

14th International Conference on Science, Technology and Management (ICSTM-19)

Guru Gobind Singh Polytechnic, Nashik, Maharashtra (India)

2nd March 2019, www.conferenceworld.in



ISBN: 978-93-87793-74-3

ROLE OF MUTUAL FUNDS IN INDIAN FINANCIAL MARKET

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ABSTRACT

A mutual fund is a professionally managed investment fund that pools money from many investors to purchase securities. While there is no legal definition of the term "mutual fund", it is most commonly applied to open-end investment companies, which are collective investment vehicles that are regulated and sold to the general public on a daily basis. They are sometimes referred to as "investment companies" or "registered investment companies". Hedge funds are not mutual funds, primarily because they cannot be sold to the general public. Once a small player in financial markets, due to their meteoric growth in the late 1980s and early 1990s, mutual funds now play a large and decisive role in the valuation of tradable assets such as stocks and bonds. Today, India's financial system is considered to be sound and stable as compared to many other Asian countries where the financial market industry as a significant financial service in financial market has really been noteworthy. In fact, Mutual funds have emerged as an important segment of financial market of India, especially as a result of the initiatives taken by the Govt. of India for resolving problems relating to UTI's US-64 and to liberalize tax liabilities on the incomes earned by the mutual funds. They now play a very significant role in channelizing the saving of millions of individuals into the investment in equity and debt instruments.

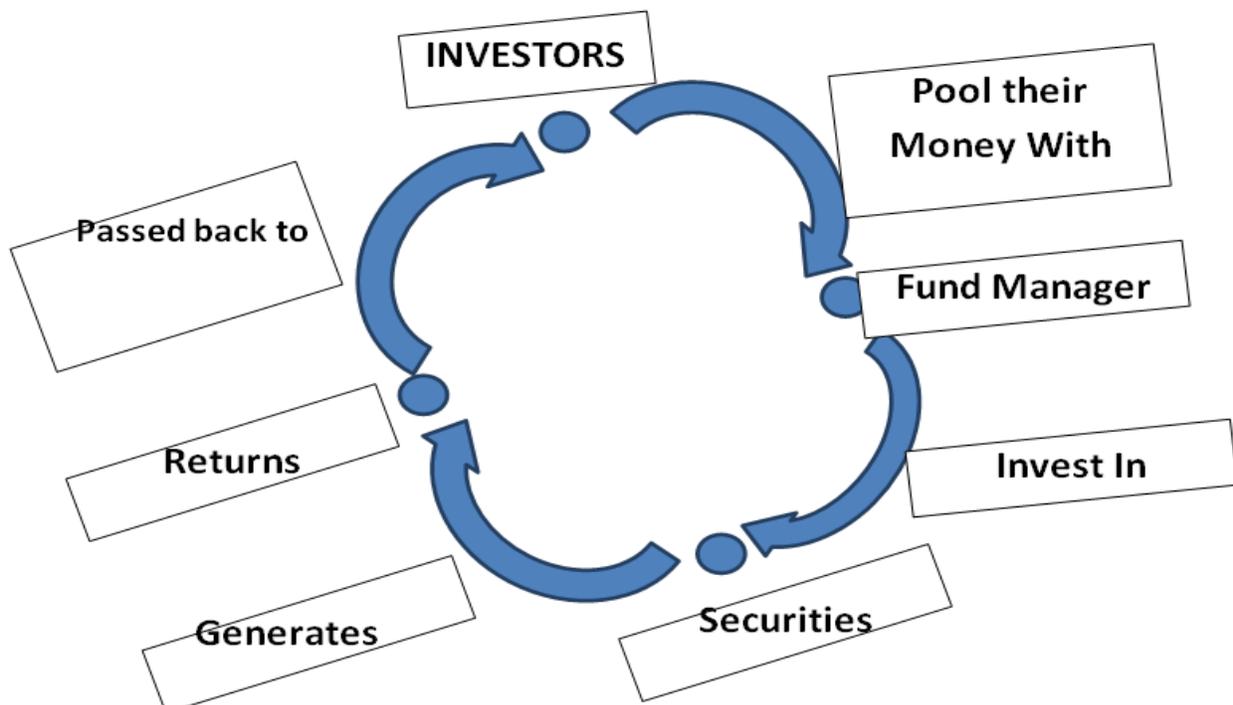
Keywords: Mutual Fund, UTI , Financial System, Tax Liabilities , Debt Instruments, Equity Instruments.

INTRODUCTION

MUTUAL FUND

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. Anybody with an investible surplus of as little as a few hundred rupees can invest in Mutual Funds. These investors buy units of a particular Mutual Fund scheme that has a defined investment objective and strategy. The money thus collected is then invested by the fund manager in different types of securities. These could range from shares to debentures to money market instruments, depending upon the scheme's stated objectives. The income earned through these investments and the capital appreciation realized by the scheme are shared by its unit holder in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

Mutual Fund Operation Flow Chart:

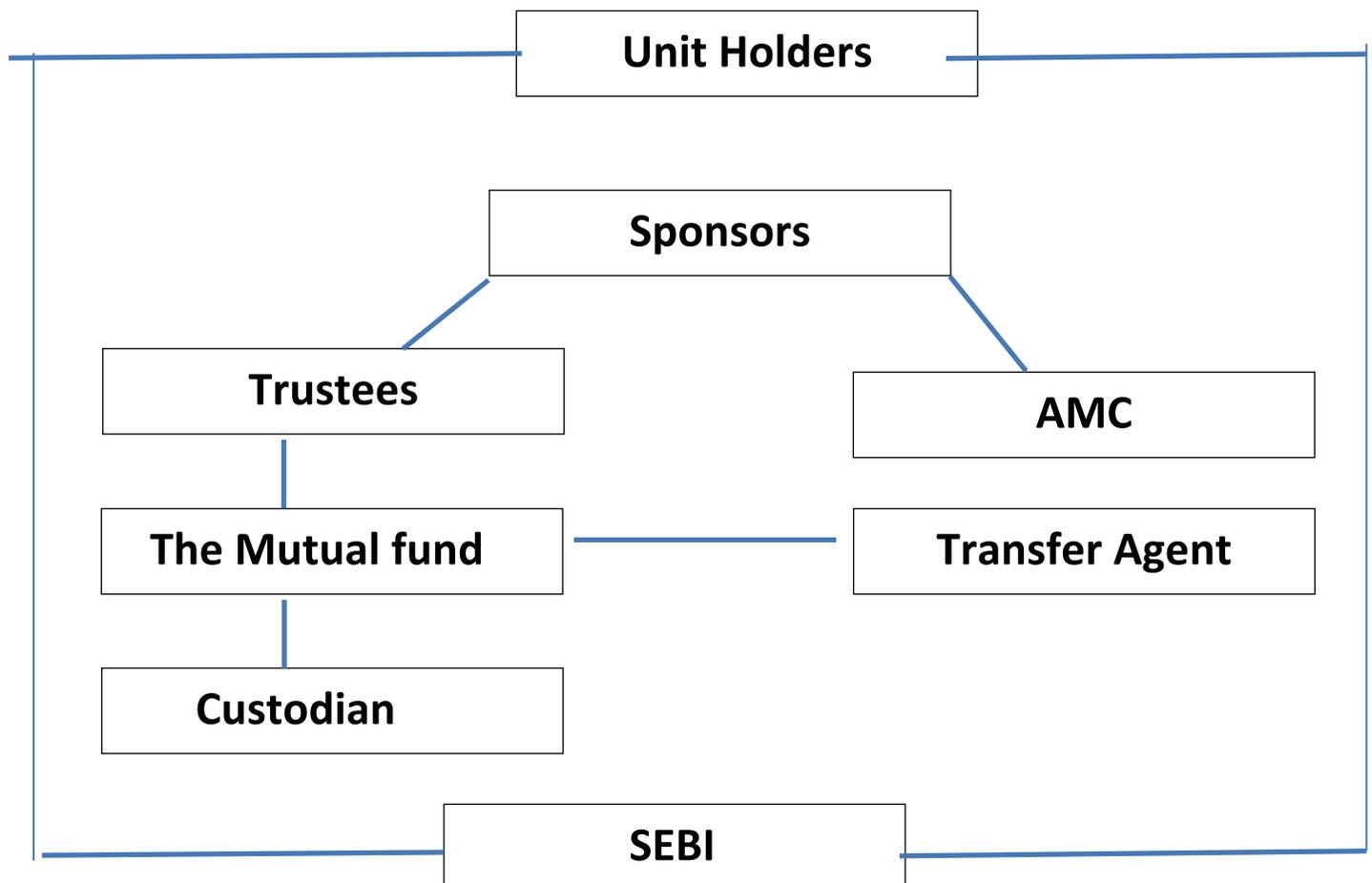




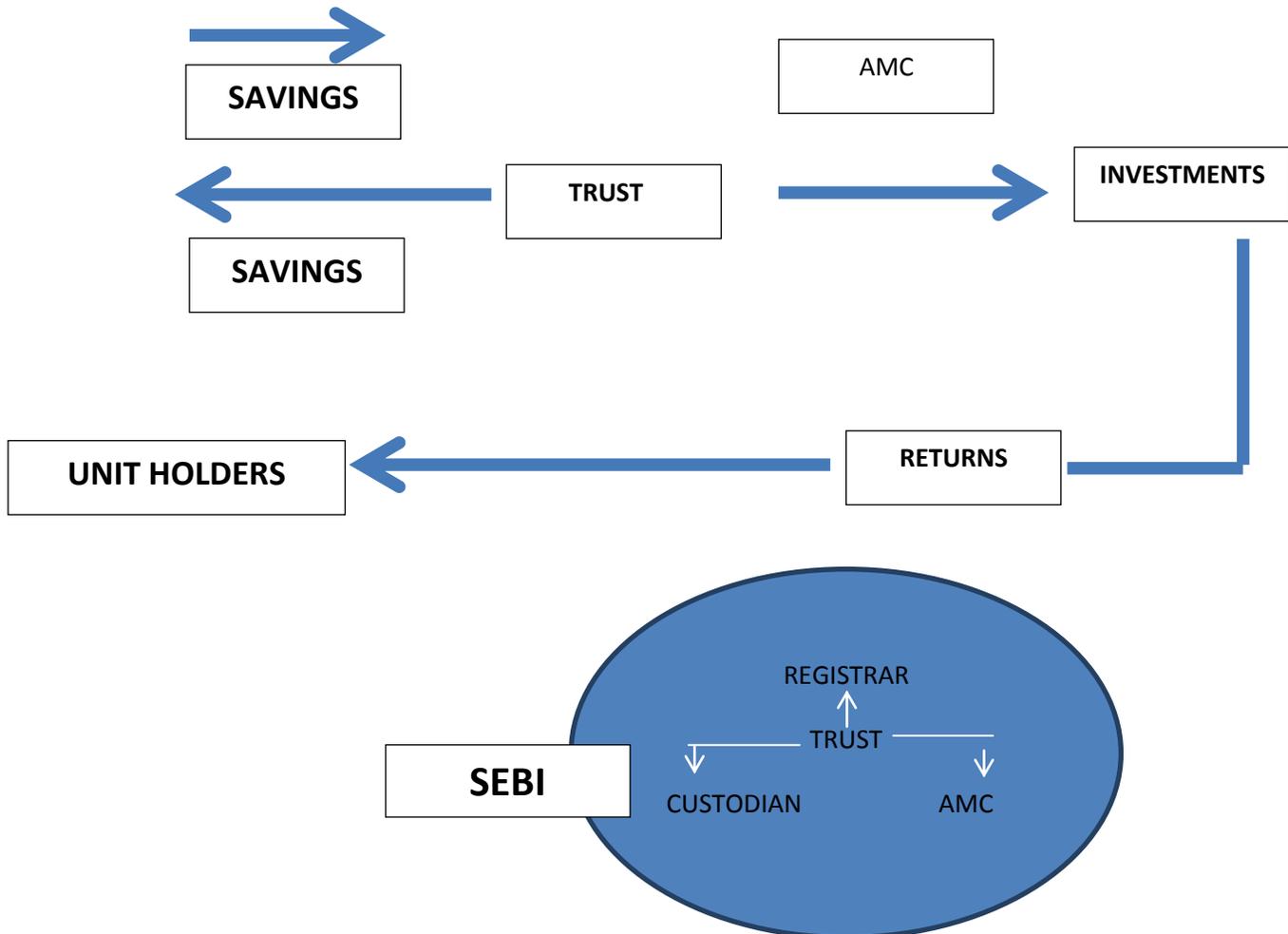
A mutual fund is the ideal investment vehicle for today's complex and modern financial scenario. Markets for equity shares, bonds and other fixed income instruments, real estate, derivatives and other assets have become mature and information driven. Price changes in these assets are driven by global events occurring in faraway places.

- **Organization of a Mutual Fund**

There are many entities involved and the diagram below illustrates the organizational set up of a mutual fund:



- Working of Mutual Funds



Objectives of the Study:

1. To Study the Role of Mutual Fund in Indian Financial Markets
2. To know the Future trends of Mutual Funds

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Research Methodology:

This study is descriptive in nature. The study is based on secondary data which has been taken from case studies, books, journals, newspapers and online databases and websites

HISTORY OF MUTUAL FUND INVESTMENTS IN INDIA

The first mutual fund to be introduced in India was way back in 1963 when the Government of India launched Unit Trust of India (UTI). UTI enjoyed a monopoly in the Indian mutual fund market till 1987 when a host of other government controlled Indian financial companies came up with their own funds. These included State Bank of India, Canara Bank, Punjab National Bank etc. This market was made open to private players in 1993 after the historic constitutional amendments brought forward by the then Congress led government under the existing regime of Liberalization, Privatization and Globalization (LPG).

ROLE OF MUTUAL FUNDS IN INDIAN FINANCIAL MARKETS

The Mutual Fund history provide ample evidence that Indian financial institutions have played a dominant role in asset formation and intermediation, and contributed substantially to the process of macro-economic development. Mutual funds, which have emerged as strong financial intermediaries, are playing an important role in this process. They are not only providing stability to the financial system, but have also helped rationalize the process of resource allocation. They have opened new vistas for investors and increase the level of liquidity in the system. In the process, they have challenged the hitherto dominant role of the commercial banks. We now examine the multi-dimensional role of mutual funds in the country's financial sectors in relation to Equity market with an established mutual funds culture is given below

Mutual funds plays an important ROLE in promoting a healthy capital market. They provide active support to secondary market and increase liquidity of capital market and bring stability in financial market. Role of mutual fund can be explained with the help of following points :-

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1. Mobilises Savings :-

Mutual funds play an important role in mobilising savings of millions of investors across the country. In mutual funds, savings of small investors are mobilised, invested and returns are distributed in the same proportion to the unit holders.

2. Instrument Of Investing Money :-

Now-a-days bank rates have become very low so, keeping large amount of money in bank does not give higher returns. People can invest in stock market. But a common investor is not well informed about the complexities involved in stock market movements. Here mutual funds play an important role in helping common public to get higher returns.

3. Protection To Small Investors :-

A small investor is not safe in share market. In mutual industry there is no such risk. Mutual funds help to reduce the risk of investing in stocks by spreading or diversifying investments. Small investors enjoy the benefit of diversification.

4. Tax Benefit :-

Investors in mutual funds enjoy tax benefits. Dividend received by investors is tax free. Tax exemption is allowed on income received on units of mutual funds and UTI. Investment in mutual funds enjoy wealth tax exemption within the overall limit of Rs. 5 lakhs.. No tax shall be charged on gifts of mutual fund units upto Rs. 30,000.

5. Diversification :-

Investment in mutual funds enable investors to spread out and minimise the risks upto certain extent. Mutual fund invests in a diversified portfolio of securities. This diversification helps to reduce risk since all the stocks do not fall at same time. Thus investors are assured of average income which is not possible in other sources.

6. Multi - Purpose Service :-

Mutual funds introduces variety of innovative schemes containing various benefits. Innovative schemes are designed to meet the needs of different types of investors in terms of investment, dividend distribution, liquidity etc.

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7. Boost To Capital Market :-

Mutual fund has become a capital market intermediary. It bridges the gap between retail investors and capital market. The rapid growth of mutual fund industry leads to increased vibrancy of capital market.

8. Arrival Of Foreign Capital :-

Mutual funds attract foreign capital. Indian Mutual Fund Industries open offshore funds in various foreign countries and secure safe investment avenues abroad to domestic savings. These funds enable NRI's and foreign investors to participate in Indian Capital Market.

9. Savings For Retirement And Education :-

Various schemes of funds with their tax benefits can help the households to save for the retirements and education of their children.

FUTURE TREND OF MUTUAL FUND

In recent years, SEBI has taken several steps to consolidate the Indian MF industry. There are some changes in guidelines that include standardization of the Funds' Portfolios and disclosure of the balance sheet of the fund. Among other changes that are scheduled is reduction in the time taken by AMCs to complete formalities from 90 to 42 days. Also proposed is the use of unclaimed money for investor education. The present structure of funds is likely to change from the three - tier framework. This is expected to streamline the operations of the funds and will give them more flexibility. Finally, though mutual funds are primarily composed of stocks, there is a slight difference between these two which makes mutual funds more advantageous to the common investors. Diversification is the biggest advantage associated with mutual funds. Diversification is the idea of investing money across many different types of investment avenues. When one investment is not doing well, other might be yielding good profit. Diversification reduces risk significantly. In addition to this, by purchasing mutual funds, one is actually hiring a professional manager at an especially inexpensive price. Now-a-days, a higher portion of investors' savings is now invested in market-linked avenues like mutual funds as compared to

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earlier times. However, if we compare proportion of people investing in mutual funds in India with that in U.S then we find that in U.S more than 50 % people invest in mutual funds whereas in India the proportion is less than 10%. This gives the indication that there is much more untapped potential for growth in this industry in India which must be explored in the coming time. In conclusion, it can be said that despite few problems, the recent changes in the mutual funds industry in India has really favoured its amazing growth and in conclusion it can be said that in times to come mutual funds will continue to be a significant resource mobilizer in the Indian financial market.

Findings:

1. Role of Mutual Funds vital role in financial market .When mutual funds use money from investors to invest in newly issued debt or equity securities, they finance new investment by firms.
2. Recent trends of mutual fund are decreased time taken by AMC 90 to 42 Days and gives more transparency and the operation of the funds and will them more flexibility.

Suggestion:

1. Mutual Investors should choose the right Mutual Fund Scheme which suits their requirements. Investing in one Mutual Fund scheme may not meet all the investment needs of an investor. They should consider investing in a combination of schemes to achieve their specific goals.

CONCLUSION

Now a day's mutual fund industry is showing progressive growth. Investors are also getting awareness about these mutual funds. In this context it is better to study and analyze the mutual fund companies which are promising growth and returns for the investors. And also compare to Equity Market it's have less risk .So Mutual fund Play vital role in Indian Stock Market.

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