of ELSS- Equity are Rs.2908 crore in 2014-15, Rs.6413 crore in 215-16, Rs.10067 crore in 20116-17 and Rs.14316 crore in 2017-18.
- Infrastructure Debt Mutual Funds sees very little Fund Flow showing Net Inflow during 2014-15 and 2015-16 with Rs.188 crore and Rs.403 crore respectively. During 2016-17 there is neither Inflow nor Outflow and again during 2017-18 there is Net Inflow of Rs.340 crore.

- Gilt Mutual Funds is seeing trend downwards that is a significant one as during 2014-15 it was Rs.7712 crore then it fell to Rs.759 crore in 2015-16. The downward trend continued in 2016-17 as Gilt Mutual Funds saw Net Outflow of Rs.3306 crore. During 2017-18 slight correction was seen as there was Net Outflow of Rs.3277 crore.
- Other ETFs (except Gold ETFs) saw increase in growth of Net Inflow in first three years of analysis and there was a slight fall in 2017-18 which shows that it was more or less consistent. During 2014-15, Net Inflow was at Rs.2251 crore which increased to Rs.8724 crore in 2015-16, and then taking a huge jump in 2016-17 Net inflow was at Rs.24054 crore. During 2017-18, there was insignificant fall and it was recorded at Rs.23958 crore.

Conclusion

During the research we see that except for the ELSS- Equity Mutual Funds and ETFs (other than Gold ETFs) has consistent growth. Also, Gold ETFs and Fund of Funds Investing Overseas Mutual Funds are constantly seeing Net Outflow. Equity Mutual remains the Mutual Fund to see highest Net Inflow in terms amount followed by Balanced Mutual funds. In total the Mutual funds have seen constant growth in terms of Net Inflow except during 2017-18. Mutual Funds provide a way to the investors who earlier were unable to invest due to constraints of finance, time, or expertise can do through using Mutual Funds. The different categories provide different options depending upon the need of investors. And different categories see Inflow and Outflow depending upon various macroeconomic factors as well as market perception of future. And thus we find that there is no set pattern in the growth. Also, we find similarity in trends of Income Mutual Funds and Money Market Mutual Fund category as well as among Equity Mutual Fund and Balanced Mutual Funds. It could be concluded that though there is fluctuation in growth of the Mutual Fund, with time this tool would increase with increase new schemes that would be launched to cater different needs of small investors.

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