



Indian Mutual Fund Industry: An Overview

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Abstract— Over the years the Indian mutual fund industry has undergone significant transformations. Anything's growth is dependent on number of concerning factors. In this context, the growth in mutual fund industry also considerably aid in the development of the nation. Therefore, it is essential to research the awareness levels of investors, pattern of their investment, intent to invest, goal of their investment, investor needs etc. about mutual funds in order to understand the development of the industry. The paper's broad objectives are outlined below: (a) to provide a concise overview of the history of mutual funds;(b) to describe the structure of Indian mutual funds; and (c) to point out the significant changes occurring in the Indian mutual funds industry. As a result, the investors will be able to get adequate information about mutual funds industry. This paper contains updated data as on June 2024.This study gathers information from secondary sources such as articles, reports, magazines, newspapers & web resources & the observation put together in keeping with the paper's overall objectives.

Keywords— Mutual funds, Transformations, Investors, Awareness

I. INTRODUCTION

Mutual fund is an investment instrument which assembles the savings of millions of small and retail investors into large capital formation. The fundamental objective behind investment in mutual fund is to earn good return with relatively low risk. Mutual fund is acting as an important investment alternative for general investors. The "change is the only constant" holds good for mutual funds as well. AMCs that succeed in adapting themselves to the changing scenario have consolidated their position in the Indian mutual funds industry whereas the others perish. Many stalwarts exited the mutual funds business in India because they could not cope with the changing circumstances. Some big names are JP Morgan, Goldman Sachs, Morgan Stanley, ING etc. The regulator of Indian Mutual Fund Industry has been keeping a constant watch on different perspectives and any move from any corner which adversely impact the investors is taken care of seriously at the earliest. As a result investors are gradually choose mutual funds as one of their investment options.

New technology, investor friendly regulation, favourable demographic factors and rising income levels are some factors for strong retail participation in Indian Mutual Funds. But there are certain challenges as well which, if viewed as opportunities, can make the sector further competitive.

II. RELATED LITERATURE REVIEW

(Makkar et al., 2020) The researchers looked at earlier studies on risk and returns that were available to understand whether they are related to each other or not. Most of the literature suggests that higher risk is generally related to better potential return on investment. However, only few research contradicts this assertion. Thus, the study found a strong correlation between risk and return.

(Swami, 2019) Mutual Funds are now accessible to the general public, which means they may support inclusive development and progress. Additionally, researchers also found that mutual funds are perceived by investors as a high-risk, low-return investment option that is not beneficial for tax planning. Investors may not fully understand the mutual fund investment process due to its complexity, which may be the reason for its low popularity.

(Ul-Hameed et al., 2019) Research shows that characteristics such as risk and return, asset liquidity, demographic factors, convenience, lower transaction costs, tax advantages, and transparency have substantial and favorable associations with investing in mutual funds. Men are more inclined to invest in mutual funds as they get older and married people are more likely to do so.

(Kumar & Elahi, 2018) Mutual funds are preferred by respondents over equity shares as an investment. Returns and liquidity are the most crucial factors to take into account when making an investment. The lock-in period has a negative effect on investors since early withdrawal of money is not allowed. SIP is preferred by respondents over lump sum investments for mutual funds. Young investors are willing to take on more risk and investing in equity shares. The study shows that mutual funds are appropriate for investors of all ages, because fund managers are available, intensive investor monitoring is not needed.



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Addition, equity remains the most important factor when it comes to investment. Investors with diverse motives and preferences consider mutual funds a safe investment.

(Agrawal & Jain, 2013) Research shows that all investors are well aware of banks and insurance companies, while only a small percentage of them are unaware of mutual funds. Due to the returns and tax benefits, mutual funds are preferred by investors over other types of investments.

(Vanaja & Karrupasamy, 2013) This study evaluated the performance of public and private sector mutual funds and study found that when compared to private sector funds, public sector funds delivered high return with low risk.

(Singh, 2011) The survey reveals that the majority of respondents is still unclear and unaware of the functioning of mutual funds and have not developed any attitudes toward

III. OBJECTIVES OF THE STUDY

- To provide a concise overview of the history of mutual funds.
- To describe the structure of Indian mutual funds.

To point out the significant changes occurring in the Indian Mutual Funds Industry.

IV. METHODOLOGY

The study collects data from various secondary sources like articles, reports, magazines, newspapers web materials and the observations are incorporated in accordance with the broad objectives of the paper. This paper is based on descriptive study methods.

V. HISTORY OF MUTUAL FUNDS

India's mutual fund market has grown rapidly since its inception. We may divide the evolution of mutual funds industry in India into following distinct stages:-

Phase	Period	Description
First Phase	1964-1987	Establishment of UTI (Unit Trust of India)
Second Phase	1987-1993	Entry of public sector mutual funds by setting up SBI Mutual Fund
Third Phase	1993-2003	Entry of private sector mutual funds by setting up Kothari Pioneer (now merged with Franklin Templeton)
Fourth Phase	2003-2014	UTI was bifurcated into two separate entities: - 1) Specified Undertaking of the Unit Trust of India (SUUTI) 2) UTI Mutual Fund
Fifth Phase	2014 to Till	SEBI re-energized the MF Industry and the support from Mutual Fund distributors in expanding the retail base.



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VI. STRUCTURE OF MUTUAL FUND IN INDIA

In India, mutual funds are structured into three tiers: sponsors, trustees, and asset management firms (AMCs). A mutual fund house also includes staff members at various levels who execute a variety of tasks, including custodians, transfer agents, depository, banks, unit holders, etc. According to the SEBI (Mutual Funds) Regulations, 1996, mutual funds in India are constituted in the form of trusts under the Indian Trust Act, 1882. The SEBI (Mutual Funds) Regulations, 1996, acts as the key watchdog for all transactions and governs the aforementioned organizations.

Sponsor: - Any individual or business can establish a mutual fund to generate income through fund management by obtaining permission from the SEBI, and the SEBI will approve the same after reviewing the expertise, net worth, and other information of that person. This is known as the fund sponsor, or first layer of the structure.

Trustees: - A sponsor can't accomplish each work alone. Hence a trust deed is required in order to establish a Public Trust under the Indian Trust Act, 1882. The individuals who serve as trustees and act on behalf of the trust create this trust. The second stage of the mutual fund hierarchy is the trust. The trustees will hold the mutual fund's assets in trust and make sure that the fund is genuinely handled in the shareholders' best interests. The trustees keep an eye on the operations of AMC is run and make sure that they adhere to SEBI's mutual fund regulations.

Assets Management Company (AMC): - The asset management firms (AMCs) make up the third tier of mutual fund hierarchy. Companies that are chosen by trustees or the sponsor are known as AMCs. Together with trustees and sponsors, the AMC establishes mutual funds and manages their growth. Based on investor demands and market conditions, the AMC launches a variety of mutual fund schemes.

They engage into an arrangement with bankers, brokers, RTAs, transfer agents, and others when developing the program. Receiving money from numerous clients and investing it in various schemes in order to maximize profits is the responsibility of AMC. AMCs are in charge of running the Mutual Fund as a whole.

Custodian: - The organization that holds the securities purchased by the AMC in demat form is known as the custodian. They are in charge of overseeing delivery and transfer of securities. For each unit holder, the custodian is in charge of keeping accurate and up-to-date records.

Registrar and transfer agent: - The unit holders and fund managers are connected via Registrar and Transfer Agents (RTAs). RTA facilitates effective communication between them. For the benefit of mutual fund houses, they keep thorough records of unit holder's transactions. The primary duties of a transfer agent are to issue and revoke certificates to reflect changes in ownership of an entity's securities. In India, CAMS, Karvy, etc. RTAs are the most popular.

Auditor: - The auditor is in charge of carefully reviewing and auditing the books of accounts, yearly reports of different schemes, and determining if AMC has engaged in any fraudulent activities. Additionally, they make sure the money is being used for the intended purposes. As a result, auditors contribute to the integrity and transparency of the entities.

Broker: - A broker is a company or person with a license from the SEBI to manage the trading accounts of investors. They encourage potential investors to put money into a certain mutual fund. They will monitor the market, produce reports, and suggest investments in certain assets to AMC. To trade shares on the stock market, AMC must employ brokers' services. The most well-known brokers in India for investing in mutual funds include Zerodha, Groww, 5paisa, Angel One, Sharekhan, and others.



VII. METHODS TO INVEST IN MUTUAL FUNDS IN INDIA

Methods of Investment	Description
A. Single Investment (Lump Sum Investment)	One-time investment plan is a type of investment where an investor makes a single, fixed investment of a specified amount in a specific scheme for a predetermined period. As an investor one can invest in one-time investment plan if he has sufficient funds and high risk tolerance.
B. Systematic Investment Plan (SIP)	In SIP an investor can invest a specific sum of money in the mutual fund of their choice over a predetermined period of time in equal instalments. It gradually but surely instils financial discipline and aids in future return realization.
C. Systematic Transfer Plan (STP)	Investors can instantly and easily switch their financial resources from one scheme to the other with the use of a systematic transfer plan. Since STPs entail purchasing fewer units of the fund at a higher NAV and selling more units at a lower NAV, they provide superior returns.
D. Dividend Transfer Plan (DTP)	Dividends are announced but not paid to investors under the DTP plan. Instead, it allows the investor to automatically reinvest the dividend they earn into a separate program.
E. Systematic Withdrawal Plan or SWP	In SWP investors can regularly withdraw a specified amount from a mutual fund scheme on a predetermined date every month, quarter, or year. This is more of a withdrawal mode than an investing one.



Process of investment in mutual funds: -

There are two methods to invest in mutual funds: Online or Offline.

Online method: -

Step 1	Visit the website of any Asset Management Company or Registered Investment Advisor (RIA) or Mutual Fund Distributor.
Step 2	Complete the e-KYC form using one identity proof (Aadhaar card, passport, voter ID card, or driving license), PAN card, one address proof and one passport size photograph.
Step 3	Complete the In-Person Verification (IPV) by submitting original copy of documents or through video conferencing.
Step 4	Select a mutual fund scheme you want to invest.
Step 5	Submit the mutual fund application form along with the investment.

Offline method: -

Step 1	Visit any asset management company (fund house) branch or bank or <u>Karvy/CAMS</u> office or mutual fund agent/distributor.
Step 2	Submit the KYC (Know Your Customer) form along with the mentioned documents as per the online method.
Step 3	Complete in-Person Verification (IPS) as described in the online method
Step 4	Select the Mutual Fund scheme.
Step 5	Submit the mutual fund application form and your investment amount.

VIII. CHANGES AND TRANSFORMATIONS

The followings are recent changes and transformations which are expect to reshape the landscape of the Indian Mutual fund Industry:

Shifting emphasis from product to brand: Now, the focus has shifted from a good brand to good product. Brand loyalty is not the primary consideration for today's savvy investors. They are searching for good products according to their risk return profiles.

Emergence of new themes: New mutual fund schemes with investing themes such as cloud computing, energy conservation, artificial intelligence (AI), Internet of things (IOT), Block chain are expected to be launched soon. The funds with such innovative and new themes are often called "New Generation Funds".



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New flavour to ELSS: To provide investors with a new option, Samco Mutual Fund launched ELSS with a focus on mid-sized and small-sized companies. Most of the ELSS used to invest predominately in large-cap stocks. As such, Samco adds a new flavour with its ELSS. In ELSS investors get tax advantages and it has 3 years of lock in periods.

Performance plus “X”: Performance is extremely important for mutual funds. Consistent underperformers do not find takers. But apart from performance, investors demand other things as well which can be termed as “X”. This “X” factor includes consistent outperformance, excellent service quality and friendly communication.

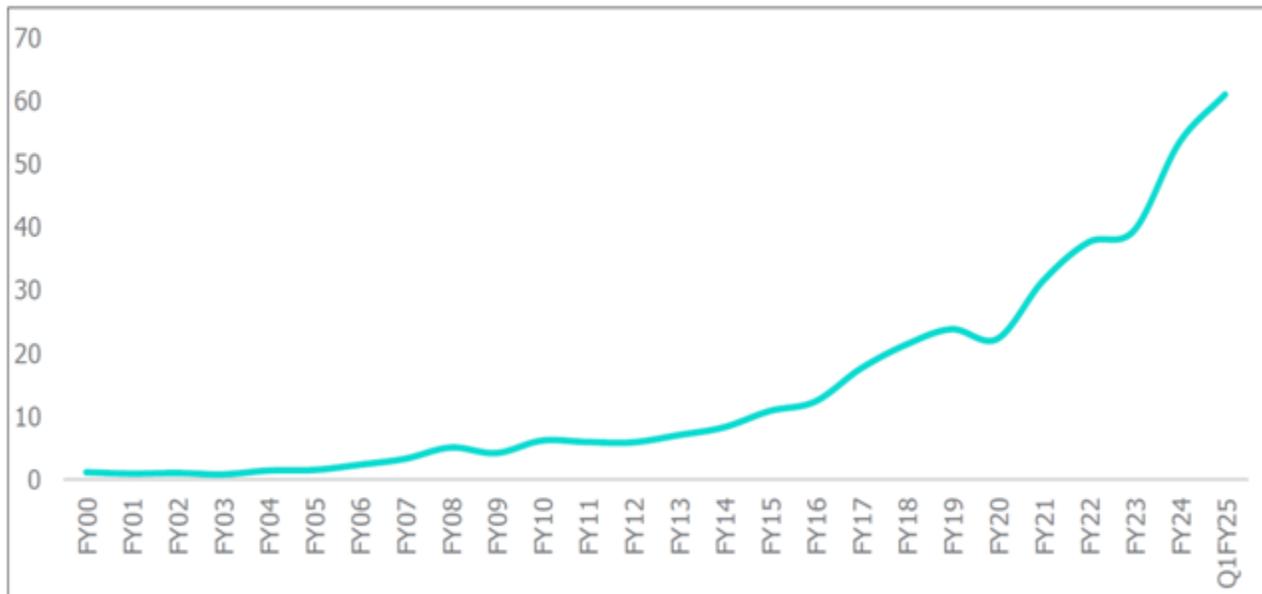
Ethical investing-The ESG Route: The ESG (Environmental, Social, Governance) theme has been attracting mutual investors across the globe and India is not lagging either. Now a days, investors are very much interested on putting money in to companies that share their values and actively impact society as a whole and the planet.

Online participation: mutual funds companies are embracing technology to enhance the client experience and streamline investing processes. Now investors may access and trade more easily thanks to internet access and their cell phones. It leads to increasing proliferation towards digital investing.

Skyrocketing of SIP Investment: In present context, SIP is increasingly gaining attention and becoming popular with Indian mutual fund clients because of its benefits. Furthermore, SIP encourages disciplined investing by alleviating worries related to market fluctuations and the requirement to time the market. 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.

The Mutual Fund Industry Has Grown at a Rapid Clip

Figure 1: Growth in Domestic Mutual Industry AuM (In Rs lakh crore)



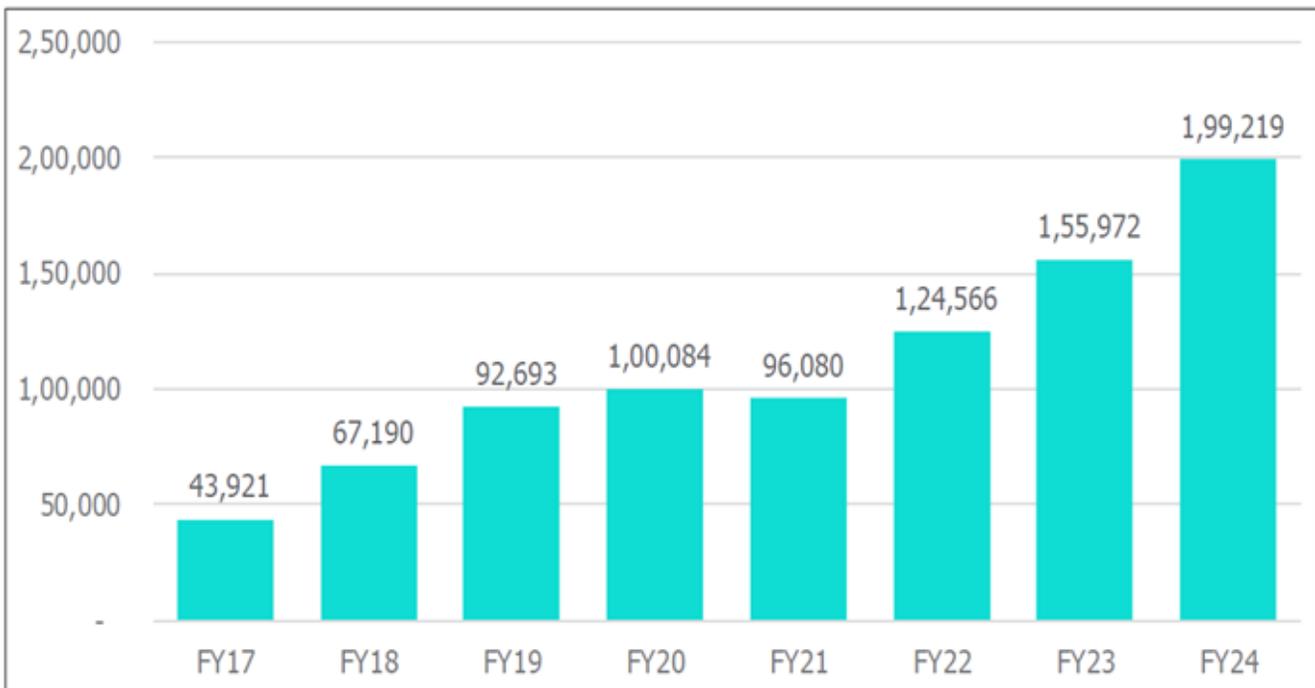
Source: CMIE

Substantial growth in AuM: FY 2024 has been a remarkable year for the Indian Mutual Fund Industry.

The AuM surged by nearly 14 lakh crores, reaching a record Rs 53.40 lakh crore as of March 2024, compared to Rs 39.42 lakh crore in March 2023.

This impressive growth rate of over 35% is the highest since fiscal year 2021, when the industry had expanded by 41%. Furthermore, as of June 2024, the total AuM has increased even further to Rs 61.33 lakh crore, reflecting a robust market performance and investor confidence.

Figure 18: SIP fiscal year-wise contribution (Rs crore)



Source: AMFI, CMIE

IX. CONCLUSION

Mutual funds provide an excellent opportunity for investors to grow their wealth while benefiting from professional management and diversification. However, it is essential to consider the risks, fees, and tax implications before investing. Tax advantages, healthy returns, capital appreciation, low risk, smooth fund management, liquidity, etc. are the main elements affecting retail investors' investing decisions. The most favoured type of fund over others is equity funds. Even if there has only been a modest amount of money invested in mutual funds, there are many investors, and they plan to continue investing in mutual funds in the future. The plans and strategies of the fund houses should be in line with technological developments to reap maximum benefits. Technology has played a key role in the growth of mutual fund.

Mutual Fund investment now more accessible through many digital platforms. Besides these, future innovations such as AL & Block chain are also expected to further improve transparency, personalisation & ease of investing.

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