

## NOTE ON THE MUTUAL FUND INDUSTRY IN INDIA

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During the period 2005 to 2011, the worldwide mutual fund industry firmly established its importance within the financial services sector and recorded impressive growth globally. The worldwide industry increased in size from US\$17.8 trillion in 2005 to US\$23.8 trillion in 2011, corresponding to an annual growth rate of five per cent (see Exhibit 1).

In 2011, the United States claimed 48.87 per cent of the global mutual fund industry, whereas the Asia Pacific area accounted for just 12.28 per cent, despite comprising 61 per cent of the world's population<sup>1</sup> (see Exhibit 1). However, this gap was narrowing, as the mutual fund industry in the Asia Pacific area was growing annually at the rate of seven per cent — from US\$1.9 trillion (10.92 per cent of the world total) in 2005 to US\$2.9 trillion (12.28 per cent of the world total) in 2011. On the other hand, the United States showed an annual growth rate of just five per cent during the same period. This trend was expected to continue in the near future, fuelled by developments in the emerging markets (see Exhibit 2 and 3).

India, with a population of approximately 1.25 billion (17.8 per cent of the world's population),<sup>2</sup> accounted for just 0.37 per cent of the world's mutual fund market in 2011 (see Exhibit 1). Yet, the story was just beginning for this industry in India. It had grown at a remarkable rate of 25.8 per cent annually from 2005 to 2011, up from US\$27.2 billion in 2005 to US\$107.7 billion in 2011.<sup>3</sup>

### THE INDIAN GROWTH STORY

During the period 2001 to 2011, India became a front-runner in the list of the fastest growing nations in the world and, thus, captured the attention of investors worldwide. During this decade, India's rate of gross

<sup>1</sup> United Nations Economic and Social Commission for Asia and the Pacific, "Statistical Yearbook for Asia and the Pacific 2011," [www.unescap.org/stat/data/syb2011/I-People/Population.asp](http://www.unescap.org/stat/data/syb2011/I-People/Population.asp) as on 2010, accessed July 26, 2012.

<sup>2</sup> World Bank, "World Development Indicators: India, Population, 1960–2011," [www.google.co.in/publicdata/explore?ds=d5bncppjof8f9\\_&met\\_y=sp\\_pop\\_totl&idim=country:IND&dl=en&hl=en&q=population+of+india](http://www.google.co.in/publicdata/explore?ds=d5bncppjof8f9_&met_y=sp_pop_totl&idim=country:IND&dl=en&hl=en&q=population+of+india), accessed July 26, 2012.

<sup>3</sup> The data for India alone has been taken from Association of Mutual Funds in India (AMFI), [www.amfiindia.com](http://www.amfiindia.com). Throughout this case, rupee figures have been converted at the rate of US\$1=INR 55, unless stated otherwise. In this note, we discuss India registered asset management companies that invest in Indian assets. India has few registered asset management companies that invest in international assets, and the amount of their assets under management is very small.

domestic product (GDP) growth was approximately 8.6 per cent (see Exhibit 4).<sup>4</sup> The per capita income of India was well below that of many countries, at approximately US\$1,500,<sup>5</sup> but the Indian economy's high growth trajectory resulted in a burgeoning middle class, which was well poised to become the largest segment of India's population.<sup>6</sup> Even according to the most conservative estimates, India's middle class comprised 30 million people, approximately the same size as the entire population of Australia (22.6 million) or Canada (34.9 million).<sup>7</sup>

In the new millennium, India's population was widely viewed as a demographic dividend that would significantly contribute to making the economy competitive, a far cry from the 20th century, when its growing population was seen in a negative light. According to the *CIA World Factbook*, 2011, approximately 64.9 per cent of India's population were in the age group of 15 to 64 years.<sup>8</sup> Experts predicted that India's growing population and swelling middle class would continue to drive consumption demand.

According to a report by Goldman Sachs, "The country's demographic dividend will be substantial over the next couple of decades. India will add about 110 million workers to its labor force over that time, which is more than the U.S., China, Russia and Japan will add *combined*."<sup>9</sup>

There was little doubt that India had the potential to become a major economic power. The country had an interesting story to tell and plenty to offer to anyone who was interested.

Recent advances in India's financial markets made it easy for anyone to participate in investment activities across a gamut of financial services. For example, in their book *Capital Markets in India*, Chakrabarti and De observed that the Indian securities market had world-class infrastructure, including such features as screen-based trading, 100 per cent delivery of shares in dematerialized form, a rolling settlement on T+2 basis, a demutualized stock exchanges, a robust clearing and settlement system, a comprehensive risk management system, integrated surveillance and so on.<sup>10</sup>

The Indian financial market was relatively advanced compared with that of other developing countries, offering an extensive menu of financial products and services across the breadth of the equity, bond and derivatives markets.

Any eligible person could participate in any of these financial service offerings. However, most people, particularly among the working population, did not have the time, expertise or money required to build a diversified portfolio and then manage it. Here, the services of asset management companies (AMCs) became invaluable. They played a crucial role in helping Indian investors achieve financial prudence.

## THE INDIAN HOUSEHOLD BALANCE SHEET

Culturally, Indian people had a strong affinity for any savings vehicle that incurred as little risk as possible. Indian history had experienced more than its share of propagators of financial prudence. For example, the

<sup>4</sup> The case writers' calculations are based on data from the World Bank, <http://data.worldbank.org/country/india>, accessed July 23, 2012.

<sup>5</sup> World Bank, "Data: India," <http://data.worldbank.org/country/india>, accessed July 23, 2012.

<sup>6</sup> Rachna Saxena, *The Middle Class in India*, Deutsche Bank Research, February 15, 2010, [www.deutschebank.co.in/jcr/pdfgen/pdf/The\\_middle\\_class\\_in\\_India.pdf](http://www.deutschebank.co.in/jcr/pdfgen/pdf/The_middle_class_in_India.pdf), accessed July 27, 2012.

<sup>7</sup> As per Canada's official population clock, [www.statcan.gc.ca/ig-gi/pop-ca-eng.htm](http://www.statcan.gc.ca/ig-gi/pop-ca-eng.htm), accessed July 30, 2012.

<sup>8</sup> Central Intelligence Agency, "India," *The World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/geos/in.html>, accessed August 4, 2012.

<sup>9</sup> Goldman Sachs, "A View from India," February 2012, [www.goldmansachs.com/our-thinking/view-from/a-view-from-india/index.html](http://www.goldmansachs.com/our-thinking/view-from/a-view-from-india/index.html), accessed June 24, 2012.

<sup>10</sup> Rajesh Chakrabarti and Sankar De, *Capital Markets in India*, Sage Publications, New Delhi, 2010.

*Manusmriti*, an important Indian Vedic text, listed various forms of insurance. The *Arthashastra*, an ancient treatise on economics and statecraft written by Chanakya, elucidated the importance of saving money as a means to enrich economic activity. In the past, some Indian people had gone as far as hiding pots of valuables in the secret vaults of temples, many of which have been unearthed during archeological excavations. A particularly famous case was the discovery of US\$20 billion worth of treasure in the Padmanabhaswamy temple in Kerala in July 2011.<sup>11</sup>

Such examples suggested that Indian people were culturally inclined not only to save for their own future but that they also aspired to contribute to the financial well-being of society in general. These inclinations implied a considerable scope for financial reform, including the offer of innovative products by various institutions and the establishment of much stronger financial systems.

India's gross domestic savings rate showed that Indians were still willing to invest and save in the present day. The gross savings rate in India stood at around 33 per cent of the GDP for the financial year ended March 2012. India's savings rate was growing at an annual rate of 1.8 per cent<sup>12</sup> and was among the highest in the world for that period. India's savings rate was comparable with that of Indonesia (37 per cent), Thailand (30 per cent) and Korea (31 per cent).<sup>13</sup> In consumer states such as the United States and the United Kingdom, savings rates were in the range of 11 to 12 per cent between 2009 and 2012, while, during the same period, the rate was 17 to 18 per cent for France and 21 to 22 per cent for Germany. Among the emerging economies, Brazil's savings rate stood at a low 15 to 17 per cent for the same period.<sup>14</sup>

In India, most savings went into bank deposits (see Exhibit 5). This preference was due to a no default risk on money deposited and because recent developments in Indian banking operations, such as a wide network of automated teller machines (ATMs) and online banking, assured customers that their deposits could be easily liquidated.

Insurance was not far behind as a preferred financial instrument in India. Insurance had deep roots in India, with the first product having been offered as early as the 1900s. However, the growth of insurance in India was largely a result of the 1956 amalgamation of Indian banks and insurance companies by the Indira Gandhi government. The government's nationalization drive produced behemoth institutions such as the Life Insurance Corporation (LIC), which enjoyed a monopoly until the 21st century and afterward continued to have a large market share. Additionally, during that period, other financial instruments experienced strong barriers to entry.

The first mutual fund came much later, with the advent of the Unit Trust of India (UTI) in 1963. UTI was a government-owned entity and for almost two decades remained the only gateway to Indian capital markets.

## EVOLUTION OF MUTUAL FUNDS IN INDIA

The beginnings of the mutual fund industry in India can be traced to 1963. Its evolution from that point forward was described by the Association of Mutual Funds in India (AMFI), the apex body of all

<sup>11</sup> Reuters, "Treasure Worth 20bn Found, Temple Still Has More," *Hindustan Times*, July 4, 2011, [www.hindustantimes.com/India-news/Thiruvananthapuram/Treasure-worth-20-bn-found-temple-still-has-more/Article1-717147.aspx](http://www.hindustantimes.com/India-news/Thiruvananthapuram/Treasure-worth-20-bn-found-temple-still-has-more/Article1-717147.aspx), accessed July 27, 2012.

<sup>12</sup> World Bank, "Data: India," <http://data.worldbank.org/country/india>, accessed July 23, 2012.

<sup>13</sup> World Bank, "Data: Countries and Economies," <http://data.worldbank.org/country/>, accessed July 23, 2012.

<sup>14</sup> Atmadip Ray, "India's Savings Rate May Rise to 39 Per Cent by 2017," *The Economic Times*, June 13, 2012, [http://articles.economictimes.indiatimes.com/2012-06-13/news/32215516\\_1\\_savings-rate-sector-savings-retail-credit](http://articles.economictimes.indiatimes.com/2012-06-13/news/32215516_1_savings-rate-sector-savings-retail-credit), accessed July 27, 2012.

registered asset management companies, as having occurred in four phases (see Exhibit 6).<sup>15</sup> According to AMFI, these phases were as follows:

#### Phase 1 — Establishment of UTI: 1964 to 1987

The indigenous mutual fund company, the UTI, was established in 1963 by an Act of Parliament under the governance and regulation of the Reserve Bank of India. In 1978, it was taken over by the Industrial and Development Bank of India (commonly known as IDBI). UTI launched its first mutual fund product, Unit Scheme, in 1964. At the beginning of the next phase, by the end of 1988, UTI had assets under management (AUM) valued at US\$1.22 billion.

#### Phase 2 — Entry of Other Government Companies: 1987 to 1993

In 1987, the government permitted other public sector banks and insurance companies to promote mutual fund schemes. Following this relaxation, six public sector banks and two insurance companies launched their mutual fund schemes in the country. State Bank of India (SBI) Mutual Fund was the first non-UTI mutual fund to be established in June 1987, followed by Canbank Mutual Fund (December 1987), Punjab National Bank (PNB) Mutual Fund (August 1989), Indian Bank (IB) Mutual Fund (November 1989), Bank of India (BOI) (June 1990) and Bank of Baroda (BoB) Mutual Fund (October 1992). Among insurance companies, LIC established its mutual fund in June 1989, and the General Insurance Corporation (GIC) followed suit in December 1990. At the end of 1993, the mutual fund industry had total assets under management of US\$8.55 billion.

#### Phase 3 — Entry of Private Institutions: 1993 to 2003

The year 1993 marked two important milestones in the history of mutual funds — the introduction of regulations (though the first set of regulations was not applicable to UTI) and the entry of private players. In July 1993, the first private mutual fund scheme was introduced by Kothari Pioneer (and later merged with Franklin Templeton).

The 1993 Securities and Exchange Board of India (SEBI) (Mutual Fund) Regulations Act was replaced by the revised and more comprehensive SEBI (Mutual Fund) Regulations Act 1996, under which the industry has functioned ever since.

The number of mutual fund houses continued to increase, with many foreign mutual funds setting up funds in India. The industry also witnessed several mergers and acquisitions. By the end of January 2003, India had 33 mutual funds with total assets under management of US\$22.2 billion. UTI, with US\$8 billion of assets under management, was far ahead of the other mutual funds.

#### Phase 4 — The Splitting of the Unit Trust of India

In February 2003, following the repeal of the UTI Act 1963, UTI was divided into two separate entities. One was the specified undertaking of UTI, which had assets under management of US\$5.5 billion (as at the

<sup>15</sup> The phases of evolution are as defined by the AMFI on its website, Association of Mutual Funds in India, "History of the Indian Mutual Fund Industry," [www.amfiindia.com/showhtml.aspx?page=mfindustry](http://www.amfiindia.com/showhtml.aspx?page=mfindustry), accessed July 23, 2012.

end of January 2003), representing broadly the assets of the US 64 scheme, assured return and certain other schemes. This specified undertaking of UTI functioned under an administrator and under the rules framed by the government of India and did not come under the purview of the Mutual Fund Regulations Act.

The second was the UTI Mutual Fund, sponsored by SBI, PNB, BoB and LIC. It was registered with SEBI and functioned under the Mutual Fund Regulations Act, 1996. As a result of the splitting of the former UTI, the setting up of a UTI Mutual Fund that conformed to SEBI Mutual Fund Regulations and the mergers taking place among different private sector funds, the mutual fund industry entered a new phase of consolidation and growth.

The number of new funds added each year grew significantly in this phase of the industry (see Exhibit 7).

## PRODUCTS OFFERED BY MUTUAL FUND COMPANIES

The industry had changed considerably since the UTI era, when only limited mutual fund choices were available to investors. After the advent of private institutions in the industry, AMC's in India began to offer a gamut of products, ranging from indexed funds to equity-linked savings schemes and from Gold exchange-traded funds (ETFs) to debt funds. In 2012, the size of the India mutual fund industry was approximately US\$105.9 billion.<sup>16</sup>

Broadly speaking, the mutual fund industry offered three types of funds: closed-ended funds,<sup>17</sup> open-ended funds<sup>18</sup> and exchange-traded funds (ETFs). In 2012, 1,613 funds were available in the market<sup>19</sup> offered by 62 distinct fund providers.

In terms of number, mutual funds were distributed fairly evenly between closed-ended and open-ended funds. However, the assets managed by these categories differed significantly. The closed-ended funds managed fewer assets than the exchange-traded funds, despite the ETFs comprising only two per cent of the mutual funds on offer, compared with the 47 per cent of closed-ended funds.

Open-ended funds managed approximately US\$101 billion, accounting for 96 per cent of the total AUM in the industry as compared with just US\$1.66 billion managed by closed-ended funds and US\$2.06 billion managed by ETFs.<sup>20</sup>

Within this space, funds were further categorized in terms of their investments in different asset classes.<sup>21</sup>

Open-ended funds were more diversified and invested in a variety of instruments, such as equity, money market and fixed-income funds, whereas closed-ended funds were invested primarily in equities and fixed-income funds. Naturally, ETFs also laid a heavy emphasis on equity and money market instruments.

<sup>16</sup> This estimate is based on data from Morningstar and uses the exchange rate on August 6, 2012.

<sup>17</sup> Closed-ended funds are mutual funds that have a fixed number of shares, or units. Closed-ended shares can only be purchased (and sold) in the market because new shares, or new units, are not created by managers to meet the demand from investors.

<sup>18</sup> An open-ended fund can issue and redeem shares at any time. An investor generally purchases shares in the fund directly from the fund itself, not from existing shareholders. In contrast, a closed-ended fund typically issues all the shares it will issue at the outset, and such shares are usually then tradable between investors.

<sup>19</sup> Data obtained from Morningstar Direct as on August 6, 2012.

<sup>20</sup> Each of these categories is mutually exclusive, and ETFs do not represent funds in the other two categories.

<sup>21</sup> The investments are made in Indian securities and assets only, as per the regulations in India.

In 2012, equity funds clearly had the highest share of investments at US\$35.46 billion (or 33 per cent of overall investments), followed by fixed income and money market instruments at 31 per cent and 29 per cent respectively (see Exhibits 8 and 9).

Note on Allocation Funds: Allocation funds did not have an affinity toward any particular asset class. Portfolio allocation had a very high churn rate among various asset classes in very short time periods as the objective was to achieve a target return within a set period. Allocation could be further classified into cautious, moderate and aggressive, depending on the investment style of the fund manager.

Note on Alternative Funds: Alternative funds typically invested in currencies and derivatives and used different combinations of long-short positions to deliver returns.

## MAJOR PLAYERS IN THE MUTUAL FUND SPACE

In 2012, India had 62 distinct companies offering 1,613 funds across different fund categories. The top five AMCs were HDFC (13.42 per cent), Reliance (11.97 per cent), ICICI Prudential (11.46 per cent), UTI (9.24 per cent) and Birla Sunlife (8.75 per cent), which together accounted for 55 per cent of the overall AUM. The top 10 companies accounted for 75 per cent of the AUM in the industry (see Exhibit 10).

In the open-ended category, HDFC had the highest AUM at 13.72 per cent, followed by ICICI Prudential and Reliance with AUM at 11.76 per cent and 11.49 per cent respectively. The top 10 funds in the open-ended category accounted for 75 per cent of AUM, while the top 10 funds in the closed-ended category accounted for 97 per cent of AUM.

In the ETF space, Goldman Sachs managed 37 per cent of all assets, followed by Reliance at 24 per cent. These two players alone accounted for US\$1.2 billion of AUM. The top 10 ETF players held 97 per cent of AUM (see Exhibit 11).

## REGULATIONS

In India, SEBI closely regulated the mutual funds industry. The applicable regulation was SEBI (Mutual Fund) Regulations, 1996.<sup>22</sup> The salient features of the regulation were as follows:

### Structure of Mutual Funds

- Trustees were responsible for protecting the interests of investors in mutual fund schemes.
- The Asset Management Company (AMC) handled the investment management activity.
- The investments were in the custody of an independent custodian.
- Investor records were mostly maintained by registrar and transfer agents (RTAs). In some cases, the AMC maintained the investor records.

### Equity Regulations

- A scheme could not invest more than 10 per cent of its assets in a single company's shares or share-related instruments. However, sector funds could have a higher investment in a single company, as provided in their Scheme Information Document.

<sup>22</sup> "SEBI (Mutual Funds) Regulations, 1996," [www.sebi.gov.in/acts/MutualFunds.pdf](http://www.sebi.gov.in/acts/MutualFunds.pdf), accessed July 20, 2012.

- Mutual funds were meant to invest primarily in listed securities. Therefore, any investment in unlisted shares was restricted as follows:
  - Open-ended schemes: 5 per cent of net assets
  - Closed-ended schemes: 10 per cent of net assets
- All the schemes of a mutual fund combined could not control more than 10 per cent of the voting rights of any company.
- Disclosure was required for any scheme of a mutual fund invested in a company or its associates, which together held more than five per cent of the net assets of any mutual fund scheme of that asset management company.
- Carry-forward transactions were not permitted. Mutual funds were, however, able to trade in derivatives.

#### Debt Regulations

- Mutual fund schemes could invest in debt securities, but they could not issue loans.
- A scheme could not invest more than 15 per cent of its net assets in debt instruments issued by a single issuer.
- Liquid funds could be invested only in money market securities of up to 91 days maturity.

#### Derivatives Regulations

- Mutual funds were permitted to invest in financial derivatives traded in the stock exchange, subject to disclosures in the Scheme Information Document. The permitted derivatives included stock futures, stock options, index futures, index options and interest rate futures.
- Mutual funds could also enter into forward rate agreements and interest rate swaps (for hedging) with banks, primary dealers (PDs) and financial institutions (FIs). Exposure to a single counterparty could not, however, exceed 10 per cent of net assets of the scheme.
- Mutual funds were not permitted to sell options or buy securities with embedded written options.

#### Real Estate Regulations

- Real estate mutual funds were permitted to invest in direct real estate assets and in real estate securities.
- Any direct investment in real estate was required to be in cities with a population of more than one million. Construction needed to be already completed, and the asset needed to be usable. A project under construction was not a permitted investment. Similarly, investment could not be made in vacant land, agricultural land, deserted property or land reserved or attached by the government or any authority.
- The real estate asset needed to have valid title deeds, to be legally transferable and free from encumbrances, and not be the subject matter of any litigation.

#### International Investments

- Indian mutual fund schemes were permitted to have exposure to many international investments.

- The mutual fund needed to appoint a dedicated fund manager for overseas investments (other than for investment in units, mutual funds or unit trusts).
- The mutual fund industry was permitted to invest up to US\$1 billion in overseas ETFs that invested in securities. A single mutual fund could not invest more than US\$50 million.

## TAX ISSUES RELATED TO INVESTMENT IN MUTUAL FUNDS

Taxation in the context of mutual funds needed to be understood from the point of view of India's capital gains tax, securities transaction tax (STT) and dividend tax:<sup>23</sup>

- Capital Gains Tax
  1. The capital gains tax was the tax on the gains made by buying a unit at a given price and selling it at a higher price.
  2. The mutual funds were exempt from tax and did not pay anything on the appreciation in value of the units. However, investors in the fund were liable to be taxed on the capital gains.
  3. The tax for long-term gains (units held for more than 12 months) differed from the tax for short-term gains (units held for less than 12 months).

Details of the tax in the case of individuals are provided in Table 1 below:

**Table 1**

Scheme	Term	Tax
Equity-oriented Schemes	Long	Nil
	Short	15% on the gains + Surcharge + Education Cess <sup>24</sup>
Other Schemes	Long	10% on the gains + Surcharge + Education Cess, or 20% on the gains + Surcharge + Education Cess (if benefit of indexation is utilized).
	Short	Income treated as a part of the individuals overall taxable income.

### Indexation

How did indexation work for tax purposes?

Indexation was an optional facility offered for calculating tax, by taking inflation into account, as explained in the following example:

Suppose you purchased a unit for INR10 and later sold it for INR30.

Your gains in this case would be INR20 (30–10). However, consider the same situation with an inflation rate of 10 per cent. The actual price of the unit must be calculated as follows:

Unit Price =  $10(1+10/100)$ , which is equal to INR11.

<sup>23</sup> This section on "Tax Issues Related to Investment in Mutual Funds" is based on study material for the Mutual Funds Advanced Module on the National Certification in Financial Markets (NCFM) website as its source, [www.nseindia.com/content/ncfm/ncfm\\_mfam.pdf](http://www.nseindia.com/content/ncfm/ncfm_mfam.pdf), accessed August 1, 2012. The case writers have summarized the source material here.

<sup>24</sup> Education Cess is a tax levied on tax payers in order to provide universal access to quality education to all Indians.

So, after indexation, the actual capital gain is INR19 (30–11).

- Securities Transaction Tax
  1. The securities transaction tax was applicable only to investments in equity or equity-oriented funds only (i.e., funds that invested more than 65 per cent in equities of domestic companies).
  2. The tax rate was 0.10 per cent on cash delivery transactions.<sup>25</sup>
- Tax on Dividends
  1. Tax was applicable on the dividend distributed by debt-oriented schemes only because the dividend received from equity schemes was tax free.
  2. The 2012 rate was 30% + Surcharge + Education Cess.

Tax rules were different for individuals (which include the Hindu Undivided Families) and all the other categories of taxpayers as described in Table 2.

**Table 2**

Entity	Scheme	Tax
Individuals and Hindu Undivided Families	<ul style="list-style-type: none"> <li>• Liquid</li> <li>• Other Debt Schemes</li> </ul>	<ul style="list-style-type: none"> <li>• 25% + Surcharge + Education Cess</li> <li>• 12.5% + Surcharge + Education Cess</li> </ul>
Others	Any	30% + Surcharge + Education Cess

## THE ROAD AHEAD

To promote growth and protect the interest of investors, SEBI introduced several new regulations, such as banning entry load, separating advisor commissions from the investment amount and removing the provision to transfer issue expenses to investors. Investors were allowed to change their agent without a no-objection certificate (NOC) from their previous agent and negotiate the upfront commission paid to the agent. These measures, it was hoped, would in due course give investors greater security and encourage them to invest in mutual funds.

More products were expected to be launched in the future, such as silver ETFs and real estate funds.

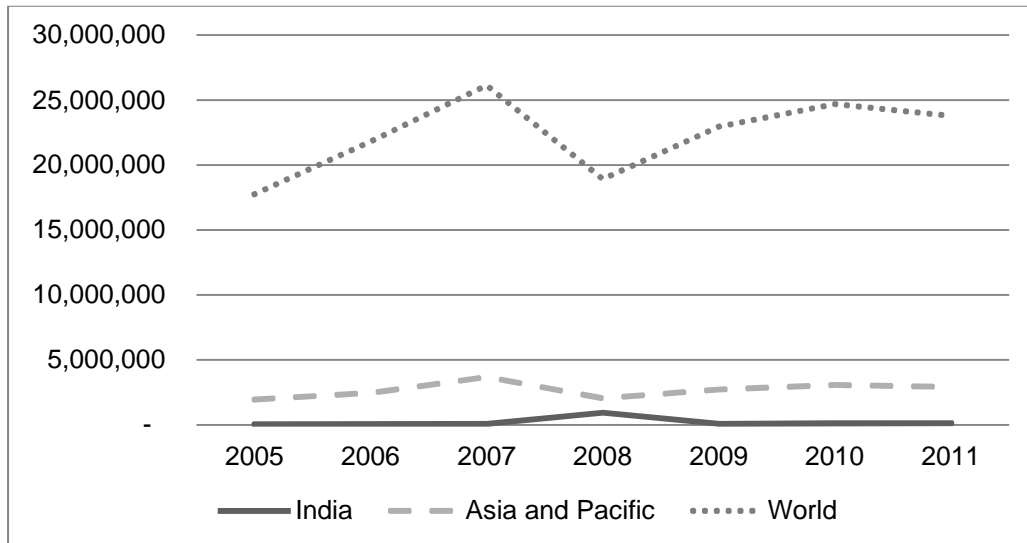
The government made efforts to introduce pension funds to the common Indian investor with the establishment of the Provident Fund Regulatory and Development Authority (PFRDA) in 2003,<sup>26</sup> which hoped to include within its purview mutual funds that offered retirement schemes. With regard to retirement income, people in India had limited options, such as government-owned employee pension funds, government-affiliated trusts offered by some private institutions and provident funds offered by the State Bank of India (SBI) and the Post Office of India. Clearly, mutual fund companies had abundant opportunities to participate in this area.

With the alignment of multiple factors in its favour and numerous opportunities for growth ahead, India's mutual fund industry was poised for exceptional growth.

<sup>25</sup> "STT Slashed, but Market Says It's Too Little," *The Indian Express*, March 17, 2012, [www.indianexpress.com/news/stt-slashed-but-market-says-its-too-little/924821/](http://www.indianexpress.com/news/stt-slashed-but-market-says-its-too-little/924821/), accessed June 8, 2012.

<sup>26</sup> For more information, see the website for the Provident Fund Regulatory and Development Authority, [www.pfrda.org.in](http://www.pfrda.org.in).

## Exhibit 1

INDIA'S AND ASIA PACIFIC'S SHARES IN THE WORLD MUTUAL FUND INDUSTRY, 2005–2011  
(IN US\$)

Source: Based on data from the Investment Company Institute, "Worldwide Mutual Fund Totals," [www.icifactbook.org/datatables.html#section7](http://www.icifactbook.org/datatables.html#section7), except for India. For India, the data has been taken from [www.amfiindia.com/showhtml.aspx?page=mfindustry](http://www.amfiindia.com/showhtml.aspx?page=mfindustry), accessed July 29 2012.

## Exhibit 2

**WORLDWIDE TOTAL NET ASSETS OF MUTUAL FUNDS, 2005–2011  
(US\$ Million)**

WORLDWIDE TOTAL NET ASSETS OF MUTUAL FUNDS US\$ MILLION									% of World 2005	% of World 2011	CAGR
Region/ Country	Particulars	2005	2006	2007	2008	2009	2010	2011			
<b>World</b>		17,757,360	21,808,884	26,131,496	18,920,057	22,952,806	24,699,170	23,779,874			4.99
<b>Americas</b>		<b>9,750,205</b>	<b>11,470,489</b>	<b>13,423,089</b>	<b>10,581,988</b>	<b>12,585,776</b>	<b>13,586,843</b>	<b>13,513,324</b>	54.91	56.83	5.59
	USA	8,891,108	10,397,935	12,001,463	9,603,649	11,120,153	11,820,650	11,621,595	50.07	48.87	4.56
	Canada	490,518	566,298	698,397	416,031	565,156	636,947	753,606	2.76	3.17	7.42
<b>Europe</b>		<b>6,002,310</b>	<b>7,803,877</b>	<b>8,934,861</b>	<b>6,231,116</b>	<b>7,545,535</b>	<b>7,903,389</b>	<b>7,220,298</b>	33.80	30.36	3.13
	Czech Republic	5,334	6,488	7,595	5,260	5,436	5,508	4,445	0.03	0.02	-2.99
	France	1,362,671	1,769,258	1,989,690	1,591,082	1,805,641	1,617,176	1,382,068	7.67	5.81	0.24
	Germany	296,787	340,325	372,072	237,986	317,543	333,713	293,011	1.67	1.23	-0.21
	Poland	17,651	28,959	45,542	17,782	23,025	25,595	18,463	0.10	0.08	0.75
	Romania	109	247	390	326	1,134	1,713	2,388	0.00	0.01	67.28
	United Kingdom	547,092	755,163	897,460	504,681	729,141	854,413	816,537	3.08	3.43	6.90
<b>Asia and Pacific</b>		<b>1,939,251</b>	<b>2,456,492</b>	<b>3,678,325</b>	<b>2,037,536</b>	<b>2,715,234</b>	<b>3,067,323</b>	<b>2,921,277</b>	10.92	12.28	7.07
	Philippines	1,449	1,544	2,090	1,263	1,488	2,184	2,363	0.01	0.01	8.49
	Japan	470,044	578,883	713,998	575,327	660,666	785,504	745,383	2.65%	3.13	7.99
	Korea, Rep. of	198,994	251,930	329,979	221,992	264,573	266,495	226,716	1.12	0.95	2.20
<b>Africa</b>		<b>65,594</b>	<b>78,026</b>	<b>95,221</b>	<b>69,417</b>	<b>106,261</b>	<b>141,615</b>	<b>124,976</b>	0.37	0.53	11.34
	South Africa	65,594	78,026	95,221	69,417	106,261	141,615	124,976	0.37	0.53	11.34
<b>BRIC Nations</b>		<b>332,536</b>	<b>466,587</b>	<b>1,115,946</b>	<b>1,676,056</b>	<b>1,244,232</b>	<b>1,460,983</b>	<b>1,447,682</b>	1.87	6.09	27.78
	India*	27,192	42,157	59,343	918,406	75,873	111,633	107,682	0.15	0.45	25.78

Note: CAGR = compounded annual growth rate; BRIC nations = Brazil, Russia, India, China.

Source: Based on data from the Investment Company Institute, "Worldwide Mutual Fund Totals," [www.icifactbook.org/datatables.html#section7](http://www.icifactbook.org/datatables.html#section7), except for India. For India, data is obtained from [www.amfiindia.com/AmfiMonthly.aspx](http://www.amfiindia.com/AmfiMonthly.aspx), accessed July 29, 2012.

## Exhibit 3

WORLDWIDE TOTAL NET ASSETS OF MUTUAL FUNDS US\$ MILLION VS GDP US\$ MILLION								
Region/ Country	Particulars	2005	2006	2007	2008	2009	2010	2011
World	MF Assets	17,757,360	21,808,884	26,131,496	18,920,057	22,952,806	24,699,170	23,779,874
	GDP	45,674,383	49,485,991	55,794,944	61,213,153	57,875,513	63,134,668	69,971,508
	MF as % of GDP	<b>38.88</b>	<b>44.07</b>	<b>46.83</b>	<b>30.91</b>	<b>39.66</b>	<b>39.12</b>	<b>33.99</b>
Americas*	MF Assets	9,750,205	11,470,489	13,423,089	10,581,988	12,585,776	13,586,843	13,513,324
	GDP	15,771,495	17,044,028	18,269,683	19,033,429	18,234,004	19,845,229	21,220,083
	MF as % of GDP	<b>61.82</b>	<b>67.30</b>	<b>73.47</b>	<b>55.60</b>	<b>69.02</b>	<b>68.46</b>	<b>63.68</b>
USA	MF Assets	8,891,108	10,397,935	12,001,463	9,603,649	11,120,153	11,820,650	11,621,595
	GDP	12,564,300	13,314,500	13,961,800	14,219,300	13,863,600	14,447,100	15,094,000
	MF as % of GDP	<b>70.76</b>	<b>78.09</b>	<b>85.96</b>	<b>67.54</b>	<b>80.21</b>	<b>81.82</b>	<b>76.99</b>
Canada	MF Assets	490,518	566,298	698,397	416,031	565,156	636,947	753,606
	GDP	1,133,760	1,278,611	1,424,066	1,502,678	1,337,578	1,577,040	1,736,051
	MF as % of GDP	<b>43.26</b>	<b>44.29</b>	<b>49.04</b>	<b>27.69</b>	<b>42.25</b>	<b>40.39</b>	<b>43.41</b>
Europe*	MF Assets	6,002,310	7,803,877	8,934,861	6,231,116	7,545,535	7,903,389	7,220,298
	GDP	15,620,420	16,855,279	19,644,190	21,476,300	18,909,413	19,212,903	21,186,678
	MF as % of GDP	<b>38.43</b>	<b>46.30</b>	<b>45.48</b>	<b>29.01</b>	<b>39.90</b>	<b>41.14</b>	<b>34.08</b>
Czech Republic	MF Assets	5,334	6,488	7,595	5,260	5,436	5,508	4,445
	GDP	130,052	148,345	180,511	225,449	196,182	197,656	215,215
	MF as % of GDP	<b>4.10</b>	<b>4.37</b>	<b>4.21</b>	<b>2.33</b>	<b>2.77</b>	<b>2.79</b>	<b>2.07</b>
France	MF Assets	1,362,671	1,769,258	1,989,690	1,591,082	1,805,641	1,617,176	1,382,068
	GDP	2,136,555	2,255,705	2,582,390	2,831,794	2,619,685	2,549,027	2,773,032
	MF as % of GDP	<b>63.78</b>	<b>78.43</b>	<b>77.05</b>	<b>56.19</b>	<b>68.93</b>	<b>63.44</b>	<b>49.84</b>
Germany	MF Assets	296,787	340,325	372,072	237,986	317,543	333,713	293,011
	GDP	2,766,254	2,902,749	3,323,807	3,623,686	3,298,636	3,258,947	3,570,556
	MF as % of GDP	<b>10.73</b>	<b>11.72</b>	<b>11.19</b>	<b>6.57</b>	<b>9.63</b>	<b>10.24</b>	<b>8.21</b>
Poland	MF Assets	17,651	28,959	45,542	17,782	23,025	25,595	18,463
	GDP	303,912	341,670	425,322	529,401	430,878	469,782	514,496
	MF as % of GDP	<b>5.81</b>	<b>8.48</b>	<b>10.71</b>	<b>3.36</b>	<b>5.34</b>	<b>5.45</b>	<b>3.59</b>
Romania	MF Assets	109	247	390	326	1,134	1,713	2,388
	GDP	98,913	122,642	169,282	200,071	161,110	161,629	179,794
	MF as % of GDP	<b>0.11</b>	<b>0.20</b>	<b>0.23</b>	<b>0.16</b>	<b>0.70</b>	<b>1.06</b>	<b>1.33</b>
United Kingdom	MF Assets	547,092	755,163	897,460	504,681	729,141	854,413	816,537
	GDP	2,280,539	2,444,579	2,812,875	2,635,955	2,171,386	2,251,898	2,431,589
	MF as % of GDP	<b>23.99</b>	<b>30.89</b>	<b>31.91</b>	<b>19.15</b>	<b>33.58</b>	<b>37.94</b>	<b>33.58</b>
Asia and Pacific*	MF Assets	1,939,251	2,456,492	3,678,325	2,037,536	2,715,234	3,067,323	2,921,277
	GDP	10,047,862	10,634,421	12,005,346	13,664,766	14,205,215	16,372,146	18,611,336
	MF as % of GDP	<b>19.30</b>	<b>23.10</b>	<b>30.64</b>	<b>14.91</b>	<b>19.11</b>	<b>18.74</b>	<b>15.70</b>
Philippines	MF Assets	1,449	1,544	2,090	1,263	1,488	2,184	2,363
	GDP	103,066	122,211	149,360	173,603	168,334	199,589	224,754
	MF as % of GDP	<b>1.41</b>	<b>1.26</b>	<b>1.40</b>	<b>0.73</b>	<b>0.88</b>	<b>1.09</b>	<b>1.05</b>

## Exhibit 3 (continued)

Japan	MF Assets	470,044	578,883	713,998	575,327	660,666	785,504	745,383
	GDP	4,571,876	4,356,761	4,356,329	4,849,208	5,035,142	5,488,417	5,867,154
	MF as % of GDP	<b>10.28</b>	<b>13.29</b>	<b>16.39</b>	<b>11.86</b>	<b>13.12</b>	<b>14.31</b>	<b>12.70</b>
Korea, Rep. of	MF Assets	198,994	251,930	329,979	221,992	264,573	266,495	226,716
	GDP	844,863	951,773	1,049,236	931,402	834,060	1,014,890	1,116,247
	MF as % of GDP	<b>23.55</b>	<b>26.47</b>	<b>31.45</b>	<b>23.83</b>	<b>31.72</b>	<b>26.26</b>	<b>20.31</b>
Africa*	MF Assets	65,594	78,026	95,221	69,417	106,261	141,615	124,976
	GDP	247,064	261,007	286,172	273,870	283,012	363,523	408,237
	MF as % of GDP	<b>26.55</b>	<b>29.89</b>	<b>33.27</b>	<b>25.35</b>	<b>37.55</b>	<b>38.96</b>	<b>30.61</b>
South Africa	MF Assets	65,594	78,026	95,221	69,417	106,261	141,615	124,976
	GDP	247,064	261,007	286,172	273,870	283,012	363,523	408,237
	MF as % of GDP	<b>26.55</b>	<b>29.89</b>	<b>33.27</b>	<b>25.35</b>	<b>37.55</b>	<b>38.96</b>	<b>30.61</b>
BRIC Nations	MF Assets	345,890	482,649	1,165,185	820,455	1,298,643	1,460,771	1,427,519
	GDP	4,737,306	5,740,915	7,398,445	9,059,588	9,196,623	11,245,404	13,480,500
	MF as % of GDP	<b>7.30</b>	<b>8.41</b>	<b>15.75</b>	<b>9.06</b>	<b>14.12</b>	<b>12.99</b>	<b>10.59</b>
Brazil	MF Assets	302,927	418,771	615,365	479,321	783,970	980,448	997,891
	GDP	882,185	1,088,917	1,365,983	1,652,818	1,621,662	2,143,035	2,476,652
	MF as % of GDP	<b>34.34</b>	<b>38.46</b>	<b>45.05</b>	<b>29.00</b>	<b>48.34</b>	<b>45.75</b>	<b>40.29</b>
Russia	MF Assets	2,417	5,659	7,175	2,026	3,182	3,917	3,072
	GDP	764,001	989,931	1,299,706	1,660,846	1,222,648	1,487,516	1,857,770
	MF as % of GDP	<b>0.32</b>	<b>0.57</b>	<b>0.55</b>	<b>0.12</b>	<b>0.26</b>	<b>0.26</b>	<b>0.17</b>
India	MF Assets	40,546	58,219	108,582	62,805	130,284	111,421	87,519
	GDP	834,217	949,117	1,238,700	1,224,097	1,361,057	1,684,324	1,847,982
	MF as % of GDP	<b>4.86</b>	<b>6.13</b>	<b>8.77</b>	<b>5.13</b>	<b>9.57</b>	<b>6.62</b>	<b>4.74</b>
China	MF Assets	-	-	434,063	276,303	381,207	364,985	339,037
	GDP	2,256,903	2,712,951	3,494,056	4,521,827	4,991,256	5,930,529	7,298,097
	MF as % of GDP	-	-	<b>12.42</b>	<b>6.11</b>	<b>7.64</b>	<b>6.15</b>	<b>4.65</b>
Region*	Countries represented							
Americas	Argentina, Brazil, Canada, Chile, Costa Rica, Mexico, Trinidad and Tobago and the United States.							
Europe	Austria, Belgium, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Liechtenstein, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Russia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey and the United Kingdom.							
Asia and Pacific	Australia, China, India, Japan, Korea, Rep. of, New Zealand, Pakistan, Philippines and Taiwan.							

Note: MF = mutual funds; GDP = gross domestic product.

Funds of funds are not included except for France, Italy and Luxembourg. Data include home-domiciled funds, except for Hong Kong, the Republic of Korea and New Zealand, which include home- and foreign-domiciled funds.

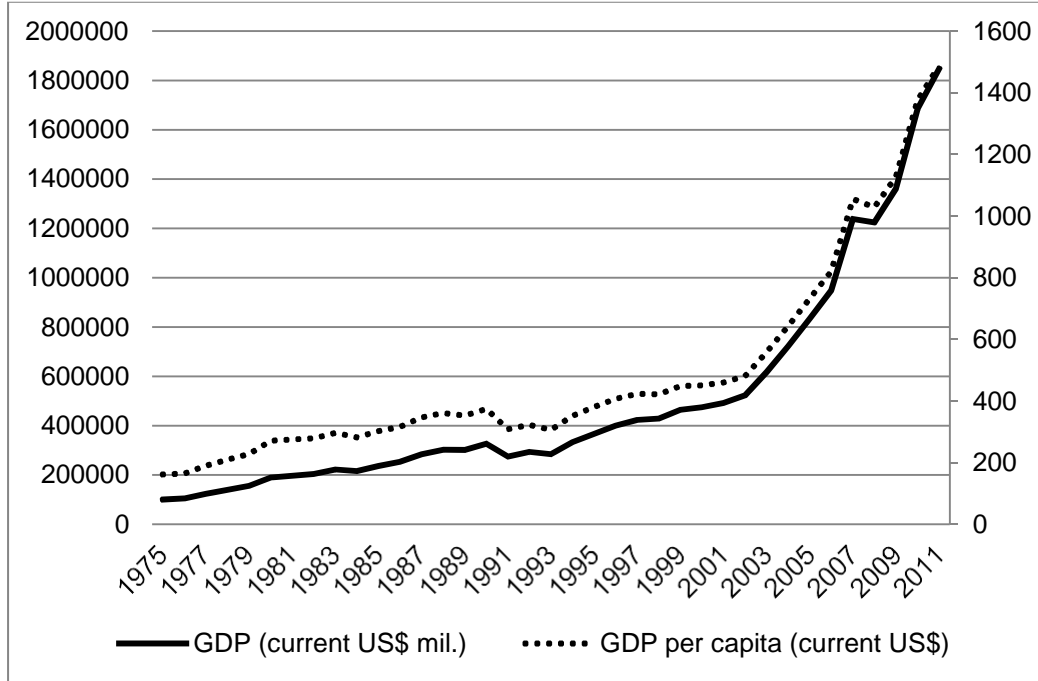
Components may not add to the total exactly because of rounding.

Source: Mutual fund data from the Investment Company Institute, "Worldwide Mutual Fund Totals,"

[www.icifactbook.org/datatables.html#section7](http://www.icifactbook.org/datatables.html#section7); GDP from the World Bank, <http://data.worldbank.org/>. For India, data is obtained from [www.amfiindia.com/AmfiMonthly.aspx](http://www.amfiindia.com/AmfiMonthly.aspx), accessed July 29, 2012.

Exhibit 4

INDIA'S GROSS DOMESTIC PRODUCT GROWTH, 1975–2011  
(IN CURRENT US\$)



Source: Created by the case writers, using data from World Bank, "Data: India," <http://data.worldbank.org/country/india>, accessed July 23, 2012.

## Exhibit 5

**GROSS FINANCIAL SAVINGS OF THE INDIAN HOUSEHOLD SECTOR  
2008/09 TO 2010/11**

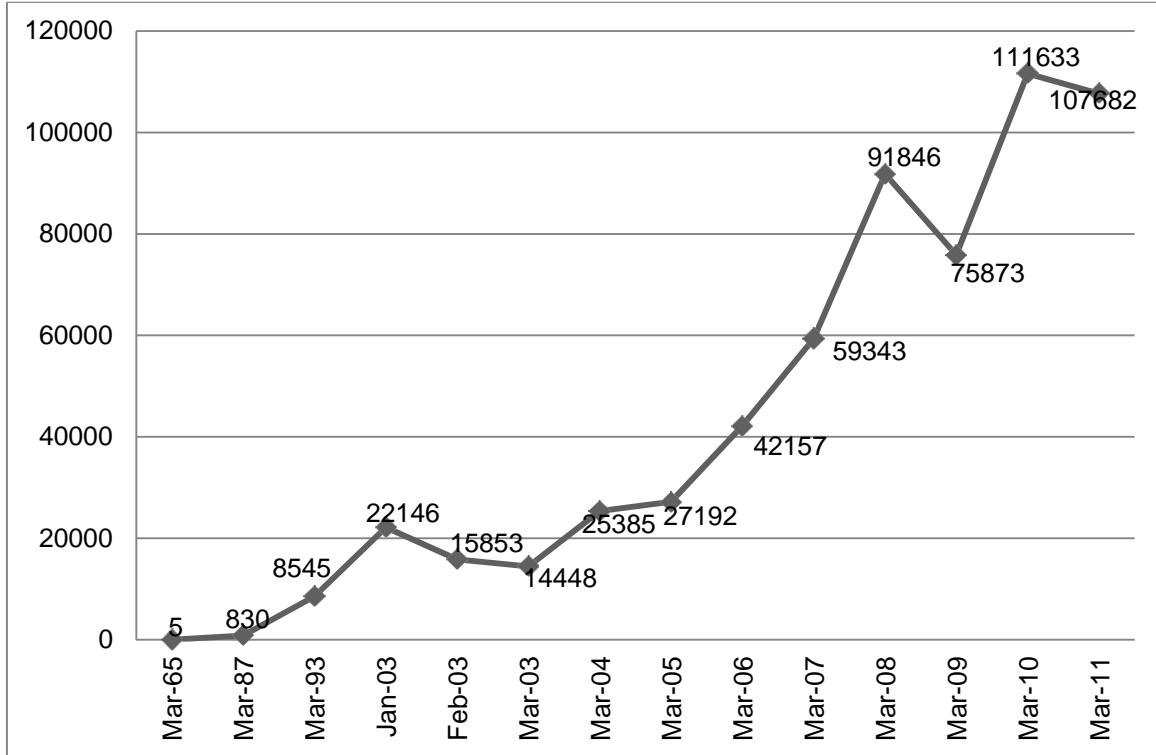
Item	Percentage of Total Financial Savings		
	2008/09 R	2009/10 R	2010/11 P
Financial Saving (Gross)	100.0	100.0	100.0
a) Currency	12.7	9.8	13.3
b) Deposits	60.7	47.2	47.3
i) With Commercial Banks	52.8	41.7	42.0
ii) With Non-banking Companies	2.0	1.9	2.9
iii) With Cooperative Banks and Societies	4.7	3.6	2.5
iv) Trade Debt (Net)	1.2	-0.1	-0.1
c) Shares and Debentures	-0.7	4.6	-0.4
of which:			
i) Private Corporate Business	1.0	1.3	1.2
ii) Banking	0.0	0.1	0.1
iii) Bonds of Public Sector Undertakings	0.1	0.1	0.1
iv) Mutual Funds (including UTI)	-1.4	3.3	-1.8
d) Claims on Government	-3.8	4.3	6.5
i) Investment in Government Securities	0.0	0.0	0.0
ii) Investment in Small Savings, etc.	-3.8	4.3	6.5
e) Life Insurance Funds	21.0	22.6	24.2
of which:			
i) Life Funds of LIC and Private Insurance Companies	20.3	22.0	23.8
f) Provident and Pension Funds	10.1	11.5	9.1
R = Revised.			
P = Preliminary Estimates.			

*Note: R = Revised; P = Preliminary Estimates; UTI = Unit Trust of India; LIC = Life Insurance Corporation. Components may not add up to the totals due to rounding.*

*Source: Reserve Bank of India, www.rbi.org.in, accessed July 20, 2012.*

## Exhibit 6

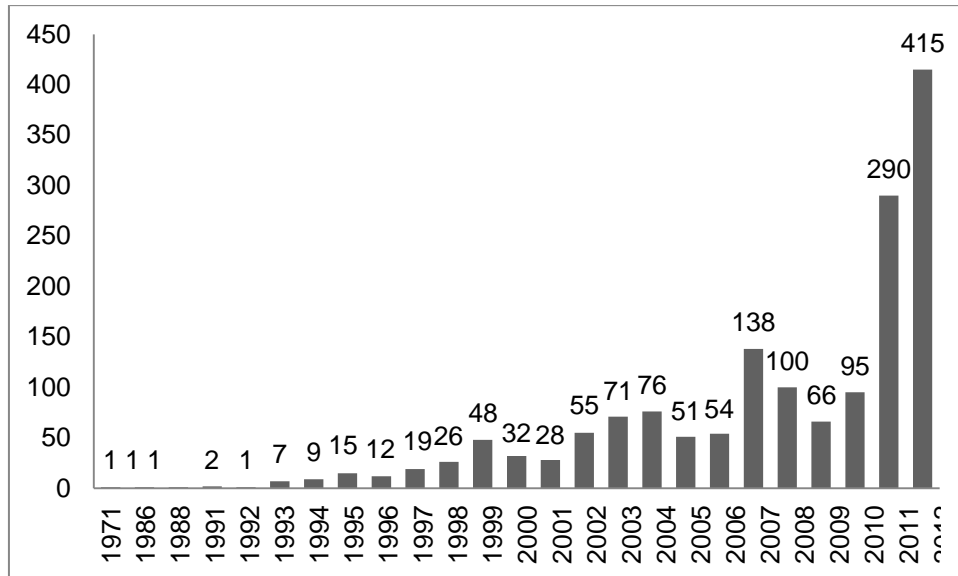
**GROWTH IN ASSETS UNDER MANAGEMENT, 1965–2011  
(IN US\$ MILLIONS)**



Source: Association of Mutual Funds in India, [www.amfiindia.com/showhtml.aspx?page=mfindustry](http://www.amfiindia.com/showhtml.aspx?page=mfindustry), accessed July 29, 2012. Dollars converted by the case writer at the rate of US\$1=INR 55.

**Exhibit 7**

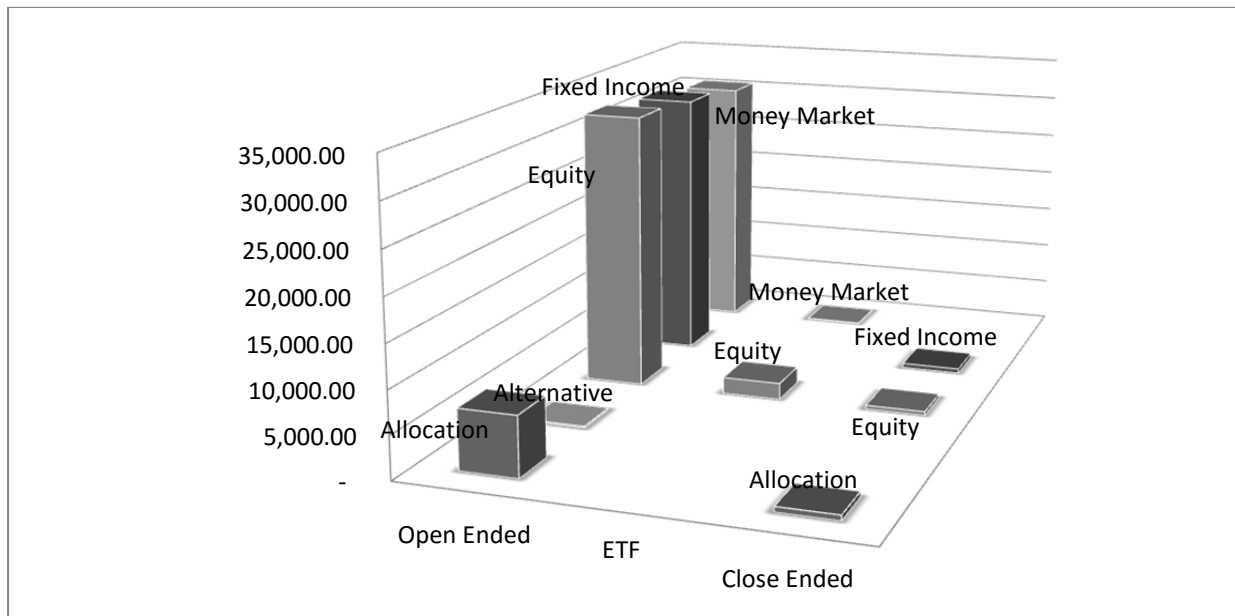
**NUMBER OF NEW MUTUAL FUNDS STARTED IN INDIA, 1971–2012**



Source: This graph was created by the case writers using data from Morningstar Direct, accessed August 6, 2012.

**Exhibit 8**

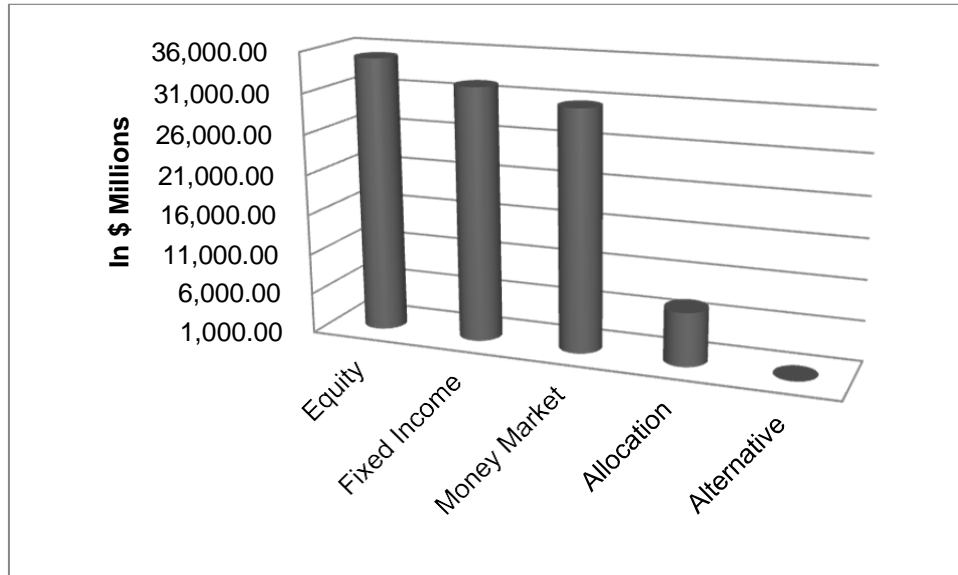
**ASSET ALLOCATION IN INDIA ACROSS DIFFERENT FUND CATEGORIES**



Source: Created by the case writers using data from Morningstar Direct, accessed August 6, 2012.

Exhibit 9

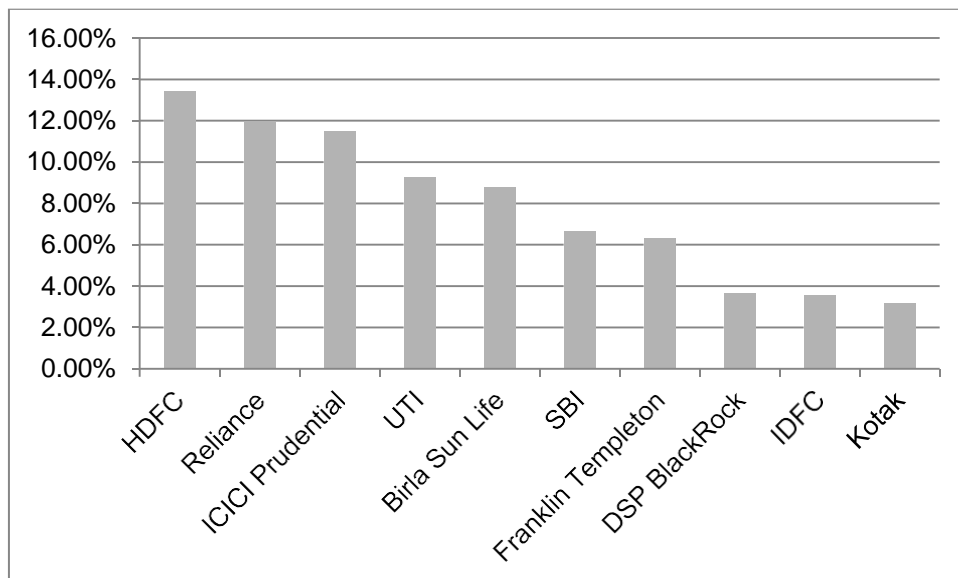
**INDIA'S OVERALL ASSETS UNDER MANAGEMENT CONTRIBUTION, 2012, BY TYPE OF INVESTMENT**



Source: Created by the case writers using data from Morningstar Direct, accessed August 6, 2012.

Exhibit 10

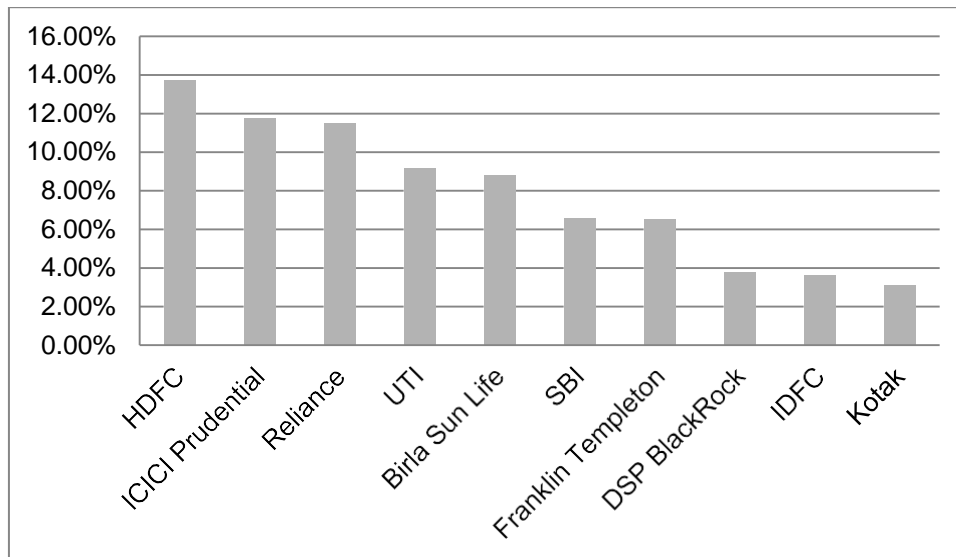
**PERCENTAGE OF OVERALL ASSETS UNDER MANAGEMENT IN INDIA, 2012, BY ORGANIZATION**



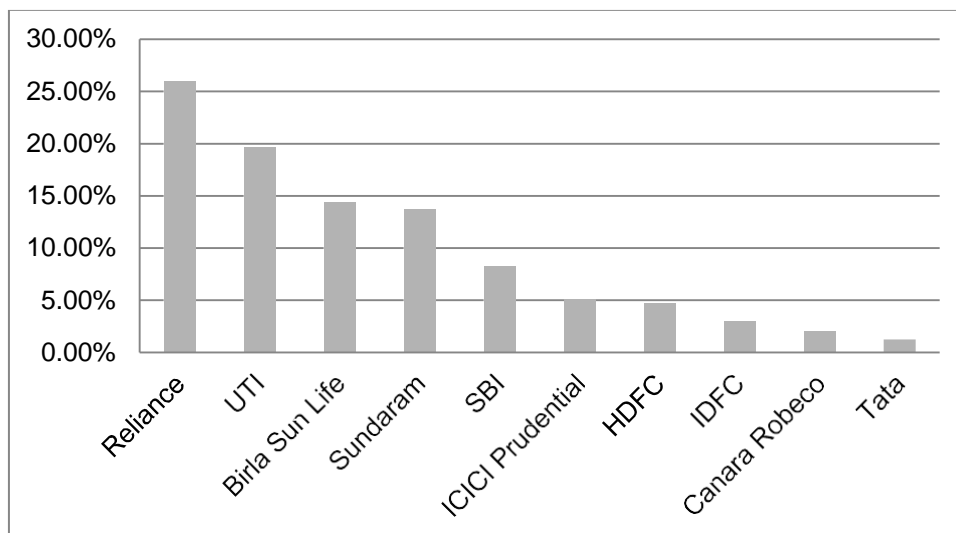
Source: Created by authors using data from Morningstar Direct, accessed August 6, 2012.

Exhibit 11

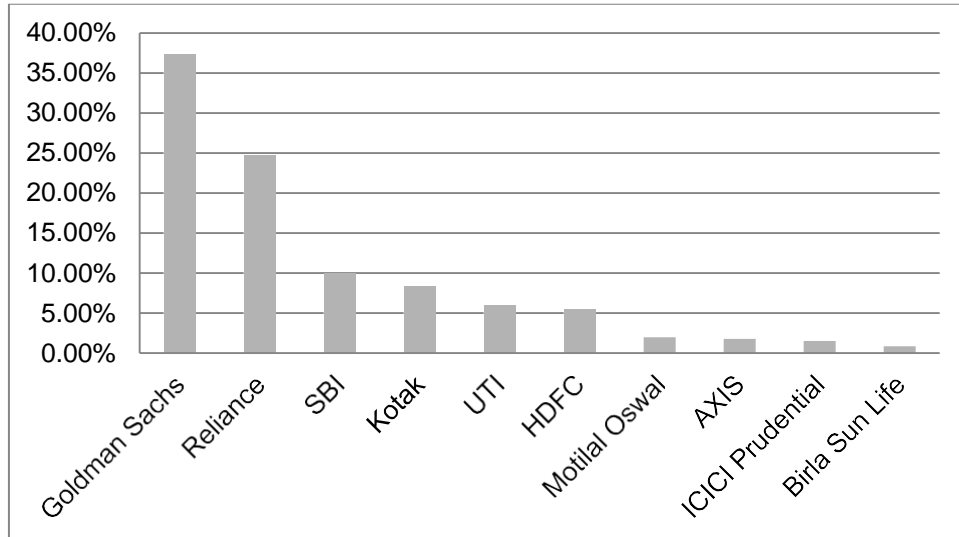
OPEN-ENDED ASSETS UNDER MANAGEMENT IN INDIA, 2012, BY ORGANIZATION



CLOSED-ENDED ASSETS UNDER MANAGEMENT IN INDIA, 2012, BY ORGANIZATION



## Exhibit 11 (continued)

EXCHANGE-TRADED FUNDS' ASSETS UNDER MANAGEMENT IN INDIA, 2012,  
BY ORGANIZATION

Source: Created by the case writers using data from Morningstar Direct, accessed August 6, 2012.