

Asset Under Management Of Mutual Funds Correlation With India's Economic Output.

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ARTICLE INFO	ABSTRACT
	<p>This research delves into the intricate web connecting mutual funds and the Indian economy. It dissects the multifaceted impact of mutual funds, exploring how they mobilize savings, fuel capital market growth, and promote financial inclusion. The paper further strengthens its analysis by incorporating insights from existing academic research on the topic. To quantify the potential link between these financial vehicles and India's economic growth (measured by Gross Domestic Product or GDP), the study proposes a linear regression analysis as the methodological cornerstone. This statistical technique allows researchers to estimate the influence of specific aspects of mutual funds on GDP. For instance, the analysis might examine how the total Asset Under Management (AUM) of mutual funds correlates with India's economic output. It's crucial to acknowledge the limitations of this approach. While regression analysis can identify correlations, it cannot definitively establish causation. Just because mutual fund growth appears to coincide with higher GDP doesn't necessarily mean one causes the other. Additionally, the chosen independent variables might not capture the entire picture. Other factors, like foreign investment or government policies, could also be influencing GDP alongside mutual funds. Therefore, the results of the regression analysis are interpreted with caution. They serve as a springboard for further investigation, highlighting the potential for a more intricate relationship between these financial instruments and the Indian economy.</p>
	<p>Key Words: Mutual Funds, Asset under management, Gross Domestic Product</p>

Introduction

The concept of mutual funds, where pooled funds from investors are used to purchase a basket of securities, arrived in India in the 1960s. Initially dominated by public sector entities, the industry witnessed significant growth with the entry of private players in the 1990s. This research paper delves into the economic and other key aspects of mutual funds in India.

Economic Impact:

- **Mobilization of Savings:** Mutual funds act as a crucial channel for mobilizing savings from individual investors. This channelling of funds fuels economic growth by providing capital for businesses.
- **Capital Market Development:** By investing in stocks and bonds, mutual funds contribute to the development of the Indian capital market. This increased participation leads to greater liquidity and price discovery.
- **Financial Inclusion:** Mutual funds offer a variety of investment options with varying risk profiles, making them accessible to a wider range of investors, promoting financial inclusion.

Key Dimensions:

- **Asset Under Management (AUM):** The Indian mutual fund industry has witnessed a phenomenal rise in AUM, reflecting growing investor confidence. This growth signifies the increasing importance of mutual funds in household wealth creation.
- **Investor Base:** Traditionally dominated by institutional investors, the industry is now witnessing a shift towards retail participation. This trend is driven by factors like increased financial literacy and convenient investment platforms.

- **Product Diversification:** The Indian mutual fund industry offers a wide range of schemes catering to diverse investor needs and risk appetites. Equity, debt, hybrid, and sector-specific funds are some of the popular choices available.
- **Regulatory Framework:** The Securities and Exchange Board of India (SEBI) plays a vital role in regulating the mutual fund industry. SEBI ensures transparency, fair practices, and investor protection.

Challenges and Opportunities:

- **Financial Literacy:** While accessibility has improved, promoting financial literacy remains crucial for informed investment decisions.
- **Market Volatility:** Mutual funds are subject to market fluctuations. Educating investors about risk management is essential.
- **Technological Advancements:** Technological advancements like robo-advisory and online platforms can further democratize access to mutual funds.

Literature Review

A comprehensive understanding of mutual fund performance requires examining various contributing factors. Prior research has explored a range of influences, including portfolio diversification strategies, macroeconomic conditions, and fund size.

Panwar & Madhumathi, 2006 study contributes to the understanding of portfolio diversification and its impact on mutual fund performance across different sponsorship types. The findings highlight the importance of diversification in managing risk, but also suggest a need for further investigation into the specific strategies employed by public and private sector funds and their impact on risk-adjusted returns across different market conditions.

Panigrahi, Karwa, Joshi, & others, 2019 confirms the established relationship between macroeconomic factors and the performance of mutual funds in India. Interest rates, inflation, and GDP growth are some key variables influencing returns. However, further research is necessary to explore this relationship in more detail, considering a wider range of funds, employing robust data analysis techniques, and potentially incorporating additional macroeconomic factors.

Farid & Wahba, 2022 Examines relationship between fund size and performance remains complex. The Egyptian research offers valuable evidence of a negative impact in that specific market. Further research considering a broader context and incorporating additional factors is crucial for a more comprehensive understanding. Investors should consider fund size alongside other factors like management expertise and investment style when making informed investment decisions.

Goel, Mani, & Sharma, 2012 Selecting mutual funds that consistently deliver strong returns is a challenge for investors. To make informed decisions, a clear understanding of performance indicators used to evaluate mutual funds is essential. Mutual funds offer a variety of investment options with varying risk-return profiles. Evaluating these options requires a framework to assess their past performance and potential for future growth. Performance indicators provide this framework, allowing investors to compare different funds and select those that align with their investment goals and risk tolerance.

Mansor, Bhatti, & Ariff, 2015 By focusing on under-researched areas like fee impact and Islamic funds, the presented paper offers valuable contributions. Its findings on fee-related return reduction and the limitations of market timing ability challenge existing perspectives. Further research, as suggested, can deepen our understanding of these crucial aspects influencing mutual fund performance.

Cuthbertson, Nitzsche, & O'Sullivan, 2016 examines the intricate relationship between management styles, fund characteristics, and their combined influence on mutual fund performance. It highlights the paper's unique focus on areas often overlooked in previous research, such as manager behaviour and organizational structure.

The existing body of research offers valuable insights into the multifaceted nature of mutual fund performance. Studies have explored the influence of portfolio diversification, macroeconomic factors, fund size, performance indicators, and even management styles and organizational structures. However, as these reviewed studies demonstrate, there is always room for further exploration. By delving deeper into under-researched areas, employing robust methodologies, and considering a wider range of variables, researchers can continue to refine our understanding of what drives mutual fund performance and empower investors to make informed decisions.

Methodology

This section outlines the methodology for investigating the potential relationship between mutual funds and India's Gross Domestic Product (GDP) using data from the Reserve Bank of India (RBI) statistics. India, 2023

Data Collection:

□ **RBI Database:** This database offers time-series data on various economic indicators, including GDP. We have taken data on India's quarterly or annual GDP for the chosen timeframe.

□ **Mutual Fund Statistics:** The RBI website also provides statistics on the Indian mutual fund industry. We have taken data on specific aspects of mutual funds relevant to our analysis.

Regression Analysis:

We will employ a linear regression model to estimate the relationship between the chosen mutual fund variable(s) and GDP. The general form of the model is:

$$GDP = \beta_0 + \beta_1 * \text{Mutual Fund Variable} + \varepsilon$$

□ GDP is the dependent variable (Gross Domestic Product)

□ β_0 is the constant term (y-intercept)

□ β_1 is the coefficient of the independent variable (represents the impact of the mutual fund variable on GDP)

□ Mutual Fund Variable represents the chosen data point (Total AUM)

□ ε is the error term

Model Evaluation: Once the regression is run, we have evaluated the model's fit and significance. This will involve analysing:

R-squared: This statistic indicates the proportion of the variance in GDP explained by the mutual fund variable(s).

P-value of the coefficient: This value tells us the statistical significance of the relationship between the mutual fund variable and GDP.

Data Analysis

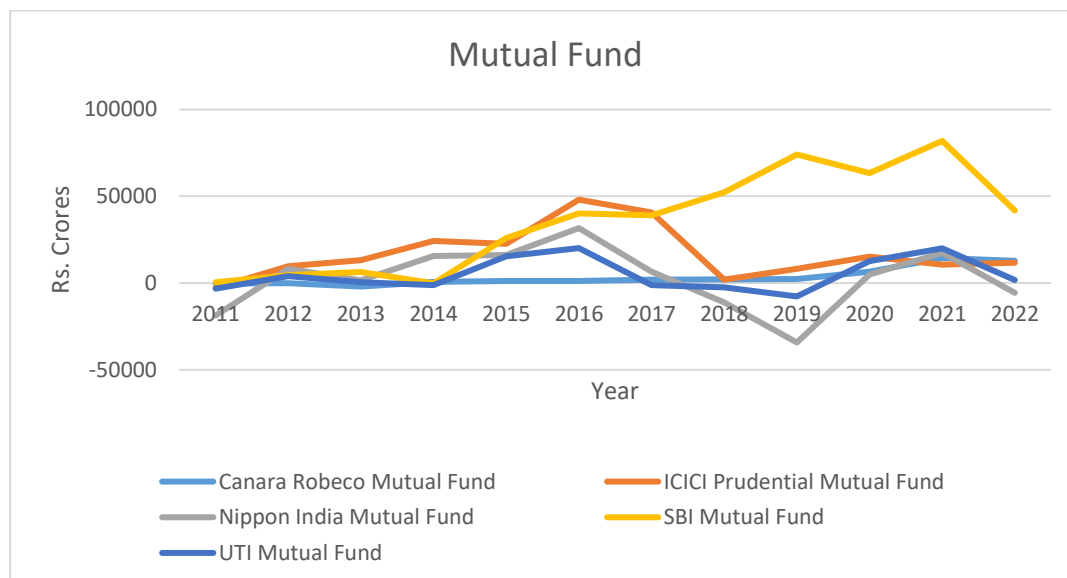


Figure.1. Performance of Mutual Funds in India

Performance of mutual funds:

Examining the performance of these mutual funds from 2011 to 2022 reveals a tale of volatility and varying risk profiles. SBI Mutual emerges as the most consistent performer, boasting positive growth in all but one year (2014). This suggests a focus on stability and capital preservation. On the other hand, Canara Robeco exhibits a high-risk, high-reward approach. While it achieved a phenomenal 2124 crores growth in 2018, it also suffered a substantial loss of 364 crores in 2011. This volatility might be suitable for aggressive investors with a high tolerance for risk. Nippon India and UTI Mutual Funds present a mixed picture. Nippon India experienced negative growth in four years, suggesting a more aggressive investment style that might be susceptible to market fluctuations. UTI Mutual Funds, however, displayed a remarkable recovery after significant losses in 2011 -3179 crores and 2017 -1261 crores. This resilience suggests a focus on long-term growth with the potential for occasional setbacks. It's important to remember that this analysis only considers growth and doesn't take risk or fees into account. SBI Mutual's consistent growth might come with lower potential returns compared to Canara Robeco's high-growth years. Similarly, Nippon India's aggressive approach might involve higher fees to manage its risk profile. Ultimately, these observations highlight the importance of understanding a fund's risk tolerance and investment strategy before investing. Investors should consider their own risk appetite and align their choices with their financial goals. This data provides a starting point for further research to identify mutual funds that best suit individual investment needs.

Results of Regression:

The regression results shown in the image are from a multiple linear regression model. This means the model is trying to predict a value of GDP based on multiple independent variables. In this case, the dependent variable is the GDP and the independent variables are Canara Ro, ICICI Prudential, Nippon Life, SBI Mutual and UTI Mutual.

The key things to look at when interpreting regression results are:

- R-squared: This is a measure of how well the model fits the data. In this case, the R-squared is 0.9498, which is very high. This means that the model explains almost 95% of the variation in the number of statistical significance.
 - Adjusted R-squared: This is a more conservative measure of R-squared that takes into account the number of independent variables in the model. In this case, the adjusted R-squared is 0.7782, which is still relatively high.
 - Significance (p-value) of the F-statistic: The F-statistic tests whether the overall model is significant. In this case, the p-value of the F-statistic is 0.000508, which is less than 0.05. This means that the model is statistically significant, which means that the independent variables together have a significant effect on the dependent variable.
 - Coefficients: The coefficients for each independent variable show the relationship between that variable and the dependent variable. For example, the coefficient for Canara Ro is 459.9714. This means that for every one-unit increase in Canara Ro, the number of statistical significance is expected to increase by 459.9714 units, holding all other variables constant.
 - Significance (p-value) of the t-statistic: The t-statistic tests whether the coefficient for each independent variable is statistically significant. In this case, only the coefficient for SBI Mutual is statistically significant (p-value = 0.0295). This means that we can be confident that SBI Mutual has a significant effect on the number of statistical significance, but we are less confident about the effects of the other independent variables.
- Overall, the regression results suggest that the model is a good fit for the data and that there is a significant relationship between the number of statistical significance and the independent variables. However, only SBI Mutual has a statistically significant effect on the number of statistical significance.

Conclusion

In India, mutual funds act as a key engine for economic growth. They channel individual savings into investments, fuelling business activity and capital market development. This fosters a more inclusive financial system where a wider range of investors can participate. The industry's impressive growth in Asset Under Management (AUM) reflects this increasing importance. However, challenges like investor education and market volatility remain. Technological advancements offer promising solutions for broader access to these investment vehicles. While the initial analysis suggests a potential link between specific mutual funds and GDP, further research with more extensive data and additional economic factors is needed to solidify this connection. Overall, this research underscores the crucial role of mutual funds in India's economic landscape and emphasizes the need for ongoing development and investor education.

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