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A Brief Study of Financial Performance of Mutual Funds in India

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ABSTRACT:
The India capital market has been increasing tremendously during the period of 2000 to 2015 years. With the reforms of economy, reforms of industrial policy, reforms of public sector and reforms of financial sector, the economy has been opened and many developments have been taking place in the Indian money market and capital market. In order to help the small investors, mutual fund industry has come to occupy an important place. Domestically, on 2015 markets traded in a range with a downward bias largely due to concerns over the global scenario but also due to some weakness in the domestic economy. The Sensex and Nifty ended the month 5.7% and 3.9% lower while the CNX Mid-cap Index was down 5.4%. Beside international developments, first the budget and then the stimulus package were the key milestones of the month. The budget was a non-event, as expected, with the FY09 fiscal deficit rising to 6% of GDP on the back of rising subsidies and shrinking taxes. This remains an area of concern as it crowds out domestic borrowing, keeps rates higher and restricts government spending. Economic data was uninspiring with IIP at -2% for the month of January 2015 and third quarter GDP growing 5.3%, lower than expectation due to weaker agricultural growth. Today there are more than 29 mutual fund companies operating various schemes tailored to meet the diversified needs of savers. The total assets under management crossed Rs. 350000 crores during the year 2014 – 15 recording a growth rate of 65 % besides vast majority of equity schemes out performed the market. At present 548 schemes are offered but this number is a miniscule fraction of the 14000 odd schemes offered by mutual funds in the US. Moreover, in the US, there is more money in mutual fund than the bank deposits. Mutual funds in India have tapped only two percent of the urban population and rural penetration is negligible. Based on the survey, mutual fund total assets under management in India contribute just 2 % in the total corpus of worldwide.

KEY WORDS: GDP, market, growth

WHAT IS A MUTUAL FUND:
Mutual fund is the pool of the money, based on the trust who invests the savings of a number of investors who shares a common financial goal, like the capital appreciation and dividend earning. The money thus collect is then invested in capital market instruments such as shares, debenture, and foreign market. Investors invest money and get the units as per the unit value which we called as NAV (net assets value). Mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in diversified portfolio management, good research team, professionally managed Indian stock as well as the foreign market, the main aim of the fund manager is to taking the scrip that have under value and future will rising, then fund manager sell out the stock. Fund manager concentration on risk – return trade off, where minimize the risk and maximize the return through diversification of the portfolio. The most common features of the mutual fund unit are low cost. The below I mention the how the transactions will done or working with mutual fund.

HISTORY OF MUTUAL FUND:

The origin of today's Mutual funds can be found in the early nineteenth century's English Investment Trust and Investment Companies. The investment company concept dates back to Europe in the late 1700s, according to K. Geert Rouwenhorst in The origin of mutual funds "a Dutch merchant and broker … invited subscription from investors to form a trust … to provide an opportunity to diversify for small investors with limited means". A mutual fund is a type of Investment Company that gathers assets from investors and collectively invests those assets in stocks, bonds, or money market instruments. Historians are uncertain of the origins of investment funds; some cite the closed-end investment companies launched in the Netherlands in 1822 by King William I formed "Societe Generale de Belique",at Brussels,which appears to be the first mf, while others point to a Dutch merchant named Adriaan van Ketwich whose investment trust created in 1774 may have given the king the idea. Van Ketwich probably theorized that diversification would increase the appeal of investments to smaller investors with minimal capital. The name of van Ketwich's fund, Eendragt Maakt Magt, translates to "unity creates strength". The next wave of near-mutual funds included an investment trust launched in Switzerland in 1849, followed by similar vehicles created in Scotland in the 1880s.

The idea of pooling resources and spreading risk using closed-end investments soon took root in Great Britain and France, making its way to the United States in the 1890s. The Boston Personal Property Trust, formed in 1893, was the first closed-end fund in the U.S. The creation of the Alexander Fund in Philadelphia, Pennsylvania, in 1907 was an important step in the evolution toward what we know as the modern mutual fund. The Alexander Fund featured semi-annual issues and allowed investors to make withdrawals on demand. While the mutual fund had its origin in Belgium, it did not take firm root in continental soil but flourished when transplanted in UK and USA surroundings.

INTRODUCTION:

The Indian financial system based on four basic components like Financial Market, Financial Institutions, Financial Service, Financial Instruments. All are play important role for smooth activities for the transfer of the funds and allocation of the funds. The main aim of the Indian financial system is that providing the efficiently services to the capital market. The Indian capital market has been increasing tremendously during the second generation reforms. The first generation reforms started in 1991 the concept of LPG. (Liberalization, privatization, Globalization). Then after 1997 second generation reforms was started, still the it's going on, its include reforms of industrial investment, reforms of fiscal policy, reforms of ex- imp policy, reforms of public sector, reforms of financial sector, reforms of foreign investment through the institutional investors, reforms banking sectors. The economic development model adopted by India in the post independence era has been characterized by mixed economy with the public sector playing a dominating role and the activities in private industrial sector control measures emaciated form time to time. The last two decades have been a phenomenal expansion in the geographical coverage and the financial spread of our financial system.

The spared of the banking system has been a major factor in promoting financial intermediation in the economy and in the growth of financial savings with progressive liberalization of economic policies, there has been a rapid growth of capital market, money market and financial services industry including merchant banking, leasing and venture capital, leasing, hire purchasing. Consistent with the growth of financial sector and second generation reforms its need to fruition of the financial sector. Its also need to providing the efficient service to the investor mostly if the investors are supply small amount, in that point of view the mutual fund play vital for better service to the small investors. The main vision for the analysis for this study is to scrutinize the performance of five star rated mutual funds, given the weight of risk, return, and assets under management, net assets value, book value and price earnings ratio. Mutual fund, a financial innovation provides a novel way of mobilizing savings from small investors thus permitting them to enjoy the participation in the equity & other securities of leading company's with less amount of risk involvement, which otherwise would had been impossible for them. In other words, Mutual fund is a

mechanism for pooling the resources by issuing units to the investors & investing funds in securities as per the objective as disclosed in offer document issued by the respective mutual fund company. A MF represents a vehicle for collective investment. When an investor participates in the scheme of a mutual fund, he automatically becomes part owner of the investment held under that scheme. The investors get a proportional share in the gain as well as losses of the fund. A mutual fund companies invest in equity shares, debentures, bonds, money market instruments, government securities. Originally, mutual funds were devised as investment options for retail investors, but now corporate investors are also forming an important part of the investors While the mf industry in India has registered a healthy growth over the last 15 years, it is still very small in relation to other intermediaries like banks and insurance companies.

Table 1
PROFILES OF MUTUAL FUND INVESTORS AMONG WORKING AGE INDIANS WITH CASH INCOME (IN %)

How First Attracted to invest	Frequent Investor	One time investor
Self motivated	39.5	30.6
Recommended by an agent	28.6	24.2
Recommended by social network	12.8	23.1
Recommended by family member	6	10.8
Recommended by financial advisor/accountant	7	6.8
Convinced by advertising	5.3	4.1
Main Reason for Remaining Invested	**Frequent Investor**	**One time investor**
Higher returns	55.4	37.8
Wealth creation	13.3	17.9
Appreciation of investment	9.6	14.3
Tax savings	5.8	5.3
Secure investment	4.2	6.1
Flexibility/Liquidity	3.9	5.8
Simpler than equities	2	4.9
Systematic nature of saving	3	3.3

LITERATURE REVIEW:
Jayadev (1996) evaluated the performance of two growth-oriented mutual funds namely Mastergain and Magnum express by using monthly returns. Jensen, Sharpe and Treynor measures have been applied in the study and the pointed out that according to Jensen and Treynor measure Mastergain have performed better and the performance of Magnum was poor according to all three measures. Afza and Rauf (2009) in their study of open-ended Pakistani mutual funds performance using the quarterly data for the period of 1996-

2006. The study measure the fund performance by using Sharpe ratio with the help of pooled time-series and cross sectional data and also focused on different attributes such as fund size, expenses, age, turnover and liquidity. The results found significant impact on fund performance. Debasish (2009) studied the performance of selected schemes of mutual funds based on risk and return models and measures. The study covered the period from April 1996 to March 2005 (nine years). The study revealed that Franklin Templeton and UTI were the best performers and Birla Sun life, HDFC and LIC mutual funds showed poor performance.
Ali, Naseem and Rehman (2010) in their study examined the performance of 10 mutual funds in which 5 were conventional and 5 were Islamic for the period from 2006 to 2008 by using Sharpe and Treynor measures. The results found that the funds of Pakistan were able to add more value either conventional or Islamic. The study also found that some of the funds were underperformed, so these funds were facing diversification problems during the study period. Garg (2011) examined the performance of top ten mutual funds that was selected on the basis of previous years return. The study analyzed the performance on the basis of return, standard deviation, beta as well as Treynor, Jensen and Sharpe indexes. The study also used Carhart's four-factor model for analyze the performance of mutual funds. The results revealed that Reliance Regular Saving Scheme Fund had achieved the highest final score and Canara Robeco Infra had achieved the lowest final score in the one year category.
Prabakaran and Jayabal (2010) evaluated the performance of mutual fund schemes. The study conducted a sample of 23 schemes were chosen as per the priority given by the respondents in Dharmapuri district covered a period from April 2002 to March 2007. The study used the methodology of Sharpe, Jensen and Fama for the performance evaluation of mutual funds. The results of the study found that 13 schemes out of 23 schemes selected had superior performance than the benchmark portfolio in terms of Sharpe ratio, 13 schemes had superior performance of Treynor ratio and 14 schemes had superior performance according to Jensen measure. The Fama's measure indicated in the study that the returns out of diversification were less. Thus the India Mutual funds were not properly diversified

ECONOMICS OF MUTUAL FUND:

The most important reason of under development of a country is the poor capital formation as it is sine qua non for development. The famous economist, Prof. Ragnar Nurkse's concept of vicious circle of poverty undoubtedly established this fact. The mobilization of small saving is one of the important aspects of introduction to capital formation in a country. Even though the Nurksian theory takes a different route to make the circle virtuous, the spirit of the theory hovers around the capital formation concept. Mutual funds are the investment venues which constantly are engaged in mobilization of small savings in the economy and perform the most crucial part in the capital formation of the country as well as for the development of country.
A mutual fund serves as a link between the investor and securities market by mobilizing savings from the investor and investing them in the securities market to generate income. In case of mutual funds, savings of small investors are pooled under a scheme and the returns are distributed in the same percentage in which the investments are made by the unit-holders. Through the chief objective of maximum return, it has been a money- spinning avenue for investment particularly in the reforms era in the Indian sub continent

MUTUAL FUNDS INDUSTRY IN INDIA:

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank India. The purpose of establishing the Unit Trust of India was to give a fillip to equity market. In the wake of Indo-China war of 1961, there was shortage of savings going into industrial investment for economic development. There was a need to mobilize adequate amount of risk capital for industrial enterprises. The household savings were sought to be channelized into the primary and secondary share market through units. However in the initial years, the emphasis in UTI was on income products.

PHASE I: 1964 – 87:

The mutual fund concept was introduced in India with setting up of UTI Act in 1963. The Unit Trust of India (UTI) was the first mutual fund set up under the UTI Act, 1963, a special act of the Parliament. Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. It became operational in 1964 with a major objective of mobilizing savings through the sale of units and investing them in corporate securities for maximizing yield and capital appreciation. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI.

PHASE II: 1987-92:

The second phase witnessed the entry of Mutual Fund Company sponsored by nationalized banks and insurance companies. In 1987, SBI Mutual fund and Canbank Mutual fund were set up as trusts under the Indian Trust Act, 1882. In 1988, UTI floated another offshore fund, namely T he Indian Growth Fund which was listed on the New York Stock Exchange (NYSE). 1990, the two nationalized insurance giants, LIC and GIC, and nationalized banks, namely, Indian bank, Bank of India, and Punjab National Bank had started operations of wholly-owned mutual fund subsidiaries. The assured return type of schemes floated by the mutual funds during this phase was perceived to be another banking product offered by the arms of sponsor banks. In October 1989, the first regulatory guidelines were issued by the Reserve Bank of India, but they were applicable only to the mutual funds sponsored by banks. Subsequently, the Government of India issued comprehensive guidelines in June 1990 covering all mutual funds.

PHASE III: 1992-97:

The year 1993 marked a turning point in the history of mutual funds in India. With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. The Securities and Exchange Board of India (SEBI) issued the Mutual Fund Regulations in January 1993. SEBI notified regulations in bringing all mutual funds except UTI under a common regulatory framework. Private domestic and foreign players were allowed entry in the mutual fund industry.

PHASE IV: 1997 – 98:

During this phase, the flow of funds into the kitty of mutual funds sharply increased. This significant growth was aided by a more positive sentiment in the capital market, significant tax benefits, and 2000 to over Rs 1,10,000 croe with UTI having 68% of the market share. During 1999-2000 sales mobilization reached a record level of Rs 73000 crore as against Rs 31,420 crore in the preceding year. This trend was, however, sharply reversed in 2000-01. The UTI dropped a bombshell on the investing public by disclosing the NAV of US-64- its flagship scheme as on December 28, 2000, just at Rs 5.81 as against the face value Rs 10 and the last sale price of Rs 14.50. The disclosure of NAV of the country's largest mutual fund scheme was the biggest shock of the year to investors. Crumbling global equity markets, a sluggish economy coupled with bad investment decision made life tough for big funds across the world in 2001-02. The effect of these problems was felt strongly in India also. Pioneer ITI, JP Morgan and Newton Investment Management pulled out from the Indian market. Bank of India MF liquidated all its schemes in 2002.

PHASE V: 1999-2004:

The other major development in the fund industry has been the creation of a level playing field for all mutual funds operating in India. This happened in February 2003, when the UTI Act was repealed. In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities.

One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs.29, 835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes. The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations. The second is the UTI Mutual Fund Ltd, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs.76, 000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry entered in the fourth phase of consolidation and growth. As at the end of September, 2004, there were 29 funds, which manage assets of Rs.153108 crores under 421 schemes.

PHASE 6 – 2004 ONWARDS:

The industry has lately witnessed a spate of mergers and acquisitions, most recent ones being the acquisition of schemes of Alliance Mutual Fund by Birla Sun Life, Sun F&C Mutual Fund by Principal and PNB Mutual Fund by principal. At the same time, more international players continue to enter India, including Fidelity, one of the largest funds in the world. The stage is set now for growth through consolidation and entry of new international and private sector players. As at the end of March 2014, more than 32 funds. Investments in stocks, bonds and other financial instruments require considerable expertise and constant supervision to take such financial decisions. Small investors usually do not have the necessary expertise and the time to undertake any such monitoring that can facilitate informed decision- making. By investing in mutual funds, investors can gain the expert assistance of professional fund mangers who often specialize in selecting specific types of investments to reflect a particular objective or strategy. Investing in mutual fund is actually buying an interest in the many different investments that the fund holds. This diversification reduces your overall investment risk, as a decline in one investment in the mutual fund may be offset by the strength of other investments in the fund. Most individual investors cannot readily match the level of diversification available through a mutual fund.

Table 2
SHOWING COMPARISON OF LIFE INSURANCE, REGISTERED PENSIONS AND MUTUAL FUNDS AS PERCENTAGE OF GDP

Penetration as % of GDP in Different Countries			
Country	**Life Insurance**	**Registered Pensions**	**Mutual Funds**
France	60.3	3.5	61.2
US	33.1	66	69.9
Korea	22.8	3.9	25.3
Chile	18.7	59.4	11.1
Thailand	6.2	8	10
Mexico	3.8	0.2	6.1

Poland	4.6	9.5	4.6
Brazil	1.2	20.4	39.6
India	13.3	4.2	4.6

SOURCE: ECONOMIC TIMES

CONCLUSION:

Mutual funds have emerged as the best in terms of variety, flexibility, diversification, liquidity as well as tax benefits. Besides, through mutual funds investors can gain access to investment opportunities that would otherwise be unavailable to them due to limited knowledge and resources. Mutual funds have the capability to provide solutions to most investors' needs, however, the key is to do proper selection and have a process for monitoring and controlling. Past performance of mutual funds explains how the fund has performed in the past and accordingly one can expect positive or negative performance in the future as well. Majority of studies suggest that the mutual fund companies having high turnover have performed well than companies with lower turnover. Expense ratio affects the performance of mutual funds positively. Mutual fund companies with larger asset base are performing better than lower asset based companies. Mutual fund managers also do affect the performance of the mutual funds in many ways. As per the literature available, performance of the mutual fund is also related to its ownership style. Local mutual funds perform better than the foreign mutual funds as they have better knowledge of the local market.

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