



MARKET PENETRATION AND INVESTMENT PATTERN OF MUTUAL FUND INDUSTRY IN INDIA

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Abstract: *Market penetration is a term that indicates how deeply a product or service has become entrenched with a given consumer market. The degree of penetration is often measured by the amount of sales that are generated within the market itself. A product that generates twenty percent of the sales made within a given market would be said to have a higher rate of market penetration than a similar product that realizes ten percent of the total sales within that same market. Determining what constitutes the consumer market is key to the process of properly calculating market penetration.*

Keywords: *penetration mutual funds, ETF, Ensoff model, growth matrix, investment pattern*

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INTRODUCTION

Market penetration is one of the **four** growth strategies of the **Product-Market Growth Matrix** defined by Ansoff. Market penetration occurs when a company enters/penetrates a market with current products. The best way to achieve this is by gaining competitors' customers (part of their market share). Other ways include attracting non-users of your product or convincing current clients to use more of your product/service (by advertising etc).

Ansoff developed the Product-Market Growth Matrix to help firms recognise if there was any advantage of entering a market at all. Market penetration occurs when the product and market already exists. **Other growth strategies include:**

- **Product development** (existing markets, new products): McDonalds is always within the fast-food industry, but frequently markets new burgers.
- **Market development** (new markets, existing products): Lucozade (a specific medicine) was first marketed for sick children and then rebranded to target athletes.
- **Diversification** (new markets, new products): Spice phone, i-pad

Market penetration can be considered in broader terms, and be used as a way of identifying a wider consumer base. In **Mutual Funds industry** we know that it is basically an Urban Phenomenon. Still there is a lack of awareness in rural India about this investment option.

Out of the total net assets under management by all Mutual funds the percentage of Corporate/institutions is as big as 54.75%, whereas its percentage to total investor's accounts is just 0.95%.¹It clearly shows that the corporate sector which has a strong urban base is the real player in Mutual Funds industry.

Whereas, Out of the total net assets under management by all Mutual funds the percentage of individuals is only 39.77%, where as its percentage to total investor's accounts is 97.07%.² This analysis clearly suggests a timely action to be taken by mutual Fund Industry regarding Market penetration.

Investment pattern of Mutual Fund industry in India

The mutual funds as the name suggests are meant to provide a proper and less risk-more profit option mainly to small investors and at the same time should contribute in the

¹ SEBI Annual report 2009-2010

² ibid



resource mobilisation through a well thought pattern of investing in Equity-Debt schemes and other Govt. instruments of investment like securities etc.

Scheme-wise pattern of investment reveals the domination of income/debt oriented schemes in total resource mobilisation during 2009-10.³ During 2009-10, there was net outflow from balanced schemes and Fund of Funds investing overseas. Under income/ debt oriented schemes, Gilt funds and Money Market funds recorded net outflows. Even though growth/equity oriented schemes recorded net inflows, it was substantially less compared to that in the last year. The net amount mobilised by growth/equity oriented schemes was Rs.2,149 crore in 2009- 10 as compared to Rs.4,024 crore mobilised in the previous financial year.⁴ Net resources mobilised by exchange traded funds (ETFs) were positive during 2009-10. Moreover, Gold ETFs recorded multifold growth by growing from Rs.84 crore in 2008-09 to Rs.803 crore in 2009-10. Fund of Funds which invest overseas also witnessed a net outflow of Rs.367 crore as compared to a net inflow of Rs.778 crore in 2008-09. There were 882 mutual fund schemes as on March 31, 2010, of which, 458 were income/debt oriented schemes, 355 were growth/equity oriented schemes and 33 were balanced schemes. In addition, there were 21 Exchange Traded Funds, of which 7 were Gold ETFs. Also, there were 15 schemes operating as Fund of Funds which also invested in overseas securities.

There were 641 open-ended schemes and 202 close- ended schemes as on March 31, 2010. The number of open-ended schemes exceeded that of close-ended schemes among all the schemes types. The assets under management (AUM) of all the mutual funds increased to Rs.6,13,979 crore at the end of March 31, 2010 from Rs.4,17,300 crore a year ago. Assets managed by most categories of mutual funds increased in 2009-10. The AUM was the highest for income/debt oriented schemes at Rs.3,93,204 crore while the AUM under growth/equity oriented scheme was Rs.1,98,121 crore.⁵ In terms of growth in AUM, Gold ETFs (116.1 percent) achieved the highest increase followed by ELSS schemes (93.7 percent) during the year. The mutual funds were one of the major investors in the debt segment of the Indian securities market. During 2009-10, the combined net investments by the mutual funds in debt and equity was Rs.1,70,076 crore compared to Rs.88,787 crore in 2008-09, registering an increase of 91.5 percent. Mutual Funds were net sellers in equity segment

³ SEBI Annual Report 2009-2010

⁴ ibid

⁵ ibid



with Rs.10,512 crore, whereas, their net investments in the debt segment rose by Rs.1,80,588 crore during the same period. The combined net investment was positive for all months in 2009-10 except March 2010. Individual investors accounted for 97.1 percent of the total number of investors' accounts and contributed 39.8 percent to total net assets.

The unit holding pattern of public and private sector mutual funds as on March 31, 2010 shows the dominance of private sector mutual funds in the number of investor accounts as well as share in net assets. The private sector mutual funds had 65.4 percent of the total investors account compared to 34.6 percent in public sector mutual funds. The private sector mutual funds managed 77.9 percent of the net assets as against 22.1 percent of net assets managed by public sector mutual funds. While individual investors held 39.9 percent of the net assets in public sector mutual funds, their share in private sector mutual funds was 39.7 percent as on March 31, 2010.⁶

At this point, after seeing the Gross resource mobilisation by Mutual Funds and their scheme-wise current investment pattern in capital market now, we shall see how the investors are investing in the MFs.

Mutual funds normally come out with an advertisement in newspapers publishing the date of launch of the new schemes. Investors can also contact the agents and distributors of mutual funds who are spread all over the country for necessary information and application forms. Forms can be deposited with mutual funds through the agents and distributors who provide such services. Now a day, the post offices and banks also distribute the units of mutual funds. However, the investors may please note that the mutual funds schemes being marketed by banks and post offices should not be taken as their own schemes and no assurance of returns is given by them. The only role of banks and post offices is to help in distribution of mutual funds schemes to the investors. Investors should not be carried away by commission/gifts given by agents/distributors for investing in a particular scheme. On the other hand they must consider the track record of the mutual fund and should take objective decisions.

CHOOSING A SCHEME BY A SMALL INVESTOR FOR INVESTMENT

The investors must read the offer document of the mutual fund scheme very carefully. They may also look into the past track record of performance of the scheme or other schemes of

⁶ ibid



the same mutual fund. They may also compare the performance with other schemes having similar investment objectives. Though past performance of a scheme is not an indicator of its future performance and good performance in the past may or may not be sustained in the future, this is one of the important factors for making investment decision. In case of debt oriented schemes, apart from looking into past returns, the investors should also see the quality of debt instruments which is reflected in their rating. A scheme with lower rate of return but having investments in better rated instruments may be safer. Similarly, in equities schemes also, investors may look for quality of portfolio. They may also seek advice of experts.

Investors should not assume some companies having the name "mutual benefit" as mutual funds. These companies do not come under the purview of SEBI. On the other hand, mutual funds can mobilize funds from the investors by launching schemes only after getting registered with SEBI as mutual funds.

In the offer document of any mutual fund scheme, financial performance including the net worth of the sponsor for a period of three years is required to be given. The only purpose is that the investors should know the track record of the company which has sponsored the mutual fund. However, higher net worth of the sponsor does not mean that the scheme would give better returns or the sponsor would compensate in case the NAV falls.

In case of winding up of a scheme, the mutual funds pay a sum based on prevailing NAV after adjustment of expenses. Unit holders are entitled to receive a report on winding up from the mutual funds which gives all necessary details.

Almost all the mutual funds have their own web sites. Investors can also access the NAVs, half-yearly results and portfolios of all mutual funds at the web site of Association of mutual funds in India (AMFI). AMFI has also published useful literature for the investors. Investors can log on to the web site of SEBI and go to "Mutual Funds" section for information on SEBI regulations and guidelines, data on mutual funds, draft offer documents filed by mutual funds, addresses of mutual funds, etc. Also, in the annual reports of SEBI available on the web site, a lot of information on mutual funds is given. There are a number of other web sites which give a lot of information of various schemes of mutual funds including yields over a period of time. Many newspapers also publish useful information on mutual funds on



daily and weekly basis. Investors may approach their agents and distributors to guide them in this regard.

Investors would find the name of contact person in the offer document of the mutual fund scheme that they may approach in case of any query, complaints or grievances. Trustees of a mutual fund monitor the activities of the mutual fund. The names of the directors of asset Management Company and trustees are also given in the offer documents. Investors can also approach SEBI for redressal of their complaints. On receipt of complaints, SEBI takes up the matter with the concerned mutual fund and follows up with them till the matter is resolved.

FUND SELECTION BY THE ADVISOR

It is very important question for the asset management company to decide that in which of the available options the collected /mobilised funds should be invested to provide the investors with higher returns .It affects not only the investment pattern as a whole but also the profitability of the products.

An advisor has to decide on the amount to be invested in the basic categories of Equity, Debt, balanced & money Market funds.

Selecting an equity fund

Classify the available equity schemes in

Growth

Value

Equity Income

Broad based specialty

Concentrated specialty funds

Choose one of the two strategies

Select mainstream growth or value funds, providing broad based diversification

Select either a differentiated growth or value fund, or a specialty fund whose risk return will vary from the overall market.

Evaluate pass returns of available funds

Review the salient features of the scheme.

Fund size – smaller funds means higher expenses.

Fund age – the older the performing fund the better compared a new unproven fund.



Portfolio manager's experience

Cost of investing.

Portfolio characteristics

Cash position – equity funds normally hold little cash, say 5%, more cash would mean less money is invested. A fund manager might sit on higher % of cash if he predicts a bull or bear run.

Portfolio concentration – if the funds 10 largest holdings account for over 50% of the net assets, it is a concentrated portfolio.

Market capitalization of funds – large caps funds are deemed safer to invest in compared to small cap funds.

Portfolio turnover – A steady holding of investments means long term orientation. Higher turnover could mean higher capital gain but it would also mean higher transaction cost.

Portfolio statistic – compare its performance with others.

Selecting an debt/ Income/ Bond fund

Narrow down on choices- debt funds have a larger variety to choose from. Short term – long term, government – corporate, high investment grade or low, domestic – global bonds.

Know your investment objective- younger investor need retirement planning, hence long term bonds are appropriate, retired investors need money income schemes.

Selecting a money market or liquid fund

While selecting a liquid fund the advisor has to keep in mind following points

Costs

Quality

Yields

Developing a model portfolio

While investing and developing a portfolio for oneself, there are many important points which one should remember. Jacob described these steps of investing in this manner:

Jacob's Four step program:

- a) *Work with the investors to develop long term goals*
- b) *Determine the asset allocation of the investment portfolio*
- c) *Determine the sector distribution*
- d) *Select specific fund managers & their schemes*



Jacob's Four different portfolios:

Young unmarried professional: 50% in aggressive equity funds, 25% in high yield bonds & growth & income funds, 25% in conservative money market funds.

Young couple with 2 kids: 10% in money market funds, 30% in aggressive equity funds, 25% in high yield bonds & long term growth funds & 35% municipal bond funds.

Older couple – single income: 30% in short municipal bond funds, 35% long term municipal bond funds, 25% moderately aggressive equity & 10% emerging growth equity.

Recently retired couple: 35% in conservative equity funds for capital preservation/ income, 25% moderately aggressive equity & 40% in money market funds.

Risk return matrix explained:

Many organisations address business opportunities that are inefficient and may be seen as 'dead weight' – for example products that are approaching the end of their life cycles, or segments that are no longer profitable. Risk Analysis enables the strategist to view such problems in context, and take a view on whether a more efficient Portfolio can be developed by withdrawal from the Niches under question, or whether (to safeguard the bigger picture) they should be retained. 'Risk' and 'Return' scores are calculated for each Niche, and then 'summed' for different combinations (or permutations) of Niches.

Now the risk return matrix gives a combination study of various risk factors associated with an investment and the corresponding return it carries along with it. Hence the X axis displays returns and Y axis displays the associated risk. Moving towards higher levels on both the axis we see that the degree of risk and returns increases. Hence we can locate four major areas of risk return combination in the matrix.

The lower risk and lower return area includes investment that does not carry much risk and again gives lower returns. These includes post office deposits, bank fixed deposits etc. where an investor usually deposits a certain amount on either regular or fixed basis and gets the returns at the maturity.

Moving towards the higher risk area where returns are low, there is hardly any investment that an intelligent investor would prefer to invest for. Since this is not an ideal strategy to opt for an investor, hence there are least available investment options here. Usually government is the major investor in this section as it has to provide services and also has capacity to bear higher risks.



Coming to the riskier and higher investment option, we see that there are several available investments for an investor. These include equity, preference capital, venture etc. They are preferred over higher risk and lower returns as they constitute towards growth of capital.

The higher return and low risk investment is most attractive and highly taken up due to investor's preference for them. Mutual funds are part of such investments.;

Investment Procedure in Mutual Funds

- 1) Identify your needs
- 2) Choose the Right Fund
- 3) Select the ideal mix of scheme
- 4) Invest Regularly
- 5) Keep your taxes in your mind
- 6) Start early

The Ground Rule of Mutual Fund Investing

- 1) Assess yourself: assessment of once need
- 2) Try to understand where money is going
- 3) Don't rush in picking funds, think first
- 4) Invest, Don't speculate
- 5) Don't put all the eggs in one basket
- 6) Be regular
- 7) Do your homework
- 8) Find the right Fund
- 9) Keep track of your information
- 10) Know when to sell your fund

These ground rules are inter connected to each other and they go hand in hand together.

5.6 CONCLUSION:

Mutual Funds, predominantly an urban phenomenon have started penetrating the rural market through its New range of products, New strategies for **Rural Market-Penetration** and with New awareness programmes. Altogether the MF Industry's Gross Mobilisation of resources during 2009-10 was at Rs.1,00,19,022 crore, and AuM was around 07 lakh crores ,which shows the sheer size of this important industry and its importance as a means of investment.



As the rural market will integrate more and more with the urban, and investors will flood in, the responsibility of the captains of the Financial Sector in General and Mutual Funds in Particular, will increase many fold because the End goal is after all '**Investors benefit**' we all know.

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