CHAPTER I

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1.1 INTRODUCTION

A bank is an institution, which deals with money and credit. It accepts deposits from the public, makes the funds available to those who need them, and help in the remittance of money from one place to another. The role of banks in economic development and prosperity of a nation does not need any emphasis. Banks are not merely dealers in money but also manufacturers of money. According to Crowther, a bank “collects money from those who have it to spare or saving it out of their incomes, and it lends this money to those who require it”. (G. Crowther, ‘An Outline of Money’. 1958,PP.22-23) Banking Regulation Act defines banking as “the accepting for the purpose of lending or investment of deposits of money from the public repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise” (Banking Regulation Act, 1949). The role of Banks in rural reconstruction, elimination of poverty and illiteracy, establishment of primary health centers and the like are considerable.

The modern Commercial Bank in India was originated during the 19th century, mainly due to the development of foreign trade. The first Bank established in India was known as ‘Exchange Banks’. The main business was to finance foreign trade. During 1950’s the Indian Banks began to dominate in the field of banking. The commercial banking system in India consisted of 287 scheduled commercial Banks and two non-scheduled Banks at the end of 1996. The commercial banking in India has been experiencing radical changes both quantitatively and qualitatively. The Banking Industry has grown geographically
over the length and width of the country. The Banks have taken new responsibilities of serving National Plans and priorities for economic development.

State Bank of India (SBI) is the biggest commercial bank and holds a special position in the modern commercial banking system in India. SBI came into existence, on July 1, 1955 after the nationalization of Imperial Bank of India. The Imperial Bank of India was established in 1921 by the amalgamation of three Presidency Banks of Madras, Bombay, and Bengal. State Bank of India performs all functions of commercial banks; it also functions as an agent of the RBI at centres where the RBI has no branches. The bank started with an authorized capital of Rs. 20 crores, which has been divided into 20 lakhs shares of Rs. 100 each. The issued capital of SBI is 5.6 crores. The management of SBI is under the control of a Central Board of directors consisting of 20 members. At present there are seven state associated banks under the control of SBI through SBI (Subsidiary Banks) Act, 1959. The State Bank of India group accounted for about 29 percent of deposits, 31 percent of advances and about 27 percent of the offices of all scheduled commercial banks in India. There are 9,026 branches for SBI in India and 52 branches abroad. It is the biggest branch Bank in the world.

1.2 MUTUAL FUNDS

Mutual funds are one of the important segments of the financial system of the country. The financial system comprises of financial institutions, banks, investment bodies, capital market and money market intermediaries. Mutual funds are the instruments used in the capital and money market through which money resources are mobilized from savers of funds to users of funds. Economic
development and growth of a nation depends on the soundness and efficiency of the financial system through all its segments. The process of economic liberalization in the eighties led to demand for new financial services such as issue management, corporate counseling, capital restructuring and loan syndication. Commercial banks set up subsidiaries for merchant banking, equipment leasing and other financial services. During 1986, the first mutual fund, Unit Trust of India Mutual Fund called "Master Share" emerged in the country. The Central Government in June 1987 authorized banks to establish mutual funds. SBI appointed SBI capital market Ltd. as trustee to organize and manage mutual fund in the same year. Besides SBI, Canara Bank, Bank of India, Punjab National Bank, Indian Bank have come out with a few schemes. LIC and GIC too entered in the area of mutual fund.

A mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciation realized are shared by its unit holders in proportion to the number of units owned by them. An average investor does not have the necessary resources, time, knowledge and expertise to participate in today's complex and volatile investment markets. By investing in mutual funds, the investor ensures through professional management, participation in a large number of companies and diversified form of investment viz., shares, debentures, bonds etc. The funds managers understand the financial market better than the average investor. They know where to invest and when to buy and sell. This knowledge shields people from vagaries of bull and bear markets. Thus a mutual fund is the most suitable investment for the common man.
as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

1.3 SBI MUTUAL FUND

State Bank of India Mutual Fund was established in the year 1987. SBI Capital Markets Ltd. was the principal trustee to SBI Mutual Fund. (SBIMF). The SBI Mutual Fund launched its first scheme – 'Magnum Regular Income Scheme 87' in 1987 and mobilized Rs. 131 crores. The main objective is to provide a regular income of 12 percent. Thereafter, SBI Mutual Fund launched several schemes under the brand name of 'Magnum'. In October 1989, SBIMF launched 'India Magnum Fund' an offshore fund in collaboration with Morgan Stanley of the U.S. In 1993, 'Magnum Multiplier Plus' a growth-oriented scheme, was launched and it mobilized Rs. 948 crores, which is a record in the non-UTI category mutual funds. In 1994, SBIMF launched 'Magnum Bond Fund' to pass on the benefits of debt market. The main objective of the scheme is to invest on fixed income securities, debentures and bonds. This is the first debt-oriented mutual funds scheme in India.

SBIMF has 22 investor service centres all over the country and publishes 'Magnum News' bulletin in the leading newspaper all over India in the first week of every month, which consists of information on NAVs and repurchase prices of the schemes.

1.4 STATEMENT OF THE PROBLEM

Mutual funds industry is of recent origin in India and still in its infancy. Over the last few years' mutual funds have emerged as major players in savings mobilization. Investors have been showing keen interest by subscribing to various
mutual fund schemes anticipating higher returns and capital gains. The increasing popularity of investment and the mushrooming growth of investment avenues have taken the investors to a point, where investors are left with the question of "where to invest."

Due to political instability, the state of the market and the undesirable practices of mutual funds like inter scheme adjustment of funds have lead to the poor performance of mutual funds.

In Kerala, SBI Mutual fund schemes are attractive to small investors. More and more investors today are investing in mutual funds expecting high return and low risk coverage. But the inability to fix the responsibility on the fund managers and fluctuations in the market conditions led to the poor performance of the mutual funds. SBIMF investments generate returns on the basis of the state of market conditions. It is in this background, that a study 'Performance Appraisal of SBI Mutual Funds with special reference to Kerala State' assumes relevance. This study helps to analyze the importance of mutual funds when compared to other investment alternatives.

1.5 OBJECTIVES OF THE STUDY

The study is conducted with the following objectives:

1.5.1 To analyse to what extent the mutual fund is effective as an investment mode to the investors.

1.5.2 To study the various investment alternatives available to the investors in comparison with mutual funds.

1.5.3 To know how far the SBI mutual fund schemes are able to win the confidence of the investors.

1.5.4 To find whether SBI mutual fund has been able to attain the implemented objectives of their various mutual fund schemes.
1.5.5 To ascertain whether there is any relationship between the fund size and performance of various schemes of SBI mutual fund.

1.5.6 To suggest measures if any for the successful performance of SBI mutual fund in Kerala.

1.6 HYPOTHESES

The major hypotheses guiding this investigation are:

1.6.1 SBI mutual fund is one of the leading mutual funds in Kerala but it is not functioning in conformity with the set objectives of the scheme.

1.6.2 Except one or two, many of the schemes launched by SBI mutual funds could not provide more returns than what nationalized banks provide on fixed deposits.

1.6.3 Fluctuations in the stock market adversely affect the return on mutual funds.

1.6.4 Most of the schemes like Magnum Triple Plus; Magnum Rising Income Schemes etc. show a declining trend.

1.7 METHODOLOGY

1 Stage: Data available from the published sources like Annual Reports of SBI Mutual fund from SBI Fund Management Ltd., Publication of RBI such as Report on Currency and Finance, Banking Statistics, Report on Trend and Progress of Banking in India, Annual Reports, RBI Bulletins, SBI Annual Reports, Journals, Magazines etc. from SBI, Books and Publications, Brochures and leaflets of different mutual fund agencies, Records of Post office, Cochin Stock Exchange, News papers and information from Internet were collected and critically analyzed.
Stage: Structured interview schedules were prepared and information was collected from mutual fund investors. Random sampling was used for selection of investors.

Design of the Study

Out of the fourteen districts in the State of Kerala, four districts such as Ernakulam, Thrissur, Thiruvananthapuram and Kozhikode were selected for the study. Data were collected from 101 SBI Mutual Fund investors from four districts, Ernakulam (53 Respondents), Thiruvananthapuram (15), Thrissur (15) and Kozhikode (18). 200 Respondent co-operated with the collection but 99 responses discarded because of incomplete information. The districts were then divided into three regions viz: rural, semi-urban and urban areas. Sample respondents were selected from all the regions.

Method of Analysis

Data has been analyzed by using various techniques. Graphical representation was done through Bar diagram. Pie Diagram and charts.

The statistical tools used for analyzes are:

a) Percentage Analysis: The researcher has used percentage change in NAV to evaluate the performance of various SBIMF schemes.

\[
\begin{align*}
\% \text{ Change in NAV} &= \frac{\text{Absolute change in NAV} \times 100}{\text{NAV at the beginning}} \\
\text{Absolute change in NAV} &= \text{NAV at the end of the period} - \text{NAV at the beginning of the period.}
\end{align*}
\]

NAV (Net Asset Value) = Net Asset of the Scheme
No. of units outstanding

Net Assets = Market value of the Assets of the schemes-
Liabilities
b) **Correlation Analysis**: Karl Pearson's Co-efficient of correlation is used to analyze the relationship between fund size and fund performance of various schemes of SBI mutual fund.

Karl Pearson's Co-efficient of Correlation represents \( r \)

\[
r = \frac{\sum xy}{\sqrt{\sum x^2 \times \sum y^2}}
\]

\[
x = (x - \bar{x})
\]

\[
y = (y - \bar{y})
\]

'\( x \)' represents - Fund size

'\( y \)' represents - Net income.

c) **Internal Rate of Return (IRR) Technique**:

IRR technique is used to evaluate the performance of various SBI mutual fund schemes. The formula used in the study is as follows:

\[
P_0 = \frac{D_1}{(1-r)} + \frac{D_2}{(1+r)^2} + \ldots + \frac{D_n}{(1+r)^n} + \frac{P_n}{(1+r)^n}
\]

Where,

\( P_0 \) represents the acquisition price per unit.

\( D_1, D_2 \ldots \ldots \ldots D_n \) represents the cash dividends received in respective years.

'\( P_n \)' represents the NAV as on March 31st, each year.

'\( r \)' represents rate of return per rupee per annum.

d) **Average Annual Growth Rate**: AAG is used to evaluate the performance of various schemes. Growth rate is measured by comparing the NAV of consecutive years.

e) **Regression Analysis by Method of Least Square**: The Researcher used the technique of Regression Analysis for calculating trend values and curve fitting of various SBI mutual fund schemes. A line of the 'Best fit' was obtained
by the regression equation $Y$ on $X$.

$Y$ on $X \quad \ldots \ldots \ldots \ldots Y = a + bx$.

'X' represents Independent Variable

'Y' represents Dependent Variable on $X$.

$a = \frac{\sum y}{n}$

$b = \frac{\sum xy}{\sum x^2}$

'\sum y' represents sum of 'y' values.

'\sum x' represents sum of 'x' values.

'n' represents number of observations.

f) Chi-Square Analysis: Chi - square test is a non-parametric test used to test hypothesis.

The researcher calculated the chi-value and compared it with the table value for given degree of freedom at certain specified level of significance.

1.8 PERIOD OF STUDY

The study covered the ten-year period from 1991 to 2000-01. SBI Mutual fund launched various schemes and attracted the attention of investors during these years. The period stated above is particularly significant because in these years the movement of economic liberalization was really launched in India.

1.9 SIGNIFICANCE OF THE STUDY

Banks in India command more than Rs. 4,00,000 Crores of deposits, of which a considerable part comes from small and middle class investors. Over 80 percent of these deposits are in the term deposit segment. But interest rate on term deposits are not satisfactory or not high enough to provide hedge against
inflation. Consequently, depositors do not earn any real income. It is in this context that mutual funds have a useful role to play. A well-managed mutual fund can give a return of five to ten percent above the rate of inflation. The advantage of small investor derives by investing in mutual funds instead of in equities directly are (a) reduction of risks by spreading the capital over a wide range of securities (b) the services of expert professional managers (c) optimum return and (d) capital appreciation.

In Kerala, over the last few years, mutual funds emerged as major players in savings mobilization. Investors have been showing keen interest by subscribing to various mutual fund schemes anticipating higher returns and capital gains. Initially, UTI captured Mutual Fund Industry in Kerala. Later Bank sponsored Mutual Funds such as SBI, Canara Bank, Indian Bank etc. were flourished. At present, private sector mutual funds such as Reliance, Kotak Mahindra, Kothari Pioneer, Sundaram etc. launched their mutual funds.

SBI Mutual fund is one of the leading mutual funds in Kerala; its schemes are attractive to small investors. But due to the political instability, fluctuations in the capital market, international insecurity, new economic reforms, changes in the financial market etc. lead to the poor performance of mutual funds. SBI Mutual Fund investors are not satisfied with the return on investment. The present study analyzes the performance of various schemes of SBI Mutual Fund.

1.10 LIMITATIONS OF THE STUDY

i) Statistics about Mutual fund exclusively relating to Kerala are absent. So All India Statistics are considered.
ii) Samples of mutual fund holders are selected only from four districts of Kerala. Stringency of time and difficulty experienced in the identification of sample SBI mutual fund holders, especially in the rural and semi-urban areas, forced the Researcher to select the sample from four districts of Kerala only.

iii) Data of SBI mutual fund pertaining to two financial years, from 1987 to 1992 it ranges from January to December and 1993 onwards, financial year ranges from April to March.

iv) Rural and semi-urban potential investors are still unfamiliar to the scene.

v) SBI Fund Management functions at Bombay and only one service centre is functioning at Kerala.

vi) All the inherent limitations and drawback of a sample study can be expected.

1.11 REVIEW OF LITERATURE

There is a vast body of literature by eminent scholars and financial experts on different aspects of the capital market. But, the literature available on mutual funds is scandy. The Researcher presents an overview of the important studies and literature on mutual fund and capital market.

Bhatia (1970) had made an evaluative study of the New Issue Market for the period 1958 – 1973. The role of the financial institutions in the NIM has been described and evaluated. The study shows that a new class of middle-income individual investors had emerged as an important supplier of the risk capital.

Gupta (1972) in his book has studied the working of Stock Exchanges in India and has given a number of suggestions to improve its working. The study
highlights the need to regulate the volume of speculation so as to serve the needs of liquidity and price continuity. It suggests the enlistment of corporate securities in more than one stock exchange at the same time to improve liquidity. The study also wishes the cost of issues to be low in order to protect the small investors.

U.L. Gupta (1972) made a study of the Indian Stock exchanges assessing their performance in the direction of (i) providing an organized market for securities. (ii) canalizing savings into Indian industries. (iii) Popularizing share ownership among individuals and also trying to find out the extent to which their rules, byelaws, regulations and practices help in that regard.

Khan (1976) examines the role, and the cost of raising funds from the market. The core of the study deals with the new issues and company finance, the structure of underwriting and cost of capital. The study suggests appropriate measures to enable the new issue market to play a part in consonance with the requirements of the planned growth of industry.

Devakumar (1987) reveals that earlier to 1985, there were very few investors and they were knowledgeable. During the 1985 boom, thousands of new investors invaded the market. The new investors suffered heavy losses compared to the professionals. A good number of new investors have walked out of the stock market to safer areas like UTI units, NSC etc. There is a mild shift of investment preferences to mutual fund also.

S. Saroj (1991) points out the importance of the growth of India's Capital Markets. It provides an idea of the emerging scenario of the capital market, assesses the contribution of the capital market, in mobilizing additional public savings to meet the resources crunch for priority investment in the eighth plan.
Gupta (1993) made a Household Investor Survey in April 1992. The main objective of the survey is to provide data on the investor preferences for mutual funds and other financial assets. The study has a direct bearing on the market for financial products, such as bank deposits, shares, mutual fund schemes, life insurance and other savings schemes and should, therefore, be of special interest to those concerned with marketing these products.

G. Raju (1993) in his study household Sector savings and deposit mobilization in Kerala, mentions that 23 percent of the population covered is aware of mutual fund schemes but the awareness level is less than that of government bonds.

Bogle (1994) presents a guide to investors in developing and implementing an intelligent investment programme through mutual funds. It covers equity funds, bond funds and money market funds. While mutual funds are ideal vehicle to mitigate substantially the risk of holding specific stocks and bonds, market risk still remains. The central task of life-time investment strategy is to allocate financial resources so as to balance the different market risks among stocks, bonds and money market instruments. An intelligent approach to allocating assets among these three investment classes is a key time of his book New Prospective for the Intelligent Investor.

Avadhani (1995) deals with the arrangement and functions of all financial institutions in the capital market. It provides vast background material on new issue market, government securities market etc. The practical and operational aspects including finance and accounting are covered.
Nalini J. (1996) has made an evaluative study of the impact of mutual fund schemes on the deposit mobilization of Commercial banks in Kerala for the period of 1987 – 1994. The study shows that during early 1990s when the Public Sector banks entered the mutual fund sector, it affected the deposit mobilization of commercial banks to certain extent.

Nagaraj (1996) identifies that capital market growth has changed domestic financial saving composition from bank deposits to shares and debentures without favourably influencing domestic savings rate. Equity capitals’ share in the total market mobilization declined, as bulk of such mobilization is in the form of debt securities.

Tommy Varghese (1997) had made an extensive study of individual investors in the Capital market in Kerala. In his study, he reveals that about one third of the investors entered the capital market through the investments in mutual funds. UTI funds are the favourite of the investors. The financial environment in Kerala along with its high capital market potential has inspired thousands of individual investors to enter the market.


Warren Boroson (1997) points out that very few investments are as widely appealing as mutual funds. They permit individuals – including those with limited knowledge of financial markets, those planning relatively small commitments, and those seeking long-term fiscal stability to join larger groups purchasing a variety of securities.
Sadhak (1997) makes available the marketing strategies and investment practices of mutual funds in India. The study shows the marketing strategies, the history and management of mutual funds in India and abroad.

Alberts Fredman (1997) in his book How Mutual Fund Work outlines the stock market, the bond market, asset allocation, index funds, variable annuities, tax considerations and the role of computers. Fredman provides a Q & A section with the 100 most important questions and their easily digested brief answers.

Jayadev (1998) in his study of 'investment policy and performance of mutual funds' reveals the state of Indian Public Sector mutual funds. The study covers rate of return, risk, investment policy, regulation and pricing of mutual fund schemes. The spotlight of the study was investing in mutual funds means the investor is expected to high risk. Thus a strong regulatory framework is advocated or mutual funds to protect the investor.

Pozen (1998) in his book The Mutual Fund Business deals with general introduction of mutual funds, a short history of the industry, overview of mutual fund regulation, portfolio management of stock funds and bond funds and execution of fund trades. It also covers marketing and servicing of mutual funds in the direct, intermediary and retirement channels etc. Through cases and other materials, it explores the various constraints on transferring successful practices in the mutual fund business from one country to another.


D.C. Anjaria & Dhaivat Anjaria (2000) deals with the history of mutual funds in India, types of mutual funds, marketing of mutual funds and SEBI guidelines regarding mutual funds. It provides many factors of mutual fund and it functioned as a workbook for distributors and employees of mutual funds in India under the sponsorship of Association of Mutual Funds in India.

SEBI (2000) deals with the main amendments in the regulation of mutual funds in India under 'Mutual Funds 2000 Report'.

In addition to the above, a number of academics, professionals and journalists have written articles explaining the basic concept of mutual funds, their characteristics and reviewed the trends in the growth of mutual funds.

The review of the available literature shows that although there are a number of studies on the different aspects relating to mutual funds, there is no specific and comprehensive study on the performance of appraisal of SBI mutual fund with special reference to the State of Kerala. The present study is an attempt to fill this gap to a certain extent.
1.12 CHAPTER SCHEME

The contents of the study have been scheduled in Six Chapters. The Introductory Chapter presents the subject and significance, the objectives, the hypotheses framed to investigate the study and the methodology adopted. The chapter also contains the sample design, period of reference, limitations and a review of earlier studies in the area.

Chapter II devoted to present the history, concept and significance of Mutual Funds in the present scenario.

The third chapter deals with the profile of State Bank of India Mutual Fund including evolution, organization and structure of SBI, SBI Mutual Fund and its various schemes.

The fourth chapter devoted to explain the functioning of SBI Mutual Fund. It gives the method of evaluation applied, the performance of SBI Mutual Fund using different methods like Percentage Change in NAV, Internal Rate of Return, Regression Analysis, Average Annual Growth Rate, Correlation co-efficient etc.

The fifth chapter presents the SBI Mutual Fund in Kerala and its performance. It consists of the economic profile, capital market environment and major mutual funds in Kerala. This chapter contains a lucid picture of SBI Mutual Fund performance in Kerala. The performance is analysed in the light of primary data.

The sixth chapter gives summary of the analysis of the study, findings, and recommendations for the good performance of SBI Mutual Fund in the State.