

A Critical Analysis of Indian Mutual Funds Sector: A Case Study of Unit Trust of India (UTI) Mutual Fund, Bank of India (BOI) Mutual Fund and Tata Mutual Fund

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Abstract

Mutual Fund as an institutional investor plays a vital role in causing the stock market to function on sound and healthy lines. Worldwide, the mutual fund or Unit Trust as it called in some parts of the world has a long and successful history. The popularity of mutual fund has increased manifold. In developed financial markets, like the United States, Mutual Fund has almost over taken bank deposits and total assets of insurance fund. In the US alone there are over 5000 Mutual Funds with total assets over US \$7000 billion.

In India, the mutual fund industry started with the setting up of Unit Trust of India in 1964. Public Sector Banks and financial institutions began to establish mutual funds in 1987. The private sector and foreign institutions were allowed to set up mutual funds in 1993. Today there are around 40 mutual funds and over 300 schemes with total assets of approximately Rs. 97000 crores. The paper presents an analysis of Mutual Fund Sector in India with the study of three significant companies of India.

Key words: Mutual Fund, Capital Issue, Asset Management, Custodian, Trustee

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1. INTRODUCTION

The Mutual Funds Industry has come of age. It has substantially aligned itself with the international order. Even though in the recent change with past the growth of the industry has not been enviable, the potential is enormous provided, however, the trust and confidence of the investors in won and dept up. They have not only enhanced the accountability of Fund manager but also strengthened the mechanism of investor protection, which is much more effective today then over before.

The reason of selecting Unit Trust of India (UTI) and Bank of India (BOI) and Tata Mutual Funds (TMF) is that three big companies are covering the major market share in Mutual Fund sector. UTI is distributing 80% of its earning to its shareholders while the industry average is only 67%. Thus, UTI is a very liberal distributor of income and an investor's friendly mutual fund. On the other hand, BOI is also distributing 43% dividend. Therefore, these two companies are very significant in mutual industry hence these two companies are taken for the case study purposes.

2. MUTUAL FUND

Mutual funds are in the form of Trust (usually called Asset Management Company) that manages the pool of money collected from various investors for investment in various classes of assets to achieve certain financial goals. We can say that Mutual Fund is trusts which pool the savings of large number of investors and then reinvests those funds for earning profits and then distribute the dividend among the investors. In return for such services, Asset Management Companies charge small fees. Every Mutual Fund/launches different schemes, each with a specific objective. Investors who share the same objectives invest in that particular Scheme. Each Mutual Fund Scheme is managed by a Fund Manager with the help of his team of professionals (One Fund Manage may be managing more than one scheme also).

Many persons have shared their experience insights, research and writings on mutual fund sector but a comparative study of UTI and BOI and Tata Mutual Funds has been made yet. This paper includes the origin and development of mutual funds, regulatory environment of mutual funds, inside of Mutual funds, mutual funds marketing, mutual fund industry- it size and growth, type and growth pattern of Mutual funds, investment pattern of mutual funds, investors protection and mutual funds. Evaluation of performance of Mutual funds, trace out problem of industry and these two companies and at last to provide suggestive mode to the industry and to the above two companies.

3. HYPOTHESIS

Mutual funds, like securities investments, are subject to market risks and there is no guarantee against loss in the Scheme or that the Scheme's objectives will be achieved. As with any investment in securities, the NAV of the Units issued under the Scheme can go up or down depending on various factors and forces affecting capital markets. Past performance of the Sponsor / the AMC / the Mutual Fund does not indicate the future performance of the schemes of the Mutual Fund. Investors in the Scheme are not being offered a guaranteed or assured rate of return.

UTI Mutual Fund is the leader of market as compared to BOI Mutual Fund and TATA Mutual Fund.

4. RESEARCH METHODOLOGY

Stage (1): Firstly, a survey of previous research works and studies existing literature related to mutual funds sector especially UTI and BOI mutual fund and Tata Mutual Funds has been made.

Stage (2): At second stage, research design has been made regarding the collection of data and analysis of data. Exploratory as well as descriptive design has been used in our research work so as to formulate research problem. Primary as well as secondary data have been compiled for this purpose by the following methods:-

Collection of primary Data

- Through observation;
- Through personal interviews;
- through questionnaire;

Collection of secondary Data

- Company profits & loss A/c and its internal records;
- Reports publication of financial institutions;
- Trade and technical journals;
- Magazines & Newspapers;
- Reports prepared by research scholars;
- Internet;

Stage (3): This stage is relating to sampling plan. A sampling plan has been made regarding the sampling unit, sample size and sampling procedure. To find out various problem faced by investors relating of UTI, and BOI and Tata mutual funds, we had circulated our questionnaire to 250 respondents (i.e. to investors) and 75 office bearer of UTI & BOI, management staff member etc. to get their opinions on various aspect of mutual funds.

Stage (4): This stage is relating with analysis and interpretation of data. In this stage we had made analysis regarding closely relate operations such as the mutual fund industry and growth investment pattern of mutual funds, income & expenditures of mutual funds. Thereafter, we have drawn our observations. Our findings and suggestions would hopefully be of immensely useful for planners as well as the management of the concerned companies.

Stage (5): Preparation of report is the last stage of this research project. Eventually, a report has been made from what is done by the researcher. In the report the researcher has made concluding observations and provided suggestive mode.

In India, the mutual fund industry started with the setting up of Unit Trust of India in 1964. Public Sector Banks and financial institutions began to establish mutual funds in 1987. The private sector and foreign institutions were allowed to set up mutual funds in 1993. Today there are around 40 mutual funds and over 300 schemes with total assets of approximately Rs. 97000 crores. This fast growing industry is regulated by the Securities and Exchange Board of India (SEBI). On problems in regulating mutual fund we have searched out we have provided appropriate suggestions so that investors can be protected properly.

The key points of our study are:

- (a) To appraise the contribution of UTI and BOI mutual funds and Tata Mutual Funds in the development of mutual fund industry.

- (b) To analyze critically the working, marketing strategies of UTI and BOI mutual funds and Tata Mutual Funds.
- (c) To study the various types of Mutual Funds in India and also to study the various rules and regulation applied in the formation of Mutual Funds.
- (d) To assess the need of regulating of Mutual Funds in India.
- (e) To study the role & effectiveness of SEBI in protection of Investors investing in Mutual Funds. And we have also to make market survey for getting investors' opinions and AMC Executives Opinions to make this study worthwhile.

5. RESEARCH DESIGN

- The research work is based on primary and secondary data. The main sources of secondary data are various journals, periodicals, News Papers and SEBI's documents;
- Mutual Fund companies reports...etc. The study is mainly based on data compiled from Annual Reports of leading mutual funds, Annual Reports of those companies, Internet reports prepared by Research Scholars.

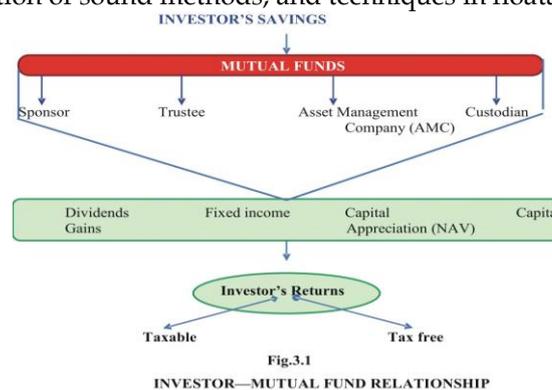
The Study is based on data of 30 leading Companies of Public and private sector. A sample survey technique has been adopted to elicit the opinions of various investors, company officers etc, regarding Mutual Fund operation and regulation by SEBI. For reaching on the conclusion various statistical techniques like average, ratio, percentage...etc from collected data have been used.

Technique of pictorial presentation of data like charts and graphs has also been applied. The time period under this study has been taken from the year 2000 and onwards. A suitable questionnaire is also prepared for collecting primary data.

6. WHY SEBI TAKEN BIRTH AFTER CAPITAL ISSUES (CONTROL) ACT (CCI)?

In India, Capital Issues (Control) Act, 1947 and the Securities Contracts (Regulation) Act, 1956 provided the necessary framework of regulation for issue of securities and the functioning of the securities market till 1992.

The main purpose of control on issue of capital was to prevent the diversion of investible resources to non-essential projects. It was used to regulate issue of bonus shares and capital reorganization of companies with a view to discourage issue of shares with disproportional voting results and adoption of sound methods, and techniques in floatation of companies.



Mutual Fund is essentially, in Indian context, a trust formed with the objective of pooling savings of a number of persons and invests that saving in a variety of financial instruments viz. shares, debentures, bonds and other securities. Investments are made in accordance with the objective defined at the time of pooling savings. People with common investment objective come together and assign the task of investments to the trust.

7. TYPES OF MUTUAL FUND

Types of mutual Fund can be broadly discussed under two categories

I. By Structure

II. By Investment Objective

7.1 By Structure:

7.1.1 Open-ended schemes: These schemes would not have a fixed maturity. Units are bought and sold directly with the Mutual Fund. Net Asset Value (NAV) of the scheme is calculated generally, on daily basis and units are bought and sold on NAV of the day after taking in to account load structure, if any.

7.1.2 Close-ended schemes: These schemes will have a predefined fixed maturity. One can invest in the scheme at the time of initial offering and thereafter, one can buy and sell units of the schemes through stock exchanges where they are listed. Generally speaking, market price of units would vary with the NAV of the scheme and this price would reflect demand and supply of units, investor's expectations and a variety of other conditions. Some close-ended schemes give an exit window at different interval to sell units directly to Mutual Fund at NAV related price.

Net Asset Value (NAV):

NAV is sum total of market value of assets of the fund net of liabilities, if any. NAV is calculated by following simple formula:

$$\text{NAV} = \frac{\text{Market value of investments} + \text{receivables} + \text{accrued income} - \text{liabilities} - \text{accrued expenses}}{\text{Number of outstanding units}}$$

7.2 By Investment Objective:

Growth Scheme: Objective of these schemes would be providing capital appreciation from medium to long-term perspective. A person looking for regular return should not invest in these types of schemes.

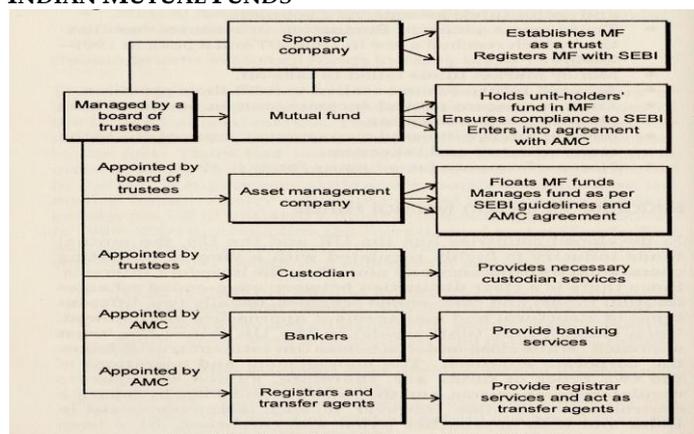
8. BENEFITS OF MUTUAL FUND

- Professional Management
- Diversification
- Liquidity
- Transparency
- Flexibility
- Low Cost
- Higher returns
- Well regulated

9. DRAWBACKS OF MUTUAL FUND

- Uncertain returns
- Over diversification
- High costs and confusing expense disclosures
- Uncertain tax liabilities
- Fund overload
- Unwieldy growth

10. STRUCTURE OF INDIAN MUTUAL FUNDS



The mutual fund is managed by the board of trustees or Trustee Company, and the sponsor executes the trust deeds in favor of trustees. The mutual fund raises money through the sale of units under one or more schemes for investment in securities in accordance with the SEBI guidelines. The trustees must see to it that the schemes floated and managed by the AMC are in accordance with the trust deeds and SEBI guidelines. It is also the responsibility to control the capital property of the mutual fund's schemes.

11. PERFORMANCE ANALYSIS OF UTI MUTUAL FUNDS

UTI Mutual Fund is managed by UTI Asset Management Company Private Limited (Estb: Jan 14, 2003) who has been appointed by the UTI Trustee Company Private Limited for managing the schemes of UTI Mutual Fund and the schemes transferred / migrated from UTI Mutual Fund.

No. of Scheme	107
No. of schemes including options	324
Equity Schemes	59
Debt Schemes	234
Short term debt Schemes	10

Performance Analysis of BOI Mutual Funds

The bank has a century old glorious history. The bank was founded on 7th September 1906 and has a glorious history of maintaining prudence and high standard of customer service Bank of India is the first Indian bank to open its branches in Japan, after World War II. Tokyo Branch was opened on 17th May, 1950 and Osaka branch was established on 20th October 1950. Over fifty-

three years of experience in global banking has endowed the bank with strong assets and correspondent relations with leading international banks. Investors of the BOIMF schemes are requested to redeem their investment by approaching the scheme's Registrars and Transfer Agents at the addresses given below:

- BOI Double Square Plus (1990) Scheme
- Rising Monthly Income (RMI-60) Scheme, 1990
- Festival Boinanza Growth Scheme (1991)
- Boinanza 80CCB Growth cum Tax Saving Scheme, 1992

12. PERFORMANCE ANALYSIS OF TATA MUTUAL FUNDS

Tata Sons Limited (TSL) is the principal investment holding company of TATAs. Through its operating consultancy divisions Tata Consultancy Services, Tata Consulting Engineers, Tata Economic Consultancy Services and Tata Financial Services, it provides a wide range of services in the areas of information technology, engineering, and financial services. Tata Mutual Funds can be seen as follows:

No. of Schemes	67
No. of schemes including options	233
Equity Schemes	37
Debt Schemes	158
Short-term debt Schemes	14

Note. BOI mutual funds are not available in the market but this company is selling other company's financial products.

New Challenges Faced by Mutual funds:

The small investors, is facing a fast-rising challenge in the Exchange-traded Fund. They are fighting for their investment in terms of dollars. Although ETFs are much smaller, some experts predict they ultimately will win the long-term confrontation.

"In a year such as 2008, when returns are low or negative, every 50 basis points [half of a percentage point] make a difference," said Tom Anderson, head of ETF research at State Street Global Advisors in Boston. "Because ETF fees on average are dramatically lower than those of mutual funds, the difference is huge."

13. FINDING AND RECOMMENDATIONS:

The four and a half decades old Indian fund industry has seen a remarkable change in character only since its deregulation in early 1990s. Indian mutual fund industry in its present form is still young as compared to most other economics. However, for an industry so young, it has shown remarkable sings of early maturity. The strong growth in Assets Under Management (AUM) and the ever increasing number of international asset managers setting up funds in India are testimony to the increasing attractiveness of Indian Markets as well as confidence in the overall India story.

Conclusions & Recommendations are as follows:

- Cause-related marketing must be clearly differentiated from charitable giving or sponsorships in any proposal for partnership involving one or more of the five mutual fund-related sharing concepts.

- It is important to recognise the overlap between Corporate Affairs and Marketing when it comes to cause-related marketing. Research both a company's charitable giving strategy as well as its business strategy. Build a proposal that fits both strategies. Involve both Corporate Affairs and Marketing in the process.
- Mutual fund companies do not perceive themselves as having excess profits that they should be using for social betterment. They believe that they are already giving generously to charity. However, they will listen to proposals that serve their business needs, such as enhanced image, new clients, and improved client retention. To gain a company's interest and attention, the charitable sector must be able to demonstrate clearly how the company's business needs can be met through partnership.
- A proposal for a partnership that can easily fit with a mutual fund company's existing systems and approaches has a higher probability of support than one which the company perceives as difficult to assimilate or as requiring significant resources to accommodate.

The Indian Mutual Fund industry is set for a future of sustained growth over the next decade with increasing participation from the retail segment. We can expect the industry to mature further and become a synonym to savings, as is the case in some of the developed countries. The retail potential is substantial and the various stakeholders can make specific interventions to unlock it. However, each player will need to develop its own unique growth path and have the specific levers - products, distribution, branding - optimized to the journey that it wants to traverse. Also, while the players need to gear up for the sustained growth scenario, it is equally important for the industry participants to build in sufficient defense mechanisms in their armory to ensure survival under the potential scenarios of downturn. The discussion made in this article indicates that the future of Mutual Funds in India is bright.

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