Chapter – VI

Summary, conclusions, and suggestions
CHAPTER VI

SUMMARY, CONCLUSIONS, AND SUGGESTIONS

I. INTRODUCTION

Financial activities in the world are fast changing and the borders are widening beyond imagination. The early form of banking, say, the goldsmith banking, took leap to present day online banking. In the changing scenario, the definition of banking is also to be revised thoroughly and to be either shortened or widened to suit the present day circumstances.

The financial activities differ in their nature depending upon the requirements of the borrowers – may be from households, consumers, producers, traders, commercial service personnel or professional and so on. Peculiarly, right dog to god, every one wants finance, but in a different way and size. Therefore to address the necessities of the people in demand, different forms of financial facilities, instruments, and arrangements came into being. Apart from those who want, even for those who have surpluses lying idle with them, the banks do intermediary activities.
The financial structure or market in India has two basic forms – organised and unorganised. Unorganised sector is highly powerful and also forms lion’s share in the financial market. Banking and non-banking financial institutions carry on financial services.

Non Banking Financial Companies (NBFCs) are basically in the sectors of leasing, insurance, financing, capital markets etc. Now a days, NBFCs have attained paramount importance in the economic activities of the country in particular, and on global scale at large.

Capital Market, on a wider range, is primarily of two types – primary market and secondary market. As the very names suggest, primary market is there to subscribe to the IPOs or direct public offers made by the companies from time to time by issuing shares or other instruments of finance. This is, in other words, direct subscription to the capital/instrument issues. Secondary market is a reference, colloquially speaking, to the second hand market i.e., purchase and sale of shares other than by direct subscription. Stock markets, stock exchanges and other media come under this fold.

Whatever may the name be, blood is required for any living being and so also finance for any activity. The question comes who can take the responsibility into the hand? If we observe the savings profile of households, private corporates, public corporates, the potential is more with the private people, but the sources are scattered across millions of
people. Some groups of industries (though not all) have surpluses, but they are not ready to part with them for a long time. Either they reinvest for their business purposes or may invest in short-term securities, which yield some return on one hand and also ensure liquidity at any given point of time. Then remains the question of households, who are ocean when clubbed, but bubbles individually. Yet, these bubbles are required duly grouped and diverted for investment and productive purposes.

Corporate have professionals either employed by them or hired by them in any capacity to manage investment of their surpluses called in general the portfolio managers or portfolio consultants. But the sizes of the households may not be that big to maintain a professional or consultant. What is the way out to collect all these drops or showers into canals and rivers for diverting to the ocean of investment. Therefore, the surplus funds are to be made available for investment, at the same time ensuring safety and return. Thus these surpluses are meant for mutual purposes of both the investors and borrowers. Thus the concept of mutual funds crept into the world in the year 1822 with the creation of an investment trust by William-I of Netherlands. It entered India after the Chinese aggression, 1961. With the efforts of T.T. Krishnamachari, the then union minister for finance, in Pandit Jawahar Lal Nehru's cabinet, the first mutual fund entered Indian domain in the form of Unit Trust of India in the year 1964 by means of an act of Parliament.
With a gap of almost a quarter century, the monopoly of Unit Trust of India was broken by public sector banks with the entry of State Bank of India, and Canara Bank in the year 1987. The entry of State Bank of India and Canara Bank spurred the minds of other fellow competitors in the market, in particular private organisations. Entry of Kothari Pioneer Mutual Funds in the year 1993 paved the way for private participation also in this field. The recent concepts of globalisation and liberalisation opened the gates for alien participants also, and now there are sumptuously good numbers of mutual funds being operated by native and alien nationals.

The mutual funds have different roles to play. These funds play the role of sponsor, while commencing any trust, and hand over the management to an asset management company, to take care of the day-to-day activities of the trust, and act as Trustees to the public from whom they collect the funds and as custodians for the public fund. Therefore they are to be more cautious while deploying the funds to the investment sector, after collecting them from the public. Where a portfolio manager is responsible to one organisation or company, mutual funds are responsible for the entire community as a whole.

These mutual funds, depending upon the nature or aim of the fund, they are categorised as growth schemes, income schemes, income-cum-growth schemes, and tax savings schemes. With the innovative outlook, by fixing different aims for different schemes, various funds are offering
various schemes, suiting the multiple types of investors. Some are ready to face the ghost of risk for high profit of diamond mines, whereas some are afraid of a street dog and are satisfied with the risk-free income. Thus these schemes are formulated to suit all the requirements and tastes of the investors.

When we consider the performance of the funds in general, though all the jockeys entered the race, many of them are wounded. Many of the funds began to yield negative results beyond expectation, and public lost confidence in the performance of the funds. Therefore the necessity of some regulatory body is felt. To control all these activities and to give directions, issue guidelines and regulate the funds, Securities Exchange Board of India (SEBI) came into being in 1992 and it took the reigns of the funds. All these funds are subject to the approval and permissions and directions of SEBI. Now, slowly these funds are gaining momentum arousing a ray of hope in the market.

II. REVIEW OF LITERATURE AND RESEARCH METHODOLOGY

The post-liberalisation period witnessed the emergence of many domestic and foreign MNCs in the field of banking, insurance and, of late, mutual funds, posing a threat to the Indian mutual fund industry, especially to SBI mutual fund – a public sector mutual fund. Moreover, most of the investors, even the small investors, have started switching their investments to FMCG and IT stocks which are said to bring quick bucks,
queering at the pitch of SBI mutual fund business and threatening its very existence, even after the recently notified SEBI's slew of regulations with regard to a ban on the mushroom growth of me-too mutual funds. The present study is intended to study the growth and performance of SBIMF and then portray the prescription and proscription of different investment strategies to be adopted by it so that it can, while providing better growth and income to investors, emerge as a giant mutual fund among all the mutual funds in India.

Review of Literature

A variety of technical and quantitative measures have been developed to assess and compare the financial performance of mutual funds as well as the performance of fund managers. The most popular and commonly used measures are the Sharep's ratio, the Treynor's ratio and Jenson's Alpha. Apart from these three, Fama's break-up was also worked out. These measures provide methods of comparing risk-adjusted returns of a portfolio with other portfolios or with benchmark (indices).

Research on mutual funds outside India

A large number of studies on the growth and financial performance of mutual funds have been undertaken during the past 50 years across the globe, to find out whether mutual funds can systematically pick stocks ensuring less risk and possibly high return after earning their expenses
and commission. The advanced research work on performance evaluation of mutual funds has contributed a lot to the wealth of knowledge.

The pioneering work on the US mutual funds was done by Wharton School of Finance and Commerce (1962) for the period 1953 to 1958. Study by Friend and Vickers (1965) concludes that mutual funds on the whole have not performed superior to random portfolios.

The portfolio theory suggested by Markowitz gave a new direction to the evaluation of portfolio performance. This theory was followed by Capital Asset Pricing Model (CAPM), which is considered as a cornerstone in the growth of capital market. Later William S. Sharpe, (1984) John Dintner (1969), Treynor (1965), etc., formulated various methods for measuring the performance of mutual funds. These studies revealed that in certain cases, some funds outperformed the benchmark, whereas many funds remained below the ‘x’ axis.

Research on mutual funds in India

Though the world paid much attention to the concept of mutual funds, India did not make much headway in this regard. Rather, India could not give proper eye to the concept of mutual funds, despite availability of various tools and measures to evaluate the performance of mutual funds.
There are some Indian studies which reviewed UTI as a developmental financial institution and critically examined the role of UTI in providing industrial finance to the corporate sector and others.

Since 1986, a number of articles and brief essays have been published in financial dailies, periodicals, and a few in the professional and research journals. The available literature can be divided into five categories and a brief review of the literature is presented here: informative and descriptive; regulatory issues; valuation and pricing; managerial aspects and performance evaluation.

Members of academics, professionals, and journalists have written articles explaining the basic concept of mutual funds, their characteristics and reviewed the trends in the growth of mutual funds. They also emphasised the importance of mutual funds in the development of the capital market in India.

Need for the present study

The aforementioned studies indicate that the evaluation of mutual funds has been a matter of concern for the researchers, academicians, fund managers and financial analysts since 1990. All the studies conducted so far in our country with respect to performance evaluation of mutual funds are, however, subject to some criticisms. Firstly, the number of schemes taken, as sample in these studies is relatively small and the time period is
also relatively short. Secondly, the scope of the studies is limited either to open-ended or to listed schemes. There is hardly any study, which has considered both types of schemes simultaneously. The previous studies have examined mutual fund performance based on realised returns. Yet the researchers have so far not resorted to another good criteria of analysis viz., investors' opinionated survey. Moreover, in none of the studies, undertaken hitherto, a sectoral and fund-wise comparison of performance has been attempted. Hence, the researchers, based on the review of literature stated above, found that there have been many gaps in the studies undertaken so far by the academicians and researchers. Some of the gaps that are found are listed as follows:

1. Size, structure, regulation and competition of mutual funds.

2. Rate of return on mutual fund schemes and performance evaluation of mutual fund schemes in the framework of risk and return.

3. Evaluation and pricing of mutual fund units, reasons for discounts on mutual fund units.

4. Investment policy, portfolio structure, portfolio turnover and operating performance.

5. Impact of mutual fund purchases and sales on the stock market.

6. Selectivity and market timing strategies adopted by the fund managers in order to achieve superior returns.
With the given list of gaps, we can conclude that the higher the gap level, the larger will be the need for an indepth study of some of these areas.

Objectives of the study

The specific objectives of the study are:

i. to review the origin and growth of mutual fund industry in India;

ii. to review the structure and operations of SBI mutual funds;

iii. to analyse the financing, and investment patterns and strategies of SBI mutual funds; and

iv. to evaluate the performance of SBI mutual fund schemes; and

Hypotheses

The following hypotheses are formulated for testing their validity of the objectives set for the present study:

i. There is no significant variance in the investment between different mutual funds over the years;

ii. There is no significant difference in the working capital amongst SBI mutual funds;

iii. There is no significant difference in current ratios between SBI mutual funds;
iv. There is no significant difference in the total assets among SBI mutual funds;

v. There is no significant difference in the unit capital between SBI mutual funds;

vi. There is no significant difference in the gross income between SBI mutual funds;

vii. There is no significant difference in the dividend pay-outs amongst SBI mutual funds;

viii. There is no significant difference in the reserves and surpluses amongst SBI mutual funds;

ix. There is no significant difference in the net surplus earned between SBI mutual funds;

x. There is no significant difference in the investment-wise pattern of investments among the schemes;

xi. There is no significant difference in the industry-wise investment pattern among the schemes;

xii. The returns are not consistent among the schemes of mutual fund of SBI; and

xiii. The performance of mutual fund is inconsistent among the schemes.
Sampling

SBIMF schemes are classified into four categories, namely, equity schemes, debt schemes, balanced schemes, and tax planning schemes. The number of schemes under each of these categories is less than five. Hence, all the schemes are brought into sample frame.

Data sources

The study has made use of both primary and secondary data. The secondary data is collected from SBI annual reports, offer documents of mutual fund schemes and the NAVs and repurchase prices announced by the SBI mutual funds from time to time. Data on market prices are collected from various journals, magazines and dailies related to finance, business and economics. In addition, popular investment periodicals, such as ‘Dalal Street’, ‘Sharekhan’, ‘Analyst’, and ‘Capital Market’ are referred. Information is also collected from the relevant issues of RBI bulletin, ‘Currency and Finance’ and various web sites relating to mutual funds were browsed and the data was collected.

Although no structured questionnaires were designed and executed to collect the primary data from the SBI mutual fund, informal interviews were conducted with the executives of SBI mutual fund organisations during which inquiries were made about the status of regulations, current pattern problems and prospects of investment in SBI mutual funds.
Tools used for analysis of data

The data collected is processed, synthesized, synchronized and tabulated. The graphs and diagrams are drawn to illuminate the figures and facts wherever appropriate. A number of statistical tools and mathematical devices are used while analysing and interpreting the results. In addition to that, simple tools like ratios, percentages, averages, standard deviation, annual compound growth rate, equations and formulae are also employed to calculate NAV, risk, return, etc. For this purpose, beta, alpha, capital market line, security market line, Sharpe's ratio, Treynor's ratio, Jensen measure, Sharpe's differential return, and Fama's break-up are computed.

Scope of the study and limitations

The study is confined to the growth, performance and investment strategies of all the schemes of SBIMF only, but doesn't extend to the marketing of its schemes.

1. The study is confined to SBI mutual funds only.
2. The period of the study is limited to 10 years from 1992-93 to 2001-02.
3. The scope of the study is limited to growth, performance, and investment strategies of SBIMF leaving the other vital areas like marketing practices of SBIMF, investors' protection, etc.
4. Since the interviews with executives are informal, the information elicited from them may not exactly reflect the correct investment strategies adopted by SBIMF.

5. Though the data on various items are collected and represented to the maximum extent possible, the data available on investment strategies being adopted by SBIMF is limited, as the confidentiality factor became a hurdle in the data collection process. Hence, the suggestions based on that data might not be true to their strategic sense.

6. The conclusions and the suggestions thereon are confined to SBIMF. They may not correlate to any other mutual fund.

Chapterisation

The thesis is organised into six chapters as follows:

Chapter 1: presents the introduction of the study covering origin and development of mutual funds in India.

Chapter 2: presents the review of literature and research design and methodology adopted.

Chapter 3: encompasses the growth and resource mobilisation of SBIMF.

Chapter 4: covers the investment patterns, strategies and portfolio management of SBIMF.

Chapter 5: studies the performance evaluation of SBIMF.

Chapter 6: presents major findings and suggestions.
III. GROWTH AND RESOURCE MOBILISATION OF SBI MUTUAL FUNDS:

Genesis

The concept of mutual funds entered India through the UTI, with the enactment of UTI act by the parliament. Later this also prompted the banks in due course to enter the fray of mutual funds. LIC took the lead followed by SBI and other public sector banks. Later even private entities also joined. Subsequent to globalisation and liberalisation, even foreign bodies also entered the market in the area of mutual funds.

State Bank of India’s activities include commercial banking, capital market operations and merchant banking (subsidiary), housing finance (subsidiary), factoring (subsidiary), mutual funds (subsidiary), credit cards etc. SBI Mutual fund was set up in July 1955. SBI mutual fund grew tremendously in terms of corpus as well as number of investors. Today SBI Mutual fund is the largest bank sponsored mutual fund in the country. SBI mutual funds have launched 31 schemes, of which 14 have been redeemed, yielding handsome returns to investors. The funds have over Rs.4,200 crores as assets under management. SBI mutual fund was also the first bank-sponsored mutual fund to launch an offshore fund, the India Magnum Fund, with a corpus of around Rs.225 crores.
Administration

The collection of savings is being carried out with the help of designated branches of State Bank of India and associated banks of SBI. State Bank of Indore, State Bank of Hyderabad, State Bank of Bikaner & Jaipur, State Bank of Mysore, State Bank of Patiala, State Bank of Saurashtra, State Bank of Travancore, along with many other banks like Bank of Tokyo, American Express Bank Ltd., Grindlays Bank (taken over by Standard Chartered Bank and is known as Standard Chartered Grindlays Bank), The Hongkong and Shanghai Banking Corporation and Bank of America. Recently, State Bank of India entered into an agreement with Lord Krishna Bank, which has a network of over 100plus branches for marketing the products. This is an additional convenience for the interested parties to take part in the mutual fund family of State Bank of India.

Scheme wise growth of investment by SBIMF

The investments made by the SBIMF in various sectors, are as follows:

➢ Income schemes: Significant level of 17.68% of linear growth rate (LGR) and 14.51% of compound growth rate (CGR)

➢ Income-cum-growth schemes: LGR and CGR are not significant, since they showed negative values of -4.32% and -1.25%.
Growth Schemes: LGR and CGR are below the significant level with negative values of -3.02% and -3.99%.

Tax Savings Schemes: LGR and CGR recorded below significant values of -5.2% and -8.32%.

Deposits of SBI mutual funds

Deposits under income schemes rose steep high in the year 1999-2000, recording an increase of 1528.1% over the previous year, coming to the income-cum-growth schemes, they recorded highest in the year 2000-2001 recording an increase of 1912.41% over the previous year, and growth schemes recorded high growth during the year 1999-2000 recording an increase of 348.5% over the previous, and in the even year tax savings schemes also recorded high growth showing a rate of 628.57% over the previous year. However, income schemes topped other schemes.

Working capital of SBI Mutual funds

The position of working capital could not be comfortable all through if we peruse the given statements and tables.

Current ratio of SBI mutual fund schemes

The current ratios are satisfactory. However, the mean current ratio for income Schemes is 5.4, income-cum-growth schemes 3.6, growth schemes 0.95 and for tax savings schemes 1.27. Thus the position of
growth schemes is less than one and that of tax savings schemes is less than 2.

Reserves and surplus of SBI mutual funds

The income schemes recorded a mean amount of lakhs, income-cum-growth schemes recorded 9354.59 lakhs, growth schemes recorded Rs.21429.06 lakhs and tax savings schemes Rs.7331.19 lakhs

Total assets of SBI mutual funds

The average total assets worked out at Rs.84378.74 lakhs in Income Schemes, Rs. 29780.43 lakhs in income-cum-growth schemes, Rs.113622.2 lakhs in growth schemes, and Rs.45371.12 lakhs in tax savings schemes, though the comparative figures reflected negative symptoms due to slump in the market during the years 1994-95 to 1997-98.

The unit capital of SBI mutual funds

The unit capital of the fund in income schemes stood at a mean value of Rs.74650.79 lakhs, in income-cum-growth schemes Rs.19843.56 lakhs, in growth schemes Rs.76175.66 lakhs and in tax savings schemes Rs.27912.8 lakhs.
Gross income of SBI mutual funds

Income schemes recorded mean amount of Rs.12903.22 lakhs, income-cum-growth schemes recorded Rs.7609.69 lakhs, growth schemes recorded Rs.22415.59 lakhs and tax savings schemes Rs.13541.06 lakhs.

Net surplus of SBI mutual funds

All the schemes recorded negative values. Therefore the overall function of the funds could not result in net surplus.

Dividends of SBI mutual funds

Income schemes recorded mean dividends of Rs.275.19 lakhs, income-cum-growth schemes recorded Rs.235.4 lakhs, growth schemes recorded Rs.1059.11 lakhs and tax savings schemes recorded Rs.492.53 lakhs.

Overall evaluation of other parameters

Upon analysis of various tables showing various parameters, the performance of the scheme on an overall scale is satisfactory. Of the portfolio, income and tax savings schemes occupied higher position in terms of yield, surpluses, etc. Though the trend is declining in general, compared to the market trend, the trend of SBIMF is satisfactory. SBIMF has the advantage of big size and good performance, compared to the peers.
IV. INVESTMENT STRATEGIES

A study on SBI Mutual Fund has been analysed, results are computed and interpreted to arrive at concluding remarks on investment pattern over a few years span.

The prime objective of all mutual funds is to ensure adequate safety, liquidity and profitability for the small investors on their hard-earned money deposited with mutual funds. Hence, fund managers have all the time to safeguard investors' interest.

Types of instruments of investment:

- Equity, convertible debentures, fixed income securities, money market instruments, Units-64 and investing in units of other funds.

Instrument-wise investment pattern of income schemes

Equity shares, privately placed debentures/bonds and debentures/bonds listed/awaiting listing on stock exchanges, enjoyed the investment for all the years of study. Government securities, and commercial papers & current deposits were washed off for 4 years. Others lost focus for 2 years only. Therefore the priorities of investments changed drastically during the period of study. Mainly the volatile market conditions, conception of high risk and in some cases the problem of low return might be the reason for this scenario.
Industry-wise investment pattern of income schemes:

In total, finance industry maintained its top position all through the period of study for the investment, either as the first or second. Other sectors could not maintain their positions and the priorities changed over a period of time.

Instrument-wise investment pattern of growth schemes:

Those sectors other than those at the first and the second place/rank were negligible in their share. Government securities, commercial papers and others did not find place in investments for 6 years out of 10 years of study period.

Industry-wise investment pattern of growth schemes:

Compared to the income-cum-growth schemes, growth schemes have good distribution of investments in almost all sectors. Yet sugar industry did not receive investment for half the period, whereas oil gas and refinery, electronics and electrical equipments and shipping sectors did not receive investment for one third of the period. We observe much of volatility in the quantum of investments and also priorities.

Instrument-wise investment pattern of income-cum-growth schemes

Barring the non-investment year of 1999-2000, equity shares and debentures were patronised all through the period, whereas the privately
held debentures sector did not receive share for 3 years and government securities did not receive any share for 5 years. Interestingly in the year 1999-00 no amount was invested in any industry and thus it is a maiden year. In the same way, no amount was invested in other industry during the entire period of study. These two are the two extremities noticed during the period of study.

Industry-wise investment pattern of income-cum-growth schemes:

When we analyse the total period and sector-wise performance, multiple sectors did not have any place for investment in the years 1998-99 onwards. Engineering, computer software and hardware, petrochemicals, electronics and electrical equipments, sugar and chemicals and paints did not get any share for half of the period. No sector could secure first position for two years at least in the entire period of study. The priorities varied from year to year. Either the industrial performances might be highly volatile or other industries might have got priority compared to the previous ones. The industrial investments were inconsistent. Even finance industry did not find its place for two years, coupled with other sectors like personal care, telecommunications, consumer durables, shipping, paper and packaging industries. Despite all these odds, petrochemicals, food and beverages, auto and auto ancillaries, diversified, textiles, metals and metal products, and others continuously received their share in the total investment.
Instrument-wise investment pattern of tax savings schemes:

Equity shares topped the priority of investment for all the ten years of study with investment ratio ranging between 71.36 and 99.86 per cent. This sector had clean sweep in this category. Second place was occupied by debentures/bonds sector from 1994-95 to 1997-98 and also during 2000-2001. This was taken by privately placed debentures industry during the year 1998-99. During the years 1992-93, 1993-94 and 2001-2002 government securities occupied this place. Peculiarly these three years are the only investment periods under this scheme and for the balance of period this sector did not receive any investment. Equity shares and debentures and debenture bonds received patronage all through the period, whereas privately placed debentures lost focus for 3 years, government securities for 7 years and others sector lost focus for 9 years. We can rather say that this scheme is equity oriented in investment and then yielding a loaf to debentures.

Industry-wise invest pattern of tax saving schemes:

On an overall analysis, the telecommunication industry got top ranks two times in the years of 1997-98 and 1999-2000. Paper and packaging industry got second position for two times in the year 2000-01 and 2001-02. We find blank play by numerous sectors with nil investment. However, compared to the earlier schemes, this scheme has somewhat
consistent investment pattern. Telecommunication industry received good philip in this scheme.

V. PERFORMANCE EVALUATION OF MUTUAL FUNDS

There are different methods of appraisal of mutual funds. As has already been discussed, selected techniques of renowned analysts have been adopted to measure the performance of the SBIMF schemes for the study period from 1997-98 to 2001-2002. Since NAVs were not available for the prior periods, ratios could be calculated from 1997-98 to 2001-2002 only. The appraisal was done on the basis of tables, graphs and ratios.

Net asset value, average rate of return of the fund, average rate of return as per market value, market volatility based on Betas, measures of efficiency based on standard deviation and other measures are used for the purpose.

For evaluating the performance of mutual funds, the ratios such as Treynor’s ratio, Sharpe’s Measure, Jensen Model, and Fama’s break-up are applied.

Sharpe’s Measure:

When we peruse the Sharpe’s ratios based on NAV and based on the Market Line, till the year 1999-2000, though not the entire portfolio, major schemes of the fund showed positive values both in NAV and
market values. But from the year 2000-2001 onwards, there has been a heavy jolt to the schemes both in the fund and in the market.

In the year 1998-99, there were 11 schemes in operation. Of them, MBALF, MMIS-97 were below the CML. While the others were above the line.

In the year 1998-99, two more schemes added the fund-family raising the number to 13. Except MMIS-98(II), all other schemes were above the CML.

In the year, 1999-2000, there was an addition of 7 more schemes, raising the family strength to 20, out of which, except MICF(CH), MMIS-97, MIFU(CON), all other schemes were above the CML.

During the year 2000-2001, the fund faced heavy jolt. No single scheme could record the performance above the CML. This year can be treated as the year of disaster or opening of Pandora box for the mutual fund industry as a whole.

During the year 2001-2002, there was only one scheme viz., MBALF that did not show negative value. But it is also as good as negative value, since its performance is <1 (0.6910). All the other schemes were below the line. In conclusion, we can say, no scheme could recover from the accident.
When we consider the integrated values on the performance parameters, out of 20, 11 schemes could record performance above the CML and the remaining 9 schemes fell below the CML.

Falling above the CML does not mean, the fund had positive values. From the year 1999-2000, both the market and fund began getting crushed and oppressed. Therefore both the ratios recorded negative performance. Above the CML, means, here, the negative performance of the fund is less negative compared to that of market.

Sharpe's differential returns ratio:

This is calculated by taking the difference between the fund return i.e., \( R_p \) and the composite value of risk free return (\( R_f \)) plus the safe margin of market return and risk free return, called \( \alpha \) [\( \alpha \)]. Positive \( \alpha \) indicates, efficient stock selection and negative one indicates the inefficient stock selection of the fund manager. It is calculated as: \( \alpha = R_p - [R_f + SD_p/SD_m(R_m - R_f)] \). The selection of stocks by the managers, during the first three years was unwise, since the selection showed negative \( \alpha \) values. During the year 2000-01, the selection proved comparatively the best. But again the qualitative selection trend ran southward from 2001-02 onwards. However, when we consider the overall qualitative selection method, entire portfolio stood under negative \( \alpha \). Therefore the conclusion has got to be not satisfactory.
**Reward to Volatility Ratio (RVOL):** Jack L. Treynor is another analyst of the returns of mutual funds. He took the help of Beta for measuring the returns. He designed a ratio whereby the relationship between fund's additional return over risk-free return and funds' volatility (market risk) measured by Beta. The ratio is measured as under: \( RVOL_p = \frac{(R_p - R_f)}{Beta} \).

**Bench Marking for Return to Volatility Ratio:** The benchmark for comparison with this measure of performance is by calculating the similar relationship, relating the market i.e., the reward to volatility of the market. This is measured as; \( RVOL_m = \frac{(R_m - R_f)}{Beta} \)

**Combined measure of Treynor's ratios:** If the \( RVOL_p \) is more than \( RVOL_m \), the performance of the fund is efficient. Based on the Treynor's ratio, during the year 1997-98, the performance of the fund was just below the performance of the market. But the same rose upward during the years 1998-99 and 1999-2000. But during the year 2000-2001 the overall performance of the fund drastically reached the deep mire, and by 2001-2002, the performances either almost equalled or partially exceeded the market performance. When we consider the overall performance, on an integrated scale, the Treynor's ratios proved that the performance of the fund as a whole is stable or just more than the market performance.
Jenson's measure:

As per the Jenson's ratio, the performance of the fund as a whole, excepting a few schemes, travelled together. The year 1997-98 started with negative value of alpha, but the year 1998-99 showed some improvement and by the year 1999-2000, it raised to sizably high ratio. Unluckily, the performance went southward by 2000-2001 with equal vehemence and by 2001-2002 the performance reached just below the market line. When we consider the integrated performance of the fund, the performance almost stuck to 'x' axis i.e., either less than or equal to the market line. By all means, the fund's performance has been wavy and at no point of time consistency is noticed.

Fama's break-up:

Impact of Beta:

This is the systematic risk explained by the Beta factor of the scheme. This explains the return due to change in the uncontrollable market value relevant to the scheme, calculated as Beta(Rm-Rf). Fama's beta effect has been negative for the successive years with the lines steep southward from 1997-98 to 1999-2000. But, the beta effect had a steep leap towards the north during 2000-2001. By the year 2001-2002, the overall beta reached the 'x' axis. When we consider the integrated values, the overall performance is just below the 'x' axis, which means, below the market line.
Fama's impact of diversification:

This explains the reward obtained for the extent of diversification of the scheme which is a decision taken up by the fund manager. This is measured by the formula: Diversification $\alpha = \left[ (\sigma_p/\sigma_m) - (R_m - R_f) \right]$

Unlike other ratios, this ratio proved almost positive all through, though there were severe ups and downs, which could not pull the performance below the 'x' axis, i.e., the market line. 1997-98 recorded above '0' for almost all the schemes, by 1998-99 there is growth in alpha value and by 1999-2000, the angle was steep, but by 2000-2001, the performance of almost all the schemes reached the 'x' axis. The integrated alpha value is satisfactory and considerably >1, ranging up to 18. Therefore, we can conclude that the diversification alpha for the fund proved good, compared to any other type of ratio, applied so far. Since Fama's analysis is based on three different angles, we can conclude that the diversification risk is comparatively less than that of the market for the fund's schemes. Of all the schemes in the SBIMF, the schemes that topped the performance in as much as diversification are MTP-94, MTGS-93, MSFU-PHA, MSFU-IT, and MSFU-FMG.

At the top, they occupied the place between 20 and 28 during 1998-99 and the integrated alpha for these funds alone topped all other funds. Even during the time of distress, where almost all other schemes reached 'x' axis, these funds stood >2. Thus these schemes can be called the star
schemes compared to the others. The above schemes remained in the same
order as were listed above, right from the beginning till the end.

Fama’s alpha for impact of selectivity:

This explains the reward for effectiveness of diversification of the
fund manager, in the form of picking up the right stocks. The selectivity
ratio of the fund’s schemes, the performance ratios almost resemble the
ratios of Jenson, Treynor. 1997-98 witnessed <0 i.e., negative values. By
1998-99 it started picking up and by 1999-00, comparatively high ratio was
achieved. Equally downward point was achieved i.e., >-10 was recorded
in the year 2000-01 and by the year 2001-02 almost reached upward, but
just to touch or about to touch the x axis at zero point. Integrated value
also equalled the ratio of 2001-02. To conclude, the overall performance of
the fund with regard to selectivity is not so much encouraging.

The hypotheses, which are formulated in the research methodology,
are proved then and there in the concerned chapters themselves. As well
they are presented in table 6.1 to show whether those hypotheses are
rejected or accepted, and hence to test the validity of the objectives set for
the present study.
<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Hypotheses</th>
<th>Accepted/rejected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>There is no significant variance in the investment between different mutual funds over the years</td>
<td>Accepted</td>
</tr>
<tr>
<td>2.</td>
<td>There is no significant difference in the working capital amongst SBI mutual funds</td>
<td>Rejected</td>
</tr>
<tr>
<td>3.</td>
<td>There is no significant difference in current ratios between SBI Mutual Funds</td>
<td>Accepted</td>
</tr>
<tr>
<td>4.</td>
<td>There is no significant difference in the total assets among SBI mutual funds</td>
<td>Rejected</td>
</tr>
<tr>
<td>5.</td>
<td>There is no significant difference in the unit capital between SBI mutual funds</td>
<td>Rejected</td>
</tr>
<tr>
<td>6.</td>
<td>There is no significant difference in the gross income between SBI mutual funds</td>
<td>Rejected</td>
</tr>
<tr>
<td>7.</td>
<td>There is no significant difference in the dividend pay-outs amongst SBI mutual funds</td>
<td>Accepted</td>
</tr>
<tr>
<td>8.</td>
<td>There is no significant difference in the reserves and surpluses amongst SBI mutual funds</td>
<td>Accepted</td>
</tr>
<tr>
<td>9.</td>
<td>There is no significant difference in the net surplus earned between SBI mutual funds</td>
<td>Accepted</td>
</tr>
<tr>
<td>10.</td>
<td>There is no significant difference in the investment-wise pattern of investments among the schemes</td>
<td>Rejected</td>
</tr>
<tr>
<td>11.</td>
<td>There is no significant difference in the industry-wise investment pattern among the schemes</td>
<td>Accepted</td>
</tr>
<tr>
<td>12.</td>
<td>The returns are not consistent among the schemes of mutual fund of SBI</td>
<td>Accepted</td>
</tr>
<tr>
<td>13.</td>
<td>The performance of mutual fund is inconsistent among the schemes</td>
<td>Accepted</td>
</tr>
</tbody>
</table>
VI. CONCLUSIONS AND SUGGESTIONS:

1) The performance of the fund as a whole was in a declining trend. When compared to the market trend, this is in line therewith. Hence we cannot attribute total inefficiency to the fund.

2) Despite ups and downs, the fund has been continuing its activities and still is in daylight. This indicates the inherent strength of the fund – may be because of the backing of the largest bank of India, SBI with its unparalleled network or even the management strength.

3) Comparatively, many other public sector banks entered the fray, but vanished soon. For instance, Bank of India sold out its BOIMF to Taurus Fund long time back i.e., within 5 years of its inception. Punjab National Bank surrendered its MF to some other before March 2004 lest the negative figures should reflect in the balance sheet. Others are not to be found on ground.

4) Except SBIMF and Canara Bank MF, no other public sector mutual fund is of any significance.

5) Volatility of the securities was too high and even the volatility during the study period was too steep or too slope.
6) Of all the schemes, only a few schemes are good in their performance all through. Remaining schemes have been showing continuous downfall only.

7) Mutual Funds are expected to act as investors, but not venture capitalists. When observed some mutual funds, from public sector banks, (name is not mentioned for the purpose of secrecy) invested even in start-ups and eventually the investments turned bad resulting in closure of the fund.

8) As is observed in many of the public sector banks, no less than that have entered the fray of mutual funds, they deputed their senior staff officers, depending upon their grades of scales. While doing so, they failed or did not bother to ascertain whether the deputed officers possess necessary analytical skills or not. Mere grade or scale doesn’t confer any additional strength or capability. Even otherwise, the officers concerned should have been trained properly. Surprisingly some of the officials do not know how to measure volatility, how to prefer an area for investment, risk analysis etc.

9) To make the SBIMF successful and healthy, it is highly desirable to recruit professional analysts and experts for proper guidance, since core banking activities are totally different from investment
banking. Unless this is implemented, desired results cannot be achieved.

10) The officials concerned should be provided with minimum infrastructure like internet, required literature, data of analysts and consultants, legal implications and procedural formalities, constant updating of SEBI guidelines that are issued from time to time. Though these facilities are reported to have been provided, unluckily in certain banks, the internet lines are often closed, and are operated at selective times only with an intention to save 'telephone bill' under the guise of prudential norms, unluckily much at the cost of the portfolio.

11) Peculiarly, by applying the Fema's break-up, with regard to the selectivity ratio of the fund's schemes, the performance ratios almost resemble the ratios of Jenson, and Treynor. The overall performance of the fund with regard to selectivity is not so much encouraging.

12) While evaluating the balance sheet itself, financial companies ignore unlisted companies and private investments to ascertain the net worth for considering financial facilities. As such, while evaluating investment opportunities, fund managers should avoid sun rise companies and unlisted companies for the safety of the members of the fund.
While choosing software/hardware sectors for investment, due caution is to be exercised and besides other usual parameters, focus should be given more on the age, performance, standing and probable retention of the clients and capturing new clients by the company concerned. Many jargons in this sector are failing and we find mushroom growth of many companies in the guise of MNCs.

Sharpe's ratios based on NAV and based on the market, till the year 1999-2000, though not the entire portfolio, major schemes of the fund showed positive values both in NAV and market values. But from the year 2000-2001 onwards, there has been heavy jolt to the schemes both in the fund and in the market. But this is just on the line of just above the CML. However due prudence is to be exercised while employing the funds. When we consider the integrated values on the performance parameters, out of 20, 11 schemes could record he performance above the CML and the remaining 9 schemes fell below the CML.

As is observed from the Sharpe's differential analysis, the selection of stocks by the managers, during the first three years was very unwise, since the selection showed negative α values. During the year 2000-01, the selection proved comparatively the best. But again the qualitative selection trend ran southward from 2001-02 onwards. However, when we consider the overall qualitative
selection method, entire portfolio stood under negative $\alpha$. Therefore the conclusion has got to be not satisfactory.

16) When we consider the overall performance, on an integrated scale, the Treynor’s ratios prove that the performance of the fund as a whole is stable or just more than the market performance.

17) As per the Jenson’s ratio, the performance of the fund as a whole, excepting a few schemes, travelled together. When we consider the integrated performance of the fund, the performance almost stuck to ‘$x$’ axis i.e., either less than or equal to the market line. By all means, the fund’s performance has been wavy and at no point of time consistency could be noticed.