



MUTUAL FUNDS

Capitalizing on India's Economic
Ascent for Viksit Bharat





Table of Contents

Message from ASSOCHAM	4
Message from CareEdge Ratings	5
Introduction	7
Industry Overview	8
Policy Measures	29
Challenges	32
Outlook and Recommendations	34
About CareEdge Ratings	36
About ASSOCHAM	37



Message from ASSOCHAM

Saurabh Sanyal

Secretary General,
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India's emergence as a leading global economic power is one of the defining developments of the twenty-first century. Driven by structural reforms, digital innovation, demographic strength and an increasingly competitive business environment, the country is steadily progressing towards its aspiration of becoming a developed economy by 2047. The mutual fund industry has emerged as a critical pillar of India's evolving financial architecture. Over the past decade, it has played a significant role in channeling household savings into productive investments, democratizing access to capital markets and fostering a culture of disciplined wealth creation. The increasing participation of retail investors reflects a growing confidence in India's financial ecosystem and a broader shift towards formal financial instruments.

As India moves towards becoming a multi-trillion-dollar economy, the need for long-term domestic capital will grow significantly. The mutual fund industry is uniquely positioned to support this requirement by mobilizing savings, strengthening financial inclusion and facilitating investment in sectors that will shape the nation's future, including infrastructure, manufacturing, technology, renewable energy and innovation. In the regulatory sphere, the Securities and Exchange Board of India (SEBI) has continued to lead with foresight and prudence. Recent regulatory updates have focused on enhancing governance standards, bolstering transparency and aligning our practices with global benchmarks. These reforms are essential pillars that uphold the integrity of our financial markets, ensuring investor confidence and fostering a conducive environment for sustainable growth.

Looking forward, the mutual fund industry in India stands at the threshold of unprecedented opportunities. As a knowledge-driven institution, ASSOCHAM remains committed to facilitating informed dialogue between policymakers, regulators, industry leaders, and market participants. We believe that evidence-based policy discussions and collaborative engagement are critical to building a stronger and more inclusive investment ecosystem.

ASSOCHAM jointly with the CareEdge Ratings has come out with this knowledge report on the subject highlighting the evolving landscape of the industry and explores the opportunities, challenges, and strategic priorities that will define its future trajectory. I thank the team who have contributed to this report.

We hope that the contents of the report will provide valuable insights to policy makers, retail investors and industry stakeholders and the deliberations at the summit will further help in laying the roadmap for future growth and development of Indian mutual fund industry. I wish the summit a grand success.



Message from CareEdge Ratings

Mehul Pandya

Managing Director & Group CEO,
CareEdge

It gives me immense pleasure to present this overview of India's mutual fund industry. This sector continues to play a vital role in deepening financial inclusion and enabling long-term wealth creation for millions of investors.

Over the past decade, the industry has evolved significantly. What was once seen as a niche investment option has now become more mainstream aided by greater investor awareness, regulatory changes, and adoption of digital platforms. As a result, Assets Under Management have grown from about Rs 12.33 lakh crore in March 2016 to Rs 73.7 lakh crore as of March 2026 as per AMFI.

One of the key changes has been improved accessibility. Investing is no longer limited to large cities. With digital platforms and wider outreach, investors from smaller towns and cities are now contributing meaningfully to the industry's growth. Systematic Investment Plans, or SIPs, have also played an important role by encouraging disciplined, long-term investing among retail investors.

While the progress achieved thus far is commendable, it is important to acknowledge that the journey is far from complete. Mutual fund penetration in India remains relatively low when compared to global benchmarks, presenting a substantial opportunity for future growth. Realising this potential will require sustained efforts across multiple dimensions.

First, investor education and financial literacy must remain a top priority as the knowledge and confidence to make informed investment decisions is essential for strengthening long-

term participation. Second, there is a need to further expand distribution networks, particularly in underserved and rural regions, to ensure access to financial products for all segments of society. Third, continued focus on transparency, governance, and investor protection will be critical in maintaining trust and credibility.

The industry must also be prepared to navigate a dynamic environment characterised by market volatility, evolving regulatory frameworks, and increasing competition. In this context, strengthening risk management practices, enhancing operational efficiency, and leveraging technology will be key to sustaining growth. Furthermore, there is considerable scope to develop retirement-oriented products and solutions that address the long-term financial security needs of India's growing population.

Collaboration among regulators, asset management companies, distributors, and other stakeholders will be essential to drive innovation and ensure the industry's continued success. By working together, we can create a robust ecosystem that not only supports economic growth but also contributes to the financial well-being of individuals across the country.

In conclusion, the Indian mutual fund industry stands at a pivotal juncture. With strong fundamentals, supportive demographics, and an increasingly informed investor base, the sector is well-positioned to achieve new milestones in the years ahead. As we move forward, our collective focus must remain on fostering inclusive growth, enhancing investor confidence, and unlocking the vast potential that lies ahead.



Introduction

India's mutual fund sector has evolved significantly in recent years, largely supported by digital innovation and increasing participation from smaller towns and cities. The rapid growth in internet access and technology infrastructure has fundamentally altered how investors engage with financial products. One of the most visible outcomes of this transformation is the sharp rise in retail investments through systematic investment plans (SIPs), reflecting the expanding digital reach across the country.

In the last decade, the industry has recorded remarkable growth in assets under management (AuM). The total AuM surged to Rs 73.7 lakh crore as of March 31, 2026, representing nearly a sixfold increase. This substantial rise underscores the growing acceptance of mutual funds as a preferred investment avenue.

Several structural changes have contributed to this growth trajectory. The industry has increasingly focused on diversification, expansion, and digitisation, leading to changes in investment patterns, asset allocation, and the adoption of technology-driven platforms.

Equity mutual funds, in particular, have emerged as the dominant category. By March 2026, equity-oriented schemes accounted for 43.4% of total assets, making them the largest segment in the market. At the same time, SIP contributions reached Rs 3.5 lakh crore in FY26, registering over 20% growth compared to the previous financial year as per AMFI. This consistent inflow indicates a growing inclination among investors toward disciplined, long-term investment strategies.

Investor participation has also expanded rapidly. The number of folios crossed the 10-crore mark in May 2021 and climbed further to 27.39 crore by March 31, 2026 as per AMFI. A significant proportion of these folios (66.8%) are linked to equity- or growth-oriented schemes, highlighting retail investors' preference for higher-return investment options as per AMFI.

Over the past two decades, the mutual fund industry in India has positioned itself as a key avenue for wealth creation and financial inclusion. Despite its progress, the sector continues to face challenges such as market fluctuations, evolving investor expectations, intensifying competition, and distribution complexities.

While growth remains strong, mutual fund penetration in India is still relatively low compared with global standards, indicating considerable untapped potential. Going forward, sustained development will depend on expanding retail participation, channelling idle household savings into financial markets, and strengthening investor awareness and education. Additionally, building trust through transparency, improving governance practices, enhancing risk management, and leveraging retirement-focused products will be crucial. Expanding distribution networks and fostering collaboration across stakeholders will also play an important role in driving long-term, inclusive growth.



Industry Overview

A mutual fund is an investment vehicle through which funds from multiple investors are pooled and professionally managed across a range of financial instruments, such as equities, debt securities, and money market instruments. Investors in a mutual fund do not directly own the underlying assets; instead, they hold units that represent their proportionate share in the overall portfolio. The returns generated, whether through income or capital appreciation, are distributed to investors after accounting for applicable costs and expenses.

Figure 1: Phase-wise Timeline of the Mutual Fund Industry

Phase	Period	Details
First	1964-1987	<ul style="list-style-type: none"> The Mutual Fund industry in India started in 1963 with the formation of UTI. In 1978, UTI de-linked from the RBI, and IDBI took over the regulatory and administrative control in place of the RBI. Unit Scheme 1964 (US '64) is the first scheme launched by UTI. By 1988 end, UTI had Rs 6,700 crores of AuM.

Phase	Period	Details
Second	1987-1993	<ul style="list-style-type: none"> 1987 - Entry of public sector mutual funds set up by Public Sector banks and Insurance Companies. SBI Mutual Fund was the first 'non-UTI' mutual fund established in June 1987, followed by Canbank Mutual Fund, Punjab National Bank Mutual Fund, Bank of India, and Bank of Baroda Mutual Fund. LIC launched its mutual fund in June 1989, while GIC set up its mutual fund in December 1990. By 1993 end, the MF industry had an AuM of -Rs 47,000 crores.
Third	1993-2003	<ul style="list-style-type: none"> SEBI was established in April 1992 1993 - The first set of SEBI Mutual Fund Regulations came into being for all mutual funds, except UTI. The erstwhile Kothari Pioneer was the first private-sector MF registered in July 1993. 1996 - Initial SEBI MF Regulations revised and replaced with a comprehensive set of regulations, viz., SEBI (Mutual Fund) Regulation. By January 2003, 33 MFs with a total AuM of Rs 1,21,805 crores.
Fourth	2003-2014	<ul style="list-style-type: none"> In February 2003, following the repeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities, viz., the Specified Undertaking of the Unit Trust of India (SUUTI) and UTI Mutual Fund, which functions under the SEBI MF Regulations. Bifurcation of the erstwhile UTI and several mergers between private sector funds.
Fifth	2014 onwards	<ul style="list-style-type: none"> SEBI introduced several measures in Sep. 2012 to increase penetration. Since May 2014, the Industry has witnessed steady inflows and increases in AuM and the number of investor folios (accounts). The Industry's AuM crossed the milestone of Rs 10 Lakh Crore for the first time on 31st May 2014, and in a short span of about three years, the AuM size crossed Rs 30 Lakh Crore in November 2020. The number of investor folios has gone up from 8.38 crore folios as 30-June-2019 to 19.10 crore as of 30 June 2024, more than a 2-fold increase in a span of 5 years.

Source: AMFI

The phased evolution of the mutual fund industry highlights its transition from a government-led initiative to a mature, competitive, and technology-driven financial sector. Each phase has contributed to strengthening the industry's foundation, improving regulatory oversight, and enhancing investor confidence.

Types of Mutual Funds¹

Mutual Funds can be broadly classified into various categories based on their investment strategy, asset allocation, structure, and investor objectives.

¹Based on Economic Survey



Figure 2: Classification of Mutual Fund Types



By Organisation Structure

- Open-ended schemes are perpetual, and open for subscription and repurchase continuously on all business days at the current NAV.
- Close-ended schemes have a fixed maturity date. The units are issued at the time of the initial offer and redeemed only on maturity. The units of close-ended schemes are mandatorily listed to provide an exit route before maturity and can be sold/traded on the stock exchanges.
- Interval schemes allow purchase and redemption during specified transaction periods (intervals). The transaction period must

be at least 2 days, and there must be at least a 15-day gap between transaction periods. The units of interval schemes are also required to be listed on stock exchanges.

Portfolio Management Style

- Active Funds: In an Active Fund, the Fund Manager decides on stock selection and when to Buy, Hold, or Sell underlying securities. Active funds adopt different strategies and styles to create and manage the portfolio.
- Passive Funds: Passive Funds hold a portfolio that replicates a stated Index or Benchmark

By Investment Objectives

Mutual funds offer schemes which cater to multiple investment objectives of the investors, e.g.:

- **Capital Appreciation (Growth):** Growth Funds are schemes that are designed to provide capital appreciation, which invest in growth-oriented assets, such as equity and have a medium to long-term investment horizon.
- **Regular Income:** Income Funds aim to provide regular income to investors and invest in fixed-income securities such as Corporate Bonds, Debentures and Government securities. These funds generate returns from interest income and capital gains from changes in the value of the securities. The funds distribute the income (with no guarantee of any income) provided the portfolio generates the required returns.
- **Liquidity:** Liquid Schemes, Overnight Funds and Money market mutual funds are investment options for investors seeking liquidity and principal protection, with commensurate returns. Such funds invest in money market instruments with maturities of up to 91 days.

By Underlying Portfolio

Mutual fund products can be classified based on their underlying portfolio composition.

- The first level of categorisation will be based on the asset class the fund invests in, such as equity/debt/money market instruments or gold.
- The second level of categorisation is because of strategies and styles used to create the portfolio, such as Income fund, Dynamic Bond Fund, Infrastructure fund, Large-cap/Mid-cap/

Small-cap Equity fund, Value fund, etc.

By Theme/solution orientation, the schemes can be classified into Tax saving, Retirement benefit, Child welfare, and Arbitrage.

Exchange Traded Funds: An ETF, or exchange-traded fund, is a marketable security that tracks an index, a commodity, bonds, or a basket of assets like an index fund. In simple terms, ETFs are funds that track indexes such as the CNX Nifty or the BSE Sensex. When you buy shares/units of an ETF, you are buying shares/units of a portfolio that tracks the yield and return of its native index. The main difference between ETFs and other types of index funds is that ETFs don't try to outperform their underlying index; they replicate its performance. They don't try to beat the market; they try to be the market.

Fund of Funds: A 'Fund of Funds' (FOF) is an investment strategy of holding a portfolio of other investment funds rather than investing directly in stocks, bonds or other securities. A FOF Scheme primarily invests in the units of another Mutual Fund scheme. This type of investing is often referred to as a multi-manager investment. These schemes offer the investor an opportunity to diversify risk by spreading investments across multiple funds. The underlying investments in a FoF are units of other mutual fund schemes, either from the same mutual fund or from other mutual fund houses.

These categories had created some confusion, as funds with similar characteristics were classified into various buckets. Hence, in October 2017, SEBI issued guidelines on Categorisation and Rationalisation of schemes under which mutual fund schemes are classified as:

Equity Schemes

Debt Schemes

Hybrid Schemes

Solution-Oriented Schemes - For Retirement and Children

Other Schemes - Index Funds & ETFs and Fund of Funds

Notes: Large, mid, and Small-cap stocks are defined in equity schemes. The naming convention for schemes would be based on the risk level of the underlying portfolio (e.g., the erstwhile 'Credit Opportunity Fund' is now called "Credit Risk Fund"). Balanced/Hybrid funds are further categorised into conservative, balanced, and aggressive hybrid funds.

Equity Funds

An equity fund is a mutual fund scheme that invests predominantly in equity stocks. In the Indian context, under the current SEBI Mutual Fund Regulations, an equity mutual fund scheme must invest at least 65% of its assets in equities and equity-related instruments. An Equity Fund can be actively managed or passively managed. Index funds and ETFs are passively managed. Equity mutual funds are principally categorised by company size, the investment style of the

portfolio's holdings, and geography. The size of an equity fund is determined by market capitalisation, while the investment style, reflected in the fund's stock holdings, is also used to categorise equity mutual funds. Equity funds are also categorised as domestic (investing only in Indian stocks) or international (investing in overseas stocks). These can be broad-market, regional or single-country funds. Some speciality equity funds target business sectors, such as health care, commodities and real estate and are known as Sectoral Funds.

Figure 3: Equity Fund Categories as per SEBI guidelines

Fund Category	Description
Multi Cap/ Diversified Equity	At least 75% investment in equity & equity-related instruments
Flexi Cap	At least 65% investments in equity & equity related instruments
Large Cap	At least 80% investment in large-cap stocks
Large & Mid Cap	At least 35% investment in large-cap stocks and 35% in mid-cap stocks
Mid Cap	At least 65% investment in mid-cap stocks
Small cap	At least 65% investment in small-cap stocks
Dividend Yield	Predominantly invest in dividend-yielding stocks, with at least 65% in stocks.
Value	Value investment strategy, with at least 65% in stocks
Contra	The scheme follows a contrarian investment strategy, with at least 65% allocated to stocks.
Focused	Focused on the number of stocks (maximum 30) with at least 65% in equity & equity-related instruments
Sectoral/ Thematic	At least 80% investment in stocks of a particular sector/ theme
ELSS	At least 80% in stocks in accordance with the Equity Linked Saving Scheme, 2005, notified by the Ministry of Finance.

Source: AMFI

Large-cap equity Funds invest a large portion of their corpus in companies with large market capitalisation and are called large-cap funds. This type of fund is known to offer stability and sustainable returns over a period of time. Large-cap companies are generally very stable and dominate their industry. Large-cap stocks tend to hold up better in recessions, but they also tend to underperform small-cap stocks when the economy emerges from a recession. Large-cap stocks tend to be less volatile than mid-cap and small-cap stocks and are therefore considered less risky.

Mid-Cap Equity Funds invest in stocks of mid-size companies that are still considered developing. Mid-cap stocks tend to be riskier than large-cap

stocks but less risky than small-cap stocks. Mid-cap stocks, however, tend to offer more growth potential than large-cap stocks.

Small-cap funds invest in stocks of smaller companies. Small-cap is a term used to classify companies with a relatively small market capitalisation. However, the definition of a small cap can vary among market intermediaries. Many small caps are young companies with significant growth potential. However, the risk of failure is greater with small-cap stocks than with large-cap and mid-cap stocks. As a result, small-cap stocks tend to be more volatile (and therefore riskier) than large-cap and mid-cap stocks. Historically, small-cap stocks have underperformed large-cap stocks

during recessions but have outperformed them as the economy has emerged from recessions.

Multi-Cap Equity Funds or Diversified Equity Funds invest in stocks of companies across the stock market, regardless of size and sector. These funds provide the benefit of diversification by investing in companies spread across sectors and market capitalisation. They are generally meant for investors who seek exposure across the market and do not want to be restricted to any particular sector. They invest in companies across different market caps, thereby reducing risk in the fund. Diversification helps prevent events that could affect a single sector from affecting the fund, thereby reducing risk.

Debt Mutual Funds

A Debt Mutual Fund is an investment avenue that primarily invests in fixed-income securities such as treasury bills, bonds, government securities, and other debt instruments. These funds offer investors an opportunity to earn stable returns with lower

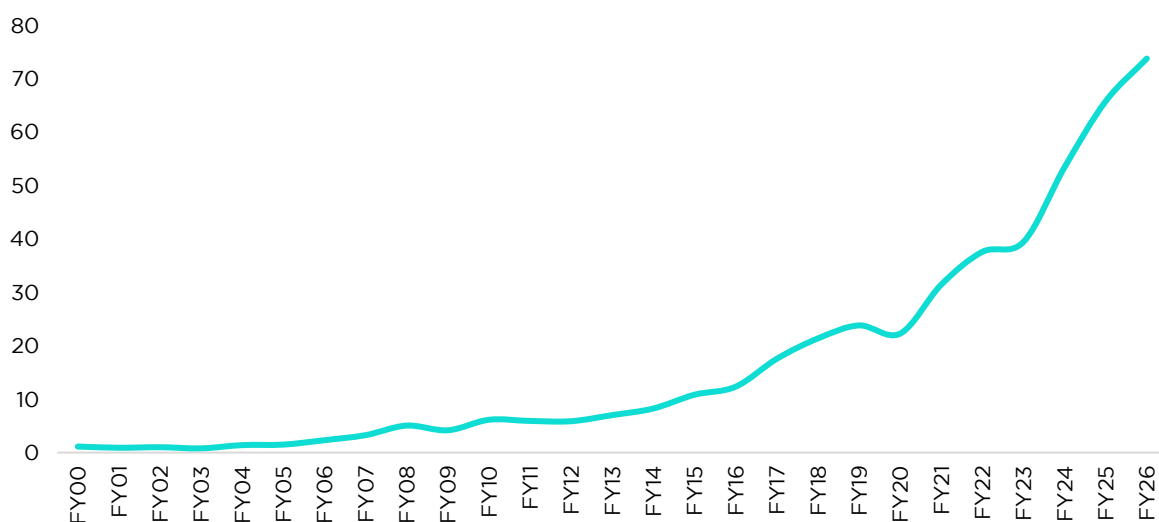
risk than equity investments. Debt funds pool money from multiple investors and are managed by professional fund managers who make investment decisions on their behalf. Debt funds invest in a diversified portfolio of fixed-income securities.

- **Diverse Portfolio:** Debt Funds spread investments across various debt instruments, reducing the risks associated with individual bonds.
- **Professional Management:** Expert fund managers make investment decisions based on the market conditions and the fund's objectives.
- **Risk and Returns:** Debt Funds offer a predictable income stream as interest or dividends. The interest rates and credit quality of the underlying securities influence the returns.

Liquidity: Investors can buy or sell units in Debt Funds quickly, providing high liquidity

The Mutual Fund Industry Has Grown at a Rapid Clip

Figure 4: Growth in Domestic Mutual Industry AUM (In Rs lakh crore)



Source: CMIE

The Indian mutual fund industry has experienced significant growth over the past five years, driven by a thriving domestic economy, substantial inflows, and increased participation from individual investors. Industry is witnessing a surge in growth, driven by equity space, where assets have increased

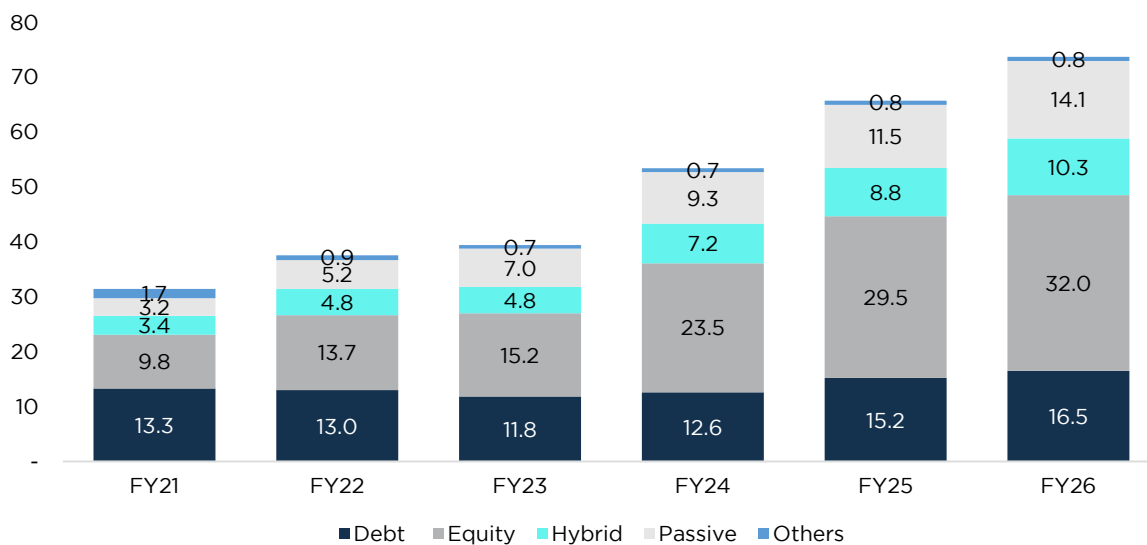
significantly over the past decade. This shift is attributed to retail investors transitioning from traditional debt products to equity funds, resulting in a substantial rise in equity investments.

FY26 has been quite a decent year for the Indian

mutual funds industry. The AuM surged by nearly Rs 8 lakh crore, reaching a record Rs 73.73 lakh crore as of March 2026, compared to Rs 65.74 lakh crore in March 2025 as per AMFI. This expansion was led by continued net inflows during the fiscal year, reflecting sustained investor participation, although at a relatively moderate pace compared to the previous year. The AuM briefly touched an all-time high of around Rs 82 lakh crore in February

2026, before moderating due to market movements. Equity markets witnessed MTM corrections owing to the ongoing global market turmoil arising from the US-Israel-Iran conflict at the year-end. Despite this short-term pullback towards the end of the year, the MF assets recorded 12.2% year-on-year growth in AuM compared with March 2025 as per AMFI.

Figure 5: Industry AuM by Segment



Source: AMFI; notes: Passive includes Index and ETFs; Others includes closed-end, solution, interval

Despite intermittent volatility in equity markets, investor sentiment remained resilient throughout FY26, reflecting sustained confidence in India's long-term growth trajectory. Equity mutual fund inflows remained robust, with flexi-cap, mid-cap, and small-cap categories leading allocation growth. This trend underscores a structural shift in investor behaviour, as portfolios increasingly move beyond large-cap concentration toward more diversified exposure across market capitalisations.

The interplay between accommodative domestic monetary conditions and persistent global macroeconomic pressures defined India's debt markets in FY26. Debt mutual fund AuM rose modestly to approximately Rs 16.51 lakh crore in March 2026, compared to Rs 15.21 lakh crore a year earlier. Investor preference remained skewed toward shorter-duration instruments, with significant inflows into money market, low-duration, and ultra-short duration funds. Elevated and volatile long-

term bond yields, however, weighed on demand for longer-duration debt funds.

Passive investment strategies gained notable traction during the year, reflecting a broader shift toward cost-efficient and asset allocation-driven investing. Gold exchange-traded funds (ETFs) emerged as a standout category, with net inflows exceeding Rs 0.6 lakh crore, driven by heightened global macroeconomic uncertainty.

Historical Perspective

To promote broader investor participation and channel household savings into the financial system, India's first mutual fund, the Unit Trust of India (UTI), was established in 1963. This initiative was undertaken by the Government of India in collaboration with the Reserve Bank of India, marking the beginning of the mutual fund industry in the country. The development of the mutual fund

industry in India can be systematically categorised into five distinct phases, each representing a stage in its structural and regulatory evolution:

Figure 6: Debt Fund Categories as per SEBI guidelines

Fund Category	Description
Overnight	Overnight securities having a maturity of 1 day
Liquid	Debt and money market securities with a maturity of up to 91 days only
Ultra Short Duration	Debt & Money Market instruments with Macaulay duration of the portfolio between 3 months and 6 months
Low Duration	Investment in Debt & Money Market instruments with Macaulay duration portfolio between 6 months and 12 months
Money Market	Investment in Money Market instruments having a maturity of up to 1 Year
Short Duration	Investment in Debt & Money Market instruments with Macaulay duration of the portfolio between 1 year and 3 years
Medium Duration	Investment in Debt & Money Market instruments with Macaulay duration of portfolio between 3 years and 4 years
Medium to Long Duration	Investment in Debt & Money Market instruments with Macaulay duration of the portfolio between 4 - 7 years
Long Duration	Investment in Debt & Money Market Instruments with Macaulay duration of the portfolio greater than 7 years
Dynamic Bond	Investment across duration
Corporate Bond	Minimum 80% investment in corporate bonds only in AA+ and above-rated corporate bonds
Credit Risk	Minimum 65% investment in corporate bonds, only in AA and below-rated corporate bonds
Banking and PSU	Minimum 80% in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds
Gilt Fund	Minimum 80% in G-secs, across maturity
Gilt with 10-year constant Duration	Minimum 80% in G-secs, such that the Macaulay duration of the portfolio is equal to 10 years
Floater	Minimum 65% in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps/ derivatives)

Source: AMFI



Income Funds: These funds are suited for regular income and invest in a mix of government and corporate securities.

Short-Term and Ultra Short-Term Funds: Aimed at investors with a short-term horizon, these funds invest in debt instruments with shorter maturities.

Gilt Funds: These invest primarily in government securities and are considered low risk.

Dynamic Bond Funds: Managed actively to adapt to the changing market conditions, they have the potential to offer higher returns.

Credit Opportunity Funds: Invest in debt instruments with varying credit qualities, potentially providing higher returns with higher risk.

Fixed Maturity Plans (FMPs): Close-ended funds with a fixed maturity date, providing a clear investment horizon.

Corporate Bond Funds: Potentially offering higher returns than government securities.

Liquid Funds: Liquid Funds, as the name suggests, invest predominantly in highly liquid money market instruments and debt securities of very short tenure and hence provide high liquidity. They invest in very short-term instruments such as Treasury Bills (T-bills), Commercial Paper (CP), Certificates of Deposit (CDs), and Collateralised Lending & Borrowing Obligations (CBLOs) with residual maturities of up to 91 days to generate optimal returns while maintaining safety and high liquidity. Redemption requests for these Liquid funds are processed within 1 working day (T+1). Most retail customers prefer to keep their surplus cash in Savings Bank deposits, as they consider them the safest and can withdraw the money at any time. Liquid Funds and Money Market Mutual Funds provide a more attractive option. Surplus cash invested in money market mutual funds earns higher post-tax returns with a reasonable degree of safety of the principal invested and liquidity.

Balanced Funds: A balanced fund combines an equity stock component, a bond component and sometimes a money market component in a single portfolio. Generally, these hybrid funds stick to a relatively fixed mix of stocks and bonds that reflects either a moderate or higher equity component or a conservative or higher fixed-income component orientation. Balanced funds are suitable for a medium-term horizon and ideal for investors seeking a mixture of safety, income, and modest capital appreciation. The amounts this type of mutual fund invests in each asset class usually must remain within a set minimum and maximum.

Figure 7: Hybrid Fund Categories as per SEBI guidelines

Fund Category	Description
Conservative Hybrid	10% to 25% investment in equity & equity-related instruments; and 75% to 90% in Debt instruments
Balanced Hybrid	40% to 60% investment in equity & equity-related instruments; and 40% to 60% in Debt instruments
Aggressive Hybrid	65% to 80% investment in equity & equity-related instruments; and 20% to 35% in Debt instruments
Dynamic Asset Allocation or Balanced Advantage	Investment in equity/ debt that is managed dynamically (0% to 100% in equity & equity-related instruments; and 0% to 100% in Debt instruments)
Multi-Asset Allocation	Investment in at least 3 asset classes with a minimum allocation of at least 10% in each asset class
Arbitrage	Scheme following an arbitrage strategy, with a minimum 65% investment in equity & equity related instruments
Equity Savings	Equity and equity-related instruments (min.65%); debt instruments (min.10%), and derivatives (min. for hedging to be specified in the SID)

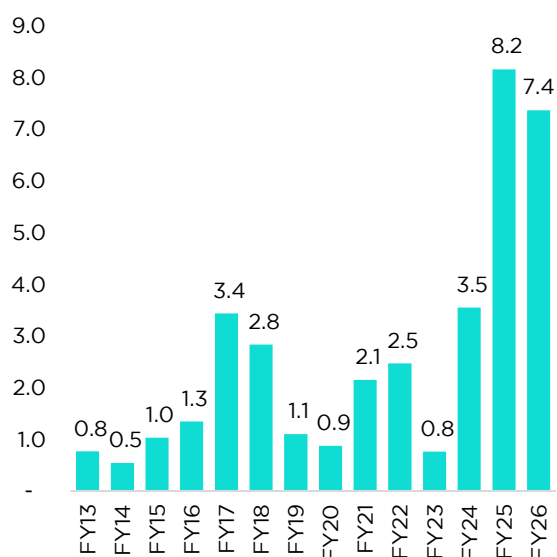
Source: AMFI

Figure 8: Solution-oriented & Other Funds Categories as per SEBI guidelines

Fund Category	Description
Retirement	Lock-in for at least 5 years or till retirement age, whichever is earlier
Children	Lock-in for at least 5 years or till the child attains the age of majority, whichever is earlier
Index Funds/ ETFs	Minimum 95% investment in securities of a particular index
Fund of Funds (Overseas/ Domestic)	Minimum 95% investment in the underlying fund(s)

Source: AMFI

Figure 9: Net Inflows into Mutual Funds (Rs lakh crore)



Source: CMIE



The net inflows have remained positive, especially in equity funds, due to investor confidence in the equity market despite fluctuations and uncertainties, as well as new fund offerings.

Trends in Mutual Fund Investments

The Indian Mutual Fund Market has multiple significant trends that have been instrumental in shaping the industry's landscape. As the industry has focused on growth, diversification, and digitalisation, it has experienced significant changes in asset size, investor behaviour, and the adoption of technology-driven solutions.

Equity Funds have grown steadily, driven by inflows and MTM Gains

In FY26, equity-oriented mutual fund (MF) schemes continued to demonstrate resilience despite a challenging macroeconomic backdrop marked by elevated global uncertainty, geopolitical tensions, and muted corporate earnings growth. This stability was underpinned by strong domestic participation, which played a decisive role in sustaining market liquidity and investor confidence.

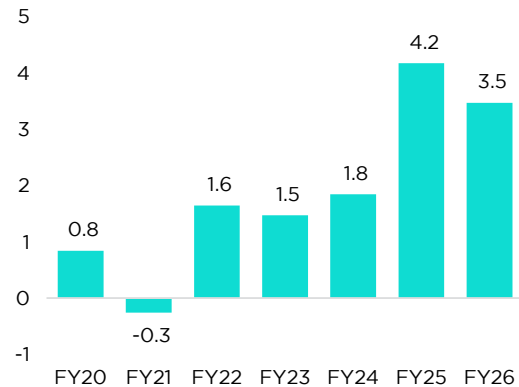
A key trend during the year was the divergence between domestic and foreign investor behaviour. Domestic Institutional Investors (DIIs) remained consistent net buyers, reflecting the growing financialization of household savings and the steady inflow of funds through systematic investment plans (SIPs). This structural shift in domestic savings toward financial assets has strengthened the demand base for equities, making markets less vulnerable to external shocks.

In contrast, Foreign Institutional Investors (FIIs) continued to exhibit risk-averse behaviour, with persistent outflows driven by global factors, including higher interest rates in developed markets, currency volatility, and geopolitical uncertainties. However, the impact of these outflows on equity markets was largely neutralised by robust domestic inflows, highlighting an evolving market dynamic in which domestic capital increasingly anchors market stability.

Despite these supportive factors, net equity inflows moderated to Rs 3.47 lakh crore in FY26 from Rs 4.17 lakh crore in FY25. This decline suggests caution among investors, likely influenced by stretched market valuations, slower earnings growth, and intermittent market volatility. It may also indicate a normalisation following the unusually strong inflows seen in the previous year.

Equity-oriented mutual fund AuM witnessed a sequential moderation toward the close of FY26, declining to Rs 31.98 lakh crore at the end of March 2026 from Rs 35.39 lakh crore in February

Figure 10: Net Inflows in Equity Mutual Funds (Rs lakh crore)



Source: AMFI, CMIE

2026 as per AMFIa. This sharp month-on-month contraction was primarily driven by a broad-based market correction in the final month of the fiscal year, underscoring the sensitivity of AuM levels to mark-to-market valuation changes.

Despite this near-term volatility, the full-year trend remained positive, with AuM expanding by 8.6% over FY25 levels. This growth, achieved against a backdrop of relatively muted market performance evidenced by a 3.99% decline in the Nifty Total Returns Index (TRI) between March 2025 and March 2026 as per AMFI, highlights the underlying strength of net inflows and sustained investor participation.

The divergence between AuM growth and benchmark returns is particularly noteworthy. While benchmark indices delivered negative returns over the period, positive AuM growth indicates that inflows, rather than market appreciation, were the primary driver. This reinforces the structural nature of domestic participation, particularly through systematic investment flows that continue regardless of short-term market movements.

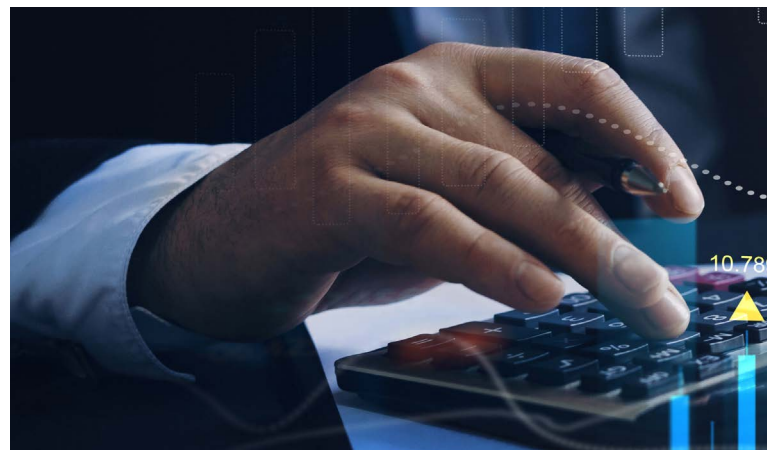
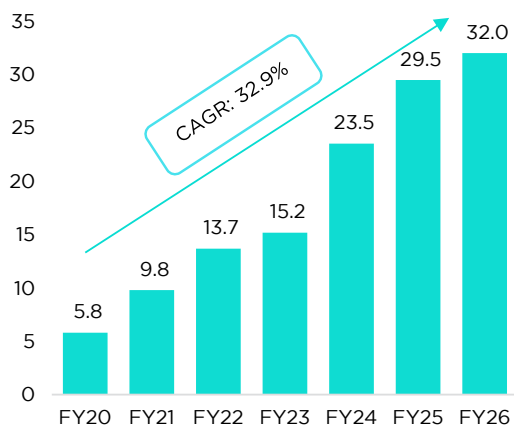


Figure 11: Equity MF AuM continues to grow steadily (Rs lakh crore)



Source: AMFI, CMIE



Figure 12: Growth in Equity Funds

Equity mutual fund category	AuM as of March 2025 (Rs crore)	AuM as of March 2026 (Rs crore)	% change
Flexi Cap Fund	4,35,509	5,05,265	16.0%
Sectoral/Thematic Funds	4,55,088	4,77,309	4.9%
Mid Cap Fund	3,68,992	4,18,329	13.4%
Large Cap Fund	3,59,775	3,66,045	1.7%
Small Cap Fund	2,95,479	3,34,662	13.3%
Large & Mid Cap Fund	2,63,207	2,99,468	13.8%
ELSS	2,32,245	2,17,310	-6.4%
Multi-Cap Fund	1,75,724	2,00,439	14.1%
Value Fund/Contra Fund	1,83,906	1,93,986	5.5%
Focused Fund	1,44,791	1,55,861	7.6%
Dividend Yield Fund	30,589	29,023	-5.1%
Total	29,45,306	31,97,698	8.6%

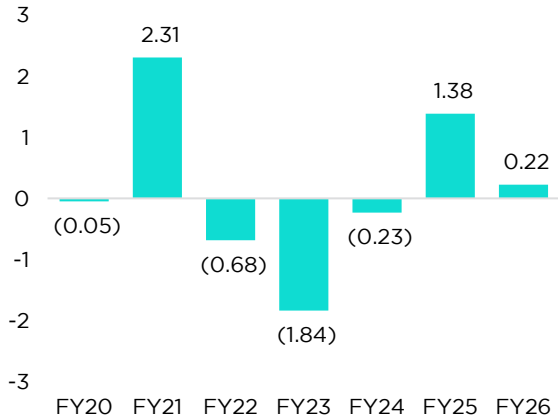
Source: AMFI



Debt Funds Post Moderate Gains

The debt mutual fund (MF) industry recorded steady growth in FY26, with assets under management (AuM) rising 8.6% year-on-year to Rs 16.52 lakh crore, compared to Rs 15.21 lakh crore in FY25. This growth reflects a notable shift in investor behaviour amid evolving market conditions.

Figure 13: Net Inflows in Debt Mutual Funds (Rs lakh crore)

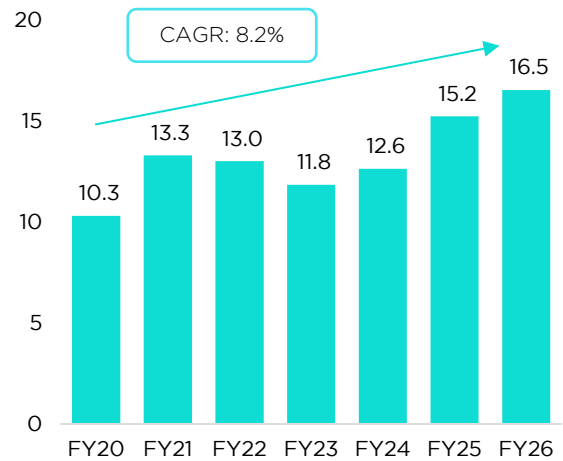


Source: AMFI, CMIE

A key driver of this expansion has been the increasing investor preference for stability and predictable income streams. In an environment marked by heightened volatility and uncertainty in equity markets, investors, particularly risk-averse institutional participants, have gravitated toward debt funds as a relatively safer investment

avenue. Categories such as liquid funds, money market funds, and short-duration funds have seen consistent inflows, underscoring the demand for capital preservation and liquidity. The interest rate environment also played a supportive role. With rates remaining relatively attractive for much of the fiscal year, debt instruments offered competitive yields, making them more attractive than other fixed-income alternatives like bank deposits. Additionally, institutional participation, including corporates and treasury investors, has contributed meaningfully to AuM growth. These investors continue to utilise debt mutual funds for efficient cash management, liquidity, and marginal yield enhancement over traditional avenues.

Figure 14: Debt MF AuM continues to grow steadily (Rs lakh crore)



Source: AMFI, CMIE



Figure 15: Growth in Debt Funds

Debt mutual fund category	AuM as of March 2025 (Rs crore)	AuM as of March 2026 (Rs crore)	% change
Liquid Fund	4,37,774	4,66,498	6.6%
Money Market Fund	2,32,663	3,12,294	34.2%
Corporate Bond Fund	1,75,800	1,78,431	1.5%
Low Duration Fund	1,12,928	1,30,570	15.6%
Ultra Short Duration Fund	98,542	1,13,340	15.0%
Short Duration Fund	1,13,321	1,10,851	-2.2%
Banking and PSU Fund	78,850	74,620	-5.4%
Overnight Fund	62,458	73,021	16.9%
Floater Fund	49,822	51,283	2.9%
Gilt Fund	40,990	33,621	-18.0%
Dynamic Bond Fund	35,592	32,386	-9.0%
Medium Duration Fund	24,666	25,529	3.5%
Credit Risk Fund	20,463	19,611	-4.2%
Long Duration Fund	20,344	14,159	-30.4%
Medium-Long Duration Fund	11,554	10,769	-6.8%
Gilt Fund with 10-year constant duration	4,938	4,521	-8.5%
Total	15,20,706	16,51,502	8.6%

Source: AMFI

At a segment level, the growth in debt mutual fund AuM during FY26 was concentrated at the shorter end of the yield curve, reflecting investor preference for lower duration and higher liquidity. Money market funds emerged as the fastest-growing category, registering a 34.2% year-on-year increase in AuM, significantly outpacing other segments. This was followed by low-duration funds (15.6%) and ultra-short-duration funds (15.0%), both of which also saw healthy expansion.

The strong growth in these categories was mirrored in net inflows, which were again dominated by short-duration strategies. Money market funds led in absolute inflows, followed by low-duration and ultra-short-duration funds, highlighting a clear investor tilt toward capital preservation, liquidity, and reduced interest rate sensitivity.

In contrast, longer-duration and credit-oriented segments continued to face headwinds. Categories such as banking and PSU funds, long-duration funds, and credit risk funds witnessed persistent net outflows during the year. These outflows indicate a risk-averse stance among investors, who appeared reluctant to allocate capital to segments exposed to interest-rate volatility.

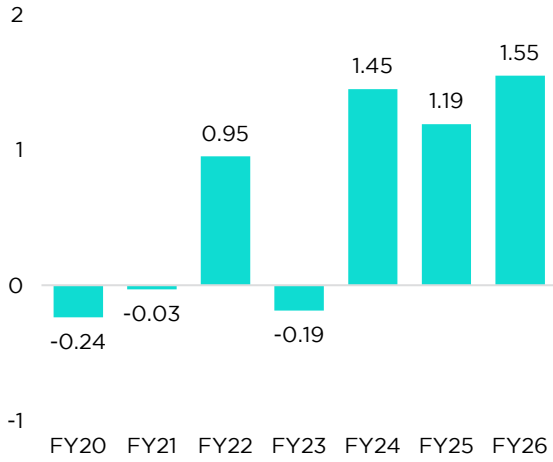
Overall, the segmental trends in FY26 underscore a defensive positioning by investors, with a clear

preference for short-tenor, high-quality instruments over duration or credit risk plays. This shift not only shaped AuM growth dynamics but also has important implications for fund managers, who are increasingly focusing on liquidity management, portfolio quality, and yield optimisation within shorter maturity buckets.

Consistent inflows and MTM gains drive hybrid mutual funds

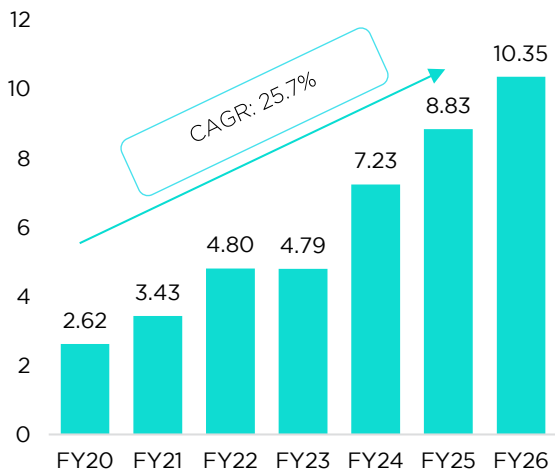
Hybrid mutual funds are balanced growth vehicles that deliver reasonable returns with lower risk and are gaining strong traction among Indian investors. The AuM of hybrid funds stood at Rs 10.35 lakh crore as of March 2026. Building on the previous year's momentum, the category witnessed a net inflow of Rs 1.54 lakh crore.

Figure 16: Hybrid Funds continue to witness stable net inflows (Rs lakh crore)



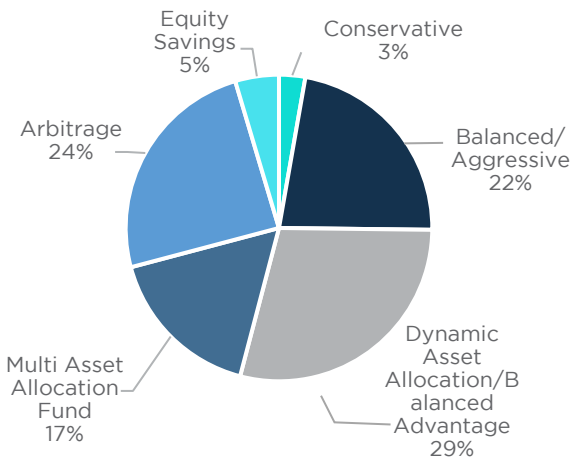
Source: AMFI, CMIE

Figure 17: Movement in AuM of Hybrid Funds



Source: AMFI, CMIE

Figure 18: Split of Hybrid category AuM



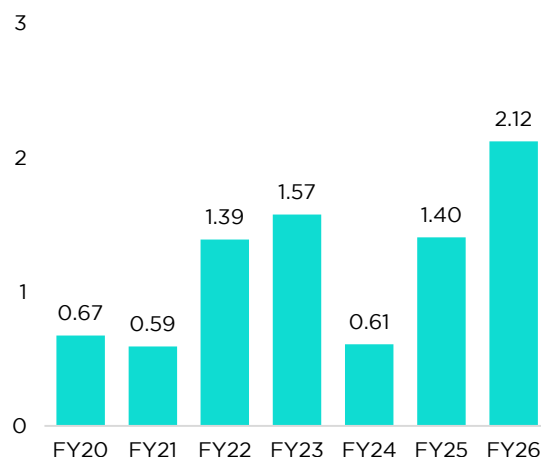
Source: AMFI, CMIE



Passive Funds Have Risen Steadily

Due to rising investor awareness, lower costs, and the ease of investing, passive funds are becoming increasingly popular. They have continued to see strong inflows, driven largely by institutional investments in exchange-traded funds (ETFs), including contributions from entities such as provident funds.

Figure 19: Passive Funds continue to witness strong inflow (Rs lakh crore)



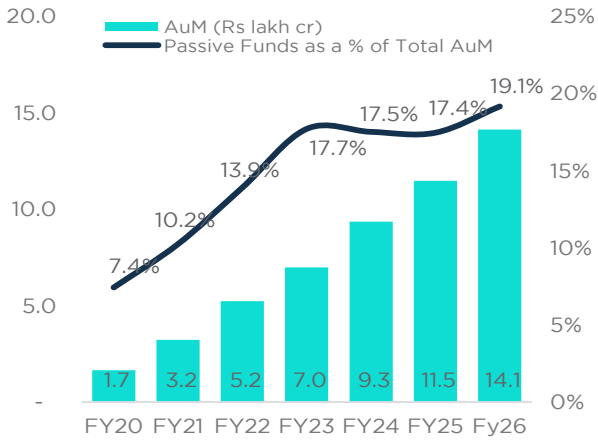
Source: AMFI, CMIE; Note: Includes Gold ETFs, Other ETFs, Index Funds and FoF investing overseas

The recent growth of index funds and exchange-traded funds (ETFs) can largely be attributed to the rising popularity of sectoral and thematic investing, which has increasingly extended into the passive investment space. Retail participation in passive funds has been steadily increasing over the past few years, supported by greater awareness and a wave of new fund launches.

In India, passive investing has been gaining momentum for several years, as evidenced by the substantial rise in AuM. As awareness continues to expand, financial advisors are more frequently recommending these funds to clients. At the same time, HNIs and family offices are reallocating capital toward passive strategies, attracted by their cost efficiency and the inconsistent performance of actively managed funds.

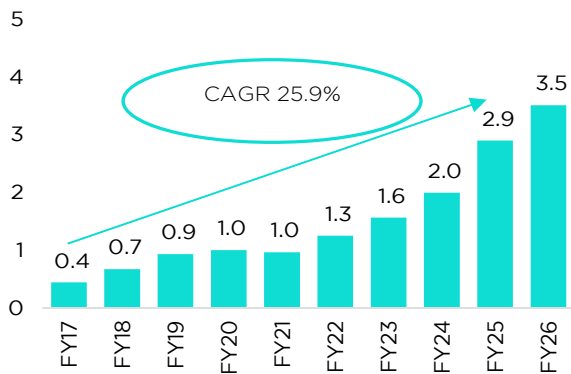
Between FY20 and FY26, the AUM of the passive segment grew at a 43% CAGR, increasing by approximately 8.5 times and stands at 14.12 lakh crore as of March 2026 as per AMFI. This growth enabled the segment's share in the mutual fund industry to rise from 7.4% to 19.1%. While investments from EPFO have been a key contributor, additional drivers include rising participation by individual investors in index funds and gains in Gold ETFs, which have benefited from higher underlying gold prices.

Figure 20: Leading to Robust AuM Growth and Increased Share of Aggregate AuM



Source: AMFI, CMIE

Figure 21: SIP fiscal year-wise contribution (Rs lakh crore)

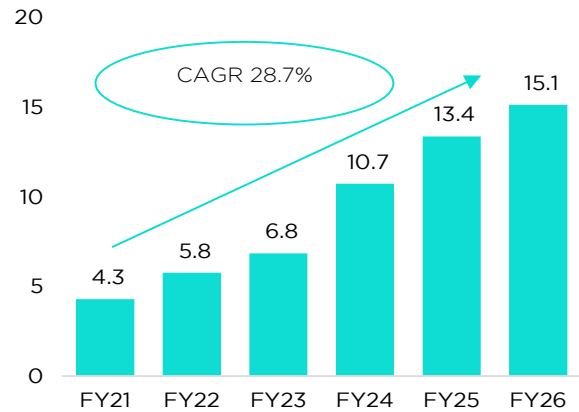


Source: AMFI, CMIE

Systematic Investment Plans (SIPs) have emerged as a preferred investment route among retail participants because they enable disciplined, periodic contributions rather than large one-time allocations. This method reduces the impact of market volatility by spreading investments over time, thereby lowering timing risk. Additionally, SIPs encourage long-term financial behaviour by making investing more accessible and manageable for households. In FY26, SIP inflows reached a new high, increasing by 21.1% to Rs 3.50 lakh crore from Rs 2.9 lakh crore in FY25. In FY26, monthly contributions exceeded Rs 26,000 crore starting April 2025 and crossed Rs 32,000 crore by March 2026. The consistent inflow of funds through SIPs has also contributed to greater stability in capital markets by ensuring a steady supply of investment capital, even during periods of uncertainty. Increasing investor awareness, coupled with digital

platforms, has further accelerated the adoption of SIPs. SIP investments have largely driven the rise in retail AuM by simplifying participation for retail investors through regular investments of manageable amounts. This approach not only attracts a broader investor base but also strengthens retail contribution to SIP AuM, creating a more stable, long-term asset base. The number of active SIP accounts rose to 9.7 crore in March 2026 from 8.1 crore in March 2025, reflecting a net addition of 1.6 crore accounts. Meanwhile, SIP AuM reached Rs 15.1 lakh crore, maintaining its 20% share of the total industry AuM, indicating parallel growth in both SIP investments and the overall mutual fund industry.

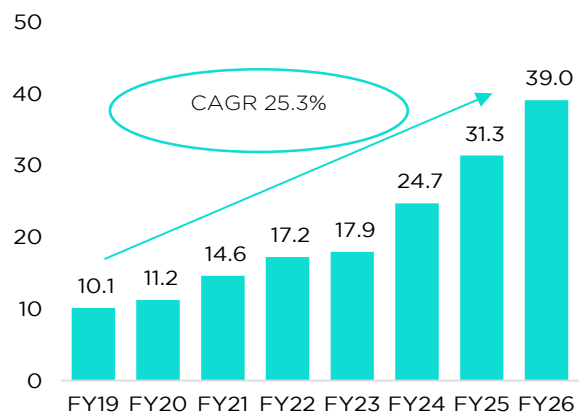
Figure 22: SIP AuM (Rs lakh crore)



Source: AMFI, CMIE

Direct Plans Continue to Gain Traction

Figure 23: Movement in Direct Plan AuM (Rs Lakh crore)



Source: AMFI, CMIE

The introduction of direct mutual fund plans marked a significant structural shift in the Indian MF industry. In September 2012, SEBI mandated AMC's to offer mutual fund products through a direct route alongside distributor-led channels, with implementation beginning in January 2013. These direct plans were designed to enhance transparency and reduce costs for investors by excluding distributor commissions, resulting in lower expense ratios than regular plans.

Since their inception, direct plans have gained considerable traction. Their share in overall mutual fund AuM has steadily increased to approximately 45-48%, reflecting growing investor awareness, cost sensitivity, and increased adoption of digital platforms. Institutional investors and informed retail participants have been key contributors to this shift, as they actively seek to optimise returns by minimising costs.

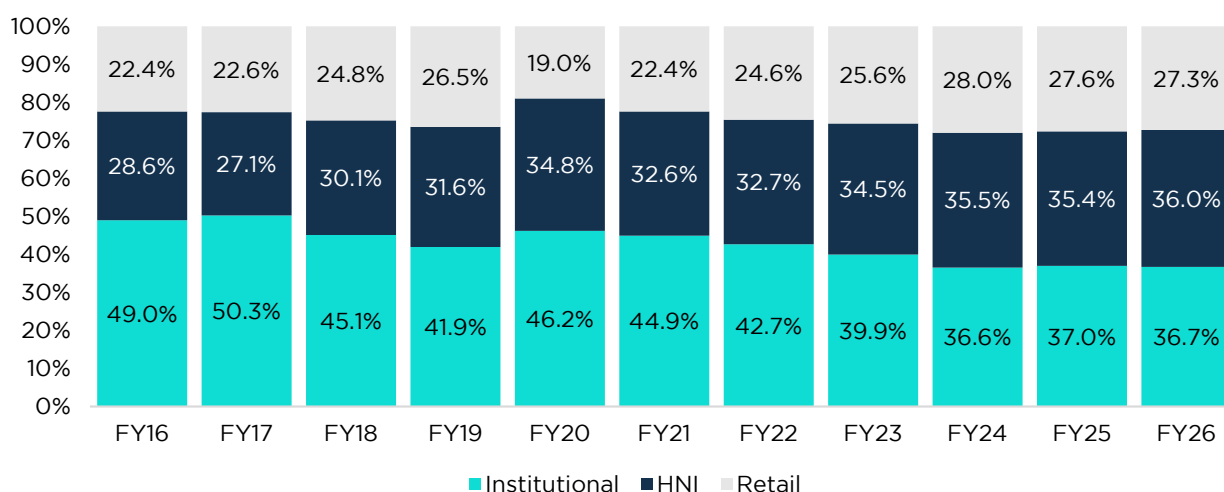
However, despite the steady rise in direct plans, regular plans continue to dominate the overall MF AuM mix. This is largely attributable to structural trends within the industry. First, the mutual fund investor base is expanding rapidly, driven by first-time investors and increasing penetration in B30 (beyond the top 30) cities, where financial literacy and familiarity with investment products remain evolving. For such investors, guidance

from distributors and advisors plays a crucial role in decision-making, particularly in navigating product selection, market volatility, and long-term financial planning. As a result, the blended direct channel mix, while expanding, remains somewhat constrained.

Looking ahead, further growth in direct plan AuM will likely be driven by continued investor education, regulatory support, and advancements in digital infrastructure. Seamless user interfaces, app-based investing, and improved access to financial information are expected to make direct investing more accessible. Industry-wide investor awareness initiatives and cost transparency campaigns will also continue to nudge investors toward direct plans.

That said, given prevailing industry dynamics, including low financial awareness among a large segment of investors, the growing base of new entrants, and the need for trusted advisory support in volatile markets, regular plans are expected to retain a majority share in individual mutual fund AuM over the medium term. The coexistence of both channels reflects a balanced ecosystem catering to diverse investor needs, ranging from self-directed, cost-conscious individuals to those seeking professional guidance.

Figure 24: Share of Mutual Funds by Investor Type (as a % of AuM)



Source: AMFI, CMIE

Traditionally, institutional investors, including corporates, foreign institutional investors (FIIs), and financial institutions/banks, held the majority of the industry's assets. However, this trend has shifted significantly over time, with the share of institutional investors declining from 49.0% in

March 2016 to 36.7% in March 2026. Conversely, individual investors (comprising retail and HNI segments) increased their share of total mutual fund industry AuM from 51% in March 2016 to 63.3% in March 2026. This growth reflects a strong rise in participation from individual households,

driven by factors such as increasing financial awareness, broader financial inclusion, improved access to banking channels, and greater adoption of technology by non-bank distributors. Individual investors typically prefer equity-oriented schemes and tend to maintain longer holding periods, which contributes to a more stable and resilient asset base for the industry.

The number of Folios continues to increase

Investor participation in India's mutual fund industry continued to expand meaningfully in FY26, with the total number of folios reaching 27.39 crore as of March 31, 2026. This reflects a net addition of approximately 3.94 crore folios during the year, building on the strong momentum seen in FY25, when folios grew by 32% from 17.79 crore to 23.45 crore.

Figure 25: Movement in Annual Folio Count (in crore)

Category	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Mar-26	CAGR
Debt	0.61	0.82	0.74	0.72	0.72	0.70	0.83	5.3%
Equity	6.27	6.57	8.59	9.83	12.28	16.38	18.27	19.5%
Hybrid	0.96	0.94	1.15	1.21	1.35	1.57	1.90	12.1%
Passive	0.30	0.66	1.73	2.06	2.64	4.01	5.54	62.6%
Others	0.01	0.01	0.01	0.01	0.01	0.01	0.01	nm
Total	8.97	9.79	12.95	14.57	17.79	23.45	27.39	20.4%

Source: CMIE, AMFI; Note: Others include closed-ended funds, solution-oriented funds and interval funds.

Equity-oriented schemes remained the primary driver of participation, accounting for approximately 66.71% of the total folio base. Growth was observed across all open-ended fund categories, underscoring sustained investor engagement and broad-based expansion. Notably, passive funds emerged as the fastest-growing segment in folio terms, recording a growth rate of 38.13%, signalling an accelerating shift toward index-linked, low-cost investment products. In addition, active debt funds saw folio growth of 19.20%, outpacing active equity funds, which grew at 11.54% during the year.

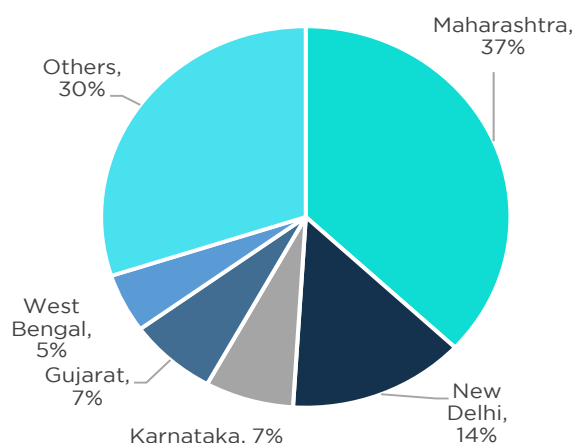
The sustained rise in folios highlights increasing financialization of household savings, with mutual funds continuing to capture a larger share of retail investments relative to traditional asset classes. The dominance of equity-oriented folios indicates continued structural preference for long-term wealth creation, supporting sustained inflows into equity markets and reinforcing domestic liquidity resilience. Rising folio counts, particularly in equity, are closely linked to the growth of systematic investment plans (SIPs), which are likely to provide stable, recurring inflows and reduce market cyclicality over time. Accelerating shift toward passive investing: Strong growth in passive fund

folios reflects rising investor awareness around cost efficiency and benchmark-driven returns. This trend is likely to intensify competition, compress expense ratios, and drive further innovation in ETF and index fund offerings.

Geographical Dispersion

As of March 2026, the mutual fund (MF) industry in India continues to exhibit a high degree of geographic concentration. The top five states account for nearly 70% of total industry AuM, while the top five cities, Mumbai, New Delhi, Bengaluru, Pune, and Kolkata, collectively contribute 57.69% of the country's MF AuM. Mumbai remains the dominant hub, accounting for 28.97% of total AuM, followed by New Delhi at 15.48%. Other key contributors include Bengaluru (5.92%), Pune (3.97%), and Kolkata (3.35%). This distribution remains largely unchanged from the previous year, indicating persistent structural concentration in financial activity across metropolitan centres. The continued dominance of large metros highlights that mutual fund penetration remains concentrated in financially mature, high-income urban regions. These markets will likely continue to drive near-term industry growth.

Figure 26: More than half of India's MF assets are concentrated in the top five states



Source: AMFI, CMIE

As of March 2026, mutual fund assets in India remained highly concentrated in the Top 30 (T30) cities, which accounted for 81.2% of total AuM at Rs 59.84 lakh crore, while Beyond Top 30 (B30) cities contributed 18.8%, with AuM of Rs 13.89 lakh crore. A sharp divergence in asset allocation preferences is evident across geographies. B30 cities show a strong bias toward equity-oriented schemes, which account for 64.4% of AuM, compared with 38.6% in T30 cities. In contrast, debt-oriented schemes account for a much larger share in T30 markets (26%) than in B30 (8.6%). Hybrid schemes also have a slightly higher representation in B30 (16.4% vs 13.5%), while “other schemes,” such as ETFs and index funds, are significantly more prevalent in T30 cities (21.5% vs 9.2%).

This distribution reflects a clear difference in investor maturity and behaviour. Investors in B30 cities tend to favour equity-led wealth creation strategies, often driven by SIP participation and long-term return expectations. In contrast, T30 investors adopt a more diversified and balanced asset allocation approach, supported by greater awareness, broader access to products, and institutional participation. This is further reinforced by investor composition: individual investors hold 72.6% of total AuM in T30 cities (vs 27.4% in B30), and institutional investors are overwhelmingly concentrated in T30 markets, accounting for 95.3% of institutional AuM.

From a market perspective, the T30-B30 divide highlights a two-speed evolution of the mutual fund industry. T30 cities provide stability and liquidity through diversified, institution-driven flows, particularly in the debt and passive segments. Meanwhile, B30 markets represent a high-growth frontier, driven by rising retail participation and equity-oriented investments, though they are relatively more sensitive to market volatility.

Over time, increased digital penetration, investor education, and distribution expansion are likely to narrow this gap, enabling more balanced asset allocation patterns and strengthening the overall resilience and depth of India's capital markets.

Key Growth Drivers

The mutual fund industry has seen strong growth due to a combination of multiple structural, economic, and behavioural factors, including rising awareness, digital ease, regulatory trust, demographic advantage, and evolving investor preferences. With still-low penetration and increasing financialization of savings, the industry has substantial long-term growth potential. Below are some of the key growth drivers:

Under penetration of Mutual funds in India:

Although mutual fund AUM as a percentage of GDP has grown, it remains well below that of other developed and fast-growing peers.

Rising awareness of capital markets: Despite India's capital market penetration remaining relatively low at -10% as per SEBI Investor Survey 2025, the sharp increase in demat accounts from 23.3 million in March 2015 to 224.5 million in March 2026 as per NSDL and CDSL (CAGR of 22.9%) signals a significant structural shift in household financial behaviour. This acceleration reflects not only growing awareness but also a gradual reallocation of savings from traditional asset classes (such as gold and real estate) toward financial assets. The expansion in the investor base suggests increasing retail participation, driven by factors such as digital onboarding, lower transaction frictions, regulatory push, and the proliferation of fintech platforms. Importantly, the growth trajectory indicates that participation is no longer limited to speculative trading but is increasingly supported by a long-term investment orientation. However, the still-low penetration highlights substantial headroom for further growth, implying that continued improvements in financial literacy, product accessibility, and market infrastructure could sustain this momentum and deepen capital market participation over the medium- to long-term.

Financialization of savings: A gradual shift is underway in household financial behaviour, with a growing share of savings allocated to market-linked instruments rather than traditional assets such as gold, real estate, or fixed deposits. This transition reflects increasing awareness of the potential for higher long-term returns and improved accessibility to financial products. Mutual funds have benefited from this trend, serving as a key channel for retail investors to participate in capital markets. As this shift continues, the industry is expected to capture a larger share of household financial assets.

Figure 27: Stock of Financial Assets of Households

	FY21	FY22	FY23	FY24	FY25
Bank deposits	48%	46%	46%	44%	43%
Non-Bank Deposits	1%	1%	1%	0%	0%
Life insurance funds	21%	21%	21%	21%	21%
Currency	11%	11%	11%	10%	10%
Mutual funds	8%	8%	9%	11%	12%
PPF	3%	3%	3%	3%	3%
Pension Funds	3%	3%	3%	4%	4%
Small Savings (excl PPF)	6%	6%	6%	6%	7%

Source: RBI

Favourable Demographics: India is home to the world's largest population, with a significant proportion between the ages of 15 and 29. This youthful demographic represents vast potential across multiple sectors, including the asset management (AMC) industry, which can leverage this dynamic group's evolving needs and aspirations. As India's young population continues to grow, demand for diverse investment opportunities within the country is expected to rise.

Increased awareness: Mutual fund penetration in India remains relatively low, primarily due to limited investor awareness. However, this is gradually improving thanks to regulatory initiatives focused on education. SEBI requires asset management companies (AMCs) to allocate at least 2 basis points of their daily net assets each year toward investor education programs, aimed at increasing familiarity with capital market products. As industry assets under management (AUM) expand, such spending is expected to grow, helping deepen mutual fund adoption, especially in B30 markets. Retirement planning also holds significant potential to drive penetration. The Employees' Provident Fund Organisation (EPFO) decision to invest 15% of fresh inflows into ETFs has strengthened the industry and highlighted the role of mutual funds as a retirement vehicle. With India's large young population, the scope for retirement-focused investment solutions is immense.

Increased digitalisation: The rapid adoption of digital technologies has significantly transformed how investors engage with financial products. With widespread smartphone usage and improved internet infrastructure, individuals can now complete the entire investment process from onboarding to portfolio tracking through digital platforms. This shift has reduced entry barriers, improved convenience, and lowered transaction costs. For asset management companies, digitalisation

has enabled scalable customer acquisition and enhanced operational efficiency. Firms that invest in robust digital ecosystems and data-driven user experiences are likely to gain a competitive advantage as investor preferences continue to shift toward seamless, technology-enabled solutions.

Growth of fintechs: The rise of new-age fintechs gained momentum in the mid-2010s, fuelled by increasing internet access and smartphone penetration. These firms have transformed the brokerage industry through low-cost, digital-first business models. By operating with minimal overhead, they pass the benefits on to clients through significantly reduced brokerage fees. India's strong digital public infrastructure has further lowered onboarding costs, enabling fintech brokers to scale rapidly. Coupled with rising financial literacy among the country's young, tech-savvy population, expected to form the bulk of new clients, the appeal of near-zero brokerage, seamless digital platforms, and ease of transacting online is driving greater retail participation in financial markets. As technology continues to reshape investor behaviour, fintechs are well-positioned to expand market access and deepen retail engagement across India.



Policy Measures

The mutual fund industry in India operates within a well-defined regulatory environment overseen by the Securities and Exchange Board of India (SEBI). Any entity intending to establish a mutual fund must comply with the regulatory provisions governing registration, structure, and operations. Typically, mutual funds are constituted as trusts, with clearly defined roles for sponsors, trustees, and asset management companies.

- **SEBI (Mutual Funds) Amendment Regulations, 2025:** SEBI introduced significant amendments in 2025 to strengthen accountability and transparency in the mutual fund industry. One important change requires asset management company (AMC) employees to invest a portion of their remuneration in mutual fund schemes, thereby aligning their interests with those of investors. SEBI has also made stress testing mandatory for certain schemes and requires disclosure of results to improve risk awareness. In addition, it has introduced time-

bound deployment of funds raised through new fund offers (NFOs) and tightened rules on commissions and distribution expenses. These measures collectively aim to enhance governance standards and protect investor interests.

- **Expense Ratio (TER) Rationalisation:** Efforts to improve cost transparency within the mutual fund ecosystem have led to reforms in how expense ratios are structured and disclosed. Regulators have introduced

measures to ensure that investors have a clear understanding of the charges associated with their investments. By separating statutory costs and tightening oversight of distributor commissions, these reforms aim to reduce the overall cost burden and improve returns for investors. Such initiatives also promote greater competition among fund houses, encouraging them to adopt efficient cost structures while maintaining service quality.

- **Introduction of MF Lite Regime (2025):** To support the growth of low-cost investment options, regulatory changes have simplified the framework governing passive products such as index funds and exchange-traded funds. By easing compliance requirements for these categories, the industry is better positioned to expand offerings that focus on market tracking rather than active stock selection. This shift aligns with the growing preference among investors for cost-efficient products that deliver benchmark-linked returns, particularly in an environment where fee sensitivity is increasing.
- **Specialised Investment Funds (SIFs) Framework (2025):** SEBI has introduced the Specialised Investment Funds (SIFs) framework to facilitate the development of new and innovative investment strategies within the mutual fund space. It standardises the approval process and requires mutual funds to disclose detailed information in the Investment Strategy Information Document (ISID). This ensures consistency, transparency, and efficient regulatory oversight while enabling funds to cater to diverse investor needs with specialised products.
- **Portfolio Risk and Governance Measures:** SEBI has strengthened risk management practices in mutual funds by making stress testing mandatory for certain schemes and improving disclosure standards. The Risk-o-Meter framework has been refined to give investors a clearer understanding of the risk levels associated with schemes. Additionally, the side-pocketing mechanism has been strengthened to address distressed assets effectively.
- **Changes in Investment Norms (2025 Amendments):** Recent amendments have broadened investment avenues and improved flexibility for mutual funds. SEBI has included Real Estate Investment Trust (REIT) units within the permissible investment framework and increased the investment limit for liquid schemes in money market instruments and treasury bills from 95% to 97%. It has also introduced clearer issuer-wise exposure limits.
- **Investor Protection and Operational Reforms:** SEBI has implemented measures to improve the overall investor experience and protect investor interests. The maximum exit load has been reduced from 5% to 3%, reducing the cost of exiting mutual fund schemes. Changes have also been made to cut-off timings, especially for liquid and overnight funds, and clear timelines have been established for rebalancing portfolios in case of deviations.
- **Nomination and Investor Convenience Reform (2026):** In 2026, SEBI modified nomination rules for mutual fund folios to improve investor convenience and reduce unclaimed assets. Nomination has been made mandatory for single-holder accounts, with an option to opt out, and investors can now nominate up to three individuals. The process has been digitised, allowing online submission and modification via secure authentication.
- **Ongoing Regulatory Review (2025-2026):** SEBI is currently undertaking a comprehensive review of the mutual fund regulatory framework to align it with global best practices. Proposed reforms include a shift toward principle-based regulations, digital-first disclosures, and performance-linked expense structures. The review also aims to clarify the roles and responsibilities of AMCs and trustees and to simplify compliance requirements.
- **Other Important Initiatives:** SEBI has also introduced several supporting reforms, such as uniform expense ratio slabs, strengthened corporate governance norms for AMCs and trustees, and enhanced disclosure requirements through regular reporting, like monthly factsheets. Additionally, SEBI continues to promote investor awareness and education initiatives.

Over time, SEBI has adopted a progressive approach to regulation, focusing on investor protection, transparency, and systemic stability. By continuously updating compliance requirements and disclosure standards, the regulator has helped build investor confidence while maintaining the integrity of the financial system. Simultaneously, initiatives such as the MF Lite regime, the SIF framework, and the proposed Securities Market Code demonstrate a forward-looking approach to promoting innovation and simplifying regulation. Overall, these reforms contribute to building a robust, globally competitive mutual fund industry that supports long-term wealth creation for investors.

Securities Market Code (SMC)

The Securities Markets Code, 2025, was introduced in the Lok Sabha on December 18, 2025, and is currently with the Standing Committee on Finance. It seeks to repeal and replace the:

- Securities Contracts (Regulations) Act, 1956,
- The Securities and Exchange Board of India (SEBI) Act, 1992, and
- The Depositories Act, 1996.

The 1956 Act regulates dealings in securities and the operation of stock exchanges. The 1996 Act regulates depositories that hold securities in dematerialised or electronic form and facilitate their transfers. The 1992 Act establishes: (i) SEBI as the regulator to protect the interests of investors in securities and promote and regulate the securities market, and (ii) the Securities Appellate Tribunal to hear appeals against SEBI. The Bill seeks to consolidate the provisions of these Acts into a single code. The SMC spans subjects such as board composition, independence, conflict management, transparency, regulatory sandboxing, investor protection, governance of market infrastructure institutions (MIIs), and ease of doing business. The SMC aims to consolidate and simplify multiple existing regulations into a

single, coherent framework. It is expected to align India's securities market regulations with global standards while making them more accessible and efficient for all stakeholders.





Challenges

The mutual fund industry has grown materially over the last two decades and is currently slated to grow even further. Mutual funds present an attractive opportunity for wealth accumulation. However, amidst the positive outlook, the industry faces several challenges that demand attention. These range from market volatility to evolving investor preferences, increasing competition and distribution networks.

- **Market volatility:** Fluctuations in financial markets remain one of the primary challenges for the mutual fund industry. Economic indicators such as growth rates, inflation trends, and interest rate movements can influence investor sentiment and asset allocation decisions. In addition, geopolitical developments and global macroeconomic shifts often introduce uncertainty, leading to heightened volatility across asset classes. Such conditions can impact both fund performance and investor behaviour, especially in the short term, making risk management a critical priority for fund managers.
- **Becoming a Pull Product:** Mutual funds need to transition from being pushed onto investors through sales efforts to becoming a product that investors actively seek out. The popularity of systematic investment plans (SIPs) is a positive step in this direction, but there's room for further growth.
- **Competition from Other Instruments:** Mutual funds operate in a competitive landscape that includes alternative financial products such as insurance-linked savings plans, direct equity investments, and exchange-traded instruments. While certain alternatives may offer specific advantages—such as insurance coverage or direct stock ownership—they also come with trade-offs in costs, risk exposure, and required investor expertise. Mutual funds continue to remain relevant due to their professional management, diversification benefits, and accessibility across varying risk

profiles. However, maintaining this competitive position requires continuous innovation and effective communication of value propositions.

- **Navigating Regulatory Norms:** The industry operates within a robust regulatory framework. Keeping up with changes in rules, taxation, and compliance requirements is essential. These factors significantly impact fund managers' decisions.
- **Limited Penetration Beyond Urban Areas:** Expanding into smaller towns and rural areas (B30 markets) requires substantial investments in marketing and distribution networks. While urban participation has been strong, reaching a wider audience necessitates strategic efforts.
- **Removal of indexation benefits on debt mutual funds:** The government introduced amendments under which long-term capital gains (LTCG) tax benefits are no longer available for certain investment instruments, including debt mutual funds, gold funds, exchange-traded funds (ETFs), international funds, and specific categories of hybrid mutual funds and capital gains are treated as part of the investor's income and taxed according to the applicable income tax slab rates. As a result, the removal of indexation benefits for debt mutual funds has reduced their attractiveness for long-term investors.
- **Technological shifts:** India is experiencing a growing adoption of automated technologies, including artificial intelligence (AI), AI-driven services, chatbots, intelligent agents, digital assistants, and various app-based solutions across industries. This shift is also reflected in the investment landscape, where a rising number of "do-it-yourself" (DIY) investors are choosing to invest directly in markets rather than through mutual funds. Mutual funds need to adapt by lowering costs, innovating new product offerings, enhancing alpha generation, and simplifying the investment process for customers.
- **Distribution Challenges:** The industry relies heavily on distributors and intermediaries. Changes in commission structures and the push for direct plans are altering distribution dynamics.
- **Cost Pressures:** With regulatory caps on expense ratios and increasing competition, AMCs face pressure to reduce costs while maintaining service quality and returns.

While the Indian mutual fund industry has strong growth potential, it must address challenges related to awareness, regulatory shifts, competition, technological change, and evolving investor behaviour to sustain long-term expansion.





Outlook and Recommendations

Outlook

The outlook for the mutual fund (MF) industry in India remains structurally strong and growth-oriented, supported by the growing financialization of household savings and increasing retail participation. The industry has expanded rapidly in recent years, with assets under management (AUM) crossing Rs 70 lakh crore by early 2026, reflecting robust double-digit growth. This momentum has been driven by strong systematic investment plan (SIP) inflows, growing awareness of market-linked instruments, and the industry's ability to sustain inflows even during volatile market conditions. Looking ahead, this upward trajectory is expected to continue, with AUM likely to cross Rs 100 lakh crore in the near term, indicating a substantial runway for expansion.

A key driver of this growth is the deepening retail investor base, particularly from Tier-2 and Tier-3 cities, along with evolving demographics. Increasing participation from millennials, Gen Z, and women investors is broadening the investor landscape

and changing investment behaviour toward long-term wealth creation. The rising preference for equity-oriented schemes, which now account for a significant share of the overall AUM, also reflects a structural shift from traditional fixed-income products to market-linked instruments.

Digital transformation has played a pivotal role in accelerating industry growth. The emergence of fintech platforms and digital investment channels has significantly lowered entry barriers and enhanced accessibility for investors. Seamless onboarding processes, user-friendly interfaces, and real-time tracking capabilities have made mutual fund investments more convenient and transparent. At the same time, asset management companies (AMCs) are adapting their distribution strategies to leverage digital channels while maintaining traditional sales networks to broaden outreach.

Regulatory and policy support has further strengthened the ecosystem. SEBI's focus on transparency, investor protection, and cost

efficiency has enhanced investor confidence and improved governance standards across the industry. Government initiatives promoting financial inclusion have helped expand the investor base, while opportunities in pension and insurance fund management present new avenues for growth. Additionally, continued product diversification has enabled AMCs to cater to a wide range of risk-return preferences.

Despite the positive outlook, the industry faces certain challenges, including market volatility, global macroeconomic uncertainties, and interest rate fluctuations, which can impact fund flows, particularly in the short term. Competitive pressures from alternative investment products and the growing popularity of passive funds are also driving fee compression. Nevertheless, supported by strong macroeconomic fundamentals, increasing shift of household savings into financial assets, and ongoing innovation in products and distribution, the Indian mutual fund industry remains well-positioned for sustained long-term growth and deeper market penetration.

Recommendations

India's mutual fund industry has been growing rapidly, and yet the penetration remains low compared to other countries. This highlights the immense opportunity available to the industry. The Indian mutual fund industry needs to prioritise deepening the retail penetration, particularly in underpenetrated Tier-2, Tier-3, and rural markets. Despite steady growth in investor participation, a significant share of household savings remains concentrated in traditional assets such as gold, real estate, and bank deposits. This highlights the need to expand the reach of mutual funds and integrate a broader segment of the population into formal financial channels. Targeted initiatives such as region-specific investor education, simplified communication, and localised outreach programs are essential to bridge awareness gaps. B30 cities, which account for nearly 90% of India's population but contribute only around 18.8% of mutual fund assets, present a significant untapped opportunity. Focused strategies in these markets can unlock substantial growth.

A strong emphasis on investor education and financial literacy is critical to ensuring sustainable industry expansion. Many retail investors continue to exhibit short-term, market-timing behaviour, often leading to suboptimal outcomes and volatility-driven redemptions. Improving awareness and informed decision-making would enhance investors' long-term success.

The industry needs to actively promote long-term investing principles, enhance risk awareness, and highlight the benefits of disciplined investing through SIPs. Transparent communication, clear product positioning, and consistent engagement will be essential in building investor trust and encouraging sustained participation.

Product innovation and diversification remain vital in addressing evolving investor needs. AMCs must expand their offerings into emerging areas such as ESG investing and hybrid strategies, which present significant growth opportunities.

Implementing Artificial Intelligence and Data Analytics to provide bespoke advice to drive client satisfaction and to help make improved investment decisions by analysing large datasets and also offering personalised investment advice.

Adverse taxation on debt investments has restricted investor participation. Hence, the tax structure for debt products needs to be rationalised to align with other asset classes.

The retirement segment represents a particularly compelling opportunity, driven by rising life expectancy, limited Social Security benefits, and increasing healthcare costs. Mutual funds can play a crucial role by offering both accumulation solutions for wealth creation and decumulation strategies for income generation during retirement.

At the same time, strengthening risk management frameworks and improving cost efficiency are essential to maintaining industry resilience. Enhanced liquidity management, robust credit assessment practices, and regular stress testing are critical, especially in debt and small-cap segments. AMCs must also address fee compression through operational efficiencies and scalable distribution models while promoting low-cost products such as index funds and ETFs.

Expanding distribution channels, strengthening corporate governance, fostering collaboration across stakeholders, and driving financial inclusion will collectively shape the industry's future. A multi-channel approach combining digital platforms, institutional partnerships, and IFAs, along with strong transparency and ethical practices, will enhance investor confidence. By focusing on these priorities, the Indian mutual fund industry can build a resilient, inclusive, and investor-centric ecosystem for sustained long-term growth.

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