Chapter – 3

Review of Literature
Chapter – 3 Review of Literature

Content

3.1) Introduction.
3.2) Literature of Unit Trust of India
3.3) Studies of funds’ Performance in the International Context
3.4) Happening at the Country’s Largest Mutual Funds.
3.5) Literature on current Development
3.6) Conclusion.
3.7) Reference.
3.1 Introduction

A key measure to accelerate development in any society is to raise the rate of savings, which in turn finance additional investment in industry, agriculture, services and human skills. Higher savings are crucial for development and India's savings rate has shot up from 12.7% in 1965 to 24% around today. The UTI can claim only a part of the credit for this, and many other institutions have helped promote savings. But by enabling small savers, to combine safety with a higher return than they could have obtained from bank fixed deposits, UTI played a significant role in raising India's savings rate, sowing the seeds of greater economic growth.

A key aim of any developing economy is to nurture and create a thriving capital market, which automatically funds savings to dynamic enterprises.

The capital market was tiny and poorly developed when the UTI was created. One of the major achievements of the UTI has been its contribution towards developing capital markets. UTI has long been the biggest player in the stock market and by nurturing the market and countering speculative excesses has helped improve the confidence of the small shareholders.
Chapter – 3 Review of Literature

Today even the biggest mega projects costing thousands of crores can be financed by the capital markets without any support from the government or foreign aid-givers, reversing the position in the 1960s. This has made possible a new industrial dynamism, which has created many jobs, brought in new technology and skills, and helped make India world-class in several sectors.

UTI is only one of several players in the financial sector, but is reputed to have the finest managerial culture and its example has helped improve standards in the whole financial sector. The head of leading financial institution gave evidence that "of all institutions in the financial sector, the banks had the worst culture and UTI, the best."

The significant point to note is that, in creating so many new institutions, and savings schemes for small investors, UTI was not attempting to be charitable or altruistic. Creating new institutions like credit-rating agencies, stock Holding corporation of India, over the counter Exchange of India, Discount and Finance House of India, Venture Capital Funds, Infrastructure Leasing and finance services etc., were all ways of improving the capital market in which the UTI was an active player. But in addressing its own needs in a creative and imaginative fashion, UTI
automatically, (though perhaps, unwittingly) benefited the whole
economic and social structure in ways not directly connected with the
interest of its Unit holders. Again, by devising imaginative savings
schemes for different kinds of savers, it automatically met important
social needs without any act of charity on its part.

3.2 Literature on Unit Trust of India:

Mutual funds have clocked one of the highest growth rates in November,
with the total value of assets under management rising Rs. 8,239 crore.”
According to A.P. Kuriam, Chairman of the Association of Mutual Funds
in India.” the growth in the value of assets under management has been
due to growth in the value of assets under management has been due to
growth in both the assets value of the MF Schemes as well as fresh
mobilizations through various schemes during the month.

Record Braking

❖ Assets Managed By MFs in ’02 – ’03

<table>
<thead>
<tr>
<th>Month</th>
<th>Amount (Rs. Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>100594</td>
</tr>
<tr>
<td>May</td>
<td>102831</td>
</tr>
<tr>
<td>June</td>
<td>100703</td>
</tr>
<tr>
<td>July</td>
<td>102393</td>
</tr>
<tr>
<td>August</td>
<td>107621</td>
</tr>
<tr>
<td>September</td>
<td>106929</td>
</tr>
<tr>
<td>October</td>
<td>11153</td>
</tr>
<tr>
<td>November</td>
<td>121,392</td>
</tr>
</tbody>
</table>

(Source: TET, 25th Dece., 02)
Deposits mobilized by scheduled commercial banks went up Rs. 8,786 crore during the month of Rs. 1,13,153 crore of assets under management more than half the amount is in debt schemes Rs. 17,237 crore in assured returns and Rs. 59,092 crore under schemes other than the assured return ones.

Rao and Venkateswarlu (1998), using Treynor – Mazuy method and Henriksson – Merton model regarding timing abilities of fund managers to the listed close-ended schemes of UTI, showed that of nine schemes studied, only two schemes namely Master share and Grand Master showed significant fund managers timing abilities. They considered daily closing prices of all UTI closed schemes from their respective listing dates to March 1998. Ajay Shah and Susan Thomas (1994) evaluated 11 growth schemes of various Indian Mutual Funds. Among them four were from UTI, Six were from Can Bank Mutual Fund and one was from Ind. Bank Mutual Fund. They used the data for the years from 1999 to 1994 and observed that all the schemes selected have under performed except UGS – 2000 Schemes of UTI. They also verified the market timing abilities of fund managers with the help of HenriKsson – Merton technique and found only UGS 5000 schemes had displayed some faint market timing skills of all the other schemes of the sample.
Jayadev (1996) evaluated two growth schemes, one from UTI and another from SBI Mutual Fund using the data for the period June 1992 to March 1994 and concluded that the scheme selected from UTI had outperformed the market. Nalini and Sahu (1998) evaluated 17 Indian Mutual Fund schemes with one year data using the Treynor, Sharpe, Jensen and Fama measures to observe that UTI Master growth, Kothari Pioneer Blue Clip, GIC Growth Plus (II), Centurion Quantum fund had earned superior returns due to ability to professional fund management. They also observed that UTI Grand Master fund could not earn better returns despite high diversification owing to imperfect diversification. Other schemes like Morgan Stanley fund posted negative returns owing to high volatile securities and ICICI premier fund had the problem of low diversification.

Rao and Venkateswarlu (1998) Studied the performance of UTI during 1964 to 1994 using of UTI during 1964 to 1994 using CAPM based fund performance measures. When measured against the Treynor, Sharpe and Jensen, they found out performance only in case of US – '64and open-ended category and Master Share in the close-ended category. They observed the UGS - 2000 and UGS - 5000 had reasonable diversification. An attempt to study the market timing ability was made by Trynor and Mazuy (1966) by using quadratic regression model and analysed 57
mutual funds. The results showed that the timing ability does not have a significant bearing on the realized return regarding US mutual funds.

Thirupalaraju (1998) showed that among all Equity Linkage Savings schemes (ELSS) category during 1990 – 91 to 1994 – 95 involving 21 schemes, UTI schemes assume relatively higher systematic risk and earn higher returns. He had reported superior stock selection abilities of UTI and LIC in case of some schemes. Excepting lack of net selectivity and diversification. He had also found absence of timing impact in rewarding the investors, fuelled mainly by unfavourable market movements.

Dr. G. Ramachandran (2000) showed in his study “Conceptualizing Fund Management Attributes through new UTI schemes.

Mr. Gautam Chakravorthy and Sumit Sharma of Mumbai has Written an article on the topic on Tuesday 17 July, 2001 and try to throw some light on the US-'64. Let me take few important data and issue they have discussed their article on the topic on Tuesday 17 July 2001 and try to throw some light on the US-'64. Let me take few important data and issue, they have discussed in their article. As we all know the Unit Trust of India faces a run by many of its 20 million investors after the nation’s biggest mutual fund was forced to back track on a plan to freeze redemption a stem a $ US 700 million ($ A1.4 billion) exodus : Many
investors said they planned to take advantage of UTI's reversal to sell units in the flagship US – '64 plan at their 10 rupee (40 Australian Cents) face value even though that is 30 percent less than they could have earned in May 1991. I think people, has lot trust in our financial institutes. “Its unfair they are buying back at face value,” said S.L. Patel, 66, who owns 25000 US – '64 Units. He still plans to sell the maximum 3000 units permitted under UTI’s new redemption plan, announced lately. “Next year they may not even pay a dividend.”

In the same way Yassir A. Pitalwalla has written other articles on US-'64, title of his article is “UTI goes slow on equity sale to rebalance US-'64.” After paring its allocation to equity in the flagship schemes has decided to go slow on sale of equity shares, to rebalance the schemes as per the recommendations of the Deepak Parekh Panel.

3.3 Studies on Funds' Performance in The International Context.

Mr. Amit Jain in his article named “Mutual funds : Trends and Features,” he had mentioned that World wide, the mutual fund or Unit Trust as it is called in some part of the world, has a long and successful history. The popularity of the Mutual Fund has increased manifold in recent years. In developed financial market like United State, Mutual Funds have almost
over taken bank deposits and total assets of Insurance funds. As of date, in the US alone there are over 5000 mutual funds with total assets of over US $ 3 trillion (Rs 130 lac crores). In India, the Mutual Fund Industry Started with the setting up of Unit Trust of India in 1964. Public sector Banks and financial institution began to establish Mutual Funds in 1987. The private sector and foreign institutions were allowed to set up Mutual Funds in 1995. This fast growing industry is regulated by Securities and Exchange Board of India (SEBI). These are a wide variety of Mutual Fund Schemes that cater to the needs of various classes of investors according to their age, financial position, risk tolerance and return expectations, which aim to provide both capital appreciation and income by periodical distribution of dividend as per the choice of investor.

Ghosh and Ortiz (1994) argue that financial markets are becoming most sensitive to fundamental factors on a world wide basis due to increasing globalisation and declining barriers to investment and capital flows. “This new competitive globalised environment has led to grater interdependency among markets and nations. Accordingly, economic downturn and divergence on economic policies have frequently led to turbulence in the international financial markets, rapidly transmitting that from one market to another... the ability to transmit market information around the world in short time increased the apprehensions about the
market and the world economy. This led to imp unexpected chain reactions in plugging the financial markets around the world." [Ghosh and Ortiz (1994)]. Reports of stock market rating to revision of India’s credit rating by foreign credit rating agencies like Moody’s and S & P’s on the eve of nuclear explosion and fresh sanction also appeared in the recent past.

Are financial market efficient ? Financial markets are extremely competitive with little room for strategic behaviour. Under such conditions, individual rationality can aggregate to collective efficient outcomes. A body of work developing this view was honored by the Nobel committee in economics when it awarded its 1990 prize to modern finance’s pioneers, Harry Markowitz, Merton Miller and William Sharpe. But does this paradigm, capture most financial market behaviour ? clearly, some of the participants in financial markets do not act with perfect rationality, that is, they make mistakes. With little bickering onus of irrational behaviour may be conveniently shifted to all informed individual investors. But protagonists (Friedman 1953, Fama 1965) of rational expectation theory proclaim that astute big money managers stand ready to capitalize the mistake of naïve individual investors. They buy securities at bargain levels in the period of panic and sell high during the days of mania to bring mispriced stocks in line. Give this sort of
“poaching”, the collective outcome may be indistinguishable from the one that would result if all participants behaved with perfect rationality. Friedman and Fama thesis essentially implies that market distributes wealth among traders on the basis of quality of information; where weight of wealth of a trader is identical with his information quality weight (Figlewski; 1978).

If market truly behaves with this standard of excellence, how can we account for speculative fads starting from Dutch Tulip mania of seventeenth century down to 1987 world market crash and less discussed market melt down of India in 1992 and 1994. Can be deduce from these experiences that many market participants behave less than perfectly in the market: They trade on both noise and news, most importantly market instead of punishing often rewards irrationally and noise traders survive and dominate the market.

We critically examine below argument of Friedman – Fama that optimal decision increases the chance of survival in a competitive market, in our quest to search the root of fad in asset market. How market often inefficiently distributes wealth from rational to non-rational investors, as a result, corrective action of the market fails, irrationality prevails, bubble grows and allocative efficiency of the market suffers.
Giving investors more information is a good idea, right? Not always, insist America’s biggest mutual funds companies, who are campaigning hard to stop a securities and Exchange commission proposal that would require them to disclose their proxy votes to investors.

Backers of the SEC (Securities and Exchange Commission) who include unions, investor rights advocates as well as “Socially conscious” mutual fund companies such as Domini Social Investments and Pax World Funds, contend that mandatory disclosure will eliminate conflicts of interest, increase transparency and help investors hold corporations accountable.

The controversies like those at Enron, World com., Qwest, Tyco and Kwart would be less likely if fund companies were forced to come clean about their proxy votes, claims the American Federation of Labor – Congress of Industrial Organistios, which is leading the charge for the proposal. In comments filed with the government, the foes of proxy disclosure make three main agreements. (1) Disclosing proxy votes will needlessly politicize fund management (2) Disclosing proxy votes will destroy confidential proxy voting. (3) Disclosing proxy votes will be costly.
A recent vote at TIAA-CREF'S College Retirement Equities Fund, however suggests that many fund holders may not be sold. When asked to decide whether the fund should be required to disclose its proxy votes on social and environmental issues, as well as its efforts to weigh those issues in investment decisions, 7.6% of shareholders voted against disclosure and 19% came out in favour.

A final option would be for the federal government to encourage or simply require... all public companies to offer confidently proxy voting. If fund managers could always vote their proxies in secret, they’d have no reason to vote in anyone’s interests but shareholders.'

3.4 What is Happening at the Country’s Largest Mutual Funds?

As the dust from one issue selects down there is enough in the new package to divert the troubleshooting resources of the govt. to another. The country’s economy has not been faring too well. The major stock market crash in the beginning of this year brought out the inherent weakness of the Indian Financial market. The UTI scam also brought in a statement from Vajpayee himself that made his men sit up. “I feel I have not been able to manage and discipline the NDA. I have grown old. People also say I am unwell and, therefore, I should retire. I have myself
decided to step down," he stated at a meeting taking the Onus of the actions of his ministerial colleagues.

The cause of the shocking statement was rooted in the serious allegation made by Shiv Sena Member Sanjay Nirupam's. questioning the culpability of top officials of the Prime minister's Office (PMO) in the Unit Trust of India (UTI) scandal. The UTI's US - 64, scheme is said to have around two crore investors. UTI has been one of the major mobilisers of the nation's savings and the larger part of it has been channeled into the stock markets after 1991. The crisis has led to a loss of confidence in the system. The failure of Govt. backed financial instruments implies that the creditability of the govt. itself has received a battering. The govt had earlier, in 1999, worked out a package of Rs. 3,300 crore to bail out the UTI from a similar situation.

The most noticeable feature of the US-64, portfolio was that Rs. 10,910.505 crores or 52.98 % of net assets, has been invested in equity of only 26 companies, 11 of which were new economy companies. Thus, when the market started falling and Ketan Parekh Scam exploded US-64, was left holding vast amounts of worthless stock.

For sena, parting ways with the BJP over the UTI issue could yield political dividends in terms of the middle class vote bank, but the other
possibility of an NCP – BJP tie – up in the state occurring could leave the sena incapacitated. The recent scam in the UTI has shaken the confidence of the common man in the Mutual Funds (MFs). Till recently, US – 64, was considered to be one of the most profitable and reliable schemes of the UTI. The UTI itself was treated to be the most reliable of all the MFs. going around in the country. But the freezing of the US-64, has put a question mark on the reliability of this organization. The developments during the past few weeks have also Jeopardised the future role of all the MFs. in the country, at least for the time being.

The Us-64, schemes has a unit capital of Rs. 15,000 crore. The sales and redemption price is set every month by the UTI. Unlike other mutual funds, the scheme does not declare its net asset value and simply announces the sales and redemption prices every month. The net asset value of the US remains much of a mystery. And unlike other mutual funds, the redemption prices and the sales prices is not linked with the NAV. And here the problem lies.

In fact, rumors in the market that the NAV is quoting at around Rs. 7 per unit. It simply means that the UTI will have to pay Rs. 14.25 for assets that are worth Rs. 7 in the market. And many in the market know this ! So UTI now faces pressure on redemption. Common sense dictates that there
will be none willing to buy US-64, schemes estimated to be worth Rs. 7 for Rs. 14.55.

Already corporate, which hold around 53 % of the unit capital, are redeeming their exposure to the fund fearing that the June redemption price would reflect market realities. Investment expert’s advice individual investors to do the same.

As this piece gets published, UTI has made no official declaration or announcement regarding the redemption price. But, market trends suggest that the net asset value has indeed dipped below par and the redemption price has a good chance of being lowered, provided the government is ready to bail out US all over again.

PNB plans Rs. 320 cr IPO after US GAAP adoption Business Line. “The Punjab National Bank’s initial public offering will happen only after the bank’s consultants, Haskins & Deloitte, finish casting the bank’s accounts for the last two years, as per the US GAAP. …”

In any developing economy, Mutual Funds, have a significant role to play,. For a small investor, it is an option to channelise his savings in a profitable manner. For the trade and industry, it means more investible funds from general public and institutional investors. Net sales of the
mutual stocks reflect additional investment in the industry, resulting in higher industrial growth. Estimated to be to the time of Rs. 100000 crores market at present, but for the UTI scam, the market would have certainly grown further, considering, the reduced interest rates on the Provident Fund deposits, small savings and bank deposits. In view of the continuing trend of reduction in the interest rates, it is expected that in the years to come, more and more people would be lured to deposit their money in the MFs.

The fall of prestigious Us-64, has taught one important lesson. The mutual funds have to strike an optimum balance between the equity oriented and debt oriented investment US-64, fell because it had to turned into a predominantly equity-oriented fund. More independence of equity orientation of a fund makes it prone to market fluctuations in the stocks. Debt orientation provides some element of security to a scheme, though the return may not be very high. Hence, a prudent blend of both would certainty keep any fund buoyant in the market even under the slowdown conditions.

Despite being a predominantly agrarian society, the economic growth in India is mainly driven by the industries and services sectors. During the past over a decade, the average annual growth rate in India has been
above 6%. The Draft approach paper to the Nineth Five Year Plan envisages a growth rate of over 8% during the next plan (2002-07) period. If this kind of growth rate is to be achieved, not only the agricultural growth rate has to be stepped up, but industries and the services sectors would also have to play an important role in the near future. Mutual funds thus have an important role to achieve a healthy growth rate in all sectors.

3.5 Literature on Current Development of UTI.

UTI is the country’s largest mutual fund and with its huge corpus it is able to influence the direct of the market. An indication by UTI chairman that the flagship US-64, scheme, which has 1.2 crore active investor accounts, may have negative reserves came as a rude shock to the investor community. But Finance Minister Yashwant Sinha assured the investors that there will be no reason to panic. But other also disclosed their displeasure. Confederation of India Industry’s President Sanjiv Goenka suggested that instead of suspending US-64’s trading for six months, UTI could go for transition of US-64 to a NAV based system. He also added the moratorium will reduce the confidence of Unit holders.
UTI’s US-64 scheme was at the center of a controversy two years ago when the troubled fund manager froze redemptions for five months due to heavy withdrawals triggered by fear of cut in dividend and by back price.

UTI then withdrew the freeze following a nationwide uproar and announced a partial redemption facility that bought back the units at a much higher price than the net asset value.

On April 9, '03, the Government on Tuesday told the Rajya Sabha that the country’s largest mutual fund UTI is on a revival path and its unit have started fetching a premium. “UTI is well on a revival path and it is a healthy sign,” Finance Minister Jaswant Singh said.

❖ UTI Mutual Fund declares maiden dividend of 10% on April, 09.

On 6th of April '03, UTI, offers to its Unit holder, 6.75% tax free bonds but Mr. Puneet Jain recommended that in any case, US-'64 holder should not redeem their units for cash. They should prefer to exchange them for the tax-free bonds being offered by UTI. This should help the investor to maximize gains from the offer and recover whatever gains they can from the closure of the schemes.

The finance secretary S. Narayan said that the government promises to provide the difference in the NAV and the redemption (price of US-64).
But later on it was announced that UTI would be broken up into two companies, UTI-I and UTI-II.

On April 9, '03, the Government on Tuesday told the Rajya Sabha that the country's largest mutual fund UTI is on a revival path and its units have started fetching a premium. "UTI is well on a revival path and it is a healthy sign," Finance Minister Jaswant Singh said.

❖ UTI Mutual fund declares maiden dividend of 10 % on April, '09.

❖ On 6th April '03, UTI offers to its Unit holders. 6.75 % tax-free bonds but Mr. Puncet Jain recommended that in any case, US-64, holders should not redeem their units for cash. They should prefer to exchange them for the tax-free bonds being offered by UTI. This should help the investor to maximize gains from the offer and recover whatever gains they can from the closure of the schemes.

The Unit Trust of India Repeal Bill, 2002 which paved the way for the restructuring of the UTI into two-UTI-I to be managed by an administrator and the UTI. AMC-empowers the administrator to requisition the services of officers or other employees. According to the Act, an officer or other employee of the UTI not opting to be in the employment or service of the new AMC, would be deemed to have quit. The sponsors of the UTI AMC are the LIC of India, SBI, Punjab National...
Bank of Baroda who have all contributed Rs. 2.5 crore each for Rs. 10 crore capital of the company speaking to the Economic Times, UTI, Chairman P.S. Subramanyam said that while most of the fresh inflows were being invested in debt instruments to increase the overall weightage of this component, UIT was engaged in active trading of its equity portfolio.

The government has appointed two independent agencies for assessing the net assets value of UTI-II, which would be transferred to a company jointly promoted by LIC, SBI, INB and Bank of Baroda. The NAV based schemes of UTI, which would be clubbed under UTI-II, has a corpus of over Rs. 17000 crore. According to global practice, acquirer of a mutual fund has to pay about 4% of the corpus size of the promoter company. Going by this global trend, UTI-II may be valued at over Rs. 700 Crore.

As in August 2002, it is promised assistance to the beleaguered US-64. It knows that if small investors in US-64, exist en masse in May, 2003 as is widely anticipated, then UTI will have no option but to go in for distress sale of its holdings. The latest offer of tax-free bonds in lieu of cash for investors in US-64. Investors now have a choice. They can either go along with the package announced last year Rs. 12 per unit for holdings up to 5000 units and Rs 10 per unit for the balance or they can get tax-
free bonds to the extent of their holding. A rational analysis shows that it makes more sense for investors to opt for bonds rather than cash. For, if they were to redeem their units for cash, it is highly unlikely that they will be able to reinvest the proceeds as lucratively—for an investor in the 30% tax bracket, the yield on the five year bonds on offer works out to over 9.6%. Moreover since the bonds are tradable, liquidity should not be a problem. The government has decided to offer two types of bonds, including an 8% taxable paper, of US-64 investors who do not want to encase units when they come up for redemption in May this year. Those who want cash will receive Rs. 12 per unit for up to 5000 units. For holdings in excess of 5000 units investors would be offered either Rs. 10 per unit or the Net Asset Value (NAV), whichever is higher back, will carry a announced sometime back, will carry a coupon of 6.5% of well over 8% which is more than the yield on 5 year Govt. securities.

Financial markets are externally competitive with little room for strategic behaviours. Under such condition, individual rationality can aggregate to collective efficient outcomes.

Meanwhile SBI, PNB, BOB and LIC has obtained Reserve Banks as well as SEBI’S permission for setting up an asset management company to handle UTI – UTI. The four partners would invest Rs. 2.5 crore each in
the AMC, which will start with an initial equity capital of Rs. 10 crore. The government decided to transfer the NAV-based schemes of UTI to the new AMC as part of restructuring process of country’s largest mutual fund. The Finance Ministry source said that the team will be a mixture of local an International chartered Accounting Firms.

The consultants will book at various model for the structure of the models of the proposed entity. The most critical part will be the evaluation, as this will fix the premium the government will get when the disinvestments finally begins.

Now investors in the UIT have reason to feel reassured. As anticipated the government is once again riding to their rescue or wisdom and natural law if justice demands that smart will rule over dump, the same views echoed by counter (1967), which we quote.

“If any group o investors was consistently better than average in for casting stock price, they would accumulate wealth and give their forecasts greater and greater weight. In the process, they would bring the present price closer to the true value. Conversely, investors who were worse than average in the fore casting ability would carry less and less weight. If this process worked well enough, the present price would reflect the best information about the future....”
If Cootner (1967), Friedman (1953), Fama (1965) are right then how can we account for bubble burst cycle which is an outcome of prolonged aggregate inefficient wealth distribution function of the market. Does all these market upheavals teach us that distribution of wealth and information quality of investors often varies in the market? can we rule out the possibility that people with inferior information but more wealth may rule over the investors with superior information but lesser wealth? We describe below the compounding effect of faulty distribution of wealth of the market on the asset price: how irrational demand of wealthy investors makes the asset market risky which in turn limits the willingness of guardian of the market to be against ill-informed.

The new AMC, which came into existence on February, 03 will handle assets aggregating Rs. 15000 crore.

Taking into account the fact that large scale redemption would of US-64 would leave a hole in its balance sheet, the government has offered the carrot of a tax-free funds to keep US-64 of a investors at bay in May when the scheme loans up for redemption.

Even thought UTI-I may have a larger size owing to the presence of US-64 and numerous assured return schemes, UTI-II is not far behind and packs an equal punch in case its assets are pooled together.
Table 3.1

First Among Equals

Source Value Research Shareholding

<table>
<thead>
<tr>
<th></th>
<th>UTI - I</th>
<th>UTI - II</th>
<th>UTI - I</th>
<th>UTI - I</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACC</td>
<td>0.8</td>
<td>1.5</td>
<td>ITC</td>
<td>3.2</td>
</tr>
<tr>
<td>BSES</td>
<td>5.3</td>
<td>2.1</td>
<td>INFOSYS</td>
<td>1.8</td>
</tr>
<tr>
<td>BHEL</td>
<td>2.6</td>
<td>1.2</td>
<td>L &amp; T</td>
<td>3.7</td>
</tr>
<tr>
<td>Cipla</td>
<td>2.2</td>
<td>1.9</td>
<td>MTNL</td>
<td>1.5</td>
</tr>
<tr>
<td>Grasim</td>
<td>0.9</td>
<td>2.2</td>
<td>Ranbaxy</td>
<td>2.9</td>
</tr>
<tr>
<td>Guj. Ambuja</td>
<td>2.5</td>
<td>1.0</td>
<td>Reliance</td>
<td>2.2</td>
</tr>
<tr>
<td>Hero Honda</td>
<td>0.5</td>
<td>1.2</td>
<td>Satyam</td>
<td>2.5</td>
</tr>
<tr>
<td>Hindalco</td>
<td>4.0</td>
<td>4.9</td>
<td>Telco</td>
<td>1.8</td>
</tr>
<tr>
<td>Hind Lever</td>
<td>1.1</td>
<td>1.3</td>
<td>Tisco</td>
<td>1.5</td>
</tr>
<tr>
<td>HPCL</td>
<td>2.9</td>
<td>1.3</td>
<td>Zee Tele</td>
<td>1.5</td>
</tr>
</tbody>
</table>

- As of End Oct – 02

While UTI-I has a bigger stake in companies such as ITC, Reliance and L & T the combine holding of all schemes falling under UTI-II is bigger in Companies like BSE, Gujarat Ambuja, BHEL, HPCL and so an.

Take the case of BSES, where Reliance has an announced an open offer for 20 % of the company. UTI-II holds does to 5.3 % stake compared to just 2.1 % by UTI-I. As shown in table 3.1, Gujarat Ambuja, the holding of UTI-II is 2.5 % compared to 1 % of UTI-I.
The UTI, the largest mutual fund house of the country, is planning to rope in mutual fund houses for sale of some of its schemes. The institutions shall be *freaking up the bigger* schemes into smaller ones and handling it over to the private fund managers, this move would help the fund house in comparing performance. The fund house also plans to make complete disclosures of portfolios to bring in more transparency in the system, apart from this there would also arrange for investors meet to remove all doublets that the investor have about have about different schemes. These planes are all a part and parcel of the restructuring program that UTI, has undertaken. The fund would make its flagship scheme US-64, NAV based two months before the scheduled time. The total redemptions in the schemes till date has been Rs. 82.20 crores.

On June 30, 1999 UTI, wiped out the negative balance and posted positive result of about Rs. 275 Crores.

### 3.6 Conclusion:

Despite temporary set-back the mutual fund market is expected to play a significant role in the near future. Channelising of more funds into the stocks and industrial debt would put more funds at the disposal of industry, enabling it to face the challenges of globalisation by capital investment for technological upgradation. This would also reduce the
dependence of the economy on the flow of foreign direct investment for rapid economic development. The capital market is expected to witness many more mutual funds in coming years with greater responsibility on their shoulders to safeguard the financial interests of the investors. The fall of UTI was mainly due to the fact that many important investment decisions were not guided by the economic considerations. If the mutual funds want to grow faster and assume their due role, professional and economic investment decision are a must.

UTI Chairman, M. Damodaran has said that the mutual fund has embarked on a series of restructuring measures aimed at improving its performance and help to recover from the problems created by its Unit 64 schemes.

UTI has already put in motion a process of restructuring to maximize human resources and optimise portfolio management structure.

On US-64, he said reployment of suitable talent performance orientation, fast track promotions and bench marking would constitute the first level reforms.
Simultaneously, depending on the opportunities presented by markets, the scheme would see a reduction of exposure in certain scrips and sectors and the over all number of scrips would be rationalised.

Going beyond US-64, Mr. Damodan said, UTI would strengthen and refurnish all its other schemes, besides introducing a few add to existing ones.

Plans are underway to provide existing investors with the option of switching from one scheme to another and also offering income options for those schemes currently not offering this facility.

The UTI fraud is a water-shed in Indian politics. No scam in recent history has directly hit as many people as this one and its political fall out will be fully felt in the months to come. Go to any public place today and you get a feel of their anger and their sense of betrayal with the wipeout of what was their hard earned social security. In the past, such anger has created electroral waves, throwing out Indira Gandhi in 1977, Morarji Desai in 1980 and bringing down Rajiv Gandhi’s unprecedented 1984 majority to less than half the tally in 1989. The present rulers would do to remember that people quietly made up their minds and streets only when the approproate moment come.
3.7 References


11) Jaffe, J., and R. Westerfield, 1985, the week and effect economic stock returns: the international evidence Journal.


14) Dailies:

The Times of India, Tuesday, August 21, 2001.
The Economic Times, Monday, March 03.
The Economic Times, Thursday 16, June, 03.
The Economic Times, Wednesday 19, March 03.
The Economic Times, Friday 14, February 03.
The Economic Times, Wednesday 25 December 02
The Economic Times, December 27, 03
The Economic Times 30th November, 02
The Economic Times 7th March, 03
The Times of India, Wednesday July 4, 2001
Business Standard – Tuesday 26th November '02.