CHAPTER - 5

SUMMARY AND CONCLUSIONS
Financial system plays an important role in up-keeping the economic development of a country. It is made-up of all those channels through which savings become available for investment. Financial institutions/intermediaries like banks, insurance organisations, unit trusts/mutual funds are the complex institutions included in the financial system. Innovations in financial system such as new financial instruments, financial services, new financial institutions need to take place on a continuous bases to achieve economic growth. Such innovations have wider implications for capital market as they can reduce or diffuse the risk, minimise the transaction cost, widen and integrate its operations. They help to accelerate the economic development through their positive impact on savings, investments and output as well. The entry of mutual funds can be considered as one of such innovations in the Indian financial sector. Since their entry into the financial sector, they helped to mop up the household savings on a large-scale and channelise them into the capital market.

Before the entry of mutual funds, the risk-averse Indian investors were used to rush into risk-less bank deposits thinking
that they were Government institutions and, therefore, were safer. The middle class investors who of late were prepared to take some risk out of innocence could venture into shares and debentures. Due to the major difference between bank deposits and investment in the capital market Indian household sector searched for an intermediate vehicle for investment to achieve trade-off between risk and return. Mutual Funds, by selling their units, which earned more returns than bank deposits and less risk than corporate market provided such a trade-off.

Mutual Fund's collections as a proportion of aggregate bank deposits are on the constant rise from 8.78 percent in 1990-91 to 15.91 percent in 1994-95.

In India, Unit Trust of India made its debut in the mutual fund industry in 1964. Due to historic reasons, the UTI enjoyed total monopoly in the mutual fund industry till 1987. But since 1987 banks, insurance companies, private and joint sectors and foreign players were also allowed to join the industry. In short, the industry has moved from a complete monopoly to that of a monopolistic competition.
Mutual Funds have been consistently gaining ground has an ideal investment vehicle. The industry has grown to the size of 35 Asset Management Companies (AMCs), which run 384 schemes with a total asset base of Rs.1069.29 billion as on September, 2002.

The advent of E-Commerce in Mutual Fund industry made it possible to the common man to buy and sell anything at the touch of a button. E-Commerce makes the investor better informed. This enhances the transparency of investment leading to increased investor confidence and growing market size of the industry.

The present study has been under-taken to examine the growth and development of Mutual Fund industry in general and SBI Mutual Fund in particular with regard to investment pattern, timing of investment, portfolio revision, trading frequency of closed-ended funds in stock market etc.

The present study study-‘Performance of Mutual Funds in India with Special Reference to SBI Mutual Funds’ has been conducted with objectives to analyse the growth and development of Mutual Fund industry in India; to analyse the growth of SBI
Mutual Funds; to evaluate the investment pattern of SBI Mutual Funds to evaluate its performance with the help of selected indices and finally to analyse and suggest measures to overcome the problems of SBI Mutual Funds.

The study relates to a period of six years (1993-94 to 1998-99). The analysis has been made by categorising all the SBI Mutual Fund schemes on the basis of their investment objectives. To evaluate the performance of these schemes Sharpe’s Index has been used. Besides this, the investment pattern of various growth schemes, income schemes and tax-saving schemes has been examined in-detail.

State Bank of India (SBI) is the first public sector bank to start the mutual fund business in 1987. SBI Mutual Fund’s schemes are traded under the umbrella name ‘Magnum’. There were about 19 schemes operated by SBI Mutual Funds by the end of 1998-99. The aggregate corpus of these schemes managed by the company stood at Rs. 1587.6 crores as compared to Rs. 1490 crores in 1997-98.

SBI Mutual Fund schemes are broadly categorised under four heads, namely Income schemes, cumulative Income
Schemes, Growth schemes and Tax-Saving schemes. Among these schemes, Growth schemes account for highest share (53%) followed by Tax-Saving schemes (17.53%), Cumulative Income schemes (15.29%) and Income schemes (14.18%) of the total investible funds.

During 1993-94 to 1998-99 the total investments of two income schemes out of three income schemes selected for study revealed a decline in the growth which can be attributed to the declining interest of investors in risk-less low income schemes. The total investment in cumulative income schemes has registered an increasing trend over the six-year period, attracting the moderate risk-taking investors. Out of four growth schemes selected for the study, the growth of investment in three schemes showed a declining trend. The declining trend in the investment of equities is due to the prolonged bearish phase in stock markets. Out of six tax-saving schemes selected, three schemes have registered an increase in investments. On the whole, the growth of investments in SBI Mutual Funds is not satisfactory.

To cater to the investment needs of different categories of investors, SBI Mutual Fund has started various categories of
schemes—Income schemes which suits risk-averse investors; Growth and Tax-Saving schemes which suits risk-takers and tax assesees. The scheme-wise investment pattern of SBI Mutual Fund reveals that during the six years period of study the total investible funds in Income schemes registered an annual growth rate of 56.80 percent, the total investible funds of Growth schemes shows a decline in the annual growth rate to the extent of 27.27 percent. During the same period, the Tax-Saving schemes registered an annual growth rate of 15.99 percent. The Growth schemes and Tax-Saving schemes invested majority of its investible funds in equities, which are high return and risk-oriented as per their investment objective. The Income schemes made majority of its investments in debt and money market instruments, which are low, return and less risky.

However, it has been observed that some of the Income schemes like MRIS' 93(36% in 1993-94 as against its investment pattern of 52% in fixed income securities), MBF’ 94 (38% in 1994-95 the investment pattern of which is 55.5%), etc., have deviated from its set investment objective in order to take advantage of the changing market situation. Similarly, some of
the Growth and Tax-Saving schemes like MGF' 94 (60% in 1996-97 against its investment pattern of 83% of investment in equities), MOF' 95 (42% in 1995-96 having an equity investment pattern 59%) have also deviated from its investment objectives to gain out of the then existing market situation. This reveals that SBI Mutual Funds does not stick on to any particular investment policy rigidly. Rather it adopts the investment pattern according to the changing market situation.

To study the investment pattern of SBI Mutual Funds, companies included in BSE index have been taken as the benchmark. SBI Mutual Funds are investing a reasonable portion of its investments in equities of BSE index companies indicating a sound investment pattern. The major portion of SBI Mutual Fund schemes is spread over the strategic and capital goods industries which also states that the investment pattern is sound.

The analysis of investment in debt and money market instruments reveals that there is a three-fold increase in the investment in these instruments in absolute terms. The average investment to total investible funds of all the income schemes in these instruments stood at 74.46 percent. In case of MMIS' 97,
MMIS' 98(I), MMIS' 98(II), MLBIF' 98 which were commenced in 1998-99 made its entire investments in instruments yielding regular returns. Thus, the investment pattern of income schemes is perfectly in tune with their objective of getting regular returns.

In order to gain the investors confidence and suit their convenience in taking decisions regarding purchasing and selling of units, SBI Mutual Fund schemes have made operations more transparent by publishing their NAVs in at least two newspapers at weekly intervals. NAVs of Mutual Funds are considered as the most important measure of their performance. It was observed that the NAVs of the majority of the schemes of SBI Mutual Funds, are more than their Face Value indicating a satisfactory performance.

The performance of SBI Mutual Funds measured by using Sharpe Index shows that out of thirteen schemes selected for the study, ten schemes have outperformed the market.

In order to withstand the increased competition the Mutual Fund industry has to lay its emphasis on certain important issues like the pricing (minimum subscription amount), penetration (of
the untapped rural areas), consistency in performance, Marketing, Quality of services and last but not the least liquidity (to complete directly with bank’s saving accounts).

Greater competition among players in the Mutual Fund industry has lead to higher quality of investment performance and better servicing standards. The institutionalisation of capital market has forced corporate India to focus on corporate governance and minority shareholder interest. As Mutual Funds are acting as custodians of the interests of minority shareholders, they should strive hard to create wealth for investors by creating a climate of trust and transparency.

The Internet has a very large role to play in this regard. Web Sites of various Mutual Funds have been providing product brochures, offer documents there by helping the investors to take spontaneous investment decisions. It also helps the investors to evaluate the performance of different schemes and arrive at right investment decision. Further, it provides the investors the facility to track their Mutual Fund portfolio anywhere anytime. SBI Mutual Funds through its Web Site – www.sbimf.com provides all these facilities to its investors.
With the satisfactory performance and attractive features, Mutual Fund schemes, which were earlier considered as an alternative source of investment now, emerged as an ultimate source.