

The Paradox of India's Booming Mutual Fund Industry

As global financial giants exit the industry, a new generation of homegrown fund managers are stepping in to fill the gap. Why do both view the industry so differently?



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The mutual fund industry is experiencing an exuberant phase, with assets under management (AUM) surging to Rs. 73.7 trillion (Rs 73.7 lacs crores) by March 2026 from Rs. 12.3 trillion in April 2016 (Rs 12.3 lac crores). This decade of strong growth has pushed AUMs to 31% of bank deposits, bringing the industry closer to the financial sector's high table. Yet, the asset management industry is a classic case where strong macroeconomic tailwinds have not necessarily translated into robust financials.

Why is the industry's glass appearing half full? First company's find it hard – but not impossible, to make money. An educated guess optimistically puts the industry profits at around Rs 250 billion (Rs 25,000 crores), with the ten largest taking in 60% of this pool.

The reasons are well documented. First these asset management companies (AMCs) are under strict regulatory oversight from SEBI, which enforces transparency, and stringent compliance. The regulator also caps management fees through the Total Expense Ratio (TER), which follows a sliding scale and has seen periodic downward revisions over the years, with deleterious consequences for the industry. While these measures protect investors, they also increase operational costs and limit the ability of AMCs to charge higher fees, squeezing profit margins. For the global entities, a higher minimum capitalization requirement further locks up capital and lowers returns.

Second, the industry suffers from limited product differentiation. SEBI's categorization framework - segregating funds into large-cap, mid-cap, and small-cap segments - aimed to ensure 'truth in labelling' so investors clearly understand what they're buying.

However, an unintended consequence has been a significant similarity in product offerings across AMCs. Larger funds, with greater economies of scale, are better positioned to manage costs and earn higher relative returns - further widening the gap between large and small players.

Three, fund performance has been mixed. Over the past one, three, and five years, many Indian equity mutual funds have underperformed their benchmark indices. Last year (March 2025), only about 38.6% of equity mutual funds managed to beat their respective benchmarks, with large cap funds showing the highest rate of outperformance at 71.9% for that month, while small cap funds significantly lagged at just 10%. Over longer periods, such as three and five years, consistent outperformance has been limited to a select group of funds. For example, only around 31 equity mutual funds consistently outperformed their benchmarks across three, five, and seven-year periods, with just a handful of large cap, contra, focused, large & mid cap, and mid cap funds achieving this feat. This has accelerated the investor shift towards passive products like index funds and ETFs, further driving fee compression. The two reasons cited above have led to an excessive reliance on distributors, who have benefitted enormously from the industry's growth.

What has kept fund flows strong so far is the high absolute returns delivered over the last few years - especially when compared to traditional banking products.

What stands out in this landscape is the changing profile of market participants. As several global financial giants exit the Indian asset management space, a new generation of domestic fund managers is stepping in to fill the gap. While firms like JP Morgan, Goldman Sachs, Principal Group, Zurich Insurance, Deutsche, Allianz, and Fidelity have exited or sold their Indian businesses, homegrown names such as Old Bridge, Unifi Capital, White Oak, Marcellus, Alpha Alternates, AngelOne, CapitalMind, Pantomath, ASK, and Zerodha are entering or expanding their presence while some like BlackRock are re-entering in partnership with Jio.

Unlike their global counterparts - many of whom were deterred by India's fee caps and regulatory constraints - these domestic players are taking a long-term view, seeing the glass as half full. They have focussed on the burgeoning AUM: over the past decade, the industry's AUM has grown at a robust CAGR of around 20%, largely driven by strong retail investor participation. Monthly SIP inflows have surged from around Rs. 8,000 crores in FY2020–21 to over Rs. 24,000 crores in FY2024–25. To put this in perspective, domestic retail investors contributed over US\$72 billion (Rs 59.7 lac crores) in net inflows during this period, even as foreign institutional investors (FIIs) pulled out \$14.6 billion (Rs 12.2 lac crores). These savers need to be serviced.

The new domestic players in the asset management industry are willing to expand beyond metro cities, capturing growth from India's smaller towns and cities (B30 locations), where financial penetration continues to deepen. Unencumbered by legacy systems and outdated technologies, these fund houses are leveraging fintech solutions to roll out investor-friendly products such as direct plans, index funds, and thematic schemes. Their digital-first approach is particularly effective in attracting younger, tech-savvy investors. Additionally, the relatively low returns offered by traditional banking products have further driven retail investors towards mutual funds.

Much like the new India they operate in, this emerging generation of domestic fund managers is showing growing

confidence in the Indian asset management industry - broadening their reach, embracing innovation, and playing a pivotal role in driving the long-awaited equitisation of the Indian financial sector.

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Views personal.