EXECUTIVE SUMMARY

AN EVALUATION OF THE ASSET MANAGEMENT COMPANIES AND THEIR EFFICIENCY IN PORTFOLIO MANAGEMENT

In India Mutual Fund Industry has been in operation since 1964 and it occupies a pivotal place in the Indian Capital Market. This industry has grown substantially in terms of size and operation over the years and at present, it has 29 Asset Management Companies (AMCs) operating around 600 schemes and controls assets under management to the tune of over Rs.2,31,000 crores.

Regarding Mutual Funds, the general impression is that they are able to outperform the market because of the expertise and professionalism of the AMCs and that the performance of the schemes depend on the capability and efficiency of the aforesaid. However, it is felt that the sectors of the AMCs and the categories of the Funds also have major influence on the performance of the AMCs and the schemes they manage.

The present study is conducted with the main objective of examining the influence of the sectors of AMCs and the categories of Funds on the expense, income, net assets and corpus of AMCs. It also aims at evaluating the efficiency of portfolio management of various AMCs.

The major items of operating expenses are management fees, deferred revenue expenses, custody and legal charges and marketing and publicity. Out of the nine items of operating expenses, there exists sector-wise difference in the case of seven items and category-wise difference in the case of four items.

The major items of non-operating expenses are provisions, loss on sale of investment and loss on inter-scheme transfers. There exists sector-wise difference in the case of loss on sale of investment.

Non-operating expenses constitute the major chunk of the total expenses. It is around 70% on an average in respect of sectors and 66% in respect of categories.

Aggregate expenses as percentage of net assets fluctuate widely among various sectors (1.21% to 31.59%) and categories (0.51% to 18.49%)
The major sources of income are profits from sale of investments, profits from inter-scheme transfers, interest and dividend. These, together, constitute the total investment income. There exists sector-wise differences in the case of interest and inter-scheme transfers and category-wise differences in all the four items.

On an average 90% of the total income is constituted by total investment income across the sectors and the categories. There exists sector-wise but not category-wise difference.

Income as a percentage of net assets fluctuates widely across various sectors (2.49% to 30.34%) and various categories (5.3% to 33.82%).

Regarding the corpus and net assets, there exists significant differences both sector-wise and category-wise. Among the sectors, UTI still holds around 75% of the corpus and 70% of the net assets. However, the share of public sector shows a declining trend and that of private sector including joint ventures, a rising trend. Category-wise, equity funds account for around 50% of the net assets.

Further, it is found that all the sectors of AMCs except the Predominantly Foreign Joint Ventures generate income commensurate with the corpus, net assets and expenses in majority of the period under review. Similarly, all sectors of AMCs except the Institution-Sponsored, generate net assets commensurate with the corpus, income and expenses in majority of the cases.

In NAV analysis, it is found that more than 50% of the schemes across the sectors are in the above average risk class. Beta analysis shows that less than 50% of the schemes only show average market timing ability. Sharpe ratio, Treynor ratio and Portfolio Alpha show that 70 to 88 percent of the schemes are able to cover the riskless rate of return. $R^2$ shows that only less than 40% of the schemes resort to a reasonable level of diversification.

In respect of majority of these variables, it is found that variations between the sectors are insignificant, whereas, variations among categories are significant. It indicates that in determining the Fund performance and portfolio efficiency, the categories of Funds are more important than the sectors of AMCs in the Indian financial scenario.