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CHAPTER 7

SUMMARY, FINDINGS AND SUGGESTIONS

The concept of mutual funds was conceived to pool the resources of small investors and deploy the same in the capital markets to help industrialization through participation in the equity and debt instruments. This study is aimed to examine the past trends and future projections besides analyzing risk and return for select schemes of mutual funds in private and public sector in India.

7.0. Plan of the Study:

Chapter 1: The first chapter deals with introduction, origin and growth of mutual funds in India during 1963-2009.

Chapter 2: This chapter is divided into two sections: 1) Objectives, Hypothesis and Methodology of the study and 2) Review of literature relating to performance evaluation of mutual funds.

Chapter 3: This chapter deals with patterns and projections of resource mobilizations made by private sector, public sector (other than UTI), and Unit Trust of India. This chapter also focuses on factors influencing resource mobilization using regression models for these sectors.

Chapter 4: This is intended to examine the trends in investment pattern and investors composition analysis of mutual funds in India and under private and public sector.

Chapter 5: This chapter focuses on “Performance evaluation of Mutual Funds in India”. This chapter is divided into two sections. Section- A focuses on theoretical foundations and Section-B focuses on comparative study of public sector vs private sector mutual funds.

Chapter 6: This chapter is allotted for empirical survey results of investors attitude towards mutual funds in India.

Chapter 7: Summary of the study is presented in this chapter.
SUMMARY OF FINDINGS AND FINDINGS:

7.1. RESOURCE MOBILISATION TRENDS AND PROJECTIONS:

In this study it was found that there was a declining impact of Unit Trust of India in mutual fund industry during 1964-2009. UTI mutual fund has only 8 per cent share in the Indian mutual fund industry by the end of 2009, where as it has played a monopoly role with 100 per cent market share in 1964. Trends in gross resource mobilization, redemption including repurchases among private sector and public sector during post liberalization period 1993-2009 were also examined. To find the impact of factors influencing gross resource mobilization by various sectors, three regression models are derived.

We have selected eight independent variables (viz., Turnover ratio, Volatility of BSE Sensex, BSE 100 index, household saving percent in insurance funds, FII Investments and household savings in mutual funds other than UTI, Household savings in Shares and debentures and Bank Deposits), which can substantially influence the dependent variable i.e., ‘Gross Resource Mobilization’ by private sector, public sector (other than UTI) and Unit Trust of India. Different regression results are considered for testing significance, for instance equations for X1; X1 and X2; X1 to X3; X1 to X4; X1 to X5; X1 to X6; X1 to X7 and X2 to X8; respectively. Finally the equation having highest $R^2$ value is considered as best model. This exercise is conducted separately for three models.
7.1.a. Regression Equations (after considering independent variables x2 to x8):

- **Private Sector:**
  \[ Y = -8032541 - 495823X2 + 782682.8X3 + 31.53X4 + 349789.8X5 + 29970X6 + 130372X7 + 40050X8 \]

- **Public Sector (Other than UTI):**
  \[ Y = -758627 + 45881X2 - 303.64X3 + 2.58X4 + 28538.6X5 + 1740X6 + 14494X7 + 5249X8 \]

- **Unit Trust of India**
  \[ Y = -767140 - 136459X2 + 139160X3 + 2.74X4 + 31891X5 + 3478X6 + 13907X7 + 4579X8 \]

7.1.b. Impact of Independent Variables:

- **X2: Volatility Index of BSE Sensex:** The coefficient values are indicating that the volatility in the BSE Sensex will positively influence resource mobilization by private sector and Unit Trust of India. It will highly influence private sector than UTI. However it will have a negative impact on Public sector mutual funds (other than UTI).

- **X3: Volatility Index Value of BSE 100:** The coefficient values are indicating the quite opposite impact as BSE sensex, that the volatility in the BSE 100 Index will negatively influence resource mobilization by private sector and Unit Trust of India. It will highly reduce resource mobilization in private sector than UTI. However it will have a positive impact on Public sector mutual funds (other than UTI). It can be observed that the calculated value of ‘t’ is 0.17, which is small and insignificant.
• **X4: FII Investment (Rs. Crores):** The coefficient values indicate that FII will have direct and positive impact on the gross resource mobilization in the private sector as well as public sector including UTI. However, FII investments are mostly influencing resource mobilization in Private sector.

• **X5: House hold savings percent of insurance funds:** The coefficient values indicate that household savings in insurance funds also leads to increase in the gross resource mobilization in the private sector as well as public sector including UTI. However, first rank can be given to private sector, second rank to UTI and last rank to public sector (other than UTI).

• **X6: House hold savings per cent in public sector other than UTI mutual funds:** The coefficient values indicate that household savings in public sector (other than UTI) leads to increase in the gross resource mobilization in the private sector as well as public sector including UTI. However, first rank can be given to private sector, second rank to UTI and last rank to public sector (other than UTI). It can be observed that the calculated value of ‘t’ is 0.22, which is small and insignificant.

• **X7: Household savings in shares and debentures:** The coefficient values indicate that household savings in shares and debentures are also having linear relation to the dependent variable i.e. the gross resource mobilization in the private sector as well as public sector including UTI. However, first rank can be given to private sector, second rank to UTI and last rank to public sector (other than UTI).

• **X8: Household savings in bank deposits:** The same trend is observed in case of household savings in bank deposits and gross resource mobilization. Thus it can be stated that changes in household savings in bank deposits are positively influencing the gross resource mobilization. It can be observed that calculated value of ‘t’ is 0.33, which is one of the smallest values and insignificant.
7.2. ANALYSIS OF INVESTMENT PATTERN AND INVESTORS COMPOSITION:

The changes in investment pattern during the post-liberalization period i.e. 1993-2009 are also examined in this study. The data indicates that unexpected growth in bank deposits in case of private sector as well as public sector by mutual fund investment companies during the last 16 years. In case of investment relating to ‘debentures’ also declined from 26.51 per cent in 1993-94, to 17.40 per cent by the year 2008-09. Similarly investment in government treasury bills also declined marginally.

- **Investments in 2004-05:** During this year the total number of mutual fund schemes available for investment is 450. The Income and Equity funds together account for almost 76% of the total number of schemes, but they account for only 25% of the total investment. The remaining six schemes account for 25% of the total number of schemes but they account for a little over 75% of the investment.

- **Investments in 2008-09:** During this year the total number of mutual fund schemes available for investment is 832. The Income and Equity funds together account for almost 75% of the total number of schemes, but they account for only 25% of the total investment. The remaining six schemes account for 25% of the total number of schemes but they account for a little over 75% of the investment. The most striking aspect is that the Liquid/Money Market Funds account for only 7% of the total number of schemes but they account for almost 75% of the total investment.

- **UNIT HOLDING PATTERN:** As on March 31, 2002 there are a total number of 3.08 crore investors accounts (it is likely that there may be more than one folio of an investor which might have been counted more than once and actual number of investors would be less) holding units of Rs.100594 crore. As on March 31, 2009 there are a total number of 4.76 crore investors accounts (it is likely that
there may be more than one folio of an investor which might have been counted
more than once and actual number of investors would be less) holding units of
Rs. 419,321.66 crore. Out of this total number of investors accounts, 4.61 crore
are individual investors accounts, accounting for 96.75% of the total number of
investors accounts and contribute Rs. 1,55,283.21 crore which is 37.03% of the
total net assets.

- **Scheme-wise Analysis of Investor’s Composition**
  - **Liquid/Money Market Funds:** It shows that the Corporates are the major
    investors (73.65%) followed by Banks/FIs (16.15%) and High Networth
    Individuals (7.86%). It has been observed that these funds are not appealing
to Foreign Institutional Investors (FIIs) and Retail investors.
  - **Gilt Funds (Funds investing in Government securities):** The data focuses
    that the corporates are the major investors (62.19%) followed by HNIs
    (32.12%). Gilt funds are not appealing to other investor groups including FIIs
    who have no investment in these funds.
  - **Debt oriented Funds:** Data indicates that the corporates are the major
    investors (64.75%) followed by HNIs (28.57%) and Retail investors (4.09%).
  - **Equity oriented Funds:** The data reveals that the retail investors are the
    major investors (64.14%) followed by HNIs (20.63%) and Corporates
    (12.07%).
  - **Balanced Funds:** The data shows that the retail investors are the major
    investors (68.21%) followed by HNIs (22.23%) and Corporates (9.09%).
  - **Gold Exchange Traded Funds:** The data reveals that the corporates are the
    major investors (49.14%) followed by HNIs (24.44%) and Retail investors
    (23.43%).
• **Exchange Traded Funds (other than Gold):** It was observed that the HNIs (31.89%) and Corporates (31.22%) are the major investors followed by FIIs (27.25%).

• **Fund of Funds (Investing Overseas):** HNIs (46.38%) and Retail investors (33.12%) are the major investors followed by Corporates (19.07%).

• **Testing of significance:** The results were tested for statistical significance using Student’s paired test (t-Test) values are presented in Table 4.20 for investment patterns as on 31st March 2009. All the results are statistically not significant and hence the Null Hypotheses are not rejected.

### 7.3. PERFORMANCE OF PUBLIC VS PRIVATE SECTOR SCHEMES:

The important risk measures considered for the study are Sharpe, Treynor, Jensen, R Square, Beta, Standard deviation and CAGR. They are further classified into three categories: i) low performing, ii) medium performing and iii) better performing. The following are the major findings in this study of 311 schemes of which 260 schemes in private sector, 35 schemes in public sector (other than UTI) and 16 schemes in UTI.

• **Sharpe Analysis:** 114 schemes are low performing in private sector. In case of public sector 17 schemes and in case of Unit Trust of India, 10 schemes were shown poor performance, because their Sharpe measure is less than zero. It is interesting to note that, Liquid Fund and Floating Rate Income Schemes in all the three sectors have shown better performance than other type of funds. Low performance have been observed in case of Equity Schemes and Monthly Income schemes offered by all the three sectors.
• **Treynor Analysis:** 111 schemes are low performing in private sector. In case of public sector 14 schemes and in case of Unit Trust of India, 10 schemes were shown poor performance, because their Treynor measure is less than zero. It is interesting to note that, Floating Rate Income Schemes, Gilt-Long term, and Short Term, in all the three sectors have shown better performance than other type of funds. Low performance have been observed in case of Balanced Schemes and Equity schemes offered by all the three sectors.

• **Jensen Analysis:** 110 schemes are low performing in private sector. In case of public sector 20 schemes and in case of Unit Trust of India, 7 schemes were shown better performance, because their Treynor measure is less than zero. It is interesting to note that, Income Fund and Liquid Fund schemes relating to all the three sectors have shown medium performance than other type of funds. Better performance has been observed in case of Floating Rate Income schemes and Equity schemes offered by all the three sectors.

• **CAGR Analysis:** 52 schemes are having negative CAGR in private sector. In case of public sector 6 schemes and in case of Unit Trust of India, 7 schemes were shown negative CAGR for 3 year period. It is observed that the various schemes of ‘Floating Rate Income schemes’ ‘Gilt Short-term’, ‘Gilt Long term’ and ‘Liquid Funds’ have shown constant returns in all the three sectors. A positive CAGR for 3 year period is observed Better performance has been observed in case of Floating Rate Income schemes and Equity schemes offered by all the three sectors.

• **COREELATION OF A FUND MOVEMENT ($R^2$):** 110 schemes are have shown a higher value of $R^2$ (> 0.61) in private sector. In case of public sector 12 schemes and in case of Unit Trust of India, 10 schemes were shown a high risk measure. Medium risk was observed for 55 schemes in private sector, 4 schemes in public sector, and 4 schemes in Unit Trust of India.
sector (other than UTI) and 4 schemes of UTI. It is observed that the various schemes of ‘Equity Schemes’, “Balanced Schemes” and “Month Income Plan” in the private sector have shown higher rate of risk. A less rate of risk is observed in case of 19 schemes out of 35 schemes observed in the public sector (other than UTI).

**STANDARD DEVIATION-ANALYSIS:**

117 schemes are have shown a lower value of ‘sd’ (< 0.50) in private sector. In case of public sector 16 schemes and in case of Unit Trust of India, one scheme is having lowest rate of standard deviation. Medium risk was observed for 53 schemes in private sector, 8 schemes in public sector (other than UTI) and 2 schemes of UTI. It is observed that the various schemes of ‘Equity Schemes’, “Balanced Schemes” and “Month Income Plan” in the private sector have shown higher rate of risk.

**BETA ANALYSIS:** 223 schemes are have shown a lower value of ‘BETA’ (< 1) in private sector. In case of public sector 29 schemes and in case of Unit Trust of India, all the 16 schemes have shown lowest beta value. It is observed that the 13 schemes of ‘Income Fund’, 9 schemes of “Monthly Income Schemes” in the private sector have shown higher rate of risk (with beta >1). A higher value of beta indicates higher risk of the scheme and vice-versa. The results are indicating that only a few schemes are having higher risk rate i.e. beta > 1. For instance, 37 schemes in private sector and 6 schemes in public sector (other than UTI) have shown high risk rate with beta >1.
7.4. INVESTORS’ BEHAVIOUR ANALYSIS:

The empirical data results will be helpful for mutual fund organizers to decide the nature and type of schemes to be offered to the prospective investors. The survey is also useful to examine gender disparity with respect to investment behaviour. The survey was conducted during the four months period from April, 2008 to July, 2008. Hence, we can say that the results are only representative but not exhaustive. The following are important findings of the survey:

- 51 per cent of the respondents opined that comprehensive information about mutual funds is not available. Only 14 per cent of the respondents are agreeing that information is easily available. 22 per cent of the respondents opined they are neutral to this statement.

- The results indicate that the statement ‘easy availability of information’ is rejected. This is significant for the respondents of males and females.

- Results indicate that most of the investors (i.e., 55 per cent) are not aware of technical aspects involved in mutual funds. Only 22 per cent of investors opined that it is very easy to deal in ‘mutual funds’ The statement ‘dealing in mutual funds is easy to understand’ is rejected.

- 28 per cent of the respondents are having speculative attitude towards their investment. 20 per cent of investors would like to have a long-term investment.

- Only 9 per cent of females and 16 per cent of males are interested to invest in mutual funds for post-retirement benefits, which are in the income group ‘up to Rs.20,000. There is no relation between objective of investment and level of income.
51 per cent of male and 36 per cent of female respondents in the income group ‘up to Rs.20000’ had shown interest to withdraw funds within one year.

34 per cent of male, 44 per cent of female respondents belonging to higher income group above ‘Rs.35,000’ had shown interest to retain the funds for more than 5 years. There is no significant relation in the opinion of male and female respondents.

36 per cent of the respondents opined that they can reach their goal after 10 years only. However, 45 per cent of female respondents (in the income group of Rs.20001 to Rs.35000), have opined that they can reach their financial goal within 3 years. There is significant relation between level of income and expected target period to reach the goal.

Only 36 per cent of investors are satisfied with the returns on their investment. 29 per cent (both strongly disagree and disagree) of the respondents are neutral and 35 per cent (both agree and strongly agree) of the respondents are opined that return on mutual funds is very less. The statement ‘Less returns from investments of mutual funds’ is rejected because calculated values are significant for rows and columns.

Almost all the respondents in the income group of Rs.20000-35000, felt that it is better to invest in equity funds. While 87 percent in the income group of Rs.5000-20000, felt that it is better invest in Debt funds.

However, 89 percent of the respondents among the higher income group ‘Above 35,000’, felt that ‘play safe’ strategy is better for investing in mutual funds.

41 per cent (both ‘agree’ and ‘strongly agree’ responses) of the respondents opined that ‘mutual funds investment is a better choice of investment’. 39 per cent (both strongly disagree and disagree) of the respondents opined that they are not feeling that
mutual fund investment is a better alternative of investment. The result indicates that the private sector mutual fund investment is a better alternative.

- 42 per cent (both ‘agree’ and ‘strongly agree’ responses) of the respondents opined that ‘public sector(other than UTI)’ is a better choice of investment’. 36 per cent (both strongly disagree and disagree) of the respondents opined that they are not feeling that these are better alternative of investment.

- The result indicates that the present investment is not a better alternative. Because the results obtained above are significant. The hypothesis ‘Public Sector(Other than UTI) is a better choice’ is rejected.

- The results indicate a positive attitude of the respondents. Only 27 per cent (both ‘agree’ and ‘strongly agree’ responses) of the respondents opined that UTIMF is a better choice of investment’. 50 per cent (both strongly disagree and disagree) of the respondents opined that they are not feeling that these are better alternative of investment.

- The result indicates that the present investment is not a better alternative. Because the results obtained above are significant. The hypothesis ‘UTI MF is a better choice’ is rejected.

- The survey also found that ‘self-motivation’ towards decision making for investing in mutual funds is dominating all other motivating factors like parents, spouse, children, friends, agents and advertisement through media.

Last, but not the least, Investor’s choice towards mutual funds is given below:

1. First choice is private sector mutual funds
2. Second choice is public sector (other than UTI) which includes bank sponsored and FI sponsored mutual funds.
3. Last choice is given for Unit Trust of India mutual funds.

7.5. SUGGESTIONS

The following are the important suggestions endorsed for 1) Government 2) AMFI 3) SEBI 4) Agents 5) Investors and 6) Corporate Investors.

7.5.1. Suggestions to Government:

a. The results indicate that the market share of public sector drastically declined to 16 per cent, by the year 2007-08. Hence it is suggested that the Government of India should take necessary initiatives for the promotion of mutual fund investment.

b. FIIIs have shown more interest in private mutual funds. Hence, it is suggested that the government should take necessary steps for FII investment in public sector mutual funds.

c. Regression results indicate that the stock market fluctuations are leading to decline in the resource mobilization in public sector mutual funds.

7.5.2. Suggestions to AMFI:

Association of Mutual Funds in India (AMFI) plays a vital role in formulating guidelines and regulating mutual funds. It also takes care of investor education and protection programmes. However, the investors’ survey indicates that there is a lot of scope for improvement in the performance of AMFI.

a. It is suggested that AMFI has to conduct more awareness programmes for investing in mutual funds.
b. An important observation is that the awareness programmes are conducted in ‘English Language’ which is out of reach for most of the investors. Thus it is suggested that AMFI should publish its brochure and information booklets in ‘regional languages’

c. In addition to above, AMFI should conduct its awareness programmes in all educational institutes (or) at least at degree level and PG level classes/courses, because they are prospective investors.

d. Last, but not the least, AMFI should strengthen investors’ protection programmes.

7.5.3. Suggestions to SEBI:

SEBI has the regulatory power over the entire mutual fund industry in India. The regression results indicate that the volatility index of BSE sensex and BSE 100 Index, have significant impact on the ‘Gross resource mobilization’ by mutual funds in private and public sectors. However, the volatility Index of BSE senesx is positively influencing resources by private sector and UTI and negatively influencing ‘Public sector (other than UTI). However volatility index of BSE 100 Index have opposite influence on ‘gross resource mobilization’ by various sectors.

a. SEBI should regulate the fluctuations in the stock market.

b. SEBI should take necessary steps to publish the Sharpe, Teynor, Jensen values of all the schemes on monthly basis. This helps the investors in understanding ‘risk-factor’ of a particular scheme.

c. SEBI has to take necessary regulatory/control measures if a particular scheme’s performance is consistently poor for more than 3 years in case of long-run schemes and one year in case of short-term schemes. If not, the investors will be losing their hard earned money through these under-performing schemes.
7.5.4. Agents:

a. Agents must have a clear understanding of all technical aspects involved in mutual funds.

b. Agents should provide proper information to the investors and they must be able to explain the ‘risk’ factors involved in investing in mutual funds.

c. Agents must develop patience to understand the investors’ problems and needs.

d. Agents must check that the application forms properly filled by the investors and check for necessary supporting documents.

7.5.5. Investors:

a. Investors should aware that there is more ‘risk’ involved in investing in ‘equity schemes’ than that of other schemes. They should have a diversified portfolio to reduce risk.

b. Investors should go through all the details of proposed investment/scheme viz., offer letter, key information and financial details etc.

7.5.6. Corporate Investors: The data reveals that corporate investors are mostly interested in ‘Debt Oriented Funds’. It is suggested that they should diversify their investments in various other schemes also.
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