Chapter-VI

CONCLUSION

The Indian mutual funds industry, which began its journey with the establishment of the Unit Trust of India in 1964, has witnessed modest growth in the recent years. There has been growth both in terms of AUM as well as the variety of products offered. As on December, 2015, the investors in India have an option to choose from more than a thousand of mutual funds schemes spread across 44 fund houses with a total AUM value of ₹13.46 lakh crores. The entry of foreign players has led to the introduction of a variety of innovative products to suit the growing needs of the Indian investors.

On the regulatory front, the notable developments include, among others, the establishment of SEBI in 1992 and the enactment of SEBI (Mutual Funds) Regulations, 1996. The banning of entry load, the introduction of de-mat platform, and direct transaction channels and the increased emphasis on disclosure requirements have brought in changes in the functioning of the fund houses.

However, despite the impressive growth, there still exist some crucial challenges. Low customer awareness levels and financial literacy pose a great hurdle. The industry has limited penetration beyond the top 15 cities in India. Moreover, the participation in the mutual funds industry remains skewed towards the corporate sector, meaning thereby relatively low participation by the retail sector.

The objectives of the enquiry were: firstly, to delineate the trend of growth of the Mutual Funds industry in India during the period from 2004-05 to 2014-15; secondly, to examine the performance of the fund houses in terms of select parameters; thirdly, to assess the disclosure practices of the fund houses against the statutory disclosure requirements; and finally, to find whether any association exist between the performance of the fund houses and their disclosure levels.

In the paragraphs that follow, the study's observations are summed up.

GROWTH OVERVIEW

1. The combined average asset under management of 43 asset management companies operating in India, which are categorised as Bank sponsored, Institution and Private Sector, was found to be ₹11,88,690 crores, as on 31st March, 2015. Fund houses belonging to private sector owned a share of more than 80 per cent to the total AAUM. Top five AMCs, as per their share of AAUM, were HDFC Asset Management Company Limited, ICICI Prudential Asset Management Companies Limited, Reliance Capital Asset management Limited, Birla Sun Life Asset Management Company Limited and UTI Asset Management Company Limited. More than 55 percent of the total AAUM was found to be managed by these top five AMCs. There were twenty five AMCs whose share to total AAUM was less than one per cent. Shriram Asset Management Company was found to be the smallest mutual fund by the size of AAUM.

2. During the period of 2004 to 2015, the mutual fund industry worldwide grew by 130 per cent in net assets, while the same was found to be 119 per cent for US and 136 per cent for Europe. India recorded an increase of 412 per cent in net assets during the same period. The Indian mutual fund industry maintained a growth of 107 per cent in net assets during the post financial crisis period while the worldwide growth rate was found to be 32 per cent and

that of Americas, US and Europe grew by 26 per cent, 24 per cent and 42 per cent respectively.

3. However, the combined shares of Indian fund houses in world's total assets under management were found to be minuscule. While the United Sates alone accounted for more than half of the world's total assets under management with Europe with a 34 per cent share occupying the second position, India's share was found to be less than one per cent of the total assets under management worldwide.

4. In terms of percentage, India in recent years could register somewhat impressive growth in sales. During 2005, for instance, the sales in Americas increased by 154 per cent and that of US and Europe increased by 166 per cent and 65 per cent respectively, in India, the growth of net sales was around 1354 per cent. The trend continued to follow in subsequent years. The seemingly high growth in percentage terms obviously resulted from the initial low base of operation of the industry.

5. The growth of AUM reflected an overall upward trend during the entire period of the study growing with an average growth rate of almost 23 per cent. The highest growth in AUM during the whole period of the study was recorded at almost 54 per cent during 2007-08 and the lowest (-17 per cent) during 2008-09. The AUM grew consistently during 2004-05 to 2007-08 registering an average growth rate of almost 40 per cent, which declined to 13 per cent during the post financial crisis period.

6. Income funds grabbed the highest share of the AUM-pie starting from 32 per cent during 2004-05 to 48 per cent at the end of March, 2015. The category had its largest share of 56 per cent of total AUM during 2012-13 to 2013-14. Growth fund occupied the second position, the share of which ranged between 20-40 per cent during 2005 to 2015. The largest share of 40 per cent was recorded during the FY-2006 while the lowest was found to be during

2013-14. Among the other categories, liquid funds which had the largest share during 2004-05, experienced gradual decline in its share of AUM and was lowest during 2010-11. Though, it recovered to some extent to grab a share of 15 per cent at the end-March, 2015. Funds under balanced and ELSS category performed relatively poor and their share to total AUM during the entire period of the study remained very low.

7. Equity mutual funds exhibited modest growth between March, 2005 and 2008 during which the net inflow to these funds increased from ₹7,000 crores to over ₹40,000 crores. During the period of the poor performance of the Indian stock market, i.e., between January, 2008 and March, 2009, the inflow to equity schemes suffered a lot, which did not show any sign of improvement, even when Sensex increased form 8000 points during March, 2009 to 29000 points during March, 2015. However, at the end of March, 2015 the equity inflow recovered sufficiently to register a growth of 900 percent over the previous year.

8. During 2006 and 2007, the inflow to income funds increased by close to 200 per cent and 300 per cent respectively. But, its growth came to a halt in the next year and ultimately recorded a net outflow of ₹32,168 crores, a fall of 136 per cent from the previous year, during March, 2009. However, it made a significant come back during 2010 by registering a growth of 400 per cent in the net inflow of funds. During 2010-2015, overall it had a poor performance considering the fact that, from a net positive inflow of ₹13,977 crores at the end of March, 2006, it ended with ₹4,876 crores of net flows at the end of the study period.

9. The Indian mutual funds industry was found to be dominated by institutional investors. During 2009 and 2010, the institutional investors contributed more than 50 per cent to the total asset under management, while the individual investors accounted for close to 45 per cent during the same period. However, the industry gradually changed its investors mix and the

retail participation reached at its peak (54 per cent) at the end of March 2012. At the end of financial year 2013 and 2014, though the retail participation suffered a decline with proportional rise in the share of institutional investors, they turned out to be the majority shareholder of AUM having more than 51 per cent holding at the end of March, 2015. Institutional share dropped to 46 per cent during the same period.

10. The scale of retail participation remained a problem for equity mutual funds in India. More than half of the household financial assets were found to be held in the form of deposits with commercial banks, insurance constitute on an average 18 per cent of the same. Mutual funds grabbed a maximum share of 8 per cent of household financial assets during 2008, making a significant rise from 3.47 per cent of 2006. The situation worsened during financial year 2009, 2011 and 2012 when the Indian mutual funds industry witnessed net outflow of household financial savings. As of March, 2013, the mutual funds share of household financial savings continued to remain extremely low at 2.50 per cent.

11. Mutual funds investment in equity segment of Indian stock market had been overweighed by its investment in debt. Mutual funds combined investment in financial market experienced a growth of 193 per cent at the end of March, 2006. At the end of March 2008 too, the volume of investment to equity market by mutual funds almost doubled and contributed almost 18 per cent of total investment. During the 2009 to 2015, mutual funds net investment in the securities market increased consistently in each financial year, growing by over 600 per cent. Mutual funds were found to be one of the major investor in the debt segment of the Indian securities market as the debt oriented scheme attracted the highest amount of funds from the investors. Mutual funds investment in the debt market has increased steadily in each financial year to grow by more than 3355 per cent at the end of March, 2015 over the same period during 2005.

PERFORMANCE OF FUND HOUSES

Although, the growth of the mutual funds industry was assessed earlier for the period 2004-05 to 2014-15, by keeping in view the availability of data on a consistent basis, for measuring the performance of select fund houses, the period 2007-2015 was specifically considered. Also based on the availability of data, eight fund houses were purposively selected for intensive examination of performance and disclosure practices. These eight fund houses were:

- (i) Baroda pioneer Mutual Fund,
- (ii) Birla Sun Life Mutual Fund,
- (iii) Franklin Templeton Mutual Fund
- (iv) HDFC Mutual Fund,
- (v) JM Financial Mutual Fund,
- (vi) LIC Nomura Mutual Fund,
- (vii) Tata Mutual Fund, and
- (viii) UTI Mutual Fund.

The eight fund houses together collectively accounted for 42.08 per cent of the Average Asset under Management (AAUM) as on 31st March, 2015 and 45.25 per cent of the net resources mobilized by the whole industry during the year 2015.

Based on the review of earlier studies, the following two parameters were adopted for measuring the performance of the eight fund houses:

- i) Net accretion to average assets under management (AAUM), and
- ii) Net resource mobilisation.

The overall observations on performance of the select fund houses are summed up below:

1. Total net accretion to AAUM during 2007-2015 for the eight selected fund houses taken together was found to be ₹3,56,06,848 lakhs of which HDFC Mutual Fund had the largest share (36.5 per cent) and was ranked at the top. Birla Sun Life Mutual Fund, which contributed 27.6 per cent to the total net accretion to AAUM, secured the second position followed by UTI Mutual Fund (15.3 per cent), Franklin Templeton Mutual Fund (13.3 per cent), Tata Mutual Fund (3.7 per cent), JM Financial Mutual Fund (2.4 per cent) and Baroda Pioneer Mutual Fund (2.0 per cent). LIC Nomura Mutual Fund, which was found to have negative net accretion to AAUM [(-) ₹2,27,311 lakhs] during the period of the study, was ranked at the bottom in terms of total net accretion to AAUM.

2. In terms of total net resource mobilisation, HDFC Mutual Fund mobilised a total net resources of ₹77,201 crores, which was found to be the highest amongst the eight studied fund houses, and was ranked at the top. The second position was found to be secured by Birla Sun Life Mutual Fund which could mobilise a net resource of ₹65,692 crores, and was ranked second followed by Franklin Templeton Mutual Fund (₹26,228 crores), UTI Mutual Fund (₹12,790 crores), JM Financial Mutual Fund (₹6,687 crores), Tata Mutual Fund (₹6,158 crores), and Baroda Pioneer Mutual Fund (₹1,639 crores). LIC Nomura Mutual Fund was found to mobilise the lowest amount of net resources (₹88 crores) and was ranked at the bottom.

3. The composite performance index constructed on the basis of the adopted performance parameters ranked HDFC Mutual Fund at the top followed by Birla Sun Life Mutual Fund, UTI Mutual Fund, Franklin Templeton Mutual Fund, Tata Mutual Fund, JM Financial Mutual Fund, and Baroda Pioneer Mutual Fund. LIC Nomura Mutual Fund was ranked 8th in terms of composite performance index too.

In order to verify the findings of performance of fund houses as obtained by applying the adopted performance parameters, namely, net accretion to AAUM and net resource mobilisation, a comparison of the performance of the schemes offered by two fund houses, namely, the HDFC Mutual Fund and the LIC Nomura Mutual Fund, which ranked at the top and at the bottom respectively in terms of performance, was undertaken.

As both the fund houses were found to have large numbers of schemes, only those schemes that are Open-ended, Equity-oriented, and Sensex benchmarked offering growth options under the category of direct plan and had been launched prior to 1st April, 2004 were considered for the comparison. Based on these criteria, a set of nine schemes were identified from Capitaline NAV Database. The names of the schemes are mentioned below:

Schemes of HDFC Mutual Fund:

- HDFC Growth Fund (G)
- HDFC Index Fund-Sensex Plan
- HDFC Index Fund-Sensex Plus Plan
- HDFC Long Term Advantage Fund (G)

Schemes of LIC Nomura Mutual Fund:

- LIC NOMURA MF Equity Fund - (G)
- LIC NOMURA MF Growth Fund (G)
- LIC NOMURA MF Index - Sensex Advantage (G)
- LIC NOMURA MF Index Fund - Sensex Plan (G)
- LIC NOMURA MF Tax Plan - (G)

The performance of each of these nine schemes was evaluated with the help of Sharpe Index, Treynor Index, Jensen Alpha and Fama Decomposition model. The composite performance ranking of the schemes of the two selected fund houses was ascertained on the basis of the sum of the ranks obtained by each scheme in each of the adopted models. The analysis called for data related to daily NAV of the selected schemes which were collected from the Capitaline NAV database. The return on 91-days Treasury bill auctioned by RBI during the study period was considered as the risk-free rate of return and was collected from the website of Reserve Bank of India. The market return was calculated on the basis of the Sensex closing values collected from the website of Bombay Stock Exchange.

The composite performance ranking of the selected schemes on the basis of the adopted performance evaluation models revealed that the four schemes of HDFC Mutual Fund outperformed the five selected schemes of LIC Nomura Mutual Fund which confirmed to the performance analysis of the fund houses measured in terms of net accretion to AAUM and net resource mobilisation.

DISCLOSURE REQUIREMENTS AND FUND HOUSES RESPONSE

The response of the selected eight fund houses to the statutory disclosure requirements was examined. For measuring the disclosure levels, at the outset ten specific disclosure areas were identified. These areas were:

(i) Monthly Portfolio Disclosures,

(ii) Half Yearly Disclosure of Portfolio,

(iii) Unaudited Half-yearly Financials,

(iv) Disclosure of Large Unit Holdings,

(v) Assets Under Management (AUM) Disclosure,

(vi) Commission Disclosure,

(vii) Disclosure of Investor Complaints with Respect to Mutual Funds,

(viii) Brokerage and Commission Paid to Associates,

(ix) Disclosure in Offer Documents, and

(x) Annual Report.

Knowingly, under each of the above ten areas, information were to be furnished by fund houses on a number of specific heads or items.

Relevant information regarding disclosures actually made by the fund houses on the various items pertaining to each of the ten disclosure areas were collected from their respective websites during the period of 2008-2015. The disclosure levels of the fund houses were first ascertained for each one of the ten disclosure areas separately and scores in terms of percentages were assigned to every single fund house based on their noticed disclosure levels.

Following this, mean scores were assigned to all the eight selected fund houses for statutorily-prescribed ten disclosure areas. Based on the average of these mean scores, the fund houses are then ranked with higher rank being assigned to a fund house that could ensure better compliance of the disclosure requirements (in terms of the assigned average of mean scores). The rank so obtained by a fund house is taken as reflective of the relative response-levels of the fund house. The following facts came out from the analysis:

1. None of the selected fund house was found to making full disclosure of information on the *monthly portfolio report*. However, Birla Sun Life Mutual Fund made the highest level of disclosure (71.88 per cent) followed by HDFC Mutual Fund and UTI Mutual Fund; both of which found to have equal level of disclosure (62.50 per cent). JM Financial Mutual Fund secured the third position with 59.38 per cent average disclosure level on monthly portfolio report followed by Baroda Pioneer Mutual Fund (56.25 per cent). Franklin Templeton and LIC Nomura Mutual Fund scored exactly 50 per cent while Tata Mutual Fund made the poorest disclosure amongst all (43.75 per cent) as revealed by the study.

2. In the area of *half-yearly portfolio disclosure,* the highest average disclosure level was found to be secured by Birla Sun Life Mutual Fund (63.41 per cent) followed by UTI Mutual Fund (61.59 per cent) and HDFC Mutual Fund (60 per

cent). The disclosure level of the remaining five fund houses were found to be less than 35 per cent with Franklin Templeton Mutual Fund having the lowest disclosure level (15.45 per cent) in the area of half yearly disclosure of portfolio.

3. Barring few, the disclosure levels in the *Unaudited Half Yearly Financials* by the selected fund houses were found to be very impressive. Out of the eight fund houses studied, six were found to have full disclosure (100 per cent) of facts in the unaudited half yearly financials throughout the study period. The disclosure level of Tata Mutual Fund on the said area was found to be 96.97 per cent while LIC Nomura Mutual Fund found to have the lowest disclosure level (37.50 per cent) on the same.

4. Except Franklin Templeton and LIC Nomura Mutual Fund, all other fund houses considered in the study made good disclosure in the area of *disclosure of large unit holdings* during the study period. Birla Sun Life, HDFC, JM Financial, Tata and UTI Mutual Fund consistently made full disclosure in the area of large unit holdings throughout the study period. Baroda Pioneer Mutual Fund was found to have a disclosure level of 93.75 per cent which was found to be 81.25 per cent for Franklin Templeton Mutual Fund. LIC Nomura Mutual Fund had a disclosure level of 37.50 per cent in the said area.

5. The *Asset under Management (AUM) disclosure* for the two years, i.e. 2014 to 2015 during which the regulation was effective, was found to be excellent as all the studied fund houses scored 100 per cent i.e. made full disclosure of facts on the area.

6. During 2013 to 2015, only three fund houses were found to have full disclosure (100 per cent) in the area of *commission disclosure,* namely, Birla Sun Life, Franklin Templeton and HDFC Mutual Fund. Among the remaining five fund houses, Baroda Pioneer, LIC Nomura, Tata and UTI Mutual Funds were found to have equal disclosure level (91.67 per cent) while no

information was available in the website of JM Financial Mutual Fund regarding disclosure of commission payment.

7. Four fund houses viz. Baroda Pioneer, Birla Sun Life, Franklin Templeton and HDFC Mutual Fund were found to make full disclosure of information related to *investor complaints with respect to mutual funds.* UTI Mutual Fund had a disclosure level of 75 per cent and while JM Financial, LIC Nomura and Tata Mutual Fund made equal level of disclosure (50 per cent) on the said area.

8. In the area of *disclosure of brokerage and commission paid to associates*, Baroda Pioneer, Birla Sun Life and JM Financial Mutual Fund topped the list with 100 per cent disclosure level followed by Franklin Templeton Mutual Fund (96.67 per cent) and HDFC Mutual Fund (91.67 per cent). UTI Mutual Fund scored 83.33 per cent on the same while LIC Nomura (36.67 per cent) and Tata Mutual Fund (50 per cent) were found to have the poorest level of disclosure amongst all.

9. Apart from Birla Sun Life and LIC Nomura Mutual Fund, no other fund houses were found to have full disclosure in all the three different sections of the *offer document.* The score of Tata Mutual Fund was found to be 98.85 per cent followed by Franklin Templeton and HDFC Mutual Fund, both of which were found to score 97.70 per cent. UTI Mutual Fund made a disclosure level of 94.55 per cent and that of Baroda Pioneer Mutual Fund was found to be 90.67 per cent. JM Financial Mutual Fund was found to have the lowest score with 86.18 per cent disclosure level in offer document.

10. The analysis of disclosure level of the selected mutual funds on *annual reports* during the period of the study revealed that no mutual fund made full disclosure in the annual report. The highest disclosure level of 73.70 per cent was scored by HDFC Mutual Fund followed by Birla Sun Life Mutual Fund (69.80 per cent), JM Financial Mutual Fund (66.93 per cent) and Baroda Pioneer Mutual Fund (66.31 per cent). Franklin Templeton Mutual Fund was

found to have a disclosure level of 59.54 per cent while that of UTI Mutual Fund and Tata Mutual Fund was found to be 57.22 per cent and 48.14 per cent respectively. LIC Nomura Mutual Fund, with average annual disclosure level of 28.69 per cent on annual report, was found to have the lowest disclosure level among all.

11. The ranking of the selected fund houses on the basis of the average of the mean scores obtained by each fund house on each of the ten disclosure areas revealed that, Birla Sun Life Mutual Fund with the highest of 90.51 per cent disclosure level secured the top position followed by HDFC Mutual Fund with a disclosure level of 88.56 per cent. The third, fourth and fifth position was secured by Baroda Pioneer Mutual Fund (81.86 per cent), UTI Mutual Fund (80.09 per cent) and Franklin Templeton Mutual Fund (80.06 per cent) respectively. With 70.43 per cent score, Tata Mutual Fund was ranked 6th and JM Financial Mutual Fund (68.45 per cent) was ranked 7th. LIC Nomura Mutual Fund was found to have the poorest disclosure level amongst all with an average disclosure level of 56.63 per cent and was ranked 8th.

PERFORMANCE AND DISCLOSURE

Endeavours finally were made to find answers to the following two questions-

i. Whether those of the selected fund houses that had better performance ranking also had better disclosure levels?

ii. Whether, for the selected fund houses, any association could be found between their performance and disclosure levels? To place it differently, whether at least in majority of the cases, if not in all, an association between the two variables – performance and disclosure levels – can be statistically inferred?

In the above directions, Spearman's Rank correlation between variables in the following pairs was examined –

i. composite performance ranks of the select fund houses and their composite disclosure ranks;

ii. the ranks of the fund houses' in terms of net accretion to AAUM and their respective composite disclosure ranks, and;

iii. the ranks of the fund houses' in terms of total Net resource mobilised and their respective composite disclosure rank.

It was observed that modest correlation around (+)0.7 exists in all the three cases pointing broadly to the possibility of existence of a positive correlation between performance and disclosure ranks of the fund houses.

Carl Pearson's coefficient of correlation was also calculated to examine the following:

i) the correlation between the total net accretions to AAUM and average disclosure levels of fund houses, and;

ii) the correlation between total net resources mobilised by the fund houses and their average disclosure levels.

The obtained correlation coefficients in both the cases were positive and high (0.8 and 0.75 respectively).

By taking (i) total net accretion to AAUM and (ii) total net resources mobilised as the performance parameters, the association between performance and disclosure levels of fund houses was examined. For this, the Chi-square based Cramer's V test was applied.

The obtained Cramer's V value against both the performance parameters (vis-à-vis) disclosure levels was 1 which was broadly indicative of the existence of an association between performance and disclosure levels; the confidence level here of course was eroded somehow by the obtained high p-values (meaning that an association need not be inferred *a priory* in all cases).

The obtained test results were plausible as a firm's performance eventually is the function of a number of other variables (like, management efficiency or prudence of investment-decisions, among others). It might be too sweeping in the given context to view disclosure level as the only determining variable of good performance; neither should it be presumed that a fast growing mutual fund house will always behave in an ethical and responsive manner showing thereby high disclosure levels.

Nonetheless, the test results demonstrated that at least for the cases considered, the better performing firms could show higher degree of responsiveness in terms of better disclosure.

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