MUTUAL FUNDS: INVESTORS' PERCEPTION IN INDIA (WITH REFERENCE TO BELLARY CITY)

Mr. Megharaja .B*

Abstract

Mutual funds is most important avenue of investment, it will minimizing risk and maximizing return along wealth maximization avenues for savers in India. Some of avenues are marketable and liquid while others are almost riskless. Some of the avenues are highly risky some of avenues are riskless. Investor has to choose proper avenues on his preference, needs and ability to assume risk. Mutual fund also one important component of those avenues. Mutual funds offer various investment schemes to investors. The paper need to know the investors' perceptions to words mutual fund in India. Here researcher has taken limited area to know the perception of investors on mutual funds in Bellary district, while know the perception of investors has collected primary and secondary data for analyzing.

Key words: - origin, survey, and interpretation.

* Assistant Professor, Deptt. Of Studies & Research in Commerce, Vijayanagara Sri Krishnadevaraya University, P.G.Centre, Nandihalli, Sandur, Bellary

Introduction

Indian mutual funds' industry has undergone significant changes during the last decade. Any developing nation needs to provide the required capital for the developmental projects. A mutual fund is a form of capital market investment instrument which accumulates the savings of the people and provides an opportunity for the investment. Of late, mutual funds have become a hot favorite of millions of people all over India. The driving force of mutual funds is the safety of the principal guaranteed, plus the added advantage of capital appreciation together with the income earned in the form of interest or dividend. Thus mutual funds act as a gateway to enter into big companies hitherto inaccessible to an ordinary investor with his small investment. A mutual fund collects the savings from small investors, invest them in Government and other corporate securities and earn income through interest and dividends, besides capital gains. It works on the principle of small drops of water make a big ocean. Hence, a mutual fund is nothing but a form of collective investment. It is a group of various investors coming together who transfer their surplus funds to a professionally qualified organization i.e. Asset Management Company (AMC) to manage it. To get the surplus funds from the investors, the fund adopts a simple technique. Each fund is divided into a small fraction called units of equal value. Each investor is allocated units in the proportion to the size of his investment. Thus, every investor, whether big or small, will have a stake in the fund and can enjoy the wide portfolio of the investment held by the fund. Hence, mutual funds enable millions of small and large investors to participate in and derive the benefit of the capital market growth. It has emerged as a popular vehicle of creation of wealth due to high return, lower cost and diversified risk. The Securities and Exchange Board of India (Mutual Funds) Regulations, 1993 defines a mutual fund as a fund established 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.

Origin of Mutual Funds:

The origin of the concept of mutual fund dates back to the very dawn of commercial history. It is said that Egyptians and Phoenicians sold their shares in vessels and caravans with a view to spreading the risk attached with these risky ventures. However, the real credit of introducing the modern concept of mutual fund goes to the Foreign and Colonial Government Trust of London

Established in 1868. Thereafter, a large number of close-ended mutual funds were formed in the U.S.A. In 1930, many countries in Europe, the Far East and Latin America followed mutual funds. In most of the countries, both open and close-ended types were popular.

Evolution of Mutual Funds in India:

In India, it gained momentum only in 1980, though it began in the year 1964 with the Unit Trust of India launching its first fund, the U S-64. Although the UTI has operated a number of schemes linked to insurance and gifts, and some tax benefits, income declared by it to unit holders is not subject to any tax deduction at source and is exempted from income tax up to a limit. UTI was the monopoly player in the field until 1987. Since 1995-96, there is a TDS, if the annual income is more than Rs. 10,000. Various Mutual Funds have been set up since 1987 by the public sector banks following an amendment to the Banking Regulation Act in 1983, which empowered the RBI to permit the banks to carry on non-banking business such as leasing, mutual funds, etc. under section 6 of this act. Since then, the SBI, Canara Bank, Punjab National Bank and some other nationalized banks have set up their own mutual funds. The business of mutual funds has caught the imagination of the financial community and is growing at a rapid pace in India.

History:

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank. The history of mutual funds in India can be broadly divided into Four Distinct
Phases.

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 U S-64.

Second Phase - 1987-1993:

(Entry of Public Sector Funds) 1987 marked the entry of non- UTI, public sector banks, Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) to set up their mutual funds. SBI Mutual Fund was the first non- UTI Mutual Fund established in June 1987 followed by LIC, which established its mutual fund in June 1989 while
GIC had set up its mutual fund in December 1990.

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 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.

Fourth Phase since February 2003:

In February 2003, following the repeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs.29, 835 crores as at the end of January 2003, representing broadly, the assets of U S- 64 schemes, Assured return and certain other schemes.

The Specified Undertaking of Unit Trust of India, functioning under an administrator and governed by 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 assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations. Recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth. Apparently MFIs in India has undergone significant structural changes during the last four decades.

Objectives of the Study:

The overall objective of this study is to analyze the investors' perception regarding mutual funds in Bellary city.

1. To know the role of education, income and age in investors' perception regarding investment.
2. To examine the judgment, preferences and decision of investors of mutual funds.
3. To study the awareness of sample respondents about market risk and investment experiences.

Research Methodology: For the purpose of collecting necessary primary data, a questionnaire was designed and a survey was conducted over a sample of 100 mutual fund investors based in Bellary city .The convenience sampling has been used for the purpose. However, the study suffers from the following limitations. Respondents are generally reluctant to openly provide the necessary data, more so in the matters of income and investment size.

The geographical area is limited to the Bellary city and the respondents were selected by adopting convenience sampling method. Size of sampling (100) is very small as compared to the population of the mutual fund investors. Therefore inferences drawn may not be representative.

There can be many interpretation and explanations to the data collected. The research provides the explanation as understood by the researcher only.

Result of the survey:

Table -1: Demographic Features of Mutual Fund Investments by Respondents

Variable	No. of respondents (100)	% of respondents
1.**Age**		
Below 25 years	06	6%
25-50 years	81	81%
Above 50 years	13	13%
2.**Income**		
Rs. 10,000-40,000	60	60%
Rs.40,0000-50,000	30	30%
Above Rs. 50,000	10	10%
3.**Profession**		
Service class	50	50%
Business Class	30	30%

Professional class	20	20%

Source: Primary data

In above table 30 per cent of the target population included business class, 50 per cent service class and the remaining 20 per cent were professionals who have invested in mutual funds. Nearly fourth-fifth of the target population is in the age group of 25 to 50 years of age. 6 pre cent of respondents ate below 25years, remaining above 50 years. of the target population was above 50 years of age. Furthermore, 30 per cent of the investors fall between the incomes group of Rs. 40,000 to 50,000; 10 per cent in above 50,000 income class. Majority of the investors (60 per cent) fall between the income groups of Rs.10, 000 to 40,000 per month. None of the respondent earns less than Rs.10 thousand per month.

Table -2: Features of Mutual Fund Investments by Respondents

Variable	**No. of respondents (100)**	**% of respondents**
1.Entry period of investors		
Before 1987	02	02
During 1987-97	21	21
During 1997-07	43	43
After 2007	34	34
2.**Categorical classification of investors**		
UTI	41	41
Public sector banks and FIs	21	21
Insurance Corporation	12	12
PrivateMutual Funds	26	26
3.**Nature of mutual Fund scheme invested**		
Open-ended scheme	42	42
Close-ended scheme	37	37
Combination of both	21	21
4.**Type of Mutual Fund scheme invested**		
Growth Scheme	14	14
Income Scheme	13	13

Balanced Scheme Tax Savings Scheme Money Market Scheme Sector Specific and Index Funds	10 58 04 01	10 58 04 01
5.**Objectives of Mutual Fund Investment** High Returns of at commensurate risk. Average returns at low risk. Avail tax benefits. Any other.	 18 25 38 19	 18 25 38 19
6.**Average time horizon of investment** > 1 year Between 1-3 years Betweeen3-5 years <5 years	 03 21 57 19	 03 21 57 19

Source: Primary data

Period –Wise Entry into Mutual Investment: 21% of respondents had invested in mutual funds after mutual funds industry opened for the private sector. There were only about 2% respondents who had invested in mutual funds i.e. period when only UTI was comprising the entire industry.1987-97 period noticed drastic change in the investment of mutual funds when public sector banks were allowed for engaging business in mutual funds. About 21% of respondents invested in mutual funds. It clearly indicates that major shift is taken place after the entry of public and private sector.

Categorical Classification of Mutual Fund Investors:

Mutual fund industry in India is broadly classified into four categories viz., UTI, public sector banks, Insurance Corporation, and private mutual funds. Most of the investors preferred UTI (41%).Private mutual funds and public sector banks and FIs have shared 26% and 21 % respectively. Insurance corporation share is 12%.It clearly shows the preference of investors is shifting towards non-UTI mutual funds.

Nature of Mutual Fund Scheme Invested:

Investors preference is towards open- ended scheme (42%), followed by close-ended scheme (37%) And combination of both (21%).Respondents' trend shows that they have reserved the option open for entry and exit of fund as and when required. Close –ended fund is imposing some conditions entry and exit from fund. So, remaining investors preferred combination of both.

Type of Mutual Fund Scheme Invested:

Tax saving schemes are generally growth oriented and to get the benefit of stock market. Such funds are yielding double benefits to investors i.e., tax savings and gains from stock market. It may be a driving force for selecting this scheme for investment by 58.33% investors. Remaining investors preferred growth scheme (14%), income scheme (13%), balanced scheme (10%) and others have least importance for respondents.

Objectives of Mutual Fund Investment:

Investors not interested to take more risk in mutual funds' investment and they expressed to have tax benefits. Therefore, 38% investors are preferred to avail tax benefits.25% of respondents have the objective of having average returns at low risk.18% of respondents marked the objective of earning very high returns at commensurate risk. It shows that investors interested to earn more return on investments are, normally not interested to invest in mutual funds. Any other objective investors' proportion is very small comparing to remaining objectives.

Average Time Horizon of Investment:

Majority of respondents i.e., 58%, preferred to retain mutual funds for the period of 3-5 years and percentage of investors who willing to retain funds for the period of 1-3 years is 21%.Less than one year investors percentage is 3% and investors who prefer to retain funds more than 5 years is 19%.It clearly indicates that the most of the mutual fund investors are medium term investors investing on an average 4 years.

Short-term investors are not investing in mutual funds. One reason for this trend might be that there is a lock in period of 3 years in tax planning schemes and as shown earlier a majority of investors from sample of 100 have invested in tax planning schemes.

Conclusion:

The study was undertaken to know the investors perception of mutual funds in Bellary city. Comparing to professional investors service class investors are investing more in mutual funds. Three-fourth of investors is in the age group of 25- 50 years and majority of investors are in the less income group. Although, most of the investors prefer UTI schemes, the proportion of investment is increasing in private mutual funds. Tax benefit is main driving force for investments. Investors are not ready to take more risk in mutual funds. Open-ended schemes are preferred by investors. It is concluded that there is a lot of scope for the improvement of sales of mutual funds wooing the investors if they convinced that it is less risky and yielding more return on investments in short time with diversified funds.

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