A COMPARATIVE STUDY OF MUTUAL FUNDS OF SBI VS ICICI

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CERTIFICATE

BONAFIDE CERTIFICATE

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ABSTRACT

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This Study "**A COMPARATIVE STUDY OF MUTUAL FUNDS OF SBI VS ICICI** " has been done to find out the performance of selected schemes of SBI & ICICI mutual funds in India.

This study assess the return of selected fund. The study also identifies the risk of selected fund and measures the risk of selected fund.

Sharpe ratio, Beta and Standard deviation has been used in this study to find out the variation in individual return from certain period. The findings of the study indicates the SBI Magnum Index Fund performing better than the remaining. The study also indicates ten equity funds that completed at least three years of operation majority of them showed below market performance.

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INTRODUCTION

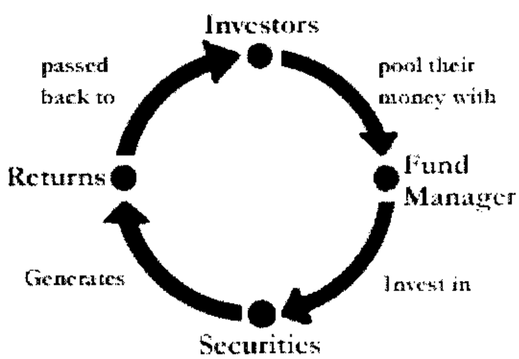
CHAPTER –I

INTRODUCTION

1.1 Mutual Funds – Concept

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciation realized is shared by its unit holders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

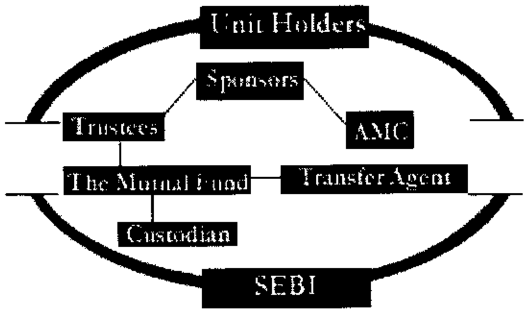
The flow chart below describes broadly the working of a mutual fund:



Mutual Fund Operation Flow Chart

Mutual Funds – Organization

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



Organization of a Mutual Fund

1.2 Types of Mutual Funds Schemes in India

Wide variety of Mutual Fund Schemes exists to cater to the needs such as financial position, risk tolerance and return expectations etc. The table below gives an overview into the existing types of schemes in the Industry.

By Structure:

a) Open-ended Funds

An open-end fund is one that is available for subscription all through the year. These do not have a fixed maturity. Investors can conveniently buy and sell units at Net Asset Value ("NAV") related prices. The key feature of open-end schemes is liquidity.

b) Closed-ended Funds

A closed-end fund has a stipulated maturity period which generally ranging from 3 to 15 years. The fund is open for subscription only during a specified period. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units of the scheme on the stock exchanges where they are listed.

In order to provide an exit route to the investors, some close-ended funds give an option of selling back the units to the Mutual Fund through periodic repurchase at NAV related prices. SEBI Regulations stipulate that at least one of the two exit routes is provided to the investor.

c) Interval Funds

Interval funds combine the features of open-ended and close-ended schemes. They are open for sale or redemption during pre-determined intervals at NAV related prices.

1.3 Investment Objective:

a) Growth Funds

The aim of growth funds is to provide capital appreciation over the medium to long- term. Such schemes normally invest a majority of their corpus in equities. It has been proven that returns from stocks, have outperformed most other kind of investments held over the long term.

Growth schemes are ideal for investors having a long-term outlook seeking growth over a period of time.

b) Income Funds

The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures and Government securities. Income Funds are ideal for capital stability and regular income.

c) Balanced Funds

The aim of balanced funds is to provide both growth and regular income. Such schemes periodically distribute a part of their earning and invest both in equities and fixed income securities in the proportion indicated in their offer documents.

In a rising stock market, the NAV of these schemes may not normally keep pace, or fall equally when the market falls. These are ideal for investors looking for a combination of income and moderate growth.

d) Money Market Funds

The aim of money market funds is to provide easy liquidity, preservation of capital and moderate income. These schemes generally invest in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money.

Returns on these schemes may fluctuate depending upon the interest rates prevailing in the market. These are ideal for corporate and individual investors as a means to park their surplus funds for short periods.

e) Load Funds

A Load Fund is one that charges a commission for entry or exit. That is, each time you buy or sell units in the fund, a commission will be payable. Typically entry and exit loads range from 1% to 2%. It could be worth paying the load, if the fund has a good performance history.

f) No-Load Funds

A No-Load Fund is one that does not charge a commission for entry or exit. That is, no commission is payable on purchase or sale of units in the fund. The advantage of a no load fund is that the entire corpus is put to work.

g) Tax Saving Schemes

These schemes offer tax rebates to the investors under specific provisions of the Indian Income Tax laws as the Government offers tax incentives for investment in specified avenues.

Investments made in Equity Linked Savings Schemes (ELSS) and Pension Schemes are allowed as deduction u/s 88 of the Income Tax Act, 1961. The Act also provides opportunities to investors to save capital gains u/s 54EA and 54EB by investing in Mutual Funds.

1.4 Special Schemes

- **Industry Specific Schemes**

  Industry Specific Schemes invest only in the industries specified in the offer document. The investment of these funds is limited to specific industries like InfoTech, FMCG, Pharmaceuticals etc.

- **Index Schemes**

  Index Funds attempt to replicate the performance of a particular index such as the BSE Sensex or the NSE 50.

- **Sector Schemes**

  Sector Funds are those, which invest exclusively in a specified industry or a group of industries or various segments such as 'A' Group shares or initial public offerings.

1.5 Advantages of Mutual Funds

The advantages of investing in a Mutual Fund are:

- ✓ **Diversification:** The best mutual funds design their portfolios so individual investments will react differently to the same economic conditions. For example, economic conditions like a rise in interest rates may cause certain securities in a diversified portfolio to decrease in value. Other securities in the portfolio will respond to the same economic conditions by increasing in value. When a portfolio is balanced in this way, the value of the overall portfolio should gradually increase over time, even if some securities lose value.

- ✓ **Professional Management:** Most mutual funds pay topflight professionals to manage their investments. These managers decide what securities the fund will buy and sell.

- ✓ **Regulatory oversight:** Mutual funds are subject to many government regulations that protect investors from fraud.

- ✓ **Liquidity:** easy to get your money out of a mutual fund. Write a check, make a call, and you've got the cash.

- ✓ **Convenience:** You can usually buy mutual fund shares by mail, phone, or over the Internet.

- ✓ **Low cost:**_Mutual fund expenses are often no more than 1.5 percent of your investment. Expenses for Index Funds are less than that, because index funds are not actively managed. Instead, they automatically buy stock in companies that are listed on a specific index

- ✓ **Simplicity** - Buying a mutual fund is easy! Pretty well any bank has its on line of mutual funds, and the minimum investment is small. Most companies also have automatic purchase plans whereby as little as $100 can be invested on a monthly basis.

    - ➢ Transparency
    - ➢ Flexibility
    - ➢ Choice of schemes
    - ➢ Tax benefits
    - ➢ Well regulated

1.6 Drawbacks of Mutual Funds

Mutual funds have their drawbacks and may not be for everyone:

- **No Guarantees:** No investment is risk free. If the entire stock market declines in value, the value of mutual fund shares will go down as well, no matter how balanced the portfolio. Investors encounter fewer risks when they invest in mutual funds than when they buy and sell stocks on their own. However, anyone who invests through a mutual fund runs the risk of losing money.

- **Fees and commissions:** All funds charge administrative fees to cover their day-to-day expenses. Some funds also charge sales commissions or "loads" to compensate brokers, financial consultants, or financial planners. Even if you don't use a broker or other financial adviser, you will pay a sales commission if you buy shares in a Load Fund.

- **Taxes:** During a typical year, most actively managed mutual funds sell anywhere from 20 to 70 percent of the securities in their portfolios. If your fund makes a profit on its sales, you will pay taxes on the income you receive, even if you reinvest the money you made.

- **Management risk:** When you invest in a mutual fund, you depend on the fund's manager to make the right decisions regarding the fund's portfolio. If the manager does not perform as well as you had hoped, you might not make as much money on your investment as you expected. Of course, if you invest in Index Funds, you forego management risk, because these funds do not employ managers.

1.7 Performance of Mutual Funds in India

Let us start the discussion of the performance of mutual funds in India from the day the concept of mutual fund took birth in India. The year was 1963. Unit Trust of India invited investors or rather to those who believed in savings, to park their money in UTI Mutual Fund.

For 30 years it goaled without a single second player. Through the 1988-year saw some new mutual fund companies, but UTI remained in a monopoly position.

The performance of mutual funds in India in the initial phase was not even closer to satisfactory level. People rarely understood, and of course investing was out of question. But yes, some 24 million shareholders were accustomed with guaranteed high returns by the beginning of liberalization of the industry in 1992. This good record of UTI became marketing tool for new entrants. The expectations of investors touched the sky in profitability factor. However, people were miles away from the preparedness' of risks factor after the liberalization.

The Assets Under Management of UTI was Rs.67bn. by the end of 1987. Let me concentrate about the performance of mutual funds in India through figures. From Rs. 67bn. the Assets Under Management rose to Rs.470 billion. in March 1993 and the figure had a three times higher performance by April 2004. It rose as high as Rs.1,540bn.

The net asset value (NAV) of mutual funds in India declined when stock prices started falling in the year 1992. Those days, the market regulations did not allow portfolio shifts into alternative investments. There were rather no choices apart from holding the cash or to further continue investing in shares. One more thing to be noted, since only closed-end funds were floated in the market, the investors disinvested by selling at a loss in the secondary market.

The performance of mutual funds in India suffered qualitatively. The 1992 stock market scandal, the losses by disinvestments and of course the lack of transparent rules in the where about rocked confidence among the investors. Partly owing to a relatively weak stock market performance, mutual funds have not yet recovered, with funds trading at an average discount of 10 to 20 percent of their net asset value.

The supervisory authority adopted a set of measures to create a transparent and competitive environment in mutual funds. Some of them were like relaxing investment restrictions into the market, introduction of open-ended funds, and paving the gateway for mutual funds to launch pension schemes.

The measure was taken to make mutual funds the key instrument for long-term saving. The more the variety offered, the quantitative would be investors.

At last to mention, as long as mutual fund companies are performing with lower risks and higher profitability within a short span of time, more and more people will be inclined to invest until and unless they are fully educated with the dos and don'ts of mutual funds

Mutual Fund Companies in India

1. ABN AMRO Mutual Fund
2. Birla Sun Life Mutual Fund
3. Bank of Baroda Mutual Fund (BOB Mutual Fund)
4. HDFC Mutual Fund
5. HSBC Mutual Fund
6. ING Vysya Mutual Fund
7. Prudential ICICI Mutual Fund
8. Sahara Mutual Fund
9. State Bank of India Mutual Fund (SBI)
10. Tata Mutual Fund

The concept of mutual funds in India dates back to the year 1963. The era between 1963 and 1987 marked the existence of only one mutual fund Company in India with Rs.67bn assets under management (AUM), by the end of its monopoly era, the Unit Trust of India (UTI). By the end of the 80s decade, few other mutual fund companies in India took their position in mutual fund market.

The new entries of mutual fund companies in India were SBI Mutual Fund, Canbank Mutual Fund, Punjab National Bank Mutual Fund, Indian Bank Mutual Fund, Bank of India Mutual Fund.

The succeeding decade showed a new horizon in Indian mutual fund industry. By the end of 1993, the total AUM of the industry was Rs.470.04 billion. The private sector funds started penetrating the fund families. In the same year the first Mutual Fund Regulations came into existence with re-registering all mutual funds except UTI. The regulations were further given a revised shape in 1996.

Kothari Pioneer was the first private sector mutual fund company in India, which has now merged with Franklin Templeton. Just after ten years with private sector player's penetration, the total assets rose up to Rs.1218.05 billion. Today there are 33 mutual fund companies in India.

1.8 Future of Mutual Funds in India

By December 2004, Indian mutual fund industry reached Rs.1, 50,537 crores. It is estimated that by 2010 March-end, the total assets of all scheduled commercial banks should be Rs.40,90,000 crore.

The annual composite rate of growth is expected 13.4% during the rest of the decade. In the last 5 years we have seen annual growth rate of 9%. According to the current growth rate, by year 2010, mutual fund assets will be double.

Let us discuss with the following tables 1 & 2.

Table -1

Aggregate deposits of Scheduled Com Banks in India (Rs.Crore)								
Month/Year	Mar 98	Mar 00	Mar 01	Mar 02	Mar 03	Mar 04	Sep 04	Dec 04
Deposits	605410	851593	989141	1131188	1280853	-	1567251	1622579
Change in % over last yr	-	15	14	13	12	-	18	3

Source – RBI

Table -2

Mutual Fund AUM's Growth								
Month/Year	Mar 98	Mar 00	Mar 01	Mar 02	Mar 03	Mar 04	Sep 04	Dec 04
MF AUM's	68984	93717	83131	94017	75306	137626	151141	149300
Change in % over last yr	-	26	13	12	25	45	9	1

Source – AMFI

Some facts for the growth of mutual funds in India

- 100% growth in the last 6 years.
- Numbers of foreign AMC's are in the queue to enter the Indian markets like Fidelity Investments, US based, with over US$1trillion assets under management worldwide.
- Our saving rate is over 23%, highest in the world. Only canalizing these savings in mutual funds sector is required.
- We have approximately 29 mutual funds, which is much less than US having more than 800. There is a big scope for expansion.
- 'B' and 'C' class cities are growing rapidly. Today most of the mutual funds are concentrating on the 'A' class cities. Soon they will find scope in the growing cities.
- Mutual fund can penetrate rural like the Indian insurance industry with simple and limited products.
- SEBI allowing the MF's to launch commodity mutual funds.
- Emphasis on better corporate governance.
- Trying to curb the late trading practices.
- Introduction of Financial Planners who can provide need based advice.

1.9 SEBI (Mutual Funds) Regulations, 1996

1) Mutual fund schemes should not be organized operated, managed of or the portfolio of securities selected, in the interest of sponsors, directors of asset Management Company, associated persons as in the interest of special class of unit holders rather than in the interest of all classes of unit holders of the schemes.

2) Trustees and asset management companies should avoid excessive concentration of business with broking firms, affiliates and also excessive holding of units in a scheme amoung a few investors.

3) Trustees and asset management companies shall carry out the business and invest in accordance with the investment objectives stated in the offer document and take investment decisions solely in the interest of unit holders.

4) Trustees and asset management companies must avoid conflicts of interest in managing the affairs of the schemes and keep the interest of all unit holders paramount in all matters.

5) Trustees and the asset management company shall maintain high standards of integrity and fairness in all their dealings and in the conduct of their business.

6) The sales literature may contain only information, the substance of which is included in the fund's current advertisements in accordance with this code.

7) All advertisements shall also make a clear statement to the effect that all mutual funds and securities investment are subject to market risk, and there can be no assurance that the fund's objective will be achieved.

8) If however, in any advertisement a mutual fund guarantees of assures any minimum rate of return or yield prospective investors, resources to back such a guarantee shall also be indicated.

9) Advertisements on the performance of a mutual fund or its asset management company shall compare the past performances only on the basis of per unit of statistics as per these regulations. Advertisement for NAV's must indicate the past as well as the latest NAV of a scheme. The yield calculations will be made as provided in these regulations.

10) An advertisement shall be truthful, fair and clear and shall not contain a statement, promise or forecast which is untrue of misleading.

11) The advertisement shall not be so designed in content and format or in print as to be likely to be misunderstood, or likely disguise the significance of any statement. Advertisements shall not contain statement that directly or by implication or by omission may mislead the investors.

12) The advertisement shall not compare one fund with another, implicitly or explicitly, unless the comparison is fair and all information relevant to the comparison is included in the advertisement.

13) The fund that advertises yield must use standardized computation such as annual dividend on face value, annual yield on the purchase price, and annual compounded rate of return.

14) A mutual fund shall not invest more than 15% of its NAV in debt instrument issued by single issuer that are rated not below investments grade by a credit rating agency authorized to carry out such activity under the Act. Such investment limit may be extended to 20% of the NAV of the schemes with the prior approval of the board of trustees and the board of Asset Management Company. Provided that such limit shall not be applicable for investments in government securities and money market instruments.

15) The initial issue expenses in respect of any scheme may not exceed six percent of the funds raised under that scheme.

16) Every mutual fund shall buy and sell securities on the basis of deliveries and shall in all cases of sale, deliver the securities and shall in no case put itself in a position where by it has to make short sale or carry forward transactions or engage in badla finance. Provided that mutual funds shall enter in to derivatives transactions in a recognized stock exchange for the purpose of hedging and portfolio balancing, in accordance with guidelines issued by board.

17) No mutual fund under all its schemes should own more than 10% of any company's paid up capital carrying voting rights.

18) A scheme may invest in another scheme under the same asset management company or any other mutual fund without charging fees, provided that aggregated inter scheme invested made by all schemes under the management of any other asset management company shall not exceed 5% of the net asset value of mutual fund.

1.10 Need For Study

This study was undertaken with the existing mutual funds in the websites. These funds are already used by the researcher for the analysis.

The study was conducted on the topic "Performance of Equity ,Balanced and Debt Schemes of SBI and ICICI mutual Funds." For the present study 20 schemes are selected. The information is collected through secondary sources.

1.11 Objectives Of The Study

- ✓ To study and assess the return of selected fund of SBI and ICICI.
- ✓ To measure the risk of the selected fund
- ✓ Rank the selected fund based on the return and risk.

LITERATURE SURVEY

CHAPTER II

LITERATURE SURVEY

2.1 Review Of Literature

Treynor (1965), Jenson (1968) and Ippolito (1989) conducted research studies on the performance of mutual funds. They concentrated on the performance of active funds and found that these funds did not register superior performance in terms of returns.

Jayadev (1998) in his analytical study on the performance of mutual funds analyzed 44 schemes of mutual funds during the period of 1994-95 and compared Jensen's measure and Sharpe's differential returns of the schemes. He has stated that there was high difference between the two measures and concluded that lack of diversification was the reason for the declining trend in performance.

INDUSTRY PROFILE

CHAPTER -III

INDUSTRY PROFILE

3.1 Mutual Funds Industry in India

The origin of mutual fund industry in India is with the introduction of the concept of mutual fund by UTI in the year 1963. Though the growth was slow, but it accelerated from the year 1987 when non-UTI players entered the industry.

In the past decade, Indian mutual fund industry had seen a dramatic improvement, both qualities wise as well as quantity wise. Before, the monopoly of the market had seen an ending phase; the Assets Under Management (AUM) was Rs.67billion. the private sector entry to the fund family raised the AUM to Rs.470 billion in March 1993 and till April 2004; it reached the height of 1,540 billion.

Putting the AUM of the Indian Mutual Funds Industry into comparison, the total of it is less than the deposits of SBI alone, constitute less than 11% of the total deposits held by the Indian banking industry.

The main reason of its poor growth is that the mutual fund industry in India is new in the country. Large sections of Indian investors are yet to be intellectuated with the concept. Hence, it is the prime responsibility of all mutual fund companies, to market the product correctly abreast of selling.

The mutual fund industry can be broadly put into four phases according to the development of the sector. Each phase is briefly described as under.

First Phase - 1964-87.

Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Rs.6, 700 crores of assets under management.

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

Entry of non-UTI mutual funds. SBI Mutual Fund was the first followed by Cana bank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92). LIC in 1989 and GIC in 1990. The end of 1993 marked Rs.47, 004 as assets under management.

Third Phase - 1993-2003 (Entry of Private Sector Funds)

With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996.

The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs.1, 21,805 crores. The Unit Trust of India with Rs.44, 541 crores of assets under management was way ahead of other mutual funds.

Fourth Phase - since February 2003

This phase had bitter experience for UTI. It was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with AUM of Rs.29, 835 crores (as on January 2003). The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations.

The second is the UTI Mutual Fund Ltd, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs.76,000 crores of AUM and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth. As at the end of September 2004, there were 29 funds, which manage assets of Rs.153108 crores under 421 schemes.

Association of Mutual Funds in India (AMFI)

With the increase in mutual fund players in India, a need for mutual fund association in India was generated to function as a non-profit organization.

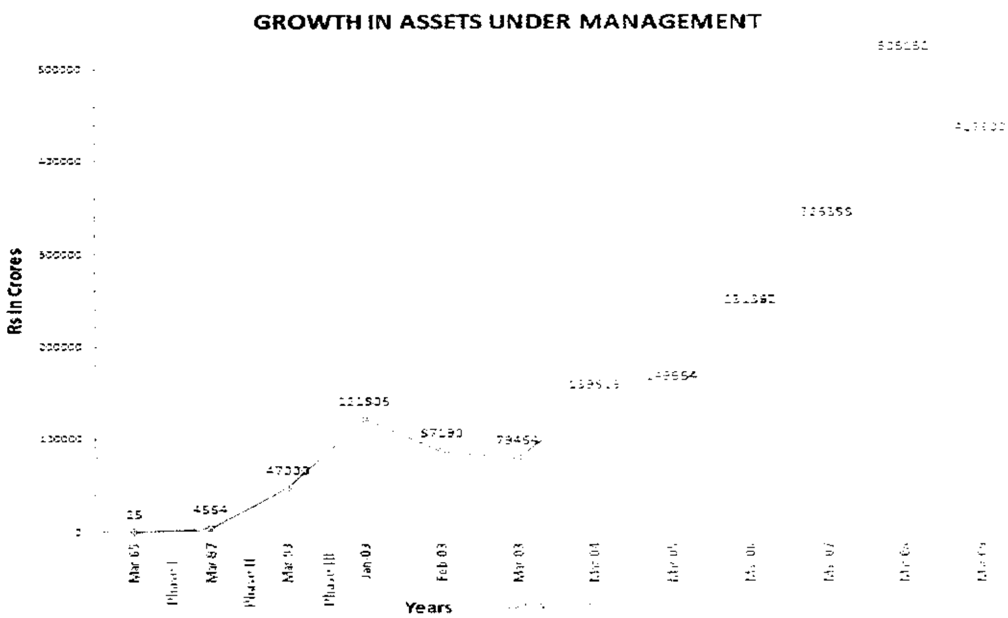


Figure-1

Funds in India (AMFI) was incorporated on 22nd August 1995.

AMFI is an apex body of all Asset Management Companies (AMC), which has been registered with SEBI. Till date all the AMCs are that have launched mutual fund schemes are its members. It functions under the supervision and guidelines. Association of Mutual Funds India has brought down the Indian Mutual Fund Industry to a professional and healthy market with ethical lines enhancing and maintaining standards. It follows the principle of both protecting and promoting the interests of mutual funds as well as their unit holders.

The objectives of Association of Mutual Funds in India

The Association of Mutual Funds of India works with 30 registered AMCs of the country. It has certain defined objectives, which juxtaposes the guidelines of its Board of Directors. The objectives are as follows:

- This mutual fund association of India maintains a high professional and ethical standard in all areas of operation of the industry.
- It also recommends and promotes the top class business practices and code of conduct which is followed by members and related people engaged in the activities of mutual fund and asset management. The agencies who are by any means connected or involved in the field of capital markets and financial services also involved in this code of conduct of the association.
- AMFI interacts with SEBI and works according to SEBI's guidelines in the mutual fund industry.
- Association of Mutual Funds of India do represent the Government of India, the Reserve Bank of India and other related bodies on matters relating to the Mutual Fund Industry.
- It develops a team of well-qualified and trained Agent distributors. It implements a programmer of training and certification for all intermediaries and other engaged in the mutual fund industry.

- AMFI undertakes all India awareness programs for investors in order to promote proper understanding of the concept and working of mutual funds.

- At last but not the least association of mutual fund of India also disseminate information on Mutual Fund Industry and undertakes studies and research either directly or in association with other bodies.

The sponsor of Association of Mutual Funds in India

Bank Sponsored

- SBI Fund Management Ltd.
- BOB Asset Management Co. Ltd.
- Canbank Investment Management Services Ltd.
- UTI Asset Management Company Pvt. Ltd.

Institutions

- GIC Asset Management Co. Ltd.
- Jeevan Bima Sahayog Asset Management Co. Ltd.

Private Sector

Indian: -

- Benchmark Asset Management Co. Pvt. Ltd.
- Cholamandalam Asset Management Co. Ltd.
- Credit Capital Asset Management Co. Ltd.
- Escorts Asset Management Ltd.
- JM Financial Mutual Fund
- Kotak Mahindra Asset Management Co. Ltd.
- Reliance Capital Asset Management Ltd.
- Sahara Asset Management Co. Pvt. Ltd
- Sundaram Asset Management Company Ltd.
- Tata Asset Management Private Ltd.

Predominantly India Joint Ventures:-

- Birla Sun Life Asset Management Co. Ltd.
- DSP Merrill Lynch Fund Managers Limited
- HDFC Asset Management Company Ltd.

Predominantly Foreign Joint Ventures:-

- ABN AMRO Asset Management (I) Ltd.
- Alliance Capital Asset Management (India) Pvt. Ltd.
- Deutsche Asset Management (India) Pvt. Ltd.
- Fidelity Fund Management Private Limited
- Franklin Templeton Asset Mgmt. (India) Pvt. Ltd.
- HSBC Asset Management (India) Private Ltd.
- ING Investment Management (India) Pvt. Ltd.
- Morgan Stanley Investment Management Pvt. Ltd.
- Principal Asset Management Co. Pvt. Ltd.
- Prudential ICICI Asset Management Co. Ltd.
- Standard Chartered Asset Mgmt Co. Pvt. Ltd.

AMFI public mainly two types of bulletin. One is on the monthly basis and the other is quarterly. These publications are of great support for the investors to get intimation of the know-how of their parked money.

3.2 Investment Basics

Investment is the use of money to earn income or profit. The term also refers to employment of funds for capital goods, which are used to produce further goods or services.

There are basically two types of assets that people may invest in:

1. Hard assets.
2. Financial assets

Hard assets are essentially 'physical products', which have certain intrinsic value on account of the usefulness they provide to owner. Some examples are : land property, vehicles, consumer durable, gold, etc. depending on the specific hard asset, the value may go up or down over time.

On the other hand, financial assets are securities, which have a certain money value at any given point of time. This value could be higher or lower than the original price at which they are bought. By itself financial assets are of no use unless they are used towards meeting some need or goal. Hence, most people hold their savings in financial assets till such time that they are able to convert them into a needed product or service.

The three important characteristics of any financial assets are:

- ✓ Return- The potential return possible with this asset.
- ✓ Risk- How risky is this asset or what are the chances of it value going down.
- ✓ Liquidity- How easy is it to convert this asset into cash?

Table-3

LIST OF MUTUAL FUND IN INDIA

Mutual fund	Sponsor(s) Website	Year of Entity	Corpus Rs. Cr)
Alliance capital MF	Alliance capital management Alliancecapitalindia.com	1994	2426
Birla sun life MF	Birla global finance Birlasunlife.com	1994	9330
GICMF	General insurance corporation,&.The other 4PSU general insures Gicmutual.com	1990	257
HDFCMF	HDFC standard Life Investments Hdfcfund.com	2000	15437
HSBC MF	HSBC securities asset management Hsbc.co.in	2002	3977
ING Vysya MF	ING Group Ingsavingstrust.com	1999	1947
LICMF	Life Insurance Corporation Licmutual.com	1989	4678
Prudential ICICI MF	Prudential ICICI Pruicici.com	1993	15883
Reliance capital MF	Reliance capital Reliancemuual.com	1995	6392
SBIMF	State Bank of India Sbimf.com	1987	5415

Standard chartered MF	Standard Chartered Bank	2000	8076
TATA MF	Tata sons Tatamutualfund.com	1995	3775
Templeton MF	Franklin Templeton Investments Franklintempletonindia.com	1996	15714

METHODOLOGY

CHAPTER-IV

METHODOLOGY

4.1 Type of the Data

Data used for study is Secondary data.

4.2 Sources Of Data

Secondary Data

Secondary data was obtained from company websites and other research websites.

4.3 Limitations

- The analysis and interpretation of the fund is based only on the historical data.
- The past Data is used; the past data cannot be the indicator of the future. since future is uncertain as far as the stock market is concerned
- The importance is given only to performance and risk factors.

DATA ANALYSIS AND INTERPRETATION

CHAPTER -V

DATA ANALYSIS AND INTERPRETATION

Mutual fund units are investment vehicles that help small investors to be a big ride through capital market, which is not possible individually with small amount of investment. It provides a means of participation n the stock market for the people who do not have the time or perhaps the expertise to take direct investment decisions in equities successfully. Therefore the only way out is to entrust the hard earned money to the professionals who drive the mutual funds.

The relation between risk-return determines the performance of a mutual fund. As a risk is commensurate with return, therefore, providing maximum return o the investment made with in the acceptable associated risk level helps in demarcating the better performer from the laggards. During the period, following the acceptance of new economic policy of liberalization & globalization in India, the private sector mutual fund made an entry, since the year 1993. n the aftermath, the stock market have truly seen the turbulence associated with the private sector players. It is the only performance shown that provides an edge to one mutual fund over the other. The question amidst such a vague situation that looms large in the minds of the investors is upon whom an average investor should rely. Or else, what should be the criteria to distinguish better mutual fond from the other, from investment point of view.

5.1 Scheme Selection

There are only shares indices that are available as benchmarks for performance comparison, which has led to the possibility of the comparing the performance of equity schemes and not of debt income schemes.(However, now a committee formed by SEBI and association of mutual funds in India to evolve suitable benchmarks for debts/income schemes have identified certain benchmarks to evaluate the performance of debt and other schemes). For the purpose of the study, only growth schemes of the funds selected for which NAV values are available have been considered for studying the performance. The performance appraisals has been done as against the bench mark and not between different funds themselves because of the following reasons;-

- Timing of establishment of mutual funds and floating of schemes by the funds differ.
- Corpus sizes of different schemes differ.
- Level of confidence enjoyed by a particular fund with the investors.

Hence, the performance appraisals of any fund is Justified if done against a particular benchmark.

The indices are composed of companies of all sectors taken together, therefore, for the purpose of performance appraisals, these schemes couldn't be a true representative of the given benchmark index. Hence, the performance of equity diversified schemes has been done against the benchmark index only.

5.2 Fund Risk Grade

The fund risk grade captures the fund's risk of loss. Fund risk grade is different from the conventional risk and volatility measures like standard deviation and beta as it indicates only downside volatility. The latter refers to absolute losses and even periods when the find under performs a risk free guaranteed return y the investing in risk free guaranteed investment like a bank term deposit. The risk of investing in a mutual fund not only includes the possibility of losing money, but also the chance of earning less than you would have on a guaranteed investment.

To calculate fund risk, monthly/weekly fund returns are compared against the monthly risk free return for the equity funds. Risk-free return is defined as the State bank's 45 – 180 days Term deposit Rate. For all months/weeks the fund has under performed the risk free return, the magnitude of the under performance is added. This help us to arrive at the average under performance is added. This helps us to arrive at the average underperformance and how the fund has performed vis-à-vis its category average. The relative performance of the fund is expressed as a risk score.

The risk score of the fund is then assigned according to the following distribution:

High	-	Top 10%
Above Average	-	next 22.5%
Average	-	Middle 35%
Below Average	-	22.5%
Low	-	bottom 10%.

For each fund we quantified six kinds of risk:

5.2.1 Downside risk:-

This reflects the possibility of a fund giving negative returns. A statistical measure called the 'targeted semi-variance' was used to calculate the downside risk. This shows the number of weeks in which a fund earned less than the risk-free rate and the quantum of the shortfall.

5.2.2 Strategy risk:-

In their quest for returns, many funds strayed from their objective. We penalized balanced funds that held over 60% in equity, and debt fund with more than 10% in equity, and equity funds that held more than 10% in debt instruments. This was done by increasing their downside risk by the excess percentage holding.

5.2.3 Concentration risk investments:-

Funds holding security (other than G-secs, in which there is no risk of default) in excess of 10% of their corpus have been assigned a concentration risk equal to the percentage points of their holdings. We also penalized funds that had more than 40 percent in their top 5 holdings.

5.2.4 Concentration risk investors:-

Schemes where single investor- investor holding exceeded 25% have been given a concentration risk equal to the mark-up.

5.2.5 Credit Risk:-

Funds with low quality paper (rated below AA) have been penalized by increasing their downside risk by their percentage holding in such debt paper.

5.2.6 Non- disclosure risk:-

Funds that don't disclose portfolio's have been penalized by assigning them the highest concentration risk(investments) in their respective category.

5.3 Fund Return Grade

The fund return grade captures a fund risk adjusted return in comparison to other funds in the category! The returns though adjusted for dividend, bonus or rights, are not adjusted for loads. The fund's monthly/weekly risk free return is compared with the monthly/weekly risk-free return to arrive at the fund's total return in excess of the risk free return. The monthly average risk adjusted return is compared with the average category return to arrive at the final score. In case of negative category average return to arrive at the final score. In case of negative category of average return, the risk free return is used as benchmark. A score in excess of one indicates that the fund has performed better than its category average and vice-versa.

The return score of a fund is then assigned according to the following distribution:

High	-	Top 10%
Above average	-	Next 22.5%
Average	-	Middle 35%
Below Average	-	Next 22.5%
Low	-	Bottom 10%

5.4 Fund Rating

Fund Rating (risk-adjusted rating) is a convenient composite measure of both returns and risk. It is purely quantitative and there is no subjective component to the Fund Rating. The assessment does not reflect the future potential of any fund. It only gives a quick summary of how a fund has performed historically relative to its peers.
For equity funds, the Fund Ratings for two time periods(3&5)years are combined to give a single assessment of each fund's risk rating vis-à-vis other funds in each fund category. Equity or hybrid fund with less than 3-years performance and debt fund with less than 18 month performance track record are not taken for rating. Each category must have a minimum of 10 funds for it to be rated.

Since the difference between two ranks can be statistically insihnificant, we grouped funds into five performances categories-denoted by star ratings.

Top 10 percent schemes get five stars
Next 22.5 per cent , three star
Next 22.5 per cent, two stars
The bottom 10 per cent, one star

Table-4

List of mutual funds scheme studied.

Name of scheme	Date of launch	Benchmark
Prudential ICICI Equity Fund	25.05.2008	S & P CNX Nifty
Prudential ICICI Indo Asia Equity Fund	18.10.2007	S & P CNX Nifty
ICICI Prudential Dynamic Fund	31.10.2002	S & P CNX Nifty
ICICI Prudential Power	01.10.1994	S & P CNX Nifty
ICICI TAX Plan	19.08.1999	S & P CNX Nifty
SBI Magnum Comma Fund	24.08.2005	BSE 200 Index
SBI Global Fund	30.09.1994	BSE 100 Index
SBI Mid Cap Fund	15.04.2005	CNX MID-CAP 200 Index
SBI Magnum Equity Fund	01.01.1991	BSE 100 Index
SBI Magnum Index Fund	04.02.2002	S & P NIFTY TRI Index

Name of scheme	Date of launch	Benchmark
Prudential ICICI Balanced Fund	03.11.1999	Crisil Balanced Index
SBI Magnum Balanced Fund	29-05-2009	Crisil Balanced Index

5.5 Rankings

The five types of risk were added to get the total risk figure. Next, we computed the fund's risk- adjusted returns (RAR) by dividing the the return by risk. The RAR is a statistical number. The higher a fund's RAR, the better its standing in its category. To minimize mathematical anomalies-a fund generating a low return making it to the top by virtue of having a low downside risk- we also gave a nominal weight age to a fund's returns. The two scores were added, base on which schemes were ranked.

5.6 BETA (β)

Beta coefficient compares the variability of fund's return to the market as a whole. It is a relative measure unlike absolute measure (α). By convention, market will have beta 1.0. Mutual fund can be as volatile, more volatile or less volatile. If a fund has below market beta of 0.86, it can be said that fund has 86% of the volatility of the market i.e., relative to the market index it will capture only 86% of gain in up markets and decline by 86% of the drop in the index in down markets.

Table-5

Systematic Risk (β)

SL.NO	Name of the scheme	BETA
1	Prudential ICICI Equity Fund	0.82
2	Prudential ICICI Indo Asia Equity Fund	1.08
3	ICICI Prudential Dynamic Fund	0.86
4	ICICI Prudential Power	0.94
5	ICICI TAX Plan	1.04
6	SBI Magnum Comma Fund	0.97
7	SBI Global Fund	1.12
8	SBI Mid Cap Fund	1.10
9	SBI Magnum Equity Fund	0.94
10	SBI Magnum Index Fund	0.96

SL.NO	Name of the scheme	BETA
1	Prudential ICICI Balanced Fund	1.0
2	SBI Balanced Fund	1.02

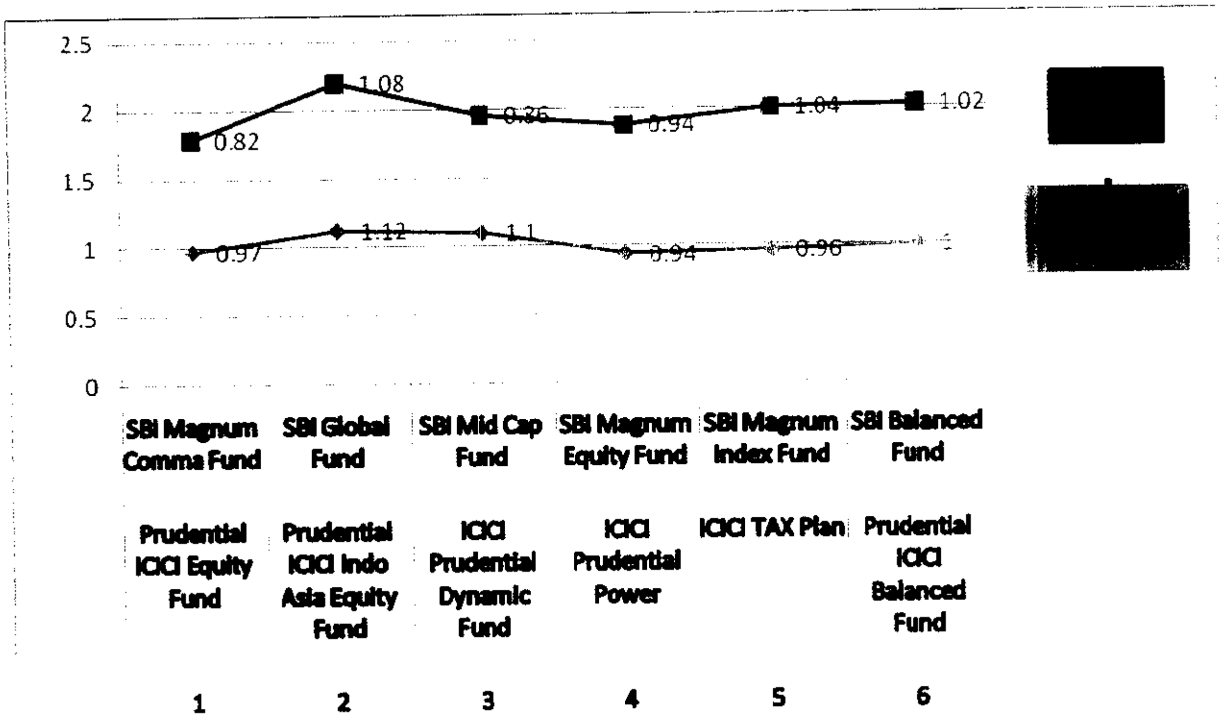

2.5
2
1.5
1
0.5
0
1.08
0.82
1.02
1.1
0.97
0.94
SBI Magnum Comma Fund
SBI Global Fund
SBI Mid Cap Fund
SBI Magnum Equity Fund
SBI Magnum Index Fund
SBI Balanced Fund
Prudential ICICI Equity Fund
Prudential ICICI Indo Asia Equity Fund
ICICI Prudential Dynamic Fund
ICICI Prudential Power
ICICI TAX Plan
Prudential ICICI Balanced Fund
1
2
3
4
5
6

Figure - 2

Interpretation

Systematic Risk (β)

Beta is a measure of systematic risk (unlike the variance and the standard deviation which measures the total risk, i.e. systematic plus nonsystematic risk). It compares sensitivity of value of a security with the movements in the market. Beta equal to 1 is an indication that the security would move precisely in line with the market. An index fund would have a beta close to 1. Beta less than 1 is an indication of a conservative fund or stock that moves lesser than the market. Beta more than 1 signifies a security or fund that is more aggressive than the market. Negative beta means an inverse relationship between the security and the market. Investors dream of stock that enjoy positive beta whenever the market goes up, and negative beta whenever the market goes down.

Prudential ICICI Indo Asia Equity Fund	1.08
ICICI TAX Plan	1.04
SBI Global Fund	1.12
SBI Balanced Fund	1.02
SBI Mid Cap Fund	1.10

Beta value funds exceeded 1. It means that the fund is more aggressive than the market. Beta value of 1.00 of PRUDENTIAL ICICI BALANCED FUND means that the fund would move precisely in line with the market.

5.7 STANDARD DEVIATION (σ)

It is statistic to measure the variation in individual returns from the average expected return over a certain period. In addition, while the average may be acceptable but year to year swings in performance may not be acceptable but year to year swings in performance may not acceptable to an investor. Lower the investors risk tolerance, less likely it is that he or she will hold the riskier fund long enough to achieve its ultimate return. The factors which affect the variability of the performance of an investment are: the kind of stocks in the portfolio, the degree to which a fund diversifies, the degree to which a manager uses to leverage, or borrowing in an effort to enhance performance and the extent to which the manager tries to time the market.

Table -6

STANDARD DEVIATION(σ)

Sl No	Name of the scheme	Standard Deviation
1	Prudential ICICI Equity Fund	38.86%
2	Prudential ICICI Indo Asia Equity Fund	40.70%
3	ICICI Prudential Dynamic Fund	30.99%
4	ICICI Prudential Power	33.22%
5	ICICI TAX Plan	38.74%
6	SBI Magnum Comma Fund	39.60%
7	SBI Global Fund	45.35%
8	SBI Mid Cap Fund	50.68%
9	SBI Magnum Equity Fund	39.60%
10	SBI Magnum Index Fund	34.73%
11	Prudential ICICI Balanced Fund	34.40%
12	SBI Balanced Fund	28.64%

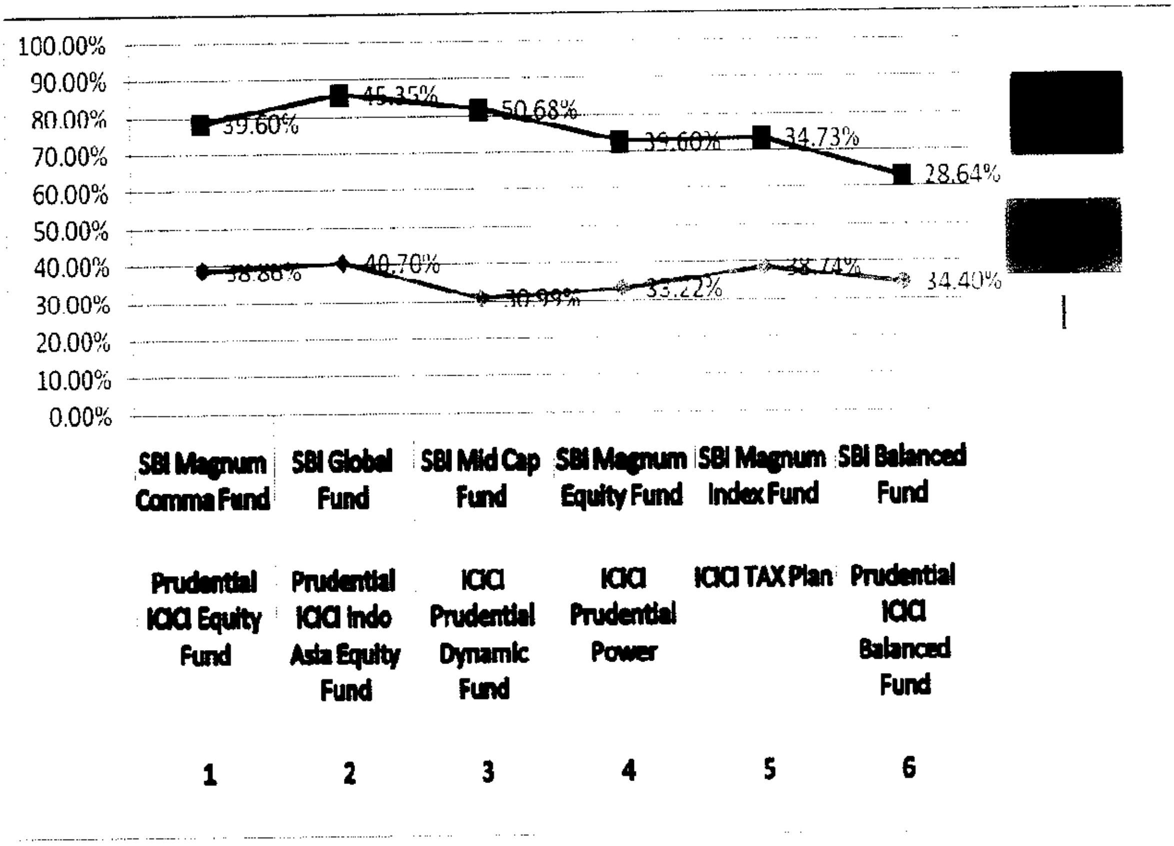

100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
45.35%
50.68%
34.73%
28.64%
40.70%
34.40%
SBI Magnum Comma Fund
SBI Global Fund
SBI Mid Cap Fund
SBI Magnum Equity Fund
SBI Magnum Index Fund
SBI Balanced Fund
Prudential ICICI Equity Fund
Prudential ICICI Indo Asia Equity Fund
ICICI Prudential Dynamic Fund
ICICI Prudential Power
ICICI TAX Plan
Prudential ICICI Balanced Fund
1
2
3
4
5
6

Figure-3

Interpretation

Standard deviation (σ)

From the chart it can be found that standard deviation of most of the schemes is more than 30%. It reveals that all the schemes are volatile to the market. It is statistic to measure the variation in individual returns from the average expected return over a certain period. In addition, while the average may be acceptable but year-to-year swings in performance may to be acceptable to an investor. Lowest the investors risk tolerance, less likely it is that, he or she will hold the riskier fund long enough to achieve its ultimate return. The factors which affect the variability of the performance of an investment are: the kind of stocks in portfolio, the degree to which a fund diversifies, the degree to which a manager usage leverage, or borrowing in effort to enhance performance 7 the extent to which the manager tries to time the market.

Table -7

Return earned by the schemes

Sl no	Name of the scheme	1 year return	3 year return
1	Prudential ICICI Equity Fund	7.09	-
2	Prudential ICICI Indo Asia Equity Fund	-20.2	-
3	ICICI Prudential Dynamic Fund	-10.08	11.43
4	ICICI Prudential Power	-12.00	5.22
5	ICICI TAX Plan	-7.99	-0.92
6	SBI Magnum Comma Fund	-15.70	9.64
7	SBI Global Fund	-21.81	-0.46
8	SBI Mid Cap Fund	-23.02	-1.48
9	SBI Magnum Equity Fund	-8.45	12.41
10	SBI Magnum Index Fund	-10.48	8.92
11	Prudential ICICI Balanced Fund	-11.81	2.97
12	SBI Balanced Fund	-0.76	9.71

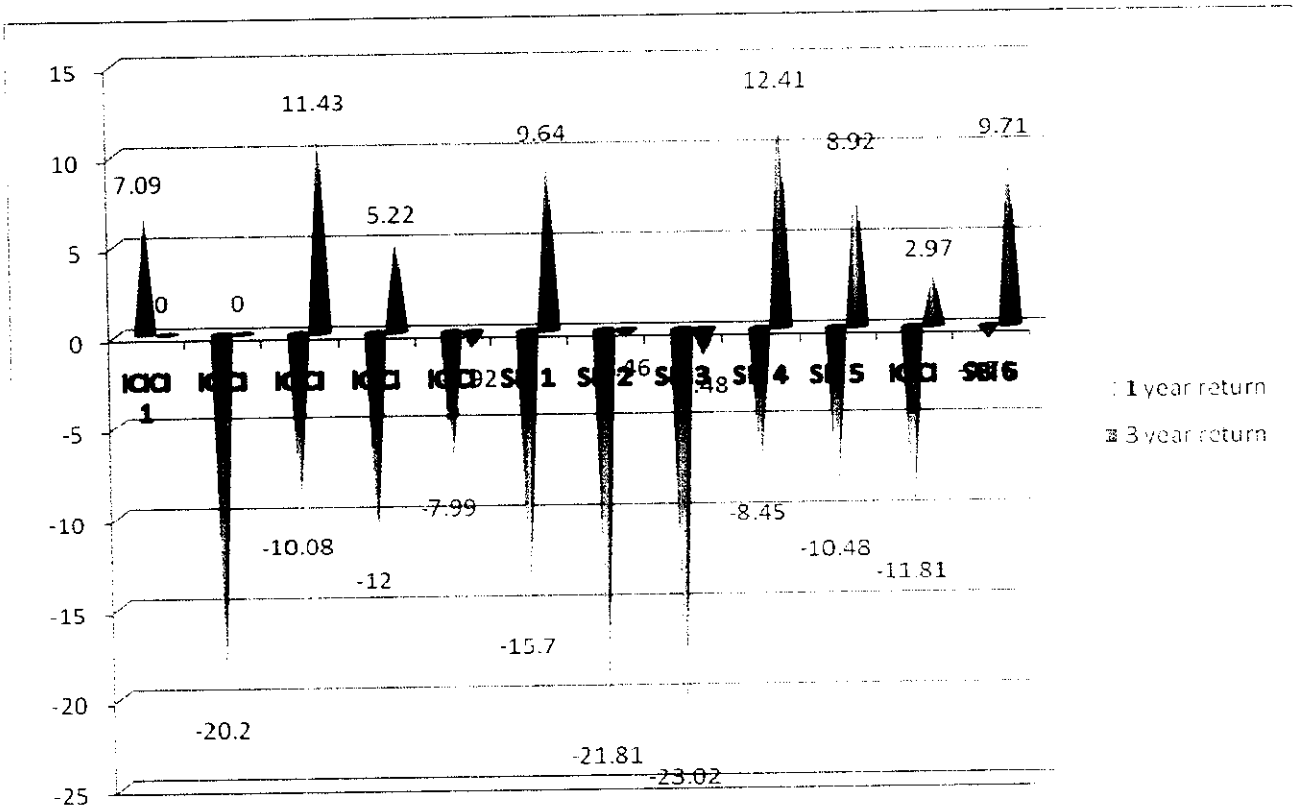

15
10
5
0
-5
-10
-15
-20
-25
7.09
0
0
11.43
5.22
9.64
12.41
8.92
9.71
2.97
-10.08
-12
-7.99
-15.7
-20.2
-21.81
-23.02
-8.45
-10.48
-11.81
1 year return
3 year return

Figure -4

Table -8

Comparison of one year returns_earned by the scheme and respective benchmark indices

No	Mutual fund scheme	Benchmark	1 year return	Bench mark return
1	Prudential ICICI Equity Fund	S & P CNX Nifty	7.09	-7.99
2	Prudential ICICI Indo Asia Equity Fund	S & P CNX Nifty	-20.24	-7.99
3	ICICI Prudential Dynamic Fund	S & P CNX Nifty	-10.08	-7.99
4	ICICI Prudential Power	S & P CNX Nifty	-12.00	-7.99
5	ICICI TAX Plan	S & P CNX Nifty	-7.99	-7.99
6	SBI Magnum Comma Fund	BSE 200 Index	-15.70	-13.05
7	SBI Global Fund	BSE 100 Index	-21.81	10.99
8	SBI Mid Cap Fund	CNX MID-CAP 200 Index	-23.02	-18.47
9	SBI Magnum Equity Fund	BSE 100 Index	-8.45	-12.28
10	SBI Magnum Index Fund	S & P NIFTY TRI Index	-10.48	-8.67
11	ICICI Prudential Balanced Fund	CRISIL Balanced Index	-11.81	-1.72
12	SBI Balanced Scheme	Crisil Balanced Index	-0.76	-1.72

Interpretation

Return earned by the schemes.

Table-7 & 8 depicts that most for the schemes had not performed well compared to their respective bench mark indices. Return for the scheme has been calculated from the daily net asset value (NAV). Growth in the value for each day over the previous day has been calculated and it has been divided by the value of the previous day. Then average of the serious so developed has been taken.

The returns of all the SBI Equity & Balanced Schemes and ICICI Equity & Balanced Schemes did not perform well and it goes in minus.

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5.8 SHARPE RATIO

Given by WF Sharpe in 1996, it is expressed as the ratio of excess return per unit of risk, where risk is measured by the standard deviation of the ratio of the return. In short, it is reward to variability ratio & is defined as:

$S1 = (Rp-Rf)/\sigma p$

Where SI: Sharpe's ratio

Rp : Average return of fund p,

σp : Standard Deviation of return on fund p, &

Rf : Return on risk free asset.

The ratio is based on the fact that preferred portfolio lies on the most counterclockwise ray in the expected return and standard deviation space. i.e, the slope of the ray is maximized and is donated by Sharpe ratio. This ratio views at the decisions from the angle of the investor who chooses mutual funds that represents the majority of his investment.

Selection Of Mutual Funds For Performance Evaluation

From the primary survey conducted to study the perceptions of investors as regards mutual funds in India, out of mutual funds, which emerged as most preferred for investment, following funds have been selected to study the performance among public and private sector mutual funds:

1. SBI mutual fund and
2. Prudential ICICI mutual fund

Table -9

SHARPE RATIO OF THE SCHEMES

Sl no	Name of the scheme	SHARPE RATIO
1	Prudential ICICI Equity Fund	0.34
2	Prudential ICICI Indo Asia Equity Fund	0.26
3	ICICI Prudential Dynamic Fund	0.44
4	ICICI Prudential Power	0.32
5	ICICI TAX Plan	0.16
6	SBI Magnum Comma Fund	0.18
7	SBI Global Fund	-0.07
8	SBI Mid Cap Fund	-0.08
9	SBI Magnum Equity Fund	0.27
10	SBI Magnum Index Fund	0.91
11	ICICI Prudential Balanced Fund	0.54
12	SBI Balanced Scheme	0.24

Table -10

Performance of Mutual Funds

S.No	MUTUAL FUND	RETURN	BETA RISK	SHARPE INDEX
1	Prudential ICICI Equity Fund	Low	Above average	Average
2	Prudential ICICI Indo Asia Equity Fund	Average	High	Average
3	ICICI Prudential Dynamic Fund	Low	High	Average
4	ICICI Prudential Power	Low	Above average	Average
5	ICICI TAX Plan	Low	High	Average
6	SBI Magnum Comma Fund	Low	Above average	Average
7	SBI Global Fund	Low	High	Average
8	SBI Mid Cap Fund	Low	High	Average
9	SBI Magnum Equity Fund	Low	Above average	Average
10	SBI Magnum Index Fund	Low	Above average	Above Average
11	ICICI Prudential Balanced Fund	Low	Above average	Average
12	SBI Balanced Scheme	Low	High	Average

From the above table it can be found that most of the mutual funds have performed on an average and above average basis.

Interpretation

Sharpe index

Table-9&10 depict value of Sharpe's reward to variability ratio. It is an excess return earned over risk-free return per-unit of the risk involved i.e. per unit of standard deviation. Negative value of the index shows poor performance. We can find SBI Global and Midcap funds are in negative. This shows that adequate returnee's against the level of risk involved has not been provided. However lesser negative value than the market indicates better performance than the market. In equity and balanced scheme category it could be seen that all the schemes have recorded better Sharpe index. This further strengthens our conclusion that mutual funds, on an average, have performed better concerning return on investment as compared to market. The Sharpe index is important from small investor's point of view who seeks diversification through mutual funds i.e. mutual funds are supposed to protect small investors against vagaries of stock market and the fund managers of this schemes have done well to protect them.

So it could be deduced from the above discussion that among equity schemes **SBI Magnum Index Fund & ICICI Prudential Dynamic Fund** have shown better performance by reducing the loss per unit of risk of investors as compared to the other schemes. However remaining schemes have shown average performance in this regard. Among the balance schemes **ICICI balanced scheme** performing better than SBI Balanced Scheme.

CONCLUSIONS

CHAPTER-V I

CONCLUSIONS

6.1 Findings

- SBI Magnum Index Fund Performing better than the remaining.
- ICICI Prudential Balanced Scheme is performing good compared to SBI Balance Scheme.
- The data pertaining to equity funds over the last three years study showed that equity funds tend to outperform the market in the bull market, but under perform in bearish market.
- Out of the 10 equity fund that completed at last 3 year of operations, majority of them showed below market performance.
- Most of the investors are interested in investing in equity funds in spite of the high risk involved in it, as the returns from equity funds are more as seen in the recent past.
- Investors in equity schemes should not expect supernormal returns over he short term.

6.2 Suggestions

- Companies need to bring awareness about mutual fund schemes to the rural areas, retail segments, also to NRIs with the help of advertisements and other marketing tools.
- Investors in equity schemes should not expect supernormal returns over the short term.
- The mutual fund investors are better advised to look at risk adjusted returns to evaluate true mutual fund performance and, of course, over long term periods like three to five years.
- It's important to note that mere out performance might not indicate the true picture if it is not weighed against the risk taken.

6.3 Conclusion

The mutual fund industry has made people to invest their idle money and in a way contribute to the national income. Both equity and debt funds have contributed to this growth in the previous years but at present the market is a bearish market. Equity funds are mostly preferred by people who are ready to take high amount of risk and who expect high return. People who are not risk averters and who want to be on the safer side on the other hand prefer debt funds. This industry has flourished precious years because of the professional guidance it gives and also the liberty to the investors to invest in small lots, as mutual fund is a pool of money collected by investors and in turn invested in the equity or debt market. There are other types of fund like the money market fund and which is also a good investment decision. The mutual fund industry has grown in the recent past but as per the present scenario is going downtrend.

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