Chapter - VI

A Summary of Findings and Suggestions
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A SUMMARY OF FINDINGS AND SUGGESTIONS

6.1 Introduction

The Indian capital market has experienced remarkable developments and changes in the past few years. The mutual fund industry in India has significant growth since the liberalization of Indian Economy in 1991 and has emerged as a significant financial intermediary.

Hence an attempt is made to study the performance of mutual fund schemes in general and to compare the performance of private sector and public sector mutual funds. The study is mainly based on secondary data. This chapter is devoted to recapitulate the key findings of the study.

6.2 Structure and Growth of Mutual Fund Industry in India

The mutual fund industry has witnessed a tremendous growth in the last 5 years. It is observed that there is a significant growth in the mutual fund industry in terms of Assets under management, Resource mobilization, Number of schemes issued, Number of investors and Trend in transactions during the study period 2003-04 to 2007-08.

Assets Under Management

The Annual Compound Growth Rate is found to be the highest (40.36%) for private sector schemes. Total Assets Under Management under sector-wise increased 4 times more than the assets at the beginning of the study period. Open-ended schemes have managed more assets followed by closed-ended schemes.
Resources mobilized

The resources mobilized by the mutual funds in private sector, public sector and UTI have increased over the study period. The Annual Compound Growth Rate of total resources mobilized in mutual fund industry is 34.64%. UTI has attained the highest growth rate of 55.79%.

Number of schemes issued

The total number of schemes have increased from 363 to 579 over the study period with a growth rate of 12.38%. In open-ended schemes, more number of schemes are issued under equity category and less number in ELSS and Gilt schemes. Under closed-ended schemes, more number of schemes have been issued under income category and less number in balanced schemes.

Number of investors

Under open-ended schemes and closed-ended schemes, the number of investors are higher in equity schemes compared to Debt and Balanced schemes. Annual Compound Growth Rate of total number of investors during the study period is 31.52%.

Trend in transactions

During the study period in mutual fund companies, net purchases in debt is always higher than the net purchases in equity which emphasizes that the investors are interested in the debt oriented schemes over the equity oriented schemes.
6.3 Behaviour of returns in schemes

Based on investment objectives the mutual fund schemes are grouped as Equity schemes, Debt schemes and balanced schemes. The results of analysis of behaviour of returns of mutual fund schemes under each category are presented below.

**Behaviour of Mutual Fund returns**

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Aspects considered to analyse the behavior of returns</th>
<th>Equity</th>
<th>Debt</th>
<th>Balanced</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Best performing scheme based on high average monthly return</td>
<td>HSBC equity fund</td>
<td>UTI</td>
<td>HDFC Prudence Fund</td>
</tr>
<tr>
<td>2</td>
<td>The lowest risk (SD) involved scheme</td>
<td>Birla sun life Basic Industries Fund</td>
<td>HDFC Floating Rate Income-Long Term</td>
<td>Temptation India Children’s Asset Education</td>
</tr>
<tr>
<td>3</td>
<td>Scheme which have earned return less than average return for many time (highest negative skewness value)</td>
<td>LIC Mutual Fund Growth</td>
<td>DBS Chola monthly income plan</td>
<td>LIC Mutual Fund Balanced Fund(C)</td>
</tr>
<tr>
<td>4</td>
<td>Scheme that gives same return for more time (high kurtosis value)</td>
<td>HSBC Equity Fund</td>
<td>DBS Chola monthly income plan</td>
<td>Temptation India Children’s Asset Gift Plan</td>
</tr>
</tbody>
</table>
Among 50 equity schemes HSBC equity Fund have earned the highest average monthly return (3.91%). The highest volatile nature is observed from the Standard deviation of schemes. Taurus Discovery Fund has the high volatile nature. LIC Mutual Fund Growth has shown the highest negative skewness value while the lowest risk (Standard deviation) involved is Birla sun life Basic Industries Fund.

Out of 35 Debt schemes, UTI has given the highest average monthly return. The lowest risk involved scheme is HDFC Floating Rate Income-Long Term. DBS Chola monthly income plan has shown the highest negative skewness value and is highly volatile.

Among 22 balanced schemes, HDFC Prudence Fund is found to earn the highest average monthly return with 2.93%. LIC Mutual Fund Balanced Fund shows the highest negative skewness value and also highest kurtosis value. High volatile nature is observed in LIC MF Balanced Fund(B).

The hypothesis is tested using paired ‘t’ test and it shows that there is no significant difference in the returns of equity and balanced schemes but there is a
significant difference in the returns of Debt schemes. From the use of ANOVA technique it is found that there is a significant difference among top 5 performance fund in Equity, Debt and Balanced schemes. There is no dependency with returns of past.

6.4 Comparison of Behavior of Returns of Public and Private Sectors

In the equity schemes, the average return of public sector schemes (3.36%) is higher in the year 2005-06 compared to other years during the study period, while private sector schemes have recorded a high average return (3.55%) in the year 2003-04. In terms of volatility public funds have recorded a low standard deviation of 5.60 and 5.46 in the year 2003-04 and 2004-05 respectively.

In the debt schemes, the average returns of public sector schemes are higher than the private owned mutual fund during the study period except in 2006-07 and 2007-08. The standard deviation of public sector schemes is very high (3.76%).

The average return of private sector balanced schemes is higher (2.04%) compared to public sector schemes (1.91%) during the study period. In terms of volatility, balanced sector schemes of public sector and private sector have recorded a high standard deviation and range.

The significance of the difference between returns of the public and private sector schemes in each category is tested using the technique of paired sample ‘t’ test. It is found that there is no significant difference at 1% level as indicated by their t-values in debt and balanced schemes. But in equity schemes, it is found that there is
a significant difference at 1% level i.e. there is a significant difference in the returns of public and private sector equity fund schemes.

6.5 Performance of Mutual Fund schemes

The performance of select schemes have been evaluated against Risk free rate of return and Bombay Stock Exchange National Index. The Sharpe, Treynor, Jensen and Fama models have been applied to evaluate the performance of select mutual fund schemes based on the investment objectives.

Risk and Return Analysis

All the 50 equity schemes have earned higher return than the risk free rate. The highest return is earned by HSBC equity fund and the lowest was from Baroda Pioneer Diversified fund.

Out of 35 debt schemes, 32 schemes have earned higher return than risk free return. UTI have gained the highest return of 2.10%. DBS Chola monthly income plan is at the highest fund risk at 5.98%.

Out of 22 balanced schemes, none of the fund has higher return than the market return, but have earned higher return than risk free return. Birla Sun Life 95 Fund is found to top the list with the highest return of 2.75%.

Investment Objective and risk

Of the 50 equity schemes, the risk of 27 schemes are above average beta (0.83%), which indicates that the mutual fund returns are highly volatile. LIC equity growth scheme have recorded the highest risk (highest beta). Beta values of all
schemes are found to be significant at 1% level indicating that the Betas have effectively increased the returns of their respective schemes.

Among the 35 debt schemes, the risk of 4 schemes are above average beta which indicates that the mutual fund returns are not highly volatile. Out of 35 debt schemes, only 15 schemes have significant betas i.e. there is a systematic risk.

All the 22 balanced schemes have significant betas i.e. there is a systematic risk. The balanced funds have increased their returns only by 56% when the market portfolio increased its return by 100%.

**Unique Risk and Diversification**

Among the 50 equity schemes, HDFC Index Fund-sensex plus plan is found to have low unique risk and high value of diversification. 29 schemes have more than the average value of diversification (74%).

In case of debt schemes, the lowest unique risk is found in HDFC Floating Rate Income-Long Term and UTI is found to have high value of diversification.

10 schemes out of 22 balanced schemes, have low unique risk than the average (2.26%) and 16 schemes have high value of diversification (75.5%), which is more than the average. The Temptation India Children Asset Education is found to have low unique risk (0.7%).

**Treynor measure of Mutual Fund schemes**

All the 50 equity schemes have given positive returns. While, 39 schemes have outperformed the benchmark (2.72%) in terms of volatility. The HSBC has higher ratio than the other schemes.
Out of 35 debt schemes, 7 schemes have given negative returns. Tata short term bond fund have earned the highest ratio or returns than the other schemes.

The average return of balanced schemes per unit of systematic risk is 2.94 times in addition to risk free returns. Out of 22 balanced schemes, 16 schemes have outperformed the benchmark (2.72%) in terms of volatility.

**Sharpe measure of Mutual Fund schemes**

All the equity schemes have earned positive returns. Among the equity related schemes the Reliance Growth is the highest in Sharpe ratio and has the best risk-adjusted rate of return.

Out of 35 debt schemes, 3 schemes i.e., LIC Mutual Fund-Children’s Fund, DBS Chola monthly income plan and DBS chola triple ace bonus plan have rewarded the investors with negative returns. The ICICI mutual fund floating rate option is the best in Sharpe ratio.

10 schemes out of 22 balanced schemes, have higher ratios than the benchmark portfolio. The HDFC-Prudence Fund has the highest return in Sharpe ratio.

**Jensen measure of Mutual Fund schemes**

Out of 50 equity schemes, nearly 12% of the schemes have earned negative differential returns and 39 schemes have positive alpha values indicating superior performance. The additional return over equilibrium return can be attributed to the ability of manager in selecting right securities.
Except LIC Mutual Fund-Children’s Fund and Taurus income fund, all other schemes have positive alpha values indicating superior performance.

Out of 22 balanced schemes, 18 schemes have positive alpha values indicating superior performance. HDFC-Prudence Fund has the highest return of 2.93%.

**Sharpe Differential Return Measure**

19 schemes out of 50 equity schemes, have positive differential return indicating superior performance. The Reliance Growth has the highest differential return of 0.678% among all other schemes.

Among 35 Debt schemes, 13 schemes have positive differential return indicating superior performance. The HDFC Mutual Fund-short term plan has the highest Sharpe differential return of 0.861%.

The HDFC-Prudence fund is found to be the highest Sharpe differential return of 0.75% among all the schemes. Out of 22 schemes, 10 schemes have positive differential return, indicating superior performance.

**Fama’s Components of Investment Performance**

Out of 50 schemes, the highest values of impact of Beta is found in Birla sun life basic industries fund and LIC Equity Growth which indicate that these funds have maximum advantage of market volatility and earn higher returns but have poor diversification. The values of imperfect diversification are very low in Franklin Asian Equity Fund and HDFC Index Fund. These funds have well diversified portfolio mix and have earned higher returns due to diversification.
In debt schemes, the impact of Beta is at the highest in UTI mutual fund which has taken more advantage of the market movements and earned higher returns. HDFC mutual fund-short term plan have earned superior returns due to net selectivity rather than impact of Beta. The value of Imperfect diversification is high in DBS chola triple ace bonus plan.

Among 22 balanced schemes, UTI-ccp balanced fund and Temptation India Children asset Education have low values of imperfect diversification which indicates that funds have well market volatility. HDFC Prudence fund has the highest net selectivity with ability to select stocks with superior returns.

6.6 Suggestions

Based on the analysis, the following suggestions are offered to increase the investors return.

➤ There are no commonly accepted guidelines for the computation of NAVs. If such guidelines are evolved, the analysis and research based on such NAVs would be more meaningful for comparison of schemes.

➤ There is no agreed riskless rate of return. The effect of using lower risk free rate of return is that the performance of schemes with betas less than 1.0 will be overstated and the performance of those with beta greater than 1.0 will be understated. So the investors have to consider the prevailing the rate of risk free return and to compare the fund returns with it.
The fund managers should improve their skills because the present study found that due to fund manager's poor bearing capacity, stock selection ability, timing skill and imperfect diversification the schemes have suffered with low return.

The present study observes that due to lack of proper diversification the fund's performance has declined. Hence fund managers have to adopt suitable diversification strategy.

It is observed that public sector schemes perform comparatively poorer than private sector. This is generally due to bureaucratic practices. The public mutual fund should be given autonomy in their functions.

It is noted from the study that returns from equity schemes and balanced schemes do not differ significantly from each other. But in case of debt schemes, there is a significance difference. Further, though less risk is involved in the portfolio of debts, they have yielded lower returns than BSE returns throughout the study period. Hence the investors must exercise proper care before choosing debt schemes.

Since stock selection and timing factors are more important in the success of portfolios, fund managers should keep track on these factors.

To increase their overall return, investors should select top performing stocks.
6.7 Scope for further Research

Some of the areas in which further research can be carried out are given below:

➢ A comparative study on the fund performances with relevant Benchmark Index developed by SEBI and AMFI can be undertaken.

➢ A study on the portfolio and its effect on the risk-return trade off.

➢ The relationship between excess return and organizational factors may be considered or examined.

➢ Now the mutual funds are permitted for trading in Stock Exchanges. A comparative analysis on returns can be made for pre and post trading period.

6.8 Conclusion

The mutual fund industry has witnessed a tremendous growth in the last 5 years. It is observed that there is a significant growth in the industry in terms of Assets Under Management, Resource mobilization, Number of schemes issued, Number of investors and Trend in mutual fund transactions during the study period 2003-04 to 2007-08.

Compared to public sector mutual funds, private sector mutual funds have attained the highest growth rate and performed better. All select schemes have earned positive returns. 22% of the selected schemes earned higher return than market return. From the investors point of view who would like to earn higher return with low risk there are 8 equity schemes. HSBC equity fund, Sundaram BNP Paribas Select Focus and Sundaram BNP Paribas Select Midcap under equity schemes fetch high return
with high risk. In debt and balanced schemes, all the schemes fetched with low return and low risk.

Due to inability and improper management of the fund managers nearly 50% of the selected equity schemes have given negative differential return. Hence the equity fund managers have more scope for diversifying the portfolio for the given level of total risk. The fund managers of debt and balanced schemes have to prove their ability in selecting under-valued securities and diversifying the portfolio.