CHAPTER -6

SUMMARY OF CONCLUSIONS,
FINDINGS OF THE STUDY,
RECOMMENDATIONS AND SCOPE FOR
FURTHER RESEARCH

6.1 Introduction
6.2 Summary of conclusions
6.3 Findings of the Study
6.4 Recommendations
6.5 Scope for further Research
Chapter-6  
Summary of conclusions, Findings and Recommendations and  
Direction for Future Research

6.1 Introduction

In the previous chapter, the hypotheses of the study have been tested by using different suitable statistical tools like Independent t-test and ANOVA. The final results after testing the hypotheses have also been summarized in the form of a table showing whether a particular hypothesis is accepted or rejected. This chapter deals with the Summary of major findings of the study, recommendations of this study. This chapter also includes the areas which have been emanated or explored for further research.

6.2 Summary of conclusions

The development of a financial market to a large extent depends upon mobilization, allocation and channeling of savings along with the risk management. Matured financial market stimulates savings by ensuring better rate of return. Globalization and liberalization phenomena have been instrumental in the accelerated development of the financial market in India. To give a fillip to the sagging and depressed economy, by way of making the financial sector more vibrant and efficient, reforms were introduced in the beginning of 1990's. The transparency in operations, along with the formation of SEBI, liberalization of foreign capital norms, resulted in the emergence of Mutual Funds in the public and private sectors. The financial sector reforms and the opening up of the liberalized economy resulted in throwing up the traditionally protected mutual fund industry to a greater level of competitive environment. The emergence of an intensely competitive structure in the place of the earlier monolithic scenario is the biggest structural change in the Indian Mutual Fund Industry (IMFI) during the last decade.
Chapter-6  Summary of conclusions, Findings and Recommendations

Mutual funds mobilize and channel funds towards securities market. The various schemes of mutual funds provide the investors with a wide range of investments options according to his risk bearing capacities and interest. Besides they also give a handy return to the investors. The total AUM of the mutual fund houses in India crossed Rs. 109299Crs in March 2003, a decade after the private sector entry. In a matter of three years the industry touched Rs. 231862Crs. in March 2006 and reached Rs. 326292Crs by March 2008. However, During Apr-Sep 08, net mobilization of funds by mutual funds declined sharply by 97.7% due to uncertain conditions prevailing in the domestic stock markets.

The inflows to fixed income schemes contributed nearly 75-80 Percent of this growth, reflecting the rising retail investors' interest in the Secondary market participation through mutual funds. The funds have grown so swiftly, more due to the changing demographic profile, increasing number of youths with investable surplus and growth in the economy. The industry also witnessed the changing pattern in the share holding pattern of the AUM. The Private sector Mutual Funds had 65.4 percent of the total investors account compared to 34.6 percent in public sector mutual funds. The private sector mutual funds managed 77.9 percent of the net assets as against 22.1 percent of net assets managed by public sector mutual funds. Compare this to March 2000, the total AUM was Rs. 113,005crore of which UTI held the lions share (67.74%). Thus, over the last 10 years the asset holding pattern in the Indian MF industry has witnessed a significant churn and the private sector has emerged as the biggest player. In fact the private sector has been the major generator of new funds. Alone UTI with just one scheme in 1964 now competes with as many as 400 odd products and 41 players in the market. The whopping corpus of funds under management surfaces two hard facts: Firstly, the investors still carry a belief that mutual funds provide an opportunity for better return coupled with reasonably good safety of the money invested. Secondly, the environment is getting more and more conducive for mutual funds because of the active role played by SEBI and AMFI through various rules and regulations. Further, with a strong growth in the AUM of domestic Mutual fund industry, the ratio of AUM to GDP increased gradually from 4.7% in 2001 to 9.37% in the year 2010. Despite this however, this continuous to be
significantly lower than the ratio in developed countries, where the asset under management accounts for 20-70% of the GDP. During the study it has been found that the mutual funds are growing steadily, only 3 to 7 percent of the households are investing in mutual funds, hence there is a long way to go.

The penetration level is also not much deep; as the industry has not reached out to rural India, where income is on the rise. It is expected that the mutual funds could witness five to six times of growth in the next seven to eight years, as the industry has become a globally significant player attracting a bigger chunk of household savings.

At present, the Indian Mutual Fund Industry is one among the top 15 nations in terms of AUM and is expected to grow to $500-600 billion by 2015 as more global players are planning to set up asset management business houses in India. Mutual fund industry has a tremendous potential for growth in the Indian environment. In order to really carve out a niche for mutual funds, there is a need to take a dispassionate view of the mutual fund industry in retrospect as lowering interest rates, encouragement provided by budgets, options for high risk and better returns have already paved the way for the long innings to be played by mutual funds in India. The diversification of funds and innovative schemes may naturally be attributed to the increasing competition among the players. Hence, the researcher has attempted this study entitled “A Comparative Study of Public and Private Sector Mutual funds”.

The researcher has carried out the present study with the objective of (i) To study the role of mutual funds in Indian capital market (ii) To compare the performance of schemes of public-sector and private-sector mutual funds in India.(iii)To make a comparative study of public-sector mutual funds and private-sector mutual funds of Indian mutual funds industry (iv) to evaluate the performance of selected schemes by using Sharpe, Treynor and Jensen measures of portfolio evaluation. For taking a decision to invest in mutual funds, the evaluation plays a greater role. The rankings given to the mutual funds attract the investment by the investors to the respective
funds. For the purpose of ranking the performance of various mutual funds the methods such as Sharpe, Treynor and Jensen were applied to the various funds in different schemes. It is hoped that the ranks provided for the fund in this research will explain relative performance of the schemes.

The review of studies ensures that mutual funds have a significant impact on the Indian capital market. The reviews bring to light the importance of mutual funds under the Indian financial scenario; highlight the need for adequate investor protection, single regulatory authority, higher return for a given risk as per investors' expectation, greater convenience and liquidity, and the expectations that mutual funds should act as a catalytic agent for economic growth and foster investors' interest.

The present study is based on the secondary data. The present study is a sample study. Mutual funds which have been operating for greater than five years and performing during the period of study (2006 – 2011) are selected for the present research. The sample for the study consists of 26 mutual funds belonging to four categories – Equity category funds, Tax saving category, Debt Category Funds and balanced category funds. The performance of selected funds is evaluated using average rate of return of Fund, standard deviation, Risk/Return, Sharpe Ratio, Treynor ratio and Jensen ratio. Benchmark comparison is also made as it indicates to what extent the fund managers were able to produce better performance of managed portfolio compared to the market or index portfolios.

6.3 Findings of the Study

After a comprehensive study of public and private sector Mutual funds with the help of data collected and results obtained by using various statistical tools, the followings are the findings given on the next page of the research work undertaken:
Mutual funds offer a profitable investment option to increase the return of small investors. The risk adjusted returns generated by Private Mutual funds is found generally higher than that of the Public sector Mutual funds. The reason behind this is that Private Mutual funds had their investment more prone to risk as compared to by Public Sector Mutual funds. It is one of the important reasons the Private sector Mutual funds are giving higher return to the investors as compared with by Public Sector Mutual funds from the same stock market.

However, the study could not reveal any statistically significant difference in risk adjusted returns generated by the Public sector Mutual funds and Private sector Mutual funds of different categories of AMC's. The difference if any exist may attributable to the quality of the management of the AMC.

In order to give better performance, there is undoubtedly competition between Private Mutual funds and Public Sector Mutual funds. The Private Mutual funds could take more risk in managing different schemes of mutual funds. It is found that the Private Mutual funds were more involved in speculative investments than Public Sector Mutual funds. The Risk analysis revealed higher levels of risk for growth and equity oriented schemes associated with Private sector and for tax saving and debt schemes higher level of risk is associated with Public sector Mutual funds.

The study could not find out any evidences to suggest statistically significant difference between the categories of mutual fund and their risk exposure. However significant difference is found for the risk of Tax saving schemes.

The study found the profitability of Private sector Mutual funds is higher than the Public sector Mutual funds.

The analysis regarding profitability of Public and Private sector Mutual funds revealed no significant difference between the Public and Private sector mutual funds in respect of profit.
Chapter-6  Summary of conclusions, Findings and Recommendations

- The study regarding the resource mobilization of funds found that private sector resource mobilization is higher than the public sector resource mobilization Mutual funds. The reason is after the reforms and entry of private sector mutual funds, the interest of the investors was inclined to invest in the private sector mutual fund with the expectation of higher return.

- However, the analysis regarding resource mobilization of Public and Private sector Mutual funds revealed no significant difference between the Public and Private sector mutual funds. The reason is over a period of times due to the more and more innovations and exposure of more risk, the performance of private sector mutual funds were affected. As a result, the inclination of investors towards public sector mutual fund increased. It may be the one of the important reason for no significant difference in performance of mutual funds over a period of time.

- The study found the Assets under Management of private sector Mutual funds is higher than the Assets under Management of public sector Mutual funds.

- The analysis regarding AUM of Public and Private sector Mutual funds revealed a significant difference between the Public and Private sector mutual funds. In the beginning, the private sector mutual funds got tremendous response as they were new and their fund managers were successful in reaping the returns of Capital Market. The total assets under management increased significantly and returns offered by them were also significantly different. As a result the performance of public and private sector mutual funds were having significant difference in terms of Assets under management.

- In the category of growth funds the magnum equity and HDFC 200 are not adequately diversified as determined by their values; the average diversification of the sample funds is 73%.
• In the category of tax plan all the schemes are adequately diversified except magnum tax gain scheme.

• More over it has been seen that the public sector schemes in the category of equity oriented are well diversified and the schemes of the private sector MFs are not adequately diversified except HDFC scheme.

• Furthermore it is observed that the LICMIP scheme is the only scheme in the category of debt oriented which is adequately diversified.

• Equity Fund Growth Scheme: As per Sharpe measurement the top performer is Birla sun life frontline fund, followed by Baroda pioneer, UTI equity, can Robeco and Reliance vision and in case of Treynor ratio the top performer is HDFC 200, followed by Magnum equity, Birla sunline frontline, can robeco and Baroda pioneer.

• Equity Tax Saving Scheme: In case of tax saving schemes the top 5 performers according to Sharpe measure are Sundaram tax scheme, followed by Reliance tax saving scheme, ICICI PRU tax plan, LIC Tax scheme and Baroda Pioneer ELSS. In case of Treynor ratio the top performer is again Sundaram tax plan, followed by ICICI Prud tax plan, Reliance tax plan, LIC tax plan and Baroda Pioneer ELSS.

• Equity Oriented Scheme: The equity oriented top five performer funds as per Sharpe ratio are Reliance Regular Savings Balanced, followed by HDFC balance, UTI Bal, MAG Bal and Birla sunlife95 and as per Treynor the top performer fund is Reliance Regular Savings Balanced followed by Birla sun life 95, HDFC Bal, MAG Bal and UTI bal.

• DEBT oriented Scheme: The top five fund performers as per Sharpe measurement, are ICICI PRU followed by Reliance MIP, Birla Sun life MIP, LIC MIP and Can Rob MIP and as per Treynor ratio the top performer
fund is Can MIP followed by Reliance MIP, ICICIPRU, LIC MIP and MAG MIP.

- It has been find out that the profitability of the UTI Mutual Fund is decreasing year by year. Its equity based selected scheme is also showing less return than the market since inception.

- The profitability of SBI Mutual Fund is showing good earning potential. The earnings are of the Fund are showing increasing trend since 2003. Where as if the performance of equity based selected schemes is compared with the market the fund has performed relatively less than the market since inception.

- It has been found out that the earning potential of the Canara Robeco Mutual fund was not good since 2004 and the figures of EPS were also negative for the two years 2008 and 2009. Again the equity scheme of Public sector Mutual Fund is showing less return than the market since inception.

- The profitability of Baroda Pioneer Mutual Fund is also decreasing year by year. The performance of equity selected schemes are showing less returns than the market since inception.

- It has been found that in case of public sector Mutual funds SBI MF is performing on top followed by UTI MF.

- Mutual Fund operation was started in the year 1964 by the enactment of the UTI act in 1963. The first scheme launched in India was US-64. The objective of launching this scheme was to provide an opportunity of investment to small and marginal investors who themselves could not invest in the stock market.

- Entry of Private Sector Mutual Funds adversely affected the prospects of Banks sponsored and Institutions sponsored Public Sector Mutual Funds. As a result the Mutual Fund Industry has emerged as a highly competitive financial service Industry today.
The crisis of unit 64 scheme led to the destruction of investor's faith, trust and confidence in UTI. Meanwhile the private funds had consolidated and gained the ground of this market.

The industry comprises of 41 AMC had a positive growth rate from 3% (1998-99) to 8% (2010-11). The Private sector Indian mutual funds had grown by 4 percent and public sector mutual funds had decreased by (-4) percent since 1997-98.

GDS as percentage of GDP in India is one of the highest in the world, and has increased since 1975-76. Though the overall rate of growth of savings as percentage of GDP has fluctuated, it has always remained above 23.3 percent since 2004-05.

The ratio of AUM to GDP increased gradually from 4.7% in 2005 to 9.37% in the year 2010. Despite this however, this continues to be significantly lower than the ratio in developed countries, where the asset under management accounts for 20-70% of the GDP.

The household sector's investment in mutual funds as component of overall savings of household sector in financial assets increased dramatically from about 1.2% in FY04 to 7.9% in FY08 and then it decreased to about 3.3% in FY10.

ULIPs have emerged as a major threat to MFs in attracting retail investors. ULIPs are insurance and investment product bundled into one. It has over the years become an extremely popular product through aggressive selling, accounting for 60% of premium collections.

The industry had the highest number of schemes in operation 1002, along with the highest number of schemes launched 551 in the year 2008-09.

The Mutual Fund industry has introduced an array of products such as liquid/money market funds, sector-specific funds, index funds, gilt funds,
capital protection oriented schemes, special category funds, insurance linked funds, exchange traded funds, etc. It also has introduced Gold ETF fund in 2007 with an aim to allow mutual funds to invest in gold or gold related instruments.

- Of the total schemes launched during the study period, the highest were income schemes followed by the growth schemes and money market schemes.

- The unit holding pattern of public and private sector mutual funds shows the dominance of private sector mutual funds in the number of investor accounts as well as share in net assets.

- The compounded growth rate of mobilization of resources for public sector mutual funds is 73% and for private sector mutual funds it is 78%.

- The AUM of mutual fund Industry has grown at a CGR of 20% since 1997 to 2011. As the entry of Private players coupled with the rapid growth of the Indian Capital market.

- The Indian mutual industry has significantly high ownership from the institutional investors. Indeed Individual investors accounted for 97 percent of the total number of investors' accounts contributed only 23 percent where as Corporate and institutions accounted for only 1.1 percent of investor's accounts contributed a sizeable 72.8 percent to total net assets in the year 2011.

- The KPMG Mutual Fund summit's vision for 2015, states positive outlook for assets under management growing at 15%-25%, between 2010 and 2015, the pace of growth being matched by the GDP growth rate of the economy.
6.4 Recommendations

After analyzing the results, for the better future of the Indian Mutual Fund Industry the following recommendations are given by the researcher:

- As mutual fund has entered into the Indian Capital market, which is growing profitable enough to attract competitors into this cherished territory. Encouraging competition among all the mutual fund operators, need to take some strategy to bring more confidence among investors for which mutual fund would be able to project the image successfully.

- The rise and fall of assets managed by mutual funds depends upon the money invested by investors. The outflows of funds by corporates to meet tax and other working capital requirement, the absence of Interest of a diverse retail base hurts the AUM. The industry needs more common people to own mutual fund units and not just large corporate to park their money.

- Despite immense growth potentials, limited involvement of the rural sector will prove to be a hurdle for the growth of this industry. Due to lack of awareness, inferior distribution and limited banking services in the rural regions, mutual funds are yet to gain significant recognition and acceptance in the rural markets. It is absolutely necessary to harness the savings of the nation especially from rural and semi-urban areas into financial assets and the units of mutual funds should certainly become one such asset that can attract these savings through a wide spread and efficient network of operations.

- Mutual funds should build confidence in the existing unit holders as well as the public not covered so far. Mutual funds have to prove as an ideal investment vehicle for retail investors by way of assuring better returns in relation to the risk involved and by way of better customer services.
• A successful asset management business is evaluated on the basis of the equity assets it manages. Therefore, the AMCs should meet the challenge of promoting the individuals to take risks.

• Mutual funds as institutional investors have to ensure professional market analysis, optimum diversification of portfolio, minimizing of risk and optimizing of return.

• The fund managers have to provide the benefits of professional management by way of market timing and stock selection skills.

• The Asset Management companies by way of superior management, efficient market forecasting have to ensure not only out performance but also consistency in the performance.

• While millions of potential investors are not fully aware of the modes of investments, most of the investors who have invested are not fully aware of their rights and obligations. Hence, the Government should arrange for more number of massive educational programs on investment avenues besides publishing 'Investors guide' enabling the investing public to take more informed investment decision. It would be more enlightening and effective if awareness programs were organized at the collegiate level so that students could become aware of investment avenues even before they start earning.

• SEBI and AMFI could carry out research works to introduce many mutual fund products proved successful in foreign countries but not yet introduced in India. Mutual fund activities could be linked with the banking institutions, through electronic clearing and plastic money for easy transactions and e-units of mutual funds.

• The role of investors' redress cell has to become more dynamic, efficient and widespread so as to reach out to investors rebuilding confidence among existing
unit-holders and generate interest among the potential investors. Mutual fund Ombudsman could be established for early settlement of disputes.

- Public sector thrust into mutual funds distribution and focus on strengthening presence beyond Tier 2 cities will entail training of the public sector employee base through the Train the Trainer approach, so that they may be inducted as trainers to support customer awareness campaigns to be facilitated by CII,NISM and AMFI.

- Opening up of the public sector branch network in Tier 3 and Tier 4 towns will include India post, Nationalized banks, Regional Rural Banks Cooperative Banks. This will also require a boost to be provided to investor service centers through R &T Agents should not be given a thrust.

- Investment managers are today facing challenges through redemptions, lower sales, and a flight to safety. The economic crisis has highlighted the benefits of mutual funds, particularly when compared with derivatives-based structured products or direct stock investing. Recent developments have sown the seeds for players to proactively anticipate and manage risks in a dynamic economic environment, and focus on educating investors on diversification and a long-term orientation in investing.

- It is therefore an opportune time for the industry to introspect on the lessons learnt in the past decade and develop a roadmap through a collaborative effort across all stakeholders, to achieve sustained profitable growth.

- As the investors are not willing to invest in mutual fund unless a minimum return is assured, it is very essential to create in the mind of the investors that mutual funds are market instruments and associated with market risk hence mutual fund could not offer guaranteed income.

- Private sector and foreign companies should be given more freedom in floating mutual funds, intensifying competition in this industry.
• Due to operations of many mutual funds, there will be need for appropriate
guidelines for self-regulation in respect of publicity/advertisement and inter
scheme transactions within each mutual fund.
• The growth of mutual fund tends to increase the shareholdings in good
companies, give raise the fear of destabilizing among industrial group, hence
introduction of nonvoting shares and lowering the debt-equity ratio help to
remove these apprehension.
• Steps should be taken for funds to make fair and truthful disclosures of
information to the investors, so that subscribers know what risk they are taking by
investing in fund.
• Mutual funds need to take advantage of modern technology like computer and
telecommunications to render service to the investors.
• Mutual funds are made for investors and investor's interest ought to be
paramount by setting standard of behaviors and efficiency through self
regularisations and professionalism.
• As an investors chooses a scheme based on its merit considering performance
track record of the mutual fund, service standards, professional management,
etc. Mutual funds should take serious steps in maintaining their past records.
• Investors should also try to save money as much as they can so that they can
make investment that will grow in to bigger Capital base.
• Investors should plan their investment for a longer period of time keeping in mind
their financial targets, level of risk aversion and investment objectives.
• Investors should collect and analyse enough information about the funds they
plan to invest in.

6.5 Scope for Future Research

The present research on the comparative study of Public and Private sector Mutual
funds explored many issues in line with the objectives set for the study. The present
study has focused on the comparison between the Public sector schemes and
private sector schemes. On the basis of secondary data, their performances were
analyzed. But still I feel that a multi directional focus on related areas is possible. In
the context of limitations of the study, and the experience gained during the study, some of the potential areas are identified for future researches. Potential areas for research have been identified in the following areas:

- The present work deals with the comparative study between Public and private sector mutual funds in India. Similarly a comparative study can also be made within Public sector mutual funds between Financial Institutions sponsored Mutual funds and Bank sponsored Mutual funds. A study can also be done with in Private sector mutual funds between Indian Mutual funds, Foreign Mutual funds and Joint Venture funds.

- The present study is confined to the regulated environment of mutual fund industry and to that of growth and balanced schemes. During the course of study it was observed that technological and environmental changes have many social implications. Government policies, changes in the financial environment, income status have significant influence on the size of savings, preference for investment avenues and pattern of holding investments. Thus, there are several other important issues relating to mutual funds increasing the scope of this study.

- The mutual funds can also be studied in terms of its influence on stock market sentiments, purchase and sale of securities. As very few studies are available on money market mutual funds, studies could be carried out to identify the role of money market mutual funds as a short-term financial instrument and how far they are able to meet the demand and supply of short-term funds in the Indian financial system.

- To pick up the pace of economic growth, inflow of foreign currency is a must. Hence, studies could be carried out to know the competency of offshore funds and to identify ways and means of improving offshore mutual fund operations.

- The past period had seen a lot of mergers and acquisitions in Mutual fund Industry. The rate and nature of mutual fund attrition has its impact on the investing society and other existing mutual funds in the industry. The correction
of attrition is highly important to avoid its negative impact on the earnings of the existing mutual fund schemes. Hence, research could be carried out on mutual fund attrition and the effect of survivorship bias on the other existing mutual fund schemes. These are the possible areas of research work which can richly contribute towards the existing literature on mutual funds.