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ROLE OF MUTUAL FUND SCHEMES IN ODISHA

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ABSTRACT

The mutual fund is the one of the important instrument in all the capital market of the world. At present mutual funds play an important role in the growth of capital market in India. Generally, mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures, and others securities. The income earned through these investments and the capital appreciations realized are shared by its unit holders in proportion to number of units owned by them. Thus, a mutual fund is the most suitable investment for the common people as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

KEYWORDS: Mutual fund.

INTRODUCTION

The mutual fund is the one of the important instrument in all the capital market of the world. At present mutual funds play an important role in the growth of capital market in India. Generally, mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures, and others securities. The income earned through these investments and the capital appreciations realized are shared by its unit holders in proportion to number of units owned by them. Thus, a mutual fund is the most suitable investment for the common people as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

Mutual fund industry today is one of the most preferred investment avenues in India. However, with plethora of scheme choose from, the retail investor faces problems in selecting funds. Factors such as investment strategy and management style are quantitative, but the funds record is an important indicator too. Though past performance alone cannot be indicative of future performance, it is, frankly, the only quantitative way to judge how good a fund is at present.

NEED FOR EVALUATION OF MUTUAL FUNDS

In India, at present, there are many mutual funds schemes and also investment companies operating both in public sector as well as in private sector. They compete with each other for mobilizing the investment funds with individual investor and other organization by offering attractive returns, minimum risk, high safety and prompt liquidity. Investors are continuously interested to know the performance of the mutual fund schemes and the mutual fund industry and compare their performance so as to select the best mutual fund for their investment and portfolio management.

MUTUAL FUNDS IN INDIA: RECENT TRENDS AND DEVELOPMENT

The SEBI (Mutual Fund) Regulations 1996 defines a mutual fund as " a fund establishment in the form of a trust to raise money through the sale of units to the public or a section of the public under one or more schemes for the investing in securities, including money market instrument." Inception of Mutual Fund The idea of Mutual Fund had its formal origin in Belgium as investments in national industries associated with high risks. In 1860s this movement started in England. In 1868, the foreign and Colonial Government Trust was established to spread risks for investors over a large number of securities. In USA the idea took root in the beginning of the 20th century. In Canada, during 1920, many close ended investment companies were organized. The first mutual fund in Canada to issue its share to general public was the Canadian Investment Fund (1932). Large number of mutual funds emerged and expanded their wings in the many countries in Europe, the Far East countries and Latin America. Countries in Pacific area like Hong Kong, Thailand, Singapore and Korea have also entered this field in a long way. 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. The history of mutual funds in India can be broadly divided into four distinct phases. The phase are :-

First Phase - 1964-87

Started in 1963 with Unit Trust of India, Government of India & RBI. First scheme launched by UTI was Unit Scheme 1964. In 1988 UTI had Rs.6, 700 crores of Assets Under Management.

Second Phase - 1987-1993 (Entry of Public Sector Funds)

In 1987 public sector banks and Life Insurance Corporation of India (LIC) and GeneralInsurance Corporation of India (GIC) got the entry in mutual fund Industry. At the end of 1993, the mutual fund industry had Assets under Management of Rs.47, 004 crores.

Third Phase -1993-2003 (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 . The 1993 SEBI Regulations were substituted by a more comprehensive and revised Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulation 1996. As at the end of January 2003,there were 33 mutual funds with total assets of Rs.1,21,805 crores.

Fourth Phase since February 2003

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 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

During these periods significance changes and growth in the mutual fund have noticed in the Indian Capital Market. In the recent times the Indian Capital Market has witnessed new trends, one of them being the spectacular growth of Mutual Funds. There are more than 600 schemes offered by Mutual Funds, and these funds have mobilized substantial amount of the household savings.

Table-1

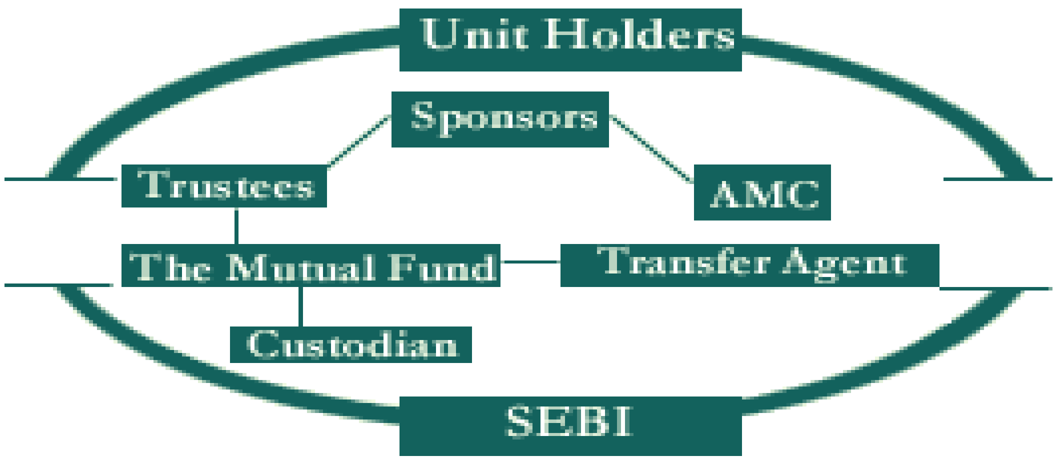
Resource Mobilization through Mutual Funds in India

Particulars	Years	Private sector(RS.)	Public sectors(Rs.)	UTI (Rs.)
Resource Mobilization of Funds	2003-2004	5,34,649	31,548	23,992
	2004-2005	7,36,463	56,589	46,656
	2005-2006	9,14,703	1,10,319	73,127
	2006-2007	15,99,873	1,96,340	1,42,280
	2007-2008	37,80,753	3,46,126	3,37,498
	2008-2009	42,92,750	7,10,472	4,23,131
	2009-2010	76,98,483	14,38,688	8,81,851
	2010-2011	69,22,924	11,52,733	7,83,858
Repurchases or Redemption Amount	2003-2004	4,92,104	28,952	22,326
	2004-2005	7,28,864	59,266	49,378
	2005-2006	8,71,727	1,03,940	69,704
	2006-2007	15,20,836	1,88,719	1,34,954
	2007-2008	36,47,449	3,35,448	3,27,678
	2008-2009	43,26,768	7,01,092	4,26,790
	2009-2010	76,43,555	14,26,189	8,66,198
	2010-2011	69,42,140	11,66,288	8,00,494
	2003-2004	42,545	2,597	1,667
	2004-2005	7,600	(-2,677)	(-2,722)
	2005-2006	42,977	6,379	3,424

Net Inflow/Outflow of Funds	2006-2007	79,038	7,621	7,326
	2007-2008	1,33,304	10,677	9,820
	2008-2009	(-34,018)	9,380	(-3,659)
	2009-2010	54,928	12,499	15,653
	2010-2011	(-19,215)	(-13,555)	(-16,636)

ORGANISATION OF A MUTUAL FUND

There are many entities involved and the diagram below illustrates the organisational set up of a mutual fund:



MUTUAL FUND SCHEMES

The schemes of mutual fund operating in the Capital Market are to attract the retail investors.
The variety of schemes are added and deleted by the investing companies regulatory in order to maintain a balanced investment portfolio to cater the needs of diversified retail investors. Now a days the schemes operated in Indian capital market are as follows:-

Open-ended Fund/Scheme

An open-ended fund or scheme is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period. Investors can conveniently buy and sell units at Net Asset Value (NAV) related prices which are declared on a daily basis. The key feature of open-end schemes is liquidity.

Close-ended Fund/ Scheme

A close-ended fund or scheme has a stipulated maturity period of 5-7 years. The fund is open for subscription only during a specified period at the time of launch of the scheme. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units of the scheme on the stock exchanges where the units are listed.

Growth / Equity Oriented Scheme

The aim of growth funds is to provide capital appreciation over the medium to long- term. Such schemes normally invest a major part of their corpus in equities. Such funds have comparatively high risks. These schemes provide different options to the investors like dividend option, capital appreciation, etc. and the investors may choose an option depending on their preferences.

Income / Debt Oriented Scheme

The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures, Government securities and money market instruments. Such funds are less risky compared to equity schemes.

Balanced Fund

The aim of balanced funds is to provide both growth and regular income as such schemes invest both in equities and fixed income securities in the proportion indicated in their offer documents. These are appropriate for investors looking for moderate growth. They generally invest 40-60% in equity and debt instruments. These funds are also affected because of fluctuations in share prices in the stock markets. However, NAVs of such funds are likely to be less volatile compared to pure equity funds.

Net Asset Value (NAV)

The performance of a particular scheme of a mutual fund is denoted by Net Assets Value (NAV). Net Assets Value is the market value of the assets of the scheme minus its liabilities. The per unit NAV is the net asset value of the scheme divided by the number of units outstanding on the valuation date.

Mutual funds invest the money collected from the investors in securities market. In simple words, Net Asset value is market value of the securities held by the scheme. Since market value of securities changes every day, NAV of a scheme also varies on day to day basis. NAV per unit is the market value of securities of a scheme divided by total number of units of the scheme on any particular date.

Advantages of Mutual Funds:

The mutual funds offer the following advantages to the investors:

Professional management: the mutual fund institutions provide experienced and skilled professional who have knowledge of security analysis and portfolio management and analysis the performance and prospect the companies and select suitable investments to achieve the objectives of the mutual fund schemes.

Diversification:- Mutual funds invest in a number of companies across a broad cross-section of industries and sectors. This diversification reduces risks because seldom do all stocks decline at the same time and in the same proportion. Thus, the investor obtains a proportion of the average market. This specific character of a mutual fund is not possible in case of any other type of alternative investment avenue.

Convenience:-Investing in a mutual fund reduces paperwork and helps to avoid many problems such as bad deliveries, delayed payments and unnecessary follow up with brokers and companies. Mutual funds save time and make investing easy and convenient.

Return Potential:-Over a medium to long-term, mutual funds have the potential to provide a higher return as they invest in a diversified basket of selected securities.

Low Costs:-Mutual funds are a relatively less expensive way to invest compared to directly investing in the capital markets because their benefits of scale in brokerage, custodial and other fees translate into lower costs for investors.

Liquidity:-Mutual funds provide easy liquidity to those who want to dispose of their units after a stipulated period of time. The open ended mutual funds offer instantaneous liquidity through repurchase facility. Close-ended schemes also offer the facility of repurchase after a specified period in addition to listing on the stock exchanges.

Transparency:-Mutual funds provide regular information on the value of their investment in addition to disclosure on the specific investment made by the scheme, the proportion invested in each type of security and the fund managers investment strategy and outlook.

Flexibility:-Through features such as regular investment plans, regular withdraw plans and dividend reinvestment plans, investors can systematically invest or withdraw funds according to their needs and convenience.

Choice of Schemes:-Mutual funds offer a variety of schemes to enable investors to take advantage of opportunities not only in the equity, debt and money markets, but also in specific industries.

Tax Benefits:-Many of the mutual funds offer the benefits of tax exemption to the investors. In India, for equity linked schemes of mutual funds under section 88, tax rebate up to 20% of investment is available. Under Section 80L, income from mutual fund dividends along with other specified incomes up to Rs. 15,000 is exempted from tax. But this is now no longer applicable as per Budget 1999. Dividend income from mutual fund is totally tax free.

Government Regulation:-All mutual funds are registered with SEBI and they function within the provision of strict regulations designed to protect the interests of investors. The operations of mutual funds are regularly monitored by SEBI.

Disadvantages of Mutual Funds

The disadvantages of mutual fund are highlighted below:-

Operational charges: The Fund is managed by a Fund Manager employed by the Asset Management Company that floated the fund. Obviously, they are not a non-profit organization and they are looking to make profits themselves. They get paid by charging investor a percentage of his invested money. Hence, when investor invest in a fund, he does not get his entire money invested. Rather, a tiny part of it is chopped off and the remainder invested.

Agent's commission/loads/brokerage: If an investor is purchasing a Mutual Fund through an agent, he has to pay the agent a commission too. If purchased through a trading account like ICICI Direct, he pays an equivalent of brokerage too. These transaction charges can however be avoided if an investor directly purchase the Mutual Fund units through the AMC , either personally or through their website.
No control over investments: the individual investors have absolutely any control over what the Fund Manager does with his money. Investor can't advise to him on how his money is to be invested. Investors only have to sit back and hope for the best.
Probability of wildly high returns reduced significantly: A Mutual Fund contains a diversified basket of securities. If a single security outperforms by a significant margin, the impact will be limited. In other words, there is no scope for 'Multiage's' as they are known in the Equity markets.
May not be benefited from a Sectoral/Industry boom: If someone investing in an equity diversified fund, he will find little impact of a boom in a particular sector, particularly if it is under-represented.
Personal Tax situation is not considered: When an investor invests in a Mutual Fund, his money is pooled together with others and his personal tax situation is not considered while making investment decisions.
Fluctuating corpus and need for liquidity: This is the single biggest disadvantage of investing through Mutual Funds, especially Open ended ones. The Fund Manager cannot really invest all his corpus in long term avenues which will fetch excellent results over years.

REVIEW OF LITERATURE

At present mutual fund schemes are intriguing phenomenon in the investment field or many research have been under take in mutual fund in India & abroad. How ever there are still many aspects to know about mutual fund . A brief research available studies made on mutual fund are attempted to present

Sapar & Narayan(2003) examines the performance of Indian mutual funds in a bear market through relative performance index, risk-return analysis, Treynor's ratio, Sharp's ratio, Sharp's measure, Jensen's measure, and Fama's measure with a sample of 269 open ended schemes (out of total schemes of 433). The results of performance measures suggest that most of the mutual fund schemes in the sample of 58 were able to satisfy investor's expectations by giving excess returns over expected returns based on both premium for systematic risk and total risk.
Rao D. N (2006) studied the financial performance of select open-ended equity mutual fund schemes for the period 1st April 2005 - 31st March 2006 pertaining to the two dominant investment styles and tested the hypothesis whether the differences in performance are statistically significant. The analysis indicated that growth plans have generated higher returns than that of dividend plans but at a higher risk studied classified the 419 open-ended equity mutual fund schemes into six distinct investment styles.
Agrawal Deepak & Patidar Deepak (2009) studied the empirically testing on the basis of fund manager performance and analyzing data at the fund-manager and fund-investor levels. The study revealed that the performance is affected by the saving and investment habits of the people and at the second side the confidence and loyalty of the fund Manager and rewards- affects the performance of the MF industry in India.
Mehta Sushilkumar (2010) analyze the performance of mutual fund schemes of SBI and UTI and found out that SBI schemes have performed better then the UTI in the year 2007-2008.

S. NARAYAN RAO AND M.RAVINDRAN (2010) calculated the performance of Indian mutual funds in a bear market through relative performance index risk return analysis, Treynor's ratio, Sharpe ratio, Jensen ratio, and Fama measures .the study used 269 open-ended schemes out of total scheme of 433 for computing relative performance index. He concluded that funds whose returns are less than risk free returns, 58 schemes are finally used for further analysis .The result of performance measures suggest that most of mutual fund schemes in the sample of 58 schemes were able to satisfy investors' expectations by giving excess returns over expected returns based on the both premium for systematic risk and total risk.
Selvam et.al (2011) studied the risk and return relationship of Indian mutual fund schemes. The study found out that out of thirty five sample schemes, eleven showed significant t–values and all other twenty four sample schemes did not prove significant relationship between the risk and return. According to t-alpha values, majority (thirty two) of the sample schemes' returns were not significantly different from their market returns and very few number of sample schemes' returns were significantly different from their market returns during the study period.

RESEARCH METHODOLOGY

Return and risk are important characteristics of every investment; investors base their investment decision on the expected return and risk of investment. Equity fund remains any industry's back bone and driving force and are principal focus of the growth & development of economy. Even in era of LPG gradually there exist a shifting of attitude of the investors from speculation to investment and towards long term earnings, dividends and book values. These changes have also been noticed in the mutual fund industry's behavior. The mutual fund industry becomes more performance oriented and more concentrated , vigor and enthusiasm towards equity based mutual funds. With this back drop the present study is an attempt to measure the performance and behavior of equity based mutual fund in Odisha in the light of risk & return.

OBJECTIVES OF THE STUDY

1- To study and analyze the growth of mutual fund industry in India and Odisha.
2- To study the behavior of the risk and returns of the selected equity mutual fund schemes with respect to the bench mark risk and returns.
3- To evaluate the performance of equity mutual funds on the basis of risk parameters as well as risk adjusted measures as suggested by Sharpe, Treynor, Jensen and Fama.
4-To identify the factors influencing the investment decision of equity mutual funds of the investors.

Scope of the Study

Though there is gamut of different mutual fund schemes with varied investment objectives such as growth, income, tax saving etc. Only equity schemes are considered for the study. In this study, higher returns of equity schemes will be selected that is classified into public sector and private mutual fund industry in India especially in Odisha .

Period of the Study

The study covers a period of the ten years. The secondary data pertaining to mutual fund investments during the period have been collected from the relevant authorized sources for indepth analysis.

Sources of Data

In this study the data will be collected through secondary sources. The secondary data will be collected from different data base of the sample mutual fund companies as well as through different books, journal, annual report and website. The secondary data will also be collected from BSE and SEBI bulletins.

Proposed Hypothesis: -

The study proposes the following hypothesis which will be tested during the analysis for the validity

1. Ho - There is no significance difference between the equity mutual funds with respect to the returns .
2. Ho - There is no significant relations between the equity mutual funds and market index with respect returns.
3. Ho - The return of selected mutual fund schemes are normally distributed.
4. Ho -The mutual fund schemes offered by the selected companies are well diversified and quite efficient in reducing the impact of market risk.
5. Ho - There is no difference between the mean NAV of public sector and private sector equity based mutual fund.
6. Ho – There is no difference in the risk adjusted returns for public sector equity based mutual fund as compared to private sector equity based mutual fund.

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Tools for Analysis

The information collected will be analyzed with the help of various tools & techniques as indicated below: ----

Return:

Investments are made with primary objective of driving a return. The return may be received in the form of yield plus capital appreciation. The difference between the sale price and the purchase price is capital appreciation. The dividend or interest received from the investment is the yield. Different types of investments promise different rates of return. The return from an investment depends upon the nature of the investment, the maturity period and a host of other factors.

The return of mutual fund schemes will be calculate by using NAV based scheme return and market price based scheme return on yearly basis.

NAV Based scheme return

$$Rp = \frac{(NAVt - NAVt\text{-}1) + Dividend}{NAVt\text{-}1} \times 100$$

Where

Rp= annually return on a scheme
NAVt =net asset value for current year
NAV t-1= net asset value for preceding year

Risk:

Risk in the investment means the variation in its return. The total risk of a security or portfolio is divided into two parts; one is systematic risk and other is unsystematic risk. The systematic risk is depending upon the market movements, so it is called market risk. The unsystematic risk can be reduced through the diversification. It is called diversified risk. Thus total risk = systematic risk + unsystematic risk.
The total risk of a given fund is the sum of these two risks which could be measured in terms of the standard deviation of the returns of the fund. The systematic risk may be measured in the term of β (beta) which represents the fluctuations in the NAV of the fund in relation to that of the market. Hence the following tools & technique will be used for analysis & hypothesis test.

Standard deviation: Standard deviation is a way to measure an investment's risk. Higher the standard deviation, the higher the fund's risk.

Sharpe Ratio: This measure gives us, at a glance, an idea of how much bang are getting from the mutual fund for the risk are taking. The higher the Sharpe Ratio — named after Nobel Laureate William Sharpe —the more return are getting for the risk.
R-Squared: This measure helps us figure out how much of a fund's movement is due to the judgment of the portfolio manager and how much is due to the movements of the stock market. The closer R-Squared is to 100, the more the fund mirrors what's going on in the stock market.
Beta: Measures how sensitive the fund is to movements by the rest of the stock market. A fund with a beta of 1 moves up and down by the same order of magnitude as the stock market. A beta of 0.75 shows that the fund tends to underperform by 25 percent when the market gains but declines 25 percent less when the market falls. If any one want less wild swings in his financial life and can accept lower returns as a result, look for a fund with a low beta.

Alpha: Definitely one of the best statistics out there for measuring mutual funds. This single number tells you whether the portfolio manager is adding value or destroying value. When a fund has a negative alpha that means it performs worse than it should, based on the amount of risk that's being assumed. When the alpha is positive, it means that the manager is adding value by getting a better return than would be expected for the risk being taken. Always look for mutual funds with positive alphas. In measuring alpha, Morningstar compares all funds not only to the market (S&P 500) but also to the index that most closely matches a fund's investment objective.

F Test: The F test is a statistical technique which used for test of significant difference between the observed value and the estimated value of a ratio of certain variance. This technique can be used advantageously in the analysis of variances involving two and more samples. This technique of evaluation of variance ratios was developed by statistician R.A Fisher in 1920. In this paper, F test is used to testing of hypothesis.
Chi-square test, average, percentage ,co-relation , regression , co-efficient of variation wherever necessary will be used for establishing the relationship and testing the hypothesis.

SAMPLE DESIGN

In Odisha total thirty nine mutual fund companies actively operating out of which six Mutual Fund Companies are considered for this study. Out of six mutual fund companies four are of private sector and two are public sector mutual fund companies. Rest of the mutual fund companies are excluded from the sample because of non availability of data in companies data base. Without sufficient data this study can not be completed. Though data is important factor for any study hence the rest mutual fund industries are excluded . Finally these six companies are selected for study. Thus study will be done by taking four private sector mutual fund industries and two public sector mutual fund industries and their only equity based mutual fund schemes. These mutual fund institutions are as listed below :-

Reliance Mutual Fund One India Bulls Centre, Tower 1, 11th 7 12th Floor, Jupiter Mills Compound, 841 Senapati Bapat Marg, Elphinstone Road, Mumbai 400 001.	**Birla Sunlife Mutual Fund** One India Bulls Centre, Tower-1, 17th Floor, Jupiter Mills Compound, 841, Senapati Bapat Marg, Elphinstone Road, Mumbai- 400001
HDFC Mutual Fund, Ramon House, 3rd Floor, 169, Backbay Reclamation, Churchgate, Mumbai 400 020.	**ICICI Prudential Mutual Fund** 2nd Floor, 302, Block B-2, Nirlon Knowledge Park, Western Express Highway, Mumbai - 400063.
SBI Mutual Fund 191, Maker Towers "E" Cuffe Parade Mumbai 400005	**LIC Nomura Mutual Fund** Industrial Assurance Bldg., 4th Floor, Opp Churchgate Station. Mumbai 400 020.

STUDY PLAN

Chapter I -- Introduction, background of the study and the Research methodology.
Chapter 2 -- Presents the review of literature and identifies the existing research gap.
Chapter 3 -- Trend , Development , Economic Reforms and Regulatory Framework of mutual fund Industries in India.
Chapter 4 -- Growth Challenges and Opportunities of Mutual fund industries in Odisha.
Chapter 5 -- Analysis & Interpretation.
Chapter 6 -- Testing of Hypothesis.
Chapter 7 -- Summary of the finding & conclusion and further scope of the study.

LIMITATION OF THE STUDY

1- The sample size is limited taking only four private & two public sector mutual fund industries which has the limitation of small sample size unit as well as only equity based mutual fund schemes of the sample mutual fund industries are taken into consideration.
2- The analysis is not also free from the limitation of measuring performance of risk and return on equity based mutual fund on yearly basis.
3- Limitations of the statistical tools & techniques used in the analysis is taken in to consideration.