



## A Comparative Study on Public and Private Sector Mutual Funds in India

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### Abstract:

*The SEBI regulations, 1993 defines a mutual fund as “a fund in the form of a trust by a sponsor, to raise money by the trustees through the sale of units to the public, under one or more schemes, for investing in securities in accordance with these regulations”*

*Indian Mutual Fund (MF) industry provides reasonable options for an ordinary man to invest in the share market. The plethora of schemes provides variety of options to suit the individual objectives whatever their age, financial position, risk tolerance and return expectations. In the past few years, we had seen a dramatic growth of the Indian MF industry with many private players bringing global expertise to the Indian MF industry. Investment in mutual funds is effected by the perception of the investors. Financial markets are constantly becoming more efficient by providing more promising solutions to the investors. Being a part of financial markets although mutual funds industry is responding very fast by understanding the dynamics of investor’s perception towards rewards, still they are continuously following this race in their endeavour to differentiate their products responding to sudden changes in the economy. Therefore a need is there to study investor’s perception regarding the mutual funds. The study at first tests whether there is any relation between demographic profile of the investor and selection of mutual fund alternative from among public sector and private sector. For the purpose of analysis perceptions of selected investors from public and private sector mutual funds are taken into consideration. The major factors influencing the investors of public and private sectors mutual funds are identified. The factors under consideration to compare between perceptions of public and private sector mutual fund investors are Liquidity, Security, Flexibility, Management fee, Service Quality, Transparency, Returns and Tax benefits.*

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**Keywords:** Capital Market, Demographic flexibility, Financial markets, Growth Funds, Market Indices, Mutual fund, Mutual fund industry invest, Risk-return, Sharp ratio

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### 1. Introduction

Many of the investors across the world become billionaire within a short span of time by investing in share market, at the same time some investors lost amount in the same market also. In the year 1992, 2001 and 2008 report reveals, few investors lost their wealth and some of them committed suicide because of share market scandals. The famous investor Mr. Warren Buffet became the richest person because of his wise investment strategies; however it is not an alternative way to make money as it has huge amount of risk. An investor has various investment options like debentures, shares, bank deposits, real estate’s etc. but choice of option is very essential. Mutual funds give higher returns because of professional management of fund.

Mutual funds are recognized as a mechanism of pooling together the investment of unsophisticated investors and turn in the hands of professionally managed fund managers for consistent return along-with capital appreciation. Money collected in this process is then invested in capital market instrument such as shares, debentures and other securities. Finally, unit holders

in proportion of units owned by them share the income earned through these investments and capital appreciation. Mutual funds put forward a way out to investors to approach most schemes and get well-diversified portfolio because investors with small savings neither have sufficient expertise nor have access to required diversification.

## 2. Objectives of the Study

The study has been undertaken with the Following objectives.

1. To test whether the choice of public and private sector mutual funds is independent of demographic profile.
2. To identify the factors affecting investors' perception and the choice of public and private sector mutual funds.

## 3. Equity Index Fund

Equity Index Fund is the fund where the investment is made in equity market index like Sensex and Nifty. Value may differ from scheme to scheme due to differential NAV reporting period. For the purpose of study, 10 index funds are taken from different AMCs and compared with their benchmark indexes. HDFC Index Sensex plus Plan and ICICI Prudential Index Nifty Plan have given 37.88% and 26.73% respectively which shows the efficiency of the fund for the last five years. LICMF Index Fund Sensex Advantage Plan and HDFC Index Sensex Plan have given negative returns for the same.

The correlation of mutual fund with NAVs it is almost nearer to 1, but in terms of returns mutual funds have given higher returns. So it seems that, investment in mutual fund is quite sensible than direct capital market, not only because of return but also for risk diversification, professional management and other benefits. When we compare the investment in mutual fund and stock market, generally risk and return will be kept in mind. Investment in stock market has enormous risk and expected return is also more. However, the mutual fund overcomes the negative aspects of stock market like risk and uncertainty of return. Market over performed in some cases and in other cases mutual fund performance is quite more than market performance. So overall conclusion can be drawn based as on the above exhibits and diagram, investment in mutual fund is quite good compared to direct capital market as it gives higher return at moderate risk.

## 4. Findings and Important

The mutual funds industry has grown by leaps and bounds in last couple of years. Following the strengthening of regulatory framework there is now greater transparency and credibility in the functioning of mutual funds and has been successful in regaining investor's faith. But to sustain the momentum it should start focusing on the areas where greater accountability and transparency could propel the industry towards a new growth trajectory.

As of now big challenge for the mutual fund industry is to mount on investor awareness and to spread further to the semi-urban and rural areas. These initiatives would help towards making the Indian mutual fund industry more vibrant and competitive. To make this happen it calls for a greater role not only part of the regulator but also on industry and distributors and ensure that investor confidence is maintained through consistent performance and best business practices. In this context, the need of study has been aroused in order to see the preference, awareness and the investors' perception regarding the mutual funds in public and private sectors.

The study shows the performance of top five growth funds and 10 index funds along with their correlation with Sensex and Nifty, thus correlation is almost perfect positive in many of the cases, but the percentage change in the schemes for years is different with market indices. This is

happened because of fund allocation with different sources. So it shows clearly that, mutual funds are performing better than stock market.

It is observed from exhibit 6 that, mutual funds have yielded higher returns and grown at faster rate than market indices. ICICI Prudential Discovery, Tax Plan, Principal Funds have given around 150% return/change whereas market indices or benchmark has not been changed at the same rate. Reliance Vision, HDFC Top-200 and most of the growth funds have given around 100% return. So it shows clearly that, investment in mutual fund is quite better.

## 5. UTI Mutual Fund

UTI Mutual Fund aims to deliver consistent and stable returns in the medium to long term. With a fairly lower volatility of fund returns, compared to the broad market. January 14, 2003 is when UTI Mutual Fund started to pave its path following the vision of UTI Asset Management Co. Ltd. The principal investment objective is to provide long term capital appreciation through investment in the securities market in India.

**Table 1: Fund Features**

<b>Type of Scheme</b>	<b>Open Ended</b>
Nature	Equity
Option	Growth
Inception Date	Jan 11, 1993
Face Value (Rs/Unit)	10
Fund Size in Rs. Cr.	71.26 as on Jan 31, 2013

## 6. Conclusion

Mutual fund towers over the other investment alternatives. Investors usually get confusion while investing as he has plenty of opportunities like stock market, mutual fund, provident fund, real estates, etc. the mutual fund is proved to be a safer mode of investment and has been giving good returns compared to other investments and it is highly cost efficient and very easy to invest in, however it has got same kind of risk like direct capital market.

Therefore, the investors have to think and choose the best alternative of investment. In case of mutual funds, the scheme which matches the need and objective of investors is very much essential to think. Longer the term of investment in mutual fund will give higher the return.

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