

Mutual Funds- A Potential Avenue for Investment

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Abstract

Mutual funds are successfully mobilizing household savings to manage the funds efficiently so as to provide sufficient return to the investors. Although, the Indian mutual funds have to go a long way in its role play on launching more and more new schemes are aimed at meeting the varied needs of the investing public in order to mobilize more funds. As such launching new schemes serves the purpose only when such schemes have enables to mobilize more and more funds. However the industry is witnessing growth from last decade because of many reasons and meeting the requirements of all the income groups. In this backdrop present study is an attempt to analyze the growth rate and potentials of mutual fund industry and schemes under investment objectives. Further the study taken up to evaluate the factors that affects the investor's preference to invest in various schemes under mutual funds.

Key Words: Mutual Funds, Mobilizing Funds, Growth Rate

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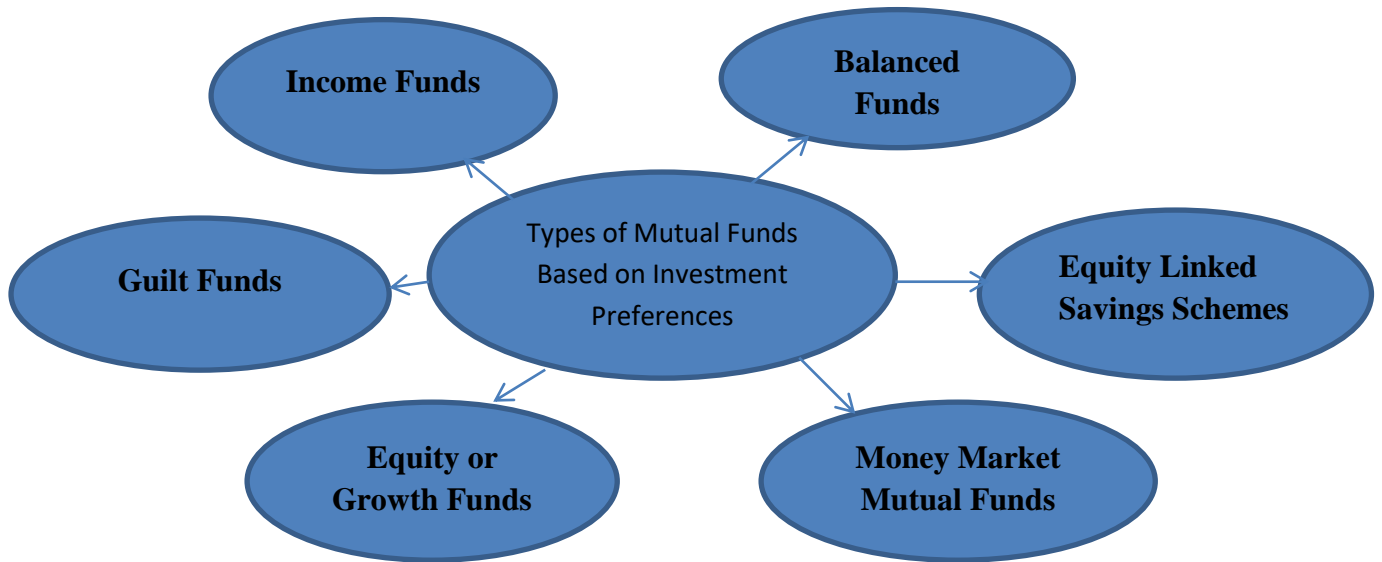
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1. Introduction:

Mutual Fund Industry showed the satisfactory growth over the past decade. Mutual Fund defined as an institutional investment vehicle through which customers pool their monetary resources towards the common objectives to spread the risk and to ensure steady return. After investing in mutual fund schemes, the investor need not bother about anything because mutual fund is a professionally managed investment option and also having the professional fund management teams that takes the responsibility of investing in stocks and shares after due analysis and research. Mutual fund is a generic term for various types of investment vehicles such as growth option, index funds, tax saving schemes, open-ended investment etc. At Present, there are 42 mutual funds players with several schemes and different options working in competitive market.

1.2 Figure Showing Types of Mutual Funds Schemes in India (Based on Investment)

Mutual Fund schemes are classified into following categories based on the investment preferences which are shown in the following figure.



2. Review of Earlier Work:

Mr. Deepak Agarwal (2011) in his study on ‘**Mutual Funds in India**’ have analyzed that mutual fund contributions to globalization of financial markets and is one among the main sources for capital formation in emerging economics. He analyzed the pricing mechanism of Indian Mutual fund industry in both the fund- manager and fund investor levels. In addition to the growth of mutual fund industry the study also analyzed the investor’s choices of

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different Mutual Fund schemes for investment. Finally the study concluded that most of the people who have their investments in mutual fund schemes are considers the factors like risk, returns and also liquidity.

Ravi Vyas and Suresh Chandra Month (2012) in their study on ‘**Perception and Behavior of Mutual Fund Investors in Madhya Pradesh**’ have highlighted that it is necessary to the mutual fund investors to develop the habit of increasing their savings regularly and to invest regularly in mutual funds so that their little savings can also grow in to big returns. And researcher have also suggested that today’s investment market is very volatile in nature therefore the fund manager should collect all possible information before making an investment. A careful and reasonable diversification of investment in Mutual fund should be done on the investor’s part to balance the risk involved in Investment.

Dr. S M Taqriq Zafar, Dr. D.S Chaubey, Syed Imran Nawa Ali (2018), in his study on ‘**A Study on Indian mutual funds equity diversified growth schemes and their performance evaluation**’ discussed that Indian mutual fund industry experienced tremendous growth with passing time and it is supported by increasing foreign participation. Also study identified that Mutual funds is a unique instrument especially for the beginners and also it will be a best tool for investment in future because of its unique advantages like professional management, diversification, economies of scale, liquidity etc.,

Edvin J Elton, Martin J Gruber and Christopher R Blake, (1996) in their study on ‘**The persistence of risk adjusted Mutual fund performance**’ have investigated that for the predictability of growth and performance of mutual funds, fund managers are using risk adjusted returns methods which focuses on modern portfolio theory techniques. Further upcoming risk of mutual funds can also identified by this. Finally the study concluded that on the basis of present performance of mutual funds schemes the future performance and risk can be ascertained, successful funds do not increase their fees composed to less successful funds.

Nicolas P B Bollen (2006), in their study on ‘**Mutual fund attributes and investors behavior**’ proved that investors are very dynamic and sensitive and emotional towards socially responsible funds than conventional. The study also focused on Risk exploration and volatility of monthly flows is also taken into consideration. Finally the study concluded that the investors give much preference to SR funds as they appear to derive utility from being exposed to SR Attribute and SR funds derive positive results.

3. Need for the study

The present study is found to be significant as it has been observed that from the past 16 years the schemes of Mutual funds was preferred among investors and this study is an attempt to evaluate the significance of these schemes in generating positive net investment on their returns. Further the study proved the present status of the schemes in the minds of investors as a potential avenue for investment

4. Objectives of the Study

1. To analyze the growth and development of Mutual Fund industry and its schemes in India.
2. To know the various factors that may affect selection of mutual fund schemes among the investors.
3. To study the relationship between AUM and the investors preference of different schemes of mutual fund schemes in India

4. Hypothesis tested

H₀: There is no significant relationship between Asset under Management and investors preference in different schemes of Mutual Fund

H₁: There is a significant relationship between Asset under Management and investors preference in different schemes of Mutual Fund

5. Research Design:

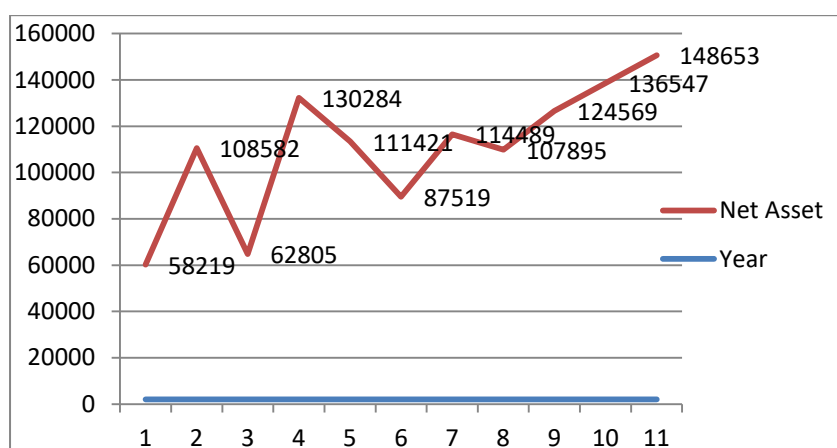
The study is analytical in nature. The scope of the present study is confined to the growth and development of mutual fund schemes under investment preferences in India. The required primary data is collected from 200 investors of different types like Government employees, Private Employees, Self-employed, House wives and students of different income groups in Bangalore City, convenience sampling technique is adopted to collect the required data. Secondary data for the study is collected through published sources like Journals, Books and e-sources. Moreover to analyze the descriptive data simple frequency and percentage methods are used further to prove the set hypothesis Rank Co-relation and t-test has been used.

6. Results and Discussions

Results and discussions are made on the basis of primary and secondary data which have been collected from various sources. And those data are presented in the following tables followed by analysis and interpretation.

Table and Chart: 6.1 Growth of Total Net Assets of Mutual Funds in India

Sl.No	Year	Net Asset
1	2006	58219
2	2007	108582
3	2008	62805
4	2009	130284
5	2010	111421
6	2011	87519
7	2012	114489
8	2013	107895
9	2014	124569
10	2015	136547
11	2016	148653



Source: Investment Company Institute Facts and figures

Interpretation: From the above table and chart 6.1 it can be observed that total net assets of mutual funds in India is increasing year by year till 2010. In the year 2011 it is quite decreased. But after that from the year 2012 total assets of mutual funds are increasing year by year. This is because of many reasons like growth opportunities, growing awareness in the minds of the investors, liquidity and diversified schemes. Moreover both public and private financial institutions are offering variety of schemes to the different income groups. But in the year 2011 the growth is reduced, global financial crunch was also one of the reasons for that. Further in order to analyze the growth potentials of mutual fund schemes, growth rate of different types of mutual funds are also analyzed in the following table followed by analysis.

Table 6.2: Share of different schemes in Asset under Management of the mutual fund industry in (crores) (Growth Rate)

Scheme Year	Income Funds	Balanced Funds	EISS	Money Market	Equity or Growth Funds	Guilt Funds
2001	48863 (54%)	19273 (21%)	2523 (03%)	4128 (4.5%)	13483 (15%)	2317 (2.5%)
2002	55788 (-55%)	16954 (17%)	1768 (1.7%)	8069 (8.2%)	13852 (14%)	4163 (4.1%)
2003	47564 (59.8%)	3141 (4%)	1228 (1.5%)	13734 (7.3%)	9887 (12.4%)	3910 (5%)
2004	62524 (45%)	4080 (03%)	1669 (1.2%)	41704 (29.8%)	23613 (17%)	6026 (0.4%)
2005	47605 (32%)	4867 (3%)	1727 (1%)	54068 (36%)	36757 (25%)	4576 (3%)
2006	60278 (26%)	7493 (3%)	6589 (3%)	61500 (27%)	92867 (40%)	3135 (1%)
2007	119322 (36%)	9110 (3%)	10211 (3%)	72006 (22%)	113386 (35%)	2257 (1%)
2008	220762 (44%)	16283 (3%)	16020 (3%)	89402 (17%)	156722 (31%)	2833 (1%)
2009	197343 (47%)	10629 (3%)	12427 (3%)	90594 (22%)	95817 (23%)	6413 (1.3%)
2010	311715 (-51%)	17246 (-3%)	24066 (-4%)	78094 (-13%)	174054 (-28%)	3395 (-1%)
2011	291975 (49%)	18445 (3%)	25569 (4%)	73666 (13%)	169754 (29%)	3409 (1%)
2012	290844 (-50%)	16261 (-3%)	23644 (-4%)	80354 (-14%)	158432 (27%)	3659 (0.62%)
2013	395985 (57%)	16307 (2%)	22731 (4%)	93392 (13%)	149777 (22%)	8074 (1.15%)
2014	460671 (-56%)	16793 (-2%)	22547 (-3%)	133280 (-16%)	165560 (-20%)	6115 (0.74%)
2015	515773 (48%)	26368 (2%)	39470 (4%)	162562 (15%)	305669 (28%)	14614 (1%)

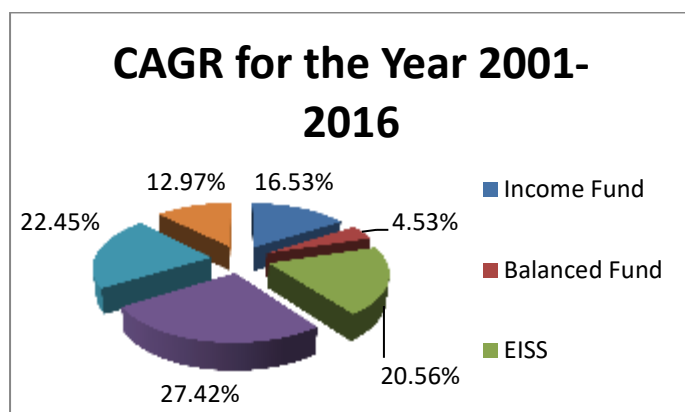
	565459	39146	41696	199404	344707	16306
2016	(-46%)	(-3%)	(-4%)	(-16%)	(-28%)	(-1%)
CAGR	16.53%	4.53%	20.56%	27.42%	22.45%	12.97%

Source: www.amfiindia.com (Data Relating to Every Year end March)

Schemes	CAGR for the Year 2001-2016
Income Fund	16.53%
Balanced Fund	4.53%
EISS	20.56%
Money Market Funds	27.42%
Equity Funds	22.45%
Guilt Funds	12.97%

Interpretation: The above Table 6.2 highlights the share of different schemes in AUM of the mutual fund industry. Table indicates that over the years, income and growth oriented funds are the investor’s first choice. The figures shows that the share of GILT Schemes (Debt Funds) in total AUM has decreased from 2003 to 2006 and the same time figures showed that growth funds (Equity Funds) enjoyed increased share in total AUM. But later on trend changed in favor of debt funds. Due to less risky nature of Debt funds, their growth was not bounded in comparison to Equity funds.

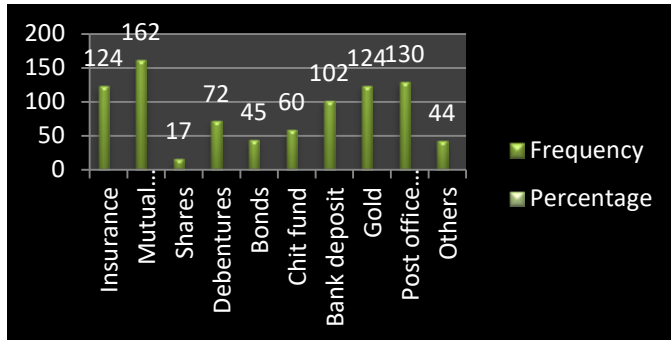
Table and Chart 6.3: Growth of CAGR of different schemes in Asset under Management of the mutual Industry under different schemes



Interpretation: From the above table 6.3 it becomes obvious that the growth rate of capital asset gearing ratio of Money market mutual fund is very high (27.42%) when compared to other schemes and equity funds (22.45%) are also experienced tremendous growth followed by Equity linked savings schemes (20.56%). Remaining schemes are quite good in growth

rate. This may be because the investors are ready to invest in these types of the schemes by taking high risk, whereas these funds can able to fetch high returns.

Table and Chart 6.4: Most preferred investment avenues by the respondents

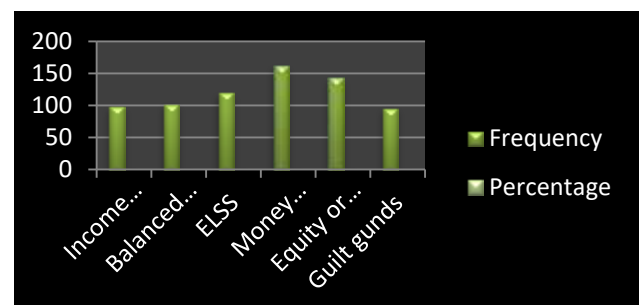


Reference: Survey data

Interpretation: From the above table and chart 6.4 it can be observed that among the available investment avenues **81%** of the respondents prefer mutual funds for their investments, followed by bank deposits, insurance, gold and post office savings schemes. But shares, debentures and chit funds are preferred by very less investors in the study area. Moreover investors invest in different type of mutual fund schemes offered by public and private sector financial institutions. Most preferred types of mutual fund scheme by the investors is presented in the below table followed by the analysis.

Table and Chart 6.5: Most preferred Mutual Fund Schemes by the respondents

Investment avenues	Frequency	Percentage
Insurance	124	62%
Mutual Funds	162	81%
Shares	17	8.50%
Debentures	72	36%
Bonds	45	22.50%
Chit fund	60	30%
Bank deposit	102	51%
Gold	124	62%
Post office schemes	130	65%
Others	44	22%



Source: Survey data

Interpretation: From the above table and chart 6.5 it is interpreted that in the

different schemes under mutual fund investment, 81% of the respondents prefer to invest in money market mutual funds as they can fetch high returns in long run, followed by Equity or growth funds and Equity linked savings schemes all other schemes are preferred by very less number of investors as they have less potential for growth and returns but less risk. The reasons behind these preferences are exhibited in the following table with analysis.

Table 6.6: Reasons for preferring available schemes of mutual funds

Reasons	Income Fund	Balanced Fund	ELSS	Money market mutual fund	Equity or growth funds	Guilt funds
Low risk	40	87	76	70	80	70
Liquidity	44	100	124	133	120	70
Low investment	17	23	23	73	43	67
High Returns	44	74	76	142	76	73
Safety	53	74	74	100	82	73

Source: Survey data

Interpretation: From the above table and chart 6.6 it is observed that investors prefer Money Market Mutual Funds for the reason of liquidity and high returns, they prefer equity or growth funds liquidity safety and low risk, and they prefer ELSS for liquidity and high returns. All other type of funds is also preferred for the other reasons like low investment, safety and low risk.

Table 6.7: Asset under Management in different type of schemes of Mutual Funds and investors preferences

Mutual Schemes	Fund	CAGR from the year 2001 to 2016		Investors preference	
		Percentage	Rank	Percentage	Rank
Income Fund		16.53	4	48%	5
Balanced Fund		4.53	6	46%	4
ELSS		20.56	3	60%	3
Money market mutual fund		27.42	1	81%	1

Equity or growth fund	22.45	2	71.50%	2
Guilt Funds	12.97	5	47%	6
Spearman's Rank Co-relation				0.83

From the above table 6.7 it can be concluded that

01. Most (81%) of the respondents have their investment in Money market Mutual Fund at the same time if the CAGR is considered there also 27.42% of the Asset under management is for this schemes only.
02. 71.50% of the respondents have their investment in Equity or growth funds and the Asset under Management is 22.45%.
03. 60% of the respondents have their investment in ELSS and 20.56% of the Asset under Management is in this scheme.
04. The reason behind this is the above schemes have growth opportunities, High returns and also liquidity.
05. Finally Rank Correlation says that there is a positive correlation between Asset under Management in different schemes of mutual funds and investor's preference.

With an objective to further prove these arguments and test the following hypothesis Rank Co-relation and t- test is used;

H₀ = There is an insignificant relationship between Asset under Management and investors preference in different schemes of Mutual Fund

H₁ = There is a significant relationship between Asset under Management and investors preference in different schemes of Mutual Fund

$$\text{Test Statistic: } t = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}}$$

Tested at 5% significance level the degrees of freedom is $(n-1) = (6-1) = 5$.

For 5 def. the table value is 0.73

Between the Ranking for CAGR from 2001 to 2016 for Asset under Management in different schemes of Mutual funds and Investors preference.

$$t = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}}$$

$$t = \frac{0.83\sqrt{6-2}}{\sqrt{1-(0.81)^2}}$$

$$t = 2.98$$

$$t_{0.05} = 0.73$$

From the above calculations it is clear that the table value is less than the calculated value. Hence the null hypothesis stands rejected and alternate hypothesis is accepted. Therefore it can be concluded that there is a significant relationship between Asset under Management and investors preference in different schemes of Mutual Fund

7. Conclusion:

The Indian mutual fund industry has come a long way since its inception in 1963. The industry has witnessed satisfactory growth from all the parameters like number of fund houses, fund mobilized, assets under management etc. The fund industry in the beginning consisted of UTI mutual fund only, but today the industry is widened to all the three sectors viz. public sector, private sector and foreign fund houses. Moreover the mutual fund industry has recorded significant progress on all fronts. Presently the investors are preferred to invest in various types of mutual fund schemes by considering its growth potentials and other benefits like liquidity, returns and safety. The present study proved that the investors prefer Money Market Mutual funds and Equity Funds, because they feel that these schemes are potential to fulfill the needs like high returns and also liquidity. This can be considered as supportive to the secondary data, since the analysis of secondary data says that AUM is more under these two schemes. Hence it is concluded that though the Mutual Fund industry is having more growth opportunities yet it has not been able to utilize its potential fully under all the schemes. Therefor to overcome from this challenge the Fund Manager need to concentrate on fulfilling the needs and requirements of the investors under all the schemes. However in order to utilize the full potential of the industry the people need to educate about the schemes offered by different companies and their growth and benefit opportunities. The

study also evident that from past 16 years AUM in the Mutual Funds under different schemes are increasing that is a positive sign and suggested to small investors to invest in MF's.

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