# A STUDY ON

INVERSTOR PERCEPTION ON MUTUAL FUNDS

**Submitted by**:

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Roll No. 18510

UNDER THE GUIDANCE OF

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(DU Lead, Accenture)

*In partial fulfillment for the award of the degree of*

MASTER OF BUSINESS ADMINISTRATION



DEPARTMENT OF MANAGEMENT SCIENCE

(PUMBA)

SAVITRIBAI PHULE PUNE UNIVERSITY (2018-20)

**Company Certificate**



November 3, 2019

**TO WHOMSOEVER IT MAY CONCERN**

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Employee Number: 11635027

Pune

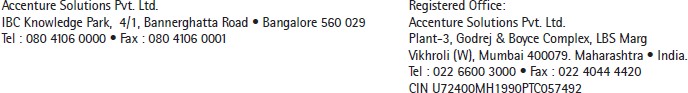
This is to confirm that Kundan Mishra has completed , 2018.He/She is currently designated as Career Level 9.

This confirmation is being given at the request of the employee in order to produce proof of employment.

# Yours Sincerely

**Akram Khan**

**Lead Personnel Administration - HRSS India Accenture Solutions Private Limited**



SAVITRIBAI PHULE PUNE UNIVERSITY

Bonafide Certificate



This is to certify that the Summer Project entitled “***A Study on Working Capital management with reference to Kesoram .*** ” is a bona-fide project carried out by Mr. Kundan Mishra under the summer internship program of Department of Management Sciences (PUMBA), Savitribai Phule Pune University, towards the partial fulfillment of the requirements for the award of the degree of Masters of Business Administration (MBA) has been satisfactorily carried out under the guidance of Dr. Vikrant Kelkar.

Dr. Vikrant Kelkar Internal Guide

External Examiner

Dr. Surabhi Jain Head of Department

DMS(PUMBA) DMS (PUMBA)

**DECLARATION**

This is to certify that I have completed the project titled “A Study on Working Capital management with reference to Kesoram” under the guidance of “Dr. Vikrant Kelkar” and the present project is the outcome of my own efforts. It has not been submitted in part or full for any other diploma or degree of any university. This project report is prepared in accordance with the guidelines issued by Department of Management Sciences (PUMBA), Savitribai Phule Pune University.

**ACKNOWLEDGEMENT**

I take this opportunity to extend my sincere thanks to Insight Quality Services, Pune and for allowing me to undertake this project. Special thanks to Mr. Diwakar Joshi for assigning this task to me.

I wish to extend my sincere and heartfelt gratitude to my mentor Dr. Vikrant Kelkar, who guided, supported and encouraged me during the entire tenure of the project. I also thank entire Team of Insight Quality Services, for supporting and guiding me throughout the course of my project.

Kundan Mishra

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**Executive Summary**

**Insight Quality Services, Pune** is a premier institute in the field of Training andConsultancy in Non Destructive Testing. We try our utmost best to keep ourselves abreast of current industry trends and developments in order to provide services that ensure customer delight.

In 2016, the American standards governing the qualification and certification of NDT personnel accepted the usage of **Computer-based training and web-based** **training** for the training of NDT personnel. This is an opportunity for InsightQuality Services to expand their training portfolio into online or computer based trainings.

A study needs to be conducted to understand the market need and market acceptance of such programs. This will require analysis of training requirements, competitor analysis, planning for investment and expected returns from this project.

As the Incharge of Training Department at Insight Quality Services, I have been assigned to work on this project. The pilot program is expected to be released in July 2019. This project is an on-going task and has not reached its completion stage. A part of the project has been discussed in this report.

**Executive Summary**

Mutual fund is an investment vehicle that pools in the money of many investors, and collectively invests this amount in either the equity market, debt market or money market, or both, depending upon the goal of the scheme. In Last few years, Mutual Fund market has emerged as a tool for ensuring one’s financial well-being. As the information and awareness is rising , more people are enjoying benefits of investing in Mutual funds. My study is conducted in Pune city, By asking close ended and open-ended questioners. I observed that despite being a lot of bombarding of continuous advertising by Mutual fund houses still investors of tier two cities are not believing on private mutual fund but in case of metro like Delhi are more aware and eager to invest in private and PSU mutual funds. In our study we touch student’s business man and working people of middle class and found that people are hungry to invest in Good avenue, but they are not getting proper guidance in their own language or in simple way. I meet during the data collecting process many ordinary and less educated person who knows a lot about mutual funds but at end of the day they are not ready to put their hard earn money in any private funds and private equity due to the risk associated with it.

This project gave me a practical experience and at the same time it gave me a lots of opportunities to implement my analytical capabilities. The report contains various aspects in Mutual Funds and research carried out. Anyone can get a brief knowledge about mutual fund and its basics by the help of this project. During the preparation of the project I took help from various sources like The Economic Times and various other websites to a get detail knowledge about Mutual funds.

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**CHAPTER-1**

**INTRODUCTION**

**INTRODUCTION**

A Mutual Fund is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with the objectives as mentioned in offer document. Investments in securities are spread across a wide cross section of industries and sectors and thus the risk is minimized. Diversification reduces the overall risk because all the stocks may not move in the same direction and in the same proportion at the very same time. Mutual Fund issues units to the investors in accordance with the amount of money invested by the investors. The money thus collected is invested by the fund manager in different types of securities (Equities, debt etc.) depending upon the objective of the scheme. These could range from equity shares to debentures and to money market instruments. The income earned from these investments and the capital appreciations realized by the scheme are shared by its unit holders in proportion to the number of units owned by them. Therefore, a Mutual Fund is the most suitable investment for the common man as it gives an opportunity to invest in a diversified, professionally managed portfolio at a relatively very low cost. Anybody with an small surplus money as small as a few thousand rupees can invest in Mutual Funds.

A Mutual Fund pools the money of people with certain investment objectives. The money invested in a number of securities depending on the objectives of the mutual fund scheme and the profits or loss are shared among investors’ in the same proportion as per their investment. Investments in securities are spread across so many industries and sectors. As the MFs don’t invest entire money into single sector so this diversification reduces the risk because all stocks may not go down or up in the same proportion at the same time. Mutual fund issues units to the investors’ in accordance with amount of money invested by them. Investors of mutual funds are called as unit holders. The profits and losses are shared by the investors’ in the same proportion as per their investment. The mutual funds normally come out with a many schemes with different investment objectives which are launched from time to time. A mutual fund is required to be registered with SEBI which regulates securities markets before it can collect funds from the normal public.

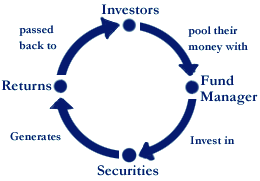
Mutual funds invest in many different kinds of [securities .](file:///C:\Users\student.SIBM\wiki\Security_(finance)) The most common are Stock and [bonds, b](file:///C:\Users\student.SIBM\wiki\Bond_(finance))ut there are so many sub-categories also. Stock funds invest primarily in the shares of a particular industry, such as Technology, Infrastructure, Banking etc. These are called as sector funds. Bond funds can vary according to risk (e.g., high-yield, investment-grade corporate bonds), type of [issuers (](file:///C:\Users\student.SIBM\w\index.php)e.g., government bodies, corporations, or municipal corporations), or maturity of the bonds (short- term or long-term). Most mutual funds' investment [portfolios a](file:///C:\Users\student.SIBM\wiki\Portfolios)re continually adjusted under the supervision of a professional manager known as fund manager, who forecasts the future performance of investments appropriate for the fund and chooses those which he or she believes will most closely match the fund's underline investment objective. A mutual fund is administered through an asset management company, these AMCs hire the fund managers. Mutual funds are under a special set of regulatory, [accounting,](file:///C:\Users\student.SIBM\wiki\Accounting) and tax rules. Unlike most other types of business entities, mutual funds are not taxed on their income as long as they distribute substantially all of it to their shareholders. Also, the type of income they earn is often not affected as it passes through to the shareholders. Mutual fund distributions of tax-free municipal bond income are beneficial to share holders as they are tax-free for them also. ELSS Funds are also tax free funds which gets tax deduction under IT Act 80C.

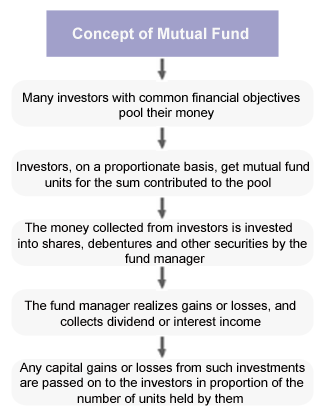
**Breaking Down ‘Mutual Fund’**

Mutual funds allow access to small or individual investors for professionally managing portfolios of equities, bonds and other securities. Thus, this enables each shareholder to equally participate in the gains or losses of the fund. Mutual fund schemes invest in a wide array of securities, and their performance is tracked as the change in the market cap of the fund, derived by aggregating performance of the underlying investments.

Mutual fund units, or shares, can be procured or encashed as anticipated at the fund’s current Net Asset Value(NAV) per share. A fund’s NAV is derived by dividing the total value of the securities in the portfolio by the total amount of shares outstanding.]

**Mutual Fund Operation Flow Chart**





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**CHAPTER-2**

# LITERATURE REVIEW:-

**REVIEW OF LITERATURE**

The Indian financial system based on four basic components like Financial Instruments, Financial Market, Financial Institutions, Financial Service. All play important role for smooth activities for the transfer of the funds and allocation of the funds. The main aim of the Indian financial system is that providing the efficient services to the capital market. During the second generation reforms the Indian capital market has been increasing tremendously. The first generation reforms started in 1991 the concept of Liberalization, privatization, Globalization (LPG).

Then after 1997 second generation reform started, it include reforms of industrial investment, reforms of fiscal policy, reforms of export-import policy, reforms of public sector, reforms of financial sector, reforms of foreign investment with the help of institutional investors, reforms banking sectors. The economic development model adopted by India after the independence has been characterized by mixed economy with the public sector playing a dominating role. The last twenty years have been a remarkable expansion in the geographical coverage and the financial spread of our financial system.

The spared of the banking system has been a major factor in promoting financial intermediation in the economy and in the growth of financial savings with progressive liberalization of economic policies, there has been a swift growth of capital market, money market and financial services industry including merchant banking, leasing and venture capital, leasing and hire purchasing. Consistent with the growth of financial sector and second generation reforms its needs the completion of the financial sector. It's also need to provide the efficient service to the investor mostly if the investors supply small amount in that point of view the mutual fund play a vital role for better service to the small investors. The main vision for the analysis for this study is to inspect the performance of five star rated mutual funds, given the weight of risk, return, and assets under management, NAV, book value and price earnings ratio.

A financial specialist has numerous choices for making his ventures. Be that as it may, every one of them don't give ideal returns at almost no hazard. An interest in common reserve is a speculation that gives results tantamount to exchanging shares and the dangers are decreased a considerable amount. Practically all common store houses have begun Systematic Investment Plans (SIP) over a most recent few years. They harp upon the psyches of financial specialists to put resources into the SIPs to limit the market dangers. Is it the total truth? Is it conceivable to accomplish another thing to beat the market dangers and in the meantime boost the profits? These are the issues that I want to reply through this task report. Be that as it may, one must have some fundamental information about common assets before endeavoring the appropriate responses. What is a Mutual reserve? Common store s a system for pooling the assets by issuing units to the financial specialists and putting assets in securities as per destinations as revealed in offer record. Interests in securities are spread over a wide cross area of enterprises and parts and along these lines the hazard is decreased. Broadening decreases the hazard since all stocks may not proceed onward a similar course in a similar extent in the meantime. Shared reserve issues units to the financial specialists as per quantum of cash contributed by them. Speculators of common assets are known as unit holders. The benefits (or misfortunes) are shared by the financial specialists in extent to their ventures. The common supports typically turned out with various plans with various speculation targets, which are propelled every once in a while. Prior to gathering assets from the general population, a common reserve is required to be enlisted with the Securities and Exchange Board of India (SEBI), which manages securities showcase. A shared store is set up as a trust, which has supports, trustees, Asset Management Company (AMC) and an overseer. The trust is set up by a support or more than one support who resembles promoter(s) of an organization. The trustees of the shared reserve hold its property to assist the unit holders. AMC endorsed by SEBI deals with the assets by making interests in different sorts of securities. Overseer, who is enlisted with SEBI, holds the securities of different plans of assets in its care. The trustees are vested with the general intensity of superintendence and heading over AMC. They screen the exhibition and consistence of SEBI Regulations by the common assets. SEBI guidelines require that at any rate 66% of the executives of trustee organization or leading body of trustees must be free for example they ought not be related with the supporters. Additionally, half of the chiefs of AMC must be free. Every single common reserve are required to be enrolled with SEBI before they launce any plan. Net Asst Value (NAV) The presentation of a specific plan of a common reserve is indicated by Net Asset Value (NAV). Shared Funds contribute the cash gathered from the financial specialists in security markets. In basic words, NAV is the market estimation of the securities held by the plan. Since market estimation of securities changes each day, NAV of a plan additionally fluctuates on everyday premise. The NAV per unit is the market estimation of securities of a plan isolated by the absolute number of units of the plan on a specific date. For instance, if the market estimation of securities of a shared store plan is Rs. 155 lakhs and the shared reserve has issued one lakh units of Rs. 10 each to the financial specialists, at that point the NAV per unit of the store is Rs. 15.50. NAV is required to be unveiled by the common assets all the time – every day or week after week – relying upon the kind of plan.

Gupta and Sehgal, (1998) in their examination paper "Theory Performance of Mutual Funds: The Indian Experience" tried to discover the undertaking execution of 80 plans regulated by 25 ordinary assets, 15 in private part and 10 in open division for the time apportioning of June 1992-1996. The examination has researched the introduction to the degree store improvement and consistency of execution. The paper presumes that basic store industry's portfolio advancement has performed well. By the by, it bolstered the consistency of execution structure.

Subject: IMPORTANCE OF SIP IN MUTUAL FUNDS

Chakarabarti and Rungta (2000) focused on the importance of brand influence in picking the mighty position of the AMCs. Their examination uncovers that brand picture factor, at any rate can't be effectively gotten by quantifiable execution measures, impacts the money related specialist's recognition and in this manner his spare/conspire confirmation.

**Ramamurthy and Reddy in 2005** **conducted a study,** “**Recent Trends in Mutual Fund Industry**” **published in SCMS Journal of Indian Management** to analyze recent trends in the mutual fund industry and draw a final conclusion that the main benefits for small investors’ due to efficient management, diversification of investment, easy administration, nice return potential, liquidity, transparency, flexibility, affordability, wide range of choices and a proper guideline governed by SEBI. The study also examined about recent trends in mutual fund industry like various exit and entry loads of mutual fund companies, various schemes related to real estate, commodity, and precious metals like Gold, Silver etc., entering of banking sector in mutual fund, buying and selling of mutual funds through online.

**Dr. Shantanu Mehta (Sep 2012) in his research paper “Preference of Investors for Indian Mutual Funds and its Performance Evaluation”, published in Pacific Business Review International Vol. five** concluded that Mutual funds have opened new ways to millions of small investors by virtually taking investment to their doorstep. In India a small investor usually goes for such kind of information which do not provide hedge against inflation and often have negative returns. However Mutual funds have come as a big help to these investors.

**Dr. Ravi Vyas (Jul 2012) in his article “Mutual Fund Investor’s Behavior and Perception”, published in International Refereed Research Journal Vol – 3** concluded that, Mutual fund companies should come forward with full support for the investors in terms of advisory services, ensure full disclosure of related information to investor, proper consultancy and guidance should be given by mutual fund companies to the investors in understanding terms mutual fund information should be published in investor friendly language(native language) and style, proper system to educate investors should be developed by mutual fund companies to analyze risk in investments made by them, etc. Mutual fund companies have to provide expert tips to the new investors for investment.

**Dr. Binod Kumar Singh in march 2012 in his article “Investors attitude towards Mutual Funds”, published in the International Journal of Research in Management** indicated that, most of the investors having lack of knowledge about the various function of mutual funds. However, as far as the demographic factors are concerned, gender, income and level of education have significantly influence the investors’ attitude towards mutual funds. Interestingly two demographic factors like age and occupation have not been found influencing the attitude of investors’ towards mutual funds.

**Mr. Sarish (2012) in his research paper “A Study of Opportunities and Challenges for Mutual Fund in India: Vision 2020”** draw a conclusion that, Mutual funds are one of the most preferred investment instruments. For middle class individuals, investing in mutual funds yields higher interest and comes with good principal amount at the end of the maturity period of the mutual fund investment. Another important fact which he concluded is that mutual funds are safe as compared to share market, with almost zero risk, offering an optimized return on earnings and protecting the interest of investors. This paper was published in VSRD International Journal of Business & Management Research Vol. 2.

**Mr. B. K. Singh and Mr. A. K. Jha (2009) in his study, “An Empirical study on awareness & acceptability of Mutual Fund”, published in Regional Student’s Conference, ICWAI** pointed out that investors basically prefer mutual fund due to higher return potential, liquidity and safety and they were not totally aware about the systematic investment plan. The invertors’ will also consider various factors before investing in mutual fund. ] U

**Theoretical framework / Background Theory**

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciation realized are shared by its unit holders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

SEBI

Trustees

AMC

Unit Holders

Sponsors

Transfer Agent

Custodian

Mutual Fund

**Figure : Organisation of a Mutual Fund**

**Sponsors:**

They are the individuals who think of starting a mutual fund. The Sponsor approaches SEBI, the market regulator and also the regulator for mutual funds. Simply everyone can not start a mutual fund. SEBI will grant a permission to start a mutual fund only to a person of integrity, with significant experience in the financial sector and a certain minimum net worth. These are just some of the factors that come into play.

**Trustee:**

Once SEBI is satisfied with the credentials and eligibility of the proposed Sponsors, the Sponsors then establish a Trust under the Indian Trust Act 1882. Trusts have no legal identity in India and thus cannot enter into contracts. Hence the Trustees are the individuals authorized to act on behalf of the Trust. Contracts are entered into in the name of the Trustees. Once the Trust is created, it is registered with SEBI, after which point, this Trust is known as the mutual fund.

**Asset Management Company:**

Under SEBI Regulations every fund is required to have an Asset Management Company (AMC) incorporated in accordance with the companies Act 2013 to manage the funds of the Mutual fund. The AMC should be approved by SEBI and should enter into an agreement with the trustees of the mutual fund to formulate schemes, raise money against units, invest the funds in accrued securities and after meeting the permissible costs as per norms, distribute income to the share holders of the fund.

**Requirement of Asset Management Company:**

Recent days are said to be the days of competition. Every day and every minute everyone is running to achieve something in their career. Achieving some goal is not that much easier nowadays, not only the hard work but also fastness in the work will help in achieving their goal to earn money. So, many of us do not have time to think about the future financial requirement and planning. Many of us are not having time to watch the market status and invest the money in it. That is the only source, through which we can grow our money drastic in a long run. However that needs some follow up of market, to change the investments periodically in order to fetch high returns. The above are all the reasons for which the Asset Management Companies are required. By paying the fund manager a little percentage we are making him to take care of our assets by investing in the shares which will meet the declared financial objectives

**Top 10 Asset Management Companies in India:**

As it is very difficult to find out the best one Asset management company among the list, with the past performance and the returns of the schemes they have, many are suggesting the following the 10 AMC as top among the 44. It is not in order from the first to last, all may have equal importance.

* Axis AMC ltd.
* Reliance Capital AMC Ltd.
* SBI Funds Management Ltd.
* HDFC Asset Management Co. Ltd.
* ICICI Prudential AMC Ltd.
* Franklin Templeton AMC (I) Pvt. Ltd.
* Birla Sun Life AMC Ltd.
* BNP Paribas AMC Ltd.
* Tata Asset Management Ltd.
* DSP Blackrock Investment Managers Pvt. Ltd.

**History of Mutual Funds**

A strong financial market with extensive participation is vital for a developed economy. With this broad objective, UTI, India’s first mutual fund establishment in 1963, as a project of The Government of India and RBI ‘with a vision to stimulating saving, investment and participation in the income, profits and gains accruing to the Corporation from the acquisition, holding, management and disposal of securities’. The history of mutual funds can be broadly classified into five important phases which are follows:

# First Phase (1964-1987):- UTI was established on 1963 by an Act of Parliament. It was set up by the

# RBI 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 took over

# the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit

# Scheme 1964. At the end of 1988 Unit Trust of India had Rs.6700 Cr of assets under management.

# Second Phase – (1987-1993) (Entry of Public Sector Funds):- Entry of non-UTI MFs. SBI MF was the first followed by Canara bank Mutual Fund (Dec 87), PNB Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92). LIC in 1989 and GIC in 1990. The end of 1993 marked Rs.47004 as assets under management.

# 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 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996. 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. As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,21,805 crores. The Unit Trust of India with Rs.44, 541 crores of assets under management was way ahead of other mutual funds.

# Fourth Phase – (2003-2014):- In February 2003, instantly after the repeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities, viz., the Specified Undertaking of the Unit Trust of India (SUUTI) and UTI Mutual Fund which functions under the SEBI MF Regulations. With the branching of the former UTI and several mergers being undertaken among different private sector funds, The MF industry entered its fourth phase of consolidation. Subsequent to the global melt-down in the year 2009, securities markets all over the world had tanked and so was the case in India. Most investors, who had entered the capital market during the boom, had lost money and their faith in MF produts was shaken greatly.

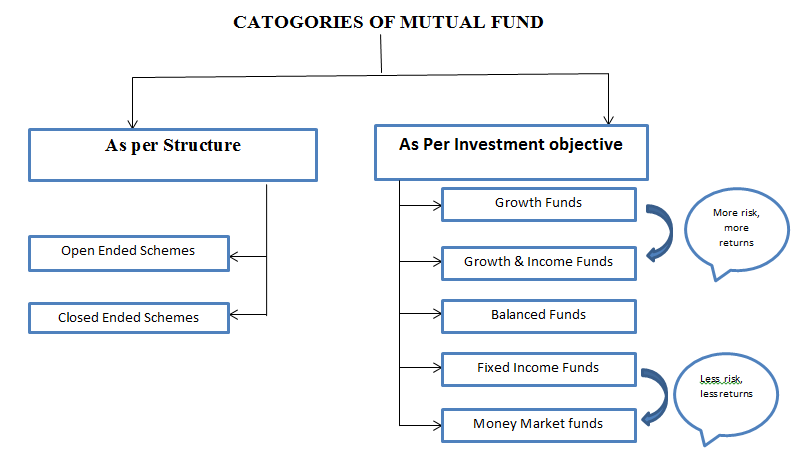
# Fifth Phase – (since May 2014):- Taking Cognizance of the absence of penetration of MFs, particularly in tier II and tier III cities, and the need for greater alignment of the interest of various stakeholders, SEBI announced several progressive measures in sep 2012 to revitalize the Indian Mutual fund industry and increase the reach of the MFs.

# Over the time, the measures did succeed in reversing the –ve movement that was set in motion after the global melt-down and improve significantly after the formation of the new Government.

# The growth in the size of the industry has been possible due to the twin effects of the regulatory measures taken by SEBI in re-energizing the MF industry in Sep 2012 and the support from mutual fund distributors in increasing the retail base.

# MF distributors have been delivering the last link to the investors, particularly I smaller towns and this is not just limited to enabling investors to invest in appropriate schemes, but also in aiding investors stay on course through stints of market volatility and thus experience the benefit of investing in mutual funds. MF distributors have also had a major role in popularizing Systematic Investment Plan (SIP) over the years.

# Following Chart will give you a clear idea about growth of Mutual Fund industry since 2009-10:-

**Categories of Mutual Funds**

* B**ased on Structure:-**

**1) Open Ended Schemes :-** As the name implies the size of the scheme (Fund) is open i.e., not specified or pre- determined. Entry to the fund is always open to the investor who can subscribe at any time. Such fund stands ready to buy or sell its securities at any time. It implies that the capitalization of the fund is constantly changing as investors sell or buy their shares. Further, the shares or units are normally not traded on the stock exchange but are repurchased by the fund at announced rates. Open-ended schemes have comparatively better liquidity despite the fact that these are not listed. The reason is that investors can any time approach mutual fund for sale of such units. No intermediaries are required. Moreover, the realizable amount is certain since repurchase is at a price based on declared net asset value (NAV). No minute-to-minute fluctuations in rates haunt the investors. The portfolio mix of such schemes has to be investments, which are actively traded in the market. Otherwise, it will not be possible to calculate NAV. This is the reason that generally open-ended schemes are equity based.

**2) Closed ended scheme :-** Such schemes have a definite period after which their shares/units are redeemed. Unlike open-ended funds, these funds have fixed capitalization, i.e., their corpus normally does not change throughout its life period. Close ended fund unitstrade among the investors in the secondary market since these are to be quoted on thestock exchanges. Their price is dete rmined on the basis of demand and supply in the Market. Their liquidity depends on the efficiency and understanding of the engaged broker. Their price is free to deviate from NAV, i.e., there is every possibility that the market price may be above or below its NAV. If one takes into account the issue expenses, conceptually close ended fund units cannot be traded at a premium or over NAV because the price of a package of investments, i.e., cannot exceed the sum of the prices of the investments constituting the package. Whatever premium exists that may exist only on account of speculative activities. In India as per SEBI (MF) Regulations every mutual fund is free to launch any or both types of schemes.

* **Based on Investment Objective:-**

**1) Growth funds :-** Such funds aim to achieve increase in the value of the underlying investments through capital appreciation. Such funds invest in growth-oriented securities, which can appreciate through the expansion production facilities in long run. An investor who selects such funds should be able to assume a higher than normal degree of risk.

**2) Income funds :-** An income fund is a type of [mutual fund](https://www.investopedia.com/terms/m/mutualfund.asp) or exchange-traded fund (ETF) that emphasizes [current income](https://www.investopedia.com/terms/c/currentincome.asp), either on a monthly or quarterly basis, as opposed to [capital appreciation](https://www.investopedia.com/terms/c/capitalappreciation.asp). Such funds usually hold a variety of government, municipal, and corporate debt obligations, [preferred stock](https://www.investopedia.com/terms/p/preferredstock.asp), money market instruments, and dividend-paying stocks. These schemes are ideal for conservative investors or those not in a position to take higher equity risks like, for example, retired individuals.

**3)Balanced funds :-** A balanced fund is a combination of stock component, a bond

component and sometimes a money market component in a single portfolio. Generally, these funds stick to a relatively fixed mix of stocks and bonds. Their holdings are balanced between

equity and debt with their objective between growth and income. Hence, their name "balanced."

Balanced funds are geared toward investors who are looking for a mixture of safety, income,

and modest capital appreciation.

**4) Fixed income funds :-** Fixed income is a kind of investment in which real return rates or Periodic income is received at regular intervals and at reasonably predictable levels. Fixed income investments can be used to expand the portfolio, as they pose less risk then equities and derivative investments.

**5) Money Market Funds :-** A money market fund is a mutual fund that invests only in highly liquid instruments such as cash, cash equivalent securities, and high credit rating debt-based securities with a short-term, maturity—less than 13 months. As a result, these funds offer high liquidity with a very low level of risk. Money market funds should be used as a place to keep money temporarily before investing elsewhere or making an anticipated cash outlay; they are not suitable as long-term investments.

**Following are some other Mutual fund categories :-**

* **Tax saving funds :-** These schemes propose tax rebates to the investors under a specific provision under the Indian Income Tax laws as the Government tax incentives for investment in certain predefined avenues. Equity linked saving schemes(ELSS) and pension schemes are allowed as deduction under section 80C of IT Act.
* **Index Schemes:-** The main purpose of an index is to serve as a measure of the Performance of the market as a whole, or a specific sector of the market.Index also functions as a benchmark to gauge the performance of mutual funds. Thus, index funds attempt to replicate the performance of a particular index such as the BSE or the NSE. Several investors are interested in investing in the market in general instead of investing In any specific fund. Such investors are interested in receiving the returns announced by the markets. Since investing in every stock in the market in the ratio to its magnitude is not possible, these investors are contended by investing in a fund that they believe is a good representative of the entire market. The index Funds are managed for such investors.
* **Sector specific schemes :-** Sector specific schemes are those which invest

exclusively in a specified industry or a group of industries or various segments such as

‘A’ group of shares of IPO. For example, Gold Sector Funds are the funds investing in

shares of companies engaged in gold mining and processing. The prices of these shares

are closely linked with the profitability and gold reserves of these companies along with

the influence of gold prices.

**Advantages and Disadvantages of Mutual Funds**

. **Advantages of Mutual Funds:-**

* **Professional Management :-** The investors avail of the services of experienced and

Skilled professionals who are backed up by an expert research team.This research team

Studies the performance and forecasts of companies and select suitable investments to

achieve the objective of the scheme. Thus, the investors do not have to continuously

keep an eye on their positions in the stock market and can enjoy profit through shares in

the stock market and can enjoy profit through shares in various companies by just

having invested in the a Mutual Fund.

* **Diversification:-** Mutual Funds invest in a number of companies across a broad cross

section of industries and sectors. This diversification reduces the risk because seldom all

stocks decline at the same time and in same proportion. This diversification is achieved

through a mutual fund. Mutual funds usually own a lot of different stocks in several

diverse industries. It is not possible for an individual investor to build this kind of

portfolio being that the amount he can invest is comparatively very small.

* **Return potential:-** over medium to long term, MFs have the ability to provide a higher

return as they invest in a diversified basket of selected securities.

* **Tax Deferral:-** Mutual funds are not liable topay tax on the income they earn. If the

investors were to earn the same income directly by themselves, then the tax may have to

be shelled out in the same financial year. By choosing the growth option in a scheme,

the investor can allow the money to propagate in the scheme r many years without any

incidence of taxation. This helps investors to legally put together their wealth quicker

than in the case otherwise.

* **Flexibility:-** With features like regular investment plans and withdrawal plans and

Dividend reinvestment plans, an investor can systematically invest or withdraw funds

according to his needs. The options offered under a scheme viz. growth and dividend,

Permit the investors to organize their investments as per their liquidity preference and

tax situation.

* **Well regulated:-** All mutual funds are registered with SEBI and they function within

the provisions of strict regulations designed to protect the interests of investors.

* **Tax Benefits:**-The dividend obtained by the investor from any mutual fund scheme is

deemed to be tax-free in his hands. When investment is done in certain specific schemes

of mutual funds like in Equity Linked Savings Schemes (ELSS), the earned income

liable to tax can be reduced by the investment amount. This reduces the investors’

taxable income, and in effect also the tax liability.

**Systematic Approaches to Investment:**- Mutual funds also offer facilities

which help investors in regular investment through a Systematic Investment Plan (SIP);

or regularly withdraw money through a Systematic Withdrawal Plan (SWP); or shift the

money between other schemes through a Systematic Transfer Plan (STP).Such

methodical tactics boost an investment discipline, which is useful in long term wealth

creation and protection.

* **Transparency:**-Since the mutual funds industry is a regulated industry, unlike the

stock market, the investors are ensured accountability and fairness.

**Disadvantages of Mutual Funds:-**

* **Costs:-**Mutual funds’ existence is not solely to make investors’ life easier when all the

funds are in it for a profit. The Mutual Fund industry is well-known to be a master at

burying costs under layers of lings. These costs are so intricate that the ultimate profit

received by the investors in lesser than that expected.

* **Tax issues:**-Although, the return on investment are quite high a mutual fund cannot guarantee lower tax bills. The tax amounts are generally high, specially in the case of short term gains. When making decisions about the investors’ money, fund managers don’t consider your personal tax situation. For instance, when a fund manager sells a security, a capital gain tax is triggered. This capital gain tax affects how much profitable the sale transaction was for the individual. It might have been more beneficial for the individual to put back the capital gains liability.

* **Investor issues:**- A Mutual fund requires a deep and long term analysis of the

amount of investment and its potential investment areas. In a situation where there is a constant change in the company’s fund manager, it may adversely affect the returns on investment.

* **Changing returns:**-Mutual funds are like many other investments, where there is of all times the probability that the mutual fund’s will depreciate unlike fixed income products such as bonds and treasury bills. Mutual funds go through fluctuating returns along with the stocks that are included in the fund.
* **Over diversification:**-Although diversification is one of the solutions to successful investing , many mutual fund investors tend to diversify more than is necessary. The single motive for diversifying a portfolio is to lessen the risks linked with owning a single security; over diversification takes place when investors purchase many funds that are highly related to each other and thus, as a result, have a negative impact on the so thought benefitting diversification .

**Performance Evaluation of Mutual Fund**

MF shares are priced at the Net Asset Value (NAV).When people refer to NAV, they talk about value of each unit of the scheme. The NAV is calculated as :-Unit-holders’ Funds in the Scheme (Net Assets) / No. of Units The NAV fluctuates daily with the movement in the value of individual fund holdings and with the change in the number of outstanding fund shares. Also, all the transactions conducted by the investors are done at the current NAV of the scheme. The reason for this is that the NAV is meant to reflect the true worth of each unit of the scheme, because investors buy or sell units on the bass of the information contained in the NAV. This process of valuing each security in the investment portfolio of the scheme at its current market value is called ‘mark to market’ i.e. making the securities to their market

value.

If investments are not marked to market, then the investment portfolio will end up being valued at the cost at which each security was bought, which turns out to be a meaningless when the market value is ‘x’ times more than the acquisition cost.

**Risks Involved in MFs**

Mutual funds, like the Stock market, also involve risks, They are as follows:

* **Portfolio Risk:-** The investors invest in Mutual Fund Schemes, which in turn invest in the various types of markets, namely stock market, gold, commodities, bonds and so on, in a variety of combinations. This combination also depends upon the nature of scheme. According to the fluctuations in the market, the value of the portfolio and the NAV of the schemes vary.
* **Portfolio Liquidity:-** When investments are liquid, there is a transparency in the market benchmark. These investments can be sold easily if it is expected to perform poorly, or to book profits or to generate liquidity for the scheme. But in scenarios when huge tumult seen in the market, the portfolio liquidity can be affected considerably. Like in 2008 and 2009, when the global markets went into turmoil, liquidity disappeared from the market. RBI had to step in to help some mutual funds fulfill their obligation.
* **Liquid Assets in the Scheme :-**MFs maintain a certain proportion of their assets in liquid form. This can be done to hold the liquid assets to invest in assets at the market low or to provide for contingencies like dividend payment or repurchase expectations. But, it is always risky and almost impossible to anticipate the fluctuations in the market and hence, conversion into liquid assets can turn out to be a risky deal. Also since liquid assets generally yield low return, they can be a drag on the scheme returns, if the otherassets in the market perform better.
* **Liabilities in the Scheme:-** The NAV is calculated as Net Assets dividend by number of units outstanding. Any scheme’s net asset is the difference between it total assets, and its outside liabilities i.e, liabilities other than to unit holders. The outside liabilities need to be paid by a scheme, irrespective of the performance of the assets. It is bad enough when the assets perform poorly, but if heavy outside liabilities need to be paid during such time, the scheme comes under great pressure. Therefore, outside liabilities add to the risk in a mutual fund scheme.
* **Leveraging:-**  Leveraging means taking large positions with a small outlay of funds. Mutual funds are permitted to use derivatives for hedging against risk or rebalancing the portfolio, but not for leveraging. MFs are barred from writing options, or purchasing instruments with embedded written options, but they can buy options.

**Industry Profile**

**An Overview of Mutual Fund companies in India**