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The growth of mutual funds in India: A special reference to sectoral mutual funds

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ABSTRACT

Mutual fund investment becomes an ideal investment during the last few years in India. It poses a medium risk and provides good returns to the investors on their savings. There is more than a thousand schemes are available in the market of mutual funds. Sector mutual funds are highly risky compared to the other diversified equity schemes. During the recession period, some sector performed a better and provides better return than their benchmarks. In the present study, we explain the top most popular sector funds which hold the top most assets under management of equity as well as performed well during the recession time period. These sector mutual funds are banking sector fund, Software sector fund, the Pharmaceutical sector fund, etc. Banking sector holds the 13% to 22% of the equity and well-managed sector funds provide 52.43% returns while worst managed sector provide 13.75% during the recession time period in 2008-09. Second largest equity holding sector is software sector fund. This sector holds 8% to 14%. Pharmaceutical sector grasps 6% to 8% and Auto sector seize 3% to 6% of the equity.

Keywords: *Sectoral Mutual Funds, Banking Sector, Software Sector, Pharmaceutical Sector Growth and Development, Assets under management.*

1. INTRODUCTION

Sector funds are those funds that confirm their portfolio invested in the specific sector of an economy. These funds concentrate on a particular sector such as Banking, Pharmaceutical, information technology, FMCG, natural resources, infrastructure etc. These focus on one specific industry which is expected better future and potential returns. These funds are less diversifying and more volatile compared to other diversified equity funds. These funds have sector-specific risk factor as well as the macro factor of an economy. These funds contain more risk and more profit category, these funds do not suitable for risk avoiding investors.

Mutual fund houses usually avoided to lunch sector funds as these funds have a seasonal effect and perform well in cycle growth. Sector fund manager has less diversification opportunity to other sectors as compare to other equity diversified fund. Performance of fund depends on the performance of sector if sector performs better the future of fund is bright visa-versa.

Developing country like India it is very easy to identify better performing sector and promising better future and good investment returns. These funds have the higher risk so retail investors in India avoid investing these funds. Only a few funds provide over expectations returns like Banking, Infrastructure, Technology, Pharmaceutical, and FMCG. Rest of many sector funds struggle to provide expected the return to the investors.

Sector mutual funds can be characterized as following according to

- Compare to other diversified equity funds sector funds are riskier and risk-adjusted excess return.
- Sector funds are more volatile than the overall stock market.
- These funds are affected by specific sector performance.
- The sector fund manager tends to show any positive or negative determination of performance.
- Sector funds are less diversified than other equity funds.
- Each sector has extent macroeconomic risk factors.

2. LITERATURE REVIEW

Khorana & Nelling (1997)[1] analyzed the performance of 147 sector funds with 983 other domestic funds on the time period 1976-1992. Sector funds performed better than the sector Indexes less well than diversified indexes. The study found that there was the positive relationship between performance and size of the fund. They showed highly unique and low systematic risk. The comparison with equity funds was confusing. If the benchmark is the S&P 500, sector funds underperform equity fund but the result changes if the benchmark is a sector index. They concluded that there was no significant selectivity performance and claim that sector funds did not provide market-timing opportunities to the level that they have narrow investment objectives. Dellva & others (2001)[2] studied the selectivity and market-timing performance for 35 Fidelity sector funds on the period 1989-1998. They used a number of model/benchmark/periods specifications in order to measure the selectivity and market timing performance of sector funds. The authors concluded that the specification, sector funds showed positive stock selection and negative market-timing abilities.

Sunder (2014) examined the growth of banking sector fund during the time period 2009-13. The study concluded that banking sector funds performed better than the other sector funds during the recession. In 2009 banking sector funds growth was 24% followed by technology funds 18% Growth. Best managed banking sector funds provided 52.43% return while worst managed a modest 13.75% during the recession. The author concluded that banking sector provides good returns with moderate risk compare to other sector funds. Kesavarajk (2013) analyzed the perception of mutual fund the investors and argued that most of investors are aware of the different type of tax benefits of investing in mutual funds. The chi-square result indicated that there was no relationship between income level and type of mutual fund investment. ANOVA (analysis of variance) result indicated that there is no relation between age and partiality for a mutual fund scheme. O. Neal (2000) Examined about the return of 31 fidelity sector funds over ten years. The result indicated that industry momentum was present in the best performing sector funds and most of high performing sector funds outperform the market portfolio. It was rational to assume that the sector fund manager performed better than the general mutual fund manager. Tiwari and Anand (2004) analyzed the performance of 609 sector funds during the time period 1972-1999 using five factors model. The study revealed that sector funds were more volatile than other non-sector funds and these funds neither underperform nor more perform their benchmark. The authors concluded that the investors have no capacity to choose the gaining sector funds. These results are differing from the existing literature. Radu Burlacu (2003) the appreciated the performance of 102 sector funds and 408 diversified funds for the time period 1980-2002 on the American market. The Author analyzed the sector funds performance using different models. He concluded that there is a strong relationship between the selectivity performance and the size of sector specialization for the sector funds. Present study based on the following purposes:-

- To understand the concept of sector mutual fund.
- To analysis the size, growth, and trend of some selected sector mutual fund in India.

3. RESEARCH METHODOLOGY

The present study based on the secondary data that has been collected from the SEBI monthly reports, yearly reports and mutual fund bulletins. Data has been represented in the tabulation and graphic forms. Calculate the growth in variables (funds mobilized, assets under management) on a yearly basis. CAGR = [((P1 / P0)1/n – 1) × 100], P1, P0, n are the variables in the current period, base period and the number of years.

Table-1 AUM by Total Sector mutual funds

Year	AUM (₹ in crores)	CAGR
2009	1,96,893.49	
2010	226258.11	14.91
2011	1,70,200	-24.78
2012	2,06,416.02	21.28
2013	1,93,421.81	-6.30
2014	3,32,880.87	72.1
2015	4,27,077.11	28.30
2016	5,04,404.89	18.1

Source: compiled from SEBI monthly report

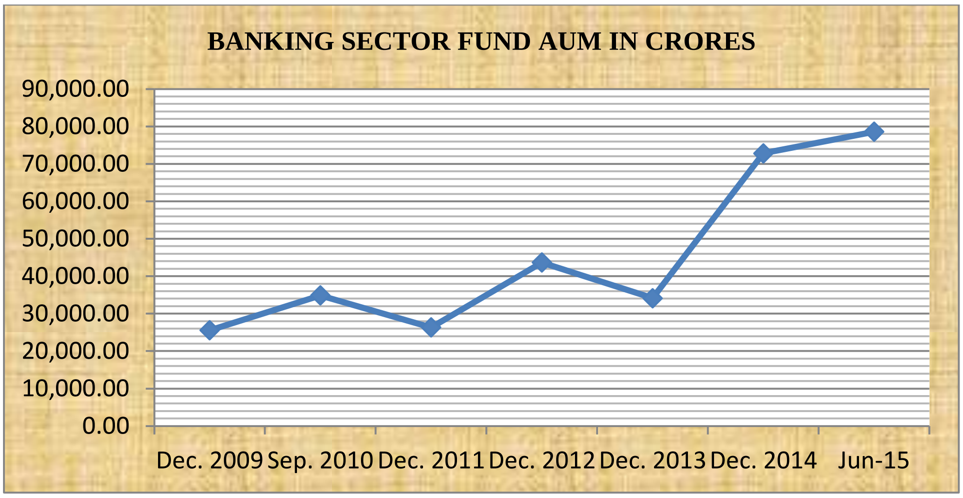
Data related to sector fund are available since 2009 the total assets under management Rs.1, 96.893.49crores in 2009. There are 38 sector funds classified by AMFI. As the above table shows that sector fund growth increases in last six years. AUM was increasing and decreasing very speedily. CAGR of the sector mutual fund shows that the compound annual growth rate is highest in 2014 and lowest in 2011 and it is also fluctuating very fast. Cash flow volatility in sector fund is very high. The growth of Banking sector funds: Banking sector fund is the most popular as well as most equity holding sector in the sector mutual fund. The performance of this sector during the recession was outstanding. Sudip Bandhopadhya (2012)[3] the banking sector is the major part of the economy of any country. The author concluded that the best banking sector provided 52% return, while less well-managed funds provide 14% return during the bear time period in the Indian economy.

Table-2 AUM of Banking Sector Fund

Year	Equity AUM (₹ in crores)	CAGR
Dec.2009	25,572.39	-
Dec.2010	34,889.11	36.43
Dec.2011	26,334.56	-24.52
Dec.2012	43,659.21	65.79
Dec.2013	34,152.91	-21.77
Dec.2014	72,835.42	113.26
Dec.15	85,306.43	17.89
Dec.16	1,05,018.18	23.10

Source: www.sebi.gov.in

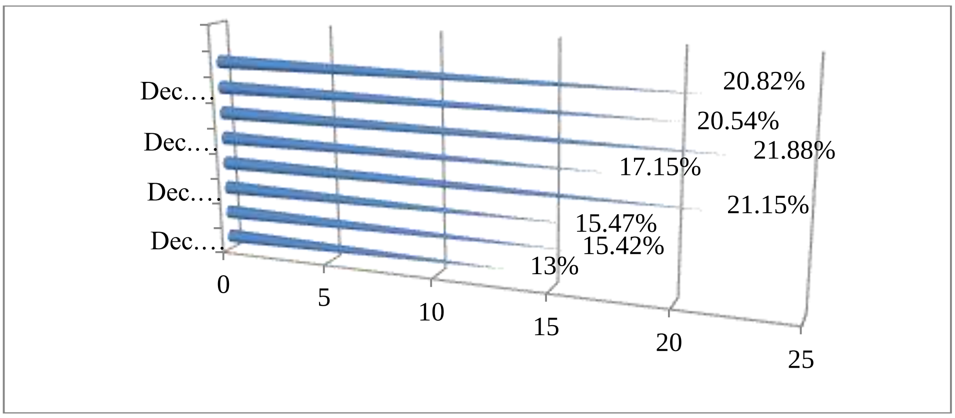
The above table shows the AUM by the banking sector fund since 31 Dec. 2009. It increases very steadily in last two years. Trends in AUM by Banking sector fund



Source: www.sebi.gov.in

The banking sector fund holds 13% of the equity in 2009 and it has been reached 22% untill December 2014. The assets under management (AUM) were Rs.6535.29crores in December 2009. In 2014 the AUM were Rs.72832crores and it was highest in the last seven-year percent of equity AUM was 21.88%. In the end of June 2015, the AUM of the banking sector was Rs. 78,581.67crores.

Percentage involvement of banking sector fund in total AUM by sector funds.



Source: www.sebi.gov.in

The banking sector holds the highest part in the equity AUM, in 2009 its contribution was 13%. It was highest in 2014 and in June 2015 it was 20.54%.

2. Software sector fund

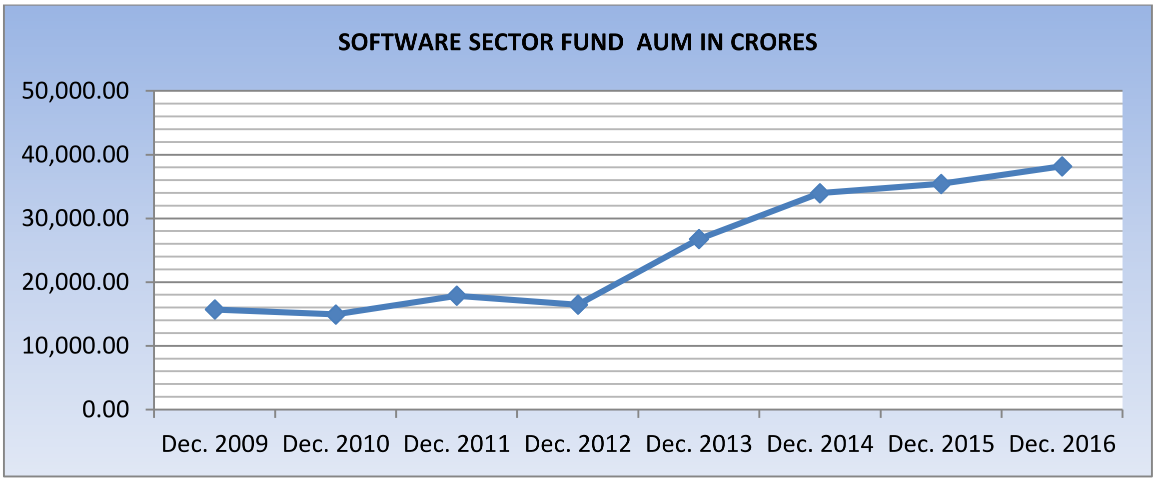
Table-3 Growth of Software sector funds

Year	*Equity AUM (Rs.in crores)*	CAGR
Dec.2009	*15,694.80*	
Dec.2010	*14,921*	-4.93
Dec.2011	*17,871.38*	19.77
Dec.2012	*16,466.95*	-7.86
Dec.2013	*26,762.14*	62.52
Dec.2014	*33969.76*	26.93
Dec.15	*41998.07*	23.66
Sep.2016	*38192.32*	-9.06

Source: www.sebi.gov.in

Software sector is very attracting sector for the investors in last few years. It's CARG highest in 2013, it was 62.93%. It was at the lowest point in 2012, it was -7.86%. After 2012 it is continuously positive and AUM also increases

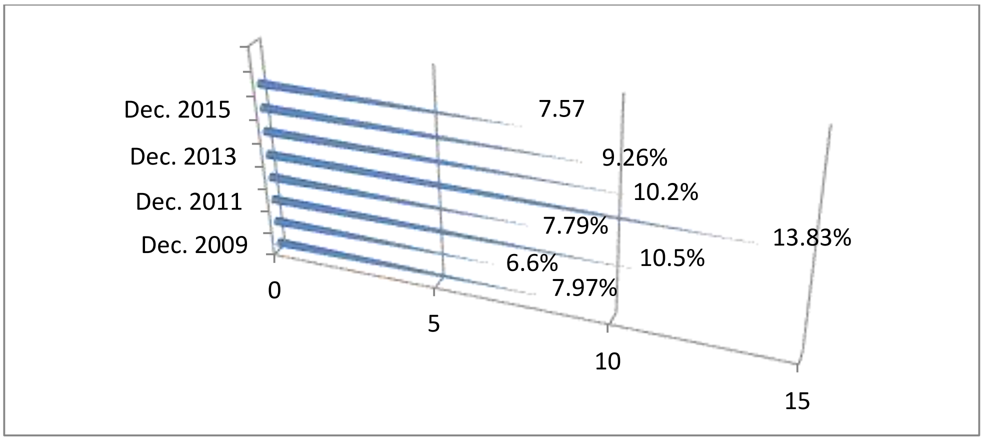
Trends in AUM, Software sector fund in India



Source: www.sebi.gov.in

Software sector fund is the second largest equity holding sector in sector mutual fund. In December/ 2009 the AUM by this sector was RS. 15694.8crores.This was 7.97% of the total equity assets under management. The fund infusion has been increasing in 2011 by 2.5% & total AUM Rs.17871.38crores.

Percentage of software sector fund in total AUM by sector funds.



Source: www.sebi.gov.in

In this sector was Rs.17871.38crores. At the end of 2014, the AUM weas Rs. 33969.76 crores followed by the previous year.

3. Pharmaceutical Sector Fund

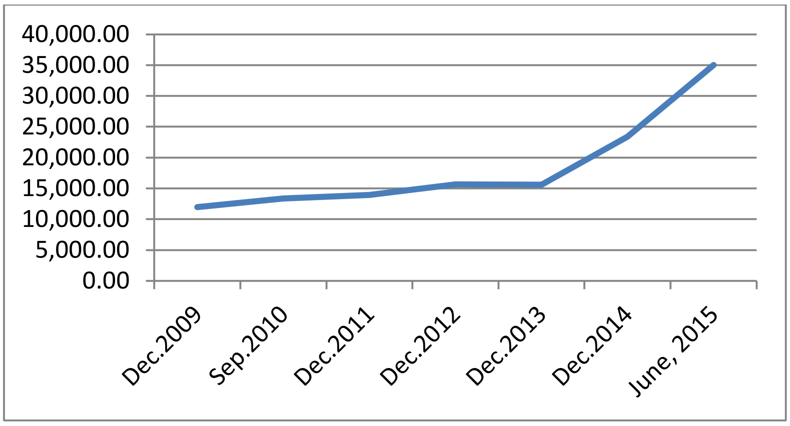
Table-4 Growth of Pharmaceutical sector funds

Year	Equity AUM(in crores)	CAGR
31 Dec.2009	11,981.54	-
31 Dec.2010	13,357.99	11.48
31 Dec.2011	13,960.2	4.51
31 Dec.2012	15,666.8	12.22
31 Dec.2013	15,603.2	-0.41
31 Dec.2014	23,412.53	50.05
31 Dec.2015	29,744.48	27.05
Sep.2016	38419.77	-

Source: www.sebi.gov.in

As we noticed that pharmaceutical sector AUM is continuously increasing in following years. Cash flow volatility in this sector is less compare to banking and software sector fund. CAGR is almost positive in the last six year. AUM increases very steadily in this sector last two years.

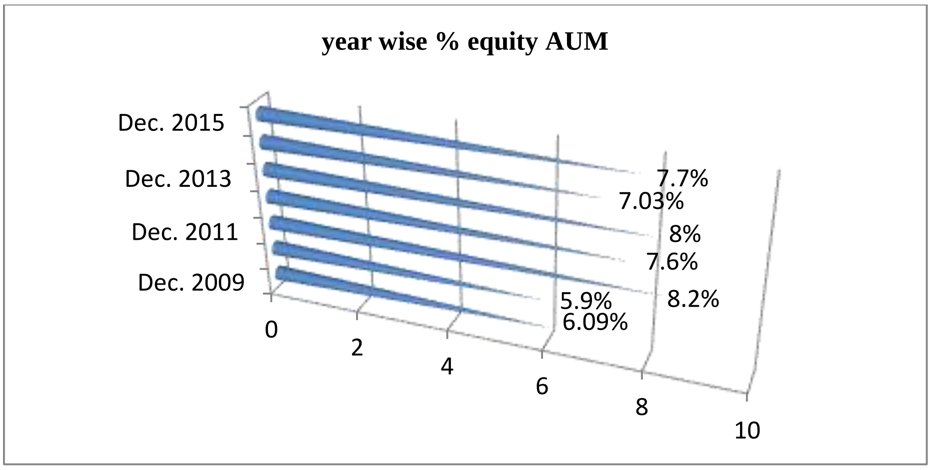
Trends in AUM in Pharmaceutical sector funds



Source: www.sebi.gov.in

The Pharmaceutical sector fund is the third largest equity holding sector in the sector mutual funds. This sector fund infusion was Rs.11, 981.54crores in 2009 and it has grown Rs. 13960.2crores to Rs.15666.8crores within one year in 2011-12 as the above graph shows.

Percentage contribution of pharmaceutical sector fund in total AUM by sector funds



Source: www.sebi.gov.in

Pharmaceutical sector is the third largest equity holding sector in the last six years. As the above graph shows that in December 2009 its contribution in total equity was 6.09%. It falls down in 2010. In December 2011 its contribution rose by 2.3% and reached on 8.2%, which is highest in the last six years. At the end of June 2015, it was 7.7%.

4. CONCLUSION

The Indian mutual funds play the crucial role in the financial system. Three major sectors of Indian economy which asses the top most equity of the AUM by the sector mutual funds. These sectors provide the good and stable return to the investors with moderate risk. AUM in these sectors is continuously increases in last few years. CARG of banking sector and Software sector fund is asses opposite almost every year. The pharmaceutical sector CARG continuously positive and AUM of this sector also increases in every year. The recent studies on the sector based indicated banking sector provide stable income with moderate risk compare to another sector. Software sector possess high to moderate risk but very attractive to the investors. These funds provide the opportunity to the fund manager to focus on a particular sector and to avail the good returns.

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