Chapter I

Introduction and Design of the Study
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1.1 INTRODUCTION

Indian economy carried the stigma of being an under developed or poor economy for a very long time in history when most of the Indians were just struggling to make both ends meet. However, consistent economic growth in the last two decades had led to considerable increase in disposable income of certain sections of society. Increase in disposable income has resulted in growth of investable surplus, finding its way for various savings and investment options. With opening up of economy and fast implementation of economic reforms, investment options and choices for financial products have multiplied exponentially. Continuous ups and downs of stock markets, rise and fall in inflation rates, volatility of interest rates and emerging patterns of shift from fixed return investment products to variable returns investment options has made the decision making process much more complex and difficult for ordinary Indians who are experts in their own fields but not in finance saving.

Until the decade of the 90’s, most of the middle class Indians were paying little attention to managing personal finance during their working life span and only at the time of retirement they would consult their well wishers or advisors about some deposit schemes with banks or post office or companies which would ensure them regular monthly or quarterly returns. A very small percentage of the rich and daring or adventurous Indians would dabble in stock markets or UTI schemes. With the advent of the new millennium, needs have multiplied and changed and so have the solutions. The importance of correct advice at the right time is being appreciated and an average Indian is trying to remain abreast of the developments in finance markets so as to manage his “Personal Finance” efficiently.

Today because of rising inflation the purchasing power of money is decreasing at an accelerated pace. Earnings and savings are no longer enough to provide for the future. In order to maintain the purchasing power of savings, it has to be intelligently invested and these investments have to be actively managed.
Investment means the purchase by an individual of a financial or real asset that produces a return proportion to the risk assumed over some future investment period. In short, investments mean deployment of savings with the intention of maintaining or increasing its value or earning an income. An investor should always have three types of financial investments.

i) Liquid investments such as Savings Account, etc.

ii) Liquid funds- regular income investments that are Fixed Deposits, Bonds, Debentures, etc.

iii) Growth Investments like equity based mutual funds, Residential house property, Gold, etc.

A proper balance among these three categories is needed so that the wealth grows to meet the various requirements which might be an accident, an illness, disability or even death, protecting the current financial position, purchase a car, a house, retirement, daughters’ and sons’ marriage.

Investor decides whether he wants to invest his savings to appreciate in value or to get a regular income or a combination of both. For achieving this, he has to decide on how and where to deploy his savings so that his future requirements for money can be best met. Many types of investment media or channels are available for making investments. Some media are simple and direct, whereas others are complex necessitating detailed analysis and investigation.

Indian men used to put their savings in bank deposits or the government bonds and Indian women used to put their small savings from household expenditure either at the bottom of their old steel trunk or in jewellery. The more enterprising ones used to invest in land and the rare ones in equity shares. The liberalization of Indian economy opened up several new investment opportunities and the growing disposable income made Indians less averse to risk. Indians put their money in stock markets but they burnt their fingers twice in scams. Indians put their money in new investment tools like chit funds and plantations and again burnt their fingers. But there is another set of Indians who made good money in booming stock markets, especially during the rally over the

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1 Outlook Money, 15th July, 2007 P.99
last four years. There is yet another group of Indian investors who learnt to trust the wisdom of fund managers at mutual funds. And a small group of Indians invested in life insurance policies for protection as well as long term wealth creation. The big question is what percentage of Indian population has really started using such new age investment avenues. Max New York Life-NCAER Indian financial protection survey revealed that 56 percent of Indian households prefer to invest in bank deposits and 31 percent keep their money at home. Another 8 percent, deposit their money in post office, co-operative societies and just 2 percent invest in life insurance policies, remaining 3 percent invest in other instruments like bonds, mutual funds and equity. The choice of instruments used to save became even more surprising as we discover the need that those savings are for long-term planned events and therefore do not need liquidity. 83 percent of Indians save for emergencies, 81 percent for children education, 69 percent for old age and another 63 percent for social ceremonies such as child birth, marriage etc. Except for emergencies, everything else could be planned and thus does not require cash. The study clearly points out that Indians save but do not save wisely. Their objective for saving and the choice of instruments are not matched. Short term instruments are used for long term savings with poorer yields ostensibly due to liquidity.

The study clearly pointed that there is a lack of understanding of financial management and planning. The Indian households do not have a clear view of the investment opportunities available in the market and how to build a balanced portfolio of investment keeping the financial needs and risk taking ability in mind. The basic principles of savings are—start early, save a minimum percentage of income before you spend, identify your financial needs, build the investment portfolio to meet the financial needs at different states of life and review your investment portfolio periodically to remodel it to meet your changed needs.

In a large and diversified country like India, no company or no industry can improve the financial literacy of Indian Households. Financial sector i.e. Banking, Financial services and Life Insurance industries will have to work with Government, Industry Association and NGOs to educate the Indian households on the need for saving and to save wisely. They should educate the Indian population on the ways of meeting their immediate financial needs through sufficient liquid assets.
It is high time that along with increasing the overall literacy, we as a country, should also focus on increasing financial literacy. This would turn India from a country of good savers to a country of wise savers and help build a financially strong and secure India.

Investment is the employment of funds with the aim of achieving additional income or growth in value. The essential quality of an investment is that it involves “waiting” for reward. It involves the commitment of resources which have been saved or put away from current consumption in the hope that some benefits will accrue in future. Investment is the allocation of monetary resources to assets that are expected to yield some gain or positive return over a given period of time. These assets may range from safe investments to risky investments.

Savings are excess of income over expenditure for any economic unit. Thus, \( S = Y - E \) where \( S \) is savings, \( Y \) is income and \( E \) is expenditure. Secondly, excess funds or surplus in profits or capital gains are also available for investment. Thus, \( S = W_2 - W_1 \) where \( W_1 \) is wealth in period 1 and the difference between them is capital gains or losses. Thirdly, investment is also made by many companies and individuals by borrowing, from others. Thus the corporate sector and government sector are always net borrowers, as they invest more than their savings. Thus,

\[ S = B - L \]

Savings is obtaining from present consumption for a future use. Savings are sometimes autonomous coming from households as a matter of habit. But bulk savings comes for specific objectives like interest income, future needs, contingencies, precautionary purposes or growth in future wealth, leading to rise in the standard of living, etc.

Investments have become a basic necessity for everyone. In our country there is a rapid growth in investment. More number of investors are investing their funds in different types of investment opportunities. Investing wisely is a function of investors’ specific needs and goals. Each investor has different objectives that need to be met depending on age, income and attitude towards risk. Investors have to work out with their investment profile to determine which investments are right for them and should consider important factors such as personal status, plans and constraints.

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2 Preeti Singh, Investment Management, Himalaya Publishing House P.1
3 Avadhani V.A., Investment Management, Himalaya Publishing House P.16
4 Journal of Organization Management, October-December, 2006
It was once estimated that if the population increases by one percent per year, savings and investments must increase by at least 4 percent in the developing countries to maintain the existing standard of living. The annual population was reported at a growth rate of 2.5 percent and hence our domestic savings and investment must increase by about 10 percent just to maintain the status quo. But to achieve further progress, it is imperative to raise the income level and thereby the standard of living.

Tax planning is an arrangement of one's tax affairs in such a way that without violating any legal provision, full advantage is taken of all exemption, deductions, concessions, rebates, allowances and other relief or benefits permitted under the income tax act so that the burden of taxation on assesses is eliminated or reduced. Tax benefits and tax effects are important considerations for an investor; proper tax will help improve the efficiency of our investments. Tax planning is an important part of investment planning. While selecting an investment option, care has to be taken that investment should not result in increase in taxable income. Two things affect return on any investment one is inflation and the other is tax. Returns on any investment should be taken into account after assuming the effect of these factors.

1.2 STATEMENT OF THE PROBLEM:

The focus of this study is on the individual salaried class investors. In the Indian context, savings from all quarters are the need of the hour. Though 70 percent of our population live in villages and mainly depend on agriculture, the savings from agricultural sector is not enough due to uneconomic operations of the farms and same is the situation of public sector undertakings. Further, the savings of business men and the self employed are not stable and not assured because it is subject to the conditions of business. The salaried class has a fixed source of income and supplemented by additional income from other sources. The salaried class investors with assured monthly income could be regular savers. Various studies at macro level confirm the role of the salaried class investors in providing the financial resources to the industrial sector. Keeping in view the potential savings of salaried class investors, this study is prompted to understand the attitude and behaviour of salaried class investors.

1.3 OBJECTIVES OF THE STUDY
The study is undertaken with the following objectives:

i) To analyse the profile and the awareness of the salaried class investors.

ii) To understand the attitude and satisfaction of investors towards investments.

iii) To analyse the Factors motivate the investors for investments and Expected Rate of Return on Investments.

iv) To understand the Awareness and Attitude of investors on Tax Planning.

v) To bring out the investors’ Decision making process.

1.4 HYPOTHESES
In line with the objectives of the study, null hypotheses are framed and tested for their validity. The following hypotheses have been formulated and tested.

i) There is no significant relationship between demographic factors and level of awareness of salaried class investors.

ii) There is no significant relationship between demographic factors and attitude of salaried class investors.

iii) There is no significant relationship between demographic factors and level of satisfaction of salaried class investors.

iv) The expected rate of return on investment is not influenced by demographic factors of salaried class investors.

v) There is no significant relationship between demographic factors and information usage for decision making in investment.

vi) There is no significant relationship between demographic factors and deployment of lump sum receipt.

vii) There is no significant relationship between demographic factors and Awareness of Investors on Tax Planning.

viii) There is no significant relationship between demographic factors and Attitude of Investors on Tax Planning.
1.5 PERIOD OF THE STUDY

The study covers a period of 3 years that is Jan. 05 to Dec.07. The data collected, opinions and expectations revealed pertain to the same period. The study is based on the data collected from individual salaried class investors in The Nilgiris district, which consists of four towns (Ootacamund, Coonoor, Kotagiri and Gudalur) out of which Ootacamund and Coonoor are municipality towns and Kotagiri and Gudalur are small towns.

1.6 AREA OF THE STUDY

"Nilgiris" the name in Sanskrit means Blue Mountains and in Tamil Neelamalai. Nilgiris is one of the oldest mountains ranges, older than the Himalayas local tri-junction of Tamil Nadu, Kerala and Karnataka. Nilgiris is a part of the Western Ghats. Ooty the "Queen of Hill Stations", Coonoor 19 kms from Ooty and Kotagiri 31 kms from Ooty, are the three hill stations of this district. Nilgiris hills or the blue mountain offer an unspoiled retreat. Ootacamund or Ooty is a popular hill resort and is also known for its impression of a little bit of England.

The geographical area of the district is 2543 square Kilometers, and it consists of six taluks namely Ootacamund, Coonoor, Kotagiri, Gudalur, Kundah and Pandalur. The upper plateau at an altitude of 6500 feet consists of three taluks namely Ootacamund, Coonoor and Kotagiri while Gudalur taluk the oldest plateau is at an altitude of 3000 feet. There are four panchayat unions in this District. The four Municipalities are Ootacamund, Coonoor, Gudalur and Nelliyalam. There are 11 special village panchayats in this district. Wellington is the only cantonment area in this District.

The population of the District according to 2001 census is 762141 of which 378351 males and 383790 females. The increase in population over 1991 census is 7.31%, density raises from place to place. The density of population in this district is 300 per square kilometer. The expected population in 2011 is 823637. Natural forest wealth is the one of the main factors adding to the natural beauty and economic importance of this district. Forest area is 142577 hectares. The highest elevation is the Peak of Doddabetta, which lies at a height of 2595 Meters from the Mean Sea level.

* Office of the Assistant Director of District Statistics Office, Ootacamund.
FIGURE 1. GEOGRAPHICAL LOCATION OF THE STUDY AREA NILGIRIS DISTRICT
The general climatic condition in this district is cool. High elevation of this district results in low temperature, which is further, covered by excessive moisture content in the atmosphere resulting from the exaltation by the vegetation. The mean minimum temperature was 4.1 celsius and mean maximum was 24 celsius during 2005-06. The crops under cultivation in 79644 hectares are Tea, coffee, Potato and various vegetables. Crops including cabbage, cauli flower cultivated in this district. Cardamon, Pepper and Ginger are the major spices. Due to increase in the cost of cultivation of Potato and other root growers in the district people have switched over to planting Tea in the recent years.

1.7 METHODOLOGY

1.7.1 Sampling Design

The validity of any research is based on the systematic method of data collection and analysis of the data collected. The study is based on the data collected from individual salaried class investors in The Nilgiris district in the state of Tamilnadu which is called “Neela Malai”. This district has only one public limited company (Hindustan Photo Films, Ootacamund), One private Limited company (Needle Industries, Ketti) and a Defence factory (Cordite Factory, Aruvankadu). The salaried class investors’ were selected by convenience sampling method from the selected revenue blocks such as Ootacamund, Coonoor, Kotagiri and Gudalur of The Nilgiris District.

1.7.2 Collection of Data

This study uses the primary data obtained from investors in The Nilgirs district. The questionnaire used for the collection of data was a structured one. That is, the questionnaire was the main tool for collecting the data. The questionnaire was pretested to ensure clarity and prompt response from the respondents. Preliminary interviews were undertaken to frame the structure of questions to be asked. Secondary data were collected from various text books, journals, magazines, RBI annual report, SEBI annual report, etc. The sample size was 600. Convenience sampling was adopted to select the salaried class investors. The questionnaire was distributed to the investors at their work places. Adequate time was given to them to get the questionnaires filled and completed in all aspects. Though, 1,000 questionnaires were issued, the researcher was able to collect only 600.
1.7.3 Analysis and Interpretation of Data

The data collected were analysed by preparing suitable tables. The information collected with the help of questionnaire are tabulated and analysed by using various statistical measures like percentage analysis, mean and standard deviation analysis, chi-square test, T-test, Analysis of variance (ANOVA - F Test), Factor analysis, Kendall’s Coefficient of Concordance Test, etc. have been used in different contexts.

**T-test:** It is used for judging whether there is any significant difference between the means of two samples. The t-test will indicate if the perceived differences among the two groups are significantly different.

**Chi-Square Analysis:** The chi-square analysis is used to test the significance of influence of one factor over the other factor, for this purpose the factors were classified into two groups.

**ANOVA:** It is an importance technique in the context of all those situations where we want to examine the significant mean differences between more than two groups. The result of the ANOVA will show whether or not the means of various groups are significantly different from one another as indicated by F-statistic.

**Factor Analysis:** The general purpose of factor analysis is to find a method of summarizing the information contained in a number of original variables into a smaller set of new composite dimensions (factors) with minimum loss of information. Factor analysis identifies an defines the underlying dimensions (factors) that exist in the original variables selected for the study.

**Kendall’s W:** It is a non-parametric statistic, also known as Kendall’s coefficient of concordance. It is used to assess the priority of the investors on certain aspects. The investors are asked to rank their priorities and based on their opinion the mean rank is calculated through Kendall’s W test.

1.8 IMPORTANCE OF THE STUDY

This study is concerned with the evaluation of demographic finance that is savings and investment practices of salaried class investors. The study will help the individuals concerned i.e. salaried class to plan savings and investments towards maximizing the returns. The in-depth analysis of the behavioural pattern of the investors would help the government to work out various schemes to mobilize finance from the salaried class investors by bringing out tax saving schemes, retirement benefit schemes,
The study assumes significance in the light of the fact that very few research works are available on investment decision process of investors in India, while majority of the studies concentrate on behaviours of equity share prices, studies on the investors’ attributes are small in number.

1.9 LIMITATIONS OF THE STUDY

This study is confined to a particular selected region that is The Nilgiris district and hence conclusions were drawn with due care, when an attempt is made to generalize the results. Due to paucity of time and fund, the size of the sample was restricted to 600. The study is confined to the salaried class investors only and therefore the outcomes cannot be generalized to other category investors: Further, the study concentrates itself on investors in the “The Nilgiris” district only. Hence, the findings may not be applicable to other regions. This being a study concerned with financial matters, investors’ reluctance to disclose information on some items in the questionnaire was encountered. Many of the questionnaires could not be included because the respondents did not disclose the exact amount of investment in various schemes, etc.

1.10 ORGANISATION OF THE THESIS

The thesis is presented in seven chapters.

The First chapter deals with the introduction, statement of the problem, objectives of the study, period and area of study, methodology (sampling design, collection of data and analysis and interpretation of data), hypothesis, importance of the study and the limitations of the study.

The Second chapter deals with the Theoretical Analysis and Review of Prior Studies.

The Third chapter describes the Profile and Awareness of Salaried class investors.

The Fourth chapter highlights the Attitude and Satisfaction of salaried class investors.

The Fifth chapter deals with Factors Motivating Investments and the Expected Rate of Return on Investment of Investors.

The Sixth Chapter deals with Tax Planning of Salaried Class Investors.

The Seventh Chapter deals with Investors Decision Making Process.

The Eighth chapter is devoted to present expectations of salaried class investors, summary of findings and suggestions for improving the habit of savings and investments of investors.