CHAPTER I

INTRODUCTION

Investment is a commitment of funds in real assets or financial assets. Investment involves risk and gain. In the present dynamic global environment, exploring investment avenues are of great relevance. Investment skills developed over a period of time are considerably influenced by experience and spadework carried out to arrive at conclusions. The success of an investment activity depends on the knowledge and ability of investors to invest, the right amount, in the right type of investment, at the right time.

Real assets, being tangible material things, are less liquid than financial assets. Compared to financial assets, returns on real assets are more difficult to measure accurately due to the absence of broad, ready, and active market. Financial assets available to individual investors are manifold, having different concomitant benefits to choose from. All financial investments are risky but the degree of risk and return differ from each other. An investor has to use his discretion, which is an art acquired by learning and practical experience. The knowledge of financial investment and the art of its management are the basic requirements for a successful investor. The pre-requisite for a successful
investment also lies in its liquidity, apart from risk and return on investment. Liquidity through easy marketability of investments demands the existence of a well-organised Government regulated financial system.

Financial system comprises of financial institutions, services, markets and instruments, which are closely related and work in conjunction with each other. The litany of new financial institutions and instruments developed in recent years, with the ostensible objective of modernizing the financial sector, is impressively long; Mutual Funds, Discount and Finance House of India, Money Market Mutual Funds, Certificate of Deposit, Commercial Paper, Factoring and Treasury Bills. Financial services through the network of elements (institutions, markets and instruments) serve the needs of individuals, institutions and companies. It is through these elements, the functioning of the financial system is facilitated.

Financial services sector is the nucleus of the growth model designed for the economic development of a country. The financial services sector plays a crucial role in the process of economic development. Financial services based on its nature and relevance is regarded as the fourth element of the financial system. An orderly
functioning of the financial system depends on the range and the quality of financial services.

Financial services comprise of various functions and services that are provided by financial institutions. Financial services are offered by both asset management companies, which include leasing companies, mutual funds, merchant bankers, issue managers, portfolio managers and liability management companies comprising of bill discounting houses and acceptance houses. Financial services lend a big hand in raising the required funds and ensure its efficient deployment.

Over the years, the financial services in India have undergone revolutionary changes and had become more sophisticated, in response to the varied needs of the economy. The process of financial sector reforms, economic liberalization and globalization of Indian Capital Market had generated and augmented the interest of the investors in equity. But, due to inadequate knowledge of the capital market and lack of professional expertise, the common investors are still hesitant to invest their hard earned money in the corporate securities. The advent of mutual funds has helped in garnering the investible funds of this category of investors in a significant way. As professional experts manage mutual funds, investment in them relieves investors from the emotional stress involved in buying and selling of securities.
WORLD PANORAMA

At the very dawn of commercial history, Egyptians and Phoenicians were selling shares in vessels and caravans in order to spread the risk of these perilous ventures. The idea of pooling money dates back to 1822, when groups of people in Belgium established a company to finance investments in national industries under the name of ‘Societe Generale de Belgique’ incorporating the concept of risk sharing. The institution acquired securities from a wide range of companies and practiced the concept of mutual fund for risk diversification. The word ‘mutual’ denoted something to be done collectively by a group of people with the common objective of having mutual faith and understanding among themselves. ‘Fund’ was used in monetary terms, to collect some money from the members for a common objective like earning profits with joint efforts.

In 1822, King William I of Netherlands came up with a close-end fund. In 1860, this phenomenon spread to England. In 1868, the Foreign and Colonial Government Trust of London was formed, which was the real pioneer to spread risk of investors over a large number of securities and was considered as the Mecca of modern mutual funds. In 1873, Robert Fleming, established ‘The Scottish American Trust’. Although, many nineteenth century British investment trusts invested in American
stocks, the first American investment trust was the close-end Boston Personal Property Trust created in 1893. In U.K., the accepting houses emerged as a major force in the business of investment management.

Mutual fund in America is basically the concept of Unit Trust of Britain. In U.S.A. mutual funds have come a long way since March 21, 1924 when the first fund, ‘Massachusetts Investment Trust’ was organised for the professors of Harvard University and offered shares to the public in 1926. But it was Sherman L Adams, the father of modern mutual fund, along with Charles Learoyd and Ashton Carr established a modest portfolio of 45 common stocks worth USD 50,000*. The crash of stock markets in 1929 led to the demise of many close-end funds. By 1930’s, 920 mutual funds were formed in U.S.A. and most of them were close end. In Canada, the Canadian Investment Fund was the first to be set up in 1932 followed by Commonwealth International Corporation Limited and Corporate Investors Limited.

The enactment of Securities Act of 1933, Investment Company Act of 1940 and Investment Advisors Act of 1940, led to the revival of mutual funds in U.S.A. The value of securities owned by U.S.A. funds

was USD 2.5 billion in 1950. So, the accepting houses started rapidly to build up their skills and knowledge to deal with enlarged capital.

Since the World War-II, there had been a phenomenal growth in the mutual fund industry throughout the world. Mutual funds in Japan are known as investment trusts, but they differ from investment trusts of U.K. and mutual funds of U.S.A. While the growth of the mutual fund industry in U.S.A. was a spontaneous response to market developments, the Japanese investment trusts were established to meet the changing requirement of government policy and as such the establishment of investment trusts was a well thought-out action rather than a spontaneous response to economic market developments. The Mutual fund industry in Japan dates back to 1937. But an investment trust modeled on the unit trusts of U.K. was established only in 1941. Investment trusts in Japan were set up under the Securities Investment Law of 1951 with the three important characteristics namely contractual nature, open-end and flexibility.

Prior to 1960s, the U.S.A. provident fund professional investment authorities were abhorrent of investing in equities as they are of in India today. In 1980s, because of high mutual fund returns, employees (through IRA accounts) en masse shifted to equity option for their retirement fund. In stark contrast, Japan saw a 60 percent decline in
Nikkei from 40,000 to 16,000 as a consequence of Japanese retail investors’ aversion to equities. With the increasing inflation and interest rates during 1990’s, the individual and institutional investors became extremely sensitive to the true value of money. The shift started towards non-intermediation, resulting in the growth of mutual funds. In U.S.A., the number of mutual funds grew from 70 in 1940 to more than 3000 by the end of 1989. The mutual fund industry’s assets in U.S.A. increased from USD 44 billion in 1980 to USD 1 trillion in 1989. Subsequently hundreds of mutual funds, both open-end and close-end were launched and the concept of mutual funds spread over to many countries like Europe, the Far East, Latin America and Canada.

Retail investments in US mutual funds were low because of the flatness of the market since 1966 till 1982. The value of securities owned by U.S.A. fund houses increased from USD 60 billion in 1960 to more than USD 100 billion in 1983. Since the beginning of 1990, investors have poured over half a trillion dollars into stock and bond mutual funds. In 1990, U.S.A. mutual fund industry constituted of 2,362 mutual funds with 39,614 thousands of investors holding USD 570.8 billions of assets. American investors embraced mutual funds with a fervor that even the most optimistic fund executives could not have predicted. By the end of 1994 in U.S.A., mutual funds had become the second largest financial
institution after the banking sector holding assets worth USD 2161.4 billion. In 1995, U.K. equity income category had the highest number of account holders (11,86,365)*.

The popularity of mutual funds among retail investors was further driven by changes in retirement fund investment norms where employees at large were allowed to choose asset allocation between equities and debt. In December 1995, the European community issued a directive to coordinate laws, regulations and the administrative provisions relating to mutual funds and was popularly known as Undertakings for Collective Investment in Transferable Securities. The directive established a common regulatory scheme for investment policies, public disclosure, structure of organisation, and regulations to encourage the growth of mutual funds all over the globe, which led the momentum in many countries in the Asia-Pacific region with a big bang, including Hong Kong, Thailand, Singapore and Korea.

By the end of 1996, of the U.S.A mutual fund industry’s (USD 3,539 trillion) assets, households owned USD 2.626 trillion (74.2 percent) while the remaining USD 9123 billion (25.8 percent) was held by banks, trustees, and other institutional investors. In 1996, U.S.A. households

purchased USD 543 billion financial assets compared to USD 499.6 billion in 1995 with a significant proportion assigned towards long-term mutual funds.

The mutual fund in its present structure is a Twentieth Century phenomenon. Globally there were thousands of funds offering varied schemes with different investment objectives and options. Mutual funds emerged as the most important investment vehicle for household investments in U.S.A. with the basic objective of allowing small investors to partake in the capital market by investing in a wide portfolio of stocks so as to reduce risk. At the end of first quarter of 2003, the assets of worldwide mutual funds stood at USD 11.2 trillion while the assets of equity funds contributed for 35 percent as Exhibited in 1.1.

Exhibit 1.1
Composition of Worldwide Mutual Fund Assets

- 35%
- 29%
- 24%
- 8%
- 4%

Balanced Fund
Bond Fund
Money Market Fund
Equity Fund
Others
The number of worldwide mutual funds stood at 53,150 with equity funds accounting for 42 percent as shown in the Exhibit 1.2.

Exhibit 1.2
Worldwide Number of Mutual Funds

- Balanced Fund: 6%
- Bond Fund: 21%
- Money Market Fund: 22%
- Equity Fund: 42%
- Others: 9%


As on March 2004, there were 8,212 mutual funds in U.S.A. totaling around USD 7.6 trillion where one out of every three investor held a mutual fund investment. In U.S.A., mutual funds outnumbered the securities on the New York Stock Exchange (NYSE). Mutual funds thus became a global financial culture, collectively managing more money compared to banks having a profound impact on financial markets.

INDIAN PANORAMA

The Indian capital market having a long history spanning over a century had passed through the most radical phase. The Indian Capital
Market witnessed unprecedented developments and innovations during the eighties and nineties. One such development was the increased role the mutual fund industry played in financial intermediation. Mutual fund, as an institutional device, pools investor’s funds for investment in the capital market under the direction of an investment manager. Mutual funds bridge the gap between the supply and demand for funds in the financial market.

In India, the need for the establishment of mutual funds was felt in 1931 and the concept of mutual fund was coined in 1964, by the far-sighted vision of Sri T.T.Krishnamachari, the then finance minister. Taking into consideration the recommendations of the Central Banking Enquiry Committee and Shroff Committee, the Central Government established Unit Trust of India in 1964 through an Act of Parliament, to operate as a financial institution as well as an investment trust by way of launching UTI Unit Scheme 64. The overwhelming response and the vast popularity of UTI Unit Scheme 64 and the Mastershare Scheme in 1986 attracted the attention of banks and other financial institutions to this industry and paved the way for the entry of public sector banks. By the end of 1986-87, UTI had launched 20 schemes mobilizing funds amounting to Rs.4,56,500 crores. Since then, the mutual funds have
established themselves as an alternative investment vehicle and are now an integral part of the Indian financial system.

In 1987, the public sector banks and insurance companies were permitted to set up mutual funds. Accordingly, the LIC and GIC and six public sector banks initiated the setting up of mutual funds, bringing out a new era in the mutual fund industry. The financial sector reforms were introduced in India as an integral part of the economic reforms in the early 1990s with the principal objective of removing structural deficiencies and improving the growth rate of financial markets. Mutual fund reforms attempted for the creation of a competitive environment by allowing private sector participation. Since 1991, several mutual funds were set up by private and joint sectors. Many private mutual funds opted for foreign collaboration due to the technical expertise of their counterparts and past track record of success. Based on the recommendations of the Dave panel report in 1991, the Government of India issued new guidelines for setting up mutual funds in public sector, private sector as well as in joint sector on February 14, 1992. On February 19, 1993, the first batch of 12 private sector mutual funds was given “in-principle approval” by the Securities Exchange Board of India (SEBI). The erstwhile Kothari Pioneer Mutual fund (now merged with
Franklin Templeton) was the first fund established in July 1993 in the private sector.

The SEBI formulated the Mutual Fund Regulations in 1993, establishing a comprehensive regulatory framework for the first time, while the Indian Mutual Fund Industry (IMFI) had already passed through two phases of developments. The first phase was between 1964 and 1987 when the UTI was the only player, managing total assets of Rs.4,564 crores by the end of March 1987. In 1986, the first growth scheme, Mastershare was launched by UTI and was the first to be listed on stock exchange. The second phase was between 1987 and 1993 during which period eight funds were established (six by banks and one each by LIC and GIC). SBI Mutual Fund was the first non UTI mutual fund established in June 1987, followed by Canbank Mutual Fund in December 1987. SBI Mutual Fund launched its first scheme namely, Regular Income Scheme (RIS) 1987 with 5½ years of duration assuring 12 percent return. Canbank Mutual Fund launched its first scheme, Canshare in December 1987 mopping up Rs.4 crores. The total assets managed by the industry shot upto Rs.47,004 crores by the end of March 1993.

The third phase began with the entry of private and foreign sector mutual funds in 1993 increasing the share of private players. The
industry evolved self-regulation to promote confidence among investors under the aegis of the Association of Mutual Funds of India (AMFI) incorporated on August 22, 1995 as a non-profit organisation. With the objective of ensuring healthy growth of mutual funds, the SEBI (Mutual Funds) Regulations 1993 were substituted by a more comprehensive and revised regulations in 1996 bringing out standards in Net Assets Value (NAV) calculation, accounting practices, exemption from listing of schemes, remuneration to Asset Management Company’s (AMC), fixation of a band of seven percent between purchase and repurchase prices. Since October 1999, Money Market Mutual Funds was brought under the supervisory control of SEBI on par with liquid funds. The acquisition of Pioneer ITI by Templeton in August 2000 was one of the biggest mergers in the IMFI. At the end of January 2003, there were 33 mutual funds managing total assets of Rs.1,21,805 crores after witnessing several mergers and acquisitions. The total Assets Under Management (AUM) of the mutual fund houses in the country crossed Rs.One trillion in June 2003, a decade after the entry of private sector in mutual fund business*.

The fourth phase had its beginning from February 2003, following the repeal of the Unit Trust of India Act 1964, bifurcating UTI into two

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separate entities, namely UTI Specified Undertaking regulated by Government of India and UTI Mutual Fund Ltd regulated by SEBI. With mergers taking place among mutual funds, the mutual fund industry entered its fourth phase of consolidation and growth. By the end of September 2004, there were 29 funds, managing assets of Rs.1,53,108 crores under 421 schemes. The industry touched Rs.Two trillion in September 2005. The growth rate of the industry scaled up, as the next milestone of Rs.Three trillion was reached in August 2006\(^*\).

In India, mutual funds as vehicles of mobilization and channels of funds towards the securities market, as exposed in the Table 1.1 had shown improvement in total net assets from Rs.25 crores, by the end of 1964-65 to Rs.47,734 crores as on March 31, 1993, and touched Rs.2,31,862 crores as on March 31, 2006 as shown in the Exhibit 1.3. The industry is presently holding total net assets worth Rs.3,26,338 crores as on March 31, 2007 through 687 schemes.

Mutual funds are set to bag a huge chunk of nearly Rs.3,05,000 crores of cash reserves from Government’s new pension fund and public sector companies\(^!\). The mutual fund industry in India had grown several

\* Op.cit

TABLE 1.1
Mutual Fund Schemes And Assets Under Management Of
Indian Mutual Fund Industry

<table>
<thead>
<tr>
<th>Year</th>
<th>Number Of Schemes in Operation</th>
<th>Assets Under Management (Rs. in Crores)</th>
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<td></td>
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<td>2005-06</td>
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*Source: Compiled from AMFI records and UTI Institute of Capital Markets.*
folds in terms of number of schemes, funds raised and investor base over the years. With the growing competition in the market, a regular scientific appraisal of mutual funds is essential for the investors as well as the fund managers.

STATEMENT OF THE PROBLEM

India has become the world’s fourth largest economy besides U.S.A., China, and Japan. Although the Indian capital market witnessed some significant changes during the eighties, both the primary and the secondary segments continued to suffer from some serious deficiencies. Many unhealthy practices prevailed in the primary market to attract retail investors. High pricing of new issues, difficulties in analyzing the
prospects of a company, under pricing of shares in the market after listing have discouraged and aroused hesitation among many investors to enter into the stock market. The secondary market had become highly volatile and technical for small investors.

Markets for equity shares, real estate, derivatives and other assets have become highly dynamic. Unprecedented global and national events have brought in substantial changes in the securities market. Capital market, being the major supplier of corporate finance, ought to grow in a healthy manner to pump in more and more money. Investment in corporate securities demands investors to understand the complexities of market, to keep track of market movements and to make scientific investment decisions. The growing popularity of mutual funds prove that it is an ideal investment vehicle for small investors having limited information and knowledge to enter the today’s complex and modern capital market. The domestic mutual fund industry has grown by 50 percent particularly through Systematic Investment Plan (SIP) from retail participants. But, there is still a long way to go as only five percent of the households are investing in mutual fund schemes.

Liberalization of economic policies, metamorphic changes in the Indian Financial System, brought out increase in the share of household savings, changes in investment attitude and preferences. It is estimated
that, the Gross Domestic Savings for 2007-08 to 2011-12 will range from 33.4 percent to 34.7 percent, under the growth scenarios of seven to nine percent respectively, against 27.1 percent in 2004-05. Household sector’s financial savings for 2007-08 to 2011-12 is expected to be in the range of 24.1 percent to 24.4 percent, with household financial and physical savings projected in the range of 11.3 percent to 11.4 percent and 12.9 percent to 13 percent respectively*. The household savings rate is increasing and is expected to accelerate with the reinforcement of benign demographic dynamics, financial sector liberalization and increasing human development index. As the household sector’s share in financial assets is expected to go much higher in the country’s savings, it is of utmost importance to show a right path to individual investors. With an emphasis on increase in domestic savings and improvement in deployment of investible funds into the market, the need and scope for mutual fund operations have increased and is expected to increase tremendously in future. Mutual funds seek to serve those individuals, who have the inclination to invest but lack the background, expertise and sufficient resources to diversify their investment among various sectors. Even though mutual fund industry is growing, still there is a long way to

The penetration level in rural areas is not very high. The funds have grown more because of the changing demographic profile. More number of investors, particularly youth, whose disposable income has gone up, opt mutual fund to enter securities market indirectly.

Indian investors have little information to take prudent investment decisions. Such information drought is the breeding ground for misguidance and the investor is likely to be inspired by the agents to opt for a particular scheme without an in-depth analysis. The information drought regarding performance of mutual funds in India is perhaps a major cause for the Indian mutual fund industry for not attaining the status of their counterparts in U.S.A., U.K. and other developed countries. An average investor obtains investment advice and practical information from investment outlets, such as business magazines and web sites. However, the information on performance of mutual funds over a period of time is scantily available for all the investors. The present work is an attempt to fill up the lacuna and help investors to make meaningful investments. Therefore, the present study attempts to bring out the performance of mutual fund industry in India.

The mutual fund industry has gained momentum in 1993 with the entry of private sector in the wake of liberalization and globalization. Further, the industry has gained a coveted status after the implementation
of the SEBI (Mutual Funds) Regulations 1996. Of the varied category of mutual fund schemes, growth oriented mutual funds are expected to offer the advantages of diversification, market timing and selectivity. A growth scheme has to generate capital appreciation for its unit-holders by investing a substantial portion of its corpus in high growth equity shares or other equity related instruments of corporate bodies. The principal objective of growth schemes with growth options is to ensure maximum capital appreciation. Hence, the researcher intends to study growth schemes with growth options launched in the year 1993 and still in operation under the regulated environment.

This research work intends to find answers for the following questions:

- Is the Indian Mutual Fund Industry making a consistent growth?
- What factors influence the investor’s choice of a mutual fund organisation and scheme?
- What are the views of fund managers, brokers and investors on mutual fund investments?
- How is the performance of growth schemes in India?
SIGNIFICANCE OF THE STUDY

Mutual funds play a crucial role in the economic development of the respective countries. The active involvement of mutual funds in the economic development can be seen by their dominant presence in the money and capital markets world over. Their presence is, however, comparatively stronger in the economically advanced countries.

The role of the mutual funds in the form of financial intermediation, by way of resource mobilization, allocation of resources, and development of capital markets and growth of corporate sector is very conspicuous. Mutual funds also play an important role in the stock market by way of ensuring stability as supplier of large resources and through steady absorption of floating stocks. Mutual funds are well known for their benefits in the following forms to its investors:

- Professional expertise in buying and selling of units;
- Professional management of securities transactions;
- Opportunity to hold wide spectrum of securities;
- Long-term planning by fund managers;
- Safety of funds;
- Spreading of risk;
- Freedom from stress and emotional involvement;
- Automatic reinvestment of dividends and capital gains;
- Dissemination of information on the performance of the mutual funds, schemes, fund managers and,
- Investor protection.

Emergence of mutual funds in the Indian scenario is a product of constraints on the banking sector to tap the fruits of the capital market and the reluctance of the investors to take a direct plunge in complex and erratic capital market operations. Mutual fund entered the arena of this service sector in an admirable manner. The IMFI is one among the top 15 nations in terms of assets under management, which has crossed USD 100 billion. As a globally significant player the IMFI is attracting a bigger chunk of household investments and is expected to witness five to six times growth in the next seven to eight years. It is expected that the industry’s AUM may grow to USD 500-600 billion by 2015 as more global players are planning and ready to set up asset management businesses in India*.

* Joshi et. al., loc. cit.
NEED FOR THE STUDY

India’s savings rate is over 23 percent, which is one of the highest in the world. In order to accelerate economic development of our country, it is not only necessary to increase the rate of savings but also to improve the holding pattern of such savings. Savings held in the form of currency or physical assets either remain idle or kept unproductive or wasted. The Government’s steps to channel the financial savings are one of the major contributions for the rapid economic growth. The efforts towards financialisation of savings and the general reluctance of the investing populous demand the active role of mutual funds. As investment in equity shares are too risky, mutual funds have to become efficient in mobilization and allocation of resources.

The rate of conversion of household savings into investment in our country is very low. The percentage of household savings that flew into the capital market in India is as poor as 7 percent, as against 25 percent in the U.S.A. and 19 percent in Japan. As the household sectors share is much higher in the country’s savings, it is of utmost importance to show a right path for their deployment. The Indian household sector is characterized by a tendency to avoid risk as they lack the mental readiness to absorb the shocks of the volatile capital market. Hence, to
attract the surplus funds possessed by this sector into the capital market, institutional intermediaries are required.

The Indian household sectors’ investment in mutual funds made a greater beginning in the second half of the eighties. Though apparently mutual funds were intended to cater to the needs of the retail investors, there had been no sufficient response from them. Mutual funds are supposed to be the best investment vehicle for small investors and hence there is a need to find out investors perceptions and factors influencing their decisions. So, there is a dare necessity to identify how far mutual funds satisfy the twin aspirations of the investors (steady appreciation of unit value and consistent return on investment).

In the year 2001, despite a long history, assets of mutual funds in India constituted less than 5 percent of Gross Domestic Product, which is very low compared to 25 percent in Brazil, and 33 percent in Korea. This is perhaps due to the reason that the industry has not won investors confidence to attract a growing share of household’s financial savings. The IMFI is still not able to establish its worthiness among retail investors as a clearly preferred vehicle of investment for their savings even after forty years of its existence.
Today, more and more private sector mutual funds are coming into the foray. An average investor is unable to take a decision as to which bandwagon should he hop on to. As household sector’s share is much larger in the country’s savings it is utmost essential to guide their deployment in the right direction. Thus, there is a need for the present study to bring to light the performance of the mutual funds, which can help the retail investors to make valued judgment in terms of deploying their savings to the capital market through the mutual fund vehicle. With the growing institutionalization, retail investors are gradually keeping out of the primary and secondary market, and looking forward to mutual funds for their investments.

Among the mutual funds, it is expected that debt oriented schemes will continue to dominate the mutual fund industry satisfying the needs of yield, security and liquidity fairly well besides being attractive from the tax point of view. While equity oriented schemes will gain more significance in future, their popularity will depend on the conditions of the stock market and the kind of tax relief accorded to them. Hence, it is of utmost importance to study the performance of growth schemes of mutual fund industry, which is a near substitute for direct investment in shares. Analysis of risk-return of schemes and its relationship with the market will provide information on the performance of sample schemes,
fund managers ability in selecting and timing security related transactions in the present scenario of multitudinous mutual fund schemes.

**OBJECTIVES OF THE STUDY**

This research work is undertaken with the following objectives:

- To appraise the performance of mutual fund industry in India under the regulated environment.
- To study the relationship between the performance of market index with that of the growth schemes.
- To evaluate the performance of growth schemes using Sharpe, Treynor, Jensen and Eugene Fama’s measures of portfolio evaluation.
- To study the factors influencing choice of investment in mutual funds by the fund managers.
- To study the attitude of investors and brokers towards investment in mutual funds.

**HYPOTHESES**

Based on the above objectives, the following hypotheses were set:

Hypothesis 1: There is no significant difference among the performance evaluation tools as suggested by Sharpe, Treynor and Jensen.
Hypothesis 2: Index returns and scheme returns are not significantly related.

Hypothesis 3: Past performance of the scheme does not have any significant relationship with that of current performance.

Hypothesis 4: Investment decisions are not significantly influenced by the profile of investors.

Hypothesis 5: Profile of investors does not have any significant impact on the criteria of selecting mutual fund scheme.

Hypothesis 6: There is no domination of attitudinal difference between the opinions of investors towards investment in mutual funds.

Hypothesis 7: There is no significant difference between the opinions of investors, brokers and fund managers with regard to the factors influencing the choice of mutual fund and scheme.

**SCOPE OF THE STUDY**

This research work attempts to evaluate the performance of mutual fund industry in India under the regulated environment after the introduction of the SEBI (Mutual Funds) Regulations 1996 enforcing uniformity in rules and regulations. Performance evaluation is restricted to seven growth schemes launched in 1993 when the industry was opened for private sector and the industry brought under the regulated
environment for the first time by passing the SEBI (Mutual Funds) Regulations 1993. Performance in terms of NAV of growth schemes with growth option alone is studied from the angle of risk and return in comparison with the benchmark (BSE 100) index from April 1998 (a year after the introduction of comprehensive regulations) to March 2006. All the seven selected schemes were initially launched as close-end and were later converted into open-end. To identify the perception of investing public and financial intermediaries, an opinion survey of investors, brokers and fund managers of sample schemes were carried out.

OPERATIONAL DEFINITIONS AND CONCEPTS

Mutual Fund is a fund established in the form of a trust by a sponsor to raise money by the trustee through the sale of units to the public under one or more schemes for investing in securities in accordance with the SEBI regulations.

Mutual fund scheme refers to the IMFI products launched representing a category with specific objective and varied options. A scheme can belong to open or close-end type of operation. The objective of the scheme can relate to any category like income, growth, balanced, money market and equity linked savings scheme.
**Open-end Funds** are schemes of a mutual fund offering units for sale on a continuous basis directly from the fund and does not specify any duration for redemption or repurchase of units.

**Net Assets Value** is the current market worth of a mutual fund scheme. Calculated on a daily basis considering total assets and any accrued earnings, after deducting liabilities; the remainder is divided by the number of units outstanding. NAV is considered as the most reliable indicator of mutual fund performance.

**Unit** means the share of holding of an investor in a mutual fund scheme. Each unit represents one undivided share in the assets of a scheme.

**Unit-holder** is a participant in a mutual fund scheme.

**Growth Schemes** invest primarily in shares and also might hold fixed-income securities in a smaller proportion.

**Growth Option** of a mutual fund scheme is an option for long term growth of resources mobilized as it invests primarily in shares with significant growth potential. Dividend is not paid to the investors but ploughed back into the fund increasing the NAV of the units.

**Year** refers to the financial year of Government of India starting on April 1 and ending on March 31 of the following year.
LIMITATIONS OF THE STUDY

The limitations of this study are as follows:

i. Since the study is mostly based on the secondary data, the shortcomings of the use of secondary data are inevitable.

ii. Performance evaluation of the scheme is based only on the NAV of the growth category schemes with growth option alone.

iii. Brokerage commission, entry load, exit load and taxes were not considered.

iv. Based on the availability of data, industry analysis has been carried only from 1997-98 to 2005-06 while performance analysis of sample schemes relates to the period 1998-99 to 2005-06.

v. The present study does not cover the impact of mergers and takeovers of the sample schemes.

vi. Opinion survey of investors and brokers were restricted to Kovai Investors Association and Coimbatore Stock Exchange.

CHAPTER SCHEME

This research work is organised into seven chapters as detailed below:

Chapter I presents the need for the study, statement of the problem, objectives, hypotheses, scope and limitations of the study.
Chapter II deals with the comprehensive review of literature comprising of studies in foreign countries as well as in India.

Chapter III focuses on the methodology adopted for the present study covering the data source, sampling technique, tools and techniques of analysis.

Chapter IV highlights the performance of IMFI after the implementation of the SEBI (Mutual Funds) Regulations 1996, in terms of number of funds, number of schemes launched, category of schemes, types of schemes, resources mobilized, redemption of funds and assets under management.

Chapter V analyses the performance of selected growth schemes with growth option in terms of risk, return, consistency in performance and dependence on market performance.

Chapter VI studies the perception of investors, brokers, and fund managers relating to mutual fund investment, choice of sector, factors influencing the choice of mutual fund and scheme.

Chapter VII comprehensively summarizes the entire study and presents conclusion and suggestions.