ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2019; 5(6): 475-478
www.allresearchjournal.com
Received: 14-04-2019
Accepted: 05-06-2019

Dr. Shashi Kapur Das
NET, Former Research Scholar, University Department of Commerce TMBU, Bhagalpur, Bihar, India

Corresponding Author:
Dr. Shashi Kapur Das
NET, Former Research Scholar, University Department of Commerce TMBU, Bhagalpur, Bihar, India

A case study of mutual fund industry in India

Dr. Shashi Kapur Das

Abstract
Mutual Fund provides platform for investors to invest in common and collective investment schemes, so that the risk of investment is minimized and return is maximized. Mutual funds in India are still at its nascent stage as compared to other countries in the world hence, it is expected that the industry will grow likewise in India as in other countries. Indian mutual funds industry and in depth analysis of UTI mutual funds, When the mutual funds industry was liberalized in 1992, the UTI had held a monopoly in the market for almost 30 years. Indian retail investors had been familiarized with guaranteed high returns on their UTI investments. This good record, combined with aggressive marketing by new entrants, led to expectations of high profits by investors who began to invest strongly in the new private mutual funds. Thus from the monopoly of a single mutual fund like UTI, mutual fund industry moved to public with a few public sector funds and has now with the entry of private and foreign funds, it has moved to a competitive environment. This background motivated the need to explore more about the Indian scenario of mutual funds particularly UTI and its competitiveness. It clearly shows that the structure of mutual fund industry has changed after commencement of the financial sector reforms in various forms including different types of funds and different schemes for mobilizing resources in the economy.

Keywords: Investment, UTI. Monopoly, Public Sector Funds, Economy

Introduction
Mutual fund is the pool of the money, based on the trusts who invest the savings of a number of investors who shares a common financial goal. The money which is collected 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. The main aim of the fund manager is to taking the scrip that is under value and in future will rising, then fund manager sell out the stock. Fund manager concentrates on risk – return trade off, where risk is minimized and the return are maximized through diversification of the portfolio. Mutual funds act as financial intermediaries, which collect the savings of investors and invest them in a large and well-diversified portfolio of securities such as money market instruments, corporate and government bonds and equity shares etc. Mutual funds are considered as institutions for providing small investors with avenues of investments in the capital market. The main strength of mutual funds is their ability to bring down the transaction costs. By pooling their resources through mutual funds investors achieve economies of scale, portfolio management and good research team. An investor who invests in mutual fund procures a diversified portfolio, indicating greater returns through cost reduction. This principle has been effective world-wide as more and more investors are investing in mutual all over the world.

Structure of Mutual Fund
Mutual Funds in India follow a 3-tier structure. There is a Sponsor (the First tier), who starts a mutual fund. The Sponsor approaches the Securities & Exchange Board of India (SEBI), which are the market regulator and also the regulator for mutual funds. Once SEBI is convinced, the sponsor creates a Public Trust (the Second tier) as per the Indian Trusts Act, 1882. Trusts have no legal identity in India and cannot enter into contracts, hence the Trustees are the people authorized to act on behalf of the Trust. Contracts are entered into in

the name of the Trustees. Once the Trust is created, it is registered with SEBI after which this trust is known as the mutual fund. The Sponsor and the Trust are two separate entities. Sponsor is not the Trust; i.e. Sponsor is not the Mutual Fund. It is the Trust, which is the Mutual Fund. The Trustees job is to see, whether the money is being managed as per stated objectives. Trustees may be seen as the internal regulators of a mutual fund.

Types of mutual funds schemes in India

There are different types of Mutual Fund Schemes that are available to investors to cater their needs and fulfill their investment objective. It is the investor who decides the best type of scheme who fulfils his needs and matches his objective. Schemes can be classified on different basis in accordance with structure, investment objective, risk profile, composition of portfolio etc.

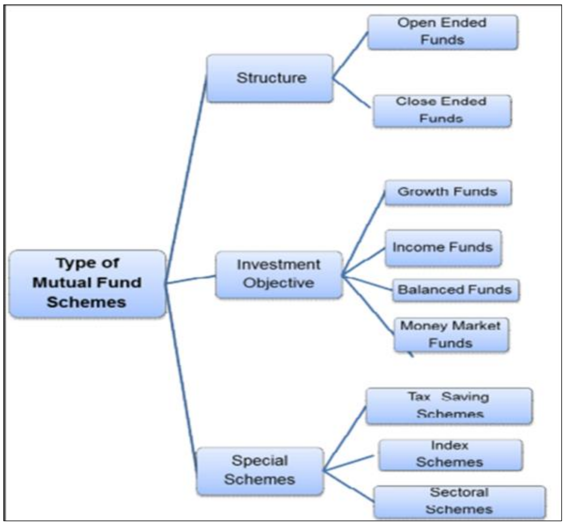

Fig 1: Type of Mutual Fund Schemes

Tax implications of mutual funds

Income from Mutual funds is affected by Tax in two ways i.e. through Dividends and Capital Gains. When an asset is sold and profit is incurred it is known as capital gains. This is applicable to any asset - property, stocks, bonds, mutual funds, art, gold etc. In other words, when mutual fund units are sold, it incurred a capital gain tax. Capital gain is further split into long term and short term. And the tax implication differs for equity and debt funds.

Equity Funds

An equity oriented mutual fund is one where a minimum 65% of the investible corpus is invested in domestic equity. So gold exchange traded funds, or Gold ETFs, are not treated as equity funds for taxation. Even international funds are not considered as equity funds in the case of taxation even though they invest in equity. The criteria to qualify for an equity funds is not just investments in stocks but stocks listed in India. In the case of hybrid or balanced funds, if at least 65% of the assets are invested in domestic equity, they qualify as equity-oriented funds. If an equity mutual fund is sold after holding it for a period of 12 months, then it qualifies for long-term capital gains. As of now, long-term capital gains on equity funds are nil. So no tax is paid. If equity mutual funds are sold before this period, then it qualifies for short-term capital gains.

Debt funds

The non-equity funds qualify as debt funds for the purpose of taxation. So this would include all types of debt funds, international funds, monthly income plans, or MIPs, and Gold ETFs. Short-term capital gains would be levied if the holding period is less than 3 years. Short-term capital gains are added to the income and taxed as per the individual's income tax slab. From a tax perspective, it is obvious that debt funds no longer offer tax advantages over fixed deposits if the holding period is less thanthree years. If fund is sold after holding it for a period of 36 months, or 3 years, it qualifies as long-term capital gains. This is 20% with indexation. Indexation is the process that takes into account inflation from the time the asset is bought to the time it is sold. The way it works is that it allows to inflate the purchase price of the asset (in this case the mutual fund units) to take into account the impact of inflation.

Advantages of mutual funds

Mutual Funds have opened new vistas to investors and imparted a muchneeded liquidity to the system. In the process they have challenged the role of commercial banks in the financial market and national economy. The benefits offers by mutual funds are:

- Professional Management
- Convenience and Fair Pricing
- Diversification
- Availability of Varied Investment Strategies
- Liquidity
- Affordability
- Tax Benefits
- Economies of Scale
- Accessibility
- Safety and transparency

Disadvantages of mutual funds

- Operational Cost
- Lack of Control
- Over diversification
- Inefficiency of Cash Reserves
- Risk Involved
- Trading Limitations
- Taxes

Review of literature

Jack Treynor (1965) developed a methodology for performance evaluation of a mutual fund that is referred to as reward to volatility measure, which is defined as average excess return on the portfolio.

John and Donald (1974) examined the relationship between the stated fund objectives and their risks-return attributes and concluded that on an average, the fund managers appeared to keep their portfolios within the stated risk.

Gupta and Mittal (1991) [4] studied the funds management pattern and managerial efficiency of UTI. They concluded that funds collection aspect, funds deployment and working capital management of UTI are satisfactory. But the utilization of operating assets has not been proper and intact.

Sahadevan and Raju (1996) [7] focused on data presentation on expenses and other related aspects, which are generally covered in annual reports of the mutual funds without going into the details of financial performance evaluation of the funds.

Sethu (1999) [8] conducted a study examining 18 open-ended growth schemes during 1985-1999 and found that majority of the funds showed negative returns and no fund exhibited any ability to time the market.
Singh and Meera (2001) [10] in their book presented a framework for conducting critical appraisal of mutual fund performance in the Indian context reviewed the performance of Unit Trust of India (UTI), private and money market mutual funds.
Sadhak (2003) [6] in his book suggested several improvements in the strategic and operational practices of mutual funds keeping in mind the mechanisms used by fund managers in developed economies.
Kavitha. R. (2006) [5] analysed the fund selection behaviour of individual investors towards Mutual Funds in Mumbai city during the period July 2004 – December 2004. She reported that there is a fair opportunity for mutual fund investments in future.

Statement of the problem
Mutual Fund Industry is of recent origin in India and still in its infancy. This industry is burgeoning and it is completely untapped market. Only 5% of the total potential of this industry has been grabbed. Hence this industry has lot of opportunities in it. Over last few years MF has emerged as major players in saving mobilization. Investor has been showing keen interest by subscribing to various MF scheme and anticipating higher return and capital gains. The increasing popularity of investment and the mushrooming growth of investment avenues have puzzled the investor. They are left with the question of where to invest. Therefore research has become the essential demand for this field because it guides investor in their investment decision. In depth analysis of MF industry in India has been done and detailed appraisal of UTI Mutual fund has been cover up. As we know UTI MF has given birth to this whole new era of Mutual Fund industry in India. It came as a solution to small investor who was searching for an ideal investment vehicle for today's complex and modern financial scenario.

Objectives of study
- To examine the position of UTI Mutual Fund in the industry after US64 crises.
- To examine comparative performance of equity schemes of UTI with the equity scheme of other mutual fund in terms of risk and return along with reward to variability and volatility.
- To examine comparative performance of debt schemes of UTI with the debt scheme of other mutual fund in terms of risk and return along with reward to variability and volatility.
- To examine comparative performance of hybrid schemes of UTI with the hybrid scheme of other mutual fund in terms of risk and return along with reward to variability and volatility.
- Comparison of periodic performance of schemes of UTI with its respective benchmark.

Research methodology
The present research study is a study of examining and analysing the performance of UTI Mutual fund schemes by using different financial and statistical tool. The study compares performance of different type of UTI mutual fund schemewith other fund houses scheme with same investment objective. Also the periodic return of schemes of UTI has been compared with their respective benchmarks and schemes of other mutual funds.

Period of study
The study covers the period of five assessment years from 2009-2010 to 2014- 2015. The period stated above is particularly significant because the total number of schemes under Mutual Funds have increased from 1131 to 1638 which is almost 45% increase during the period 2010-14.

Limitation of the study
- Since the study is mostly based on the secondary data, the shortcomings of the use of secondary data are inevitable.
- Performance evaluation of the scheme is based only on the NAV of the growth category schemes with growth option alone.
- Brokerage commission, entry load, exit load and taxes were not considered.
- Only 14 schemes of UTI Mutual Fund have been considered for analysis which may not reflect the true picture of the fund house as whole.

Conclusion
It stands at the highest position in terms of the portfolio held by different public sector mutual fund houses. This shows UTI is becoming attractive and popular among Indian investors. UTI MF initiated a major Investor Education Initiative called "Swatantra" in partnership with Ministry of Corporate Affairs, Government of India. As a part of this initiative UTI Knowledge Caravans travelled through the length and breadth of the country for spreading financial literacy. The Investor Education Initiative in 13 different languages along with Investor's Meets specifically targeting hatt, mandis, SME clusters and various industrial areas and educational programs at schools and colleges to spread the message of savings and investments to the youth of India was conducted by UTI. The fund has underperformed as compare to other funds showing low volatility in respect of the risk measure standard deviation. It may be beneficial in the long run as the fund with the lower standard deviation would be more optimal because it is maximizing the return received for the amount of risk acquired.

Reference

1. Agarwal, Peeyush Ranjan. Mutual Funds – A Comprehensive Approach to Mutual Funds, Orient Law House, New Delhi. 1996.
2. Goel S. Performance of Mutual Funds and Investors' Behaviour, (Doctoral Dissertation). Department of Management, Jaypee Institute of Information Technology, Noida. 2013.
3. Gupta. "The Mutual Fund Industry and Its Comparative Performance", Journal of Financial and Quantitative Analysis. 1974;6:894.
4. Gupta VK, Mittal JP. Management of Financial Institutions in India, Radha Publications, New Delhi. 1991.
5. Kavitha Ranganathan. "A Study of Fund selection Behaviour of Individual Investors towards Mutual funds with reference to Mumbai city", The ICFAI Journal of Behavioural Finance. 2006;3:2.

6. Sadhak H. Mutual Funds in India: Marketing Strategies and Investment Practices, Response Books, New Delhi. 2003.
7. Sahadevan, Raju MT. Mutual Funds, Data, Interpretation and Analysis' Prentice Hall of India. 1996.
8. Sethu G. The Mutual Fund Puzzle. A Paper Presented at UTI-ICM, 1999 December 23-24.
9. Sikidar Sujit Singh, Amrit Pal. "Financial Services: Investment in Equity and Mutual Funds – A Behavioural Study", in Bhatia B.S., and Batra G.S.(ed.) Management of Financial Services, Deep and Deep Publications, New Delhi. 1996.
10. Singh HK, Meera Singh. Mutual Funds and Indian Capital Market: Perform and Profitability, FirstEdition, New Delhi: Kanishka Publishers