C] MUTUAL FUNDS

Resources mobilised by mutual funds

The mutual funds during 1998-99 suffered a serious set back by reporting a sharp decline in net resource mobilisation. There was a net outflow of Rs.950 crore during the entire year. The concern for this situation got reflected in the incentives offered to mutual funds scheme in the Union Budget for 1999-2000.

The performance has been extremely good during 1999-2000 as the gross amount mobilised by them increased to Rs. 61,241.23 from Rs. 22,710.73 crore during 1998-99 showing an increase of around 170 per cent in 1999-2000. The Government exempted the income of unit holders received from UTI or from mutual fund. The Government further exempted income distributed under the US-64 scheme and other open-ended equity oriented schemes of UTI and mutual funds from the 10 per cent flat rate of tax. These fiscal incentives have favourably impacted the resource mobilisation by the mutual funds industry. However, redemption had been very heavy which form nearly more than 100 per cent in 1998-99 and 69 per cent during the current financial year.

As regards the net resource mobilisation, there has been a massive inflow of Rs.18,969.88 crore during the current financial year under review as against a net outflow of Rs.949.67 crore during the entire financial year of 1998-99.

Details of funds mobilised, repurchase/redemption amount and the net inflow/outflow of funds for the financial year 1999–2000 are given in Table 2.36.

Table 2.36: Resources Mobilised by the Mutual Funds (Rs.crore)

	Private Sector MFs			**Public Sector MFs**			**UTI**			**Grand Total**
	Open -end	Close -end	Total	Open -end	Close -end	Total	Open -end	Close -end	Total	
Mobilization of Funds (gross)	43,563.26	162.40	43,725.66	3,817.13	0.00	3,817.13	8,293.04	5,405.40	13,698.44	61,241.23
Repurchase/ Redemption Amount	28,136.49	422.69	28,559.18	3,276.47	1,285.58	4,562.05	7,259.68	1,890.44	9,150.12	42,271.35
Net In/ Outflow of funds	15,426.77	260.29	15,166.48	540.66	-1,285.58	-744.92	1,033.36	3,514.96	4,548.32	18,969.88
Source : SEBI										

As regards sector-wise performance, there was a net inflow of Rs.15,426.77 crore in case of private sector mutual funds (net inflow of Rs.1,452.70 crore during 1998-99) followed by UTI with a net inflow of Rs.4,548.32 crore (net outflow of Rs.2,737.53 crore during 1998-99). On the contrary there was a net outflow of Rs.744.92 crore in case of public sector mutual funds (net inflow of Rs.335.16 crore during 1998-99) due to massive redemption / repurchase of close ended schemes. Thus it is found that probably organisational and ownership structure have been influencing the performance of mutual funds.

It is observed that in case of private and public sector mutual funds, the entire net inflow of fund has been from open-ended schemes and there was net outflow in respect of close ended schemes. However, incase of UTI, 77.28 per cent of net inflow has been from the close ended schemes.

Comparative performance of mutual funds and bank deposits

In resource mobilisation, mutual funds outperformed the bank deposits during the year under review. While mutual funds on net basis increased their resources by Rs.18,516 crore, there was a decline in accretion to bank deposits from Rs.1,08,615 crore in 1998-99 to Rs.9,175 crore in 1999-2000. Thus there has been a shift of savings from bank deposits to mutual funds units (Table 2.37).

Table 2.37: Amount Mobilised by Commercial Banks & MFs (Rs. Crore)

Year	Mutual Funds				Bank Deposits
	Public	Pvt.	UTI	Total	
1996-97	151	346	9,600	10,097	71,780
1997-98	332	1,974	9,100	11,406	99,811
1998-99	335	1,453	-2,738	-950	1,08,615
1999-00	-701	14,669	4,548	18,516	91,075
Source : SEBI					

Number of schemes and net assets

During 1999-2000, 330 schemes were in operation, out of which 188 schemes were open-ended schemes. In terms of investment objective, the details of these 330 schemes are as follows:-

Income (Debt oriented)Schemes - 122

(including 13 gilt schemes)

Growth (Equity oriented)Scheme - 173

(including 64 ELSS Schemes)

Balanced (Equity and Debt) Schemes - 35

The combined outstanding net assets of all domestic schemes of mutual funds stood at Rs.1,07,946.10 crore as on March 31, 2000. The details of which are given in Table 2.38.

Table 2.38: Outstanding Position of Mutual Funds Assets

at end-March (Rs. Crore)

Category of Mutual Funds	Amount	Percentage Share	
		1999-00	1998-99
UTI	72,333.43	67.00	77.90
Public Sector	10,444.78	9.68	12.09

Private Sector	25,167.89	23.32	9.97
Total			**100**
Source : SEBI			

During the year, there was an increase of 58 per cent in the net assets of the mutual funds industry from Rs.68193 crore as on March 31, 1999 to Rs.107946 crore as on March 31, 2000.

The share of UTI in the total assets of the mutual funds industry has declined to 67 per cent as at end March 2000 from 77.9 per cent as at end March 1999. Net assets of other public sector mutual funds have also shown a decline from 12.09 per cent in 1998-99 to 9.68 per cent. However, net assets of private sector mutual funds increased from 9.97 per cent as at end March 1999 to 23.32 per cent as at end March 2000.

Offer documents received and cleared by SEBI

During the year under review, there was a sharp increase in the number of offer documents received and cleared by the SEBI for launching new schemes by mutual funds. Thus the SEBI received 96 offer documents during 1999-2000 as against 60 offer documents during 1998-99. SEBI cleared 86 offer documents (18 offer documents cleared for conversion of close ended schemes into open ended schemes), as against 47 offer documents cleared in the entire year 1998-99. All offer documents were cleared in 21 working days in accordance with the Regulations. In remaining cases, the mutual funds have been advised to incorporate the preliminary observations.

Pattern of offer documents received

In all 45 offer documents were received for launching income schemes, out of which 15 offer documents were for launching gilt schemes investing in government securities, 29 offer documents were for launching schemes investing predominantly in corporate debt securities, 1 offer document was for investing in money market instruments, 23 offer documents were for growth schemes investing predominantly in equities which also include sector specific schemes and tax saving schemes, 13 offer documents were for balanced schemes investing in equities as well as debt securities, 13 offer documents were received for conversion of old close ended schemes into open ended schemes and 2 offer documents were received for investments in securitised debts.

Schemes launched

During 1999-2000, 58 new schemes were launched by the mutual funds. In addition, 21 schemes were converted from close ended schemes to open ended schemes. (In the financial year 1998-99, 52 schemes were launched by the mutual funds including 10 schemes which were converted from close to open ended schemes).

Graph 2.19: Resources (Gross) Mobilised by the Mutual Funds

during 1999-2000

Assured return schemes of mutual funds

The SEBI pursuing its objective to protect the interest of the investors has been directing, sponsors/AMCs of mutual funds to honour their commitment of assured returns. Several investors have received income from their investment due to efforts of SEBI. According to data available, 7 mutual funds have so far contributed Rs.1,979.35 crore to meet the shortfalls in 19 assured return scheme. The details of these contributions are below in the table 2.38.

During the year, SEBI directed Indian Bank and Indian Bank Mutual Fund u/s 11B of the SEBI Act, 1992 to meet the shortfall in the returns committed in the offer documents of Ind Prakash and Ind Jyothi schemes. It may be mentioned that earlier Indbank Mutual Fund had paid assured return to the unitholders of Ind Jyothi scheme as directed by the SEBI. However, some of the investors who had opted for redemption before the SEBIs' directive could not get assured returns. They preferred an appeal before the appellate authority. The appellate authority upheld the stand taken by the SEBI and directed Indian Bank and Indbank Mutual Fund to pay the returns to the investors as committed in the offer document. Subsequently, an appeal against the decision of the appellate authority has been filed with the Delhi High Court.

It may be recalled that Canbank Mutual Fund had been directed to honour its commitments in case of Canstar scheme. Though most of the investors opted for redemption in the year 1997 some of the investors could do so in the subsequent years. As a result, the amount contributed by Canara Bank has increased to Rs. 1,237 Crore. In case of Cantriple scheme, the matter pertaining to assured returns is sub-judice.

In case of Magnum Triple Scheme of SBI Mutual Fund, SEBI insisted that the investors of the schemes must be paid three times the face value of units as indicated in the offer document. Accordingly, SBI Mutual Fund paid Rs.300 to the investors at the time of redemption and the shortfall was met by the sponsors i.e State Bank of India, who contributed Rs. 125.97 Crores (Table 2.39).

Table 2.39: Assured Return Schemes: Contributions Made to Honour the Commitments ***(Rs. Crore)***

Name of the Fund	Name of the Scheme	Contribution Made by Sponsor/ AMC
BOI Mutual Fund	Double square plus	31.58
	Festival Boinanza Growth Scheme *	1.38

	RMI	3.69
Canbank Mutual Fund	Canstar	1,237.83
GIC Mutual Fund	GIC Big Value	46.88
	GIC Rise II	170.00
PNB Mutual Fund	Premium Plus 91	26.15
	Rising Income Plus 90	3.92
Indian Bank Mutual Fund	Ind Jyothi	43.59
	Swarnapushpa	0.42
SBI Mutual Fund	Magnum Bond Fund	12.29
	MMIS 91	42.27
	Magnum Triple Plus Scheme	125.97
	MMIS 97	4.55
	MMIS 89	18.67
LIC Mutual Fund	Dhanvarsha (3)	12.40
	Dhanvarsha (4)	136.92
	Dhanvarsha (5)	53.34
	Dhanshree 89	7.50
Total		19,79.35

** The amount has since been reimbursed back to the AMC subsequently*

Source : SEBI

Development with respect to collective investment schemes

The Board reviewed the current status of entities having Collective Investment Schemes. It was noted that upto January 24, 2000, 29 applications for grant of registration were received from entities which had reportedly mobilised about Rs.292.29 crores. Another 26 entities, which had reportedly mobilised about Rs.185.24 crores, have sought time for submitting application for registration. The Board also noted that 43 entities which had reportedly collected about Rs.332.42 crores have intimated SEBI about their intention to repay and wind up their schemes in terms of provisions of SEBI (Collective Investment Schemes) Regulations, 1999. Besides, in some cases proceedings are going on in various Courts wherein the companies, which had launched CIS, have proposed to make the payment to investors.

The Board took note of various steps taken by the SEBI, such as individual letters to entities asking them to apply for registration or wind up and repay the investors; public notices in newspapers, inter-alia, cautioning investors about risks associated with the investments of such nature; public notices in newspapers reminding entities who have not applied for registration by December 14, 1999 to wind up their existing schemes to repay the investors.