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Growth of Mutual Fund Industry in India: New Roads ahead

Dr. Sahil Mahajan

Asst. Professor, Commerce, SCVB Govt. College, Palampur, India

Abstract-- In every country its financial system greatly influences its economy. The India Mutual Fund Market has multiple significant trends that have been instrumental in shaping the industry's landscape. As the industry has focused on growth, diversification, and digitalization, it has experienced significant changes in asset size, investor behaviour, and the adoption of technology-driven solutions. Over the past decade, the Indian mutual fund industry has witnessed substantial growth in its assets under management (AUM). As of June 30, 2024, the AuM stands at Rs 61 lakh crores—a remarkable sixfold increase compared to Rs 8.25 lakh crores in 2014. The objective of this paper is to find out the Scheme-wise Resource Mobilisation by Mutual Funds and its significance growth of AUM. This paper also highlights the role of SIP (Systematic Investment plan) in growth of Mutual Fund Industry in India.

Keywords-- Resource Mobilisation, MFs Net Investment, AUM (Asset under Management), SIP

I. INTRODUCTION

The Indian financial system based on four basic components like Financial Market, Financial Institutions, Financial Service, Financial Instruments. All are play important role for smooth activities for the transfer of the funds and allocation of the funds. The main aim of the Indian financial system is that providing the efficiently services to the capital market. The Indian capital market has been increasing tremendously during the second generation reforms. The first generation reforms started in 1991 the concept of LPG. (Liberalization, privatization, Globalization)

The Indian mutual fund industry finds itself in an economic landscape which has undergone rapid changes over the past three years. The growth in equity-oriented mutual fund categories during FY24 has been impressive. Led by strong inflows and mark-to-market (MTM) gains, these funds expanded by 55%, reaching Rs 23.50 lakh crore. Net inflows surged to Rs 1.84 lakh crore in FY24, up from Rs 1.47 lakh crore in the previous fiscal year. In June 2024, monthly SIP contributions surged to Rs 21,262 crore, crossing the significant Rs 21,000 crore mark. This consistent inflow reflects investors' commitment to disciplined investing.

Coupled with a steep decline in the value of the Indian rupee, the mutual fund industry now finds itself in a capricious global economic environment. However, there is strong reason to believe that the Indian mutual fund industry has not yet seen its global peak and if proper measures are taken, the industry could get back on its growth path.

The transformation of India's mutual fund landscape is indeed remarkable, driven by various factors such as digital adoption and increased focus on smaller cities. The widespread adoption of digital technologies and faster data speeds have played a pivotal role in reshaping the mutual fund industry. Retail contributions through systematic investment plans (SIPs) have surged, reflecting the pervasive digital presence across the nation.

1.1 Mutual Fund Industry:

Mutual fund is the pool of the money, based on the trust who invests the savings of a number of investors who shares a common financial goal, like the capital appreciation and dividend earning. The money thus collect is then invested in capital market instruments such as shares, debenture, and foreign market. Investors invest money and get the units as per the unit value which we called as NAV (net assets value). Mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in diversified portfolio management, good research team, professionally managed Indian stock as well as the foreign market, the main aim of the fund manager is to taking the scrip that have under value and future will rising, then fund manager sell out the stock. Fund manager concentration on risk – return trade off, where minimize the risk and maximize the return through diversification of the portfolio. The most common features of the mutual fund unit are low cost.

1.2 Phases of Mutual Fund Industry:

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank of India. The history of mutual funds in India can be broadly divided into four distinct phases.



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First Phase - 1964-87

- Started in 1963 with Unit Trust of India, Government of India & RBI.
- Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India.
- In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI.
- First scheme launched by UTI was Unit Scheme 1964.
- In 1988 UTI had Rs.6,700 crores of Assets Under Management.

Second Phase - 1987-1993 (Entry of Public Sector Funds)

- In 1987 public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) got the Entry in MF Industry.
- SBI was the first non- UTI Fund established in June 1987 followed by Canbank(Dec 87), Punjab National Bank (Aug 89), Indian Bank (Nov 89), Bank of India (Jun 90), Bank of Baroda (Oct 92).
- LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990.
- At the end of 1993, the mutual fund industry had Assets Under Management of Rs.47,004 crores.

Third Phase -1993-2003 (Entry of Private Sector Funds)

- In 1993, a new era started in the Indian MF industry, giving the Indian investors a wider choice of fund families.
- In 1993 first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed.
- The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions.
- As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,21,805 crores. The Unit Trust of India with Rs.44,541 crores of assets under management was way ahead of other mutual funds Involvement.

Fourth Phase since February 2003

- In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs.29,835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes.
- The second is the UTI Mutual Fund Ltd, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs.76,000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth. As at the end of September, 2004, there were 29 funds.

Fifth Phase since February 2014

SEBI introduced several measures in Sep. 2012 to increase penetration. Since May 2014, the Industry has witnessed steady inflows and increases in the AUM as well as the number of investor folios (accounts).

- The Industry's AUM crossed the milestone of Rs10 Lakh Crore for the first time on 31st May 2014 and in a short span of about three years the AUM size crossed Rs 30 Lakh Crore in November 2020.
- The no. of investor folios has gone up from 8.38 crore folios as 30-June2019 of 30 June 2019 to 19.10 crore as on 30-June-2024, more than a 2-fold increase in a span of 5 years.

1.3 Mutual Fund:

According to SEBI (Mutual Funds) Regulations, 1996 Mutual Funds means "Fund established in the form of a trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities including money market instruments or gold or gold related instruments or real estate assets."

1.4 Asset Under management and Gross Domestic Product:

One of the biggest challenges that the mutual fund industry faces is the lack of healthy participation from a large part of the country.

To illustrate this lack of participation, we first aggregated the AUMs originating out of each district of India. We then rank ordered all the districts of India in descending order of their domestic product (GDP) and then partitioned this list into ten parts. The top 60 districts formed the first decline followed by the second decline and so on. We then aggregated the AUMs and GDPs for each of these deciles and took the ratio of these two figures. The AUM/GDP ratio is one of the best indicators of how much of the yearly income in a given district is being invested into mutual funds.

1.5 Role of SEBI

A index fund scheme' means a mutual fund scheme that invests in securities in the same proportion as an index of securities; "A mutual fund may lend and borrow securities in accordance with the framework relating to short selling and securities lending and borrowing specified by the Board."

A mutual fund may enter into short selling transactions on a recognized stock exchange, subject to the framework relating to short selling and securities lending and borrowing specified by the Board." "Provided that in case of an index fund scheme, the investment and advisory fees shall not exceed three fourths of one percent (0.75%) of the weekly average net assets."

1.6 Role of AMFI (Association Mutual Fund in India) The Association of Mutual Funds in India

(AMFI) is dedicated to developing the Indian Mutual Fund Industry on professional, healthy and ethical lines and to enhance and maintain standards in all areas with a view to protecting and promoting the interests of mutual funds and their unit holders.

Comparison of investment in Banks V/S Mutual Funds

| PARTICULAR | BANKS | MUTUAL FUNDS |
|----------------------|--|-------------------|
| Returns | Low | Better |
| Administrative exp. | High | Low |
| Risk | Low | Moderate |
| Investment options | Less | More |
| Network | High penetration | Low but improving |
| Liquidity | At a cost | Better |
| Quality of assets | Not transparent | Transparent |
| Interest calculation | Minimum balance between 10th. & 30th. Of every month | Everyday |
| Guarantee | Maximum Rs.1 lakh on deposits | None |

Fig:2 Comparison Banks Mfs

II. REVIEW OF LITERATURE:

Barber et al., 2005 argue that the purchase decisions of mutual fund investors are influenced by salient, attention-grabbing information. Investors are more sensitive to salient in-your-face fees, like front-end loads and commissions, than operating expenses; they are likely to buy funds that attract their attention through exceptional performance, marketing, or advertising. They found consistently negative relations between fund flows and front-end load fees.

A negative relation between fund flows and commissions charged by brokerage firms was also documented.

Agrawal P.R (1997) have evaluated about the impact of regulatory framework and determined how FIIs' action imposed reaction to Indian capital market. The author found that the correlation between FIIs' action and market reaction is so perfect that the stocks which have gone up the maximum are the stocks which are at a premium in the GDR market.

Bansal & Pasricha (2009) studied about the impact of market opening to FIIs on Indian stock market behavior. In the line of this direction study found that there is no significance change in Indian stock market average returns after the opening up of the stock market for FIIs. However, Sahu (2009) investigated about the participation of foreign institutional investors and the other financial institutions in India and the performance of the Indian stock markets. They found that the Indian market offers reasonable safe returns in the emerging market space.

III. RESEARCH METHODOLOGY

The present study is of analytical nature and makes use of secondary data. The relevant secondary data are collected from various publications of Government of India; Reserve Bank of India, websites, annual reports, AMFI, Assocham, and World Investment Report 2024 etc. The reference period is restricted from 2020 to 2025. The study conducted is empirical in nature and hence descriptive research has been conducted.

3.1 Objectives Of Study:

1. To study the origin and growth of mutual fund industry in India.
2. To study the Scheme-wise Resource Mobilization by Mutual Funds in India.
3. To study the role of SIP (Systematic Investment plan) in Mutual Fund Industry.

IV. GROWTH IN AUMS IN INDIA

Fiscal 2024 turned out to be one of the best years for the domestic mutual funds industry as assets under management (AUM) spurted by nearly Rs 14 lakh crore to a record Rs 53.40 lakh crore as of March 2024 compared with Rs 39.42 lakh crore as of March 2023.

At over 35%, the percentage gain was the highest since fiscal 2021 when the industry had grown 41%. Over the past decade, the Indian mutual fund industry has witnessed substantial growth in its assets under management (AUM). As of June 30, 2024, the AUM stands at Rs 61 lakh crores—a remarkable sixfold increase compared to Rs 8.25 lakh crores in 2014.



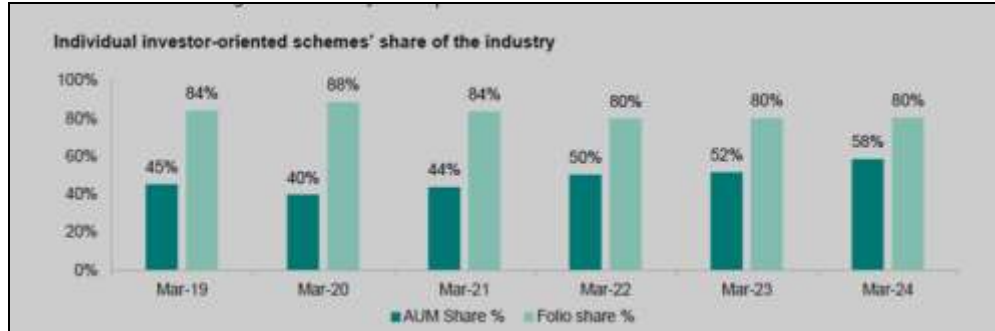
Source:AMFI

Fig no -3 CAGR of AUMs

4.1 Individual investor-oriented schemes lead the growth chart (basis AUM)

Individual investors dominated mutual fund categories such as equity, hybrid and solution-oriented schemes, and led the growth chart as households in the country increased their capital market participation through the mutual fund route.

The three categories together accounted for nearly 58% of the industry assets and 80% of the folio count as of March 2024; share of assets of these categories has increased from 45% in March 2019, showcasing their dominance in the growth of industry assets.



Source:AMFI

Fig no-4 Market share of AUMs

4.2 Trends in Mutual Fund Investments:

The India Mutual Fund Market has multiple significant trends that have been instrumental in shaping the industry's landscape.

As the industry has focused on growth, diversification, and digitalization, it has experienced significant changes in asset size, investor behavior, and the adoption of technology-driven solutions.

| Equity mutual fund category | AuM as of March 2024 (Rs crore) | AuM as of March 2023 (Rs crore) | % change |
|-----------------------------|---------------------------------|---------------------------------|----------|
| Flexi Cap Fund | 2,41,683 | 3,50,186 | 44.9% |
| Large Cap Fund | 2,35,760 | 3,14,155 | 33.3% |
| Sectoral/Thematic Funds | 1,72,819 | 2,97,358 | 72.1% |
| Mid Cap Fund | 1,83,256 | 2,96,986 | 62.1% |
| Small Cap Fund | 1,33,384 | 2,43,368 | 82.5% |
| ELSS | 1,51,751 | 2,13,760 | 40.9% |
| Large & Mid Cap Fund | 1,27,842 | 2,05,737 | 60.9% |
| Value Fund/Contra Fund | 90,584 | 1,49,099 | 64.6% |
| Focused Fund | 98,673 | 1,29,704 | 31.4% |
| Multi Cap Fund | 67,338 | 1,24,682 | 85.2% |
| Dividend Yield Fund | 13,994 | 23,915 | 70.9% |

Source: Fact book of Assocham

The growth in equity-oriented mutual fund categories during FY24 has been impressive. Led by strong inflows and mark-to-market (MTM) gains, these funds expanded by 55%, reaching Rs 23.50 lakh crore. Net inflows surged to Rs 1.84 lakh crore in FY24, up from Rs 1.47 lakh crore in the previous fiscal year. Equity markets, as represented by the Nifty 50 Total Return Index (TRI) and Nifty 500 TRI, performed remarkably well.

The Nifty 50 TRI gained approximately 33%, while the Nifty 500 TRI saw an even higher growth rate of around 44%. Among the fund categories, the Flexi Cap category emerged as the largest, boasting assets exceeding Rs 3.50 lakh crore as of March 2024. Large Cap funds followed closely, managing assets worth Rs 3.14 lakh crore.

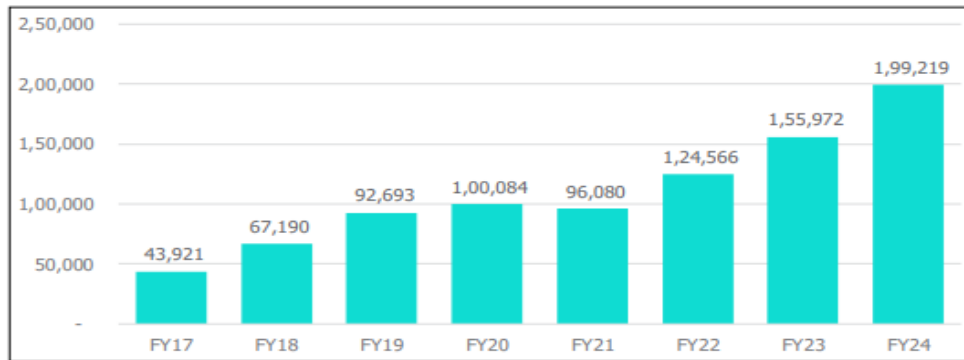


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4.3 Role of SIP (Systematic Investment Plan)

For the entire fiscal year 2024, SIPs attracted net inflows of nearly Rs 2 lakh crore, a significant increase from the Rs 1.55 lakh crore seen in the previous fiscal year. In March 2024, SIPs witnessed robust monthly net inflows of approximately Rs 19,300 crore.

This consistent investment approach has gained favour among investors. This surge reflects investor confidence in SIPs as a disciplined investment method. • In June 2024, monthly SIP contributions surged to Rs 21,262 crore, crossing the significant Rs 21,000 crore mark.



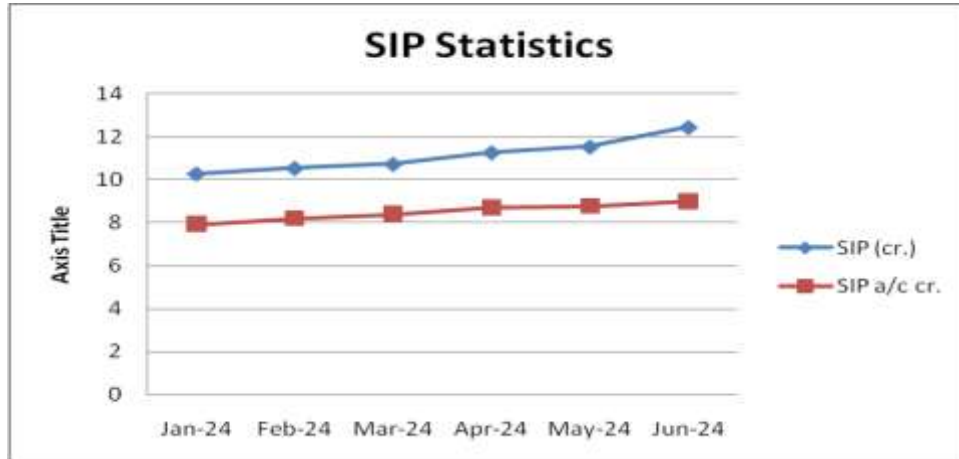
4.4 SIP Statistics:

| | Jan 2024 | Feb 2024 | Mar 2024 | Apr 2024 | May 2024 | Jun 2024 |
|------------------------------------|----------|----------|----------|----------|----------|----------|
| SIP assets (Rs lakh crore) | 10.27 | 10.53 | 10.72 | 11.26 | 11.53 | 12.44 |
| SIP assets as % of industry assets | 19% | 19% | 20% | 20% | 20% | 20% |
| SIP accounts (crore) | 7.92 | 8.2 | 8.4 | 8.7 | 8.76 | 8.99 |
| SIP accounts as % of total folios | 47% | 47% | 47% | 48% | 47% | 47% |

Source: AMFI

As of March 2024, SIP assets reached Rs 10.71 lakh crore, constituting more than 20% of the total industry assets. This substantial pool of funds underscores the impact of SIPs on the mutual fund landscape. • During June, SIP assets increased by 8%, reaching Rs 12.43 lakh crore. This growth was driven by both mark-to-market (MTM) gains and fresh inflows.

Growing SIP Accounts: • The number of SIP accounts surged to nearly 8.4 crore. Approximately seventeen lakh new SIP accounts were added each month, highlighting the widespread adoption of this investment strategy. • Over the last four years, another point to be noted is that SIP account closures are roughly half of the new SIPs registered for that year



V. CONCLUSION:

The mutual fund industry has grown materially over the last two decades and is currently slated to grow even further. Mutual funds present an attractive opportunity for wealth accumulation. However, amidst the positive outlook, the industry faces several challenges that demand attention. Foreign Institutional Investors invest on Indian capital market, it is continuous growing. The growth in the mutual fund industry is by and large governed by the macroeconomic factors affecting the country. The number of folios (individual accounts) also increased significantly, reflecting greater retail participation. By May 2021, the industry had surpassed 10 crore folios. As of June 30, 2024, the total number of folios stands at 19.10 crore, with over 12 crore folios concentrated in Equity, Hybrid, and Solution Oriented Schemes— preferred choices for retail investments. No doubt Inflow of the foreign capital brings foreign currency (\$) into the country which contributes towards the development of the economy but large portion of capital in stock market comes through domestic route, in which MFs play significant role in overall development of Indian economy.

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