SUMMARY AND CONCLUSION

In this chapter of the study all the previous chapters have been summarized and a conclusion has been derived. This chapter has been divided into following subsections:

10.1  Summary

10.1.1  Research Methodology

10.1.2  Implications of the recent Regulatory Reforms

10.1.3  Analysis of the Intensity of Competition

10.1.4  Performance of Balanced Schemes

10.1.5  Performance of Growth Schemes

10.1.6  Performance of Income Schemes

10.1.7  Performance of ELS Schemes

10.2  Conclusion

10.3  Implications of the study

10.4  Scope of further Research

10.1  SUMMARY

Keeping all the research gaps in mind, present study was conducted with the following objectives in mind:

1) To interpret the recent regulatory reforms in the Indian mutual funds industry in the last decade and their implications on performance.
2) To analyze the intensity of competition in the Indian mutual funds industry.
3) To study the performance of Growth, Income, Balanced and Tax Saver Schemes of top five Asset Management Companies.
4) To compare the performance of public sector sponsored mutual funds with private sector mutual funds.

10.1.1  Research Methodology

For the achievement of the above mentioned objectives secondary data has been collected from various websites related to mutual funds and selected AMCs and their
factsheets. Benchmark for better analysis of the results has been taken as S&P CNX 500 and BSE SENSEX. The period of this study was 1st April 2000 upto 31st March 2010. 91 day Treasury bill returns has been taken as the risk free rate of return. Four types of schemes studied are Income, ELSS, Balanced and Growth.

AMCs selected from Public sector sponsored mutual funds for the study are as under:

1) Unit Trust of India AMC Limited.
2) State Bank of India Financial Pvt. Limited.

Private sector AMCs to be studied are as under:

1) Reliance Capital Asset Management Limited.
2) HDFC Asset Management Company Limited.
3) ICICI Prudential Limited.

Techniques applied are Sharpe’s ratio, Treynor’s ratio, Daily NAV since 1st April 2000 upto 31st March 2010, Total and Average Returns, Standard Deviation or the Total Risk of the fund, Beta of the mutual fund, R-Square of Fund Return, M-Square, Jensen Ratio, Information Ratio, Compound Annual Growth Rate, Risk Adjusted Compound Annual Growth Rate, Expense Ratio, Four Firm Concentration Ratio, Herfindahl – Hirschman Index, Independent Sample T – Test and One – Way Anova.

10.1.2 Implications of the Recent Regulatory Reforms

The recent regulatory reforms discussed in this study were simplification of mutual fund products, control over expenses related to mutual funds, regulation of mutual fund distribution system, net settlement of government securities by AMCs, overseas investment limit for funds, reporting of securities transactions by access persons and simplifying the format for half-yearly unaudited results. All these reforms were targeted towards the educated and literate investors who could very well understand the intricacies of investing money. The objective of reforms has always been achieved in a way that the AUM of ELSS which is of major interest of this class, has increased and on an overall basis also mutual funds have been able to win the trust off the investors who take well informed decisions while investing their money. These initiatives have made mutual funds more attractive to the investors for whom every single penny of their money matters. Overall impact of these reforms has been that the interest of retail investors has increased mainly because of the scrapping of the entry load. Increase in the number of transfer requests can be said to be a major outcome of these reforms. Since the level of transparency has increased more and more people who have
savings and want their savings to grow are interested in putting that money in mutual funds. This can be seen from the tremendous growth in the total AUM of the Indian mutual funds industry.

10.1.3 Analysis of Intensity of Competition

In case of Four Firm Concentration Ratio it can be said that concentration has increased in the period of 5 years which indicates a decline in the level of competition. Also what it reveals is that, over the years the four large firms (UTI Asset Management Company Ltd. Reliance Capital Asset Management Ltd. HDFC Asset Management Company Ltd. ICICI Prudential Asset Management Company Ltd, except in 2005 it was Franklin Templeton Asset Management (India) Private Ltd. instead of Reliance Capital Asset Management Ltd)still continue to have high market share. The thumb rule for interpreting the HHI is that if the value of HHI increases, it means a decrease in competition and vice versa. In 2005 the HHI was 733. Whereas in the year 2010 it rose to 804. This signifies that the mutual funds operate in a concentrated market. This high level of concentration in the market is an evidence of the limited competition amongst the mutual funds. In case of HHI within various types of schemes the HHI value has amplified in the decade period which signifies a decline in the competition among the different types of schemes. The concentration was the least in the year 2003 when the HHI was at its peak of 4218. Gradually in the coming years the concentration increased leading to a decrease in the competitive level of public, private and foreign mutual funds. On the whole it can be said that concentration ratio has increased in this period of 5 years which indicates a decline in the level of competition. All this can be attributed to the overpowering performance of the private sector over the public sector sponsored mutual funds.

10.1.4 Performance of Balanced Schemes

Mutual funds offer an assortment of many asset classes. So it is normal that a variety of hybrid funds have been launched to attend to unstable investor requirements. One such hybrid contribution is the balanced fund. With its beginning dating back to the late twenties, a balanced fund invests in both equity and debt markets. It is most appropriate for investors who aim to benefit from the positive aspect of equity markets exclusive of being very aggressive.
Table – 10.1

Development of Balanced Schemes during 2001 to 2010

<table>
<thead>
<tr>
<th>Parameter</th>
<th>31st March 2001</th>
<th>31st March 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUM (in ` crores)</td>
<td>19273</td>
<td>17246</td>
</tr>
<tr>
<td>No. of schemes</td>
<td>32</td>
<td>33</td>
</tr>
<tr>
<td>Contribution towards total AUM of the industry</td>
<td>21%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: www.amfiindia.com

The position of balanced schemes has not much changed except in terms of contributions it has made, and hence do not reflect the excellent performance of the whole industry in the last decade.

Under the balanced scheme group HDFC, ICICI and SBI all have given at par results by performing good under 2 parameters each. Overall private sector has given paramount results in 5 parameters. According to independent sample t – test the mean of average annual NAVs of the public sector sponsored and private sector balanced schemes are significantly different. But in case of ANOVA only growth option’s average NAVs are significantly different.

10.1.5 Performance of Growth Schemes

Growth schemes or equity schemes of mutual funds primarily invest in the stock markets. It will be important to mention here that stock market gives stable proceeds over the long term preferably if the money stays invested for five years or more and this is reflected in growth schemes. If we suppose that we are going to create astonishing returns in just a few months of investing then we are going to be disillusioned.
<table>
<thead>
<tr>
<th>Parameter</th>
<th>31st March 2001</th>
<th>31st March 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUM (in ` crores)</td>
<td>13483</td>
<td>173824</td>
</tr>
<tr>
<td>No. of schemes</td>
<td>110</td>
<td>305</td>
</tr>
<tr>
<td>Contribution towards total AUM of the industry</td>
<td>15%</td>
<td>28%</td>
</tr>
</tbody>
</table>

Source: www.amfiindia.com

Growth schemes have become an integral part of the Indian mutual funds industry by contributing so much to the industry in terms of its high levels of AUM.

The comparison of growth schemes of the top 5 AMCs can be summarized by saying that Reliance Growth Scheme has performed better as compared to other selected growth schemes in seven out of fourteen parameters i.e. average annual NAV (366.23 for 2009-10), percentage growth in NAV (91.91% for 2003-04), total return (1050.64%), beta (0.705), CAGR (43.55%), risk adjusted CAGR (25.69%) and information ratio (-0.534). On the whole private sector funds have performed better than the public sector sponsored funds. According to t – test the mean of average NAVs of the growth option of public and private growth scheme are significantly different and not of dividend option. And as per ANOVA all the five schemes taken under consideration are giving significantly different average NAVs.

10.1.6 Performance of Income Schemes

These are those mutual funds which are planned to bring into being current income for its unit holders. These fund types seek to primarily generate income and also capital appreciation but up to a limited extent by investing in a diversified portfolio of debt and money market securities. However, there can be no declaration that the income will be generated, regularly or otherwise, or the investment objectives of the scheme will be achieved.
Evaluation of income schemes as a whole shows that there has been tremendous growth in terms of no. of schemes and AUM but its contribution towards the industry has remained more or less same.

The study of income schemes of the top five AMCs can be summed up by declaring private sector income schemes as a clear winner as they have recorded better results under six out of eight parameters. This remarkable performance was due to excellent figures provided by Reliance Income Plan. Four parameters under which it showed best results were Average Annual NAV (30.33 in 2009-10), Standard Deviation (0.20% as on 31st March 2010), CAGR (8.16%) and Risk Adjusted CAGR (7.83%). According to t – test the mean of average NAVs of the public sector sponsored and private sector income schemes are not significantly different due to the fact that the primary objective of these schemes is not to increase the value of NAVs but provision of regular income through dividends. But as per ANOVA the average NAVs of the selected schemes are significantly different.

10.1.7 Performance of ELS Schemes

An Equity Linked Saving Scheme (ELSS) is a type of a mutual fund which is quiet parallel to any other equity fund in many ways. An ELSS gives tax benefit but comes with a lock in period of 3 years. The portfolio of any Equity Link Saving Scheme is a combination
of range of asset categories including equity, debt, gold and real estate. Initially a three year lock-in period may sound irrational to the prospective investor. Major advantage of this three year lock in period is that it controls the withdrawal of money hence allowing your investment to grow with the passage of time. But despite this NSC, PPF and bonds are more trusted by the investors.

Table – 10.4

Development of ELSS Schemes during 2001 to 2010

<table>
<thead>
<tr>
<th>Parameter</th>
<th>31st March 2001</th>
<th>31st March 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUM (in ` crores)</td>
<td>2523</td>
<td>24066</td>
</tr>
<tr>
<td>No. of schemes</td>
<td>80</td>
<td>48</td>
</tr>
<tr>
<td>Contribution towards total AUM of the industry</td>
<td>3%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: www.amfiindia.com

Tax saver schemes as a contributor of AUM in Indian mutual fund industry have seen an increase of only 1%. Also its no. of schemes has decreased drastically but its AUM has grown manifolds.

The analysis of the ELSS can be put in a nutshell by saying that public sector sponsored has given much superior results as compared to the private sector ELSS. The parameters under which SBI Magnum Tax Gain Plan (the best in this category) has recorded better figures are Sharpe’s Ratio (-2.71), Treynor’s Ratio (-7.02), Expense Ratio (2.08%), M – Square (2.342%), and Jensen’s Ratio (-0.588). Hence it can be concluded that unlike other types of schemes in case of ELSS public sector sponsored schemes are better off as compared to their counterparts. According to t – test mean of average NAVs of dividend options of public and private funds are significantly different. And by using ANOVA technique it was concluded that average NAVs of all the five schemes studied are significantly different.

10.2 CONCLUSION

The Indian capital market having a long history spanning over a century has passed through the most radical phases. It has witnessed extraordinary developments and innovations during the nineties. One such development was the improved role of the mutual
funds in financial intermediation. Mutual funds in India have fast emerged as an important instrument of household savings. Due to the flexibility and variety available in them they have the potential to rival traditional money saving instruments by attracting household sector or retail investor’s savings. India has been amongst the fastest growing markets for mutual funds since 2004, witnessing a CAGR of 29% in the five-year period from 2004 to 2008 (though period of 2008–10 saw a decline due to global crisis) as against the global average of 4%. The increase in revenue and profitability, however, has not been proportionate with the AUM growth in the last 10 years. Low share of global assets under management, low penetration levels, limited share of mutual funds in the household financial savings and the climbing growth rates in the last few years that are amongst the highest in the world, all point to the future scope of growth for the Indian mutual fund industry (Source:http://www.in.kpmg.com/tl_files/pictures/mutual-fund-web). The Indian mutual fund industry has evolved from a single player monopoly in 1964 to a fast growing competitive market with active participation of foreign AMCs that too on the back of a strong regulatory framework. This industry has had a swift growth because of factors like infrastructural expansion and boost in personal disposable incomes. With the rising risk enthusiasm, personal assets, and consciousness of investors, mutual funds in India are becoming a preferred investment option. With regards to the regulatory reforms also the impact on the performance has been positive signaling the healthy intentions of the bodies governing this industry which are making efforts in the form of such changes for the development of this segment. Even the restrictions are to enable them to run faster with the rapidly changing global scenario. The Net Asset Value of the Fund is the cumulative market value of the assets the fund holds, net of its liabilities. And this very NAV has been taken as the basis to evaluate the performance in this study. The study shows that there have been drastic upward movements in the NAVs, which show that they have performed very well in terms of their market value. It can also be concluded that mutual funds in India are becoming better and better in handling market and fund specific risk both. The more experience they are gaining in the economy the more adaptable they are becoming.

Table 10.5 shows the gist of the whole study in one single table. The scheme names mentioned have been the best performers in their respective categories under the mentioned parameters.
### Table – 10.5

**Concluding Comparative Table**

<table>
<thead>
<tr>
<th>Parameter Category</th>
<th>Avg Annual NAV</th>
<th>% growth in NAV</th>
<th>Total Return</th>
<th>Beta</th>
<th>R-Square</th>
<th>Std Devi</th>
<th>Sharpe Ratio</th>
<th>Treynor Ratio</th>
<th>CAGR</th>
<th>Risk Adjusted CAGR</th>
<th>Expe Ratio</th>
<th>M²</th>
<th>Info Ratio</th>
<th>Jensen α</th>
</tr>
</thead>
<tbody>
<tr>
<td>ELSS</td>
<td>HDFC</td>
<td>HDFC</td>
<td>ICICI</td>
<td>Rel.</td>
<td>Rel.</td>
<td>Rel.</td>
<td>SBI</td>
<td>SBI</td>
<td>HDFC</td>
<td>HDFC</td>
<td>SBI</td>
<td>SBI</td>
<td>Rel</td>
<td>SBI</td>
</tr>
<tr>
<td>GROWTH</td>
<td>Rel.</td>
<td>Rel.</td>
<td>Rel.</td>
<td>ICICI</td>
<td>HDFC</td>
<td>SBI</td>
<td>SBI</td>
<td>Rel.</td>
<td>Rel.</td>
<td>UTI</td>
<td>SBI</td>
<td>Rel</td>
<td>SBI</td>
<td>SBI</td>
</tr>
<tr>
<td>INCOME</td>
<td>Rel.</td>
<td>ICICI</td>
<td>ICICI</td>
<td>N.A</td>
<td>N.A</td>
<td>Rel.</td>
<td>UTI</td>
<td>N.A</td>
<td>Rel.</td>
<td>Rel.</td>
<td>UTI</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>BALANCE</td>
<td>UTI</td>
<td>SBI</td>
<td>HDFC</td>
<td>N.A</td>
<td>N.A</td>
<td>HDFC</td>
<td>Rel.</td>
<td>N.A</td>
<td>ICICI</td>
<td>ICICI</td>
<td>SBI</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

(NA: Not Available)
In case of ELSSs SBI Tax Saver (public sector sponsored fund) wins the race by performing at best levels underneath five parameters. The second best tax saver fund was of HDFC Magnum Tax Gain and Reliance Tax Saver Plan.

Under the Growth scheme category Reliance Growth Scheme has given excellent results, followed by SBI Magnum Equity Scheme. On the whole private sector growth schemes have given superior domino effects.

In case of Income schemes Reliance Income Fund, which is a private sector fund has performed better than the rest of the schemes under comparison. The second position is held by ICICI Prudential and UTI Bond Fund. Hence here also it can be concluded that private sector is a clear winner by giving best results.

Under the Balanced scheme group HDFC, ICICI and SBI all have given at par results by performing good under 2 parameters each. Overall private sector has given better results in 5 parameters.

This study made an effort to examine the current scenario and the scenario of the Indian mutual funds industry in the last decade on the basis of some logical calculations, facts and figures. In specific a public private comparison was done by taking representative sample schemes and evaluating them on numerous number of parameters.

**Table – 10.6**

**Performance of the AMCs Individually**

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>HDFC</th>
<th>ICICI</th>
<th>Reliance</th>
<th>SBI</th>
<th>UTI</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of parameters under which given best results</td>
<td>7</td>
<td>6</td>
<td>16</td>
<td>11</td>
<td>4</td>
</tr>
</tbody>
</table>

Therefore on the basis of the above analysis of the fallouts it can be summarized in one line that private sector mutual funds are better than public sector sponsored mutual funds and amongst the private sector schemes considered in this study Reliance mutual funds have surpassed all the others.
Several favorable economic as well as demographic factors have led to a significant growth of the Indian mutual fund industry in the last couple of decades. Few of these factors consist of rise in the income level of the urban population, better reach of the AMCs, and more awareness amongst the investors. But despite all this, the sector has also seen many downfalls also. Major fall was in the year 2008-09, due to American crisis which impacted not only its revenues but also its profitability. Such global economic crisis exposed the vulnerability of the Indian mutual funds industry to the world economy and its dependence on corporate clients and the retail distribution system. The years after the slowdown can hence be considered appropriate enough for the insider people of the industry to think upon the experience and draw a blueprint of the future course of action to achieve stable lucrative growth.

Despite the low level of penetration the growth rate achieved signifies the immense potential of mutual funds in India. Hence the rural market needs to be tapped to use its capacity to the fullest. This will be possible by developing more innovative products and surfacing expectations of the retail investors.

India is certainly rising as depicted by the huge investment target, riding on a high savings and investment rate. As per a report authored by PricewaterhouseCoopers “The World in 2050”, the average real GDP growth in India was likely to be in the range of 5.8% between 2007-50, (the actual average GDP growth between 2007-10 has been 7.6%). More than 50 per cent of the population is less than 25 years of age; therefore the percentage of earning population is expected to enlarge considerably over the coming decade. The tendency of rising personal incomes has been seen not only amongst the young population, but also the high net worth individual (HNI) segment, which have generous amounts to invest. The household segment therefore possesses vast possibility for attracting money. India has a strong middle class, which is anticipated to grow two times over the next two decades. It is in the environment of some of these motivating facts that the Indian mutual fund industry has fostered itself. (Source: http://www.pwc.com/en_GX/gx/world-2050/pdf/world-in-2050-jan-2011.pdf)

Since the 1990’s when the mutual fund space opened up to the private sector, the industry has traversed a long path, adapting itself continuously, to the changes that have come along. But despite this industry faces the following key challenges ahead:
➢ Cost constrain.
➢ Little Retail Contribution.
➢ Restricted Investor Awareness.
➢ Inadequate Distribution System.

10.3 IMPLICATIONS OF THE STUDY

Implications of the present study have been categorized into the following:

Implications for Economy

One of the main objectives of the government of India is to achieve socio-economic development, which is heavily dominated by the saving and investment of the community. In other words flow of money and development of the society are related with each other in such a way that one cannot be achieved in isolation. A human being in a society can manage without everything but not without money. The question is that how can each capable individual contribute towards the development of the nation. All this leads to a never ending vicious circle of income, savings, investments, return and growth as an answer. No contribution means zero growth hence contribution in the investments of an individual would mean growth of the inflow and rotation of money in the nation. So all the savings of the people should be, motivated and directed towards the right investment options which give safety as well as growth e.g. mutual funds.

Implications for the Asset Management Companies:

The public sector sponsored AMCs should restructure or reorganize their mutual fund business as the results show decrease in their efficiency and productivity for the study period. Moreover due to fast increasing competition, their position is gradually taken over by private sector AMCs. So in order to stay in this business they have to comply with the strategies adopted by the private sector AMCs. The study provides a scope for improvement for the public sector sponsored AMCs by indentifying the reason for deterioration in their performance.

No doubt, the private sector AMCs are operating at increasing return to scale and also taking advantage of pure technical efficiency and scale efficiency, which signifies that there is scope of much more improvement in this sector, but gradually due to market forces increasing return to scale will not be applicable forever i.e. as more new entrants will come
this increasing return will vanish. Therefore the private sector AMCs should focus on a
dynamic form of working, ever evolving new products and more flexible plans for investors.

All the AMCs should divert their focus from the extension of more number of
schemes to quality and worth of the product in terms of coverage. Moreover whenever
introduction of new schemes is made the requirement of the particular target segment should
be taken care of, as the requirement differs from person to person.

Implications for the investors:

The study can be taken as a base by the prospective investors for taking their
investment decisions so that their hard earned money works as hard as they do. A comparison
amongst various tax saving options has also been done which can prove to be very beneficial
especially for the working middle class. A thin line of difference between the public sector
sponsored AMCs and the private sector AMCs which is visible in this research can be used
by investors as a framework for putting in their savings into the greedy market.

Implications for the SEBI and AMFI:

The study provided that public sector AMCs are gradually weakening their market
share, as their efficiency and productivity is declining gradually. Accordingly the monitoring
bodies for mutual funds should focus on this area, with the extension of some additional
benefits for public sector sponsored mutual funds, so as to save them from the stiff
competition provided by private players.

10.4 SCOPE OF FURTHER RESEARCH

Research being a never ending process makes ground for further researches. This
research work on mutual funds industry of India has opened up new avenues for further
exploration. Since mutual funds as tool of investment are not so mature especially in financial
service industries of developing economies, a lot of issues and aspects remain undiscovered
and hence provide wide scope for future studies. Some of these are as follows:

1) Comparison of other investment options with mutual funds.

2) Perception of investors towards mutual funds.

3) Growth in the new products by mutual funds e.g. Exchange Traded Funds, Gold
Funds, and Fund of Funds etc.
4) Possibility of mutual funds success as a product for the rural sector.

5) Performance of Indian mutual funds industry before and after the arrival of Foreign Asset Management Companies.