CHAPTER - I

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Indian Financial Market has developed into a fairly well integrated structure and it caters to the various needs of the funds for the trading, agricultural and industrial sectors of the economy. The development of this market has been expedited by various policy measures taken by the Reserve Bank and Government of India with the objective of strengthening and broadening the tempo of institutionalisation of savings and investments. The financial market has exhibited a great measure of dynamism because of the liberalisation of industrial, fiscal and monetary policies.

Setting up of the new institutions like Discount and Finance House of India Ltd., Credit Rating and Information Services of India Ltd., Stock Holding Corporation of India Ltd., and Security and Exchange Board of India, floating of new instruments and services like Treasury Bills (TBS), Inter Bank Participation Certificates, Certificate of deposits, Commercial Papers, Commercial Bills, Factoring Services, Leasing and Mutual Funds and Liberalisation of controls have added depth and maturity to the security market.

In our country, the house-hold sector happens to be surplus because it saves more than it invests and its surplus is available to finance the deficits of the Government and Corporate Sectors which invest more than their own Savings. It is the
Savings of the household Sector which gets invested in various financial assets such as deposits, insurance, provident funds, national savings certificates, shares and debentures, public deposits and mutual funds.

India is one of the few countries in the world which maintained a steady growth of domestic savings during the 1970s and 1980s. Gross domestic Savings as percentage of GDP during 1970-71 was 15.7% which increased to 21.2% in 1980-81. One significant aspect of Indian Savings structure is increasing share of the household sector in domestic savings. The share of the household sector increased from 73.6% in 1970-71 to 71.8% in 1970-71 and to 83.6% in 1988-89, whereas the share of the other two sectors (Private corporate and Public Sector) declined over the period.

1.1 RELEVANCE OF THE STUDY:

In the recent period, several significant steps were taken towards financial liberalisations. A series of policy changes have been introduced to allow for healthy competition, innovation and diversification of financial services. Modernisation and industrial expansion combined with the activisation of the capital market have increased the demand for various types of financial services such as factoring services, leasing, mutual funds and venture capital financing. With several new institutions and instruments competing freely with each other in securing a larger share of the community savings, individuals
and institutions now face a wider choice of investment avenues.

The growth of gross savings particularly that of household savings is further characterised by the change in Asset holdings pattern. Share of financial assets in household assets increased from 56% in 1970-71 to over 60% in 1989-90. However, this structural change in savings sector was not matched by newer financial instruments and institutions to channelise the savings for more productive uses and better returns to the investors.

Traditional savings media like Bank deposit, Insurance, Provident and Pension Fund remained dominant. Investment in the capital market was also significantly low. About 1 per cent of the population in India puts its Savings in Capital market against 10 per cent in industrialised countries. Further around 7 per cent of financial savings in India is invested in the capital market against 19 per cent in Japan and 25 per cent in USA.

Therefore, there was the need for new instruments to mobilise the growing savings with higher returns. Many innovative instruments have emerged in the world of industrial finance in response to increasing demands to face an area of risks and uncertainties. While old techniques and instruments are streamlined, new techniques are invested to meet the new challenges. Many innovations have been introduced to attract the investors to fulfil the requirements of Capital by Indian banks and companies. The Mutual Funds in India are a response to the demand for funds and a step towards financial innovation in the
late 1980s.

The concept of mutual fund has come to stay in the country. Considering the growth in savings and capital market, the scope available for participation of mutual funds is large.

The investment pattern of savings has also changed. Mutual funds have activated the secondary market operations in terms of volume, value and the number of securities traded.

The spread of mutual fund concept has helped in mobilisation of savings from hitherto untapped sources like semi-urban, and rural centres. There is a marked change in the investment pattern of savings with more funds deployed in capital market through mutual funds. Liquidity in primary market has improved and more companies have entered the primary market. Access to primary market funds through mutual funds enabled companies to get sizeable funds at a lower cost and in a short span of time. The scope for the growth of mutual funds in the country in the 1990s is very good.

Within a short span of five to six years the operation of mutual funds has become an integral part of the Indian financial scene and is poised for rapid growth in the near future. In this backdrop, it is necessary to study in details some important aspects of mutual funds in India.
1.2 SETTING THE RESEARCH PROBLEM:

Much research has not been done on mutual funds in India with deregulation of the financial services sector, there is a tremendous surge in the floating of mutual funds. And with the emphasis on increase in domestic savings and improvement in the deployment of investment through markets, the need and scope for the operation of mutual funds has increased tremendously.

In this context of the study on mutual funds, this study sets the research problem as stated under "A study of some aspects of mutual funds in India".

1.3 OBJECTIVES OF THE STUDY

This study sets the following objectives taking into consideration the aim and the research problem:

1. To study the performance of mutual funds in India;
2. To examine investor's participation and performances in various mutual fund schemes; and
3. To identify the strength of association between mutual fund investment pattern, age group, income level and occupation.

1.4 DATA SOURCES AND METHODOLOGY

For the analysis of the research problem, data on selected variables have been collected both from primary and secondary sources. Primary data have been collected through a well designed questionnaires and the secondary data were collected from the Economic Times and The Business Standard.
The secondary data on the selected variables have been taken for the period starting from 8th June '92 to 30th Aug '93 for 60 consecutive weeks. The data only for 60 weeks were collected because of lack of availability of more data before 8th June '92. The concept of mutual funds is new in India. The last four years have seen an explosive growth in mutual funds. Therefore, published data on mutual funds were available only towards mid-1992.

The following econometric, computer based statistical techniques have been utilised to interpret the results of research findings to arrive at inferences:

- Multiple Regression Analysis
- Analysis of Variance (ANOVA)
- Chi-Square Test
- Sharpe Ratio
- Treynors Ratio
- Rank Correlation

1.5 CHAPTER PLAN

The study comprises seven chapters including this introductory chapter. Chapter two deals with the mutual funds scenario. This is followed by legal issues and mutual funds in Chapter three. Capital market and mutual funds constitute the subject-matter of chapter four. Chapter five examines the performances of mutual funds. The empirical investigation of the mutual fund variables with particular reference to marketing strategy has been dealt in chapter six. Chapter seven of the study presents the summary of findings together with conclusions.