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**AN ANALYTICAL STUDY TO PROFILE THE POSITION
MATRIX FOR MUTUAL FUNDS IN INDIA**

By

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A PROJECT REPORT
Submitted to the

FACULTY OF MANAGEMENT STUDIES

In the partial fulfillment of the requirement
for the award of the degree

Of

MASTER OF BUSINESS ADMINISTRATION

June, 2007


DECLARATION

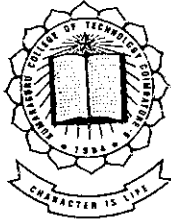
I, hereby declare that this project report entitled as "An Analytical Study to Profile the Position Matrix for Mutual Funds in India", has been undertaken for academic purpose submitted to Anna University in partial fulfillment of requirement for the award of the degree of Master of Business Administration. The project report is the record of the original work done by me under the guidance of Lecturer A. Senthil Kumar, during the academic year 2007-2008.

I, also declare hereby, that the information given in this report is correct to best of my knowledge and belief.

Place: Coimbatore

Date: 01/06/2007

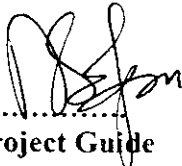

(S.Nishanth)



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(An ISO 9001:2000 Certified Institution)
Coimbatore – 641006


BONAFIDE CERTIFICATE

Certified that this project titled ' **AN ANALYTICAL STUDY TO PROFILE THE POSITION MATRIX FOR MUTUAL FUNDS IN INDIA**' is the bonafide work of **Mr.S.NISHANTH(Reg no: 71205631035)**, who carried out this research under my supervision. Certified further, that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.


.....
Project Guide


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Director

Evaluated and Viva-voce held on 03/07/2007.....


.....
Examiner I


.....
Examiner II



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PROJECT COMPLETION CERTIFICATE

This is to certify that Mr. **S. Nishanth** (Roll No. **71205631035**) a student of KCT Business School, Kumaraguru College of Technology, had undergone a project between 18/01/2007 and 20/04/2007 entitled “**An analytical study to profile the position matrix for mutual funds in India**”

During the tenure his performance was good.

For **Karvy Stock Broking Limited**

D. Vinoth
HRD Coimbatore

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EXECUTIVE SUMMARY

Stock markets are highly risky and volatile. Its very difficult to predict the stock market. Very minute changes in stock market affects the share prices of a on organization to a very large extent. Therefore, investment in stock market involves a high amount of risk. In order to reduce the risk involved in stock market, Mutual Funds came into existence. In Mutual funds, investment is diversified by investing in several types of investments like shares, debt market instruments, money market instruments and so on. Depending upon the entry and exit criterion mutual funds can be divided into Open ended and Close ended mutual funds. They can be further divided into Balanced, Debt and Equity based funds depending on the composition of investment. It becomes necessary to evaluate the Risk and Return involved in mutual funds to guide the clients with better ideas to make them invest in the right fund depending on their risk taking capability. In this study, with the help of variables like Alpha, Beta, Sharpe's index, Treynor's index, Standard Deviation and Mean Return, Rank Statement and Position Matrix have been arrived for all categories of funds. The Rank Statement gives the ranks based on Beta, Return and Standard Deviation of the funds taken for study. The Position Matrix gives the Risk and Return levels of the funds in each category. This would be very much helpful for the clients to make the right investment and also acts as an indicator to choose the right fund.

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I extend my heartfelt thanks to Principal **Dr.Joseph V.Thanikal**, Kumaraguru College of Technology, Coimbatore for providing facilities to do this project.

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1 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Stock market is highly volatile and risky. In order to reduce the risk involved in stock market mutual funds came into existence. Mutual Funds can be classified into open ended mutual funds and close ended mutual funds depending on the mode of entry and exit into them. They can further be categorized into debt based mutual funds, equity based mutual funds and balanced mutual funds based on areas of investment. The risk and return varies based on different categories of mutual funds. This study gives an insight about the risk and return involved in top 10 mutual funds of each category.

1.2 REVIEW OF LITERATURE

*Evaluating performance and strategy of mutual funds*¹, Mutual funds have become one of the largest financial intermediaries in the leading world economies, currently controlling about 7 trillion dollars in assets in the US and over 3 trillion Euros in assets in Europe. In Russia, the mutual fund industry is relatively underdeveloped but has a huge potential for growth. One of the crucial factors ensuring efficient functioning of mutual funds is proper evaluation of their performance. This is important for investors who would like to make sure that their funds follow desirable strategies and earn positive risk-adjusted returns. In general, there are two types of performance measures: absolute (based only on the performance record of a given fund) and relative (constructed with respect to some endogenous or exogenous benchmark). Absolute performance measures may be raw, such as fund total return, or risk-adjusted, such as the Sharpe ratio or Jensen's alpha. Relative performance measures can be cardinal (e.g., fund return adjusted by the category benchmark) or ordinal (e.g., fund performance rank within a given category). Obviously, the use of a raw performance measure such as fund total return may be inappropriate, since it neglects the riskiness of fund investments. The most popular risk-adjusted measure in the literature is Jensen's alpha based on a factor model.

¹ <http://www.nes.ru/~agoriaev/GETmfund02.pdf>

Mutual Fund Purchase Practices², An Analysis of Survey Results Prepared by **Barbara Roper and Stephen Brobeck**. The survey reveals a gap between how experts recommend investors go about making mutual fund purchase decisions and how investors describe their actual fund selection practices.¹ Significant differences between expert recommendations and actual practices are found in: the factors investors consider when selecting a mutual fund, the extent to which they research their fund purchases using available written information sources, and the degree of reliance they place on the recommendations of financial services professionals. This gap may have significant implications for the development of investor education materials, both by identifying areas where educators need to do a better job of conveying their message, and by identifying areas where expert recommendations are unrealistic or fail to reflect the environment in which different purchase groups make their fund selections.

Outsourcing Mutual Fund Management³, This paper investigates the effects of managerial outsourcing on the incentives and performance of mutual funds. We first document that many families farm out the management of a sizeable fraction of their funds to unaffiliated advisory firms. We find that funds managed externally significantly under-perform those ran internally. We establish the causality of this relationship by using as an instrument for outsourcing the interaction of the number of funds a family offers (controlling for family size) at the time a fund is started with the proximity of the family's location from financial centers. We then hypothesize that contractual externalities due to firm boundaries make it more difficult to extract performance from an outsourced relationship. We verify two key auxiliary predictions of this hypothesis: compared to counterparts ran internally, (1) an outsourced fund faces higher-powered incentives in that the likelihood that it experiences a closure or managerial termination is more sensitive to poor past performance and absolute deviation of fund risk-taking from the norm; (2) its risk-taking behavior also deviates less from the norm

² http://www.consumerfed.org/pdfs/mutual_fund_survey_report.pdf

³ <http://www.princeton.edu/~hhong/Outsourcing-05-06.pdf>

*Ownership, Risk and Performance of Mutual Fund Management Companies*⁴, by Michael K. Berkowitz and Jiaping Qiu, This paper compares the performance of mutual funds managed by publicly-traded management companies with those managed by private management companies. We find that publicly-traded management companies invest in riskier assets and charge higher management fees relative to the funds managed by private management companies. At the same time, however, the risk-adjusted returns of the mutual funds managed by publicly-traded management companies do not appear to outperform those of the mutual funds managed by private management companies. This finding is consistent with both the risk reduction and agency cost arguments that have been made in the literature.

*Predicting Stock Returns Using Mutual Fund Portfolio Holdings: Implications of Fund Performance Persistence*⁵, This study uses reported mutual fund portfolio holdings to predict stock returns. Stocks picked by good mutual fund managers should outperform those picked by bad managers; and if fund performance persists, past performance should be informative of fund managers' stock selection ability. We develop this intuition into a statistical model and propose three stock alpha estimators that can extract information about future returns on a large cross-section of stocks from the current portfolio compositions and past performance of a relatively small number of mutual funds. We plan to examine the performance of the stock alpha estimators and their components against various benchmarks, such as characteristics-sorted benchmark portfolios, several return-predictive effects based on mutual fund trades developed in recent studies, as well as a battery of quantitative investment signals. Since the stock selection ability of most mutual funds stems from fundamental research, we expect the information content of our stock alpha estimators to be significantly different from that of strategies popularly used by quantitative investment managers.

⁴ <http://www.chass.utoronto.ca/ecipa/archive/UT-ECIPA-BERK-01-01.pdf>

⁵ http://www.inquire-europe.org/project/under_development/Wermers_Yao_Zhao%2005.10.01.pdf

1.3 OBJECTIVES OF THE STUDY

1.3.1 Primary objective

To evaluate the performance of the mutual funds and profile a position matrix.

1.3.2 Secondary objective

- To conduct a comparative study on mutual funds with respect to risk and return.
- To carry out Alpha and Beta analyses for the mutual funds taken for study.
- To calculate Sharpe's and Treynor's indices for the mutual funds taken for study.
- To rank the mutual funds according to their performance.

1.4 STATEMENT OF THE PROBLEM

As the stock market is highly volatile and risky mutual funds came into existence to reduce risk. It becomes necessary to evaluate the risk and return involved in mutual funds to guide the clients with better ideas for their investments. A position matrix could help the investor to fit the mutual funds in their appropriate risk-return relationship category. Hence the same is taken as a problem to be studied upon.

1.5 SCOPE OF THE STUDY

The scope of the study is to give better ideas about the risk and return involved in mutual funds to the clients in order to make them invest appropriately.

1.6 RESEARCH METHODOLOGY

1.6.a Type of Study

Analytical Study: In Analytical Research, the researcher has to use facts or information already available, and analyze these to make a critical evaluation of the material.

This is an Analytical Study.

1.6.b Sampling Design

All the mutual funds in India are taken as population for this study

Sampling Method: In **Random sampling**, every item of the population has an equal chance of inclusion in the sample. It is to say a lottery method in which individual units are picked up from the whole group not deliberately but by some mechanical process.

Sampling Technique: In **Proportionate Stratified Random Sampling**, the population is divided into several sub-populations that are individually more homogeneous than the total population (the different sub-populations are called 'strata') and then we select equal number of items from each stratum to constitute a sample.

Sampling Criterion and Size: Top performing Mutual Funds in each category are taken for study. Mutual Funds can mainly be classified into Open ended and Close ended further be sub-classified into Balanced, Debt and Equity based Funds. 10 funds from each category is taken as sample size which totally constitutes to 60 funds.

1.6.c Method of Data Collection

Primary Data: Primary data are those which are collected afresh and for the first time, and thus happen to be original in character.

Secondary Data: Secondary data are those which have already been collected by someone else and which have already been passed through the statistical process.

Secondary Data is used in this study.

Source of Data: The secondary data is collected from the online official link **mutualfundsindia.com** and the respective corporate links

Period of Study: October 3rd 2006 to March 16th 2007

1.6.d Tools of Analysis

1. Sharpe's Performance Measure

$$\text{Sharpe's index} = \frac{R_p - R_f}{\sigma_p}$$

2. Treynor's Performance Measure

$$\text{Treynor's index} = \frac{R_p - R_f}{\beta}$$

where, R_p = Return of Portfolio

R_f = Risk free return

σ_p = Standard Deviation of Portfolio

β = Unsystematic Risk factor

3. Alpha and Beta analysis

$$\sum Y = na + b\sum X$$

$$\sum XY = a\sum X + b\sum X^2$$

where, $a = \alpha$ (alpha)

$b = \beta$ (beta)

4. Rank Statement

5. Position Matrix

6. Mean and Standard Deviation

$$\text{Mean} = \frac{\sum X}{n}$$

$$\text{Standard Deviation}(\sigma) = \frac{(\text{mean}-X)^2}{n}$$

1.7 LIMITATIONS OF THE STUDY

- Only 60 mutual funds were taken for study.
- Analysis was carried with the help of data over a period of only six months.
- As the stock market is highly volatile and risky the analysis results cannot be used for a longer period.

1.8 CHAPTER SCHEME

This project is divided into 5 chapters.

Chapter 1 deals with background of the study, review of literature, objective & scope of the study, methodology and limitations.

Chapter 2 covers history of the organization, management, organization structure, service profile, competitive strength, future plans and description of various functional areas.

Chapter3 covers all macro analysis and micro analysis of the study.

Chapter 4 covers data analysis & interpretation through representation of various tables and charts

Chapter 5 deals with findings and recommendations provided from the study.

2. ORGANIZATIONAL PROFILE

2.1 HISTORY OF THE ORGANIZATION

The birth of Karvy was on a modest scale in 1981. It began with the vision and enterprise of a small group of practicing Chartered Accountants who founded the flagship company Karvy Consultants Limited. We started with consulting and financial accounting automation, and carved inroads into the field of registry and share accounting by 1985. Since then, we have utilized our experience and superlative expertise to go from strength to strength to better our services, to provide new ones, to innovate, diversify and in the process, evolved Karvy as one of India's premier integrated financial service enterprise. Thus over the last 20 years Karvy has traveled the success route, towards building a reputation as an integrated financial services provider, offering a wide spectrum of services. And we have made this journey by taking the route of quality service, path breaking innovations in service, versatility in service and finally totality in service.

Our highly qualified manpower, cutting-edge technology, comprehensive infrastructure and total customer-focus has secured for us the position of an emerging financial services giant enjoying the confidence and support of an enviable clientele across diverse fields in the financial world.

Our values and vision of attaining total competence in our servicing has served as the building block for creating a great financial enterprise, which stands solid on our fortresses of financial strength - our various companies. With the experience of years of holistic financial servicing behind us and years of complete expertise in the industry to look forward to, we have now emerged as a premier integrated financial services provider. And today, we can look with pride at the fruits of our mastery and experience -- comprehensive financial services that are competently segregated to service and manage a diverse range of customer requirements.

KARVY, is a premier integrated financial services provider, and ranked among the top five in the country in all its business segments, services over 16 million individual investors in various capacities, and provides investor services to over 300 corporates, comprising the who is who of Corporate India.

KARVY covers the entire spectrum of financial services such as Stock broking, Depository Participants, Distribution of financial products - mutual funds, bonds, fixed deposit, equities, Insurance Broking, Commodities Broking, Personal Finance Advisory Services, Merchant Banking & Corporate Finance, placement of equity, IPOs, among others. Karvy has a professional management team and ranks among the best in technology, operations and research of various industrial segments.

2.2 MANAGEMENT

KARVY STOCK BROKING LIMITED

Mr.C.Parthasarathy

Director

Mr.M.Yugandhar

Director

Mr.M.S.Ramakrishna

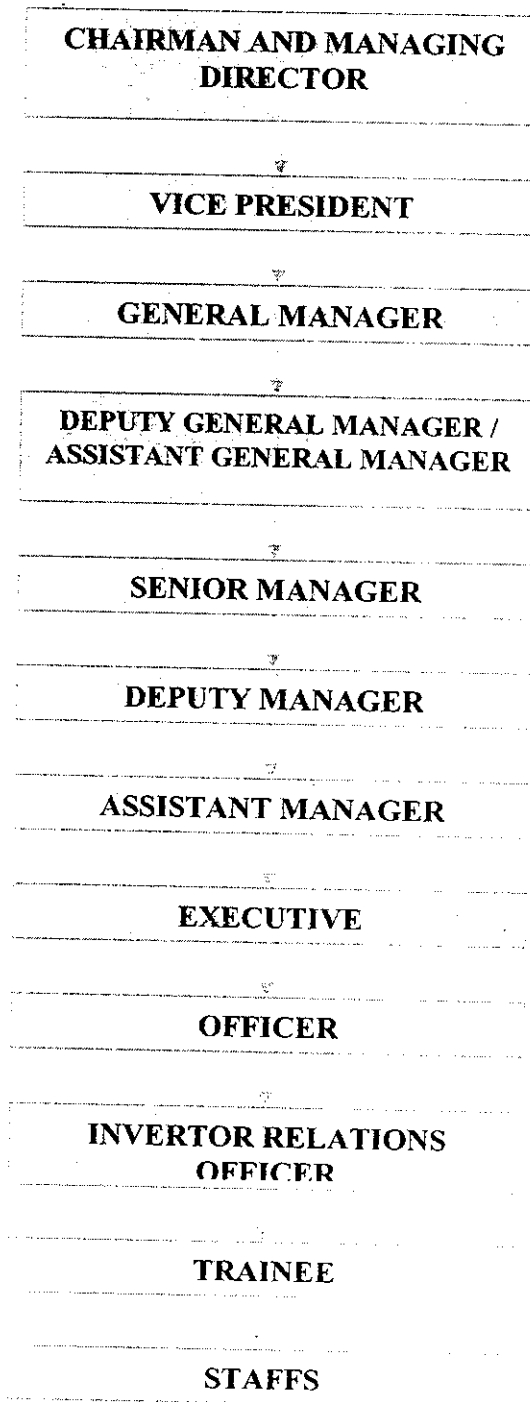
Director

Mr.AkashMehta

Director

Mr.PeterWingHungSo

Director

2.3 ORGANIZATIONAL STRUCTURE

2.4 PRODUCTS PROFILE AND MARKET POTENTIAL

STOCK BROKING SERVICES

It is an undisputed fact that the stock market is unpredictable and yet enjoys a high success rate as a wealth management and wealth accumulation option. The difference between unpredictability and a safety anchor in the market is provided by in-depth knowledge of market functioning and changing trends, planning with foresight and choosing one & request options with care. This is what we provide in our Stock Broking services.

We offer services that are beyond just a medium for buying and selling stocks and shares. Instead we provide services, which are multi dimensional and multi-focused in their scope. There are several advantages in utilizing our Stock Broking services, which are the reasons why it is one of the best in the country.

We offer trading on a vast platform. National Stock Exchange, Bombay Stock Exchange and Hyderabad Stock Exchange. More importantly, we make trading safe to the maximum possible extent, by accounting for several risk factors and planning accordingly. We are assisted in this task by our in-depth research, constant feedback and sound advisory facilities. Our highly skilled research team, comprising of technical analysts as well as fundamental specialists, secure result-oriented information on market trends, market analysis and market predictions. This crucial information is given as a constant feedback to our customers, through daily reports delivered thrice daily ; The Pre-session Report, where market scenario for the day is predicted, The Mid-session Report, timed to arrive during lunch break , where the market forecast for the rest of the day is given and The Post-session Report, the final report for the day, where the market and the report itself is reviewed. To add to this repository of information, we publish a monthly magazine &ldquo Karvy; The Finapolis & rdquo:, which analyzes the latest stock market trends and takes a close look at the various investment options, and products available in the market, while a weekly report, called “ Karvy Bazaar Baatein&rdquo:, keeps you more informed on the immediate trends in the stock market. In addition, our specific industry reports give comprehensive information on various industries. Besides this, we

also offer special portfolio analysis packages that provide daily technical advice on scrips for successful portfolio management and provide customized advisory services to help you make the right financial moves that are specifically suited to your portfolio.

Our Stock Broking services are widely networked across India, with the number of our trading terminals providing retail stock broking facilities. Our services have increasingly offered customer oriented convenience, which we provide to a spectrum of investors. high- networth or otherwise, with equal dedication and competence.

But true to our spirit, this success is not our final destination, but just a platform to launch further enhanced quality services to provide you the latest in convenient, customer-friendly stock management.

Over the years we have ensured that the trust of our customers is our biggest returns. Factors such as our success in the Electronic custody business has helped build on our tradition of trust even more. Consequentially our retail client base expanded very fast.

To empower the investor further we have made serious efforts to ensure that our research calls are disseminated systematically to all our stock broking clients through various delivery channels like email, chat, SMS, phone calls etc.

Our foray into commodities broking has been path breaking and we are in the process of converting existing traders in commodities into the more organized mainstream of trading in commodity futures, both as a trading and risk hedging mechanism.

In the future, our focus will be on the emerging businesses and to meet this objective, we have enhanced our manpower and revitalized our knowledge base with enhances focus on Futures and Options as well as the commodities business.

MERCHANT BANKING

Recognized as a leading merchant banker in the country, we are registered with SEBI as a Category I merchant banker. This reputation was built by capitalizing on opportunities in corporate consolidations, mergers and acquisitions and corporate restructuring, which have earned us the reputation of a merchant banker. Raising resources for corporate or Government Undertaking successfully over the past two decades have given us the confidence to renew our focus in this sector.

Our quality professional team and our work-oriented dedication have propelled us to offer value-added corporate financial services and act as a professional navigator for long term growth of our clients, who include leading corporates, State Governments, foreign institutional investors, public and private sector companies and banks, in Indian and global markets.

We have also emerged as a trailblazer in the arena of relationships, both at the customer and trade levels because of our unshakable integrity, seamless service and innovative solutions that are tuned to meet varied needs. Our team of committed industry specialists, having extensive experience in capital markets, further nurtures this relationship. Our financial advice and assistance in restructuring, divestitures, acquisitions, de-mergers, spin-offs, joint ventures, privatization and takeover defense mechanisms have elevated our relationship with the client to one based on unshakable trust and confidence.

MUTUAL FUND SERVICES

We have attained a position of immense strength as a provider of across-the-board transfer agency services to AMCs, Distributors and Investors.

Nearly 40% of the top-notch AMCs including prestigious clients like Deutsche AMC and UTI swear by the quality and range of services that we offer. Besides providing the entire back office processing, we provide the link between various Mutual Funds and the investor, including services to the distributor, the prime channel in this operation.

Carrying the 'limitless' ideology forward, we have explored new dimensions in every aspect of Mutual Fund servicing right from volume management, cost effective pricing, delivery in the least turnaround time, efficient back-office and front-office operations to customized service. We have been with the AMCs every step of the way, helping them serve their investors better by offering them a diverse and customized range of services. The 'first to market' approach that is our anthem has earned us the reputation of an innovative service provider with a visionary bent of mind.

Our service enhancements such as 'Karvy Converz', a full-fledged call center, a top-line website (www.karvymfs.com), the 'm-investor' and many more, creating a galaxy of customer advantages.

In our voyage towards becoming the largest transaction-processing house in the Indian Corporate segment, we have mobilized funds for numerous corporate, Karvy has emerged as the largest transaction-processing house for the Indian Corporate sector. With an experience of handling over 700 issues, Karvy today, has the ability to execute voluminous transactions and hard-core expertise in technology applications have gained us the No.1 slot in the business. Karvy is the first Registry Company to receive ISO 9002 certification in India that stands testimony to its stature

Karvy has the backing of skilled human resources complemented by requisite technological packages to ensure a faster processing capability. Karvy has the benefit of a good synergy between depositories and registry that enables faster resolution to related customer queries. Apart from its unique investor servicing presence in all the phases of a public Issue, it is actively coordinating with both the main depositories to develop special models to enable the customer to access depository (NSDL, CDSL) services during an IPO.

Karvy has been a customer centric company since its inception. Karvy offers a single platform servicing multiple financial instruments in its bid to offer complete financial solutions to the varying needs of both corporate and retail investors where an extensive range of services are provided with great volume-management capability.

Today, Karvy is recognized as a company that can exceed customer expectations which is the reason for the loyalty of customers towards Karvy for all his financial needs. An opinion poll commissioned by "The Merchant Banker Update" and conducted by the reputed market research agency, MARG revealed that Karvy was considered the "Most Admired" in the registrar category among financial services companies. The chart showing number of funds and the categories given below:

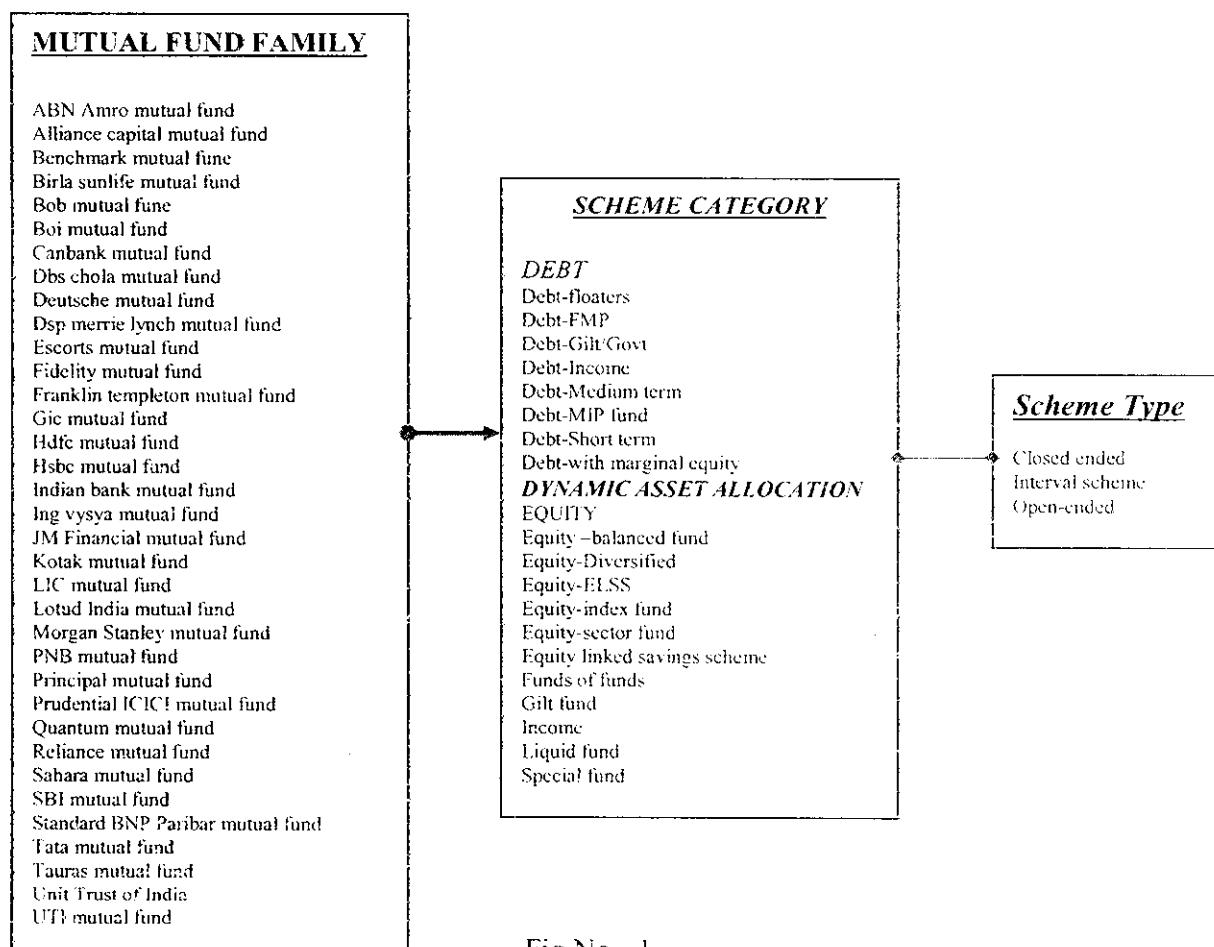


Fig No - 1

DEPOSITARY PARTICIPANT SERVICE OFFERED BY KARVY

Depository Participant (DP) is an organization that acts as an Agent of the Depository and interacts with the investor. A DP is responsible for maintaining clients' securities account and operating it only under clients' written instructions. The Depositories Acts mandates that investors can use Depository facilities only through DP's. The distribution channel and geographical spread of the DP's offices allows client to access the Depository at a low cost.

The various kinds of DP service offered in Karvy is as follows:

1. To convert the clients physical holdings into electronic holding. That is dematerialization of securities. The method was introduced to avoid the unnecessary problems due to safety constraints the 'Demat' service was started [Currently Karvy Stock Broking is not providing Demat service due to some problem].
2. Keep tracking of clients' holding in electronic form and maintaining their accounts as holdings.
3. Transfer the shares in the electronic form from one account to another.
4. Facilitate pledge of client electronic securities.
5. Give electronic credit of new share allotments such as public issues, bonus, rights etc.
6. Convert clients electronic holding into physical holding (which is called "rematerialisatoin of securities")

ADVISORY SERVICES

Portfolio advisory service

A research team accomplishes advisory service to the client to choose the best portfolio that will give good return, which is always keen to maintain the investor interest towards investment.

Mutual Fund Advisory Service

The way in which to get a nominal return that is assured by the fund managers classified and advised to spend it through Karvy.

Tax Advisory

The most recent way to invest and also to avoid a great margin of money going into the tax can be given advice to manage it efficiently by investing it in various means.

Retirement advisory

There is a great possibility of lack of mismanagement of funds after the clients' retirement. That is managed in a manner so as to get a fixed return with the advise of the research team.

2.5 COMPETITIVE STRENGTH OF THE COMPANY

- Among the top 5 stock brokers in India (4% of NSE volumes)
- India's No. 1 Registrar & Securities Transfer Agents
- Among the to top 3 Depository Participants
- Largest Network of Branches & Business Associates
- ISO 9002 certified operations by DNV
- Among top 10 Investment bankers
- Largest Distributor of Financial Products
- Adjudged as one of the top 50 IT uses in India by MIS Asia
- Full Fledged IT driven operations

2.6 FUTURE PLANS

Vision 2008

- To increase the network from 640 branches to 750 numbers.
- To double the F & O cash volumes (around 6%)
- Activate BSE so as to reach 5% share
- To reach the No.1 position in all activities
- Look at over 12 lac accounts by 2008
- To achieve over 250,000 applications per month
- Achieve over Rs. 10,000 cr of equity assets under advise
- To achieve 1% share of the market (3 lac policies)
- To reach at least 5% market share
- Establish specialized commodity branches where necessary
- To contribute 10% of our overall revenues
- Provide IPO funding both for retail and HNI category
- 25% of the revenues through this business
- Reach top 10 institutional brokers in the country
- Maximise earnings for each relationship built both domestic and international
- Evolve as a top research house for Mid cap securities
- To Position our self as a 'knowledge driven broker'
- Evolve PCG into a PMS platform
- Evolve into top 5 merchant bankers in the country to
- Gain expertise corporate finance and M&A
- To start real estate investment banking
- Internet based service delivery – broking, MF, IPO etc.
- Effective use of SMS and other touch points
- Customer relationship management
- Gets over 80% of the team minimum double qualified
- Continuous training -- over 150 hour per year training for every individual
- Reach 25% volume and 15% value
- Commence 3 new business lines as part of diversification strategy

2.7 DESCRIPTION OF VARIOUS FUNCTIONAL AREAS

2.7.1 KARVY CONSULTANTS LIMITED

As the flagship company of the Karvy Group, Karvy Consultants Limited has always remained at the helm of organizational affairs, pioneering business policies, work ethic and channels of progress.

Having emerged as a leader in the registry business, the first of the businesses that we ventured into, we have now transferred this business into a joint venture with Computer share Limited of Australia, the world's largest registrar. With the advent of depositories in the Indian capital market and the relationships that we have created in the registry business, we believe that we were best positioned to venture into this activity as a Depository Participant. We were one of the early entrants registered as Depository Participant with NSDL (National Securities Depository Limited), the first Depository in the country and then with CDSL (Central Depository Services Limited). Today, we service over 6 lakhs customer accounts in this business spread across over 250 cities/towns in India and are ranked amongst the largest Depository Participants in the country. With a growing secondary market presence, we have transferred this business to Karvy Stock Broking Limited (KSBL), our associate and a member of NSE, BSE and HSE.

IT enabled services

Our Technology Services division forms the ideal platform to unleash our technology initiatives and make our presence felt on the Internet. Our past achievements include many quality websites designed, developed and deployed by us. We also possess our own web hosting facilities with dedicated bandwidth and a state-of-the-art server farm (data center) with services functioning on a variety of operating platforms such as Windows, Solaris, Linux and Unix. The corporate website of the company, "www.karvy.com", gives access to in-depth information on financial matters including Mutual Funds, IPOs, Fixed Income Schemes, Insurance, Stock Market and much more. A link called "Resource Center", devoted solely to research conducted by our team of experts on various financial aspects like "Sector Research", deals exclusively with in-depth analysis of the key sectors

of the Indian economy. Besides, a host of other links like 'My Portfolio' which acts as a personalized and customized financial measure, makes this site extremely informative about investment options, market trends, news as also about our company and each of the services offered here.

2.7.2 KARVY GLOBAL SERVICES LIMITED

The specialist Business Process Outsourcing unit of the Karvy Group. The legacy of expertise and experience in financial services of the Karvy Group serves us well as we enter the global arena with the confidence of being able to deliver and deliver well.

Here we offer several delivery models on the understanding that business needs are unique and therefore only a customized service could possibly fit the bill. Our service matrix has permutations and combinations that create several options to choose from.

Be it in re-engineering and managing processes or delivering new efficiencies, our service meets up to the most stringent of international standards. Our outsourcing models are designed for the global customer and are backed by sound corporate and operations philosophies, and domain expertise. Providing productivity improvements, operational cost control, cost savings, improved accountability and a whole gamut of other advantages.

We operate in the core market segments that have emerging requirements for specialized services. Our wide vertical market coverage includes Banking, Financial and Insurance Services (BFIS), Retail and Merchandising, Leisure and Entertainment, Energy and Utility and Healthcare.

Our horizontal offerings do justice to our stance as a comprehensive BPO unit and include a variety of services in Finance and Accounting Outsourcing Operations, Human Resource Outsourcing Operations, Research and Analytics Outsourcing Operations and Insurance Back Office Outsourcing Operations.

2.7.3 KARVY COMTRADE LIMITED

Karvy Commodities, we are focused on taking commodities trading to new dimensions of reliability and profitability. We have made commodities trading, an essentially age-old practice, into a sophisticated and scientific investment option. Here we enable trade in all goods and products of agricultural and mineral origin that include lucrative commodities like gold and silver and popular items like oil, pulses and cotton through a well-systematized trading platform. Our technological and infrastructural strengths and especially our street-smart skills make us an ideal broker. Our service matrix is holistic with a gamut of advantages, the first and foremost being our legacy of human resources, technology and infrastructure that comes from being part of the Karvy Group.

Our wide national network, spanning the length and breadth of India, further supports these advantages. Regular trading workshops and seminars are conducted to hone trading strategies to perfection. Every move made is a calculated one, based on reliable research that is converted into valuable information through daily, weekly and monthly newsletters, calls and intraday alerts. A dedicated team committed to giving hassle-free service while the brokerage rates offered are extremely competitive provides further personalized service here. Our commitment to excel in this sector stems from the immense importance that commodity broking has to a cross-section of investors & ndash farmers, exporters, importers, manufacturers and the Government of India itself.

2.7.4 Karvy Insurance Broking Private Limited

Karvy Insurance Broking Pvt. Ltd., we provide both life and non-life insurance products to retail individuals, high net-worth clients and corporates. With the opening up of the insurance sector and with a large number of private players in the business, we are in a position to provide tailor made policies for different segments of customers. In our journey to emerge as a personal finance advisor, we will be better positioned to leverage our relationships with the product providers and place the requirements of our customers appropriately with the product providers. With Indian markets seeing a sea change, both in terms of investment pattern and attitude of investors, insurance is no more seen as only

a tax saving product but also as an investment product. By setting up a separate entity, we would be positioned to provide the best of the products available in this business to our customers.

Our wide national network, spanning the length and breadth of India, further supports these advantages. A dedicated team committed in giving hassle-free service to the clients provides further, personalized service here.

3.MICRO AND MACRO ANALYSIS

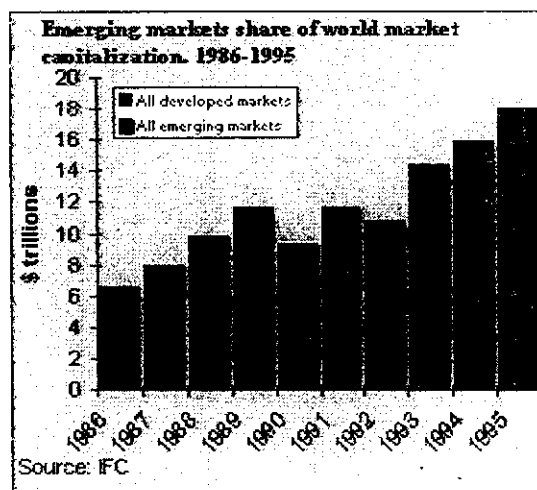
Mature markets

Equity prices in industrial countries have risen strongly in the 1990s, with the increase in Japanese prices being somewhat less pronounced. The US equity market has clearly been the star performer of the 1990s. Although the rise in United States markets since early 1996 has been matched or exceeded by that in other advanced equity markets, US markets have outperformed most other advanced equity markets since the beginning of the decade, in some cases by a factor of two or more. Remarkably, in the period 1992-1996, the Dow Jones Industrial Average doubled in value, while historically the index has doubled every 17 years. Moreover, over the same period, US equity market capitalization increased from 72% of GDP to 107% of GDP. The Japanese market has not performed as strongly as markets in some of the other main industrial countries. Japan's Nikkei 225 index declined 2.5% in 1996. (See International Monetary Fund (IMF), International Capital Markets – Figures on Stock Market Indices, 1990-May 1997 <http://www.imf.org/>)

Markets in ten European countries ended 1996 at all-time highs. Some of the momentum in European equity markets has been attributed to improved prospects for the export sectors in these economies that is associated with the depreciation of most continental European currencies against the dollar. Also favorable has been the trend toward low interest rates, which have an important impact on the discounted value of future corporate earnings. (See IMF, International Capital Markets: Figures on Stock Market Indices, 1990-May 1997)

Emerging markets

Market capitalization and listed companies



In 1996, over 60 developing countries had stock markets, compared with half of that number in 1985. Their capitalization increased more than tenfold over the period 1985-1995, from \$171 billion to \$1.9 trillion. Liquidity has increased even faster – turnover rose from 26% to 85% of emerging market capitalization between 1985 and 1994. Meanwhile, the number of domestic companies listed on emerging market exchanges more than doubled, from 8,916 in 1985 to 19,397 in 1995. (International Finance Corporation (IFC), *Investment Funds in Emerging Markets*, 1996)

The net increase in the market capitalization of emerging stock markets in 1996 – up 16% over the end of 1995 – was generally in line with the increase in listings, new issues by already-listed companies, and share price increases registered during the year. Despite the net increase in new listings over 1995 figures, fewer companies are estimated to have raised capital via stock offerings in 1996 than in 1995 (2,385 vs. 2,700), and the estimated aggregate amount of capital raised fell to \$35.8 billion from its 1995 level of \$43.8 billion. This decline is due almost entirely to decreases in new issue activity in Korea and India during 1996. (IFC, *Key Trends in Emerging Stock Markets*)

The number of companies listed in the 27 constituent markets of the IFC Global (IFCG) Composite Index rose 7.5%, due largely to a dramatic increase of listings in the People's Republic of China (up 67% in 1996, to 540 companies) and in Malaysia (up 17%, to 621 firms). Some markets saw a decline in the number of listed companies, and typically for

good reasons. The Czech Republic, Egypt and Peru are among the countries that de-listed shares of companies that had not traded for years or that did not comply with listing requirements. The trend towards overall increases in the number of listings is also illustrated by the small gains in Korea (5% more listings) and Thailand (9% more) -- despite the generally poor market conditions these countries experienced throughout 1996.

Returns on stocks

The trading of shares within emerging markets rebounded strongly in 1996, up 49% in value terms from 1995 to almost \$1.5 trillion. Though this is still below the 1994 record of \$1.6 trillion in "home market" trading, it is remarkable for a number of reasons.

The IFC Investable (IFCI) Composite Index, consisting of 1,224 stocks in 26 markets, is the broadest index available. It is designed to measure returns on emerging-market stocks that are legally and practically open to foreign portfolio investment, and is a widely used benchmark for international portfolio management purposes. The IFCI Composite gained 6.7% in 1996.

On a regional basis, the largest gain was in Latin America -- the IFCI Latin America Index rose 14% in 1996. This was followed by an 8.9% gain in the IFCI Asia Index, and a loss of about 5.2% in the IFCI Europe/Mideast/Africa Index.

While share price performance in most emerging markets was positive, individual performance among emerging markets in 1996 was as diverse as the markets themselves. As in many years past, emerging markets could be found both at the top and bottom of the list of world stock market performance.

For instance, emerging markets swept the top 15 spots for annual performance measured in dollar terms, from a list of 76 world stock markets. Among developed markets, only Spain and Sweden made the top 20 on this list, which included 54 markets from developing countries and 22 from developed countries. The top five performers for 1996 were Bangladesh (up 196%), Russia (156%), Venezuela (132%), Hungary (95%), and

China (89%). It is noteworthy that many of the largest gains came from smaller, less-known emerging markets not contained in any composite indexes, although the relatively large Taiwanese market took the 18th spot on the list, with a 36% increase.

The worst performers were also concentrated in emerging markets. A total of 21 world equity markets dropped in price in 1996, of which 19 were emerging markets. The market in Bulgaria was nearly wiped out, as stock prices continued to post losses in dollar terms after trading was suspended beginning in September in light of a radical currency devaluation. As a consequence, the IFCG Bulgaria Index lost nearly 83% over the course of 1996, making it the world's worst performing stock market in 1996. Large emerging markets such as Korea, Thailand, and South Africa also suffered heavy losses, with their IFCI indexes falling 39%, 38%, and 19% for the year respectively, in reaction to domestic economic problems.

Mutual funds

Definitions

A mutual fund is an open-end investment company that pools money from shareholders and invests in a diversified portfolio of securities. Unlike closed-end funds, which issue a fixed number of shares, open-end mutual funds are obliged to redeem shares at the request of the shareholder. When a shareholder redeems shares, he or she receives their net asset value, which equals the value of the fund's net assets divided by the number of shares outstanding. An investment manager determines the composition of the fund's investment portfolio in accordance with the fund's return objectives and risk criteria.

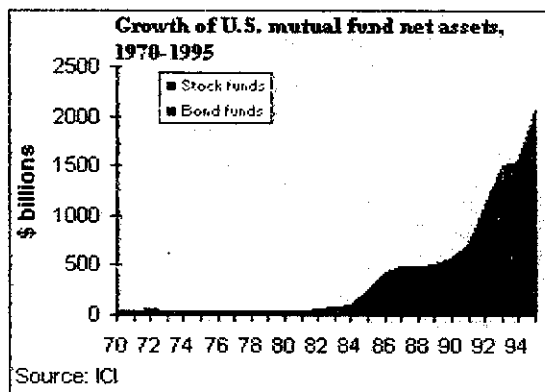
There are three basic types of mutual funds: stock (or equity) funds, bond and income funds, and money market funds. Money market funds are referred to as short-term funds, because they invest in securities that generally mature in about one year or less. Stock funds and bond and income funds, on the other hand, are known as long-term funds.

An investor in a mutual fund is a shareholder, buying shares of the fund. Each share represents proportionate ownership in the fund's underlying securities. The securities are

selected by a professional investment adviser to meet a specified financial goal, such as growth or income. The Investment Company Institute classifies mutual funds into 21 broad categories, according to their basic investment objective (See the categories).

History of mutual funds

Mutual funds have been on the financial landscape for longer than most investors realize. In fact, the industry traces its roots back to 19th-century Europe, in particular to Great Britain. The Foreign and Colonial Government Trust, formed in London in 1868, resembled a mutual fund. It promised the "investor of modest means the same advantages as the large capitalist... by spreading the investment over a number of different stocks." Most of the early British investment companies and their American counterparts resembled today's closed-end funds. They sold a fixed number of shares, the price of which was determined by supply and demand. (As a source for this section, see: Investment Company Institute (ICI), *Mutual Funds Fact Book 1997*.)



The first modern mutual fund was the Massachusetts Investors Trust, which was introduced in March 1924 and began with a modest portfolio of 45 stocks and \$50,000 in assets. This was the first so-called open-end mutual fund. It introduced concepts that would revolutionize investment companies and investing: a continuous offering of new shares and redeemable shares that could be sold anytime based on the current value of the fund's assets

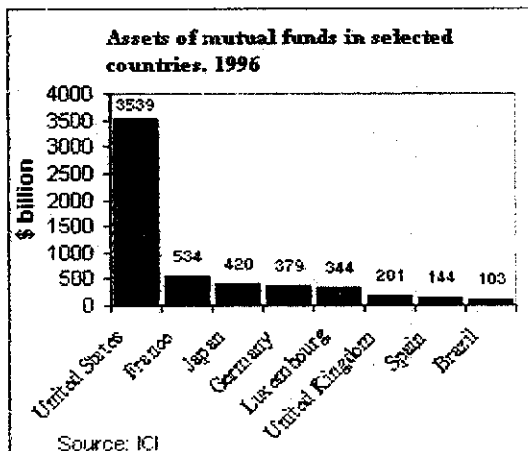
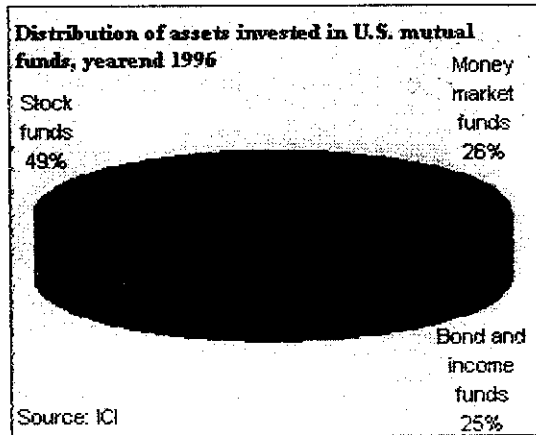
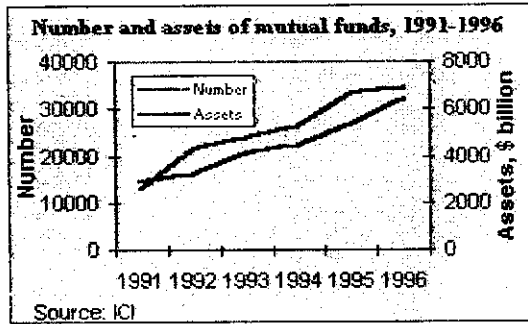
The early mutual fund industry was, however, overtaken by events – namely, the 1929 stock market crash and the Great Depression. Mutual funds began to grow in popularity in the 1940s and 1950s. In 1940, there were fewer than 80 funds in United States, with total assets of \$500 million. Twenty years later, there were 160 funds and \$17 billion in assets. However, truly significant amounts of money did not start flowing into the funds until the mid-1980s.

The complexion and size of the mutual fund industry dramatically changed as new products and services were added. The first international stock mutual fund was introduced in 1940; today there are scores of international and global stock and bond funds. Before the 1970s, most mutual funds were stock funds, with a few balanced funds that included bonds in their portfolios. By 1972, there were 46 bond and income funds in United States, and another 20 years later, there were 1629.

Innovations in investment and retirement vehicles have also swept the industry. In 1971, the first money market mutual funds were established, which offered cheque-writing capability and higher interest rates than bank savings accounts. The mutual fund industry also began to introduce even more diverse stock, bond, and money market funds. Today's mutual funds run the gamut – from aggressive growth funds, to global bond funds, to single-state tax-exempt money market funds, to "niche" funds that may specialize in one segment of the securities market.

Global developments

The number of mutual funds worldwide has grown rapidly in the 1990s, and mutual fund assets have increased even more rapidly. At the end of 1996, there were 34,552 mutual funds, with \$6,404 billion in assets. The number of funds decreased somewhat in the first half of 1997, but the value of total assets increased. At the end of June 1997, the number of funds was 33,431 and the value of their assets was \$6.696 billion. (ICI, Mutual Fund Fact Book 1997 and International Mutual Funds Survey)



Most of the mutual funds are based in the United States, Japan and France. (See ICI table on the number of open-end investment companies, 1991-1996)

The distribution of fund assets is even more uneven. More than half of the worldwide total in mutual fund assets belongs to US mutual funds, even though only one-sixth of the total number of funds are based there. Large size is typical of US funds. To illustrate, United States mutual fund assets increased from \$2.8 trillion in 1995 to \$3.5 trillion in 1996, while total Japanese mutual fund assets decreased from \$470 billion to \$420 billion. (See ICI table on the assets of open-end investment companies, 1991-1996 and Fortune Magazine's list of United States mutual funds <http://www.fortune.com/>)

See also Fortune Magazine's lists on top funds in each fund category: aggressive growth funds, balanced funds, convertible bond funds, corporate high yield funds, corporate general funds, equity income funds, global/world stock funds, government general funds, government mortgage funds, government Treasury funds, growth funds, growth and income funds, international stock funds, municipal national funds, small company funds, world funds (<http://www.fortune.com/>)

The United States mutual fund assets increased from \$2,820 billion in 1995 to \$3,539 billion in 1996, whereas the Japanese mutual fund assets decreased from \$470 billion to \$420 billion. Of the total \$3.5 trillion invested in US mutual funds, \$1.75 trillion was invested in stock funds, \$886 billion in bond and income funds, and \$901 billion in money market funds.

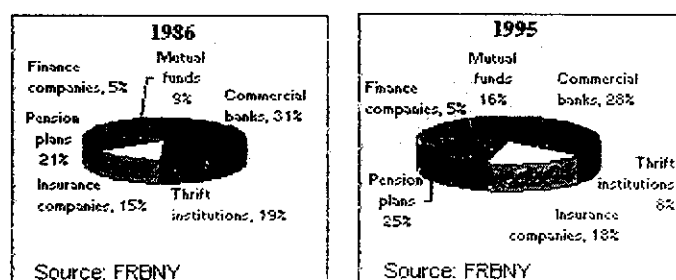
An increasing proportion of US mutual fund assets is being invested outside the United States. There are at least three types of mutual funds that may invest abroad: international mutual funds, global mutual funds and emerging market mutual funds (See types of mutual funds) At the end of 1996, the assets of international and global equity and bond funds were \$321 billion, up from \$230 billion at year-end 1995. In 1986, assets of US international and global mutual funds were just \$16 billion. (ICI, Mutual Fund Fact Book 1997.) Securities in emerging markets are becoming an increasingly popular option for mutual fund investors. The following are considered emerging markets: all countries in Latin America and the Caribbean; all markets in Asia except Australia, Hong Kong, Japan, New Zealand, and Singapore; all countries in Africa and the Middle East except

Israel; all former Eastern Bloc countries, Russia and the Commonwealth of Independent States; and Greece, Portugal and Turkey.

International and global US mutual funds invested about 10% of their assets in emerging markets as of mid-year 1996 (ICI, Mutual Fund Fact Book 1997). According to the IFC, in 1995 over \$100 billion was being managed in about one thousand international emerging market funds (IFC, Investment Funds in Emerging Markets, 1996). In February 1996, assets of US emerging-market equity funds amounted to \$25 billion. However, the proportion of emerging market funds in total mutual fund assets is still quite modest. (ICI, United States Emerging Market Funds: Hot Money or Stable Source of Investment Capital)

For the period January 1991 through February 1996, net flows of new cash from shareholders to emerging market equity funds accounted for much of the asset growth of these funds. Virtually all asset growth for this five-year period came from net inflows into these funds, rather than from asset appreciation – even though the total return on emerging market funds was a healthy 16% per annum. At times, new cash flows to these funds ran counter to movements in share prices in the markets concerned, and thus helped to maintain the level of investment in these funds while offering stability to these markets. (ICI, United States Emerging Market Funds: Hot Money or Stable Source of Investment Capital)

Mutual funds compared to other financial institutions



Assets of mutual funds have Total assets of major United States financial intermediaries, 1986, 1995

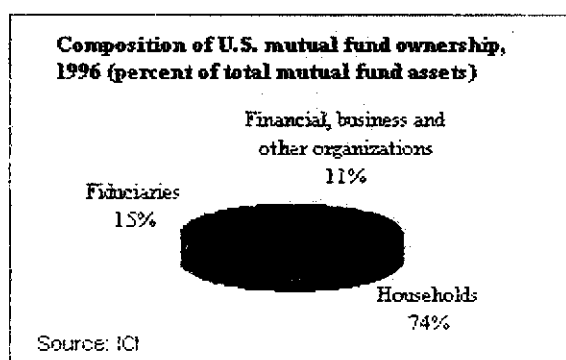
grown much more rapidly than the assets of commercial banks or thrift institutions. While in 1986 the share of mutual funds in total assets of major United States financial intermediaries was only 9%, by 1995 it had reached 16%. Besides mutual funds, pension plans and insurance companies have also increased their share.

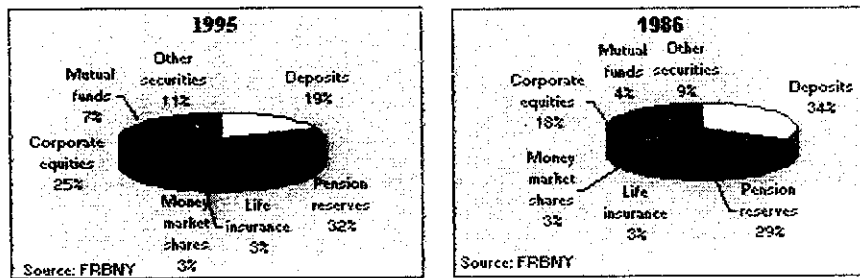
At the end of 1996, the United States had 6,293 mutual funds with combined assets of \$3.54 trillion. Mutual funds were second to commercial banks in asset size. At the end of the fourth quarter of 1996, the latest period for which figures are available from the Federal Reserve Board, the assets of commercial banks totaled \$4.71 trillion.

Assets of other major financial institutions in the same period include: private pension funds at \$3.03 trillion; life insurance companies at \$2.24 trillion; state and local government pension plans, \$1.74 trillion; and savings institutions at \$1.04 trillion. (ICI, Assets of United States mutual funds and other financial institutions)

As large as the recent flows have been, mutual funds still hold relatively small portions of the markets in which they invest. At the end of 1995, they held 16% of the capitalization of the municipal bond market, 12% of the corporate equity market, 7% of the corporate and foreign bond market, and 5% of the United States Treasury and agency securities market. (FRBNY, Economic Policy Review, July 1997.)

Mutual fund ownership





In the United States, households own the majority of the mutual fund industry's \$3.54 trillion in assets. As of year-end 1996, they held \$2.63 trillion of mutual fund assets, while fiduciaries – banks and individuals serving as trustees, guardians, or administrators – and other institutional investors held the remaining \$913 billion.

In 1996, United States households purchased a net \$543 billion in financial assets, including mutual funds; this was up 8.7%, from \$499.6 billion in 1995. The increase in net purchases of financial assets was partly financed through higher household savings, which rose 8.3% to \$274.0 billion. In addition, a pickup in household borrowing in 1996 indirectly helped finance the increase in household purchases of financial assets

Households have Major United States household financial assets, 1986, 1995

directed a significantly higher proportion of their financial assets to securities in recent years. The share of deposits has decreased correspondingly. In 1986, 31% of assets were placed directly in corporate equities and other securities, or in mutual funds. By 1995, this share had risen to 43%. The proportion of mutual fund shares in total assets, meanwhile, rose from 4% to 7%. This upward trend continued in 1996.

Mutual funds are the investment vehicle of choice for many individual retirement plans. Consequently, the retirement market plays an increasingly important role in fund industry growth. At year-end 1995, an estimated 35.7% of mutual fund assets, or about \$1 trillion, was held by retirement plans. This was up from 33% or \$716 billion in 1994, and 25% or \$411 billion in 1992. In 1996, inflows to long-term funds from private pension plans doubled, especially from defined-contribution plans.

Research of the Investment Company Institute conducted in 1995 found that the average mutual fund investor is of the middle class, is 44 years old, has financial assets of

\$50,000, and is likely to be married and employed. The typical mutual fund investor purchased his or her first fund shares in 1990 or earlier (68%). Among these seasoned fund investors, 57% also own individual stocks, and 75% have Individual Retirement Accounts.

Fund investors have long-term goals. Retirement is cited by 84% as one of their investment goals, and 26% cite saving for their children's or grandchildren's college education. The typical mutual fund investor has assets in more than one type of fund. For instance, investors in equity mutual funds typically hold three different funds, and more than half also hold bond and income funds.

Reasons for the popularity of funds

The growth in mutual fund assets worldwide is part of the overall growth in both the size and maturity of many foreign capital markets. There are several reasons why this growth has occurred. First, the securities markets of many developed countries have benefited in recent years from favourable economic conditions. For example, Canada and Western Europe have experienced low interest and inflation rates, which have enhanced the attractiveness of their capital markets for investors worldwide. (As a source for this section, see: ICI, Mutual Fund Fact Book 1997.)

Securities markets in some emerging markets have prospered because of new investment opportunities arising from economic reform, privatization, lowered trade barriers, and rapid economic growth. For example, the emerging markets of Malaysia, Mexico, "Taiwan, China", and Korea are now among the 15 largest equity markets in the world.

At the same time, demand for capital has risen – especially in emerging markets. For mutual funds, emerging markets mean possibilities to diversify risks and benefit from higher returns. Domestic firms benefit from funds through improved access to equity capital, and in the case of venture capital funds, through management input (strategic and financial planning, marketing, etc.). The infusion of foreign capital into local equities

markets has improved liquidity and raised price-to-earnings ratios, thus reducing the cost to firms of issuing new capital.

Among investors, mutual funds are popular because throughout the world they share many of the same basic needs and goals – a comfortable retirement, higher education for their children, and improved family living standards. Investors are turning to mutual funds for diversification and as a way to participate in growing securities markets. Professionally managed funds are a viable alternative for investing directly in securities. In addition, as many countries begin to face the prospect of aging populations, they are considering the need for increased private savings to meet retirement needs.

Countries such as Chile have enacted new pension systems that place greater emphasis on the role of private investment in retirement savings. Mutual funds are often used as funding vehicles for such systems.

STOCK MARKET IN INDIA – AN OVERVIEW

The Indian regulatory and supervisory framework of securities market has been adequately strengthened through the legislative and administrative measures in the recent past. The regulatory framework for securities market is consistent with the best international benchmarks, such as, standards prescribed by International Organization of Securities Commissions (IOSCO).

Extensive Capital Market Reforms were undertaken during the 1990s encompassing legislative regulatory and institutional reforms. Statutory market regulator, which was created in 1992, was suitably empowered to regulate the collective investment schemes and plantation schemes through an amendment in 1999. Further, the organization strengthening of SEBI and suitable empowerment through compliance and enforcement powers including search and seizure powers were given through an amendment in SEBI Act in 2002. Although dematerialization started in 1997 after the legal foundations for electronic book keeping were provided and depositories created the regulator mandated gradually that trading in most of the stocks take place only in dematerialized form.

Till 2001 India was the only sophisticated market having account period settlement alongside the derivatives products. From middle of 2001 uniform rolling settlement and same settlement cycles were prescribed creating a true spot market. After the legal framework for derivatives trading was provided by the amendment of SCRA in 1999 derivatives trading started in a gradual manner with stock index futures in June 2000. Later on options and single stock futures were introduced in 2000-2001 and now India's derivatives market turnover is more than the cash market and India is one of the largest single stock futures markets in the world

India's risk management systems have always been very modern and effective. The VaR based margining system was introduced in mid 2001 and the risk management systems have withstood huge volatility experienced in May 2003 and May 2004. This included real time exposure monitoring, disablement of broker terminals, VaR based margining etc.

India is one of the few countries to have started the screen based trading of government securities in January 2003. In June 2003 the interest rate futures contracts on the screen based trading platform were introduced.

India is one of the few countries to have started the Straight Through Processing (STP), which will completely automate the process of order flow and clearing and settlement on the stock exchanges. RBI has introduced the Real Time Gross Settlement system (RTGS) in 2004 on experimental basis. RTGS will allow real delivery v/s. payment, which is the international norm, recognized by BIS and IOSCO. To improve the governance mechanism of stock exchanges by mandating demutualisation and corporatisation of stock exchanges and to protect the interest of investors in securities market the Securities Laws (Amendment) Ordinance was promulgated on 12th October 2004. A Bill has since replaced the Ordinance.

Negotiated Dealing System –Electronic Order Matching (NDS-OM) Launched

On August 1, 2005, RBI launched the electronic order matching system for trading in government securities on its Negotiated Trading System. In the first phase, RBI-regulated entities, banks and primary dealers were allowed to trade on the system. The system was extended to all insurance entities in January, 2006. The Union Budget, 2006-07 announced the extension of the NDS-OM module to qualified mutual funds (MFs), provident funds and pension funds. Accordingly, the RBI, in its Credit Policy Statement announced on 18th April, 2006 has proposed :

- to permit MFs, which are NDS members, to access the NDS-OM module with immediate effect. Other MFs would be permitted access by opening temporary current/SGL accounts with the Reserve Bank.
- to permit large pension/provident funds like CBOT/Seamens'/Coal Miners' funds to access the NDS-OM module by opening temporary current/SGL accounts with the Reserve Bank. The smaller funds would be allowed access through the CSGL route.

These arrangements are being made on a temporary basis to enable immediate access to new participants to the NDS-OM module. Meanwhile, software is being developed to shift all entities, other than banks and PDs, which access NDS-OM from current accounts with the Reserve Bank to such accounts with commercial banks.

Mumbai as a Centre for International Finance

In his Budget speech the Finance Minister has made the announcement in para 90 regarding appointment of a high powered Expert Committee to advise the Government on how to make Mumbai a regional financial center. This Committee has been constituted in November 2005 under the Chairmanship of Shri Percy S. Mistry, Chairman, Oxford International Group.

Corporate Bond Markets

A High Level Expert Committee on Corporate Bonds and Securitisation was constituted, under the Chairmanship of Dr. R.H.Patil, following an announcement in the Budget 2005-06, to look in to legal, regulatory, tax and market design issues in the development of the corporate bond market. The Committee submitted its report to the Government on 27 December, 2005. The recommendations of the Committee included enhancing the issuer as well as investor base, simplification of listing and disclosure norms, rationalisation of stamp duty and withholding tax, consolidation of debt, improving trading systems through introduction of an electronic order matching system, efficient clearing and settlement systems, a comprehensive reporting mechanism, developing market conventions and self-regulation and development of the securitised debt market.

As announced by the FM in his Budget speech 2006-07, steps shall now take steps to create a single, unified exchange-traded market for corporate bonds. In this context, in so far as actions by the Reserve Bank are concerned, the RBI has proposed the constitution of a Working Group to examine the relevant recommendations and suggest a roadmap for implementation.

When issued market for Government Securities

“When issued” trading implies trading in a futures market where positions may be taken and covered before the actual settlement date. Such trading takes place between the time a new issue is announced and a time it is actually issued.

The RBI, in its Credit Policy Statement announced on 18th April, 2006 has proposed to introduce a ‘when issued’ (WI) market in Government securities in order to further strengthen the debt management framework Guidelines covering permissible categories of securities and participants, surveillance system, limits on positions, internal control and reporting requirements have been prepared in consultation with market participants and are being issued separately by the RBI.

Anti-Money Laundering Guidelines

SEBI has put in place Anti-Money Laundering Guidelines in January, 2006. The Guidelines set out the steps that a registered intermediary and any of its representatives, should implement to discourage and identify any money laundering or terrorist financing activities. These guidelines are meant for use primarily by intermediaries registered with SEBI under the SEBI Act, 1992. The Guidelines have taken into account the requirements of the Prevention of the Money Laundering Act, 2002 as applicable to the SEBI registered entities.

Introduction of Gold Exchange Traded Fund schemes by Mutual Fund

SEBI has, vide notification dated 12th January, 2006, allowed MFs to float Gold Exchange Traded Fund schemes which have been permitted to invest primarily in Gold and Gold related instruments, which have been defined as such instruments having gold as underlying, as are specified by SEBI from time to time.

Pension Reforms

On 23rd August 2003, Government decided to introduce a new restructured defined contribution pension system for new entrants to Central Government service, except to Armed Forces, in the first stage, replacing the existing defined benefit system. A press release describing the main features of the New Pension System (NPS) was issued on 27th August 2003. Subsequently, the NPS was operationalised from 1st January 2004 through a notification dated 22nd December 2003.

An interim PFRDA was constituted through a Government resolution dated 10th October 2003 as a precursor to a statutory regulator and became operational from January 1st 2004. A press release to this effect was issued on 1st January 2004. A Chairperson and two whole-time members were appointed who, however, subsequently resigned. Shri D. Swarup has since been appointed as Chairman PFRDA for a term of 5 years or until the age of 65 or until further orders, whichever is earlier. He assumed charge on 1st April 2005.

Till the architecture is fully in place, the Central Pension Accounting Office (CPAO) under the Controller General of Accounts, Department of Expenditure is acting as the interim Central Record keeping Agency (CRA). Contributions are currently being credited into the public account earning a return equal to the GPF rate.

In line with an announcement made in Budget 2004-05, the Pension Fund Regulatory and Development Authority Ordinance, 2004 to provide a regulatory framework for the pension sector under the Pension Fund Regulatory and Development Authority was promulgated on 29th December 2004. The Ordinance lapsed in April 2005.

A Bill replacing the Ordinance was introduced on 21st March 2005 and was referred to the Standing Committee on Finance. The Committee presented their report in Parliament on 26th July 2005. The recommendations of the Committee have been examined and a proposal for amending the PFRDA Bill, 2005, based on the recommendations of the Committee is under the Government's consideration.

The Bill proposes that the main mandate of PFRDA is to regulate the NPS, as amended from time to time by the Central Government. Pension schemes already covered under the Employees' Provident Fund & Miscellaneous Provisions Act, 1952 and other enactments would be specifically excluded from the architecture of the NPS including the Central Record keeping Agency (CRA) and pension funds. Further, the Bill provides that PFRDA will frame investment guidelines for pension funds. There are provisions empowering PFRDA to impose stringent penalties for any violation of the law and to create a special fund, to be used for educating and protecting the interests of subscribers to schemes of pension funds.

The New Pension System (NPS) was introduced for newly recruited Central Government employees with effect from 1st January 2004. Already over 100,000 employees have joined the system. 17 State Governments have notified defined contribution pension systems based on the NPS.

STOCK EXCHANGES IN INDIA :

| North Zone | East Zone | West Zone | South Zone |
|------------|-------------|-------------------------|-----------------|
| Kanpur | Bhubaneswar | Ahmedabad | Bangalore |
| Ludhiana | Calcutta | Baroda | Chennai(Madras) |
| New Delhi | Gauhati | Indore | Cochin |
| Jaipur | Patna | Mumbai | Coimbatore |
| | | Pune | Hyderabad |
| | | Rajkot | Mangalore |
| | | Interconnected | |
| | | National Stock Exchange | |
| | | OTC Exchange of India | |

NATIONAL STOCK EXCHANGE

The National Stock Exchange (NSE) is India's leading stock exchange covering various cities and towns across the country. NSE was set up by leading institutions to provide a modern, fully automated screen-based trading system with national reach. The Exchange has brought about unparalleled transparency, speed & efficiency, safety and market integrity. It has set up facilities that serve as a model for the securities industry in terms of systems, practices and procedures.

NSE has played a catalytic role in reforming the Indian securities market in terms of microstructure, market practices and trading volumes. The market today uses state-of-art information technology to provide an efficient and transparent trading, clearing and settlement mechanism, and has witnessed several innovations in products & services viz. demutualisation of stock exchange governance, screen based trading, compression of settlement cycles, dematerialisation and electronic transfer of securities, securities lending and borrowing, professionalisation of trading members, fine-tuned risk management systems, emergence of clearing corporations to assume counterparty risks, market of debt and derivative instruments and intensive use of information technology.

BOMBAY STOCK EXCHANGE

Bombay Stock Exchange Limited is the oldest stock exchange in Asia with a rich heritage. Popularly known as "BSE", it was established as "The Native Share & Stock Brokers Association" in 1875. It is the first stock exchange in the country to obtain permanent recognition in 1956 from the Government of India under the Securities Contracts (Regulation) Act, 1956. The Exchange's pivotal and pre-eminent role in the development of the Indian capital market is widely recognized and its index, *SENSEX*, is tracked worldwide. Earlier an Association of Persons (AOP), the Exchange is now a demutualised and corporatised entity incorporated under the provisions of the Companies Act, 1956, pursuant to the BSE(Corporatisation and Demutualisation) Scheme, 2005 notified by the Securities and Exchange Board of India (SEBI).

With demutualisation, the trading rights and ownership rights have been de-linked effectively addressing concerns regarding perceived and real conflicts of interest. The Exchange is professionally managed under the overall direction of the Board of Directors. The Board comprises eminent professionals, representatives of Trading Members and the Managing Director of the Exchange. The Board is inclusive and is designed to benefit from the participation of market intermediaries.

In terms of organisation structure, the Board formulates larger policy issues and exercises over-all control. The committees constituted by the Board are broad-based. The day-to-day operations of the Exchange are managed by the Managing Director and a management team of professionals. The Exchange has a nation-wide reach with a presence in 417 cities and towns of India. The systems and processes of the Exchange are designed to safeguard market integrity and enhance transparency in operations. During the year 2004-2005, the trading volumes on the Exchange showed robust growth.

The Exchange provides an efficient and transparent market for trading in equity, debt instruments and derivatives. The BSE's On Line Trading System (BOLT) is a proprietary system of the Exchange and is BS 7799-2-2002 certified. The surveillance and clearing & settlement functions of the Exchange are ISO 9001:2000 certified.

KARVY, is a premier integrated financial services provider, and ranked among the top five in the country in all its business segments, services over 16 million individual investors in various capacities, and provides investor services to over 300 corporates, comprising the who is who of Corporate India. KARVY covers the entire spectrum of financial services such as Stock broking, Depository Participants, Distribution of financial products - mutual funds, bonds, fixed deposit, equities, Insurance Broking, Commodities Broking, Personal Finance Advisory Services, Merchant Banking & Corporate Finance, placement of equity, IPOs, among others. Karvy has a professional management team and ranks among the best in technology, operations and research of various industrial segments

Thus over the last 20 years Karvy has traveled the success route, towards building a reputation as an integrated financial services provider, offering a wide spectrum of services. And we have made this journey by taking the route of quality service, path breaking innovations in service, versatility in service and finally...totality in service. Our highly qualified manpower, cutting-edge technology, comprehensive infrastructure and total customer-focus has secured for us the position of an emerging financial services giant enjoying the confidence and support of an enviable clientele across diverse fields in the financial world.

Our values and vision of attaining total competence in our servicing has served as the building block for creating a great financial enterprise, which stands solid on our fortresses of financial strength - our various companies. With the experience of years of holistic financial servicing behind us and years of complete expertise in the industry to look forward to, we have now emerged as a premier integrated financial services provider.

4.ANALYSIS AND INTERPRETATION:

4.A.1 CLOSE ENDED-BALANCED MUTUAL FUNDS

Table No. 4.A.1.1 Comparative statement on the performance of Close ended Balanced mutual funds with respect to Risk and Return

| Name of the fund | Alpha | Beta | Mean | S.D | Sharpe's | Treynor's |
|---|---------|--------|---------|--------|----------|-----------|
| ABN AMRO dual advantage planA-series1-growth | 0.072 | 0.1056 | 9.9333 | 0.0401 | 110.5561 | 41.982 |
| ABN AMRO dual advantage planA-series1-ip-growth | 0.0791 | 0.1043 | 9.938 | 0.0386 | 114.9741 | 42.5503 |
| ABN AMRO dual advantage planB-series1-div | 0.1025 | 0.3367 | 9.8121 | 0.144 | 29.9451 | 12.8069 |
| ABN AMRO dual advantage planB-series1-growth | 0.1025 | 0.3367 | 9.8121 | 0.144 | 29.9451 | 12.8069 |
| Franklin templeton capital safety-3yrs-div | -0.0295 | 0.1725 | 10.0018 | 0.1025 | 43.92 | 26.0974 |
| Franklin templeton capital safety-3yrs-growth | -0.0295 | 0.1725 | 10.0018 | 0.1025 | 43.92 | 26.0974 |
| Franklin templeton capital safety-5yrs-div | -0.0617 | 0.2159 | 10.0065 | 0.1209 | 37.2746 | 20.8731 |
| Franklin templeton capital safety-5yrs-growth | -0.0617 | 0.2159 | 10.0065 | 0.1209 | 37.2746 | 20.8731 |
| Kotak dynamic asset allocation-growth | -0.3786 | 1.2208 | 9.8991 | 0.6662 | 6.6033 | 3.6035 |

Chart No. 4.A.1.1 Beta values of Close ended Balanced mutual funds

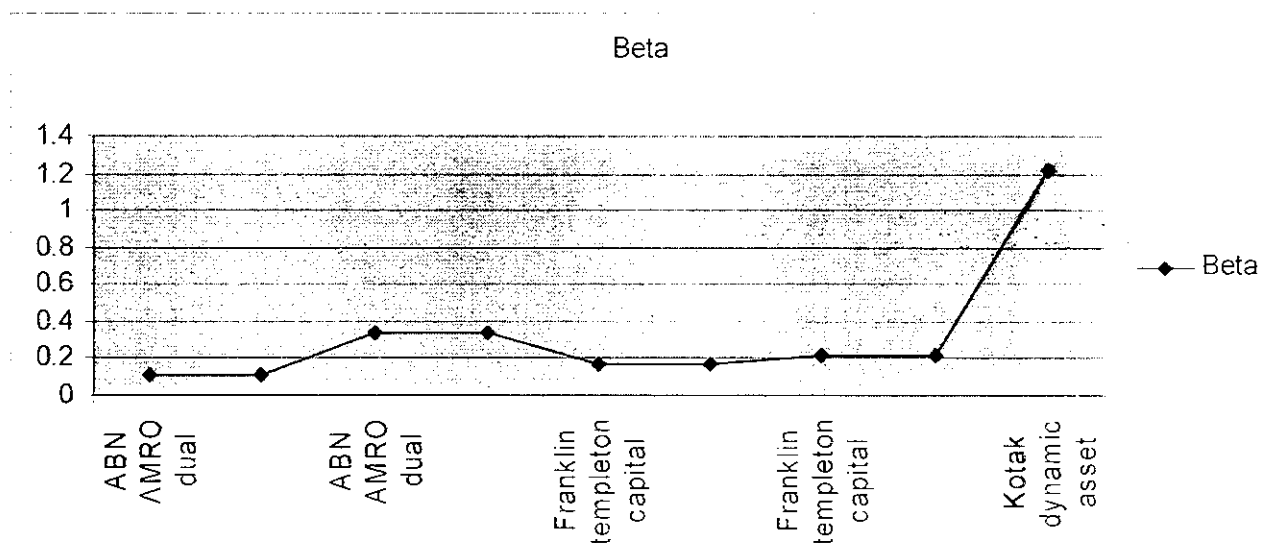


Chart No. 4.A.1.2 Standard Deviation values of Close ended Balanced mutual funds

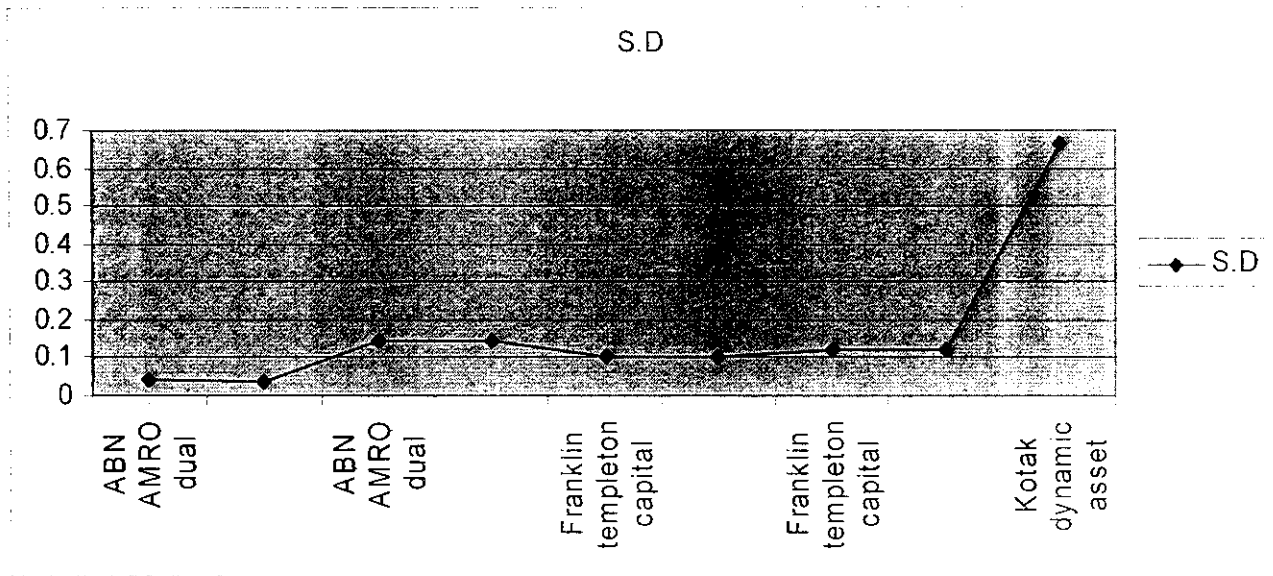


Chart No. 4.A.1.3 Mean Return of Close ended Balanced mutual funds

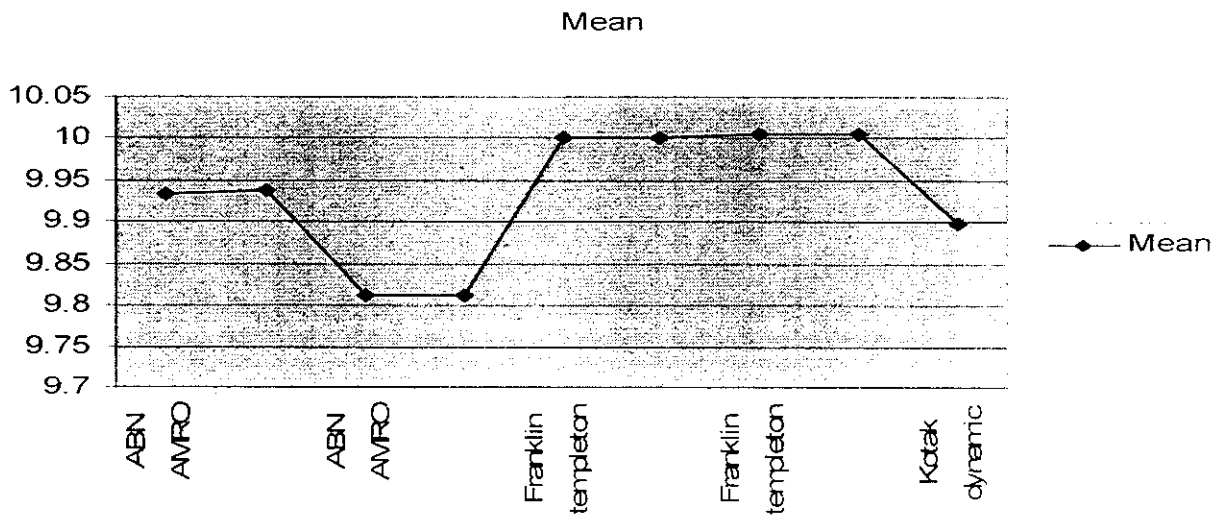


Chart No. 4.A.1.4 Sharpe's index of Close ended Balanced mutual funds

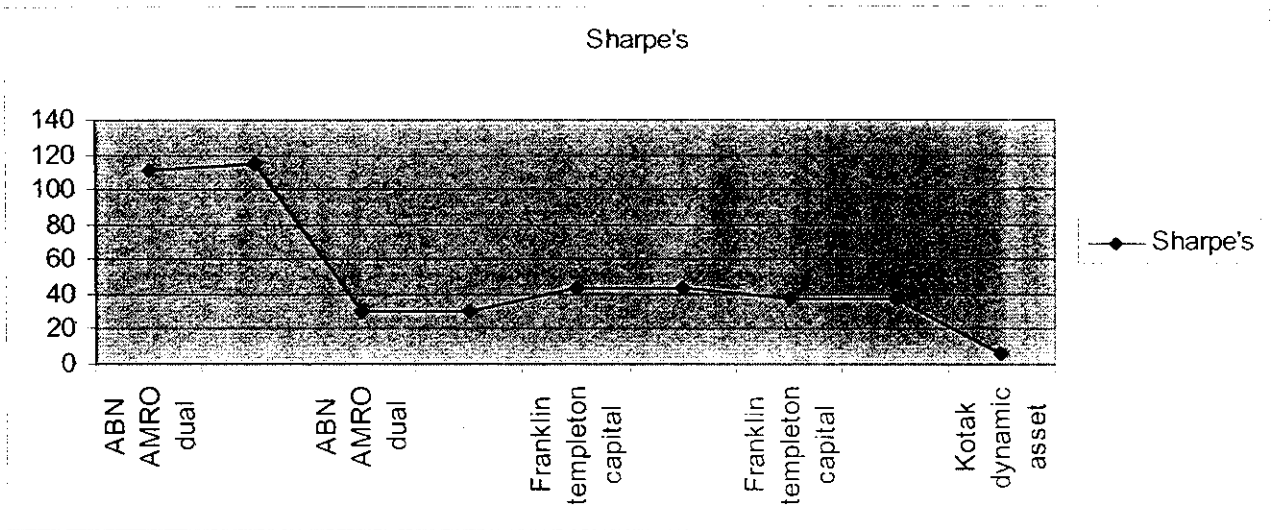


Chart No. 4.A.1.5 Treynor's index of Close ended Balanced mutual funds

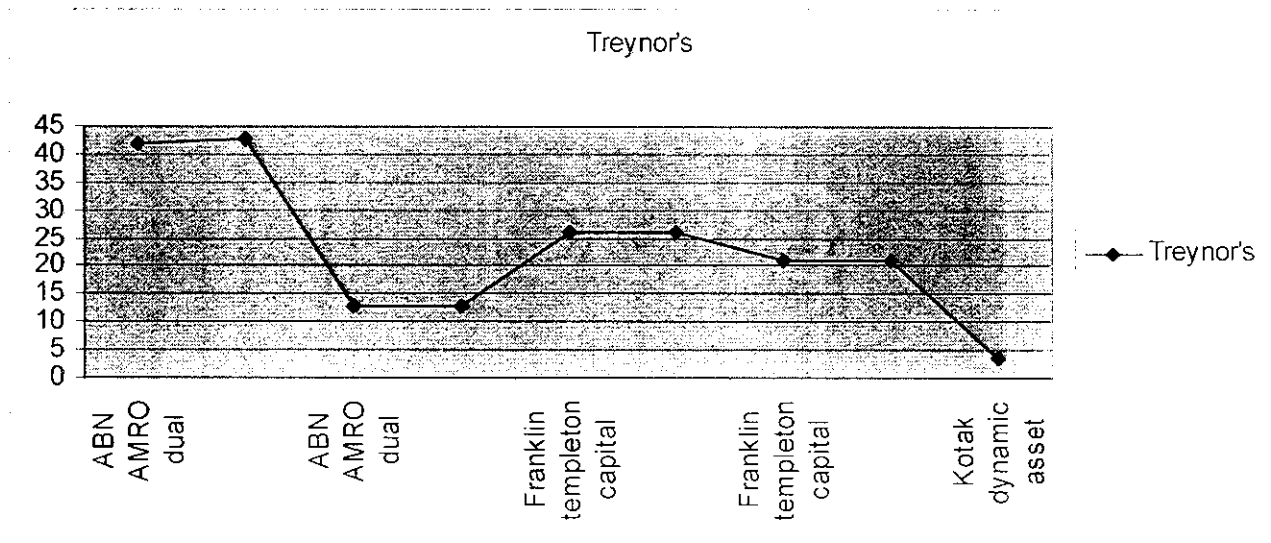


Table No. 4.A.1.2 Rank Statement of Close ended Balanced Mutual Funds

| Name of the fund | Beta rank | Return rank | S.D rank | Average |
|---|-----------|-------------|----------|---------|
| Kotak dynamic asset allocation-growth | 1 | 9 | 9 | 6.33 |
| ABN AMRO dual advantage planB-series1-div | 2 | 7 | 7 | 5.33 |
| ABN AMRO dual advantage planB-series1-growth | 2 | 7 | 7 | 5.33 |
| Franklin templeton capital safety-5yrs-div | 4 | 1 | 5 | 3.33 |
| Franklin templeton capital safety-5yrs-growth | 4 | 1 | 5 | 3.33 |
| Franklin templeton capital safety-3yrs-div | 6 | 3 | 3 | 4 |
| Franklin templeton capital safety-3yrs-growth | 6 | 3 | 3 | 4 |
| ABN AMRO dual advantage planA-series1-growth | 8 | 6 | 2 | 5.33 |
| ABN AMRO dual advantage planA-series1-ip-growth | 9 | 5 | 1 | 5 |

Table No. 4.A.1.3 Position Matrix of Close ended Balanced mutual funds

| | | Risk | | |
|--------|----------|---|---|---------------------------------------|
| | | Low | Moderate | High |
| Return | High | Franklin templeton capital safety-3yrs-(div&growth) | Franklin templeton capital safety-5yrs-(div&growth) | ----- |
| | Moderate | ABN AMRO dual advantage planA-series1-ip-growth ABN AMRO dual advantage planA-series1-growth | ABN AMRO dual advantage planB-series1-(div&growth) | ----- |
| | Low | ----- | ----- | Kotak dynamic asset allocation-growth |

INTERPRETATION OF CLOSE ENDED BALANCED MUTUAL FUNDS

Closed Balanced refers to equal investment in the stock market and the debt instruments.

From the tables 4.A.1.2 and 4.A.1.3 it is interpreted that, Kotak Dynamic Asset Allocation has a return rank of 9 and SD rank of 9 which implies return is low and risk is high. ABN AMRO Dual Advantage Plan B Series 1 (Dividend & Growth) has a return rank of 7 and SD rank of 7 which implies both return and risk are moderate. Franklin Templeton Capital Safety 5 years (Dividend & Growth Fund) has a return rank of 1 and SD rank of 5 which implies that return is high and risk is moderate. ABN AMRO Dual Advantage Plan A Series 1 Growth Fund has a return rank of 6 and SD rank of 2 which implies the return is moderate and risk is low. ABN AMRO Dual Advantage Plan A Series 1 IP Growth Fund has a return rank of 9 and SD rank of 1 which implies that return is moderate and risk is low.

INFERENCE:

From the above tables it can be inferred that Franklin templeton capital safety-5yrs(dividend and growth) funds have an average rank of 3.33 and therefore both the funds are regarded as the best in close ended balanced mutual fund category.

4.A.2 CLOSE ENDED-DEBT MUTUAL FUNDS

Table No. 4.A.2.1 Comparative statement on the performance of Close ended Debt mutual funds with respect to Risk and Return

| Name of the fund | Alpha | Beta | Mean | S.D | Sharpe's | Treynor's |
|---|--------|---------|---------|--------|----------|-----------|
| ABN AMRO fixed term plan series2-13month-div | 0.1561 | 0.0035 | 10.6394 | 0.1212 | 42.4043 | 1468.4 |
| ABN AMRO fixed term plan series2-13month-growth | 0.1561 | 0.0035 | 10.6395 | 0.1211 | 42.4401 | 1468.4286 |
| Principal pnb fmp 385 series1-div | 0.132 | 0.0007 | 10.6742 | 0.1042 | 49.6564 | 7391.71 |
| Principal pnb fmp 385 series1-growth | 0.1315 | 0.0011 | 10.6751 | 0.104 | 49.7606 | 4704.6364 |
| Principal pnb fmp 385 series1-ip-div | 0.132 | 0.0007 | 10.6741 | 0.1042 | 49.6555 | 7391.5714 |
| Principal pnb fmp 385 series1-ip-growth | 0.132 | 0.0007 | 10.6741 | 0.1042 | 49.6555 | 7391.5714 |
| Principal pnb fmp 460 series1-div | 0.134 | -0.0008 | 10.6692 | 0.1064 | 48.5827 | -6461.5 |
| Principal pnb fmp 460 series1-growth | 0.134 | -0.0008 | 10.6692 | 0.1064 | 48.5827 | -6461.5 |
| TATA fhf series3-planD-div | 0.1437 | 0.001 | 10.6606 | 0.1138 | 45.348 | 5160.6 |
| TATA fhf series3-planD-growth | 0.1437 | 0.001 | 10.6605 | 0.1138 | 45.3471 | 5160.5 |

Chart No. 4.A.2.1 Beta values of Close ended Debt mutual funds

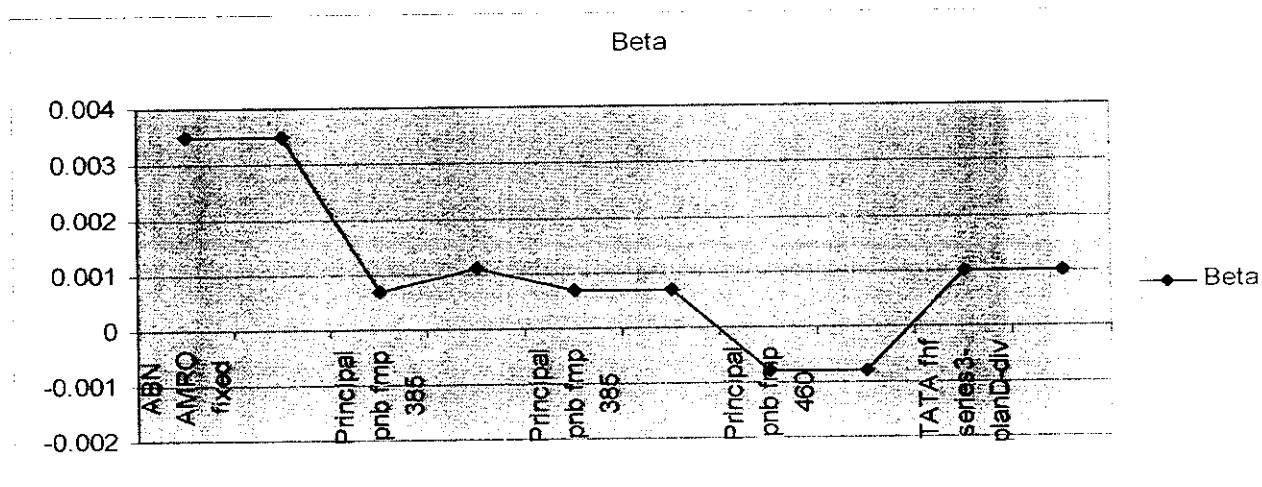


Chart No. 4.A.1.2 Standard Deviation values of Close ended Debt mutual funds

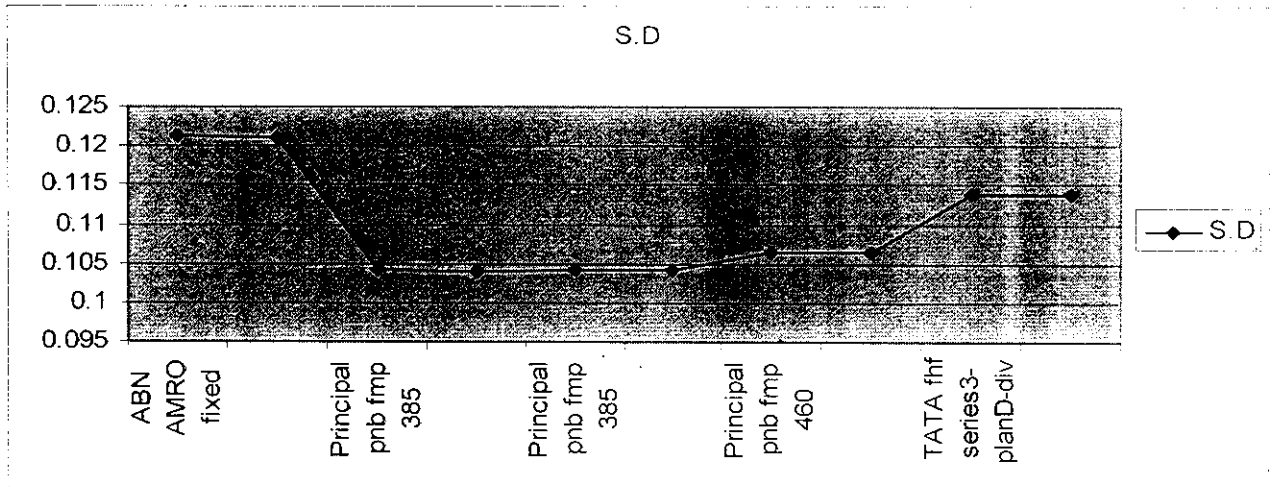


Chart No. 4.A.2.3 Mean Return values of Close ended Debt mutual funds

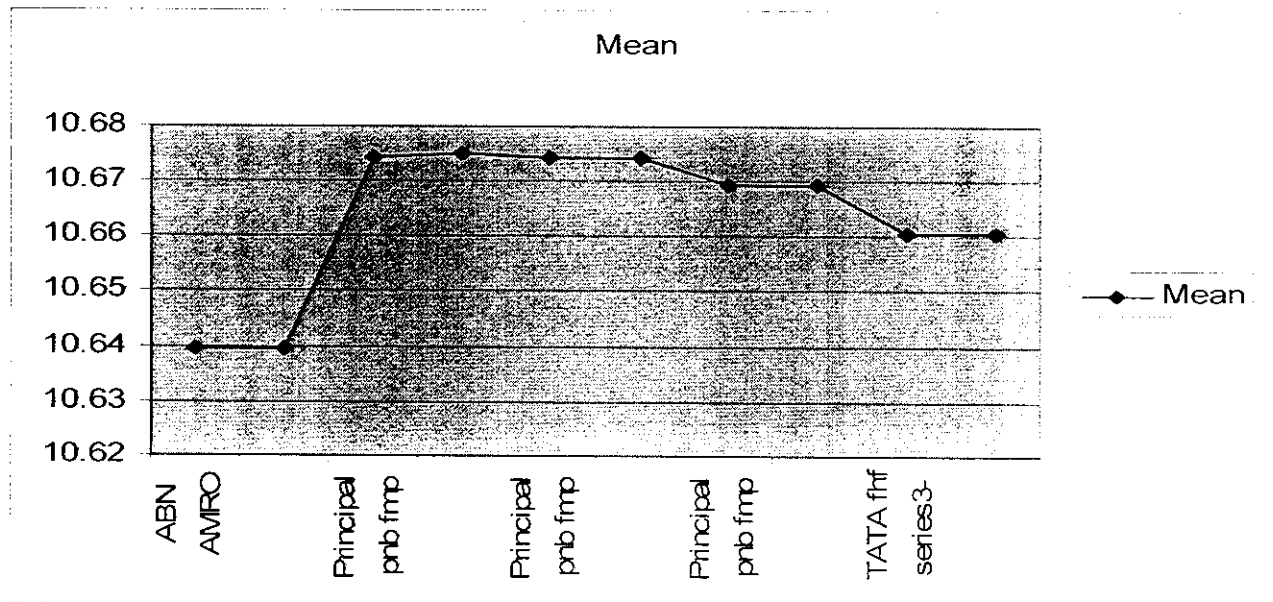


Chart No. 4.A.2.4 Sharpe's index of Close ended Debt mutual funds

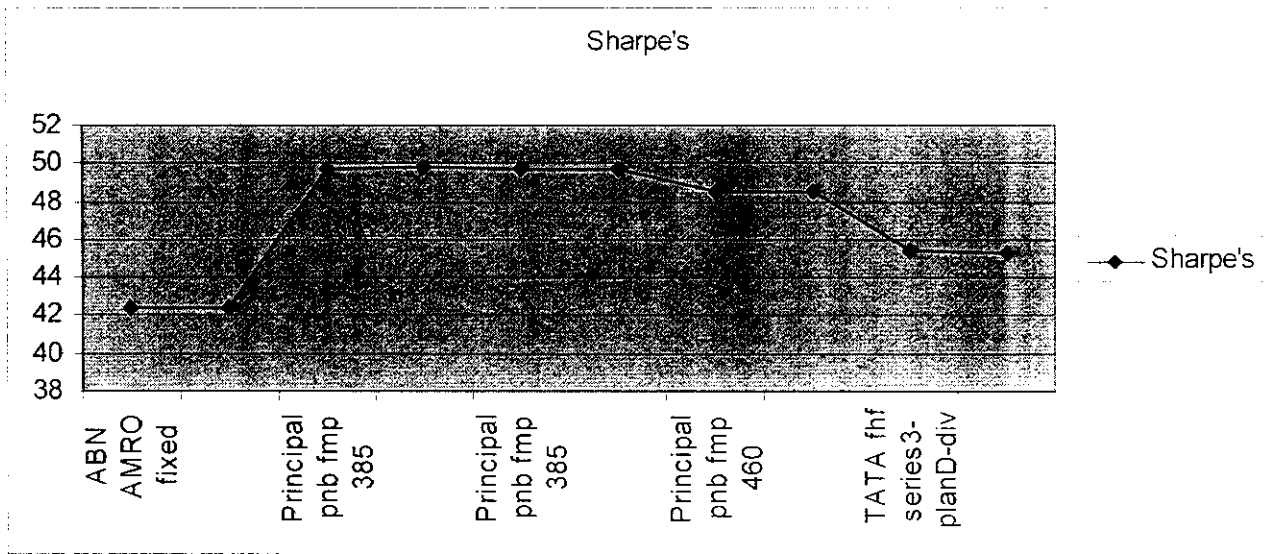
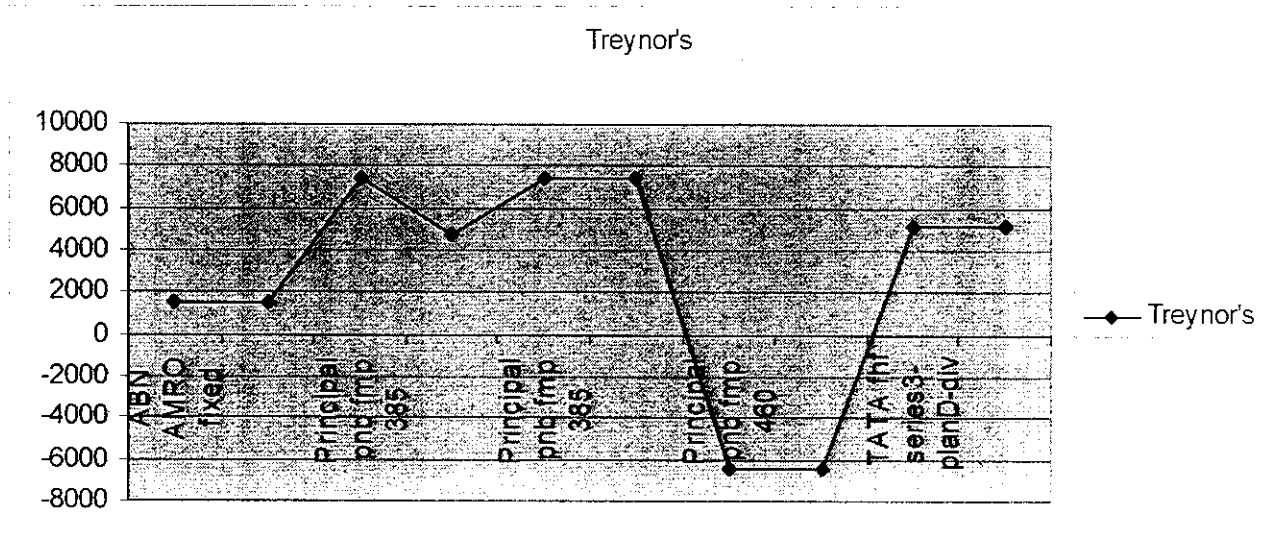


Chart No. 4.A.2.5 Treynor's index of Close ended Debt mutual funds



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Table No. 4.A.2.2 Rank Statement of Close ended Debt mutual funds

| Name of the fund | Beta Rank | Return Rank | S.D Rank | Average |
|---|-----------|-------------|----------|---------|
| ABN AMRO fixed term plan series2-13month-div | 1 | 10 | 9 | 6.67 |
| ABN AMRO fixed term plan series2-13month-growth | 1 | 9 | 9 | 6.33 |
| Principal pnb fmp 385 series1-growth | 3 | 1 | 1 | 1.67 |
| TATA fhf series3-planD-div | 4 | 7 | 7 | 6 |
| TATA fhf series3-planD-growth | 4 | 8 | 7 | 6.33 |
| Principal pnb fmp 385 series1-div | 6 | 2 | 2 | 3.33 |
| Principal pnb fmp 385 series1-ip-div | 6 | 3 | 2 | 3.67 |
| Principal pnb fmp 385 series1-ip-growth | 6 | 3 | 2 | 3.67 |
| Principal pnb fmp 460 series1-div | 9 | 5 | 5 | 6.33 |
| Principal pnb fmp 460 series1-growth | 9 | 5 | 5 | 6.33 |

Table No. 4.A.2.3 Position Matrix of Close ended Debt mutual funds

| | | Risk | | |
|--------|----------|--|---|---|
| | | Low | Moderate | High |
| Return | High | Principal pnb fmp 385 series1-ip-growth Principal pnb fmp 385 series1-ip-div Principal pnb fmp 385 series1-div Principal pnb fmp 385 series1-growth | | |
| | Moderate | | Principal pnb fmp 460 series1-growth Principal pnb fmp 460 series1-div TATA fhf series3-planD-div | |
| | Low | | TATA fhf series3-planD-growth | ABN AMRO fixed term plan series2-13month-growth ABN AMRO fixed term plan series2-13month-div |

INTERPRETATION OF CLOSE ENDED DEBT MUTUAL FUNDS:

Closed Debt refers to maximum investment in debt instruments and partial investment in the stock market.

From the above tables 4.A.2.2 and 4.A.2.3 it is interpreted that, ABN AMRO Fixed Term Plan Series 2 - 13 month Dividend Fund has a return rank of 10 and SD rank of 9 which implies the return is low and risk is high. TATA fhf Series 3 Plan D Dividend Fund has a return rank of 7 and SD rank of 7 which implies both return & risk are moderate. Principle PNB fmp Series 1 – IP (Dividend & Growth) fund has a return rank of 3 and SD rank of 2 which implies that return is high and risk is low. TATA fhf Series 3 Plan D Growth Fund has a return rank of 8 and SD rank of 7 which implies that return is low and risk is moderate. Principal PNB fmp 460 Series 1 (Dividend & Growth) fund has a return rank of 5 and SD rank of 5 which implies that both return and risk are moderate.

INFERENCE:

From the above tables it can be inferred that Principal pnb fmp 385 series1-growth fund has an average rank of 1.67 and therefore it can be regarded as the best in close ended debt mutual fund category.

4.A.3 CLOSE ENDED-EQUITY MUTUAL FUNDS

Table No. 4.A.3.1 Comparative statement on the performance of Close ended Equity mutual funds with respect to Risk and Return

| Name of the fund | Alpha | Beta | Mean | S.D | Sharpe's | Treynor's |
|------------------------------------|---------|--------|----------|--------|----------|-----------|
| Birla tax plan 98 | -0.1596 | 0.7407 | 197.8323 | 7.1445 | 26.9203 | 259.6629 |
| BOB equity linked saving scheme 97 | -0.0801 | 0.4136 | 47.084 | 1.837 | 22.6369 | 100.5416 |
| Franklin India taxshield 97 | -0.041 | 0.7893 | 118.9449 | 4.1302 | 27.4672 | 143.7285 |
| Franklin India taxshield 98 | 0.1405 | 0.8388 | 119.3973 | 4.7291 | 24.0844 | 135.786 |
| Franklin India taxshield 99 | 0.1736 | 0.8447 | 71.4202 | 3.6372 | 18.1239 | 78.0398 |
| HDFC long term equity-div | -0.1518 | 0.8263 | 11.2971 | 0.4287 | 13.5225 | 7.0157 |
| HDFC long term equity-growth | -0.1518 | 0.8263 | 11.297 | 0.4287 | 13.5223 | 7.0156 |
| Morgan Stanley growth | -0.14 | 0.9446 | 49.5003 | 1.994 | 22.0663 | 46.5809 |
| Sundaram bnp paribas tax saver 97 | -0.2237 | 0.9252 | 35.5421 | 1.5558 | 19.3097 | 32.4709 |
| Sundaram bnp paribas tax saver 98 | -0.055 | 0.9173 | 67.8297 | 2.9421 | 21.1854 | 67.9491 |

Chart No. 4.A.3.1 Beta values of Close ended Equity mutual funds

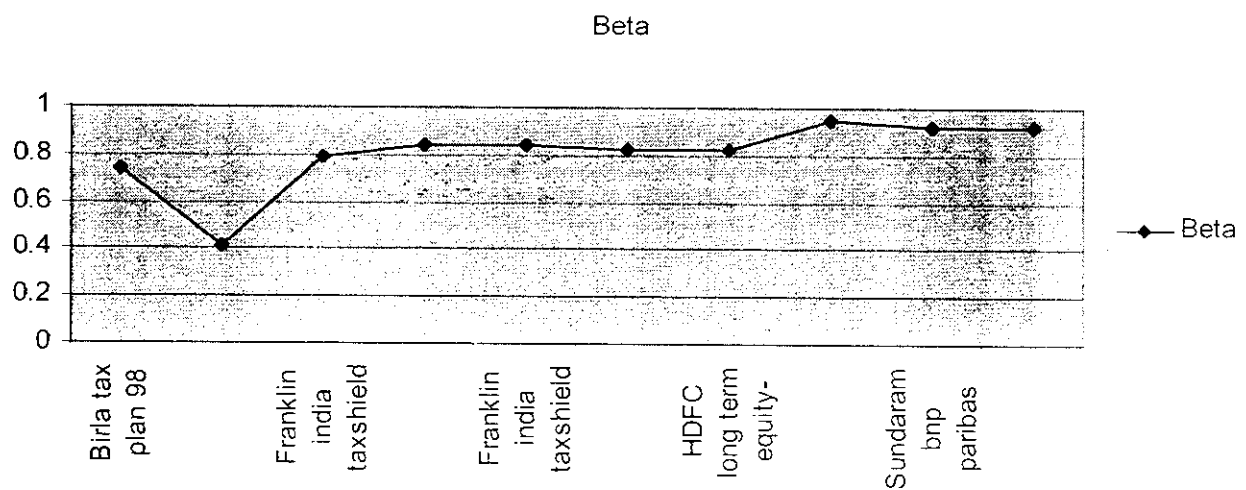


Chart No. 4.A.3.2 Standard Deviation values of Close ended Equity mutual funds

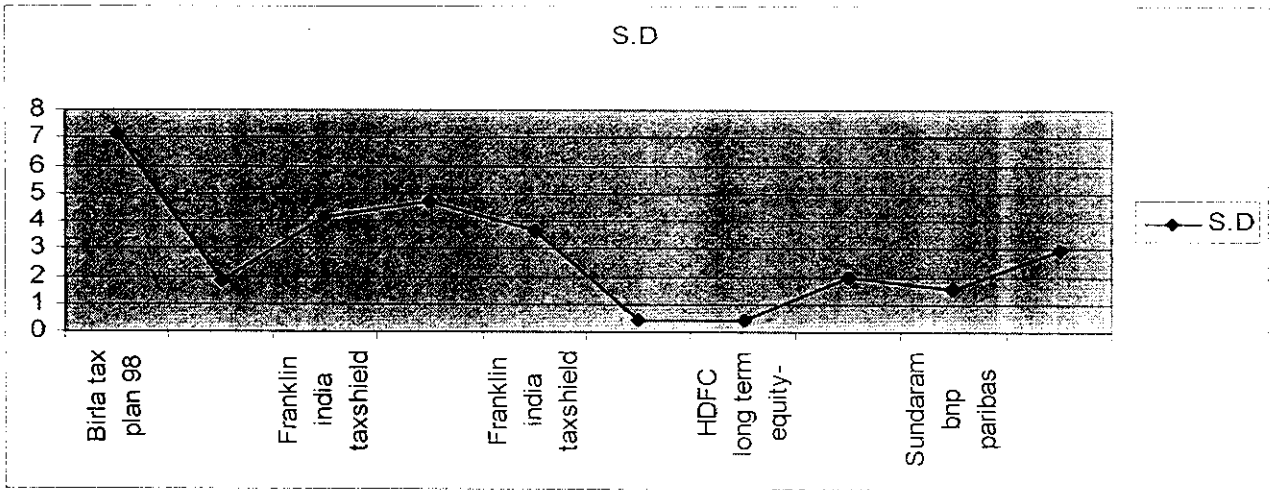


Chart No. 4.A.3.3 Mean Return values of Close ended Equity mutual funds

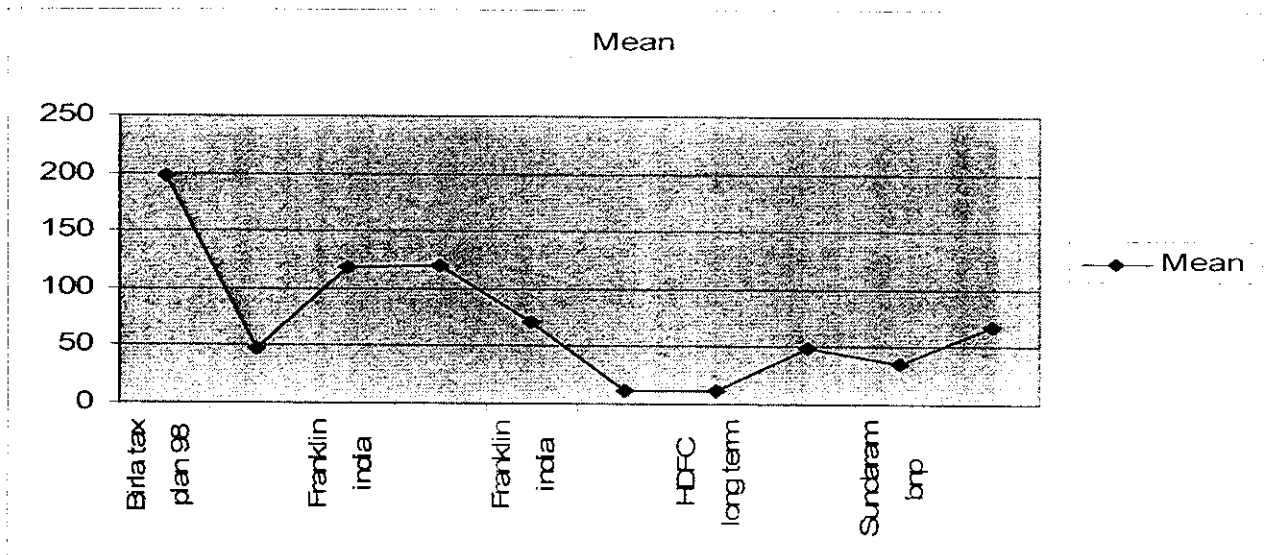


Chart No. 4.A.3.4 Sharpe's index of Close ended Equity mutual funds

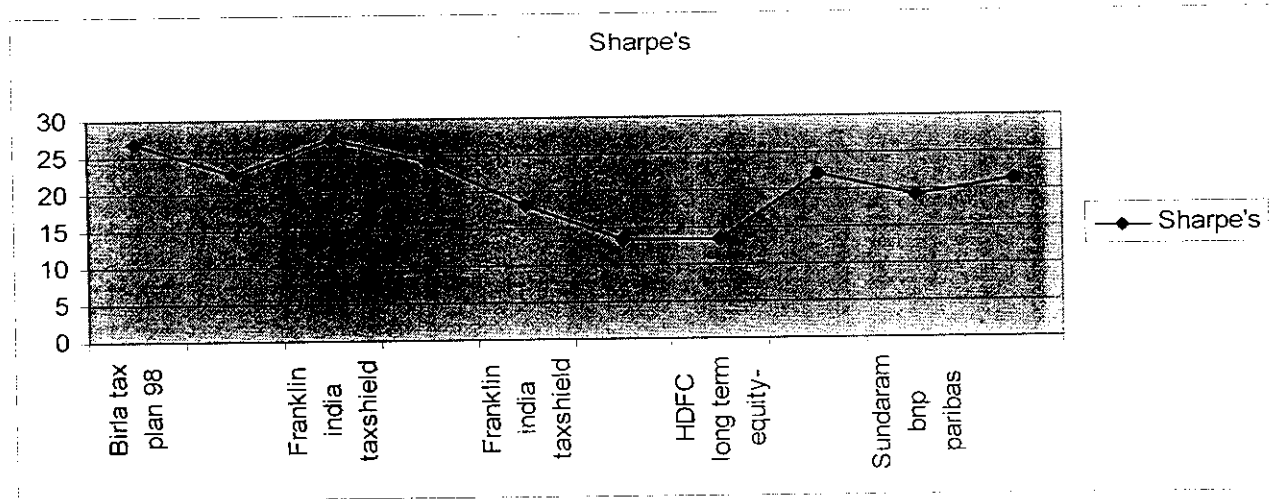


Chart No. 4.A.3.5 Treynor's index of Close ended Equity mutual funds

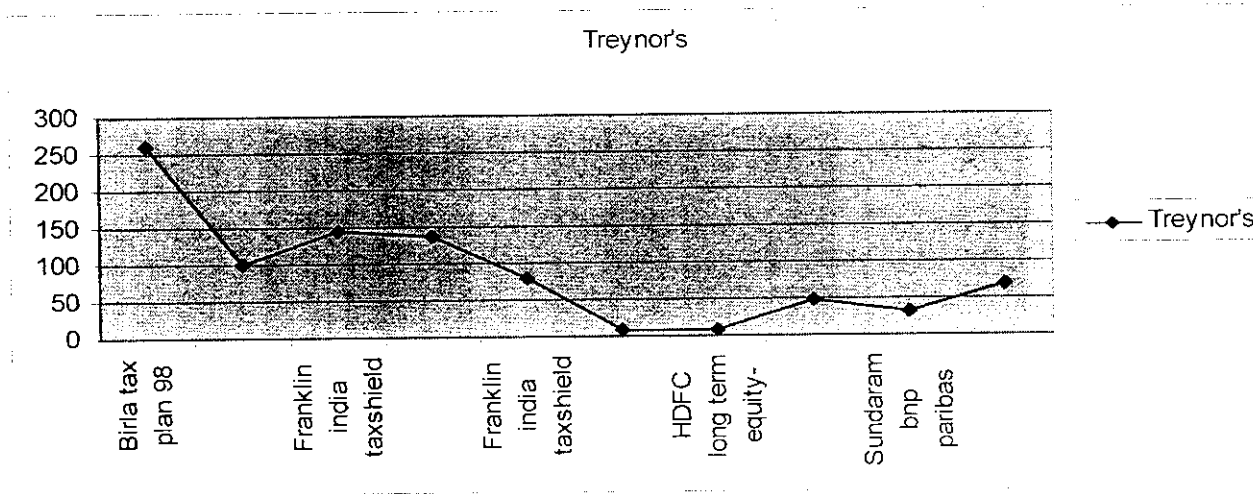


Table No. 4.A.3.2 Rank Statement of Close ended Equity mutual funds

| Name of the fund | Beta Rank | Return Rank | S.D Rank | Average |
|------------------------------------|-----------|-------------|----------|---------|
| Morgan stanley growth | 1 | 6 | 5 | 4 |
| Sundaram bnp paribas tax saver 97 | 2 | 8 | 3 | 4.33 |
| Sundaram bnp paribas tax saver 98 | 3 | 5 | 6 | 4.67 |
| Franklin india taxshield 99 | 4 | 4 | 7 | 5 |
| Franklin india taxshield 98 | 5 | 2 | 9 | 5.33 |
| HDFC long term equity-div | 6 | 9 | 1 | 5.33 |
| HDFC long term equity-growth | 6 | 10 | 1 | 5.67 |
| Franklin india taxshield 97 | 8 | 3 | 8 | 6.33 |
| Birla tax plan 98 | 9 | 1 | 10 | 6.67 |
| BOB equity linked saving scheme 97 | 10 | 7 | 4 | 7 |

Table No. 4.A.3.3 Position Matrix of Close ended Equity mutual funds

| | Risk | | |
|--------|----------|--|---|
| | Low | Moderate | High |
| Return | High | | Franklin india taxshield 98 Franklin india taxshield 97 Birla tax plan 98 |
| | Moderate | | Morgan Stanley growth Sundaram bnp paribas tax saver 98 Franklin india taxshield 99 BOB equity linked saving scheme 97 |
| | Low | Sundaram bnp paribas tax saver 97 HDFC long term equity-div HDFC long term equity-growth | |

INTERPRETATION OF CLOSE ENDED EQUITY MUTUAL FUNDS:

Closed Equity refers to maximum investment in the stock market and partial investment in the debt instruments.

From the above tables 4.A.3.2 and 4.A.3.3 it is interpreted that, Sundaram BNP Paribas Tax saver 97 has a β rank of 2 and return rank of 8 with a SD rank of 3 which implies its return & risk are low. Sundaram BNP Paribas Tax saver 98 has a β rank of 3 and return rank of 5 with a SD rank of 6; which implies both its return & risk are moderate. Franklin India Taxshield 99 has a β rank of 4 and return rank of 4 with a SD rank of 7; which implies its return & risk are moderate. Franklin India Taxshield 98 has a β rank of 5 and a return rank of 2 with an SD rank of 9; which implies both its risk & return are high. HDFC Longterm Equity (Dividend & Growth) Fund has a β rank of 6 and SD rank of 1 with a return rank of 9 & 10 respectively. It indicates that its return & risk are low. Franklin India Taxshield 97 has a β rank of 8 and return rank of 3 and SD rank of 8 which implies that both its return & risk are high. Birla Taxplan 98 has a β rank of 9 and a return rank of 1 and SD rank of 10 which implies both its return and risk are high. BOB Equity Linked Savings Scheme 97 has a β rank of 10 and a return rank of 7 with a SD rank of 4 which implies both its return and risk are moderate.

INFERENCE:

From the above tables it can be seen that Morgan Stanley Growth Fund has an average rank of 4 and therefore it can be declared the best in close ended equity mutual fund category during the analysis period.

4.B.1 OPEN ENDED-BALANCED MUTUAL FUNDS

Table No. 4.B.1.1 Comparative statement on the performance of Open ended Balanced mutual funds with respect to Risk and Return

| Name of the fund | Alpha | Beta | Mean | S.D | Sharpe's | Treynor's |
|---|---------|--------|----------|--------|----------|-----------|
| Birla sunlife 95-div | 0.11 | 0.651 | 80.2898 | 2.6845 | 27.8599 | 114.8845 |
| Franklin india balanced-div | 0.1507 | 0.6498 | 30.0288 | 1.0932 | 22.4376 | 37.7482 |
| Franklin india balanced-growth | 0.1507 | 0.6504 | 34.7433 | 1.2648 | 23.1209 | 44.962 |
| Franklin templeton india balanced fund-div | 0.1506 | 0.6502 | 22.9121 | 0.8342 | 20.8728 | 28.493 |
| Franklin templeton india balanced fund-growth | 0.1558 | 0.6111 | 32.1455 | 1.1608 | 22.9544 | 40.9805 |
| HDFC prudence-div | -0.6184 | 1.081 | 30.5996 | 2.1771 | 11.5289 | 23.2189 |
| HDFC prudence-growth | 0.0922 | 0.5898 | 111.1602 | 4.3589 | 24.2401 | 179.1458 |
| Principal child benefit fund-career builder | 0.5123 | 0.5943 | 54.0304 | 3.5012 | 13.8611 | 88.3495 |
| Principal child benefit fund-future guard | 0.5117 | 0.5946 | 53.3168 | 3.4528 | 13.8487 | 80.4184 |
| UTI mahila unit scheme | 0.0534 | 0.1758 | 27.0397 | 0.4163 | 46.522 | 122.4239 |

Chart No. 4.B.1.1 Beta values of Open ended Balanced mutual funds

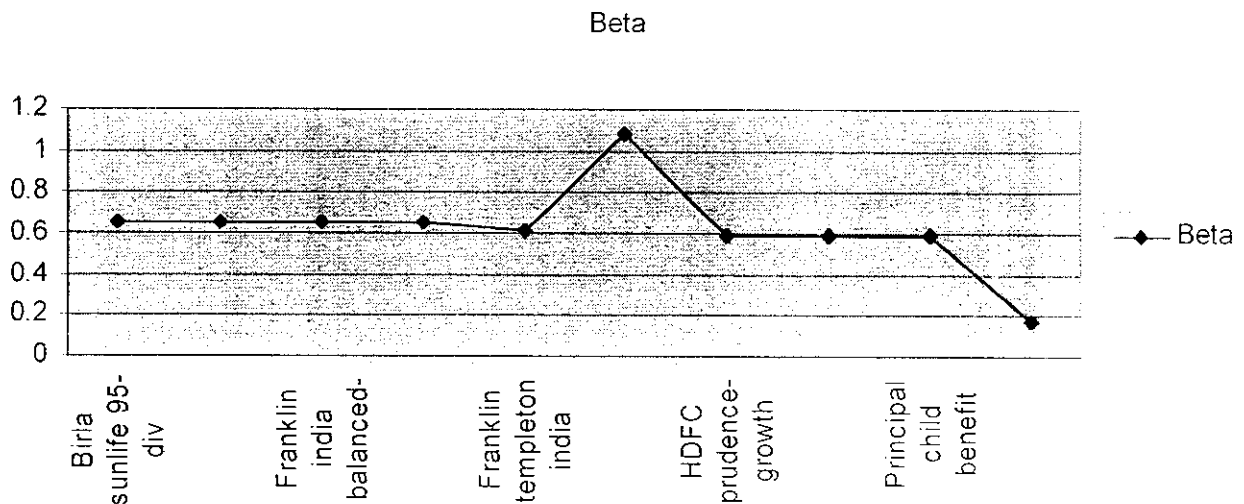


Chart No. 4.B.1.2 Standard Deviation values of Open ended Balanced mutual funds

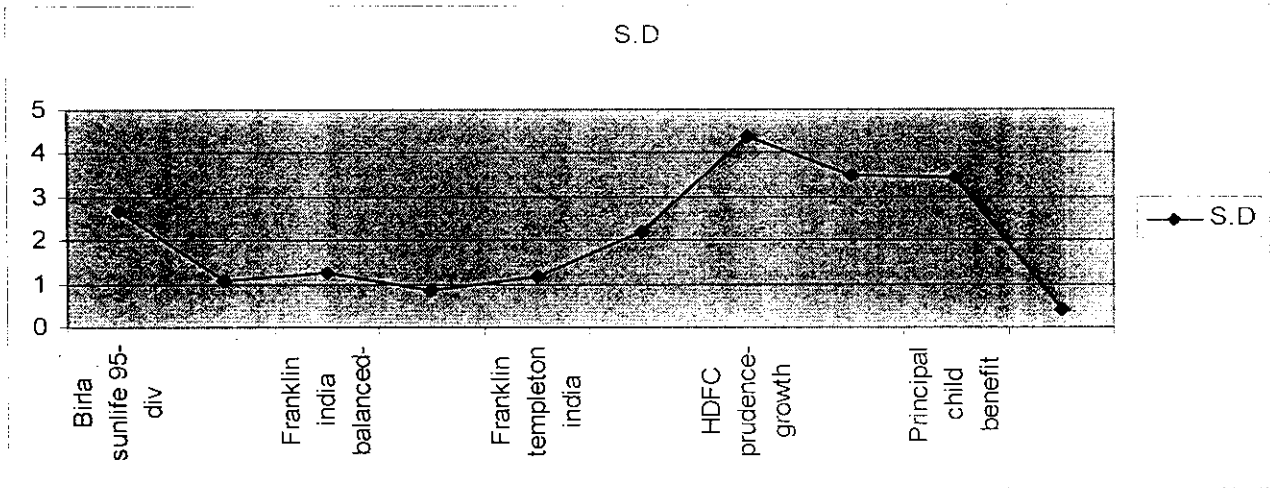


Chart No. 4.B.1.3 Mean Return values of Open ended Balanced mutual funds

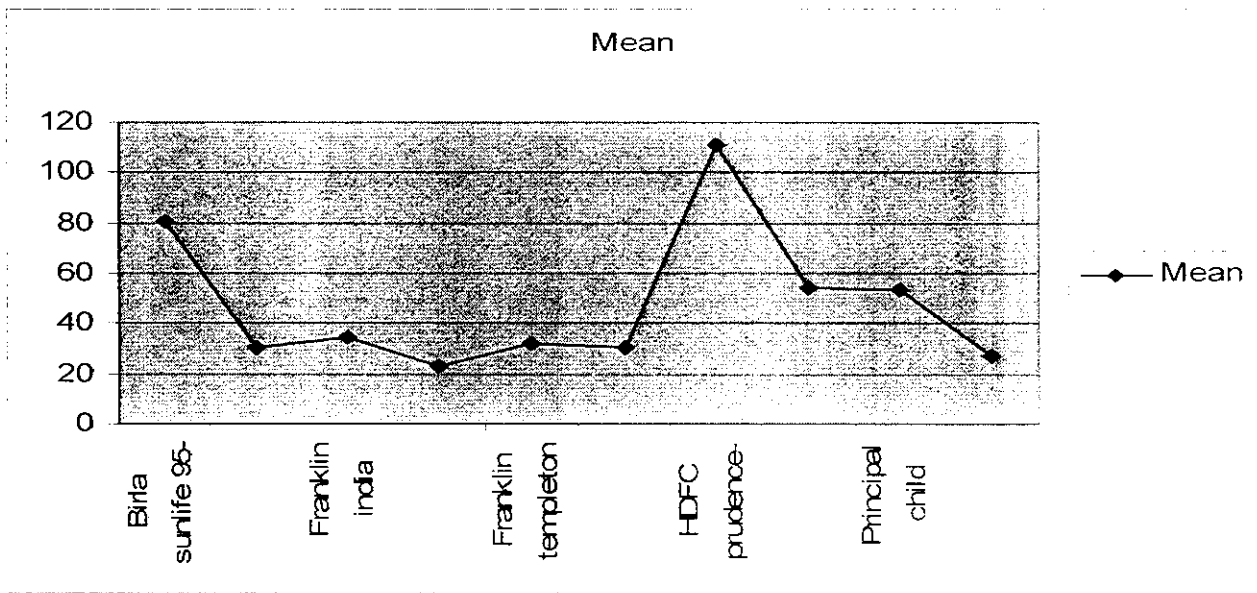


Chart No. 4.B.1.4 Sharpe's index of Open ended Balanced mutual funds

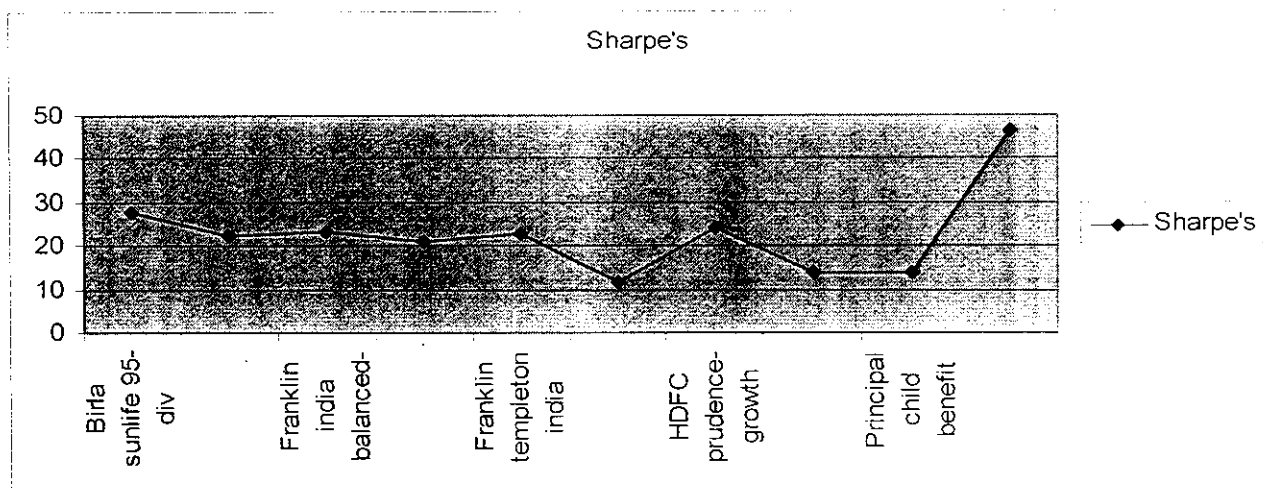


Chart No. 4.B.1.5 Treynor's index of Open ended Balanced mutual funds

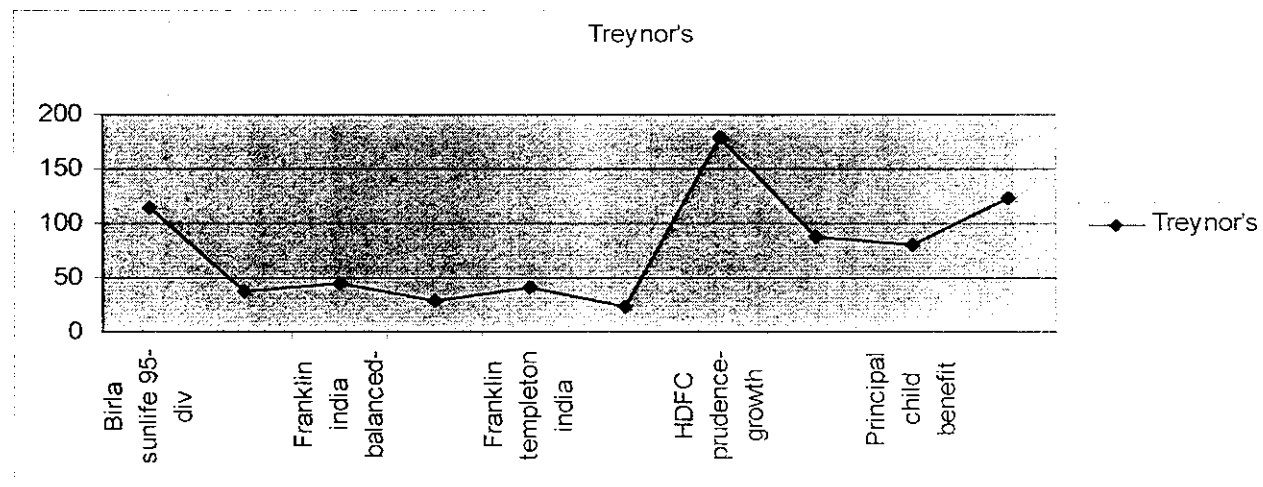


Table No. 4.B.1.2 Rank Statement of Open ended Balanced mutual funds

| Name of the fund | Beta Rank | Return Rank | S.D Rank | Average |
|---|-----------|-------------|----------|---------|
| HDFC prudence-div | 1 | 7 | 6 | 4.67 |
| Birla sunlife 95-div | 2 | 2 | 7 | 3.67 |
| Franklin india balanced-growth | 3 | 5 | 5 | 4.33 |
| Franklin templeton india balanced fund-div | 4 | 10 | 2 | 5.33 |
| Franklin india balanced-div | 5 | 8 | 3 | 5.33 |
| Franklin templeton india balanced fund-growth | 6 | 6 | 4 | 5.33 |
| Principal child benefit fund-future guard | 7 | 4 | 8 | 6.33 |
| Principal child benefit fund-career builder | 8 | 3 | 9 | 6.67 |
| HDFC prudence-growth | 9 | 1 | 10 | 6.67 |
| UTI mahila unit scheme | 10 | 9 | 1 | 6.67 |

Table No. 4.B.1.3 Position Matrix of Open ended Balanced mutual funds

| | | Risk | | |
|--------|----------|---|--|---|
| | | Low | Moderate | High |
| Return | High | ----- | Birla sunlife 95-div | Principal child benefit fund-career builder HDFC prudence-growth |
| | Moderate | ----- | HDFC prudence-div Franklin india balanced-growth Franklin templeton india balanced fund-growth | Principal child benefit fund-future guard |
| | Low | Franklin templeton india balanced fund-div Franklin india balanced-div UTI mahila unit scheme | ----- | ----- |

INTERPRETATION OF OPEN ENDED BALANCED MUTUAL FUNDS:

Open Balanced refers to equal investment in the stock market and the debt instruments.

From the above tables 4.B.1.2 and 4.B.1.3 it is interpreted that, HDFC Prudence Dividend Fund has a return rank of 7 and a SD rank of 6 which implies both return and risk are moderate. Franklin India Balanced Growth Fund has a return rank of 5 and SD rank of 5 which implies both return and risk are moderate. Franklin Templeton India Balanced Dividend Fund has a return rank of 10 and SD rank of 2, which implies return & risk are low. Franklin India Balanced Dividend Fund has a return rank of 8 and SD rank of 3 which implies return & risk are low. Franklin Templeton India Balanced Growth Fund has a return rank of 6 and SD rank of 4 which implies both return & risk are moderate. Principal Children Benefit Future Guard Fund has a return rank of 4 and SD rank of 8 which implies return is moderate and risk is high. Principal Child Benefit Career Builder Fund has a return rank of 3 and SD rank of 9 which implies both return & risk are high. HDFC Prudence Growth Fund has a return rank of 1 and SD rank of 10 which implies both return & risk are high. UTI Mahila Unit Scheme Fund has a return rank of 9 and SD rank of 1 which implies both return & risk are low.

INFERENCE:

From the above tables it can be inferred that Birla sunlife 95-div fund has an average rank of 3.67 and therefore it can be regarded as the best in open ended balanced mutual fund category.

4.B.2 OPEN ENDED-DEBT MUTUAL FUNDS

Table No. 4.B.2.1 Comparative statement on the performance of Open ended Debt mutual funds with respect to Risk and Return

| Name of the fund | Alpha | Beta | Mean | S.D | Sharpe's | Treynor's |
|--|--------|--------|---------|--------|----------|-----------|
| ABN AMRO flexi debt fund-growth | 0.1639 | 0.0171 | 11.3235 | 0.1439 | 40.4691 | 340.5556 |
| ABN AMRO flexi debt fund-quarterly div | 0.0768 | 0.0051 | 10.1823 | 0.0711 | 65.8551 | 918.098 |
| ABN AMRO monthly income plan-growth | 0.2337 | 0.1773 | 12.7644 | 0.3565 | 20.377 | 40.9724 |
| ABN AMRO monthly income plan-quarterly div | 0.1406 | 0.1646 | 10.8121 | 0.2127 | 24.9746 | 32.2728 |
| DSP merill lynch savings plus-aggressive-growth | 0.1713 | 0.1578 | 13.6257 | 0.2409 | 33.7306 | 51.4937 |
| Prudential icici income multiplier fund-cumulative | 0.118 | 0.197 | 14.2429 | 0.2449 | 35.6999 | 44.3802 |
| Sundaram bnp paribas frf long term ip-growth | 0.8173 | 0.1407 | 12.3179 | 1.0374 | 6.5721 | 48.457 |
| Templeton india children asset education plan | 0.1602 | 0.1991 | 25.072 | 0.4467 | 43.8146 | 98.3024 |
| Templeton india children asset gift plan-div | 0.251 | 0.5653 | 30.0712 | 1.0716 | 22.9295 | 43.4658 |
| Templeton india children asset gift plan-growth | 0.251 | 0.5653 | 30.0712 | 1.0716 | 22.9295 | 43.4658 |

Chart No. 4.B.2.1 Beta values of Open ended Debt mutual funds

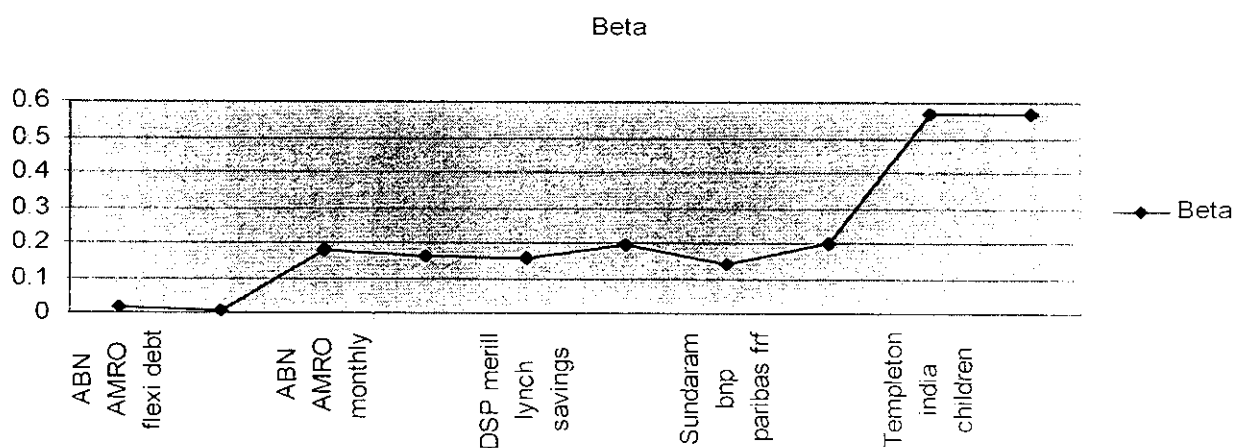


Chart No. 4.B.2.2 Standard Deviation values of Open ended Debt mutual funds

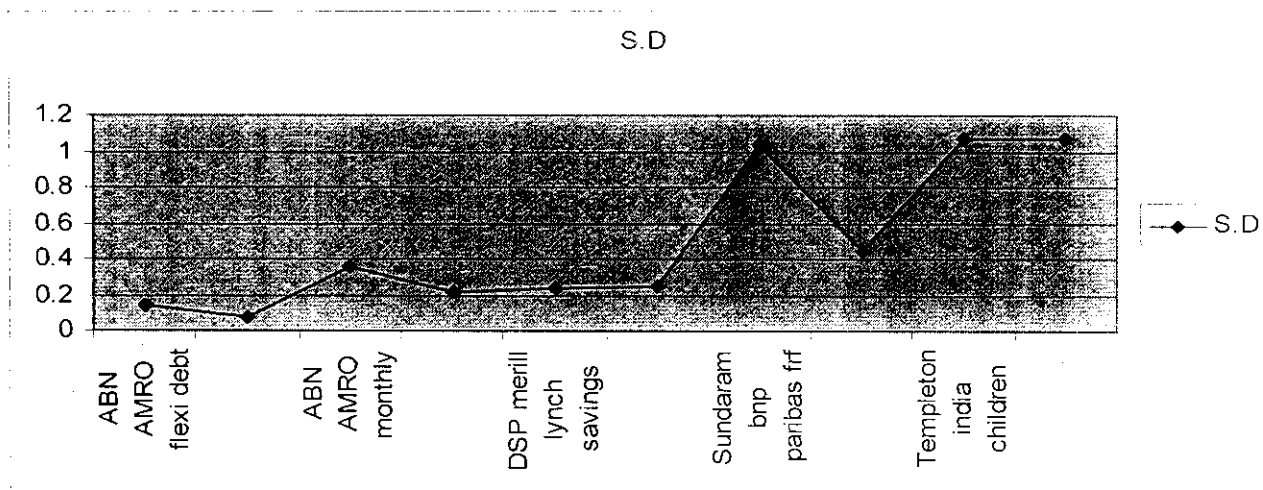


Chart No. 4.B.2.3 Mean Return values of Open ended Debt mutual funds

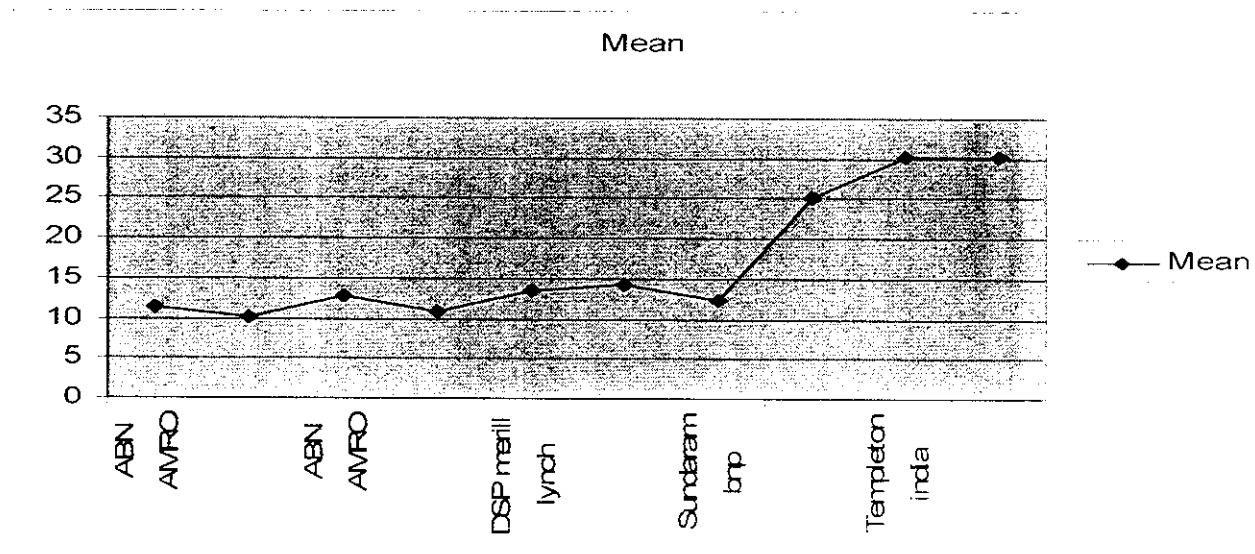


Chart No. 4.B.2.4 Sharpe's index of Open ended Debt mutual funds

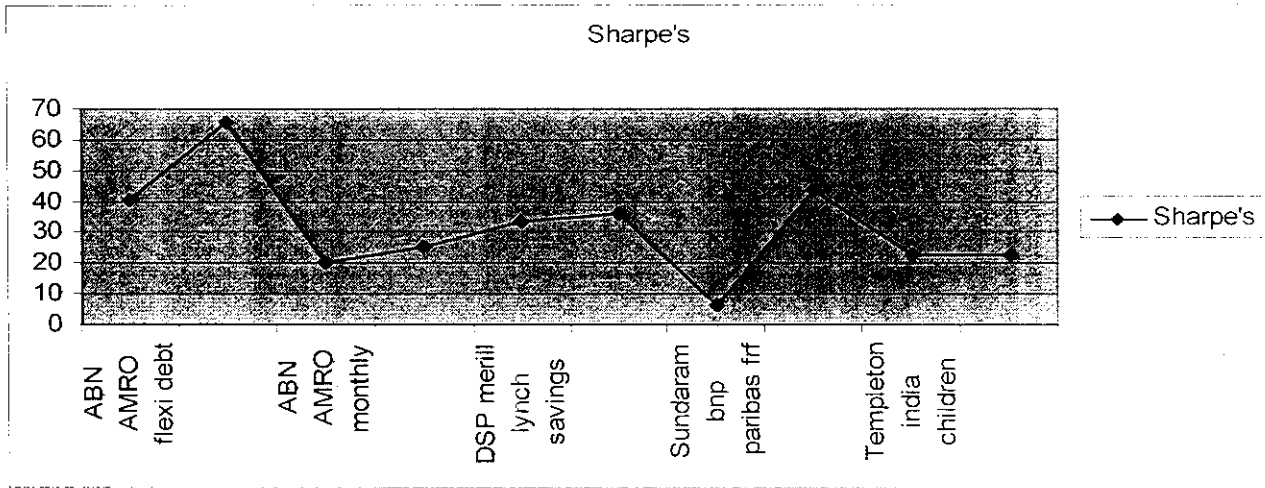


Chart No. 4.B.2.5 Treynor's index of Open ended Debt mutual funds

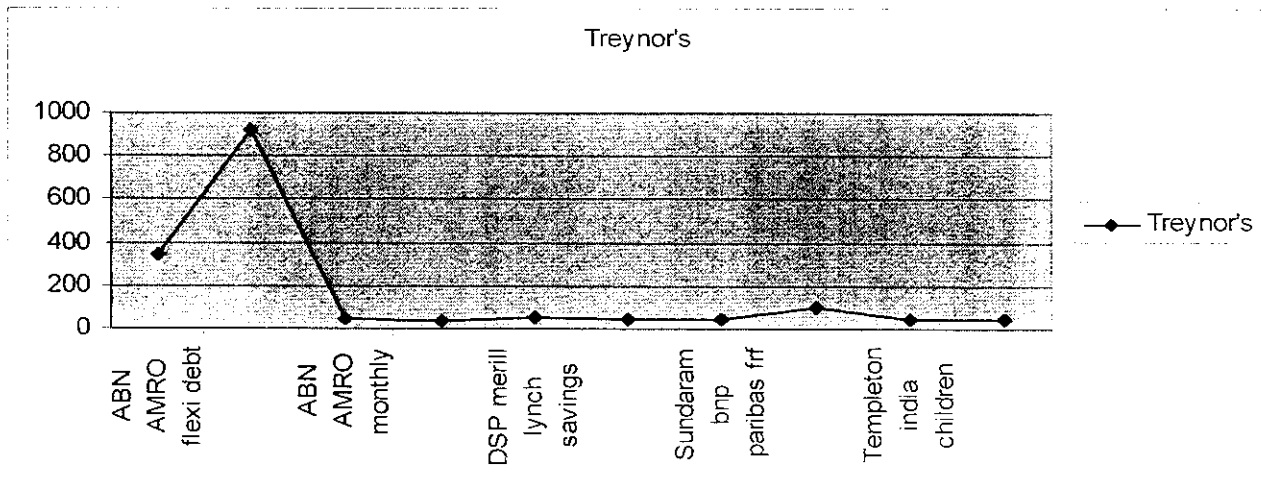


Table No. 4.B.2.2 Rank Statement of Open ended Debt mutual funds

| Name of the fund | Beta Rank | Return Rank | S.D Rank | Average |
|--|-----------|-------------|----------|---------|
| Templeton india children asset gift plan-div | 1 | 1 | 9 | 3.67 |
| Templeton india children asset gift plan-growth | 1 | 1 | 9 | 3.67 |
| Templeton india children asset education plan | 3 | 3 | 7 | 4.33 |
| Prudential icici income multiplier fund-cumulative | 4 | 4 | 5 | 4.33 |
| ABN AMRO monthly income plan-growth | 5 | 6 | 6 | 5.67 |
| ABN AMRO monthly income plan-quarterly div | 6 | 9 | 3 | 6 |
| DSP merill lynch savings plus-aggressive-growth | 7 | 5 | 4 | 5.33 |
| Sundaram bnp paribas frf long term ip-growth | 8 | 7 | 8 | 7.67 |
| ABN AMRO flexi debt fund-growth | 9 | 8 | 2 | 6.33 |
| ABN AMRO flexi debt fund-quarterly div | 10 | 10 | 1 | 7 |

Table No. 4.B.2.3 Position Matrix of Open ended Debt mutual funds

| | Risk | | |
|--------|----------|---|--|
| | Low | Moderate | High |
| Return | High | ----- | Templeton india children asset education plan Templeton india children asset gift plan-div Templeton india children asset gift plan-growth |
| | Moderate | ----- | Prudential icici income multiplier fund-cumulative ABN AMRO monthly income plan-growth DSP merill lynch savings plus-aggressive-growth |
| | Low | ABN AMRO monthly income plan-quarterly div ABN AMRO flexi debt fund-growth ABN AMRO flexi debt fund-quarterly div | ----- |

INTERPRETATION OF OPEN ENDED DEBT MUTUAL FUNDS:

Open Debt refers to maximum investment in debt instruments and partial investment in the stock market.

From the above tables 4.B.2.2 and 4.B.2.3 it is interpreted that, Templeton India Children Asset Education Plan has a return rank of 3 and SD rank of 7 which implies that its return is high and risk is moderate. Prudential ICICI Income Multiplier Cumulative Fund has a return rank of 4 and SD rank of 5 which implies both its return & risk are moderate. ABN AMRO Monthly Income Plan Growth Fund has a return rank of 6 and SD rank of 6 which implies both return & risk are moderate. ABN AMRO Monthly Income Plan Quarterly Dividend Fund has a return rank of 9 and SD rank of 3 which implies both return and risk are low. DSP Meriy! Lynch Savings Plus Aggressive Growth Fund has a return rank of 5 and SD rank of 4 which implies both return and risk are moderate. Sundaram BNP Paribas frf Longterm IP Growth Fund has a return rank of 7 and SD rank of 8 which implies return is moderate and risk is high. ABN AMRO Flexidebt Growth Fund has a return rank of 8 and SD rank of 2 which implies return and risk are low. ABN AMRO Flexidebt Quarterly Dividend Fund has a return rank of 10 and SD rank of 1 which implies both return & risk are low.

INFERENCE:

From the above tables it can be inferred that Templeton india children asset gift plan(dividend and growth) funds have an average rank of 3.67 and therefore both the funds are regarded as the best in open ended debt mutual fund category.

4.B.3 OPEN ENDED-EQUITY MUTUAL FUNDS

Table No. 4.B.3.1 Comparative statement on the performance of Open ended Equity mutual funds with respect to Risk and Return

| Name of the fund | Alpha | Beta | Mean | S.D | Sharpe's | Treynor's |
|--|--------|--------|---------|--------|----------|-----------|
| UTI growth sector-software-growth | 0.8339 | 1.0019 | 26.6453 | 2.3811 | 8.8805 | 21.1052 |
| UTI growth sector-software-dividend | 0.4874 | 0.9362 | 23.095 | 1.4013 | 12.5562 | 18.7941 |
| SBI magnum sector umbrella tech | 1.0202 | 0.9596 | 26.3823 | 2.7626 | 7.5589 | 21.7615 |
| Reliance media and entertainment-div | 0.296 | 0.7629 | 20.3581 | 1.3802 | 10.7652 | 19.4788 |
| Prudential icici technology-growth | 1.1279 | 1.0433 | 14.4135 | 1.7176 | 5.1895 | 8.5436 |
| Prudential icici technology-div | 1.1279 | 1.0433 | 14.4135 | 1.7176 | 5.1895 | 8.5436 |
| DSP merill lynch technology.com-growth | 1.2552 | 0.982 | 22.7448 | 2.5895 | 6.6595 | 17.5609 |
| DSP merill lynch technology.com-div | 1.2552 | 0.982 | 22.7448 | 2.5895 | 6.6595 | 17.5609 |
| Birla sunlife new millennium-growth | 0.7363 | 1.0597 | 19.3533 | 1.6929 | 8.1832 | 13.0729 |
| Birla sunlife new millennium-div | 0.7363 | 1.0596 | 16.498 | 1.4429 | 7.622 | 10.3794 |

Chart No. 4.B.3.1 Beta values of Open ended Equity mutual funds

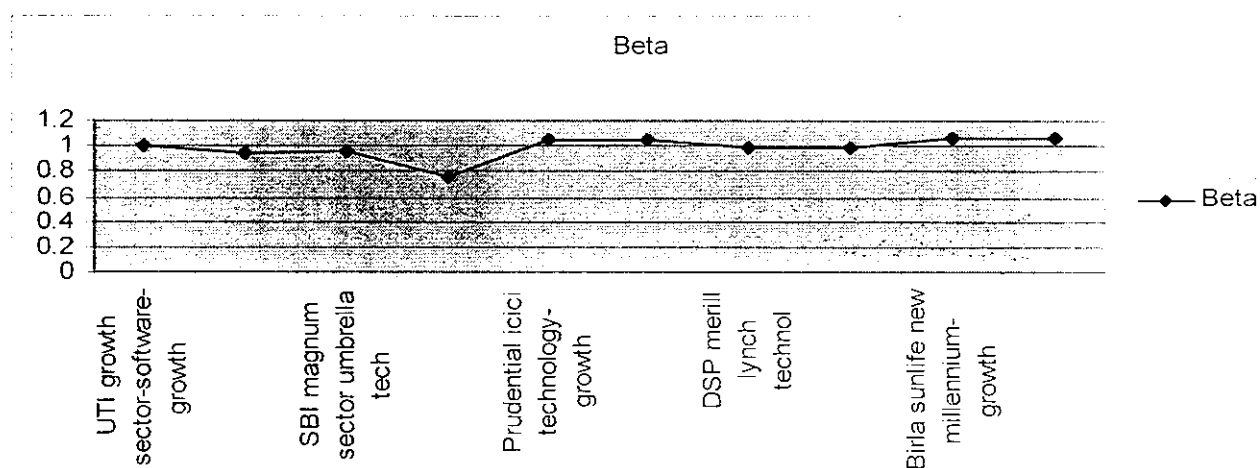


Chart No. 4.B.3.2 Standard Deviation values of Open ended Equity mutual funds

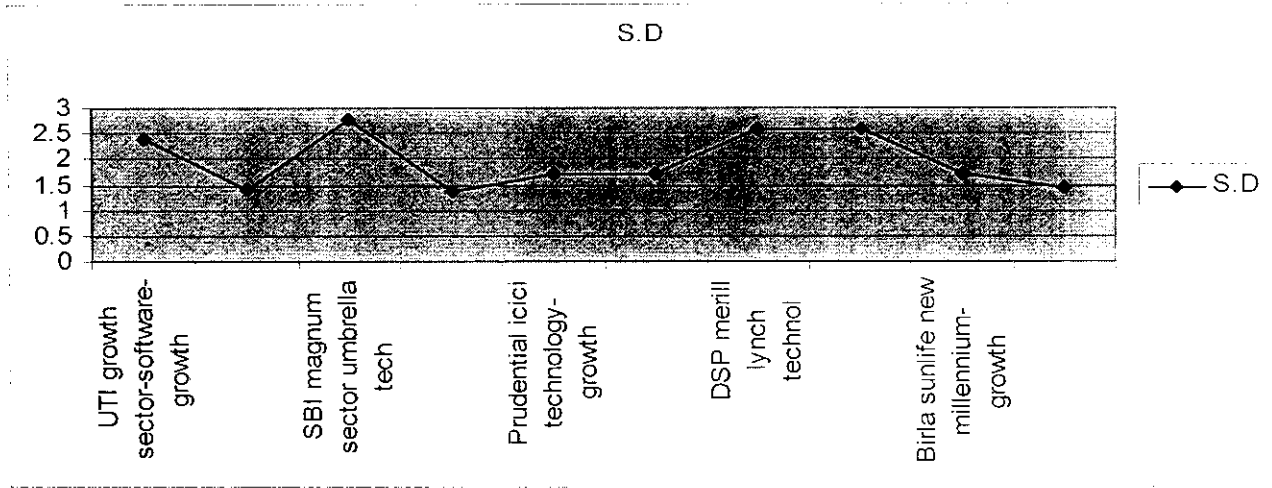


Chart No. 4.B.3.3 Mean Return values of Open ended Equity mutual funds

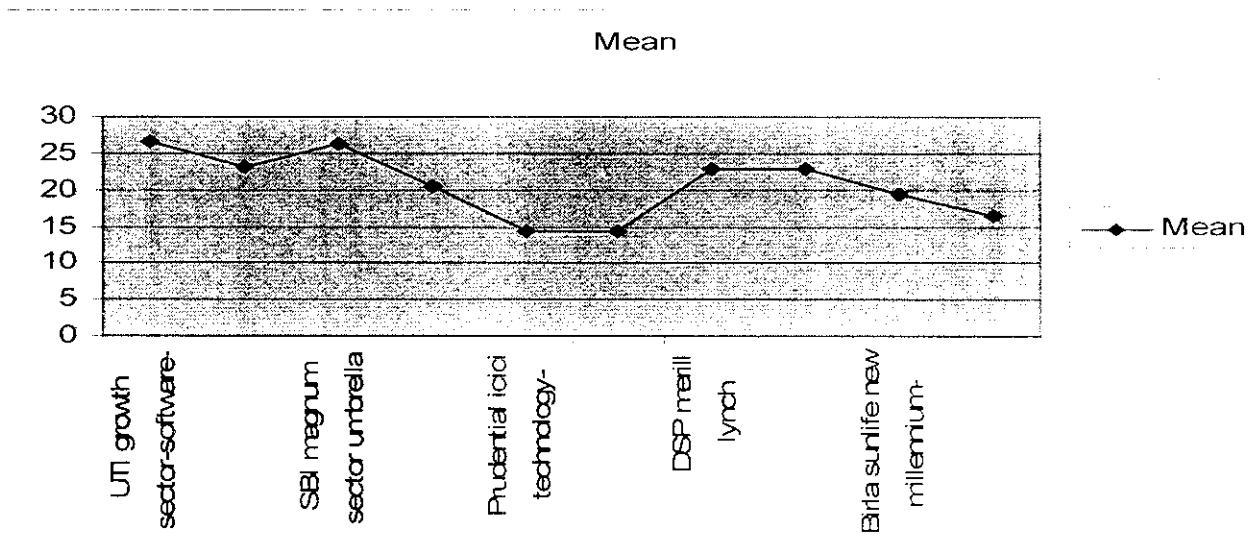


Chart No. 4.B.3.4 Sharpe's index of Open ended Equity mutual funds

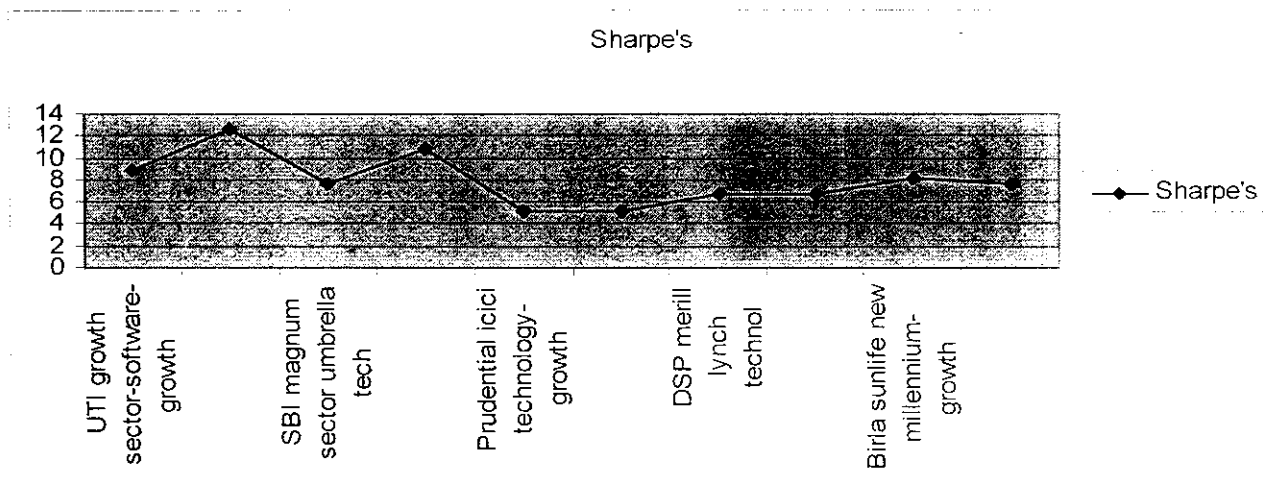


Chart No. 4.B.3.5 Treynor's index of Open ended Equity mutual funds

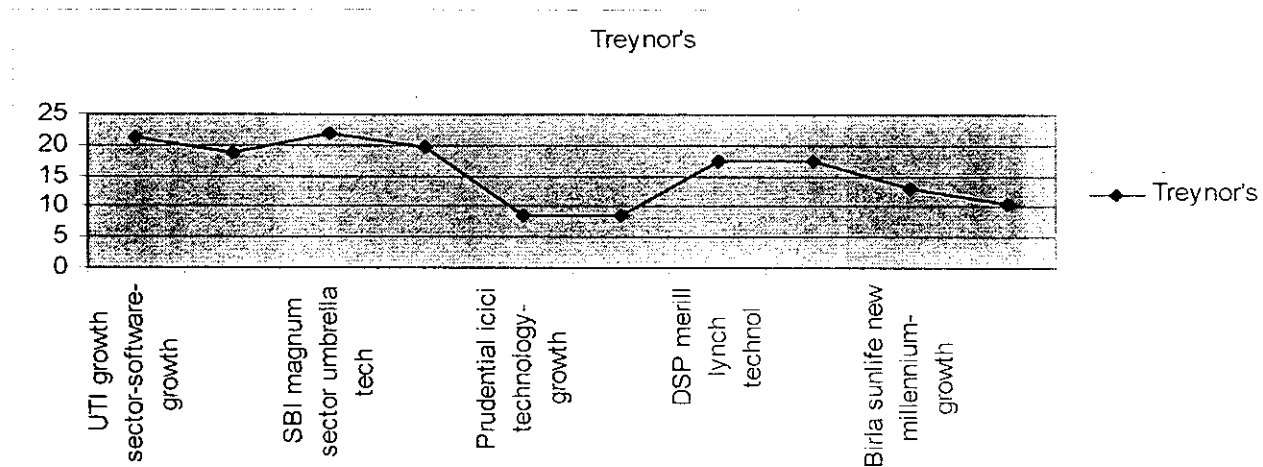


Table No. 4.B.3.2 Rank Statement of Open ended Equity mutual funds

| Name of the fund | Beta Rank | Return Rank | S.D Rank | Average |
|--|-----------|-------------|----------|---------|
| Birla sunlife new millennium-growth | 1 | 7 | 4 | 4 |
| Birla sunlife new millennium-div | 2 | 8 | 3 | 4.33 |
| Prudential icici technology-growth | 3 | 9 | 5 | 5.67 |
| Prudential icici technology-div | 3 | 9 | 5 | 5.67 |
| UTI growth sector-software-growth | 5 | 1 | 7 | 4.33 |
| DSP merill lynch technology.com-growth | 6 | 4 | 8 | 6 |
| DSP merill lynch technology.com-div | 6 | 4 | 8 | 6 |
| SBI magnum sector umbrella tech | 8 | 2 | 10 | 6.67 |
| UTI growth sector-software-dividend | 9 | 3 | 2 | 4.67 |
| Reliance media and entertainment-div | 10 | 6 | 1 | 5.67 |

Table No. 4.B.3.3 Position Matrix of Open ended Equity mutual funds

| | Risk | | |
|----------|--------------------------------------|---|---|
| | Low | Moderate | High |
| High | UTI growth sector-software-dividend | UTI growth sector-software-growth | SBI magnum sector umbrella tech |
| Moderate | Reliance media and entertainment-div | Birla sunlife new millennium-growth | DSP merill lynch technology.com-growth DSP merill lynch technology.com-div |
| Low | Birla sunlife new millennium-div | Prudential icici technology-growth Prudential icici technology-div | ----- |

INTERPRETATION OF OPEN ENDED EQUITY MUTUAL FUNDS:

Open Equity refers to maximum investment in the stock market and partial investment in the debt instruments.

From the above tables 4.B.3.2 and 4.B.3.3 it is interpreted that, Birla Sunlife New Millennium Dividend Fund has a β rank of 2 and return rank of 8 with a SD rank of 3 which implies both return & risk are low. Prudential ICICI Technology (Growth & Dividend) Fund has a β rank of 3 and return rank of 9 with a SD rank of 5 which implies return is low and risk is moderate. UTI Growth Sector Software Growth Fund has a β rank of 5 and return rank of 1 with a SD rank of 7 which implies return is high and risk is moderate. DSP MeriyL Lynch Technology .com (Growth & Dividend) Fund has a β rank of 6 and return rank of 4 with a SD rank of 8 which implies return is moderate and risk is high. SBI Magnum Sector Umbrella Tech Fund has a β rank of 8 and return rank of 2 with a SD rank of 10 which implies both return & risk are high. UTI Growth Sector Software Dividend fund has a β rank of 9 and return rank of 3 with a SD rank of 2 which implies return is high and risk is low. Reliance Media & Entertainment Dividend Fund has a β rank of 10 and return rank of 6 with a SD rank of 1 which implies return is moderate and risk is low.

INFERENCE:

From the above tables it can be inferred that Birla sunlife new millennium-growth fund has an average rank of 4 and therefore it can be regarded as the best in open ended equity mutual fund category.

5.CONCLUSION

5.1 FINDINGS

- Franklin templeton capital safety-5yrs(dividend and growth) funds have an average rank of 3.33 and therefore both the funds are regarded as the best in close ended balanced mutual fund category.
- Principal pnb fmp 385 series1-growth fund has an average rank of 1.67 and therefore it can be regarded as the best in close ended debt mutual fund category.
- Morgan stanley growth fund has an average rank of 4 and therefore it can be regarded as the best in close ended equity mutual fund category.
- Birla sunlife 95-div fund has an average rank of 3.67 and therefore it can be regarded as the best in open ended balanced mutual fund category.
- Templeton india children asset gift plan(dividend and growth) funds have an average rank of 3.67 and therefore both the funds are regarded as the best in open ended debt mutual fund category.
- Birla sunlife new millennium-growth fund has an average rank of 4 and therefore it can be regarded as the best in open ended equity mutual fund category.

5.2 RECOMMENDATIONS

- The clients can infer from the findings that all the top performing funds in each category does not have their average ranks more than 4 which can act as an indicator for them to choose the right mutual fund for investment.

- The Position Matrix gives the Risk and Return involved in various funds which will be helpful to choose the right mutual for investment depending on the risk taking capability of the clients.

CONCLUSION

Thus a total number of 60 mutual funds were categorized into 2 major categories as Open ended and Closed ended and were further subdivided into Balanced, Debt and Equity based funds. Variables like Alpha, Beta, Standard Deviation, Mean Return, Sharpe's index and Treynor's index were calculated for all the funds. A Rank Statement depending on the Mean Return, Standard Deviation and Beta was prepared for all the categories of funds. A Position Matrix based on the Risk and Return of the funds was profiled for all the Mutual Funds taken for study

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