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Management

A STUDY OF GROWTH AND PROSPECTS OF MUTUAL FUNDS IN DELHI AND NCR

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ABSTRACT In a developing economy like India, it is difficult to survive with the only earnings. There is a dire need to have an alternate income be it savings in bank, or the investment in stocks or mutual funds. But people though being so educated are still not willing to take risk in investment in mutual funds. Mutual funds though less risky than any other investment yet people are not willing to invest in. in the city like Delhi also, very few people can invest in mutual funds. This research paper will clear the myths regarding the mutual funds investments and glorify its positive side.

KEYWORDS : mutual funds, asset management company, Treynor ratio, Sharpe ratio, exit load, portfolio

INTRODUCTION

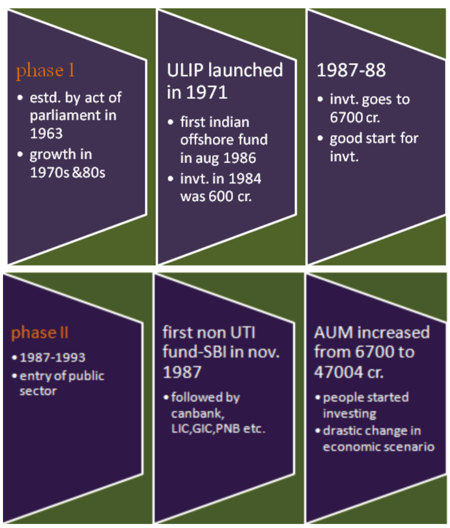
In today's time, no one wants to wait for earning. Everybody needs easy and quick money and that too without bearing risk. But as the proverb says,"no risk, no return". One has to bear the risk for earning the income. Every step of life consists of risk. Be it walking on the road or eating something, working in the workplace or investing somewhere.

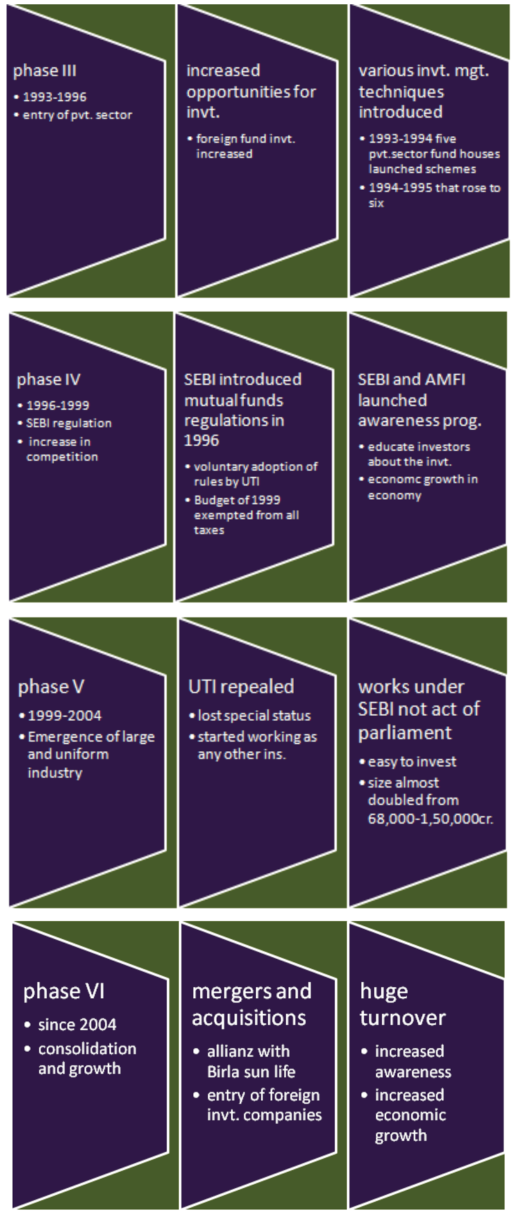
While investing, an investor has to keep certain things in his mind very clear. These are:
1) Every investment comes with risk
2) Amount of risk that an investor can bear
3) Types of securities he wants to invests in
4) Uncertainty
5) Probability of both-positive as well as negative returns etc.

The investor should have certain level of knowledge while opting for investment. There are various methods or areas in which an investor can invest. He can invest in banks(savings account, RD,FDs etc.), mutual funds, securities market, debentures, money market instruments, real estates, gems and jewellery etc.

There are various opportunities where a person can invest his/her savings. But most of them want a safe and secured return, so they prefer to keep their money in banks. Although this is one of the good options for earning returns yet there are various more ways.

Mutual funds investment is one of the upcoming trends for earning good returns. People fearing to invest in, but wants to do so, goes to expert and provide their money to the fund managers to invest in the bunch of securities which could provide them with good returns. Depending on the nature of investors, whether he wants return in short term, medium term or long term or if he is an aggressive investor, moderate investor or conservative investor, the managers explains them the various options of portfolios and decides to invest.





Mutual Funds in India

The mutual fund industry started in India in 1963 by UnitTrust of India (UTI) through the initiative of RBI andGovernment of India. Main objective then was to attractthe customers to bring the cash in the market. The historyof mutual funds of India was categorized in 6 phases:

Slowly and gradually, various types of mutual funds were introduced as per the investors' requirements.

a) Money market funds: these are those funds which are invested for short period. These generally possess low risk as compared to other securities. But due to low risk factor, they provide led return. Securities can be government bonds, T-bills, commercial paper, certificate of deposits etc.
B) Fixed income funds: these are those funds which provide regular income to the investors. These could be short term or long term. For example: corporate bonds, govt. bonds etc.
c) Equity funds: these are basically the investment in equities. These securities possess higher risk as compared to the above two. These securities provide higher return chances.
d) Balanced funds: these are the combination of both equity and fixed income securities. According to the risk bearing capacity, an investor/fund manager can create the proportion of portfolio's assets.
e) Index funds: these funds aim to track the performance of specific funds such as S&P/TSX composite index. The value of mutual fund changes directly in proportional to the change in index.
f) Specialty funds: these funds focus on specialized mandates like real estate, commodities or socially responsible funds.
g) Fund of funds: these funds invest in other funds. They try to make easy the allocation and diversification of funds easier.
h) Growth funds: these are the funds in which the profits earned by the investor are again invested on a repeat basis. They are ideal for investors at the prime earning stage.
i) Open ended funds: in this type, an investor can enter or exit his funds anytime. There is no fixed maturity.
j) Close ended funds: these are the securities in which an investor can invest his money at the time of issue known as New Fund Offer. These would be redeemed automatically at the expiration period.
k) Sector specific funds: as the name suggests, these are the mutual funds which are invested in some specific sectors. These sectors can be banking, insurance etc.
l) Tax savings funds: these funds help the investors to reap the tax benefits. The investors through this scheme invest in equities also known as ELSS (Equity Linked Saving Schemes). These types of schemes have a 3 year lock-in period. The investor in this scheme saves himself from tax u/s 80c of Income Tax Act 1961.
m) Hybrid/ Monthly Income Funds: this is a combination of equities and balanced funds, but the proportion of equities is lesser as compared to balanced funds. These are also known as marginal equity funds. These are suitable for those investors who are retired and want a regular income source.
n) Gilt funds: these funds invest only in government securities. These are for those who don't want to bear ant type of risk and are happy in limited amount of income.

Scope of study
The scope of studying on mutual funds is a wide area. One cannot research whole about mutual funds in one go. Even while studying one company, there are 100's of portfolios. Some already exist and some has to be created according to the investing pattern of the investors. Also there are numerous methods through which the return can be calculated. This depends totally on the risk tolerance behaviour of the investors. This study helps to find out the various innovative methods to invest in mutual funds. Basically, we need to find out the reasons which are stopping people to trust mutual funds. Such study also helps in finding the optimum solution for increasing the investments.

While studying the first research paper mentioned below, it was observed that there are many factors which are creating hindrances for the investors to invest like the income factor, savings factor, risk bearing factor market awareness, volatility in the markets etc. the researcher would try to analyze the scenario and would also try to find out the possible outcomes for such problems.

Literature Review
SEBI (**Mutual Funds**) Regulations 1993 defines **mutual fund** (MF) as a **fund** established in the form of a trust by a sponsor to raise monies by the Trustees through the sale of units to the public under one or more schemes for investing in securities in accordance with these regulations.

These regulations have since been replaced by the SEBI (Mutual Funds) Regulations, 1996. The structure indicated by the new regulations is indicated as under:

A mutual fund comprises four separate entities, namely sponsor, mutual fund trust, AMC and custodian. The sponsor establishes the mutual fund and gets it registered with SEBI.

The mutual fund needs to be constituted in the form of a trust and the instrument of the trust should be in the form of a deed registered under the provisions of the Indian Registration Act, 1908.

The sponsor is required to contribute at least 40% of the minimum net worth (₹ 10 crore) of the asset management company. The board of trustees manages the MF and the sponsor executes the trust deeds in favour of the trustees. It is the job of the MF trustees to see that schemes floated and managed by the AMC appointed by the trustees are in accordance with the trust deed and SEBI guidelines.

Perception of Indian Investor towards investment in mutual funds with special reference to MIP Funds Prof Gauri Prabhu Associate Professor AISSMS Institute of Management, Pune: A 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 other securities.

Investors perception towards mutual funds:"the term mutual funds mean that investors contribute to the pool, and also benefit from the pool. The pool of funds held mutually by investors is a mutual fund."-Raghavendra Yadav KM

Tools used in analyzing mutual funds
There are various tools that can be used to measure and analyze the performance of mutual funds. Such tools and analyzation helps investor to take a decision whether he should invest in such portfolio or not.

Tools	indications	calculations	Implications
Credit ratings	Risk in investing in any security. Credit ratings shows the creditworthiness of a company	Methods depending on the company.	Investors should invest in any stock after deep analysis and the ratings provided to that company.
Sharpe Ratio	Return per unit of total risk in a scheme	(return-risk free return)/standard deviation	Compares within categories. Higher than average means the fund manager is able to provide higher returns
Average maturity debt schemes	Average maturity period of all debt instruments in a portfolio	Given in fund's fact sheet	Longer the duration, higher is the volatility in interest rates and prices and vice-versa.
Expense Ratio	Annual expense the fund will charge the investor.(ranges from 0.1-3.25%)	Total expenses charger by fund/average AUM of fund.	Lower the expense ratio, better is fir the investor.
Portfolio Concentration Ratio	Where and how much fund has invested	Percentage of fund's top five stocks.	Normal range for stocks-30-40% For sectors-30-60%
Exit load	Penalty for exiting from the fund early.	Ranges 0% for liquid funds and 1% for the funds holding for 1 yr.	Invest in securities with low exit load.(exit load will be charged based on the load at the time of issue not at the time of redemption.

Standard deviation	Volatility of funds and market scenario	$\sqrt{\sum}$P(X-)²	Lower the deviation, better the fund investment. Range for liquid funds-1% For equity funds-20-40%
Portfolio turnover ratio	Frequent trading of schemes in the portfolio	Total value traded for 12 months/avg. assets under mgt.	Should be compared within portfolio. Aggressive investors prefer higher PTR and vice versa.
Treynor ratio	Return per unit of market risk systematic risk	(return-risk free return)/beta	Higher the ratio, higher the return
Beta	Fund's performance compared to market.	Cov(I,m)/var(m)	>1(aggressive security) =1(moderate security) <1(conservative security)

Importance of mutual funds

In today's scenario investments play an inseparable part in every individual's life. It is difficult to earn bread and butter only through some peanuts. Some of the important reasons why investments are required are as follows:

a) Such investments help many people to increase their livelihood.
b) Many people are afraid of investing in stock market. Reasons could be their risk tolerance power, income sources or poor knowledge etc. mutual funds investment helps to come out of such fear as such investments are done under the guidelines of an expert.
c) One can diversify the risk factors through investing in mutual funds (various assets in one portfolio)
d) Low cost is incurred in such expenses.
e) Investing in mutual funds provide better return opportunities as compared to other forms of investment.
f) As mutual funds are supervised under SEBI regulations, so there are less chances of fraud
g) People can invest in such funds according to their convenience.

Challenges faced by mutual funds in India

Every coin has two sides. If it acts as an opportunity for some investors it can create some problems also.

a) expense ratio

Mutual funds are no doubt a boon to some investors but when it comes to expenses, it could charge with huge amount. For example: a person wants to invest $1,00,000 in the MF, for this he has to pay $1,000 as expense which is a huge amount.

b) no hoarding of cash

Fund managers cannot hoard cash for long time. If a prospect had provided money for such investment, te manager has to invest according to the risk tolerance power of the investor. For example: Mr. A has provided $25,000 to a MF company for investment, but there exists a good opportunity of profits in the stock of $45,000. The manager cannot invest in $45,000 investment as he is less with cash.

c) quick redemption

quick redemption is one of the biggest challenge that this sector is facing. Such situation is basically occurred in bearish situation. The manager has to sell the shares even though he knows that tis is not the best time to sell the stocks.

Impact of mutual funds

Mutual funds investment helps to earn good profits but it could lead to heavy losses also if not invested in wisely. A person should have proper knowledge while investing.

This could lead to negative image if not invested wisely. People tend to invest in those areas where they see other people investing and earning good and happy profits. This leads a long lasting effect. Although it is not necessary that if an investor loses in a fund then the other will also looses. It totally depends on the risk tolerance power, understanding about the stocks. For example, Mr. Atul wants an investment of 1,00,000/- and he expects a return of 10% and the risk he can bear is 5%, on the other hand Mr. Rahul an aggressive investor invests the same amount but the risk he can bear is 15%. Suppose the volatility in the market is 9%, then this investment is a loss for Mr. Atul but a profitable situation for Mr. Rahul.

This example shows that same investment can be a profit earning for one and a loss incurring for the other person at the same time. So this can be interpreted as mutual funds leave an impact on investors both as positive as well as negative also.

MF also has a deep impact on the GDP of economy. Investments are one of the main sources of income in any country. Without investments, no economy can survive. Mutual funds are one of the main ingredients in the table of investments. There are various types of mutual funds. Depending on the nature of investors, fund managers explain various combinations of assets.

Longitudinal Study

A longitudinal study is a method to analyze and use the information and data are collected repeatedly over a period of time.

Investors should follow the existing market strategies an should respond accordingly. One has to deal according to the market situations. In a conservative market scenario one should bepatient towards his investments. One very popular funding scheme now a day is the SIP (systematic Investment plan) which serves as a resourceful tool of wealth creation in context of long term goals. Considering the current market state of affairs, if RBI slashes the interest rates further, the debt funds will give better returns. The most concerned area is the tax savings where people try to save their taxes.

A study on factors affecting the investment in mutual funds and its preference to retail investors-"Arathy B, Awasthy A Nair, Anju Sai P, Pravitha N R". In this paper, these analysts explained the factors that affect the investors to invest in funds. "Tax benefits, high return, price and capital appreciation are some of the major factors which the investor will look into while investing in mutual fund. Liquidity, diversification, risk and brand image also have influence on the final mutual fund purchase decision of the investor but not as much as the former."

A Study of Investor's Perception Towards Mutual Fund Decision: An Indian Perspective(2017): rajesh trivedi,Prafulla kr. Swain, Manoranjan dash: "the youth and elderly people are less aware about the mutual fund information.the mutual fund investors considerthe liquidity of fund schemes as also an important factor for invt. In such." This simply shows that people don't have patience to invest in long term funds. They want quick recovery.

Eling, M (2008), in his paper emphasizes on the effectiveness of measure selected for performance evaluation of mutual funds. Interestingly, author concludes that the selection of performance evaluation techniques does not affect the ranking of mutual fund. Along with it, paper also concludes that Sharpe ratio is the best known and best understood measure comparatively and recommended for the performance measurement of mutual funds. But this is not a universal truth.

This literature review would relate the mutual fund schemes with effect to risk, return, fund managers, investors, market volatility and the investment patterns.

A) Mutual fund with respect to risk

Almost every researcher has talked about the risk factor when we talk about investments. Risk is an inherent factor in each security. Rajesh Trivedi talked about factors affecting investment decision in 2017. While researching, he put the risk factor on the most priority basis. When we talk about risk, there are so many types of risk which affects the investment decision of an investor. It could be market risk, operational risk, interest rate risk, currency risk etc.

B) Mutual funds with respect to return

The main purpose of any investment is to earn good returns. It could either earned in the form of interest or the regular income or the lump sum payment. There are various methods to calculate return like absolute return, compounded annual growth rate etc. the method that is used for calculating return should provide the best and the true results.

Ippolito R.A. (1992) concluded that investors prefer mutual funds which have a record of positive return in the past. Sapar et.al. (2003) advocated that majority mutual fund schemes outstripped the investor's anticipation about returns presenting mutual funds as a rewarding source of earnings. These results were also supported by Prajapati & Patel (2012), even though sampling frame, time horizon, and location were different. While, Alekhya. P (2012), found that for taking a decision to invest in mutual funds, the evaluation plays a greater role and returns is one of the major incentive to investors. Similar study was also conducted by Dhanda et al (2012) on open ended mutual fund schemes in terms of variability and volatility and found that majority of schemes performed better.

C) Mutual funds with respect to fund portfolio

Gasper, Massa and Matos (2006) show that mutual fund families may subsidize the performance of a favorable fund in the family at the expense of another fund. This shows the stock which provides the maximum return will not become an opportunity cost for any other fund.

D) Mutual fund with performance evaluation

Every single paper talks about the performance of fund in which an investor has invested. Be it Rajesh Trivedi's(A Study of Investor's Perception Towards Mutual Fund Decision: An Indian Perspective) or any other all of them talks about performance of investments. Without evaluating the ex-ante returns, no investor would invest in any security.

Gap Analysis

Most of the study pursuAed under this topic covers the major factors affecting the investments in mutual funds.

Many studies also cover the investment analysis comparing the stocks of different banks or institutions or some particular stocks. While covering such points a researcher should cover as many aspects as possible so that it could be used over some particular area or region. The future proposed researchers needs to keep in mind the aspects which could lead to some area wise segregation. This proposed study will focus on the analytical factors which studies the growth and prospects of mutual funds investment in Delhi and NCR.

Research Methodology

Research methodology is a systematized method to approach towards a conclusion. Proper methods, tools and techniques are used to derive the conclusion. This is a method which provides the sufficient data for analysis. This study shows the situation as they are. There are various methods that would be used in such methodology.

5.3 Hypothesis

H1 mutual funds companies are working according to the behavior of investors.

H2 mutual funds are invested in according to the present scenario of economy. (Excluding unforeseen circumstances)

H3 there are no changes in the political conditions of the economy.

Research Area

The study is conducted in Delhi and NCR region. This area is selected as there is not much research done on a particular region. There exist more than 100 mutual fund agencies in the capital. As this is a metropolitan city and here is more scope of viability in investment due to various categories of investors so a good conclusion can be drawn (in NCR also). The traders working here are much expert, possess high professional knowledge and better fund management. As this is the hometown of the researcher, it would be feasible to gather the primary data within a stipulated time.

Sampling Size

The sample size for this study will be 5 mutual fund companies consisting of 5 portfolios each.

Sample size of questionnaire= 300+ approximately.

Sampling Technique

The sampling technique used here would be probability sampling. The reason behind this method is to provide equal weightage to all the investors. The use of non-probability technique could also be used but one of the main drawbacks is that there is a possibility of missing out a good respondent.

Data collection methods with justification

Data collection is a method of collecting all the possible information available and unavailable through various methods, working on hypothesis and coming out with a conclusion. There are two methods for data collection: primary method of data collection and secondary method of data collection. Secondary data will be collected via proper appointments, pre fixed timings, through mails, google sheets etc.

Primary data can be collected through interviews and questionnaires.

Questionnaires

This is a non disguised and non biased method to collect the primary data. As in case of launching a new product in the market, it is always tested on a small scale. Same here, the data collected would be from a limited segment of people. The questionnaire would consist of many questions, both open ended and close ended.

Interviews

Interviews would help to know about those information which would not be covered through questionnaires. Gathering information personally is one of the best method for primary data.

Secondary data

The secondary data will be collected through research papers, published journals, magazines, newspapers, bulletins, online websites etc.

Literatures: this is one of the best and the most reliable source for collecting secondary data. Numerous amount of research work is available which helps in gathering true and fair information.
Newspapers and bulletins: one of the best sources to note the most recent data.

Data Analysis

As this is an analytical approach, the research findings would be proved through various practical aspects. Various models will be used to solve the problems.

Models like Fama model, Sharpe ratio, Treynor ratio, portfolio turnover ratio, expense ratio, beta, R-Squared ratio, information ratios etc. will be used to prove the findings.

Limitations

1. The research is limited to Delhi and NCR region.
2. The findings of the research cannot be generalized.
3. Companies by origin from India are chosen.
4. Investor's behaviour in different scenarios is not taken here.

Conclusion

From this analysis it can be concluded that still there are many areas where people need to understand the benefits of investing in mutual fund. But they have to gain knowledge for such investments.

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