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# A Critical Study Of Investors Perception On Selected Mutual Funds In India

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## ABSTRACT

In past few years, mutual fund companies are doing much effort to expand its operation. The various regulatory authorities are also supporting the fund houses as well as investors. Many regulations have been formulated to protect the interest of investors. A wide range of schemes have been innovated keeping the investor's requirement and demand in view. However, the industry has to resolve many challenges for its sustainable growth. A study on the status and operation of mutual fund helps both the fund managers and investors to acquire better knowledge and information regarding the investment opportunity. The various demographic features are one of the basic factors to influence decision making for investment. The industry can mobilize young generation for investment in mutual funds as they are risk takers. But sufficient education and financial literacy are also required to grasp the concepts. Employment among female is increasing than earlier days leaving more personal disposable income. It widens the scope for the industry to increase their investors. The satisfaction level of investors is a major determinant of mutual fund growth. The ample of fund houses and a plethora of mutual fund schemes with different features often creates confusion to newcomers. Thus, it is high time for the fund houses to make necessary changes in their operation for sustainable growth and expansion in future.

**Keyword:** Regulations, Interest of Investors, Challenges, Growth, Employment.

## INTRODUCTION

The Indian mutual fund industry has gone a long way since the inception of UTI in 1963. A mutual fund is an investment vehicle which is professionally managed and run by fund houses, called Asset Management Company (AMC). The AMC collects the savings of a group of people to invest in stocks, bonds and other securities with the prime objective of maximum yield and capital appreciation along with safety and liquidity of funds. Collection of savings from small investors is the unique feature of the mutual fund concept. The investors get units of the mutual fund according to the amount of investment. The AMCs are responsible for managing the investment for various schemes operated by the mutual fund. Unitholders share the profit and losses in the proportion of their investment. A mutual fund is required

to be registered with the Securities and Exchange Board of India (SEBI) before collecting funds from the public. After the SEBI Act passed in 1992, SEBI Mutual Fund regulations came into existence in 1996 which infused mutual fund companies to grow exponentially. As the industry expanded, The Association of Mutual Funds in India (AMFI) was established in 1995 as a non-profit organization with the prior objective of promoting healthy and fair market practices in mutual fund sector. A mutual fund is found to be an ideal investment vehicle in present sophisticated and modern financial scenario. A general individual is unlikely to have the knowledge, skills, inclination and time to keep track of events, understand their implication and act speedily. A mutual fund is an answer to the situations in regards to low-risk investment.

### **Concept of Mutual Fund**

According to Securities Exchange Board of India, mutual fund is defined as 'A fund established in the form of a trust to raise money through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market instruments or gold or gold related instruments.' A mutual fund is a common pool of money into which the investors place their contributions that are to be invested in accordance with a stated objective. Thus mutual fund is created when investors put their money together and is invested by the fund manager in different types of securities depending upon the objective of the scheme. These could range from shares to debenture to money market instruments. The income earned through these investments and the capital appreciation realized by the scheme, both are shared by its unit holders in proportion to the number of units owned by them. Each mutual fund scheme has its own investment objective and strategy. The mutual fund, in its present form, is a 21st century phenomenon. In fact, it gained popularity only after the second world war. Today, mutual funds collectively manage almost as much money as compared to banks.

### **Economic Motives of Mutual Fund Investment**

The mutual fund industry has enjoyed substantial growth in terms of the assets under management as well as the investors' accounts. For many reasons that contributed to the growth of mutual fund industry, the fundamental one is the increasing complexity of modern investment. The number of securities available for investment has increased substantially. The varied and interrelated forces influence the prices of the securities and the technical and analytical study of securities' value made it difficult for the man of small means and limited knowledge to make sound and profitable investment decisions.

### **REVIEW OF LITERATURE**

**Ayaluru (2016)** - Reliance small-cap funds found to be at moderate risk with moderate return while Reliance Bank Fund found to be at high risk with high return. Tax-saving

schemes are suggested for low-risk takers who accept only normal returns. The paper concludes that an investor can choose any pattern of fund based on their risk-return performance. The researcher has taken 10 mutual fund schemes of Reliance Capital Ltd.

**Chander (2000)** – It was found that open-ended schemes, income funds, banks and UTI schemes generate a better average return in comparison to close-ended and balanced schemes. The volatility of these schemes is higher than market terms. Besides, fund managers had poor market timing abilities. Net asset value returns are superior in many samples and volatile than BSE SENSEX.

**Fama and French (1998)** – It examines that stock of values leads to higher returns than the stock of growth in the market. It concludes agonistic in regard to equilibrium asset pricing in a global market. According to Book-to-market equity, value stocks outperform growth stocks in twelve markets out of thirteen major markets during the period of 1975- 1955.

**Nair (2014)** - The paper supports that mutual funds is an important vehicle for the economic development of a country, as it mobilizes the scattered savings and the same in investment purpose for infrastructural developments. The asset management business houses have increased. Also, the role of banks and financial institutions are found to have a great role in influencing and channelizing mutual fund investment.

**Velmurugan and Anand (2015)** – The study examined the various factors affecting investment decision. Fund size and fund performance found to be most influential factor followed by fund type, scheme portfolio, fund manager reputation, past performance, grievance redress mechanism and smooth settlement, fund rating, the scope of growth and present market conditions.

**Zaheeruddin et. al, (2013)** – The paper compared the performance of equity funds of HDFC, Birla Sun Life, and ICICI, with S&P Nifty Index. Birla Sun Life mutual funds found to have high risk both in terms of company risk and market risk.

## **HISTORY OF GLOBAL MUTUAL FUND INDUSTRY**

The first Mutual fund in the world was “Socioete Generale de Belique” formed by king William of Netherland in 1822 at Brussels, which appears to be the first mutual fund. It was intended to facilitate small investments in foreign government loans, which then offered more security and returns than the home industry. Later on, another similar company was started with an objective to make co-operative investments, to protect investors against risk by wide undertakings, and to secure larger returns through investing in industries. Historically, mutual funds in UK and USA began as a private enterprise, known as an investment trust. An investment trust to be founded by a single individual, who used his financial abilities and judgment for the benefit of a group and who in turn for his advice and

counsel, was allowed to retain a percentage of profits made from the group's joint investments.

## **Mutual Fund Industry in India**

The mutual fund sector in India is guided professionally and ethically by AMFI (Association of Mutual Fund in India) with an objective to protect the interest of mutual fund investors. It was incorporated on 22nd August 1995, as a non-profit organization. All the 42 Asset management companies (AMC) that are registered with SEBI are members of AMFI. It has grouped the origin and development phases of Indian mutual fund industry in five stages.

- Stage I (1963-1987)
- Stage II (1987-1992)
- Stage III (1993-1996)
- Stage IV (2003-2014)
- Stage V (Since May 2014)

## **Comparison of mutual funds with other investment avenues**

There is a plethora of investment options in the modern financial system. Bank deposits, life insurance, pension & provident fund equities etc, are found to be major competitors of mutual fund. While making an investment, definitely an individual will look for the difference as a comparison between mutual funds with other investment avenues.

## **Organizational Structure of Mutual Fund**

Indian mutual fund sector is regulated by Securities and Exchange Board of India (SEBI). It prescribes a comprehensive set of guidelines through SEBI MF regulations 1996. It stipulates mutual fund into main 3 tier structure consisting sponsor, trustees, and Asset Management Company. But however, there are many parties who are involved in the organisation of mutual funds. The structure provides the duties and obligations of each party with inherent checks and balance so as to protect investor's interest. The diagram shows the organization structure of mutual funds facilitated by the following parties:

- Unitholder
- Sponsor
- Trustees
- AMC
- The mutual fund
- Custodian
- Registrar and Transfer agent

Besides, the regulatory authorities are –

- Securities and exchange board of India(SEBI)
- Association of mutual funds in India (AMFI)

### **Decision Making Parameters**

The various parameters that affect the decision making of investors in mutual fund industry can be categorized as:

1. Risk factor
2. Return factor
3. Liquidity factor
4. Consistency factor
5. Awareness factor

### **COMPARATIVE ANALYSIS OF SELECTED MUTUAL FUNDS**

Since the incorporation of UTI in 1963 by UTI Act in parliament, mutual fund sector started to be expanded its root in Indian financial market. There are total 44 AMCs in India until 2017. Out of these, 35 belong to the private sector. All AMCs are to be registered with SEBI and AMFI. In 1987, first public sector mutual fund emerged as SBI mutual fund. Kothari Pioneer was the first private sector mutual fund entered in 1993. However, it has merged with Franklin Templeton in 2002. These fund houses offer many ranges of mutual fund schemes so as to suit requirements of investors. The research has been conducted on the comparison of fund performance of four mutual fund houses on the basis of risk and return aspect. Those are SBI, LIC, ICICI and FRANKLIN TEMPLETON. Debt, equity and balanced schemes are judged for risk-return analysis. BSE Sensex has been taken as benchmark index and SBI fixed deposit average interest rates, of the study period, have been taken as a risk-free return.

#### **The company overview of the selected AMCs**

##### **a) SBI Funds Management Private Limited**

SBI Funds Management Private Limited is a privately owned investment manager. The firm also provides advisory services to its clients. It primarily provides its services to individuals, including high net worth individuals.

##### **b) LIC Mutual Fund Asset Management Limited**

LIC Mutual Fund Asset Management Limited (Formerly known as LIC Nomura Mutual Fund Asset Management Company Limited), is based in Indian origin. The principal activity of the Company is to act as an Investment management advisor to LIC Mutual Fund ('the Fund').

##### **c) ICICI Prudential Asset Management Company Limited**

ICICI Prudential Asset Management Company Ltd. is a leading asset management company (AMC) in the country focused on bridging the gap between savings & investments and creating long-term wealth for investors through a range of simple and relevant investment solutions.

**d) Franklin Templeton Asset Management (India) Private Limited**

Franklin Templeton Asset Management (India) Private Limited is a privately owned investment manager. The firm primarily caters to individuals and investment companies. It manages equity, fixed income, and balanced mutual funds for its clients.

**Table 1: Overview of Fund Schemes**

<b>AMCs</b>	<b>DEBT FUNDS</b>	<b>EQUITY FUNDS</b>	<b>BALANCED FUNDS</b>
SBI Funds Management Private Ltd.	SBI Magnum Gilt Long Term Plan- Growth	SBI Magnum Multicap Fund- Growth	SBI Magnum Balanced Fund - GROWTH
LIC Mutual Fund Asset Management Ltd.	LIC MF Bond Fund - Growth	LIC MF Equity Fund- Growth	LIC MF balanced fund - growth
ICICI Prudential Asset Management Company	ICICI Prudential Long Term Gilt Fund - Growth	ICICI Prudential Multicap Fund- Growth	ICICI Prudential Balanced Fund - Growth
Franklin Templeton Asset Management (India) Private Ltd.	Franklin India Govt. Sec. - Long Term Plan- Growth	Franklin India Flexi Cap Fund - Growth	Franklin India Balanced Growth Fund

Some basic information of the selected schemes

**RESEARCH METHODOLOGY**

Research methodology is the way to systematically and scientifically solve a research problem. The researcher investigates and examines the hypothesis, describes the result, predicts the research phenomena and presents the findings for future research in support of the research methodologies. Both secondary and primary data were collected for testing of the hypothesis. For secondary information on investors, the official records from the Mutual fund Agencies/Agents were obtained and verified. A purposive stratified random sampling method was adopted to select the investors/respondents invested in mutual funds. Secondary data has been collected by official websites of AMFI, SEBI, and BSE. Primary data has been collected from the respondents by interacting with them and by providing questionnaires.

## **PROBLEM OF THE STATEMENT**

India has been developing over the years to be an emerging worldwide attractive financial market from investment dimension. Along with, Indian mutual industry is making a mark on the global stage. ‘The industry has shown outstanding growth of 113% in assets since 2013 driving by strong inflows (62%) and market performance (50%). (Financial Express Bureau, Dec. 2013). At present, there are 44 active AUMs in Indian mutual fund sector with having total schemes of more than 2599 from all varieties of the fund like small-cap, mid-cap, large-cap, debt, equity, hybrid, etc. So many baskets to put eggs create confusion in the mind of general investors regarding the selection of fund house and collection of schemes. Also, despite the presence of so many AMCs, 80% of the inflows are in top 10 asset management companies in India. Thus, the correct decision making regarding selection becomes the chief and core problem for the investors.

## **NEED OF THE STUDY**

The due address to the complications in mutual fund industry has shown significant growth with its expansion. The study was conducted for the comparative analysis of selected mutual fund from the private sector and public sector. This study will help the common investors to understand the operation and performance of those fund houses which will guide them in their selection process. The paper includes a study of investor's perception and behavior towards mutual fund investment and will help the fund houses to know about their investors' feedback and opinion. Further, it will help them to operate with required adjustments and modifications for more investor satisfaction.

## **OBJECTIVES OF THE STUDY**

1. The investors' perception on selected mutual funds.
2. The effect of investors' demographic factors on investment behavior.
3. The investors' preference towards various alternatives for investment.
4. The attitude of investors' towards various benefits offered by mutual fund sector.
5. The satisfaction level of investors in different demographic characters.

## **LIMITATION OF THE STUDY**

The study has been conducted on limited areas of India. The study is surrounded by only three demographic characteristics such as age, gender and income level of investors. For comparative analysis, the researcher has taken only two fund houses from both public sector and private sector asset management companies. Many schemes are available by fund houses for the convenience of investors. But the study is limited with the comparison of debt funds, balanced funds, and equity funds.

## **CONCLUSIONS**

Mutual fund industry in India is emerging as a noticeable financial service which is consistently contributing to the Indian financial market to a large extent. Though it was established in India in 1963 by UTI, but the developments have been noticed in last few years only. General people take time to accept and adopt any new technology. Developing countries like India are much more rigid than developed countries in respect of technology and society. People were used to the traditional modes of investment. But gradually with the advent of modern financial aids, the establishment of regulatory authorities, government support and financial institution's initiatives, people are now accepting and tending towards mutual fund investment. The AUM value is increasing over years. Many AMC's were operating in present date. Even competitions among AMC's are becoming tougher than earlier. Mutual fund investment is becoming a competitor of traditional investment channels. In this changing scenario, it becomes very important to have an analysis of mutual fund performance and investors' feedback for its future growth and development. The constant reduction in interest rate and increase in inflation rate resulting in the reduced time value of money has deviated many investors from traditional modes to modern modes of investment. This is a good opportunity for the mutual fund industry to make their market share. A better service and good performance will definitely be helpful in attaining and retaining a large number of mutual fund investors.

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