Mutual Funds

Policy Initiatives

4.24 The policy initiatives in the current financial year are set out below.

- A common format was prescribed for all mutual fund schemes to disclose their portfolios at half-yearly intervals.
- Mutual Funds are required to disclose investment in various types of instruments and percentage of investment in each scrip to the total NAV, illiquid and non-performing assets, investment in derivatives and in ADRs/GDRs.
- All Asset Management Companies are required to maintain records in support of each investment decision.

4.25 The mutual fund industry registered significant growth during April-December 2001. Gross resource mobilisation by mutual funds during this period amounted to Rs.1,03, 666 crore compared with Rs. 59,430 crore during the corresponding period of the previous year. Private sector mutual funds accounted for 89.2 per cent of the total resource mobilisation during April-December 2001 compared with 80.0 per cent in the previous year . The public sector mutual funds accounted for 7.1 per cent while UTI accounted for a modest share of 3.7 per cent during this period compared with 5.2 per cent and 14.8 per cent respectively in the previous year. The outflows on account of redemptions/ repurchase during April-December 2001 accounted for 89.4 per cent of gross resource mobilisation compared with 90.3 per cent in corresponding period of the previous year. Redemptions/ repurchase exceeded the gross resource mobilisation in the case of UTI by more than two times during this period, resulting in negative net resource mobilisation. Table 4.7 gives the figures relating to resource mobilisation by mutual funds.

TABLE 4.7
Resource Mobilisation by Mutual Funds

(Rs. crore)

Item	Private Sector	Public Sector	UTI	Total
Gross inflow				
1999-2000	43,726	3,817	13,698	61,241
2000-2001	75,009	5,535	12,413	92,957
April-December				
2000-2001	47,550	3,110	8,790	59,430
2001-2002	92,461	7,346	3,858	1,03,666
Redemption				
1999-2000	28,559	4,562	9,150	42,271
2000-01	65,160	6,580	12,090	83,829
April-December				
2000-2001	39,360	4,970	9,310	53,640
2001-2002	78,150	5,471	9,009	92,632
Net inflow				
1999-2000	15,167	-745	4,548	18,970
2000-2001	9,849	-1,045	323	9,128
April-December				
2000-2001	8,190	-1,530	480	7,050
2001-2002	14,311	1,874	-5,151	11,033

4.26 During April-December 2001, mutual funds were net sellers of equity shares while they were net buyers of debt . The gross purchase of equity amounted to Rs. 7,489 crore, while sales amounted to Rs. 8,762 crore, resulting in a net negative investment in equity. In the case of debt, gross purchase amounted to Rs. 19,578 crore against the sale of Rs. 12, 385 crore, resulting in net investment in debt amounting to Rs. 7,193 crore during this period.

Unit Trust of India (UTI)

4.27 UTI's US-64 Scheme has faced repeated problems owing to the administrative setting of entry/exit prices. In order to protect investors, Government interventions became necessary. These interventions have been accompanied by structural improvements also. Most importantly, US-64 now reports NAV on daily basis, and all new investors face a purely NAV-driven scheme, with no administrative pricing. In the coming months, further efforts aimed at turning UTI into a normal SEBI-regulated mutual fund are expected. The interventions by the Government are summarised in Box 4.4.

4.28 Analysis of the trends in market share of mutual funds revealed that UTI suffered significant loss in market share from around 85 per cent in 1996 to 50 per cent in 2001. The cumulative net asset position of mutual funds at the end of December 2001 is given in Table 4.8.

TABLE 4.8
Cumulative Net Assets of Mutual Funds
(As on December 31, 2001)

Sector	Amount (Rs. crore)	Per cent to total
Private	42,582	41.8
Public	8,059	7.9
UTI	51,181	50.3
Total	1,01,822	100.0

Source: SEBI

BOX 4.4
Financial Interventions into US-64 Scheme

1. Special Unit Scheme, 1999 (SU-99): On June 29, 1999, Government of India did a buyback from UTI of PSU shares at book value, which was higher than the then prevailing market value. This effectively constituted a transfer of Rs. 1,528 crore to the investors in US-64.
2. Limited Repurchase Facility (July, 2001): Investors were given a window through which up to 3,000 units (per investor) could be sold back to UTI at an administratively determined price, which started from Rs. 10 in August, 2001 and would go by Rs. 0.1 per month till it reached Rs. 12 in May, 2003. For each Unit repurchased by UTI at a price above NAV, Government would make up the difference to UTI, so that the investors exiting would not do so at the expense of investors who did not exit. This programme covered roughly 40 per cent of the assets of US-64.
3. Extended Repurchase Facility (December, 2001): In December, 2001, the limit of 3,000 units was raised to 5,000 units. In addition, investors above 5,000 units were given an assurance that if they exited in May, 2003, they would get the higher of NAV or Rs. 10. Once again, Government would make up the gap between repurchase price and NAV experienced by UTI, if any.