CHAPTER - 2

OBJECTIVES AND METHODOLOGY
Statement of the Problem:

Mutual Funds have become the primary investment vehicle for small investors interested in the stock market and have virtually replaced the fixed deposits, post office savings, banks, GPF and other small savings. The largest payer is this industry in India i.e. UTI has become a household name. Like in developed countries mutual funds in India also have become the mainstay of the stock market. The growth of mutual funds in India is expected to surpass the growth of banks, finance companies and insurance companies in the near future. Some of the open-ended schemes in India have outperformed Sensex in certain years.

The investors in mutual funds are losing confidence in them since 1998 in which year it was found that the reserves of US-64 the flagship mutual fund turned negative. Since then the units of large number of MFS are traded at heavy discounts. There is a growing criticism on the mutual funds on various grounds. They are: the operational mechanism in large number of mutual funds is not transparent regarding their accounts; the investment pattern of mutual fund scheme is not in tune with its set objectives; improper timing of investment due to delayed
portfolio revision; low trading frequency of close-ended funds in stock exchanges etc.

Against this background, the present study attempts to evaluate the performance of SBI Mutual Funds, which is the second largest mutual fund in India next only to UTI. Before highlighting the need, specific objectives and methodology of the present study, a brief review of various studies conducted in general and SBI Mutual Funds in particular are made.

**Review of Literature:**

Anil Abraham\(^1\) in his article stated that the ideal portfolio of an investor should have a mix of both equity and debt. He studied some of the balanced schemes offered by Mutual Funds and concluded that these schemes exactly suit the needs of both risk-taking and risk-averse investors as they invest funds in a portfolio composed of both equity and debt investments.

Rajiv Handa and Arathi Ananthan\(^2\) in their article has clearly brought out the fact that among the top ten fund mobilisers in the capital market in India, Mutual Funds stood third. They found that the savings mobilised by the mutual funds have far exceeded the savings mobilised by the banking sector.
Lakshman\textsuperscript{3} in his article emphasised the importance of mutual funds by saying that mutual fund industry raised to such a level in India that it could replace Fixed Deposits, Post Office Savings Deposits and even GPF. He also opined that mutual funds are gradually coming of age in India and are likely to attract more funds than the commercial banks in India. According to him, the mutual fund schemes have the potential to replace all known investment avenues.

M.Sahu and Dr. R.K.Jena\textsuperscript{4} in their article, have stated that the mutual fund is an effective investment vehicle which has all the characteristics required by investors i.e. yield, liquidity, safety and concern for investors. They analysed the present scenario of mutual funds in India, its recent developments, the investment pattern of the raised funds and investors perception of different mutual fund schemes and their preference for certain scheme over other schemes. Through this study they concluded that the mutual fund industry in India shows clear prospectus and hence there is a need for proper supervision, guidance and control of these funds.

Madhu S.Panigrahi\textsuperscript{5} in his article has observed that the current economic reforms and liberalisation have broadened the
scope for the mutual fund industry to grow manifold in terms of number of payers, schemes and investors. He has examined the reasons for increasing interest of investors in the mutual fund industry by comparing the growth of UTI Vs. other mutual funds and also the growth of investible funds in UTI, other public sector mutual funds. He concluded saying that the Mutual Fund industry can further be developed with the introduction of Money Market Mutual Funds, Bond Market Mutual Funds, Sector Specific Funds, Index Funds, Environment Funds, etc., as these will cater to the specific needs of investors.

Frederick D' Silva\(^6\) has pointed out the drawbacks of investment in equities, gold and real estates. He has also highlighted the importance of investment in equity. The equity has turned out to be less attractive due to the low growth rate of companies, falling rupee, higher fiscal deficit and the tendency of Foreign Institutional Investors to become net sellers. Investment in gold is not attractive because the investor does not earn anything in the form of interest or dividend. Further, there is no scope to benefit from capital appreciation as the gold prices are declining. There has been a depressed trend in real estate investment and it will continue to witness a weak trend in the
near future. Coming to investment in mutual funds, Frederick said that, they offer tremendous potential and have proved somewhat a better investment position in relation to other investment avenues.

Sameer Purohit\textsuperscript{7} in his article has stated that the Money Market Mutual Funds could pose a real challenge to commercial banks as investment in this combines safety with returns. The other reason why the Money Market Mutual Funds score over the bank short-term deposits is that, the short-term bank deposits are renewed after every 15 days. While the Money Market Mutual Fund is free to exit from the scheme any time after the initial lock-in-period is over. According to Sameer Purohit, the twin objectives of Money Market Mutual Funds can be achieved by allowing retail investors the access to money market instruments and providing an added depth to the secondary market, if the fund managers are given more freedom.

K.Gangadharan\textsuperscript{8} emphasised the need for uniform norms for mutual fund valuation and accounting practice. He has identified certain factors like charge in the attitude of household investors, higher sale value and higher returns of mutual funds than that of bank deposits, tax shelter etc., as the main reason for
growth of mutual fund industry. He has also identified the causes for the collapse of the industry due to the vested interest of Board of Directors, funds inability to pay dividends, political instability, lack of transparency, etc., and made suggestions to make the prospects of mutual funds brighter.

Sunil Damania⁹ has expressed mutual funds to be the best investment avenue of today's investor who aims always at descent returns and transparency. The cost of indexation benefits and tax-free returns are making mutual funds more attractive as against other fixed income instruments. According to Sunil Damania, the growth of mutual fund industry can be made faster with the introduction of pension and retirement plans.

Sridhar Narayan and Simal Kanuga¹⁰ have said that the tax advantage offered to mutual fund investors in the Union-Budget 1999-2000 has produced large number of short-term investors known to the industry as dividend strippers. The process of dividend stripping involves, investing in the dividend plan of a mutual fund scheme, receiving dividend, and then redeeming the units once they are quoted ex-dividend. This incurs a short-term capital loss and hence receives tax shelter against existing or future capital gains. According to the authors, this process could
adversely affect the overall returns to the long-term investors as large amounts are invested for every short-term and further the fund managers are insisted to maximise returns besides maintaining liquidity and safety of the portfolio. With a view to provide satisfactory returns to the long-term investors, they have suggested that an exit load for a brief period around the dividend payment date should be imposed.

Sekhar Sathe, CEO, Kotak Mahindra, AMC and Nimatullah, MD SBIMF\textsuperscript{11} in their interview have given reasons for failures of the industry as well as its improved performance. As custodian of the interest of minority shareholders, Mutual Funds will enhance wealth creation for investors while also leading to an overall climate of trust and transparency. According to Sekhar Sathe and Niamatullah, with the increasing investor education/awareness, improved distribution network of intermediaries and enhanced distribution technology, mutual funds can mobilise funds even from semi-urban/rural markets.

V.Selvaraj\textsuperscript{12} has said that mutual funds have opened up a new way of investing as a part of it, it has encouraged offshore fund besides its varied existing schemes, in order to attract foreign investments. The tax benefit offered by mutual funds
also play a vital role in the investment decisions of the mutual fund investor. Selvaraj has expressed that the success of any business depends upon the degree of information reach to target audience via communication media. He has studied that the advent of E-commerce has made the investors better informed. It has shrunk physical boundaries facilitating the investors to invest world over. It is also capable of ensuring major economic benefits to investors.

**Studies on SBI Mutual Funds:**

Aarati Ananthan\(^\text{13}\) in her article has mentioned that, SBI mutual funds being the first mutual fund to take off after UTI has performed satisfactorily in terms of capital growth. She attributed the success of this fund to many factors like, the research term build-up on infrastructure front, the management of funds by specialised managers, the investment group separately formed for monitoring and identifying public issues and making recommendations and finally establishing large number of investor service centers.

Sameer Purohit\(^\text{14}\) in his article has said that MMs'90 has been converted into open-ended scheme and has done well after
an extensive restructuring of its portfolio. The scheme's investment in scrips has fetched rich dividends and it has waived 2% entry load and increased transparency in order to attract new investors. Investors with medium term prospective could be benefited with the enticing portfolio of this fund.

Sanjoy Choudhury\textsuperscript{15} in his article has stated that the Magnum Triple Plus, 1991 scheme has an assured redemption price, which is three times, its face value. The scheme in its initial stages has performed quite well but ultimately had much of its investments locked-up into some junk and illiquid stock. Since the fund is bound to honour its commitment, investors are sure of getting their due. He concludes saying that, in order to meet the commitment, the fund manager has to take the help of either sponsor or Government, which would ultimately make the minority shareholders of the sponsor and taxpayers suffer.

The review of various studies on Mutual Funds in the preceding section revealed that, they concentrated on general aspects like the suitability of mutual funds as investment avenue, their role in Capital Market, their prospects, reasons for increasing interest of investors in them, their comparative advantage over other investment avenues, need for developing
uniform norms for their performance, etc. Few studies reviewed relating to SBI Mutual Funds covered growth and organisational aspects in general and the performance of one or two selected schemes in particular. This clearly reveals the absence of a specific research study on SBI Mutual Funds, which is the second largest mutual fund in the country. Therefore, the present study “performance of Mutual Funds in India with special reference to SBI Mutual Funds” has gained significance.

**Objectives of the Present Study:**

The objectives of the present study are:

1. To analyse the growth and development of mutual fund industry in India.

2. To analyse the growth of SBI Mutual Fund.

3. To analyse the investment pattern of SBI Mutual Fund and evaluate its performance with the help of selected indices.

4. To analyse the problems of SBI Mutual Fund and suggest appropriate measures to overcome them.
Methodology of the Study:

The methodology of any research work depends upon the objectives framed and the problem to be investigated. The present study is based on primary as well as secondary data. The secondary data has been collected from the annual reports of SBI mutual funds, financial statements, the offer documents of various schemes of SBI mutual funds, the Net Asset Values (NAVs) and repurchase prices announced by SBI mutual funds from time to time and the articles published in various reputed journals. In order to get clarity on policy matters such as investment pattern methods of accounting disclosures etc., primary data has been collected by designing a separate schedule for the managerial personnel.

For detailed analysis, all schemes of SBI mutual funds, outstanding at the end of each accounting year from 1993-94 to 1998-99 has been taken. Further, the schemes have been categorised on the basis of their investment objectives namely income, growth and tax saving schemes. This analysis is made to know ultimately, whether the performance is in tune with the objectives set.
The performance of SBI mutual funds has been judged using Sharpe's index, computing the equity composition of different schemes in the companies constituting BSE index and by computing the growth rates of investments of different schemes according to their objectives.

**Chapterisation:**

The present study has been conducted under five chapters.

Chapter I : Deals with the brief introduction of mutual funds in India.

Chapter II : Covers the objectives and methodology of the study.

Chapter III : Highlights the growth of SBI Mutual Funds.

Chapter IV : Presents the investment pattern and performance of SBI Mutual Funds.

Chapter V : Summarises the findings and conclusions of the study.

**Glossary:**

*Asset Management Company (AMC):*

It is corporate unit, which is approved by SEBI for managing the affairs of the mutual fund and operates the schemes
of such funds. Such company shall have a minimum net worth of rupees five crores.

**Balanced Fund:**

It is a hybrid portfolio of bonds and stocks.

**BSE National Index:**

100 scripts based Bombay Stock Exchange Index covering specified and non-specified list of five major exchanges in India.

**Bond:**

A debt instrument promising to pay its holders periodic interest payment and fixed amount of principle on maturity.

**Capitalisation:**

The total market value of a firm, used as a measure of size. It is determined by multiplying the current price by the number of shares outstanding.

**Close End Scheme:**

These schemes have a definite period after which the units are redeemed by the funds. These funds have fixed capitalisation and are traded among the investors in the secondary market. Since these are to be quoted on the stock exchange, their prices are determined on the basis of demand and supply in the market. Their prices are free to deviate from NAV.
**Custodian:**

An independent organisation usually a merchant banks, that is responsible for the handling and safekeeping fund’s cash and securities.

**Diversified Fund:**

A portfolio with many share or bond holdings.

**Equity Income Fund:**

A portfolio whose focus is on stocks with high dividend yields.

**Fund:**

In India context, fund refers to mutual fund.

**Growth-and-Income Scheme:**

A scheme holding large established companies offering the potential for both appreciation and dividend income.

**Growth Scheme:**

A scheme holding firms with good or improving profit prospects having emphasis on capital appreciation.

**Growth Stocks:**

Growth stocks are the ones, which have given constantly high returns to the investors over a period of time and has the potential to grow at the same pace in the next few years.
**Income Fund:**

This fund offers guaranteed returns to investors. Because of the fund’s higher yield and stability, risk-averse investors favour it.

**Index Fund:**

A portfolio made up of the same or similar shares as would be found in a particular market index like BSE Sensex.

**Institutional Investor:**

An organisation that trades in large volumes of securities like mutual funds, banks, financial institutions etc.

**Liquidity:**

The case with which an investment can be sold.

**Management Fee:**

The market in which short term securities are transacted.

**Money Market Instruments:**

Instruments like commercial papers, trade bills, treasury bills, certificate of deposits, etc., transacted in money market.

**Mutual Fund:**

A firm established in the form of a trust by a sponsor to raise monies by trustees through the sale of units issued to the
public under one or more schemes for investing securities and redeeming the units at NAV or listing units in stock exchanges.

**Net Asset Value:**

Net Asset Value (NAV) is the value of assets of the fund, value appropriate, less the liabilities and expenses incurred for the management of the scheme including the expenses to cover the stamp duties, taxes and other expenses to cover the deemed relations of the investments.

**Net Assets:**

The total value of a fund's cash and securities less its liabilities or obligations.

**Open End Scheme:**

The size of the scheme is open. Such funds stand ready to buy or sell its securities at any time. It means, the capitalisation of fund is constantly changing as investor's buy/sell their shares. It is not generally traded in stock exchange, but purchased by funds at announced rates (NAV).

**Portfolio:**

A group of securities held together.
**SEBI:**

A regulatory body, Securities and Exchange Board of India constituted under SEBI Act, 1992 to promote orderly and healthy development of securities markets and to provide adequate investor protection by regulating money players in securities market.

**Sponsor:**

It is a body corporate which acting alone or in combination with another body corporate establishes a mutual fund after initiating and completing formalities thereafter.

**Unit:**

It represents the interest of the investors in a mutual fund scheme, which consists of each unit representing one undivided share in the assets of a scheme.

**Value Stocks:**

Value stocks refer to those stocks, the market price of which is less than their intrinsic values. Their earnings are volatile and also their share prices.