This last chapter presents summary and findings of the study along with conclusions and suggestions.

7.1: SUMMARY

Indian capital market has undergone a sea-change to emerge as a major spectrum in the financial system of India; especially after introduction of widespread structural reforms under LPG policy and establishment of autonomous regulatory authority like SEBI. The reform measures were initiated with the objective of protecting investors, generating competition and promoting innovations. Various regulatory measures combined with organizational restructuring, liberalized investment policy and other incentives accorded to mutual funds since introduction of SEBI (Mutual Funds) Regulations, 1993, led to far greater mobilization of resources and financial strength of mutual funds, as well as to greater investment of funds in money and capital market. It has generated and augmented the interest of investors in corporate securities. Matured financial market has been stimulating savings by ensuring better rate of return. The household savings have been increasing over every planning period with a very few exceptions, in which a strong middle class has been playing vital role. However, the financial illiteracy, lack of previous investment experience, apprehension created by scams and bust in share market has kept the people at a distance from investment.

These developments led to emergence of mutual funds as an indirect mode of investment, in public sector first and then in private sector. Resultantly, the traditionally protected mutual fund (UTI) was exposed to ever-increasing competition. This may be viewed as the vital phase in the development of mutual fund industry in India as monolithic scenario was replaced by competitive scenario. The establishment of self-regulatory body, namely, Association of Mutual Funds of India (AMFI) in 1996, gave mutual fund industry the new directions to handle huge financial resources of large number of investing public. Especially in the last two decades mutual fund industry has grown in terms of asset under management (AUM), Asset management companies (AMCs), number of schemes and number of investors. This reflected the
rising interest of retail investors in the stock market through route of mutual funds. However, for a long time mutual funds have remained urban-focused. Both the authorities, SEBI and AMFI, have made it obligatory on AMC’s part to disclose their urban and rural penetration which brought this fact on floor. The savers in small cities and rural areas, where income level has been rising and mutual fund investment potentials are in abundance, have not been substantially tapped.

Return on investment and the safety of investment matters for investors. There are many safe avenues of investment in the form of bank-deposits, post-office deposits, govt.-securities and corporate securities like debentures, bonds and the like. However, investors are interested in more real income which is the residual return after deductions of current inflation rate and income tax rate from the rate of returns.

This means that investors are desirous of earning substantial return above risk-free return; within the narrow range of risk-exposure. Many of mutual fund schemes provide investors with the benefits of capital market growth rather than nominal fixed returns. The investors still believe that mutual funds provide an opportunity for better returns coupled with reasonably good safety of capital.

Indian Mutual Fund Industry is one among the top 15 nations and it is anticipated grow to $500 to 600 billion by mid-decade. It has a tremendous potential for growth in Indian environment. The impetus given by liberalization and globalization to industrial and service sector, reforms in financial markets, regulation by SEBI and AMFI, trend of rising personal income, availability of sizable sums to invest, expanding middle class etc. have paved the path for growth of mutual funds in India.

Though the industry has been operational for so long period, it still suffers from shortcomings like lack of systematic evaluation of investors’ requirements, dearth of better investor services and deep penetration level. These fault lines have to be rectified in the process of growth and development of this industry in India.

The three-tier AMC-Transfer-Regulator structure has made mutual funds a matured, well-developed and regulated investment vehicle, which has been playing an extremely crucial role in the economy. The main challenges of this industry lie in reaching to small cities, towns and rural areas, attracting more number of retail investors and managing their interests well. The limited geographical spread is the
constraint on the growth of mutual funds keeping potential investors out of its orbit. There are tons of small savings in the rural areas which are waiting to come to the market. What is needed for MF industry is to expand to augment their resource base.

Further, the investors’ education is also one of the major impediments in the MF industry. It is important because retail penetration is going to be the theme of the future growth. Managing the investors’ money is risky and it has to be done cautiously.

Any disproportionate share of risk and reward may create conflicts in the minds of investors which may become an expensive affair for the industry. This may create redemption pressure on the industry. Heavy redemption pressure disturbs Fund Managers’ investing strategies in hard times. Therefore, the MF industry has to strive to make mutual fund investors the long-term partners. On this background, the study entitled ‘A Study of Mutual Funds with Special Reference to Investors in Kolhapur District’ has attempted to find answers to the following questions:

- has Indian Mutual Fund Industry grown consistently during the study period?
- how the public-sector mutual fund schemes have performed since their inception?
- how did investors in Kolhapur district perceive risk in mutual fund investment?
- which factors influenced the choice of investors in Kolhapur district regarding mutual fund sector, mutual fund organization and mutual fund schemes?
- what were the perceptions of investors in Kolhapur district about mutual funds and which of these dominated their investment decision?
- how far the opinion of investors’ and Investment Advisers’ in Kolhapur district about various aspects of mutual fund investment were associated?

The study aimed at fulfilling the following objectives. (a) tracing the history and development of mutual funds in India and resource mobilization during 2002-03 to 2011-12 (b) evaluating the performance of selected public sector mutual funds schemes using Total Risk (σ), Systematic Risk (β) and Sharpe, Treynor and Jensen measures of portfolio evaluation (c) examining the risk perception of investors in Kolhapur district (d) examining sample investor’s preferences towards mutual fund investment and the factors influencing their investment decision and (e) analyzing perceptions of investors in Kolhapur district towards mutual fund industry (f) studying
opinion of investors and investment advisers about various aspects of mutual fund investment.

Corresponding to the above-mentioned objectives, the research hypothesis were statistically tested at 0.05 level of significance for both the parts of the study i.e. performance evaluation of public sector mutual fund schemes and investors’ perceptions and preferences. The examination of combined opinion of investors and investment advisers has also remained the focal part of the study which is tested statistically. In order to test six main hypotheses, necessary sub-hypotheses have been tested depending upon the nature and gravity of the research question.

Over the past two decades, mutual funds have increasingly become investors’ vehicle for long-term investment hence it was pertinent to study the performance of mutual funds. The study evaluated the performance of in all 40 mutual fund schemes launched by UTI, Canara Robecco, SBI and LIC Nomura Mutual Funds, since their inception to 31st March, 2012 with specific reference to total risk, systematic risk and also by applying Sharpe, Treynor and Alpha measures. Even though, there is a variety of a mutual fund scheme, the growth and income schemes were selected for the study. The performance of 20 growth schemes and 20 income schemes has been evaluated. The reasons behind incorporating growth and income schemes are two; first is that among others, these two types of schemes are widely accepted by investors and the second is that the investors having high and low risk profile get adequate representation.

The study has examined the perceptions and preferences of investing public in Kolhapur district regarding investment in general and mutual fund investment in particular.

As the present study is a blend of primary and secondary data, the required data were collected from both the sources. The data of NAV were collected from websites of AMFI, Factsheets of respective Mutual Funds and websites of UTI, Canara Robecco, SBI and LIC Nomura Mutual Funds. The data regarding benchmarks (BSE Sensex, S & P CNX Nifty Index, G-Sec Composite Index and T-Bills Index) were collected from websites of SEBI, Capital Market and RBI.

The data were analyzed by using statistical tools like Mean, Sigma, Coefficient of Variance (C.V.), CAGR, Beta Coefficient of Determination ($R^2$) in
addition to Sharpe, Treynor and Alpha measures. Kruskal Wallis ‘H’ Test was used to test the hypothesis relating to this part of the study.

The primary data were collected through a structured questionnaire from 489 investors and 32 Investment Advisers living in rural and urban areas of Kolhapur district. Despite repeated attempts not a single Investment Adviser and investor could be traced in Bhudargad Taluka and a very few investors who were traced in Chandgad Taluka didn’t respond till the final analysis. Weighted average score was computed for responses wherever necessary. The statistical tool of Chi-Square ($X^2$) was applied to test null hypothesis designed to check the association between preferences and opinion of investors and Investment Advisers and also to examine the impact of demographic characteristics on preferences and choice of investors.

To explain the significant difference in the opinion of investors and Investment Advisers, Spearman’s $Rho$ was used which was further tested using ‘$t$’ test. The measure of inter-dependency, popularly known as Factor Analysis, was used to compute loading values for 20 perception statements relating to Indian mutual fund industry.

7.2: FINDINGS OF THE STUDY

Findings are presented in three parts as follows;

7.2.1: Growth and Development of Indian MF Industry

The study has reviewed the growth and development of mutual fund industry in India especially relating to entry AMCs, assets under management (AUM), resource mobilization, redemptions and number of schemes. Though development of mutual funds through different phases has been reviewed, the study has covered ten years period from 2002-03 to 2011-12 for analysis. It revealed that:

(1) The setting up of UTI in 1964 marked the advent of mutual fund in Indian financial market. However, Indian mutual fund industry got momentum first after 1987 and then after 1993. The year 1987 was marked with the entry of public-sector institutions in mutual fund sector. Canara Bank was the first public-sector bank to enter into mutual funds. It was followed by State Bank of India, Punjab National Bank, Bank of India and Bank of Baroda etc. During this period LIC and GIC also
entered the market with a blend of fund with the element of ‘risk coverage.’ *(Refer Table 1.3)*

The discussion in the preceding chapters has shown that mutual fund activities remained almost dormant till mid-eighties since 1964 i.e. for about two decades. It was in September, 1986 that UTI floated India’s first true MF schemes named MasterShare.

(2) The phase-wise analysis revealed that in the first phase, UTI’s assets under management (AUM) had risen from Rs.25 crore in 1965 to Rs. 3218 by the end of 1986 with the CAGR of 24.71 percent. The combined growth of UTI and public-sector MFs in AUM was found to have raised from Rs. 4564 cr. in 1987 to Rs. 37,973 cr. in 1992 CAGR being 42.40, and the combined growth of UTI, public and private sector MFs in AUM was found to have shoot up from Rs. 47,734 cr. in 1993 to Rs. 6,11,402 cr. in 2012. Since the year 1965 to 2012, the AUM has registered the net growth of Rs. 44,491.45 cr. at the CAGR of 23.43. *(Refer Table 1.3)*

(3) Indian mutual fund industry had AUM of 4.7 percent of GDP (year 2011) whereas it was 77 percent in USA, 33.60 percent UK but slightly higher than China whose AUM was 4.6 percent of its GDP in the same year. *(Refer Table 1.5)*

(4) During the study period 12 Mutual Funds closed their shops and transferred their schemes to other Mutual Fund Houses. In the year 2003-04, Zurich India Mutual Fund was closed. In 2004, SUN F & C Mutual Fund and IL & FS Mutual Fund were closed. Year 2005 saw the closure of Alliance Capital MF and GIC MF. Standard Chartered MF and ABN AMRO wound up its mutual fund activities in 2008. DBS Chola MF and Fortis MF were closed their mutual fund activities in 2010. Shinsei Mutual Fund and Benchmark MF were closed in 2011. All these mutual funds transferred their mutual fund activities to other AMCs. Presently as on 31st March 2012 there are 45 AMCs operating in India with 4700 schemes launched in the market. *(Refer Table 1.4)*
The resource mobilization by Indian Mutual Fund industry during 2002-03 to 2011-12 showed increasing trend upto financial year 2009-10. Thereafter it decreased in two subsequent years of 2010-11 and 2011-12. Though total resources mobilized during this period were Rs. 403701.5 cr., due to the redemption of Rs. 400330.7 cr., the net resources mobilized were just 3370.80 cr. This meant that there was a tremendous redemption pressure of about 99.17 percent on the industry and net addition to resources stood only 0.83 percent of total resource mobilization.

In three financial years of 2008-09, 2010-11 and 2011-12, the redemptions were more than gross funds mobilization, as revealed by negative figures of net mobilization -0.0052, -0.5577 and -0.3230 respectively. (Refer Table 3.6.5 (A))

The financial year 2007-08 showed the highest net funds mobilization of Rs. 1538.02 cr, which accounted for 3.45 percent of gross mobilization. In gross resource mobilization of Rs. 4,03,702 cr during 2002-03 to 2011-12, UTI had a little share of 7.92 percent, public-sector MFs had 11.72 percent share and private sector had the largest share of 80.36 percent. It is thus evident that private sector mutual funds have lion’s share in resource mobilization.

As regards net resource mobilization again private sector MFs dominated by its share of 90.02 percent whereas UTI and public-sector MFs have share of 0.28 percent and 9.71 percent respectively. The empirical evidence revealed that performance of private sector mutual funds has far exceeded the performance of UTI and private sector MFs in terms of gross and net resource mobilization. (Refer Table 3.6.5 (C))

In the year 2002-03, 2004-05, 2008-09, 2010-11 and 2011-12 UTI’s redemptions were more than its mobilization and in case of public-sector in the year 2004-05, 2010-11 and 2011-12, redemptions exceeded mobilization. Private sector too had the same experience in 2008-09, 2010-11 and 2011-12.

Sector-wise analysis of redemptions showed that, in total redemption of Rs. 4,00,326 cr. during the period, UTI’s share was 7.82 percent, public-sector had 11.58 percent and private sector had 80.28 percent. The redemption of funds was the highest in the year 2009-10, which accounted for 24.81 percent of total redemption during the
decade. It was followed by 22.25 percent in 2010-11 and 17.10 percent in 2011-12. *(Refer Table 3.65 (B))*

(8) The descriptive statistics showed that there was a wide variation in net funds mobilization as revealed by C.V. of 189.55 percent and public-sector’s redemption showed wide variability in redemption (C.V. = 98.26 percent) compared to UTI and private sector mutual funds.

The statistical analysis showed constancy in resource mobilization by Mutual Funds in India. One way ANOVA test of resource mobilization of mutual funds during 2002-03 to 2011-12 showed that the difference between resource mobilizations by UTI, public and private sector mutual funds was significant. *(Refer Table 3.6.5 (A))*

(9) The study revealed that corporate investors had contributed more than retail investors to MF schemes. At the end of 2012 corporates had contributed 51 percent as against 26 percent by retail investors. Moreover, out of total AUM, corporates had a share of 50.99 percent; while retail investors had a share of 26.60 percent. High Net Worth Investors (HNWI) have contributed 18.63 percent towards AUM. *(Refer Table 3.6.5 (F))*

(10) Analysis of geographical spread of AUM showed that larger share of AUM of 71.10 percent had come from Top 5 cities of Mumbai, Delhi, Kolkata, Chennai and Bangalore and remaining from 105 plus cities. Mumbai’s share was found to be 42.10 percent. It means that mutual funds have remained mainly urban-focused even till 2012. This has resulted in the failure of tapping the potential retail investors in smaller cities and towns where they are in abundance. This might be due to lower-distributer support in smaller cities and villages. *(Refer Table 3.6.5 (G))*

(11) The private sector dominated the mutual fund industry in terms of number of schemes in operation. In all, 4700 MF schemes were operating in market. The sector wise analysis showed that 84.89 percent schemes have been launched by private sector mutual funds, 9.94 percent by public-sector mutual funds and 5.17 percent by
UTI. In private sector ICICI Prudential Mutual Fund had launched the highest 458 schemes followed by 243 schemes of UTI and 200 of SBI in public-sector. *(Refer Table 1.4)*

(12) The trend in growth of assets under management during 48 years from 1965 till 2012 showed increasing trend obliviously with many ups and downs, except 8 years in which redemptions were more than resources mobilized. It was in the year of 1975, 1997, 1998, 1999, 2001, 2003, 2009 and 2011 which resulted in reduction of AUM. Gross funds mobilization was the highest (24.82 percent) in the year 2009-10 as disclosed by analysis of gross resource mobilization during 2002-03 to 2011-12. *(Refer Tables 3.6.4 & 3.6.5 (A))*

### 7.2.2: Evaluation of Sample Mutual Fund Schemes

In this part of the study an attempt has been made to examine whether public sector mutual funds have consistently performed to accrue benefits to small investors and whether growth schemes have achieved their stated objective of high return for high risk. It was also studied as to whether performance evaluated by using different measures such as Total Risk, Systematic Risk, Sharpe Ratio, Treynor Ratio and Alpha Index differ along selected four public sector mutual funds. The analysis of 20 growth and 20 income schemes selected in equal proportion from UTI, CanaraRobeco, SBI and LIC Nomura Mutual Funds revealed the following facts:

**a) Consistency in Performance**

(1) Out of 20 growth schemes, UTI Banking Sector Fund Regular-Growth Option and out of 20 income schemes, UTI Money Market Fund-G showed consistency in performance as revealed by their coefficient of variance of 160.06 percent and 26.51 percent, the lowest among groups. There was more variability in the performance of LIC Nomura Infrastructure G (C.V. = 2469.27 percent) among growth schemes and UTI Gilt Advantage Fund Long-Term G (C.V. = 132.06 percent) *(Refer Table 5.1 (A) & 5.1 (B))*

(2) Among four institutions, SBI’s Mutual Fund’s growth schemes and LIC Nomura Mutual Fund’s income schemes showed consistency in performance, whereas LIC
Nomura’s growth schemes and SBI Mutual Fund’s income schemes showed variability in performance. The scheme return was found more variable than its corresponding benchmark index return. However, the Chi-Square test revealed that the difference in the performance of growth and income schemes was not significant. *(Refer Table 5.1 (C) & 5.1 (D))*

(3) In terms of average total risk and average returns all income schemes have registered good returns. UTI’s income schemes generated average returns of 7.34 percent as against the average total risk of 4.59 percent whereas CanaraRobeco’s income schemes gave average returns of 7.34 percent at the average total risk of 5.08 percent. Incase of SBI, its income schemes produced average returns of 6.63 percent at the average total risk of 5.34 percent and LIC’s income schemes generated average returns of 7.18 percent as against average total risk of 3.85 percent. *(Refer Table 5.3 (A))*

(4) Institution-wise analysis showed that UTI and CanaraRobeco and LIC Nomura’s income schemes had performed better than SBI’s income schemes. *(Refer Table 5.3 (B))*

*(b) Risk-Return Profile of Sample Schemes*

(5) Out of 20 growth schemes, 5 schemes fall in *high risk-high return* category, and 10 growth schemes fall in *high risk-low return* category. This showed that the majority of growth schemes had failed to achieve stated objective of high return for high risk. No income schemes fell in these two categories. Five growth and 5 income schemes fell in *low risk-low return* category. Out of 20 income schemes LIC Nomura’s all 5 fell in *low risk-low return* category. *(Refer Table 5.2)*

(6) Only five growth schemes out of 20 (25 percent) namely, UTI Banking Sector Fund Regular (Growth Option), Canara Robecco Equity Tax Saver-Regular, SBI Magnum Equity Fund-Growth, SBI Magnum Global Fund-94-Growth and SBI Magnum Tax Gain Scheme 1993-Growth which fell in high risk-high return category
had achieved the stated objective of high return for carrying high risk. In these, SBI Mutual Fund has 3 schemes. *(Refer Table 5.2)*

(7) The institution-wise analysis of performance revealed that SBI’s growth schemes had performed better than others and LIC Nomura’s growth schemes posted the worst performance in the group. In case of income schemes, CanaraRobeco’s and UTI’s schemes registered good performance than that of SBI’s income schemes. However, the ‘t’ test disclosed that the difference between average rate of returns of growth and income schemes of UTI, CanaraRobeco, SBI and LIC Nomura was not significant. *(Refer Table 5.3 (B))*

(c) Analysis of Systematic Risk (β)

(8) In all 40 schemes, the highest systematic risk was carried by LIC Nomura MF Index Nifty-G as revealed by its beta of 1.20. Out of LIC Nomura’s 5 growth schemes, 4 were having *aggressive portfolio* as shown by their beta values. All growth schemes of UTI, CanaraRobeco and SBI had *defensive portfolios* as indicated by the beta values of less than 1. Among all 20 growth schemes studied UTI Long-Term Advantage Fund Series-IG showed the lowest beta of 0.11. *(Refer Table 5.3 (C))*

(9) Institution-wise analysis disclosed that SBI Mutual Fund had very defensive portfolios for all its schemes whereas LIC Nomura had very aggressive portfolios as indicated by their average beta values of 0.68 and 1.06 respectively. *(Refer Table 5.3 (C))*

(10) Statistical analysis revealed that growth schemes of UTI, CanaraRobeco, SBI and LIC Nomura have not achieved their stated objective of high-risk, high-return. These schemes have not been adequately adjusted to the market risk and have not generated returns sufficient to cover market risk. *(Refer 5.3 (D))*
(d) Results of Sharpe Measure

Sharpe Ratio (reward for every unit of total risk) was applied for performance analysis of growth and income schemes and Treynor Ratio (reward for volatility) was applied only for growth schemes, which revealed the following facts.

(10) Out of 20 growth schemes, only two schemes showed negative Sharpe Ratio. These were UTI Long-Term Advantage Fund Series-IG and LIC Nomura MF Infrastructure –G as -0.22 and -0.18 respectively. (Refer Table 5.4 (A))

(11) UTI Banking Sector Fund Regular –Growth Option registered the highest Sharpe Index of 0.31 and as mentioned above LIC Nomura MF Infrastructure –G registered the lowest Sharpe Index of -0.18. (Refer Table 5.4 (A))

(12) Out of 20 growth schemes 8 schemes (40 percent) outperformed the market returns (i.e. BSE Sensex) and 12 growth schemes (60 percent) were found to have performed below BSE Sensex (The Benchmark) Analysis of Sharpe Index, indicated that UTI’s 2, CanaraRobecco’s 3, SBI’s 2 and LIC Nomura’s all 5 growth schemes underperformed. (Refer Table 5.4 (A))

(13) Mean risk-free return ($R_f$) of all 20 growth schemes as indicated by Sharpe Index was 0.18 whereas that of BSE Sensex was 0.26. This meant that all the growth schemes could not beat the market return. (Refer Table 5.4 (A))

(14) Institution-wise analysis disclosed that UTI’s three growth schemes outperformed the market return, namely UTI Banking Sector Fund Regular (Growth Option), UTI Master Plus Unit Scheme-91 (Growth Option) and UTI Equity Tax Savings Plan. CanaraRobecco’s one growth scheme namely CanaraRobecco Emerging Equities –Growth Option and SBI’s two schemes namely SBI Magnum Global Fund -94-Growth and SBI Magnum Tax Gain Scheme 1993-Growth were the market beaters. No growth scheme of LIC Nomura could produce returns more than benchmark. (Refer Table 5.4 (A))
The analysis of Sharpe Ratio of income schemes revealed that all 20 schemes were the underperformers. The average Sharpe Ratios of income schemes was found -0.85 whereas its benchmark return (G-Sex Nifty Composite Index) was found to be +0.21. This meant that no income scheme could perform better than market. *(Refer Table 5.4 (B))*

The best among 20 income scheme was UTI Gilt Advantage Fund Long-Term – G (-0.12) and the worst was UTI Liquid Cash Plan (-1.68) *(Refer Table 5.4 (B))*

Institution-wise analysis of Sharpe Ratio showed that: CanaraRobecco Income Regular Scheme (-0.09) was the best performing scheme of CanaraRobecco MF and CanarRobecco Liquid Regular Fund (-1.09) was the worst performer. Among SBI’s five income schemes, SBI Magnum Gilt Long-Term Fund DQ posted good returns (-0.25) and SBI Dynamic Govt. Sec- D was found to be the worst performer. LIC Nomura MF Govt. Sec. D registered best performance with Sharpe Ratio -0.22 and LIC Nomura MF Liquid Fund registered the worst performance as indicated by its Sharpe Ratio of -1.86. *(Refer Table 5.4 (B))*

However statistically, this difference between performance as per Sharpe Ratio was not significant as indicated by H= -22.57 for growth schemes and -5.157 for income schemes which was less than Chi-Square table value of 7.815 at 0.05 level of significance. *(Refer Table 5.4 (C))*

*(e) Results of Treynor Measure*

Mean Treynor Ratio for all 20 growth schemes was found to be 9.10 which less than benchmark (BSE Sensex) return of 13.66. This meant that the reward for volatility was not satisfactory. However, 6 schemes had outperformed the market inclusive of 3 of SBI, 2 of CanaraRobecco and one of UTI. 14 schemes underperformed as indicated by Treynor Ratios. *(Refer Table 5.4 (E))*

The best among 20 growth schemes was SBI Magnum Tax Gain -1993-Growth as indicated by its Treynor Ratio of 47.06 which was higher than its benchmark return
of 24.16. As per Treynor Ratio, the worst performed scheme was UTI Long-Term Advantage Fund-Series IG (-69.73) (Refer Table 5.4 (E))

(21) Institution-wise analysis revealed that UTI Banking Sector Fund Regular (Growth Option) outperformed as indicated by its Treynor Ratio of 23.00 and the worst performer was UTI Long-Term Advantage Fund Series IG (Treynor Ratio = -69.73)

CanaraRobeco Emerging Equities Growth Option (30.66) and CanaraRobeco Equity Tax Saver Regular (17.41) were outperformers whereas CanaraRobeco Infrastructure Regular (5.30) was the worst performer among 5 growth schemes of CanaraRobeco.

In terms of Treynor Ratio SBI’s 3 growth schemes namely SBI Magnum Tax Gain Scheme-1993-Growth (47.06), SBI Global Fund-94-Growth (32.05) and SBI Magnum Equity Fund-Growth (25.17) outperformed the market. SBI Blue Chip Fund-Growth (1.10) underperformed.

LIC Nomura’s all schemes registered underperformance. However, the best among them was LIC Nomura MF Index Nifty-G with Treynor Ratio of 5.67 whereas the worst performer was LIC Nomura MF Infrastructure–G (Treynor Ratio = -10.46) (Refer Table 5.4 (E))

(22) However, the difference in performance of growth schemes of UTI, CanaraRobeco, SBI and LIC Nomura Mutual Fund as indicated by Treynor Ratio was not statistically significant as revealed by Kruskal Wallis H test (2.391) which was less than table value of 7.815 at 0.05 significance level. (Refer Table 5.4 (F))

(f) Results of Jensen’s Alpha (Stock Selectivity Parameter)

To know the stock selection ability of Fund Managers, Alpha Ratios were computed for 20 growth schemes, which revealed the following facts.

(23) The mean Alpha was found to be -0.70 which was less than market Alpha of -4.22. This showed that there was no superior performance of growth schemes. The best among 20 growth schemes was SBI Magnum Tax Gain Scheme-1993-G as
indicated by Alpha value of 16.93 and the worst was LIC Nomura MF Index Nifty-G as indicated by Alpha value of -14.11. *(Refer Table 5.5 (A))*

(24) Institution-wise analysis of Alpha values showed that UTI Banking Sector Fund Regular (Growth Option) had the highest Alpha of 8.02 and the worst performed scheme of UTI was UTI Long-Term Advantage Fund-Series IG (Alpha = -7.66)

CanaraRobecco Emerging Equities-Growth Option was the best performer with Alpha of 12.19 and CanaraRobecco Nifty Index Regular with Alpha of -5.26. Among SBI’s 5 growth schemes the best performer was SBI’s Magnum Tax Gain Scheme-1993-Growth as indicated by Alpha of 16.93 and the worst was SBI Blue Chip Fund –Growth whose Alpha was –7.43.

LIC Nomura MF Growth-G was the best performer (Alpha = -8.29) among its 5 growth schemes and LIC Nomura Index Nifty-G was the worst performer with Alpha value of -14.11. *(Refer Table 5.5 (A))*

(25) In respect of performance analysis of mutual fund schemes it is inevitable to examine whether the Fund Manager’s skills of achieving market timing and stock selection ability is reflected in scheme’s return. In other words, it has always remained the central issue in studying mutual fund scheme’s return as conceptually the small investors are to be benefitted by the professional expertise of the Fund Managers. The statistical test revealed that Fund Managers’ skills of achieving market timing and stock selectivity has not been reflected in the return of growth schemes. *(Refer Table 5.5 (A): Appraisal Ratio)*

(26) 9 growth schemes (45 percent) showed positive Alpha whereas 11 schemes (55 percent) schemes showed negative Alpha. Institution-wise analysis revealed that three schemes each of one UTI, CanaraRobecco and SBI Mutual Funds had positive Alpha. However, no scheme of LIC Nomura showed positive Alpha. *(Refer Table 5.5 (B))*

However, the superior performance of nine growth schemes was not due to Fund Managers’ skill or good stock selectivity but by chance or booming stock market. It was not statistically significant. *(Refer Table 5.5 (B))*
The combined analysis of rank difference between performances of all growth schemes as indicated by Total Risk, Systematic Risk, Sharpe, Treynor and Alpha measures was not statistically significant as indicated by Kruskal Wallis H Test (-228.42) which was far greater than Table Chi-Square value of 9.488 at 4 degrees of freedom at 5 percent level of significance. (Refer Table 5.5 (C))

The peer group analysis revealed that only one scheme of UTI outperformed, 2 schemes outperformed under Tax Saving category, one of CanaraRobecco and SBI. In Index-based Fund category, no scheme was the outperformer but only one scheme of SBI namely SBI Index Fund Growth was the best performer. However, the difference between performances of schemes falling in above-mentioned three categories was not significant.

In respect of income schemes, CanaraRobecco Gilt PCG Regular-G was the best performer in G-Sec Schemes and under Bond Schemes SBI Dynamic Bond –G was the best performing scheme. The difference between performances of schemes falling under these two categories was significant. (Refer Table 5.6)

7.2.3: ANALYSIS OF PREFERENCES AND PERCEPTIONS OF INVESTORS IN KOLHAPUR DISTRICT

(a) Profile of Mutual Fund Investors in Kolhapur district

The profile of investors in Kolhapur district showed that majority of investors were middle-aged male graduate urbanites, married and holders of middle-sized families, having annual income of around Rs.1,80,000/- and saving maximum Rs. 30,000/- per annum. 76.69 percent investors belonged to earning age group of 26 to 60 years. Male investors were more (88.55) than female. 55.21 percent were undergraduates. Majority of investors (88.96 percent) were from urban parts (small cities and towns) of Kolhapur district. 48.26 percent respondents represented the employed (salaried) category and 11.04 investors represented adjacent villages. The monthly income of 51.74 percent investors was Rs. 15000/- per month and 51.53 percent of them were saving maximum Rs. 2500/- per month. Majority of investors (84.66) were married and 67.28 percent held medium-sized family comprised of 4 to 6 members. (Refer Table 6.1)
(b) **Investors’ Attitude towards Investment**

To explain the attitude of investors’ in Kolhapur district towards investment, four factors were identified, the analysis whereof revealed that:

(2) 39.26 percent investors showed intensity of financial need for meeting unplanned and emergency expenses whereas 32.52 percent were willing to devote the investment for long-term period. *(Refer Table 6.2)*

(3) Though majority of investors (76.28 percent) were willing to take risk, only 19.02 percent were true risk-takers as they expressed their willingness to take high risk for return. 23.72% were reluctant to take more risk. *(Refer Table 6.3)*

(4) Majority of investors (80.98 percent) favoured ‘comfort-zone’ as they responded to low risk-high return and low risk-low return matrix. The matrix of high risk-high return was favoured by 19.02 percent investors. This showed that the investors inclination towards ‘safety’ of money invested by them in financial assets. *(Refer Table 6.4)*

(5) Twin investment objective of ‘income plus growth’ was favoured by majority of investors as revealed by the highest weighted average score (WAS) of 0.27. It was followed by ‘regular income’ and ‘capital appreciation’ Tax rebate was not on the investment agenda of investors. *(Refer Table 6.5)*

(6) The Chi-square test revealed that gender, age, marital status, family size, monthly income, occupation and location had significant influence on investors’ intensity of financial needs, risk-return choice and investment objectives.

Education and monthly income affected intensity of financial needs, choice of risk-return matrix and investment objectives. Marital status and location were the most powerful variables that affected all the above four factors. *(Refer Table 6.6)*
(c) Investors’ Preferences towards Financial Assets and Mutual Funds

Investors’ preferences were analyzed which revealed that:

(7) Investors assigned the first preference to bank deposits with highest weighted average of 0.16. They preferred to keep deposits with co-operative banks and societies (81.60 percent) than public and private sector banks. They gave the second preference to post office schemes (weighted average: 0.15) Investors assigned the sixth preference to mutual fund as shown by weighted average of 0.11. (Refer Table 6.7)

Around 82 percent people in Kolhapur district use to invest their savings in co-operative institutions due to their intimacy with them (87 percent) (Refer Table 6.7 (A) & 6.7 (B))

(8) Majority of investors preferred to invest money on advice of and through Chartered Accountants as revealed by the highest weighted average of 0.17. Independent Investment Adviser was the second preferred channel for investment. Very less number of investors made use of Internet as channel to invest through. They rarely browsed Mutual Fund Bazzar on Internet. (Refer Table 6.8)

(9) Majority of investors preferred public sector mutual funds, though the picture at all India level showed high preference to private sector mutual funds. LIC sponsored and private Indian and joint venture (predominantly Indian) MF houses were preferred at the second place. (Refer Table 6.9 & 6.9 (A))

(10) Income schemes were mostly preferred by investors as indicated by weighted average of 0.16 and second preference was assigned to equity linked saving schemes (ELSS). It was followed by sector-specific funds and money market mutual fund schemes (MMMS) Index and Gold/Real Estate were least preferred schemes. (Refer Table 6.10)

(11) The Chi-square test revealed that gender, location, marital status and family size significantly impacted investors’ preference to Investment Avenue, investment
channels, mutual fund sector and schemes. Choice of mutual fund schemes was considerably affected by age and magnitude of saving. (Refer Table 6.11)

(d) Investors’ Opinion about Various Aspects of Mutual Fund Investment

The study analyzed the opinion of investors on various aspects of mutual fund investment, which revealed the following facts:

12) Majority of investors (95.30 percent) used to choose mutual funds for investing their money in anticipation that it would fulfill their objectives, whereas only 1.02% chose it just for diversification of their investment. Encouraging past performance of mutual funds motivated investors to choosing a specific scheme. (Refer Table 6.12)

13) Brokers/agents were the main source of information for 65.24 percent investors, followed by print media and television. (Refer Table 6.13)

14) 40.29 percent investors had the investment experience up to 10 years while 12.88 percent were the beginners. (Refer Table 6.14)

15) The analysis of frequency of investment revealed that 39.26 percent investors invest annually. (Refer Table 6.15)

16) It was found that 56.03 percent investors had mutual fund component to the tune of 25 to 50 percent in their portfolio. Out of these only 3.27 were sole mutual fund investors. They didn’t have large portfolio. (Refer Table 6.16)

17) Majority of investors (41.92 percent) had time-horizon of investment upto 5 years and only 7.57 investors had it 10 years plus. (Refer Table 6.17)

18) Investors’ decision towards mutual fund investment was influenced mostly by past performance of mutual fund schemes (100%) second most influential factor was the advice rendered by Financial Adviser. (Refer Table 6.18)
43.35 percent investors expected annual return of more than 16 to maximum 25 percent from mutual funds. Only 19.84 percent investors expected returns expect as high as possible. *(Refer Table 6.19)*

While expressing reaction towards mutual fund investment if its value declines suddenly by 15 percent, 52.76 percent investors showed apprehensive mindset towards it. *(Refer Table 6.20)*

Majority of investors in Kolhapur district (81.80 percent) were found to be worried about potential loss than being hopeful about potential gain. *(Refer Table 6.21)*

Possibility of capital appreciation, high tax benefits and entry with small capital were the strong factors that attracted investors towards mutual fund investment. *(Refer Table 6.22)*

Post Office schemes were regarded as the safe financial assets and the second was the bank deposits. Investors assigned sixth preference to mutual funds. *(Refer Table 6.23)*

Majority of investors believed that ‘portfolio construction’ and ‘Fund Managers’ skill’ as two main factors which determine the success of mutual funds. *(Refer Table 6.24)*

The choice mutual fund house was affected mostly by ‘reputation of mutual fund house’ in the market and ‘performance track record of schemes’ as revealed by their weighted averages of 0.35 and 0.30 respectively. *(Refer Table 6.25)*

The choice of mutual fund scheme was influenced by ‘degree of safety’ (weighted average: 0.35), the schemes objectives and possibility of capital appreciation (weighted averages: 0.32). *(Refer Table 6.26)*
67.89 investors were fully satisfied about compatibility of mutual fund schemes to their diverse needs. More than half of the investors were fully satisfied about degree of safety and performance of mutual fund industry. 43.56 percent investors were moderately satisfied about regulation of mutual fund industry. Less than half investors (41.72) were fully satisfied about the quality services rendered by mutual funds. (Refer Table 6.27)

(e) Analysis of Combined Opinion of Investors and Investment Advisers on Various Aspects of Mutual Fund Investment

Analysis of combined opinion of Investors and Investments Advisers revealed that:

27. ‘Income plus Growth’ was the first-preferred investment objective for investors while ‘capital appreciation’ was the first-rated objective for Investment Advisers. Tax benefit was the last-rated objective by Investment Adviser. (Refer Table 6.29)

28. ‘Bank deposits’ was the most preferred investment avenue for investors as against the ‘equity shares’ and ‘mutual funds’ were preferred by Advisers. Investors placed mutual funds at sixth position. (Refer Table 6.30)

29. Most of the investors preferred to invest their money through Chartered Accountants as the channel while Investment Advisers opined that Brokerage House as the best channel. (Refer Table 6.31)

30. Investors gave the first preference to bank-sponsored mutual funds while Investment Advisers gave the first preference to Private Indian mutual funds. Investment Advisers least preferred UTI and bank-sponsored mutual funds (Refer Table 6.32)

31. Investors opined that ‘income schemes’ being less risky, be preferred for investment whereas Advisers opined that ‘growth schemes’, being high return potential, be preferred for investment. (Refer Table 6.33)

32. In investors opinion ‘post office schemes’ were most safe financial asset but the Advisers viewed ‘bonds and debentures’ as the safest mode of investment. (Refer Table 6.34)
(34) In terms of safety, mutual funds were given the second preference by Investment Advisers while investors gave sixth preference to it. (Refer Table 6.34)

(35) Both investors and Investment Advisers had agreed that ‘portfolio construction’ and ‘Fund Manager’s skill’ were two most important determinants of success of mutual funds. (Refer Table 6.35)

(36) Investors viewed that ‘reputation’ and ‘performance track record’ as two important factors which influence the choice of mutual fund house while Investment Advisers viewed that ‘corpus size’ and ‘performance track record’ as two important factors that influence choice mutual fund house.(Refer Table 6.36)

(37) Investors opined that ‘safety’, ‘liquidity ‘and ‘capital appreciation’ were most important factors which influence the choice of mutual fund scheme however the Investment Advisers opined that ‘potential return’, ‘scheme objectives’ and ‘safety’ are the dominant factors in selecting mutual fund scheme.(Refer Table 6.37)

(38) The results of Chi-square tests of combined opinion of Investors and Investment Advisers about nine aspects of mutual fund investment as mentioned in Table 6.29 to 6.37 led to reject the Hypothesis No. 5 of the study. In other words, it may be stated that Investors and Investment Advisers in Kolhapur district are not of the same mind in respect of preferred investment objectives, investment avenues, channels of investment, mutual fund sector, mutual fund schemes, degree of safety of financial assets and factors determining success of mutual funds and affecting choice of mutual funds, their schemes and mutual fund houses.

(39) Investors were of the opinion that ‘possibility of capital appreciation’, ‘high tax benefits’, ‘benefits of diversification’, ‘entry with small capital’ were the most powerful factors that attract people towards MF Investment. But Investment Advisers opined that along with ‘possibility of capital appreciation’, ‘liquidity’ and ‘benefit of diversification’, other factors like ‘advantage of professional expertise’ and ‘assured
annual return’ were the important factors that tend people to invest in mutual fund schemes. *(Refer Table 6.38)*

(40) Investors viewed that ‘existence of other attractive investment opportunities in the market and less awareness about mutual funds were the strong reasons that obstruct investors from taking up mutual fund investment. Investment Advisers regarded that availability of other profitable investment opportunities in the market was the first reason that impede people from taking up mutual fund investment. Another important factor was that people do not regard mutual funds as risk-free mode of investment. If the Financial Advisers do not recommend mutual funds to their client, they do not dare to invest in it.* *(Refer Table 6.39)*

(41) The ‘t’ test revealed significant difference in the opinion of investors and Investment Advisers about factors attracting investors towards and obstructing them from mutual fund investment. *(Refer Table 6.38 (A) & 6.39 (A))*

*(f) Analysis of Investors’ Specific Perceptions towards Mutual Fund Industry*

In all 20 perception statements were incorporated in the study. The responses to these statements were analyzed by using statistical technique of Factor Analysis, which revealed that:

(42) As regards 1st Factor ‘Mutual Fund is the less risky mode of investment’ the factor loading of -0.9022 showed that investors did not regard mutual funds as risk-free mode of investment but they perceived it as the best shield against the potential loss of investing directly in share market (loading value:0.95529) *(Refer Table 6.28 (III))*

(43) Regarding 2nd Factor on ‘Performance of Indian Mutual Funds’ , investors believed that long-term mutual funds produce more returns and were always beneficial to investors (loading value: 0.98652). Investors didn’t view that large-corpus mutual funds succeed in generating handsome returns as revealed by loading value of 0.37636. Further they were not agreed that Private Sector and Foreign mutual funds perform better than Public-Sector mutual funds. *(Loading value: -0.7499)* *(Refer Table 6.28 (IV))*
(44) In respect of 3rd Factor entitled ‘Benefit of Fund Managers’ Expertise’ it was found that mutual funds’ performance depended upon the skill of Fund Managers as indicated by loading value of 1.0605. But they differed with the statement ‘Fund Managers always foresee the risk and succeeds in minimizing it’ (loading value: -0.49) (Refer Table 6.28 (V))

(45) As regards 4th Factor captioned as ‘Better Investor Service’, it was shown that mutual funds maintain continuous rapport with the investors through letters, SMS and e-mails etc. (loading value: 1.4998) The investors also believed that mutual funds chalked schemes to meet their diverse needs as indicated by loading value of 0.9791. (Refer Table 6.28 (VI))

(46) In respect of 5th Factor on ‘Prominent Drivers of Mutual Funds’ Performance’, it was found that investors mostly believed that good regulation and good corporate governance drives the performance of mutual funds which was indicated by the highest loading value of 2.121. Further they regarded that the stock market trends and fluctuations in interest rates affect the performance of mutual fund schemes. (loadings: 1.3846 and 1.0645 respectively) The loading value of 0.980 attached to the statement ‘Fund Managers’ ability to manage the funds’ showed that investors regarded that Fund Managers’ role as crucial in performance of mutual funds. (Refer (Refer Table 6.28 (VII))

7.3: CONCLUSIONS
The above findings led to arrive at the following conclusions.

7.3.1: Growth and Development of Indian MF Industry
(1) During the study period of ten years from 2002-03 to 2011-12, Indian MF industry had shown an impressive growth in respect of number of AMCs, number of schemes launched, resource mobilization, assets under management.

(2) The industry had got momentum with the entry of public private and foreign mutual funds. Private sector MFs had a lion’s share in the present growth of mutual fund industry.
(3) The industry had experienced the heavy redemption pressures during the study period. Hence the net addition to resource mobilization was meagre. This was because of withdrawal/repurchase of schemes. One of the reasons behind this was more participation of big investors and High Net Worth Investors (HNWI) in many mutual funds, who exited early from mutual funds with big amount. Middle-class small investors’ share in mutual funds is just 26 percent, though they are regarded as loyal long-term partners.

(4) Twelve mutual funds had to pull down their shutters and transfer the operating schemes to other AMCs. These AMCs could not sustain in the market even for a decade. General Insurance Corporation, the public sector institution having substantial marketing experience and good network switched of mutual funds activities since 2005.

(5) UTI and public-sector mutual funds had lagged behind private sector mutual funds in respect of resource mobilization during the study period.

(6) People were moving away from UTI and public sector mutual funds and prefer to invest in private sector mutual funds.

(7) Though mutual funds are meant for small investors (i.e. household savers), more corporates have participated in mutual funds. Though mutual funds are designed to benefit small or retail investors their share seemed to be less than corporates, who are the big investors. This leads to conclude that the retail investors had not been substantially tapped by the mutual fund industry, though it stands in the market since a long time. This meant that there is a great potential for mutual fund industry to expand its activities.

(8) The mutual funds had been urban-focused and favorite among rich class and corporates. The geographical spread of MF industry has remained mainly urban-focused and the tier-II and III cities, towns and villages have remained out of the orbit.
of mutual funds till today. Only a few mutual funds have presence in Kolhapur district.

(9) At Kolhapur district level, there is no strong network of fund distributors. Resultantly in small cities, towns and villages, there is not enough awareness about mutual funds. Kolhapur district has been less tapped by Mutual Fund Industry despite there is an abundant potentiality for it. There is a lack of well-knitted chain of mutual fund distributors at taluka levels. Villages are far away from the concept of mutual funds. The investment which has been saturated in cooperative banks and gold can possibly be diverted towards mutual funds; however it seems that such efforts have not yet been done.

(10) The private sector banks have been doing aggressive marketing of mutual funds in Kolhapur district than UTI and public-sector banks.

(11) The discussion with sub-brokers, Chartered Accountants, financial advisers and office-bearers of Kolhapur Investors’ Association led to conclude that the help-desk for investors in Kolhapur district is available in the form of Kolhapur Investors’ Association, the sub-brokers like Banks (Public and Private) and Individuals including ARN Holders, Chartered Accountants, Financial/ Investment Advisers, one Mutual Fund Office at district level, office of UTI Mutual Funds and AMCs Offices i.e Karvy and Camps. However all this support is accessible at district level only.

(12) Kolhapur Investors’ Association provides guidance but its chief focus is on equities. The mutual fund is not the prime area of their activities. Out of 257 ARN Holders, many have discontinued their profession. A big number of these ARN Holders have taken up investment advisory activities as side business. Some have been operating under their wife’s name. Chartered Accountants and Financial/ Investment Advisers too showed poor interest in fund distribution. They reported the reduction in commission is one of the reasons for that and lack of up-to-date training and low awareness level among people are other reasons.
7.3.2: Performance of Mutual Fund Schemes

(13) 25 percent growth schemes could achieve their stated objective of ‘high return for high risk.’

(14) 50 percent growth schemes had failed to achieve their stated objective of ‘high return for high risk.’ Contrarily, these schemes had generated low return despite investors carried high risk.

(15) In terms of average total risk and average returns all income schemes have registered good returns.

(16) The aggressive portfolio didn’t generate higher returns as indicated by all five growth schemes of LIC Nomura. Conversely, SBI despite having defensive portfolio generated satisfactory returns.

(17) As indicated by Sharpe Index, 90 percent growth schemes have generated satisfactory reward for total risk carried by investors. This means that investors have reaped the benefits of stock market through route of mutual fund. However, only 30 percent growth schemes outperformed the market as indicated by Sharpe Ratio higher than that of BSE Sensex. This means that Fund Managers’ investment strategies and trading skill have benefitted the investors. SBI with defensive portfolio performed very well.

(18) However, all 20 income schemes failed to generate sufficient risk-free returns as per Sharpe Ratio. Basically, income schemes are fitted in ‘low risk-low return’ matrix, hence their performance can not be compared with that of ‘growth schemes’ (equity schemes) which are invariably exposed to higher risk and fitted in high risk-high return’ matrix.

(19) The negative Sharpe Index for all income schemes led to conclude that the performance of income schemes got influenced by the fluctuations in interest rates rather than volatility in stock market.
(20) The investors who have invested their money in growth schemes of mutual funds of public sector mutual funds have got enough ‘reward for volatility’ as indicated by positive Treynor Ratios for 18 growth schemes (90 percent) out of 20. However only 6 growth schemes (30 percent) could beat the benchmark returns. This may be viewed as superior returns which investors could avail because of Fund Managers’ skill.

(21) 45 percent of growth schemes have performed satisfactorily as indicated by positive Alpha values. This is indeed because of the Fund Managers’ skill and appropriately constructed portfolio, though it is not viewed so as it is statistically not significant. LIC’s all 5 growth schemes have failed to generate superior returns in terms of Alpha measure.

(22) The reward for risk as generated by sample mutual fund schemes is not satisfactory. Only growth schemes have out performed the market.

(23) Most of the high risk funds have not produced higher returns. Majority of the sample MF schemes have failed to achieve their stated objectives. It implies that a large number of investors have lost their capital.

(24) The Fund Managers need to change their approach towards risk management. Selection of appropriate stock and construction of appropriate portfolio seems to be occupying a low priority with public-sector mutual funds.

(25) Ranking of MF schemes as per Sharpe and Treynor’s Ratio showed marginal variation. It is due to the fact that total risk and market risk exposures of each schemes is different. Sharpe considers total risk while Treynor considers market risk.

(26) Nearly half of the growth schemes had shown poor performance and all income schemes had presented dismal picture as regards risk-adjusted returns.
(27) The Fund Managers need to deploy superior forecasting techniques of stock prices. This would help them for better stock selectivity.

(28) The real strength of mutual fund lies in diversified portfolio and Fund Managers’ expertise in stock selection and managing the fund so that the investors should get the higher returns than risk-free return. The professional expertise reflects if the mutual fund outperforms the market in rising and falling markets.

(29) On the whole it may be concluded that 30 to 45 percent mutual funds could generate superior returns than market. This calls for improvement in portfolio construction and Fund Managers’ skill. Further, mutual funds could emerge as a powerful option of reaping benefits of stock market, especially equities, at a moderate risk.

7.3.3: Preferences and Perceptions of Investors in Kolhapur district

(30) In Kolhapur district the female participation in investment in various financial assets is general and in mutual funds in particular is very poor. It necessitates the organization of Investment Training Camps and Investors’ Meet in which women participation has to be intentionally increased.

(31) Majority of investors in Kolhapur district invest their money in various financial assets with the prime intention of meeting the unplanned and emergency expenditure. The investors need to be convinced about benefits of long term investment and hedge against inflation.

(32) Majority of investors in the district are moderate to petite risk takers. Very few of them have prepared their mind to accept high risk for getting high returns through investment venture. ‘Low-Risk High-Return’ matrix is mostly favoured by majority investors in Kolhapur district. They are apprehended by sudden decrease in NAV of mutual funds. They think more of potential loss than potential gain likely to generate from their investment. It necessitates the concerted efforts to enlighten investors in respect of risk-return relationship, real return (i.e return minus tax rate and inflation rate), share market operations etc.
(33) Majority of investors prefer Regular Income plus Growth policy which obviously exhibits that they are not willing to take more risk for reaping the benefits of share market.

(34) Educated and salaried class, which has moderate income and saving levels, living in urban areas of Kolhapur district is mostly attracted towards mutual fund investment. The number of employees in a number of government, semi-government and co-operative private industrial, commercial establishments, education institutions and district administrative machinery explicates the organic scope for popularizing and distributing mutual funds in the district. Still mutual fund is least preferred financial asset for them. Mutual funds are not yet fully regarded as the best indirect mode of reaping the benefits of equity market hence it finds almost the last place in their portfolio. They are hardly ready for compromise on safety of investment for getting higher return.

(35) Investors in the district mostly invest their money only in those financial assets which are recommended by Chartered Accountants and Financial/ Investment Advisers. Only a few investors who are countable on figure tips use to take investment decision by governed by their self-study. This may be looked as an opportunity to tap small investors by training CAs and Investment Advisers operating in Kolhapur district.

(36) People in Kolhapur district prefer to park their money in deposit schemes launched by local co-operative banks and credit societies with whom they are directly or indirectly affiliated and whom they feel very near to them. It seems to be very challenging to break this ‘co-operative-investors affinity bond’ and divert saturated money or fresh money towards mutual funds.

(37) Existence of many other attractive options of investment has undermined the importance of mutual funds in the market. Further low awareness level and a large
variety of mutual fund schemes have become the cause of confusion in the minds of small and sporadic investors.

(38) Investors in Kolhapur district mostly preferred bank deposits as the safe and regular income asset, post office schemes for their faith in government, gold as the mid-night liquid asset, real estate for fast growth and mutual funds schemes are not regarded as less risky as propagated.

(39) Investors in Kolhapur district regarded ‘capital appreciation’ and ‘benefit of diversified portfolio’ as the strong factors that attract people towards mutual fund investment and ‘existence of many other attractive options of investment’ and ‘less awareness about mutual funds and their risk-return characteristics’ were viewed as the strong factors that drives people away from mutual funds.

(40) Investment in mutual fund was done primarily for earning good returns. Availing tax benefit was the next objective on the agenda of investors in Kolhapur district. However, investors did not want to compromise on safety of their invested money for the sake of getting higher returns.

(41) Investors in the district are largely depended on Fund Managers’ professional expertise and trading skill, but they were disappointed by poor performance of mutual funds schemes where Fund Managers’ expertise was not at all reflected. This gave a thought to the mind of investors as to why they should accept the indirect mode of investing in share market like mutual fund and instead better to invest directly in share market.

(42) Investors in Kolhapur district were of the opinion that good regulation and good governance might improve the overall performance of mutual funds.

(43) Most of the investors in Kolhapur district had misconception about risk-return relationship and gross misperception about various dimensions of mutual fund investment.
7.4: SUGGESTIONS

Investment potentially in Kolhapur district which is known in Asia for co-operative movement is very high. The people in Kolhapur district have made a very big investment in co-operative banks, co-operative credit societies, urban co-operative banks and co-operative societies. The reason behind keeping deposits in co-operative societies is that at least one person every house in Talukas is directly associated with co-operative societies. People have kept deposits in co-operative societies over generation to generation mostly due to their direct connection with these societies and involvement in local politics. This is nothing but the saturated investment and there is a big challenge as to how to divert this traditional investment in co-operatives towards mutual funds.

Kolhapur district is the fast developing city in Western Maharashtra. Farm and allied activities like cattle breeding and milk etc. have brought financial stability to majority of residents in the rural parts of the district. However, apart from bank and P.O. deposits they prefer to invest their excess income in gold and vehicle etc. Mutual funds are the mediators between common investors and all investment avenues, which may reasonably be accepted by investors; however the deep penetration of mutual funds at taluka level is required. Presently there is one AMC Office (Karvey and Camps), one MF office at district, sub-brokers and Kolhapur Investors’ Association, which provide the help desk for investors. But there is no MF Advisory Office at taluka level but only at district level, which has impeded the spread up of mutual funds all over the district. Presently the private banks have been doing more aggressive marketing of mutual funds in Kolhapur district. The worth-mentioning among these are HDFC, AXIS Bank, ICICI and IDBI. About investment, Kolhapur Investors’ Association provides guidance only, there is no actual dealing. The guest lectures of SEBI Authorities, Financial and Technical Analysts Investment Experts are organized by Kolhapur Investors’ Association on regular basis. The library facility is also provided. This has indeed played vital role in educating investors in Kolhapur district.

Hiremath Investment Consultant, operating since 30 years in Kolhapur, has lion’s share in inculcating habit of saving among people and also in distributing mutual funds. There are many other investment advisers operating in different parts of
Kolhapur city. There are 257 ARN holders in Kolhapur district. In Karvir taluka there are 236 ARN holders, who are authorized to market mutual funds. However, most of them are located in Kolhapur city. Only 6 are located in adjacent villages. Out of twelve talukas there is not a single ARN Holder in five talukas namely Radhanagari, Shahuwadi, Bhudargad, Gaganbawada and Shirol.

Out of 21 ARN holders located in Panhala, Chandgad, Gadhinglaj, Hatkanagle, Kagal and Ajara, 12 are in adjacent villages. Though the figure of ARN holders looks big, majority of them are not in operation. It may be due to poor response of investors to mutual funds and also less attractive commission to brokers. On the above background and in the light of findings and conclusions discussed in preceding part of this chapter, the following suggestions are made.

(1) There are around 2.71 lakh folios in Kolhapur district. If it is presumed that one family invests in 4 to 5 funds, the estimated figure of unique investors is worked out to 54,000. Considering the current population of 38.74 lakh of Kolhapur district, this figure of 54,000 mutual investors seems to be very small. Hence, there is a great scope for development of mutual funds in the district. Approximately 30 percent of population of the district lives in urban areas and the remaining 70 in rural areas.

(2) A good network of distribution at district and taluka level would be helpful in penetrating small cities, towns and villages of Kolhapur district. SEBI and AMFI have been taking such an initiative and planning to incorporate retired govt. and semi-govt. employees, and teachers as distributors. There are abundant small savings in the rural areas, but the proper efforts are required to divert them towards mutual funds.

(3) There is big number of govt. and semi-govt. employees residing in the district, employed in district level govt. offices, Zilla Parishad, Nagar Parishad, Grampanchayat, Kolhapur Municipal Corporation, MSEB, Schools, Colleges and Shivaji University. This salaried class who is interested in safe and steady growth of returns may be tapped by mutual fund industry.

Apart from one Municipal Corporation and Zilla Parishad, there are nine Nagar Parishad, 12 Panchayat Samitis and 1028 Grampanchayats. The total number
of junior and senior colleges and primary and secondary schools arrives at 3377. 12 Nationalized Banks, 63 Urban Co-operative Banks, a number of Private Banks 21 Co-Operative Textile Mills 13415 Co-Operative Societies, one Civil Hospital, 1345 registered and operating industrial units in the district. In all these industrial, commercial, service and administrative establishments, a very big number of people have been employed. This number includes employees from low-paid to high-paid categories. Especially, the government and semi-government employees are paid in accordance with the recommendations of Sixth Pay Commission. This is a very recent development, which might have increased their income and saving levels. Apart from salaried class, there is a big number of doctors, lawyers, engineers, who have lucrative practice and interested in investment as revealed by the Members’ Diary of Kolhapur Investors’ Association. Most of them are investing presently but not necessarily in mutual funds.

The above references are just for example. These people may be tapped systematically and be converted into investing community. However low may be the investment, but this investment may be channelized towards mutual funds.

For that the special investor education campaigns may be organized for the specific target-group like salaried class, professionals, traders and businessman etc. on continual basis. The mediators need to be trained substantially and of course the commission, which is the sensitive issue for brokers/distributers, needs to the sorted out and satisfactorily.

The people need to be well convinced about the safety, liquidity, transparency, profitability and other dimensions of mutual funds. Not only that, the guidance about choosing mutual funds and schemes compatible to their needs has to be provided through help desks, which are easily accessible to them.

Presently the efforts of Kolhapur Investors’ Association about investor education are appreciable but mutual fund investment has remained the neglected area for the Association.

(4) Man works for 8 hours but money works for 24 hours. Hence, the safety of hard-earned money is the matter of paramount importance to small investors. The study revealed that especially small investors are very sensitive towards risk and they do not
regard mutual fund investment as less-risky or risk-free mode of investment. The performance analysis of sample schemes has also disclosed the failure of managing risk and out-performing the market returns. On this background it is suggested that mutual funds may use the derivative products as risk-management tool which are available in equity and debt instruments in a wide range. However, high degree of trading skill and ability of correct market forecasting are the pre-conditions for its use. If used cautiously, derivatives will prove the powerful tool of risk management in the hands of Fund Managers.

The ultimate result of these efforts would be benefitting investors in terms of safety of capital and increased returns and diminishing the drop-outs from the mesh of mutual fund investment.

(5) As the study indicated that small investors for whom mutual funds have been conceptually designed are not participating in this collective investment schemes. The corporates which are big investors are participating in mutual funds in large numbers. On this background it is suggested that the mutual funds must strive to increase the baseline of small investors who are most loyal and long-term partners. It will be helpful to minimize redemption pressures too. Removing misconceptions about mutual funds from the minds of investors is an integral part of the efforts of infusing confidence among investors.

(6) At present there are many players in the mutual fund market. There is a good range of products too. However, just product labeling is not enough. There should be a true product differentiation. True innovation has to be there. The pension-oriented products, insurance-linked and health-insurance linked products may, for example, be designed. The products compatible to meeting the needs of target-investor group should be developed. The mutual fund products should be designed to meet the unique needs of each segment of the society. More and more sector-funds may be evolved to make it simple and understandable to investors.
(7) Availability of more savings instruments with varied risk-return blend would make the investors more alert and choosy. This requires complete understanding of the peculiarities of stock market and the retail investors’ psyche.

(8) The mutual fund industry has the biggest challenge as how to direct traditional investment in co-operative societies in the district towards mutual funds. Better return, better risk-management and better customer-service would go a long way in fostering confidence among investing people. Though outperforming the market/index return is the hallmark of mutual funds, there should be consistency in the performance of schemes. The selected benchmark is just the yardstick for measurement of returns generated by a particular scheme. There is a variety of mutual fund products which have their unique features. But there is limited number of indices which may not be perfectly matching to the core components of a mutual fund scheme. After all benchmark/index is a static composition. Hence, outperforming the benchmark return should not be the sole objective and final destination for mutual funds. Instead, the focus should be on fulfillment of stated investment objective in stipulated time-frame.

(9) Achievement of investment objective within stipulated time-frame is vital for small investors because his needs are linked up to time. Suppose, if the investor has chosen a specific mutual fund scheme with a mind to avail big amount at the time of his daughter’s marriage or higher education. Time is the essence in this case. If his expectation is not fulfilled on that time but at a later stage, the mutual fund investment would be almost meaningless for him.

(10) Investor’s grievance redressal cell has to be more dynamic and wide-spread and in time settlement should be its goal. On the same line of Ombudsman in Life Insurance, the Mutual Fund Ombudsman could be created to speedily settle the disputes between investors and mutual funds.

(11) All mutual funds have not reached to small cities, towns and villages in Kolhapur district. Banks, Post Office and Life Insurance Corporation have already reached
deeper in Kolhapur district even at village level. The branch networking of these institutions could be used for popularizing mutual fund products at gross root levels. At present there is no Mutual Fund Advisory Office opened at taluka level, which would be helpful in deep retail penetration.

(12) Investors’ education especially related to risk and return of growth schemes may bring common investor back to mutual fund investment radar. In the pioneering period of late 1980’s and early 1990, the mutual fund products were marketed with the sugar-coated slogan of ‘an assured return risk-free asset class.’ The subsequent boom period made it fruitful too. This gave a wrong impression in the minds of investors that mutual funds give high returns at a very less or no risk at all. However, the subsequent market crash shattered investors’ hopes. Therefore, the education on that should be based on facts. The investors should be taught to invest by knowledge and not just by herd mentality.

(13) The mutual funds haven’t been everybody’s favorite avenue. The rich individuals in urban areas are opting for MF investment. The mutual funds are accepted by urbanites because the high literacy and general awareness level is reasonably good in urban areas compared to small towns and rural areas. Hence there is a need to create awareness about mutual fund investment through special awareness programmes. If done properly there is a tremendous scope to tap the savings of potential retail investors.

(14) The profit or loss on mutual fund schemes just stands as notional profit or notional loss unless and until it is booked. The investors, therefore, should form their opinion, whatsoever it may be, only after having booked actual profit or loss. This will lead to factual evaluation of performance of mutual funds.

(15) Some mutual funds have ‘target-profit’ funds but there is no ‘target-loss’ fund. Further, there is no option of ‘stop loss’ system for mutual funds. As mutual funds are the variants of share market operations, each and every option available to the shareholders must be available to unit holders.
If the investors are given an option to limit their potential loss up to certain limits, as done in shares, it would go a long way to attract more investors from low income strata of society. The technique of ‘stop loss’ minimizes the risk at one hand and gives stimuli to the feeling of safety on the other, which is a non-compromising point for every investor. Further, this will help investors to determine their ‘risk-range.’

(16) The mutual fund schemes, while launching, should be well fitted in the ‘risk-return’ zone. The mutual funds should specifically mention in the offer documents as to which risk-zone, the schemes falls in. There may be high risk-high return zone, moderate risk-moderate return zone and low risk-low return zone.

(17) When there occurs at least 30 percent reduction in the face value of a particular fund/scheme, and the Fund Manager fails to revive it in time, the concerned fund/scheme should be closed. Such a condition must be clearly mentioned in offer document. Because there are some evidences that funds/schemes have been continued even after 80 to 90 percent reduction in their face value. Such funds/schemes should be closed and the ‘dead-money’ (i.e. original investment minus loss in face value) should be brought back in the market for fresh investment. If such dead-money comes again as investment in any other avenue, it would give a momentum to economy. However, if such an investment is allowed to stay in the heavy loss making funds, such money is of no use for economy.

(18) Public sector mutual funds should take more efforts to reach to small cities and towns to augment mobilization. For that the branch network of public sector banks and post offices and LIC may be used.

(19) To retain the investors for long time in the schemes, the performance of the schemes has to be improved. The investor should get substantial returns on mutual fund schemes, more than risk-free returns. The returns on mutual funds should be more than other financial assets like bank deposits and post office saving schemes etc. This would help to reduce the redemption pressures on Mutual Funds.
(20) More schemes of ‘income plus growth’ category may be launched to attract moderate risk-takers in Kolhapur district

(21) The investors should be provided the training of using Internet sources (Fund Bazzar) so that they should update themselves quickly and choose the right mutual fund schemes for them.

(22) Still investors in Kolhapur district believe in the advice rendered by C.As, Brokers, and Financial Advisers etc. These mediators should be tapped and properly trained. Furthermore adequate commission may be offered to gear up them towards and popularizing mutual funds among masses and for efficient fund distribution.

(23) LIC agents and small saving agents may be well acquainted with the benefits of mutual funds and they may be trained in cross-selling techniques. This would help them to distribute mutual funds along with insurance products and small saving schemes.

(24) Co-operative banks have a wide network in the district. They have a good networking of branches in small cities, towns and villages in Kolhapur district. The authorization of co-operative banks to distribute mutual funds would increase rural penetration in the district. Through cross-selling, these banks may increase the participation of retail investors in mutual funds.

(25) The marketing policy of retaining the existing investors and obtaining new ones may be adopted.

(26) The efforts may be taken to drive out apprehension of loosing money from investors’ mind.

(27) There is a need to investigate as to why corporates invest so heavily in mutual funds when it is conceptually meant for small investors.
(28) Last but not the least, that reduction in brokerage has hampered the very motive of fund brokers/ distributors. This issue should be amicably settled to gear up the mediators. Moreover, the special incentives should be given to the fund brokers for taking the mutual funds to town and village levels.

To sum up:

In the view of our saving rate over 32 percent, the highest in the world, a number of foreign AMCs are planning to enter the Indian market. At present we have 45 Mutual Funds which is much less than US which have more than 800. Rapidly growing B and C class cities, the growth in population, household savings, inclination of youth towards modern education and careers, growing income, all these factors are creating conducive environment for mutual funds. Soon Mutual Fund industry will find a big scope in not only B and C class cities but in small towns and villages too. Mutual funds can penetrate rural areas of India as done by insurance industry, with simple, limited and compatible products. However, there has to be strong desire and clear-cut strategy on the part of Mutual Fund Industry to exploit the untapped and invisible potential. It is untrue that Indians do not accept the new ideas and products quickly which is evident from fact that mobile phones and SIM cards are being sold through small shops and even pan-shops. What matters here is reaching to the people, educating them properly and building confidence among them, which is inevitable in case of distributing investment products.

Mutual funds have been emerging as an effective way for investors to participate in capital market. Mutual funds can play a central role in an individual’s investment strategy. However, small cities, sub-urban and rural areas have still remained the virgin market for mutual funds. There are growth potentials for mutual funds in Kolhapur district but it needs to be visualized neatly and acted upon vigorously with strong desire and deep commitments. The study of similar nature conducted on large scale by Institutions would help to capture changing preferences and perceptions of retail investors at district level and provide the warning signals for timely alteration of product innovation and marketing strategies.

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