

How Indian mutual fund industry is positioned for next phase of growth



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India's mutual fund industry closed fiscal 2026 with assets under management of Rs 73.73 trillion, a record, and a 12.15% rise over the Rs 65.74 trillion it managed at the end of fiscal 2025. To appreciate how far the industry has come, it helps to look a little further back. In March 2020, the industry's assets stood at Rs 22.26 trillion. In six years, the asset base has more than tripled. The number of investor folios has grown from 8.97 crore in March 2020 to 27.39 crore in March 2026, with nearly 3.94 crore folios added in fiscal 2026 alone. The ratio of mutual fund assets to India's gross domestic product crossed 21% in March 2026, an all-time high.

What has changed

These numbers tell a story of scale, but the more important story is about what has changed in investor behaviour. The Indian mutual fund investor of today is a different person from the one a decade ago. The clearest evidence came in March 2026, when the Nifty 50 fell 11.31% in a single month, its steepest monthly decline since March 2020, on the back of escalating uncertainty in West Asia. In an earlier era, a fall of this magnitude would have triggered panic redemptions. Instead, net equity inflows in March 2026 jumped 56% over the previous month to Rs 40,450 crore. March 2026 also marked the 61st consecutive month of positive net inflows into equity mutual funds, a streak that has now survived multiple corrections. Through fiscal 2026, domestic institutional investors, led by mutual funds, invested a record Rs 8.09 trillion in equities

even as foreign portfolio investors sold Rs 1.81 trillion worth. The retail investor, channelling money through mutual funds, has become the stabilising force in Indian markets.

The SIP engine

One of the biggest drivers of this change is the systematic investment plan. SIP contributions in fiscal 2026 rose 19% to Rs 3.40 trillion, from Rs 2.86 trillion in the previous year. Monthly contributions, which stood at Rs 26,632 crore in April 2025, climbed steadily through the year to touch an all-time high of Rs 32,087 crore in March 2026. The number of contributing SIP accounts rose to 9.72 crore from 8.11 crore a year earlier, a net addition of 1.61 crore accounts. SIP assets now stand at Rs 14.83 trillion, about a fifth of the industry's total assets. What makes these numbers significant is not just their size but what they represent: a shift from trying to time the market to committing to it consistently, month after month, regardless of where the index stands.

The other big change is who is investing. Individual investors now hold 62.3% of total industry assets. In most states, individuals account for more than 65% of mutual fund assets, and in states such as Bihar and Tripura, the share exceeds 95%. Participation is no longer concentrated among salaried professionals in metros. The state-wise data on SIP assets makes this point well. In Uttar Pradesh, Himachal Pradesh, Haryana and Puducherry, SIP assets account for more than 40% of the state's total mutual fund assets, a higher share than in Maharashtra or Delhi. Smaller states and towns are not just participating; they are participating in the most disciplined way possible.

Starting small

This widening of the investor base in smaller cities and towns, the B30 markets in industry parlance, has been helped considerably by the Choti SIP initiative, which lowered the minimum monthly investment to Rs 250. For a first-time investor in a tier-2 or tier-3 town, the difference between a Rs 500 or Rs 1,000 entry point and a Rs 250 one is meaningful. It converts mutual fund investing from something that requires a deliberate budgeting decision into something that can be tried with minimal commitment. Once the habit forms, amounts tend to grow with income. The fiscal 2026 data shows B30 cities moving in the same direction as the top 30 cities, with the share of SIP assets held for more than five years rising to 30% from 29%, and the share held for less than a year falling to 22% from 23%. In T30 (top-30 cities) cities, the share of SIP assets held for more than five years rose to 32% from 30%, while the under-one-year share fell to 20% from 21%.

Time over timing

The holding-period data deserves a closer look, because it captures the most underappreciated change in the industry: investors are staying invested longer. Within direct plans, the share of SIP assets held for more than five years rose to 20% in March 2026, while assets held for less than a year contracted to 29%. Regular plans, which come with distributor guidance, show an even stronger long-term orientation. The share of regular-plan SIP assets held for more than five years stood at 34%, and assets held for less than a year stood at 19%. This gap between direct and regular plans is worth pausing on. It suggests that the value of a distributor lies not merely in facilitating a transaction but in keeping the investor anchored to a goal when markets turn volatile. An investor who is talked out of redeeming during a correction captures the recovery that follows; one who exits locks in the loss.

This is where the case for staying invested, rather than timing the market, becomes practical rather than theoretical. Market recoveries tend to be concentrated in a handful of sharply positive days, and these days often arrive in the middle of, or immediately after, periods of extreme pessimism. Studies of equity markets in India and globally have repeatedly shown that an investor who misses just the ten or fifteen best days over a long holding period may end up with lower returns than one who simply stayed put. The trouble is that nobody can predict which days those will be, and they usually occur precisely when an investor who tried to time an exit is sitting on the sidelines. Fiscal 2026 offered a live demonstration: investors who continued their SIPs through the March correction bought units at lower prices, which is exactly how rupee-cost averaging is supposed to work. The discipline of the SIP removes the temptation to make this call at all.

Headroom and potential triggers

If the past few years explain how the industry got here, the more interesting question is what drives the next phase of growth. Despite crossing 21%, India's mutual fund assets-to-GDP ratio remains well below that of most developed economies, where the figure often exceeds 75-100%. The geographic concentration tells the same story from another angle: Mumbai, New Delhi, Bengaluru, Pune and Kolkata together account for 57.69% of the country's mutual fund assets, with Mumbai alone at 28.97%. More than half the industry's money still comes from five cities. So, there remains a huge headroom for growth for the industry.

Three forces could help the industry reach its potential growth. The first is digital penetration. Digital-based KYC, UPI-based payments and app-based onboarding now can complete a first investment in minutes. Fintech platforms and the digital arms of traditional distributors have taken mutual funds to investors who have never experienced them. The growth in passive fund folios, up 38.13% in fiscal 2026 and the fastest-growing segment in folio terms, is partly a reflection of this, since low-cost index products are the natural first purchase of a self-directed digital investor.

The second force is artificial intelligence. AI's most useful application in this industry will not be picking stocks but serving investors. Conversational interfaces in regional languages can answer basic questions about risk, taxation and product selection for first-time investors who would never read a scheme document. AI-driven analytics can help distributors identify which clients are likely to stop their SIPs during a drawdown and intervene before they do, which, given what the holding-period data shows about the value of such intervention, could meaningfully improve investor outcomes at scale.

The third force is the Open Network for Digital Commerce. ONDC's promise for financial services is to unbundle distribution from platforms. On an open network, any seller-side participant, a small distributor in a district town, a regional fintech, a cooperative institution, can offer mutual funds to any buyer-side app's users. This multiplies distribution touchpoints without each participant having to build a full technology stack. For an industry which has a huge growth potential beyond the T30 cities, an open, interoperable network that lets local intermediaries plug in cheaply could do for mutual fund distribution what UPI did for payments.

From first SIP to SIFs

None of this reduces the importance of a distributor who can guide the investor at all times. If anything, the industry's product set is widening in both directions, and both ends need guidance. At the entry level, first-time investors need someone to explain why they should not stop a SIP when the market falls. At the other end, the industry now offers specialized investment funds, or SIFs, a category that was introduced to sit between mutual funds and more sophisticated products. SIFs offer the flexibility to run advanced strategies, including long-short positions. The category's early growth has been encouraging: from Rs 2,010 crore in October 2025, when the first schemes debuted, SIF assets grew more than five-fold to Rs 10,620 crore by March 2026, with cumulative net inflows crossing Rs 11,000 crore and the number of schemes rising from four to 14. Hybrid long-short strategies dominate with over 75% of assets, and notably, the category recorded its strongest monthly inflow of Rs 1867 crore in February 2026, when market volatility drove demand for downside-protected strategies.

The road ahead

The industry's strong growth has been built on industry-wide awareness campaigns, the SIP habit and a maturing investor. The next leg, from 21% of GDP towards the levels seen in developed markets, will be built on seamless access through digital routes, smarter servicing through AI, wider distribution through open networks such as ONDC, and the patient work of distributors who keep investors invested during the market's ups and downs.