Vol 6 Issue 2 August 2016 ISSN No :2231-5063

International Multidisciplinary Research Journal

Golden Research Thoughts

Welcome to GRT

RNI MAHMUL/2011/38595 **ISSN No.2231-5063**

Golden Research Thoughts Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial board.Readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

Address:-Ashok Yakkaldevi 258/34, Raviwar Peth, Solapur - 413 005 Maharashtra, India
Cell : 9595 359 435, Ph No: 02172372010 Email: ayisrj@yahoo.in Website: www.aygrt.isrj.org

ISSN: 2231-5063 Impact Factor : 4.6052(UIF) Volume - 6 | Issue - 2 | August - 2016

GRT Golden Research Thoughts

A COMPARATIVE STUDY OF PUBLIC AND PRIVATE SECTOR MUTUAL FUNDS IN INDIA

Shri. Sachin Bharat Choudhari
Assistant Section Officer, Vice Chancellor's office and Meetings and Elections Section,Solapur University, Solapur.

ABSTRACT
The first introduction of a mutual fund in India occurred in 1963, when the Government of India launched Unit Trust of India (UTI). UTI enjoyed a monopoly within the Indian open-end investment company market till 1987, once a number of different government-controlled Indian monetary firms established their own funds, together with banking company of India, Canara Bank, and geographic region full service bank. This market was created hospitable non-public players in 1993, as a results of the historic constitutional amendments brought forward by the then Congress-led government beneath the prevailing regime of alleviation, Privatization and globalization (LPG). the primary non-public sector fund to control in India was Kothari Pioneer, that later incorporate with Franklin Templeton. In 1996, SEBI, the regulator of mutual funds in India, developed the open-end investment company Regulation that may be a comprehensive regulative framework.

KEYWORDS :*Unit Trust of India (UTI) , Privatization and globalization (LPG).*

INTRODUCTION

A open-end investment company is that the ideal investment vehicle for today's advanced and fashionable monetary situation. Markets for equity shares, bonds and alternative fastened financial gain instruments became mature and data driven. tiny investors face lots of issues within the share market thanks to lack of skilled recommendation and lack of data. Mutual funds have return as a far required facilitate to those investors. The open-end investment company business started in Asian country in an exceedingly tiny manner with the UTI Act making what was effectively atiny low savings division at intervals the tally. Over a amount of twenty five years this grew fairly with success and gave investors an honest come back, and so in 1989, because the next logical step, public sector banks and monetary establishments were allowed to float mutual funds and their success bold the govt to permit the personal sector to invade this space.

There area unit range of benefits of creating 10AN investment within the Mutual Funds like skilled management, diversification, and economies of scale, simplicity, and liquidity. The disadvantages of open-end investment company area unit high prices, overdiversification, potential tax consequences, and therefore the inability of management to ensure a superior come. the most important issues with mutual funds area unit their prices and costs it embrace Purchase fee, Redemption fee, Exchange fee, Management fee, Account fee & dealing prices. There area unit some hundreds that raise the price of open-end investment company. Load may be a variety of commission betting on the sort of funds. Mutual funds area unit straightforward to shop for and sell. we are able to either get them directly from the fund company or through a 3rd party. Before investment in any funds one ought to contemplate some issue like objective, risk, Fund Manager's and theme documentation, value issue etc.

There area unit many varieties of mutual funds out there within the market which might be classify as; funds supported Structure (open-ended &; close-ended), Nature (equity, debt, balanced), Investment objective (growth, income, cash market). A regulative framework was enacted by SEBI in 1992 for MFs, that were afterwards mandated by SEBI. AN association named as AMFI that was incorporated on twenty second August, 1995 interacts with SEBI and works consistent with SEBIs pointers within the investment trust business.

The development of the capital of India Market and reforms of the economy in 1992 has come back a protracted approach with millions of ups and downs. The impetus to money sector reforms came with the submission of 3 prestigious reports by the Chakravarty Committee in 1985, the Vaghul in 1987 and therefore the Narasimham Committee in 1991. however the recommendations of the Narasimham Committee provided the blueprint of the reforms, particularly with relation to banks and different money establishments. 1992 Reforms made-up the approach for the gap of the Indian money market to foreign and personal Indian players that have resulted in inflated competition and higher product offerings to shoppers.

The Performance of Indian investment company trade has big at a powerful pace in terms of Assets underneath Management (AUM). this can be well mirrored within the proven fact that Aum Shinrikyo recorded a combined annual rate of thirty fifth throughout the amount between FY 2005 to FY2009. With the ascension, mutual funds became more and more necessary suppliers of debt and equity funds. Indeed, companies with access to the reduced interest rates and elevated share costs of the capital markets have benefited from the surge in investment company assets. the quantity of fund homes is additionally increasing annually within the quick growing Indian economy. though many investment choices out there to investors as well as bank deposits, company deposits, precious metals, unmovable property, equities and ULIPs, the menage sector's investment in mutual funds as element of overall savings of menage sector in money assets is increasing.

MUTUAL FUNDS ARE AN UNDER TAPPED MARKET IN INDIA

Deposit being on the market within the market but 100% of Indian households have endowed in mutual funds. A recent report on investment firm Investments in Bharat printed by analysis and analytics firm, Bean Town Analytics, suggests investors ar holding back from golf stroke their cash into mutual funds thanks to their perceived high risk and an absence of knowledge on however mutual funds work. There ar forty six Mutual Funds as of June 2013.

the first reason for not investment seems to be related with town size. Among respondents with a high savings rate, near four-hundredth of these WHO board metros and Tier I cities thought-about such investments to be terribly risky, where ever as thirty third of these in Tier II cities aforementioned they failed to knowledge or where to take a position in such assets.

STATEMENT OF PROBLEMS

During the last four decade, UTI that may be a public sector open-end investment company was the dominant player within the open-end investment company trade. however when witnessing the crisis arrived on account of its unit sixty four theme and bailing out 3 times in 5 years, LED to the destruction of investor's religion, trust and confidence in UTI. Mean whereas the non-public funds had consolidated and gained the bottom of this market.

There area unit currently many thousand mutual funds with completely different investments methods goals and risks. However, the chance and come related to the investment of Mutual Funds can notably have an effect on the capitalist. so with such a lot at stake, it becomes tough for AN capitalist to decide on the fund which can fulfills his / her objective of investment. Since the investors invest their cash in several schemes offered by the 2 sectors that area unit public and personal sector, their risk and come related to the sort of investment will vary. Moreover, the whole fund trade suffers from a heavy cost-control drawback that contributes to the at par returns denote by too several funds.

OBJECTIVES OF THE STUDY

The overriding objective of the study is to assess the relationship between the public sector Mutual Funds and private sector Mutual Funds in India. However, the proposed work has been undertaken to achieve the following specific objectives as well:

- The main purpose of doing this research work is to know about mutual fund and its functioning and to know in details about mutual fund industry right from its inception stage, growth and future prospects.
- To understand different schemes of mutual funds in India like equity, income, balance as well as the returns associated with those schemes.
- The project study was done to ascertain the asset allocation, entry load, exit load, associated with the mutual funds. Ultimately this would help in understanding the benefits of mutual funds to investors.
- To study the various changes in Indian mutual funds industry after liberalization.
- To examine the role of mutual funds in promoting the economic development
- To study the role of mutual funds in Indian capital market.
- To examine the resource Mobilisation and Asset under Management of the Public and Private Sector Mutual Funds in India
- To compare the market return of mutual fund Vis a Vis SENSEX
- To compare the performance of schemes of public-sector and private-sector mutual funds in India.
- To make a comparative study of public-sector mutual funds and private-sector mutual funds of Indian mutual funds industry.
- To study the risk –return profile of equity growth and balanced funds
- To analyze the risk-return profile of equity linked growth and balanced funds managed by different categories of AMC's.

NEED AND SIGNIFICANCE OF THE STUDY

The present research thus aims at analyzing the overall comparison of the performance of public and private sector mutual funds of India. Since the mutual fund is a very broad market and on the basis of the research gap a confined area has been studied. The study will help the researchers, academicians, corporations, investors, institutions and other entities which are involve directly or indirectly with the mutual fund operation to understand the following thing which have emerged as a matter of this research:

- The study will definitely help the investors in deciding the various schemes of mutual funds in regard to investment. This will help the different investors in formulating their strategies to make the best use of their saving inn mutual funds.
- The study will help the investors in knowing the evaluation of various schemes of mutual funds.
- The study will help the investors in knowing the mechanism of the operation of mutual fund industry in India.

• The study will help the investors in knowing the various important factors affecting the performance of mutual fund industry.
• . This study will help in knowing the profitability, liquidity, marketability and competitiveness of the Indian mutual fund industry.
• The study will also help the various authorities of mutual fund to bring further improvement in the market in regard to protect the larger interest of the small investors.

HYPOTHESES OF THE STUDY

• Null hypothesis HO-1: There is no significant difference between the returns and risk of public mutual funds and Private mutual funds of respective schemes/products of Mutual funds.
• Further this hypothesis is tested between the four different categories of Public and Private sector mutual funds.
• Null hypothesis H_o-1A: There is no significant difference between the public and private mutual funds in terms of return and risk of growth schemes.
• Null hypothesis H_o-1 B: There is no significant difference between the public and private mutual funds in terms of return and risk of tax saving schemes. (Stands accepted for return and rejected for risk.
• Null hypothesis H_o-1 C: There is no significant difference between the public and private mutual funds in terms of return and risk of equity oriented schemes.
• Null hypothesis H_o-1 D: There is no significant difference between the public and private mutual funds in terms of return and risk of debt schemes.
• Null hypothesis H_o-2: There is no significant difference between the public sector mutual funds and private sector mutual funds the on the basis of Sharpe, Treynor and Jenson ratio's.
• Null hypothesis H_o-3: There is no significant difference in the profitability of public sector and private sector mutual funds AMCs.
• Null hypothesis H_o-4: There is no significant difference between public sector and private sector mutual funds in terms of resource mobilization.
• Null hypothesis H_o-5: There is no significant difference between the Public and Private sector Mutual funds in terms of asset under management.
• Null hypothesis H_o-6: There is no significant difference of transaction cost between public and private sector mutual funds.

RESEARCH METHODOLOGY OF THE STUDY

To achieve the objectives of the present study, the primary and secondary sources of information have been utilized. The history, genesis, components, growth, performances of the mutual fund have been examined on the basis of secondary data like periodicals, text books, journals, reports, office records of various organizations like SEBI, RBI and ministry of finance, and different websites containing information of Indian mutual fund. Thus, the research work is heavily banked on the secondary source of information.

DATA COLLECTION METHOD

Data pertain to the performance of the funds were drawn from secondary sources such as NAV (Net Asset Value). The monthly NAVs of the sample schemes have been collected from the respective company's websites and on that basis returns of the schemes have been calculated. The S&P CNX Nifty has been chosen as the benchmark index, being wider than the BSE SENSEX. Closing Index values of S&P CNXNIFTY has been collected from the nifty website for calculating monthly returns of the market. The weekly yields on 91- day US Treasury bills are taken as a risk free return i.e. 0.09% as on 31st march 2011. The basic information regarding the schemes and the investment pattern are also collected from the respective company's fact sheets and also from the company's common application forms. The information related to the key statistics of the schemes is taken from the annual accounts of the companies. Data of resource mobilization as well as Asset under Management has been collected from the SEBI website and RBI websites. In formal discussions were made with the industry staff. During the course of discussions the staff expresses their opinions regarding the funds. The data collected is compiled in the form of tables and graphs and scrutinized through statistical tools and techniques.

SAMPLE SIZE

The present study is a sample study. Samples were selected at random from equity growth funds, Tax saving funds and balanced funds offered by public and private MFs operating in India. On this basis, 5 private sector mutual fund companies and 5 public sector mutual fund companies were short listed. From these funds, those schemes which are growth-oriented open-ended schemes, tax saving schemes, hybrid –equity oriented, debt oriented with availability of data and minimum five year of inception was selected. Thus, Private Sector Mutual Funds and Public sector Mutual funds, when combined accounted for 26 schemes.

SPAN OF TIME

The present study aimed at analyzing the comparison between the performance of the public sector Mutual funds and Private sector mutual funds. The study covers the period from 1997 to 2011 to collect the data of resource mobilized as well as the AUM by both the sector, as the private sector entered in this Industry in 1993 and the SEBI guidelines were issued in 1996 for both the sectors. The researcher has evaluated the performance of the mutual funds schemes over longer period of time since their inception and those mutual funds having a minimum of five years of operation were selected. The comparative analysis of the selected schemes covers the period from 28th Feb 2006 to 31 March 2011.

RESEARCH DESIGN

For this study the researcher has used the descriptive method for analyzing the comparative performance of the funds. Descriptive research study is concerned with describing the characteristics of particular individual or of a group. In descriptive analysis the researcher must be able to define clearly what he wants to measure and must find adequate method for measuring analysis.

TOOLS FOR ANALYSIS

The performance of selected funds is evaluated using Statistical tools such as average rate of return of fund, standard deviation, Risk/Return, Sharpe Ratio, Treynor ratio and Jensen ratio. Return alone should not be considered as the basis of measurement of the performance of a mutual fund scheme, it should also include the risk taken by the fund manager because different funds will have different levels of risk attached to them. Risk associated with a fund, in a general, can be defined as variability or fluctuations in the returns generated by it. The higher the fluctuations in the returns of a fund during a given period, higher will be the risk associated with it. The most common measures that combine both risk and reward are Treynor ratio, Sharpe Ratio and Jensen ratio to realize the objectives of the study.

FINDINGS OF THE STUDY

1.After a comprehensive study of public and private sector Mutual funds with the help of data obtained from the different websites, articles, projects related to the performance of Mutual funds and results obtained by using various statistical tools, the followings are the findings of research work undertaken:

2.Mutual funds offer a profitable investment option to increase the return of small investors. The risk adjusted returns generated by Private Mutual funds is found generally higher than that of the Public sector Mutual funds. The reason behind this is that Private Mutual funds had their investment more prone to risk as compared to by Public Sector Mutual funds. It is one of the important reasons the Private sector Mutual funds are giving higher return to the investors as compared with by Public Sector Mutual funds from the same stock market.

3.However, the study could not reveal any statistically significant difference in risk adjusted returns generated by the Public sector Mutual funds and Private sector Mutual funds of different categories of AMC's .The difference if any exist may attributable to the quality of the management of the AMC.

4.In order to give better performance, there was undoubtedly competition between by Private Mutual funds and by Public Sector Mutual funds. The Private Mutual funds could take more risk in managing different schemes of mutual funds. The Private Mutual funds were more involved in speculative investments than public Sector Mutual funds. The Risk analysis revealed higher levels of risk for growth and equity oriented schemes associated with Private sector and for tax saving and debt schemes higher level of risk is associated with Public sector Mutual funds.

5.The study could not find out any evidences to suggest statistically significant difference between the categories of mutual fund and their risk exposure. However significant difference is found for the risk of Tax saving schemes.

6.The study found the profitability of Private sector Mutual funds is higher than the Public sector Mutual funds.

7.The analysis regarding profitability of Public and Private sector Mutual funds revealed no significant difference between the Public and Private sector mutual funds in respect of profit.

8.The study regarding the resource mobilization of funds found that private sector resource mobilization is higher than the public sector resource mobilization Mutual funds. The reason being, after the reforms and entry of private sector mutual funds, the interest of the investors was inclined to invest in the private sector mutual fund with the expectation of higher return. But over a period of times due to the more and more innovations and exposure of more risk, the performance of private sector mutual funds were affected. As a result, the inclination of investors towards public sector mutual fund increased. It may be the one of the important reason for no significant difference in performance of mutual funds over a period of time. In the beginning the performance of private sector mutual fund was better as it was untapped.

9.In the category of growth funds the magnum equity and HDFC 200 are not adequately diversified as determined by their values; the average diversification of the sample funds is 73%.

10.In the category of tax plan all the schemes are adequately diversified except magnum tax gain scheme.

11.More over it has been seen that the public sector schemes in the category of equity oriented are well diversified and the schemes of the private sector MFs are not adequately diversified except HDFC scheme.

12.Furthermore it is observed that the LICMIP scheme is the only scheme in the category of debt oriented which is adequately diversified.

13. profitability of SBI Mutual Fund is showing good earning potential. The earnings are of the Fund are showing increasing trend since 2003. Where as if the performance of equity based selected schemes is compared with the market the fund has performed relatively less than the market since inception.

14.The profitability of Baroda Pioneer Mutual Fund is also decreasing year by year .The performance of equity selected schemes are showing less returns than the market since inception.

15.It has been found that in case of public sector Mutual funds SBI MF is performing on top followed by UTI MF.

16.The Indian mutual industry has significantly high ownership from the institutional investors. Indeed Individual investors accounted for 97 percent of the total number of investors' accounts contributed only 23 percent where as Corporate and institutions accounted for only 1.1percent of investor's accounts contributed a sizeable 72.8 percent to total net assets in the year 2011.

17.The KPMG Mutual Fund summit's vision for 2015, states positive outlook for assets under management growing at 15%-25%, between 2010 and 2015, the pace of growth being matched by the GDP growth rate of the economy.

CONCLUSION

The present research on the comparative study of Public and Private sector Mutual funds explored many issues in line with the objectives set for the study. The present study has focused on the comparison between the Public sector schemes and private sector schemes. On the basis of secondary data, their performances were analyzed. The data have been tested by using suitable statistical tools. The hypotheses which have been accepted or rejected have also been summerised in the form of the table. But still I feel that a multi directional focus on related areas is possible. In the context of limitations of the study, and the experience gained during the study, some of the potential areas are identified for future researches.

• A comparative study can also be made within Public sector mutual funds between Financial Institutions sponsored Mutual funds and Bank sponsored Mutual funds. A study can also be done with in Private sector mutual funds between Indian Mutual funds, Foreign Mutual funds and Joint Venture funds.

• The role of mutual funds can also be studied in terms of its influence on stock market sentiments, purchase and sale of securities.

• Studies could be carried out to in line with the role of foreign institutional investors and Mutual Fund Industry in the stock market.

• Studies could be carried out to know the competency of offshore funds and to identify ways and means of improving offshore mutual fund operations.

REFERENCES

1. Mutual Funds in India". Kotak Securities. 13 December 2014. Retrieved 27 April 2015.
2. Association of Mutual Funds, India". Retrieved 4 September 2013.
3. Association of Mutual Funds, India". Retrieved 4 September 2013.
4. Pozen, Robert; Hamacher, Theresa (2014). The Fund Industry: How Your Money is Managed (Second Edition). John Wiley & Sons. pp. 4–5.
5. Final Rule: Registration Form Used by Open-End Management Investment Companies: Sample Form and instructions". U.S. Securities and Exchange Commission (SEC). Retrieved 2008-09-25.
6. Lemke, Lins & Smith, Regulation of Investment Companies, Chapter 3 (Matthew Bender, 2016 ed.).
7. Pozen and Hamacher (2014), pp. 7–8.
8. Fink, Matthew P. (2008). The Rise of Mutual Funds. Oxford University Press. p. 9.

Shri. Sachin Bharat Choudhari
Assistant Section Officer, Vice Chancellor's office and Meetings and Elections Section, Solapur University, Solapur.