CHAPTER VI

FINDINGS AND CONCLUSIONS
The study has been with reference to 'Mutual Funds in India - A case study of Canbank Mutual Fund. Indian Capital Market witnessed rapid changes in recent years and particularly from the year 1992 with the outbreak of securities scam and emergence of mutual funds. The private sector mutual funds and Money Market Mutual Funds have constituted new dimensions to Mutual funds' structure. Accordingly, mutual funds play an important role in mobilising savings for industrial development. Therefore, the importance of mutual funds in the capital market cannot be over-emphasized.

Functional point of view, mutual funds are specialised investment financial institutions and their need in industrial development of the country has been receiving the attention of planners. This sector in the Capital Market combines the merits of both central financial institutions and portfolio managers and acts as a balancing factor. As such these funds are not species within the institutional capital structure but they are independent group of organisations having common pool of funds for mutual and common benefit.

The principal problems on which the present study covered was to examine the working of mutual funds, its structure and operations. The operational activities examined are many-sided and can be identified only when a deliberate attempt like this is made at micro-level. The aspects which were examined in the study are: various schemes of mutual funds, their unit-wise analysis of performance and results, face value, market value, net asset value, investment portfolio, income, trading price etc. The study also emphasized the asset structure of each mutual fund scheme to know the nature and composition of assets. This is because, the asset structure in case of mutual fund is quite different from the asset structures of trading and other manufacturing corporations.
The objectives of the study are to examine the recent trends in capital market, to study the growth and development of mutual funds, to analyse scheme-wise performance of Canbank Mutual fund and to examine scheme-wise revenue operations. To study this, the methodology adopted is based on the objectives and problems to be investigated. The basic data relating to financial operations from different angles and their performance figures are collected primarily from fund's annual reports, financial statements, Reports on currency and finance of Reserve Bank of India, RBI monthly bulletins and from various journals on finance, commerce and capital market. The usual statistical techniques like Mean, Percentages and diagramatic presentation are applied in the study.

A separate chapter has been devoted to examine the recent trends in capital market. Many important changes have taken place in the Indian Capital Market during the last ten years. Among them, merchant banking is one. It is basically a British concept. This concept was brought to India and started in 1969. Subsequently, a number of other big financial institutions established merchant banking divisions. The citibank, State Bank of India, ICICI, Syndicate Bank, Bank of India etc., have been undertaking many activities relating to capital issue and play different roles like managers, co-managers, sponsoring of issues, credit syndication, servicing of issues, investment managing and other specialised activities. The last couple of years have brought many changes in the Indian economy and the ongoing liberalization process supports this trend through its structural changes.

The Capital Market in India today comes under the jurisdiction of four different laws and regulatory bodies. They are Securities Contract (Regulation) Act 1956, The Indian Companies Act, the bye-laws of stock exchanges and the Controller of Capital Issue and presently SEBI. The Companies Act
specifies the disclosure requirements and other corporate behaviour of its management and investors. The Securities Contract Act regulates stock exchanges and its rules provide among other things the procedure to be followed for recognition of stock exchange, annual reports, submission of periodical reports, requirements for listing of securities. New capital issues were governed earlier by Capital Issues Control Act, 1947. The office of the Controller of Capital Issue was abolished in May 1992 by a Presidential Ordinance. The ordinance has been put into force from the time of its issue i.e., May 29, 1992 and accordingly Capital Issues (control) Act 1947 has been repealed.

Another important development that took place in the Indian Capital Market was regarding the organised efforts for rating of securities. Accordingly, two credit rating agencies have been established in the country. The Credit rating information services of India Ltd (CRISIL) was promoted in 1987 by various financial institutions. The objective of the CRISIL is to rate debt obligations of Indian companies. It rates debentures, fixed deposits, short-term instrument etc. The second of this nature is the Investment Information and Credit Rating Agency of India (ICRA). It is an independent and professional credit rating agency promoted by IFCI jointly with other leading financial institutions. The main objective of ICRA is to provide guidance to investors in determining the credit risk associated with a debt instrument or debt obligation.

After the abolition of the office of the Controller of Capital Issue, SEBI has been established in 1992 under the SEBI ordinance. All the powers exercised earlier by the CCI are now been exercised by the SEBI. It is the duty of SEBI under the Act to protect the interests of the investors and promote the development of the capital market and regulate the securities
market. The Act has vested SEBI with wide ranging powers. SEBI has been issuing a number of guidelines and regulations on variety of aspects of its jurisdiction and in the discharge of its responsibilities.

The Over-the-Counter Exchange of India (OTCEI) was established in August 1989 and became operational from 1992. It is a company incorporated under the Indian Companies Act, 1956 with the main objective of setting up an operative and over the counter exchange in India. It is promoted by financial institutions like UTI, IDBI, ICICI, LIC, GIC and its subsidiaries. It is a recognised stock exchange under the Securities Contract (Regulation) Act.

With a view to accelerate the process of economic liberalisation the Government has announced guidelines for Foreign Institutional Investments in the Indian stock market. The scheme permits direct foreign investment upto 51 p.c in priority areas. A number of Foreign Institutional Investors came forward and registration has been granted by SEBI. At presented there are 12 such institutions.

The scheme of stockinvest is yet another event that took place in the Indian Capital Market. This new instrument has been approved by Reserve Bank of India and announced by the Department of Company Affairs in 1992.

The disinvestment of shares in Public Sector Enterprises is a significant event today. The Rangarajan Committee recommended that the limit of Government ownership should be 51 p.c in respect of units reserved for public sector.

In recent years, a number of rules and regulations have been formulated and issued to regulate the capital market and to protect the investors.

When the gross total income of the company consists mainly of income arising out of securities, it is categorised as 'investment company'. Investment Companies offer alternative solutions to investors. They invest their money in bonds, preferred stock and common stock of other corporations. They combine the funds of large number of investors, invest judiciously to attain common objectives. The investment companies are classified into various categories. Broadly, they can be classified between unit investment trusts and management companies. The management group is further divided into open-end and close-end companies. The closed-end company is usually referred to as investment trust company. It operates in much the same way as any industrial company. A closed-end investment company after the initial public offering, offer new security to public.

The open-end investment company is usually referred to as a mutual fund. It offers new issues of shares continuously. The stock of open-end investment company is not traded on an exchange. Shares in open-ended funds can be bought and redeemed at any time. Closed-end funds, offer shares to the public only during offer periods. Thereafter shares can be bought/sold only on the stock exchange, or may be redeemed during specified periods. Listing, however, does not ensure liquidity. In comparison open-ended funds are more liquid.

Mutual fund is a form of organisation sponsored by registered companies having sound track record. It is established in the form of a trust under the Indian Trust Act. According to it, a trust is an obligation annexed to the ownership of a property and arising out of confidence reposed in and
accepted by the owner. Thus mutual fund is a special type of investment institution which acts as investment conduit.

The main activity of mutual fund is to collect the savings of the community and to invest the large funds in a large and well-diversified portfolio of sound investment. Today there are 108 mutual fund schemes in India. Of these, Unit Trust of India has launched 50 schemes (46%), Public sector banks introduced 40 schemes (37%), General insurance company 3 schemes (3%), Life Insurance Corporation of India 15 schemes (15%). Until 1987, UTI is the only institution in Mutual Funds. The details of the Indian mutual fund schemes are presented in Table 3.1 and 3.2 in chapter III.

One of the major developments in the Indian economy has been the opening of mutual funds to private sector in early 1992. The Government has permitted the private sector for establishment of mutual funds and vested SEBI with powers to regulate mutual funds. The credit for launching the first private sector mutual fund goes to Madras-based H.C. Kothari group.

Money market is a set of financial institutions, conventions and practices to facilitate lending and borrowing money on a short-term basis. This deals with assets that can be turned into cash at short notice such as short-term government securities, bills of exchange and banker’s acceptance. The Reserve Bank of India announced its credit policy to 1991 allowing banks and their subsidiaries to set up Money Market Mutual Funds (MMM Fs). These funds invest in short-term money market instruments like government securities such as 182 days treasury bills, commercial papers, certificate of deposits, call money funds and usance bills.
Asset Management Company means a company formed and registered under the Companies Act, 1956. The sponsor of mutual fund takes lead in the formation of Asset Management company. In the case of 'Canbank Mutual fund the Asset Management Company is Canbank Investment Management Service Limited' and it is located at Bombay.

The Asset Management Company has professionals with adequate experience in the management of mutual funds. No director of one Asset Management Company is entitled to hold the position of a director in another AMC. The SEBI grants approval for Asset Management Company.

The portfolio of mutual funds are of various types such as equity funds, income funds, growth funds, tax-exempt funds, liquid funds, special funds, real estate funds etc., Only authorised institutions are expected to float mutual funds. Thus scheduled banks, All India Financial Institutions, State level Financial Institutions and a limited company having a sound track record are eligible to sponsor a mutual fund. Every scheme of mutual fund should be registered with SEBI and gets its approval. Mutual funds are permitted to operate both open-end and close-end schemes. Mutual funds generally invest in the wide range of securities with a view to spreading investment risk. CRISIL or any other approved credit agency will rate investment grade in respect of all debt instruments in which mutual funds are invested.

Thus investors may derive a number of advantages by investing their money in Mutual funds. They can get advantages of expertise management, portfolio diversification, re-investment, safety of funds, tax benefits etc.

Canbank has introduced a variety of 16 schemes Canstock, the first close-ended regular income and growth scheme was launched in 1987. It has distributed income of 13.5 p.c. in 1988, 14.5 p.c in 1989 and 15.5 p.c.
1990, 21 p.c. in 1991-92 and 12.5 p.c. in 1992-93. In the same year, another closed-end scheme was launched. This scheme is a high growth scheme with a thrust on maximum growth opportunities. It has distributed an income of 15 p.c in the year 1992-93. The percentage of income distribution was 20 p.c. in 1988, 20 p.c in 1989, 15 p.c in 1990, 35 p.c in 1991-92 and 15 p.c in 1992-93. The performance of the two schemes is presented in Table 4.03 in chapter IV.

Cangrowth scheme is another scheme launched in the year 1989 with the objective of long-term capital appreciation with an eye on the growth factor. At the end of the first year of its operation, it distributed income at 15 p.c and in the year 1991-92 it distributed 30 p.c and 15 p.c in 1992-93. In the year 1990, a close-ended income-come -growth scheme, 'Candouble' was launched. As it is a cumulative scheme there is no annual pay out by way of income distribution. Table 4.05 in Chapter IV reveal per unit statistics of Cangrowth and Candouble Mutual Fund schemes. The Net Asset value of Cangrowth was Rs. 11.86 per unit and in case of Candouble it was Rs. 14.83, while face value was Rs. 10 per unit for both schemes.

Cancigo is an income-oriented open-end scheme launched in the year 1988. In the same year the fund launched another open-end scheme cangilt which is targeted to the individuals and corporate bodies who wish to invest large sums. The per unit performance of Cancigo and Cangilt are presented in Table 4.06 in Chapter IV. The face value of Cancigo is Rs. 1000 and the Net Asset value was Rs. 1,218.44 in 1993. The face value of Cangilt scheme is Rs.1,00,000 and its Net Asset value was Rs. 12.54 lacs. The repurchase price and the reissue price remains at par.

Can 80CC 90 was launched with the objective to provide for investment of funds collected by the mutual fund only in shares/securities of such
companies which were allowed certain benefits to the investors under Sec. 80 CC of Income Tax Act 1961. Similarly Canstar scheme, a high income based capital growth fund was launched in 1990, with the main objective of generating high income. Canpep 91 was launched in 1991. It is a growth-oriented tax savings scheme. This scheme offers twin benefits to investors like savings in tax and capital appreciation. Table 4.07 of Chapter IV gives the per unit performance of Can 80CC 90, Canstar and Canpep 1991 schemes.

The other schemes launched by Canbank Mutual Fund are Canpremium, Canbonus and Cantriple+. The face value of Canpremium is Rs. 1 lac per unit and the scheme was designed for a period of 60 months. Canbonus scheme was launched in 1991 as a growth scheme as a preferential offer to new and existing investors. Cantriple+ scheme was launched in 1991 with the objective to cumulate the capital in such a way that at the end of the 90th month the investor will get an amount equivalent to three times of investment or more. Canpep '92 was launched in terms of equity linked savings scheme like Canpep '91. Table 4.08 in Chapter IV reveals unit-wise financial performance of canbonus, canpremium, cantriple and canpep schemes.

In the first quarter of the year 1994, the Canbank Mutual Fund introduced two schemes viz., Canpep'94 and Canexpo. Canpep '94 is an equity linked savings scheme. Canexpo the first ever industries fund was introduced and this fund will invest mainly in export-oriented units. This scheme is open for Indian nationals, Non-residential Indians, Corporate bodies etc.,

The revenue operations both of income and expenses as well as assets and liabilities have been analysed in the fifth chapter. The revenue
account of mutual fund shows income source which has been categorised as dividend, interest, profit on sale/redemption of investments, profit on inter-scheme transfers and other incomes. Canstock and Canpremium occupied first and second position in earning income. Scheme-wise income details are arranged in Table 5.1. The items of expenses and losses of Canbank Mutual Fund in its revenue account reveals various types of expenses such as; management, trusteeship, administrative and other operating expenses, provision for doubtful income, provision for doubtful deposits or loss on inter-scheme transfer/scale of investments. Scheme-wise expenses and losses are arranged in Table 5.2 of Chapter V. The capital structure and liabilities of various schemes of Canbank Mutual Fund are indicated in Table 5.3 in Chapter V. The unit capital alone accounts nearly 78 p.c and reserves 10.28 p.c. provision for loss/depreciation in value of investments 4.62 p.c. Only 3.57 p.c. of total represent current liabilities and provisions.