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THEDEVELOPMENTOFMUTUALFUNDSININDIA:ACR ITICALANALYSIS

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ABSTRACT

Today, mutual funds have established themselves as one of the most prominent options available for financialinvesting. The sector of the Indian financial market known as the mutual fund business is one that is on the riseand expanding at a rapid rate. It offers a wide range of plans to cater to the requirements and desired risk toreward profile of various groups of investors. Small and medium-sized investors are able to engage in today'sintricate and cutting-edge financial landscape with the assistance of mutual funds. By purchasing units in thefund, investorsaregiventhe opportunitytotake partin the mutualfund.Amutualfundisa trustwithprofessionallymanagedinvestmentassistancethatgathersandchannelstheresourcesofanumberofparticipan tswhohaveasimilarfinancialaimandinvestsinshares,debtsecurities,money-marketsecurities,oramixofthese.A mutual fund is also known as a pooled investment vehicle (PIV) since it pools the assets of several investorsinto a single pool for the purpose of investing. Unit holders are the term used to refer to investors who purchaseinvestmentsfromfunds.Thesesecuritiesaremanagedonbehalfoftheunitholdersbyaprofessionalinvestment manager,andeachinvestorownsashareorunitoftheportfolioinproportiontotheamounttheyinvestedandthenetfundva lue.Thismeansthatinvestorsareliableforbothgainsandlossesfromtheportfolio.Aftersubtractingexpenditures, loads, and taxes that are relevant to the situation, the profit or loss incurred as a result of theseinvestments and the realised growth in value are distributed to the unit holders in accordance to the number ofunitsthateachindividualinvestorowns.

Keywords:debtsecurities,money-marketsecurities,risk,rateofreturn,Portfolio

INTRODUCTION

RecentTrendsinMutualFundsinIndia

Encouragingstockmarketperformance,inflationrateandattractiveinterestrateshasledtoariseinthegrowthin the Indian mutual fund industry in the recent years. In the year 2014, change in government and rise inexpectations of people leads to sudden growth in capital market. A parallel growth was also observed in the Indianmutual fund industry. Over the last 5 years, the Assets Under Management (AUM) of Indian mutual fund industrygrew from 67093099 lakhs in FY 2012 to 182958449 lakhs in FY 2019 showing a compound annual growthrate(CAGR)of22.21%.Further,theAUMoftheIndianmutualfundindustrywitnessedanexceptionalgrowth of35.17%inFY2017.AccordingtoAssociationofMutualFundsin India(AMFI)data,AUMgrewfromRs. 13.53lakhcroreinMarch2016toRs.18.29lakhcroreinMarch2019.

MarketShareofAssetManagementCompanies   Page No: 1

AUM penetration of the Indian mutual fund industry as a per cent of GDP is only Approx. 6 percent (Paul, 2014).Despite the relatively low penetration of mutual funds in India, the market is highly concentrated. Though, thereare44AMCscurrentlyoperatinginthesector,theAUMoftheindustryisconcentratedwithfiveleadingfundhous es. Approx. 57 per cent of the total AUM is shared by, ICICI, HDFC, Reliance, Birla Sun Life and SBIMutualfund.

Rank	FundHouses	AUM(inLakh)	Percentage(%)
1	ICICIPrudentialMutualFund	24296130.61	13.28
2	HDFCMutualFund	23717761.00	12.96
3	RelianceMutualFund	21089063.82	11.53
4	BirlaSunLifeMutualFund	19504900.94	10.66
5	SBIMutualFund	15702527.68	8.58
	Others	78647965.78	42.99
	Total	182958349.83	100

SourceAMFI-ason31stMarch2019

LITERATUREREVIEW

Many scholars have made studies on investors' behaviour, and many studies are going on. Also many researcheson the performance of mutual fund schemes had been conducted. From the available studies from secondarysourcestheliteratureisreviewedheretohavebetterclarityofinvestors'behaviourandthestudy.Thereaftert heempiricalstudiesdoneonthesimilarareasofresearchininternationalcontextaswellasinIndiancontextwerehighlig hted.Thepurposeofliteraturesurveyinanystudyistohelptheresearcher,tofindoutthegapbetweentheresearchthatha salreadybeenconductedandthetheoreticallinkageoftheresearch.

Deepak Agrawal (2011) in his research found that since the development of the Indian Capital Market andregulationsoftheeconomyin1992therehavebeenstructuralchangesinbothprimaryandsecondarymarkets.Mut ualfundsareprimarycontributorstotheglobalizationoffinancialmarketsandoneofthemainsourcesofcapital flows to emerging economies. He has analysed the Indian Mutual Fund Industry pricing mechanism withempiricalstudiesonitsvaluationandalsoanalysedataatboththefund-managerandfund-investorlevels.Hisstudy revealed that the performance is affected by the saving and investment habits of the people and the secondsidetheconfidenceandloyaltyofthefundManagerandrewardsaffectstheperformanceoftheMFindustryinIn dia.

Prajapati, K. P., & Patel, M. K. (2012) in their research evaluated the performance of Indian mutual fundswhich is carried out through relative performance index, risk-return analysis, Treynor's ratio, Sharp's ratio, Sharp'smeasure, Jensen's measure, and Fama's measure. The data for analysis used is daily closing NAVs. The

studyperiodwas1stJanuary2007to31[st]December,2011.Theresultsofperformancemeasuresconcludedthatmostoft hemutualfundshavegivenpositivereturnduring2007to2011.

of 28 equity diversified Indian fund schemes for the period from January 2007 to June 2011. The selected

beatthebenchmarkmarkets.Betterperformingfundschemeswereexposedtohigherriskbutwerelessaffectedtomarketrisks.Alltheschemesunderstudywererelativelyexposedtolessriskthanthemarket,howeverwithhigh degree of volatility. A majority of the funds were reasonably diversified and reduced the unique risk.Consequently, unique risks and the returns were negatively associated. The study also exposes that about 58% offund schemes were capable of beating the market by stock selection skills. He recommends that, as far as markettimingisconcerned,thefundmanagersalmostfailedbothtobooktheprofitsintheupmarketandaccumulatethes tockinthedownmarket.

Bansal,S.,&Yash,P.T.(2014)intheirresearch

madeattemptstohaveacomparativestudyonPerformanceEvaluation of Large Cap Equity and Debt Mutual Fund Schemes. It consists of data of returns and volatilitymeasures of sample equity and debt mutual funds schemes. The research methodology tools include StandardDeviation,Sharperatio,Bata,Alpha,R-squaredandTreynorratio.Theresultsconcludedthatoutofallequitymutualfundschemes,UTIopportunitiesfundisth ebestasithasloweststandarddeviation,lowestbeta,highestvalueofalpha,highestSharperatioandhighestTreynorrati o.ButincaseofdebtmutualfundschemeUTIshorttermIncomefundisnotperformingsoincaseofdebtschemesasithas highest betaandlowestSharpeRatio.The present study will be significant not only for investors but also for the asset management companies so as toevaluatetheirportfolioandperformance.

Renu Gosh (2014) evaluated the performance of mutual funds through risk-return analysis, Treynor's ratio,Sharpe's ratio, Jensen's measure and Fama's measure. The facts used in the study is daily closing NAVs ofselected schemes consist of three public-sponsored, three private-sponsored and three private (foreign)-sponsored mutual fund schemes for the period from 1st January 2010 to 31^{st}December 2013. With the results ofperformance measures,she suggestedand concluded that the private foreign companies sponsored mutual fundschemeperformanceisbetterthanpublicandprivatecompanies–sponsoredmutualfundschemes.

Busse, Goyal and Wahal (2014) examine active retail mutual funds and institutional products with anauthorization to invest in global equity markets between 1991 and 2009. They find little reliable evidence ofalphas in the aggregate or on average after study using global and regional factor models. The right tail of thedistribution contains some large alphas. Decomposing stock selection from country selection, they find someevidenceofsuperiorstockpickingabilitiesintheextremerighttail.However,simulationssuggestthattheyarepr oduced just as likely by luck as by skill. Persistence tests show little evidence of continuation in superiorperformance.

Bhutada et, al. (2015) had made a comparative analysis of mutual fund schemes available at Kotak mutual fundand HDFC mutual fund. The study conclude that Kotak Mutual Fund schemes are more destructive in Large CapEquity schemes and HDFC Mutual Fund schemes are more destructive in Mid Cap Equity schemes where as boththecompaniesschemesareverywellmanagedindebtmarket.KotakSelectFocusisthebestschemeinLargeCapE quity,HDFCMid-CapisthebestschemeinMid-CapsectorandHDFCBalancedFundisthebestschemeinBalancedFundforinvestment.

DrNaveenPrasadula(2020)investigatedtheperformanceofopen-ended,growth-orientedequityschemesfortheperiodfromApril2011toMarch2019oftransitioneconomy.DailyclosingNAVofdifferentschemeshavebeenusedtocalculatethereturnsfromthefundschemes.BSE-sensexhasbeenusedformarketportfolio.Thehistorical performance of the selected schemes were evaluated on the basis of Sharpe, Treynor, and Jensen'smeasure whose results will be useful for investors for taking better investment decisions. The study revealed that14outof30mutualfundschemeshadoutperformedthebenchmarkreturn.Theresultsalsoshowedthatsomeofthe schemes had underperformed; these schemes were facing the diversification problem. In the study, theSharperatiowaspositiveforallschemeswhichshowedthatfundswereprovidingreturnsgreaterthanriskfreerate.ResultsofJensenmeasurerevealedthat19outof30schemeswereshowedpositivealphawhichindicatedsuperiorperformanceoftheschemes.

RATIONALEOFTHESTUDY:

India is one among the top 7 world's largest economy and India's savings rate is very high in comparison to othercountries. In order to accelerate economic development of our country, it is not only necessary to increase therate of savings but also to improve the holding pattern of such savings. As investment directly in the equity sharesis too risky, mutual funds have become route in mobilization and allocation of resources. The mutual fundindustry hasregisteredahealthygrowthinthepastfewyears.Butstillthereislotscopeastherateofconversionofhouseholdsavingsintomutualfundinvestmentinourcountryisverylow.AndtheawarenessaboutMutualFunds,itsdifferentschemesanditsbenefitsmayboosttheinvestmentinMFschemes.

With this emergence of many companies offering various schemes an average investor is unable to take a decisionregarding selection of scheme. This critical study would help potential investors for making investment decisions,aswellasitwillbehelpfultoresearchersforfurtherdetailedstudy.Manystudieshavebeenundertakenontheperformance of mutual fund schemes. However, particular study in the schemes that are selected here isinsufficient.

Thus,thereisaneedforthepresentstudytobringtolighttheperformanceoftheseselectedschemesofmutualfunds,whichcanhelptheretailinvestorstomakeavaluedjudgmentandsupportinselectingcategoryofschemeson the basis of performance. This study will also help the society at large, government, academicians, andmanagersofassetmanagementcompaniesaswell.

OBJECTIVEOFTHESTUDY

1.Toanalysetheperformanceoftheselectedmutualfundequityschemesonriskandreturnbasis.

HYPOTHESEISOFTHESTUDY

H_{01}:ThereisnosignificantdifferenceintheaveragereturnsofLargeCapMutualFund SchemesinIndia.

PROFILEOFTHESELECTEDMUTUALFUNDS

Inthisstudyforthepurposeofperformanceevaluationofequityschemes,topfivemutualfundcompanieshave

been selected on the basis of performance related to their market share in Indian mutual fund industries. Name ofthefundhousesareasfollows:

1. ICICIPrudentialMutualFund
2. HDFCMutualFund
3. RelianceMutualFund
4. BirlaSunLifeMutualFund
5. SBI MutualFund

Schemesfromtheaboveselectedmutualfundsaretakenforstudyandperformanceanalysis.Theperformanceofselectedmutualfundshasbeenanalyzedonthebasisofrisk-returnrelationshipusingstandardperformanceevaluation measures. The researcher has attempted to analyze the performance of the selected 15 schemes of thetop five selected mutual funds companies during the period April 2009 to March 2019. Sample schemes selectedare from the category Large Cap funds (with Growth option) one each from each category of top five funds house.Schemescategoryisasunder:

Large Cap Funds: Funds which invest a larger proportion of their corpus in companies with large marketcapitalizationarecalledlargecapfunds.LargeCapschemesoneeachfromselectedtopfivefundshousesareasfollows:

1. ICICIPrudentialTop100
2. HDFCTop200
3. RelianceTop200
4. BirlaSunLifeTop100
5. SBIMagnumBlueChip

ResearchGap

Based on the previous studies or literature review it is found that so far some researches deal with statistical toolsorquantitativetoolstoanalyzetheperformanceofthemutualfundschemes.Allresearcheswilluseoneortwomethods to compare the mutual funds of one or two companies or schemes onlyor comparing performancebetween public sector and private fund houses. Some of the researches focused only on particular segment offundandbringforththefundsadvantageanddisadvantageonly.Noresearcheshavefocusedoncomparingthesimilar type of open ended growth schemes in various categories like Large Cap, Mid & Small Cap andDiversified/Multi Cap funds. Hence this research has been taken to fill the gap to compare selected schemes fromtopfivefundmutualfundhousesinthevariouscategoriesbyusingofdifferentstatisticalandratioanalysis.

Performance Evaluation of the Selected Mutual Fund SchemesPerformanceAnalysisofLargeCapfunds

Theresultsofreturn,risk,betaandcoefficientofdeterminationofselectedLargeCapschemeswithbenchmarkindex(S&PBSE100)returnforallthefiveschemesfor10yearsshowscompetencytomakeoutastrongcaseforinvestment.

SUMMARYOFRISK,RETURN,BETAANDRSQUARE(APRIL2009TOMARCH2017)

S.No.	Schemes	SchemeReturn	SchemeRisk	Beta	RSquare
1	ICICITop100	1.1320	6.0334	0.817	0.948
2	HDFCTop200	1.3147	6.8783	0.934	0.953
3	RelianceTop200	1.1298	6.7826	0.910	0.955
4	BirlaTop100	1.1764	6.1505	0.838	0.960
5	SBIBlueChip	1.1105	6.5704	0.894	0.958

The maximum return was from HDFC Top 200 (1.3147) and minimum return was from SBI Blue Chip (1.1105).StandardDeviationofschemesistomeasuretheriskofthefundanditisfoundthatallfiveschemeshavemorerisk. It is observed that maximum deviation of fund returns is shown by HDFC Top 200 (6.8783) whereas ICICITop100(6.0334)wastheleastriskyscheme.InthecontextofBeta(β)whichimpliestheresponsivenessofthereturnonthemutualfundschemeinassociationwiththefluctuationsinthebenchmarkindex.HDFCTop200(0.934)foundtobemoreriskyamongalltheselectedschemeswhereasICICITop10(0.817)foundtobemorestableandlessrisky.Theco-efficientofdetermination(R^2)ismeasuredwiththemarketindexofS&PBSE100for the period of study. The highest R^2 value was found in Birla Top 100 (0.960) followed by SBI Blue Chip(0.958),Reliance(0.955),HDFC(0.953)andICICI(0.948)whichindicatedthattheseschemeshaveperformedwelldiversification.

RANKING OF LARGE CAP SCHEMES ON THE BASIS OF SHARPE, TREYNOR AND ALPHA MEASUREFOR10YEARS(APRIL2009TOMARCH2019)

S.No.	Schemes	Sharpe Measure	Ranks	Treynor Measure	Ranks	Jenson Alpha	Ranks
1	ICICITop100	0.0791	3	0.5836	3	0.2220	4
2	HDFCTop200	0.0959	1	0.7060	1	0.3682	1
3	RelianceTop200	0.0700	4	0.5217	4	0.2508	3
4	BirlaTop100	0.0848	2	0.6220	2	0.2599	2
5	SBIBlueChip	0.0693	5	0.5091	5	0.1764	5

- Sharpe ratio depicts scheme excess returns earnedabove risk-free return to per unit of standard deviation.It is revealed from the above table that highest positive value of Sharpe measure was found in HDFC Top200(0.0959)andthelowestsharpevaluewasfoundinSBIBlueChip(0.0693).

- InthecontextofTreynormeasurewhichdepictsthefundsexcessreturnaboveriskfreerateper unitmarketrisk,HDFCTop200(0.7060)isthetopperformeroftheschemes whereasSBIBlueChip(0.5091)showedleastTreynorvalueamongtheselectedLargeCapschemes.

- Higher the alpha value represents that fund return has over performed the benchmark index. Higher alphawas found with HDFC Top 200 (0.3682) and SBI Blue Chip remains at last with least alpha value(0.1764).

Itisclearfromthefindings,allthefiveschemesfortenyearsshowscompetencytomakeoutastrongcaseforinvestment. ThemaximumreturnwasfromSBIBlueChip(1.5667)andminimumreturnwasfromHDFCTop200(1.2881).Itisobs ervedthatthemaximumdeviationoffundreturns isshownbyHDFCTop 200(5.1528)followedbyRelianceTop200(4.5064),whereasSBIBlueChip(3.804)wastheleastriskyschemewithlo werSD.

In the context of beta, it is observed that the Reliance Top 200 (1.004) and HDFC Top 200 (1.168) large capschemesofmutualfundhaveregisteredbetamorethanone.IntheotherthreeschemesICICITop100(0.896),Birla Top 100 (0.990) and SBI Blue Chip (0.856) have beta value less than one indicated low risk in theseschemes.ThehighestRSquarevaluewasfoundinBirlaTop100(0.961)followedbyHDFCTop200(0.936),SBI Blue Chip (0.922), ICICI Top 100 (0.908), and Reliance Top 200 (0.904) which indicated that all theseschemeshaveperformedwelldiversification.

HypothesisH$_{01}$foundrejected,asfor10yearsitisobservedthatthemeanofhighestRSquarevaluewasfound$_{in}$ Birla Top 100 indicated a difference in among other schemes. Hence, in this context the null hypothesis standsrejected.

CONCLUSION

This study concludes that Mutual funds are among the most preferred investment instruments among therespondents. For middle income individuals, investing in mutual funds yields higher interest and comes withgood principal amount at the end of the maturity period of the mutual fund investment. According tointermediaries important fact is revealed that mutual funds are safe, with close to zero risk, offering an optimizedreturnonearningsandprotectingtheinterestofinvestors.Itisimportanttogaingoodunderstandingofmutual fund investments, companies in the field, and mutual fund experts, as customers are easily misguided by theadvertisementsandofferspromotedbyvariousfinancialinstitutions.

Alargenumberofinvestorswitchesfromfundtogainmorefromchangingmarketsituations.ontheotherhand64% investor prefer to invest in existing mutual fund as they analyse schemes looking at its past performance andtheyfeelsthatinvestment innewlylaunchfundsorschemesmayinvolveshighriskandatthesametimetheybear high expenses which may reduce their returns.Mutual fund companies should come forward with fullsupportfortheinvestorsintermsofadvisoryservices,participationofinvestorinportfoliodesign,ensurefulldisclo sureofrelatedinformationtoinvestor.

Proper consultancy should be given by mutual fund companies to the investors in understanding terms andconditionsofdifferentmutualfundschemes.Suchtypeoffunddesigningshouldbepromotedthatwillensureto satisfy needs of investors, mutual fund information should be published in investor friendly language and style,proper system to educate investors should be developed by mutual fund companies to analyse risk in investmentsmadebythem, etc.On theotheritisrequired fromgovernmentandregulatory bodiespoint ofviewthatmorelawsshouldbetheretosecurethefundsofinvestorstobeexploited,moretaxrebateshouldbegivenon mutual

fundinvestment,properandeffectivegrievancesystem,rightofinvestoreducation,andmorecontrolonassetmanage mentcompaniesshouldbethere.

SUGGESTIONS

This study has given some suggestions for creating awareness about the mutual fund investment and schemes sothat mutual fund investors may get information that helps out in their investment decision. Intermediariesprovidingconsultancy,theywouldunderstandtheneedofinvestorsandsuggestplanaccordingly.The seareasfollows:

- ❖ Most of the investors are not aware of dealing in Mutual Fund. Investors interested to invest in MFschemes should be given some basic knowledge about operations of Funds. Investors should also be awaretoframetheirinvestmentobjectivesandknowhowtodiversifytheriskintheirportfolios.

- ❖ Government and Mutual Fund organizations should also take some initiative to motivate women investorsbyeducatingthemandprovidingextrabenefitstotheminalltypesofinvestments.

- ❖ It is also suggested the AMC's should come up with some focused investment solutions for focused groupofinvestors.Wheretheycanmanageinvestmentstakingriskandcangetbetterreturnsbeatinginflation.

- ❖ Government and investment companies should takeinitiative to come forward with full support for theinvestors in terms of investors' awareness, advisoryservices, participation of investor in portfolio design&management,ensurefulldisclosureofrelatedinformationtotheinvestors.

- ❖ Proper consultancy should be given to the investors after identifying their needs & make them understandterms, conditions and operations of different schemes.Information shouldbe published in investor friendlylanguage and style, effective grievance system, education on investors' right andmore control on assetmanagementcompaniesshouldbethere.Sothatmoreinvestorscouldstepforwardwhichwillultimatelyle adstothedevelopmentofeconomy.

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