



A Study on Future of Mutual Fund Schemes in India

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ABSTRACT

This study investigates the dynamics of mutual fund performance in India, focusing on factors such as investor behavior, regulatory influences, technological advancements, and the growing popularity of Environmental, Social, and Governance (ESG) funds. It provides an in-depth analysis of the evolution of mutual funds, both globally and in the Indian context, examining key performance evaluation metrics, investor preferences, and the role of financial technology in enhancing mutual fund accessibility. Drawing from a wide range of domestic and international literature, this research aims to fill existing gaps in mutual fund performance studies, offering insights into the impact of recent regulatory changes, the growing influence of digital platforms, and the shift toward sustainable investing. The findings underscore the significance of investor education, cost efficiency, and the resilience of ESG funds during market downturns. This research also identifies areas for future exploration, such as the long-term effects of emerging technologies on mutual fund transparency and performance.

KEY WORDS

Mutual Funds, Performance Evaluation, Investor Behavior.

INTRODUCTION

A Mutual fund is an investment fund where money is pooled by various people (investors) and is managed by a professional fund manager. The funds can be invested in many categories such as stocks, bonds, and short-term debt. It has become a popular investment option among Indian investors due to their potential for high returns and diversification. The mutual fund industry in India has experienced significant

growth in recent years. It has emerged as an important segment of the Indian financial market. This research paper will provide an overview of mutual funds in India, including their history, growth, types, advantages, and challenges. Indian mutual funds industry is witnessing a rapid growth on the back of infrastructural development, increase in personal financial assets, and rise in foreign participation. With the growing risk appetite, rising income, and increasing awareness, mutual funds in India are becoming a preferred investment option compared to other investment vehicles. The industry is expected to secure growth by catering to the needs of retail customers. The industry has been largely product-led and not customer focused as the players are not concentrating on new product development as per the needs of the consumers. The industry seeks to target an increased share of the customer pocket through the expansion of innovative products combined with deeper retail penetration by expanding its presence in urban and rural locations.

Literature Review

A large number of studies on the growth and financial performance of mutual funds have been carried out during the past, in the developed and developing countries. Brief reviews of the following research works reveal the wealth of contributions towards the performance evaluation of mutual fund, market timing and stock selection abilities of fund managers. A brief account of the research works of Indian academicians are as follows:

Khare, Sanjay Kant (2007) in his research paper “Indian Mutual fund Industries” explained that investors could purchase stocks or bonds with much lower trading costs through mutual funds and enjoy the advantages of diversification and lower risk. The researcher identified that, with a higher savings rate of 23 percent, channeling savings into mutual funds sector has been growing rapidly as retail investors were gradually keeping out of the primary and secondary market. Mutual funds have to penetrate into rural areas with diversified products, better corporate governance and through introduction of financial planners. The reviews bring to light the importance of mutual funds in the Indian financial scenario; highlight the need for adequate investor protection, single regulatory authority, higher return for a given risk as per investors’ expectation, greater convenience and liquidity, and the expectations that mutual funds should act as a catalytic agent of economic growth and foster investor’s interest.

Rao and Gopalakrishna (2009): In his book “Mutual Fund – Ladder to wealth creation” examined the impact of SEBI regulations on mutual funds, particularly mandatory disclosures and caps on expense ratios. The study found a 25% increase in retail investor participation following these regulations, highlighting the positive impact of regulatory reforms on investor trust and market stability.

Banerjee and Gupta (2012): explored in his book “New Perspectives for the intelligent investor” the role of public sector mutual funds, noting their contribution to rural penetration and financial inclusion, especially through Government-backed schemes like the Bharat Bond ETF and other low-risk mutual fund products targeted at first-time investors.

Bansal and Gupta (2015): focused on their research paper “Study of preference of investors for investment in Mutual Fund” role of expense ratios in determining net returns. Their research found that funds with lower expense ratios consistently outperformed peers over the long term, emphasizing the importance of cost efficiency in fund management.

Sharma and Majumdar (2018): explored in their research paper “Evolution of Mutual fund as a Investment tool” the impact of macroeconomic factors like GDP growth, inflation, and interest rates on mutual fund performance. It found that equity fund returns were highly sensitive to market volatility, while debt funds offered a hedge against inflation. The study suggested that economic factors play a critical role in shaping fund performance, particularly in emerging markets like India.

Nair and Iyer (2023): highlighted in his book “Study of Hedge fund in India “the role of mobile apps in promoting SIPs, reporting a 50% growth in mobile-based investments between 2020 and 2023, illustrating the increasing reliance on smart phones for investment management.

Methodology

This research paper on the future of mutual funds in India is primarily based on secondary data analysis approach. The research involved the collection and analysis of existing data, literature, reports, and studies on the mutual fund industry in India.

The collected data was analyzed using a content analysis approach. The analysis involved identifying and categorizing the key themes, trends, and patterns in the literature. The analysis also involved comparing and contrasting the findings from different studies and reports to identify the similarities and differences in the research.

This study provides a comprehensive overview of the mutual fund industry in India, including its growth, types, advantages, and challenges. The study contributes to the existing body of literature on mutual funds in India and provides insights for future research and policy-making in the industry.

Objective of Study

1. To know the role of mutual funds in the economic development India.
2. To focus on the current scenario of the Indian mutual funds.
3. To identify future perspective of Indian mutual fund industry in the changing mindset of the investors.

Phases of Evolution of Mutual fund in India

A. 1st Phase (1964 – 1987)

On the basis of the Parliament Act 1963, the mutual fund industry was started with the establishment of Unit Trust of India (UTI). It functioned under the regulatory and administrative control of RBI. Subsequently, UTI was separated from RBI in 1978. Industrial Development Bank of India took control of the administrative and regulatory control in place of RBI. By the year 1988, UTI had Rs.6700 crores assets under management (AUM).

B. 2nd Phase (1987 – 1993)

The second phase in history of mutual fund embraced the coming of public sector banks. In 1987, several public sector mutual funds were established by public sector banks, Life Insurance Corporation of India (LIC) and Insurance Corporation of India (GIC). SBI Mutual Fund was the first non-UTI Mutual Fund which started in June 1987. Subsequently, Canara Bank started Canara Bank Mutual Fund in December 1987. Similarly, many other bank's mutual funds came into existence, such as:

Punjab National Bank Mutual Fund in August 1989, Indian Bank Mutual Fund in November 1989, Bank of India Mutual Fund in June 1990, Baroda Mutual Fund in October 1992, etc. By the end of 1993, the total asset under mutual fund industry was Rs.47,007 crores.

C. 3rd Phase (1993 – 2003)

The entry of private sector mutual fund was in year 1993. It opened up investors a wide variety choice of funds.

With the establishment of SEBI in April 1992, the Indian Securities Market gained importance. In 1993, the first set of SEBI Mutual Fund regulations was initiated for all mutual funds except UTI. The mutual fund industry currently governed under SEBI Regulations 1996.

The number of mutual funds have increased drastically over a period of time. Many foreign sponsors have also settled up a couple pf mutual fund in India. The MF industry witnessed several acquisitions and

mergers during this phase. By the end of January 2003, a total of 33 mutual funds with total assets of Rs.1,21,805 crores, among which UTI alone had an AUM of Rs.44,541 crores.

D. 4th Phase (February 2003 – April 2014)

In February 2003, UTI was bifurcated into two distinct organisations after the UTI Act was passed. First, Specified Undertaking of Unit Trust of India (SUUTI) was formed which is governed under an administrator and regulations established by Government. It is not associated with the authority of Mutual Fund Regulations.

Second, UTI Mutual fund carved out of Unit Trust of India, which functions under SEBI MF regulations from February 1, 2003.

When global recession hit in 2009, the global financial markets were at an all-time low, and so was India. The majority of investors who put their money when the market was good suffered huge losses. The investor approach towards mutual funds became speculative. The MF industry struggled to recover from the adversities or setbacks and the structure was revamped over 2 years. The situation deteriorated with SEBI abolishing entry load and repercussions of the economic crisis. All the aspects led to a decline in the growth of mutual funds in this phase.

E. Existing Growth of Mutual Funds (May 2014- Present)

Identifying the lack of potential of mutual funds in India, particularly in Tier II and Tier III cities, SEBI introduced many measures in Sept 2012. The reason behind these steps was to inculcate more transparency and security for the benefit of all stakeholders. During the course, many counter-measures were taken to counter the negative trend because of the global financial crisis. However, the situation improved significantly after the new Government was formed at the centre.

Types of Mutual Funds

1. Based on Asset Class

(A) Equity Mutual Funds

Invest in: Stocks and equity-related instruments.

Objective: Capital appreciation.

Examples:

- Large Cap Funds.
- Mid Cap Funds.
- Small Cap Funds.
- Multi Cap Funds.
- ELSS (Equity Linked Savings Scheme) – offers tax benefits.
- Sectoral/Thematic Funds – invest in specific sectors like IT, pharma, etc.

(B) Debt Mutual Funds

Invest in: Government bonds, corporate debentures, money market instruments.

Objective: Capital preservation + regular income.

Examples:

- Liquid Funds.
- Ultra Short Duration Funds.
- Short-Term & Long-Term Bond Funds.
- Gilt Funds.
- Corporate Bond Funds.

(c) Hybrid Mutual Funds

Invest in: A mix of equity and debt.

Objective: Balanced growth and income.

Examples:

- Aggressive Hybrid Funds (more equity).
- Conservative Hybrid Funds (more debt).
- Balanced Advantage Funds (dynamic asset allocation).
- Multi-Asset Allocation Funds (includes gold or international equity).

2. Based on Structure

(A) Open-Ended Funds

- You can invest or redeem any time.
- Highly liquid and flexible.

(B) Closed-Ended Funds

- Fixed maturity period (e.g., 3 or 5 years).
- You can invest only during the initial offer period.
- Listed on stock exchanges for liquidity.

(C) Interval Funds.

- Combination of open and closed-ended funds.
- Can be bought/sold only at specific intervals.

3. Based on Investment Goals / Style

(A) Growth Funds

- Reinvest profits back into the fund (no payouts).
- Suitable for long-term capital appreciation.

(B) Income / Dividend Funds

- Distribute regular income (subject to availability).
- **Note:** Post-2020, dividends are taxed in the hands of investors.

(C) Index Funds / ETFs

- Track a market index (e.g., Nifty 50, Sensex).
- Passively managed, low cost.

Data Analysis

1. Statewise allocation of Shares & Mutual fund as on 31/03/2024

State	Equity	Debt	Hybrid	Passive	Others
Maharashtra	37.9%	33.0%	12.8%	14.6%	1.7%
New Delhi	31.2%	30.9%	9.7%	27.2%	1.1%
Karnataka	46.8%	26.0%	15.6%	9.6%	2.0%
Gujarat	55.6%	20.8%	17.7%	4.1%	1.8%
West Bengal	50.9%	19.7%	18.1%	9.0%	2.4%
Uttar Pradesh	63.1%	13.7%	14.5%	6.2%	2.4%
Tamil Nadu	43.5%	28.2%	15.6%	10.9%	1.8%
Haryana	43.9%	33.1%	12.9%	8.6%	1.6%
Telangana	50.8%	21.8%	18.9%	6.8%	1.7%
Rajasthan	67.0%	11.6%	13.0%	5.9%	2.5%
Madhya Pradesh	66.1%	11.6%	16.2%	3.7%	2.5%
Punjab	65.4%	10.7%	14.9%	6.1%	2.9%
Jharkhand	64.6%	6.9%	18.5%	7.3%	2.6%

Kerala	64.5%	8.3%	17.4%	6.9%	3.0%
Bihar	70.8%	4.5%	15.1%	3.1%	6.5%
Odisha	59.6%	13.0%	20.9%	3.6%	2.9%
Andhra Pradesh	60.2%	9.1%	14.0%	13.7%	3.0%
Chhattisgarh	62.3%	12.6%	19.3%	3.2%	2.6%
Goa	53.3%	18.4%	19.2%	6.4%	2.7%
Assam	63.4%	10.0%	20.1%	3.6%	2.9%
Uttarakhand	67.0%	10.1%	14.5%	6.4%	2.0%
Chandigarh	62.8%	12.3%	16.3%	6.1%	2.4%
Himachal Pradesh	66.0%	11.1%	16.4%	3.4%	3.1%
Jammu and Kashmir	68.3%	7.5%	18.3%	3.1%	2.7%
Meghalaya	54.9%	18.9%	20.6%	3.6%	2.1%
Puducherry	54.5%	12.2%	16.7%	13.5%	3.2%
Tripura	54.5%	6.3%	23.0%	14.5%	1.7%
Sikkim	51.8%	18.4%	23.2%	4.6%	2.0%
Arunachal Pradesh	69.0%	5.4%	21.4%	2.3%	1.9%
Dadra and Nagar Haveli	59.2%	24.8%	13.1%	1.5%	1.5%
Nagaland	64.1%	8.0%	24.1%	2.1%	1.6%
Manipur	66.1%	5.7%	21.7%	4.6%	1.9%
Mizoram	30.7%	27.5%	30.9%	6.2%	4.8%
Daman and Diu	53.3%	18.0%	25.3%	1.3%	2.0%
Andaman and Nicobar Islands	55.1%	9.0%	31.8%	1.8%	2.4%
Lakshadweep	83.5%	1.4%	8.4%	3.4%	3.3%

(Source: AMFI, Crisil Intelligence Others include close-ended funds, solution-oriented and fund of funds; Data as of March 2024)

It is clear from the above table that the proportion of amount invested in shares is high in many states of India like Punjab, Bihar, Kerala, Arunachal Pradesh etc. But in states like Maharashtra, Delhi, Mizoram, the proportion of amount invested in mutual funds or other options is much higher than in shares.

2. Comparative study of investment in Mutual fund and in Equity (of Previous six years)

Year	Investement in Mutual Fund (in crores)	Investement in equity (in crores)	Total Investment (in crores)	% of investment in Mutual fund	% of investment in Equity
2024-25	327744.00	144068.00	471812.00	69.46	30.54
2023-24	298605.00	217578.00	516183.00	57.85	42.15
2022-23	153733.05	135948.16	289681.21	53.07	46.93
2021-22	109804.91	100435.90	210240.81	52.23	47.77
2020-21	62186.46	45045.25	107231.71	57.99	42.01
2019-20	63169.93	36663.58	99833.51	63.28	36.72

[Source: <https://www.sebi.gov.in/sebiweb/other/OtherAction.do?doMfd=yes&type=1> (date as of 03/06/2025)]

From the above table it is evident that in the last 6 years the amount of investment in mutual funds has been increasing continuously as compared to investment in shares. The reason for growth rate in mutual funds

are as follow:

1. One of the best advantages of investing in MFs is diversification. They allow investors to spread their money across a spectrum of securities such as stocks, bonds and other asset classes.
2. MFs offer Professional Fund Management. These funds are managed by experienced and successful Fund Managers with the knowledge and expertise to identify the best investment opportunities and minimise risk.
3. Investing in MFs can also earn Tax benefits to investors. Certain types of funds such as Equity Linked Saving Schemes (ELSS), provide Tax benefits under Section 80C of the Income Tax Act of 1961
4. The most important reason to invest in MFs is the potential for long-term returns. While there is no guarantee of returns on any investment, MFs have historically and statistically delivered higher returns than other investment options such as Fixed Deposits (FDs) or Savings Accounts.

CONCLUSION

India is witnessing a significant growth in the mutual fund market. The growth rate of Indian mutual fund industry is more than that of average growth rate of the equity fund. Now India is one of the fastest growing markets for mutual fund. The future opportunity for Indian mutual fund industry is also very bright. It is due to the high volatile in the Indian stock market and also due to global recession. As companies the mutual fund are providing an eye-catching return to the investors with a batter safe-guard.

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