

A Systematic Literature Review on the Growth Trajectory of Mutual Funds in India

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Abstract

The Indian Mutual industry has experienced a significant growth over the years emerging as one of the preferable investment avenues among investors. This research paper is a 'A Systematic Literature Review on the Growth Trajectory of Mutual Funds in India'

This systematic literature review aims to examine the existing studies on growth and performance of mutual funds, different risks associated with investments, resource mobilization in the private and public sector and impact of AUM on GDP, investor behaviour patterns, role of digital technology on investing, emerging trends of sustainable funds. This paper also examines the impact of COVID-19 pandemic on the Indian mutual industry. Findings from this literature review indicated that investors shifted their investment from equity-oriented funds to safer mutual funds schemes like debt-oriented funds. Institutional Investors preferred growth firms for making investment during pandemic. They also preferred to invest in group-affiliated firms because group-affiliated firms are capable of bearing the risk and maintain their financial stability in the market even during crisis periods. Due to digital services, participation of retail investors and institutional investors has increased in the securities market. Sustainable funds or ESG Funds are capable of offering competitive returns over traditional funds along with fulfilling environmental and social objectives. The private sector contributes more than 80% of resource mobilization in the Indian Mutual Fund Industry. Growth and performance of mutual fund schemes are analysed through returns, standard deviation, beta, sharpe ratio, treynor ratio, expense ratio, etc. The review also indicates that growth and performance of mutual fund schemes depends upon several factors such as market conditions, fund management efficiency, technological advancements and asset allocation strategies. etc.

Keywords- Growth, Performance, Risk

Introduction

Mutual Funds in India represent one of the most fast-growing sectors in the country's financial industry. Earlier, savings and investments were mostly made through traditional channels like bank deposits, gold investments, and property purchases. This is mainly due to the security and ease associated with such traditional ways. In recent years, with the gradual evolution of the financial market and the rising awareness of the benefits of investing, mutual funds have become a popular investment avenue. After 2015, there has been substantial growth in the mutual fund sector in terms of the assets under management, number of schemes, and retail and institutional participation.

There are several factors that have contributed significantly to this shift. One of the major contributing fa-

ctors is the proactive stand of the regulatory bodies, specifically SEBI, which has implemented various reforms that have improved transparency, standardized the classification of funds, and safeguarded investor interests. These reforms have played a critical role in establishing trust within the mutual fund industry. Another important factor has been the fast-paced advancements in technology. With the introduction of online investing platforms, apps, and procedures like e-KYC has made investing easier, cheaper, and more accessible for a larger number of people, especially for the youth.

There are several benefits of using mutual funds, such as portfolio diversification, professional management of the fund, liquidity of assets, and the possibility to achieve higher returns than those offered by other savings vehicles. Moreover, equity-oriented mutual funds like large-cap, mid-cap, and ELSS schemes are known for their ability to create wealth in the long term, whereas debt and liquid funds ensure safety and stability of returns. Mutual funds have become an important financial instrument for mobilizing savings of households, thus playing an essential role in capital formation in India.

In spite of this significant development, mutual funds remain sensitive to various market risks and changes in the environment. In fact, financial markets are highly unstable and, therefore, mutual funds cannot escape certain economic shocks that might happen unexpectedly. One of the most significant examples of economic disruptions is the coronavirus pandemic, during which major changes occurred in the financial markets' behavior, returns on assets, and investor preferences. Many investors switched to more secure instruments due to the growing uncertainty in the markets, whereas fund managers modified their asset allocation strategy to reduce the risks of losses.

However, a review of the existing literature reveals that there are many studies regarding mutual fund performance, growth and investor behavior. The only difference is that all these studies deal with specific topics and there is very little work which tries to combine all these aspects into a unified model. This study made an attempt to combine various studies from 2016. The present study is an attempt to systematically analyze the growth trend of mutual funds in India . Using the systematic literature review method, the present study tries to analyze the evolution of mutual funds in terms of their performance, investor behavior and response of institutions. In doing so, the present study tries to identify some important trends and challenges for the future of the Indian mutual fund sector.

Research Objectives

1. To analyse the growth of the mutual fund industry in India
2. To study the impact of investor behaviour on mutual fund performance
3. To evaluate the response of fund managers and institutions to market changes
4. To identify emerging trends influencing the mutual fund industry.

Literature Review

Gupta (2016) examines the performance of various mutual fund schemes. In this paper, quantitative methodologies and applied risk-return models were used to measure mutual fund performance. This was done through the evaluation of historical data from selected mutual fund schemes. From the results obtained, there was diversity in mutual fund performance, whereby some mutual fund schemes performed better than others against their respective benchmarks. It was noted that the performance of mutual funds depends on several variables like market performance and effective fund management. Proper selection of mutual funds was also seen to be very important. The conclusions of this study indicate that mutual fund performance is variable. The diversification plays an important role in reducing risks.

Panda (2016) in 'Evolution and Growth of Mutual Fund Industry in India', aimed to analyse the evolution and growth of the mutual fund industry in India. In this paper, a descriptive analysis approach was adopted and relied on secondary sources of data. The factors considered in this research include the growth in AUM, regulatory changes, and investors' participation. The study indicated that the mutual fund industry has grown tremendously over time, especially after the country was liberalized, and there have been other growth factors associated with changes in the regulatory environment and financial literacy. The study also revealed that the increasing number of investors' participation and enhanced transparency in operations have been key in ensuring the growth of the industry. The study concludes that mutual funds are a crucial financial tool for mobilizing savings and economic development.

Thakuria and Kashyap (2017) in their research on 'Growth of Private and Public Sector Mutual Funds and Its Impact on GDP' examined the growth trend and the role played by mutual funds in contributing to economic growth in India. The study used secondary data on AUM, fund mobilization, and GDP growth rates, using comparative analysis of private and public sector mutual funds. Results indicated that, it can be seen that mutual funds in both sectors have contributed positively to GDP growth through savings and capital formation. However, the private mutual funds demonstrated higher growth rates compared to the public mutual funds. This is because of innovation, efficiency, and diversification in investment. In contrast, the public mutual funds maintained the trust of their investors. The findings suggest that the mutual fund industry is a significant contributor to economic growth.

The research study entitled 'Evaluation of Mutual Funds using Risk Analysis' conducted by Patel (2017) aimed at assessing the performance of the selected mutual fund schemes via the application of risk measurements techniques. Quantitative research methodology was adopted in the research where various risk measurements techniques such as standard deviation and beta were applied in the process. The historical data of the selected mutual fund schemes was used to analyze the relationship between the risk-return profile of the funds. According to the results obtained from the research study, there exists an inverse relationship between the performance and risk level of the mutual funds. Additionally, high returns have been associated with high risk levels. From the research study, it is clear that mutual funds do not always perform well in different scenarios, and therefore risk assessments are important in guiding investors to make informed investment decisions. This implies that before investing in mutual funds, the risk involved should be considered.

Veeravel and Mohanasundaram (2018) investigates that mutual fund managers possess the ability to predict movements in markets and consequently make necessary changes in investments made. In the investigation, quantitative techniques were employed, including application of models like the Treynor-Mazuy Model to analyse market timing ability. The methodology adopted involved reviewing the past performance of selected equity mutual funds for a certain period. Findings of this study indicate that most fund managers do not consistently demonstrate strong market timing ability, although a few funds showed limited success in adjusting portfolios during market fluctuations. The research concludes that performance in mutual funds is dependent on investment strategies adopted over time. It supports the present study as it shows how fund management affects mutual fund performance and growth.

In 'Trends in Indian Mutual Fund Industry', Sree (2019) assesses the recent trends and growth of mutual funds in India. Using descriptive analysis based on secondary data, the researcher looked at variables like asset growth under management, growth in numbers of investors, and changes in regulations. Results of this study indicated an increase in the growth of the mutual fund industry due to higher incomes, greater financial knowledge, and regulatory changes. Digitalisation was noted as a driving force behind increasing

investor numbers. The study concludes that the mutual fund industry in India is growing steadily and sustainably.

In their paper, Kakkar and Sehgal (2018) in 'Determinants of Mutual Fund Performance in India', determined the main determinants of mutual fund performance in India. The research employed the use of quantitative methods and econometrics tools to assess the correlation between mutual fund performance and macroeconomic indicators such as inflation, interest rate, and GDP growth. The approach entailed the use of secondary data on selected mutual fund schemes for a specified period. The results indicated that macroeconomic factors considerably affect mutual fund performance, where interest rate and inflation are important in determining mutual fund returns. Moreover, the authors observed that there are internal determinants of mutual fund performance including portfolio diversification and manager efficiency. They argued that mutual fund performance is influenced by both external and internal factors.

In his paper titled 'Risk-Return Analysis of Equity Mutual Funds', Raju (2019) examines the correlation between risk and return on investment in selected equity mutual fund schemes in India. In this paper, the quantitative method has been employed, including standard deviation, beta, and Sharpe ratio, to measure fund performance. This was achieved through examining historical data of equity mutual funds within a given period. According to the study, a highly positive correlation exists between risk and return, showing that high returns come with high risks. Additionally, it was found out that there is no consistent performance among all equity funds since it depends on the scheme and market conditions.

Tripathi & Japee (2020) examined the performance of selected equity Mutual Funds schemes on the basis of financial indicators. The research methodology used was quantitative where the researchers evaluated the performance based on performance evaluation measures such as Sharpe ratio, Treynor ratio, and Jensen's alpha to determine risk-adjusted returns. The analysis of the selected schemes was based on their past performance data. The results revealed that although some schemes performed better than benchmark indices, there were variations in performance depending on time periods. The performance of these funds is dependent upon certain factors including portfolio management and diversification, etc.

Jacob, Gupta, and Gopalakrishnan (2020) in their research titled 'Mutual Fund Asset Allocation During COVID-19' explore the asset allocation decisions made by mutual fund managers during the COVID-19 pandemic. This research relied on empirical data and quantitative analysis to investigate the alterations in asset allocation trends in various types of funds. Specifically, the research methodology entailed assessing the trends in the allocation of assets in equities, debt, and liquid funds in the context of the pandemic. The results showed that fund managers opted for less risky investments, including large-cap shares and debts. Thus, it is clear that investing defensively is significant when there are fluctuations in the market.

In their study titled 'Performance of Equity Mutual Funds Before and During COVID', Amita and Bodla (2021) examined the effect of the coronavirus outbreak on the performance of equity mutual fund schemes in India. This paper employed a comparative research design and used secondary data collected from selected equity mutual funds both pre-COVID and during the period. According to the results of the analysis, there was a downturn in the performance of equity mutual funds as a result of increased market volatility. However, the large-cap funds were more stable compared to mid-cap and small-cap schemes. The findings indicated that diversification and fund management played an important part in enhancing resilience during the period. Therefore, the study concluded that the nature of the fund scheme and the efficiency of fund management was important during crisis periods. Risk assessment is another important finding of the research which should not be overlooked. This research bears relevance to the current study due to similarities in the topic under discussion.

Banik et al. (2021) explored the paper titled ‘Impact of COVID-19 on Emerging Market Mutual Funds’, where they attempted to examine the impact of global shocks, specifically the COVID-19 pandemic, on the performance of mutual funds in emerging economies, including India. They used econometric modelling and fund level data for their analysis to assess the differences in return and volatility. The approach involved contrasting the performance of funds before and during the global shock period. As a result, the research found a noticeable reduction in returns and a substantial increase in volatility, suggesting that emerging market mutual funds are extremely responsive to global shocks. Furthermore, eEquity funds were more affected compared to relatively stable categories. The study also observed that recovery patterns varied across schemes depending on asset allocation and management strategies. Overall, they concluded that diversification and risk management are vital considerations during times of crises.

Friede et al. (2022) in their paper 'Green Portfolio Management and Sustainable Funds', assessed the performance of the ESG investments. The study employs empirical studies in order to compare ESG investments with conventional mutual funds on the basis of risk and return. Particularly, this research conducted analysis of performance measurements that included assessment of return, volatility, and risk adjustment. Findings of research indicate that ESG funds demonstrate competitive returns, sometimes, performance of ESG investments is better than that of conventional funds. It also shows the growing attention of investors to responsible investments. The study concludes that ESG funds have become an important aspect in contemporary portfolio management. This study proves that sustainable investment does not affect the performance negatively and, at the same time, shows the potential of growing.

In their research, ‘Performance Analysis of Indian Mutual Funds During Pandemic’, Jora and Rani (2022) sought to analyze the performance of mutual funds in India in the context of the pandemic. This research employed quantitative approaches and risk-return analysis including the use of standard deviation and return analysis to analyze fund performance. Their approach was mainly directed at analyzing fund performance based on various categories of mutual funds during the pandemic. According to the results obtained, the study reveals that mutual funds, particularly equity funds, have shown poor performance characterized by low returns and higher volatility. However, diversified funds have performed relatively well. So, this paper concludes that mutual fund performance depends greatly on market situations and risk-management measures.

Minutha & Jagannathan (2023) in the study titled ‘Impact of COVID-19 on Alternative Investment Funds in India’ aimed at understanding how alternative investment alternatives behaved during the pandemic of COVID-19. The study employed a descriptive and analytical approach by making use of secondary data related to return on investments and investment behaviors during the period of crisis. The method used comparison of pre-pandemic and pandemic investment behaviors to highlight any changes that occurred. From the findings, there was notable increase in the level of volatility in the market and a shift to more safe and low risk investment behaviors. In addition, investors showed signs of aversion to risks in view of uncertainties in the market environment. According to the researchers, alternative investments also experienced economic instability in terms of performance during the uncertain period. The study concluded that under such circumstances, investors preferred stability to high gains. The study focused on the aspect of behavioral changes among investors, which is similar to what the present research is all about.

In ‘Post-COVID Growth of Midcap Mutual Funds in India’, Paul (2024) measured the growth and performance of mid-cap mutual funds in India after the onset of COVID-19. In this paper, Quantitative

methodologies were employed and risk-return analysis techniques were used to analyse the performance of selected mid-cap mutual funds. Data was collected from mid-pandemic periods for purposes of assessing the impact of the COVID-19 pandemic on investors' risk appetite as well as the performance of various mutual funds. Findings of the study indicate that mid-cap mutual funds yielded high returns after the pandemic relative to other classes. Notably, these funds were characterized by high-risk and high-volatility levels. The study also found out that investors exhibited higher risk appetite after the pandemic. Therefore, it is clear that mid-cap mutual funds are essential when it comes to portfolio diversification and growth.

Nakum (2024) in his paper 'Mutual Fund Investments in India After COVID-19' attempted to understand the trend of revival and growth of mutual funds in India during the post-pandemic era. In this paper, methodology included secondary data and descriptive analysis to analyse the trends regarding the increase in participation and growth of mutual funds after the pandemic. The methodology involved studying the trends related to changes in investment trends, digitization of the market, and overall recovery from the pandemic. The results obtained revealed a substantial rise in mutual funds investments after the pandemic owing to the increase in financial awareness among people along with the digitization of investments. The study observed an increase in the popularity of Systematic Investment Plan (SIP) among investors. Moreover, the investors' confidence was found to have increased due to stabilization of the market. The major finding suggested that digitization and financial literacy were the two crucial factors for growth in the mutual fund industry.

In their research paper titled 'Impact of COVID-19 Pandemic on Mutual Fund Flows in India', Yadav and Yadav (2024) sought to investigate the impact of the COVID-19 pandemic on mutual fund inflows and outflows and investment activity in India. In conducting their research, this study adopted secondary data collection through reports from the mutual funds industry. It employed a comparative analysis technique to investigate trends before and during the period under discussion. The research methodology involved the examination of equity fund flows, SIP (Systematic Investment Plan) investment, and market movements. The results indicated significant reductions in equity fund inflows and temporary disruptions in SIP payments due to increased uncertainty and risk aversion by investors. However, the study found a slow recovery in equity fund flows after the end of the COVID-19 outbreak.

In 'Analysing the Growth Trajectory and Performance Efficiency of Mutual Funds in India, Deb (2025)' aimed to examine the growth and performance efficiency of mutual funds in the Indian financial market over the years. Using secondary data, which includes the analysis of assets under management (AUM), returns and resources mobilisation, the paper aimed to evaluate the growth trends in the industry. The analysis method included the assessment of growth trends and the comparison of the performance of mutual funds with traditional investment methods. The findings revealed that there is a considerable and consistent growth in AUM as well as an increase in investors. This indicates the rapid growth of the mutual fund industry. This paper indicated that equity mutual funds have performed better than traditional investments over time. This has seen increased efficiency in fund management and diversification. The conclusion of the study was that mutual funds have become one of the preferable investment avenues in India.

Analysis of Studies

Analysis of the existing literature indicates several interrelated patterns that shows the development of the mutual funds sector in India. First, research papers written by Panda (2016), Sree (2019), Thakuria &

Kashyap (2017), and Deb (2025) deal with the overall growth of the mutual fund industry. The researchers underline the importance of increased Assets Under Management (AUM), increased involvement of investors, as well as the role played by regulatory bodies in the mutual fund industry. Moreover, these scholars emphasize the significance of mutual funds in saving, resource mobilization and economic development in India. At the same time, these researchers provide descriptive analysis of mutual fund growth. Other studies written by Gupta (2016), Raju (2019), Tripathi & Japee (2020), and Kakkar & Sehgal (2018) explore mutual fund performance and the relation between its risk and return. Although they offer solid quantifiable results using statistical tools like standard deviation, beta, Sharpe ratio, treynor ratio and jensen alpha. They have been mostly limited to conducting static analysis and fail to address the changing dynamics of performance during economic instability periods. Recent studies such as Banik et al. (2021), Jora and Rani (2022), Yadav and Yadav (2024), and Jacob et al. (2020) examine the effects of COVID-19 on mutual funds. Such studies have proved that the pandemic resulted in increased volatility, reduced returns, and changed investor behaviour towards investments in less risky financial instruments. Asset allocation and risk management during crisis periods are other crucial factors examined by such researchers. Nonetheless, such research is mostly concerned with the short-term implications of the pandemic and not its growth implications in the future. Apart from this, some emerging trends which could provide valuable insight for further research into the Indian mutual fund industry include the rise of ESG investing, increasing digitization, and popularity of mid-cap mutual funds. Studies such as Friede et al. (2022) and Paul (2024), will help to determine the future direction of the mutual fund market, particularly in India. Although, such topics have yet to receive sufficient attention.

It can be summarized from the overall discussion above that even though there have been a number of studies carried out concerning growth, performance, and investor behavior, these topics have mostly been analyzed separately. In addition, little work has been done integrating studies during different stages in the financial markets. This is the reason why the current research focuses on integrating these studies when studying mutual funds' growth.

Critical Review

The literature available on Indian mutual funds offers valuable information on growth trends, performance, investor behaviour, and institutional strategies. But a critical look at the existing literature suggests that while many pieces of literature have concentrated on certain aspects, very few have attempted a comprehensive analysis. Many studies have been centered on the growth trend in the mutual fund industry through increasing AUM, the rise in the number of investors, regulatory measures and financial literacy. The studies have been successful in establishing that the mutual fund industry has been growing steadily over time but fall short of studying the interaction between growth and performance under market volatility conditions.

This set of literature deals with the performance of mutual funds from risk and return perspectives, measuring performance through financial indicators such as standard deviation, beta, and Sharpe ratio, treynor ratio and alpha. Such approach provides much value in the sense that it provides quantitative information and shows that performance differs from scheme to scheme and in different market phases. In addition, these studies demonstrate that diversification, portfolio management, and macroeconomic conditions are significant factors in influencing returns on the schemes. Yet, they suffer from numerous limitations since they fail to take into account the dynamism in performance across economic cycles as well as the irrationality of the investors' behavior.

Research conducted during the COVID-19 period highlights the effect of external shocks on the performance of mutual funds. The main contribution of these works is in demonstrating that due to the outbreak, there was a lot of volatility, reduced returns, and even changed preferences of the investors. They also highlight the role of risk management and asset allocation during such crises; however, none of them analyzes the consequences of such shocks from the long-run perspective.

The latest research also reveals other important issues like sustainable investment, digitalization, and performance differences in terms of categories of mutual fund. Thus, it can be concluded that the mutual funds industry evolves according to changes in investors' demands and development of new technologies. While these studies provide important forward-looking insights, they are still limited in number and lack comprehensive empirical validation in the Indian context.

In summary, critical review shows that the current state of knowledge lacks an integrated approach that covers all aspects of mutual fund activities, including growth, performance, and behavior of investors. Therefore, there is a need for more thorough research of this issue. The proposed paper fills this gap since it explores the process of mutual fund growth in India from various angles.

Conclusion

According to the literature review, there have been considerable developments observed in the mutual fund sector of India over the years. This has happened due to several factors, such as increasing awareness amongst the investors, regulation, and technology. However, the performance of mutual funds has been dynamic and very much dependent on various market factors, macroeconomic conditions, and the strategy adopted by the fund managers. Furthermore, it can be seen from the studies that investor behaviour also influences the operations and success of mutual funds in particular situations, such as during uncertain times when investors choose safer routes of investments.

However, the existing literature largely examines growth, performance, and behavioural aspects separately, with limited integration of these dimensions into a single framework. Moreover, there is insufficient comparative analysis of mutual fund performance across different market phases. Emerging areas like ESG investing, digitalisation, and category-wise fund analysis are also not extensively explored. This brings us to the main purpose of the present study, which aims at analysing the mutual fund growth trajectory comprehensively and holistically.

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