PROJECT REPORT

ON

"SBIMF: Competition Analysis of Investor Segment in Direct Business"

Under the guidance of

PRASHANT SARANGI

&

KOMAL DEEP KAUR

Submitted by

PRANALI PAWAR

Roll No.: B14SS011 Batch: 20014-2018

Indian Institute of Technology, Jodhpur

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1. <u>INTRODUCTION</u>

Mutual Funds have become a widely popular and effective way for investors to participate in financial markets in an easy, low-cost fashion, while muting risk characteristics by spreading the investment across different types of securities, also known as diversification. It can play a central role in an individual's investment strategy. They offer the potential for capital growth and income through investment performance, dividends and distributions under the guidance of a portfolio manager who makes investment decisions on behalf of mutual fund unit holders. Over the past decade, mutual funds have increasingly become the investor’s vehicle of choice for long-term investment. It becomes pertinent to study the performance of the mutual fund. The relation between risk-return determines the performance of a mutual fund scheme. As risk is commensurate with return, therefore, providing maximum return on the investment made within the acceptable associated risk level helps in segregating the better performers from the laggards. Many asset management companies are working in India, so it is necessary to study the performance of it which may be useful for the investors to select the right mutual fund.

“*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 invested by the fund manager in different types of securities depending upon the objective of the scheme.These could range from shares to debentures to money market instruments. The income earned in these investments and the capital appreciation realized by the scheme is shared by its unitholders 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 portfolio at a relatively low cost. Anybody with an investible surplus of a few thousand rupees can invest in Mutual Funds. Each Mutual Fund scheme has a defined investment objective and strategy.

THE CONCEPT OF MUTUAL FUND IN DETAIL

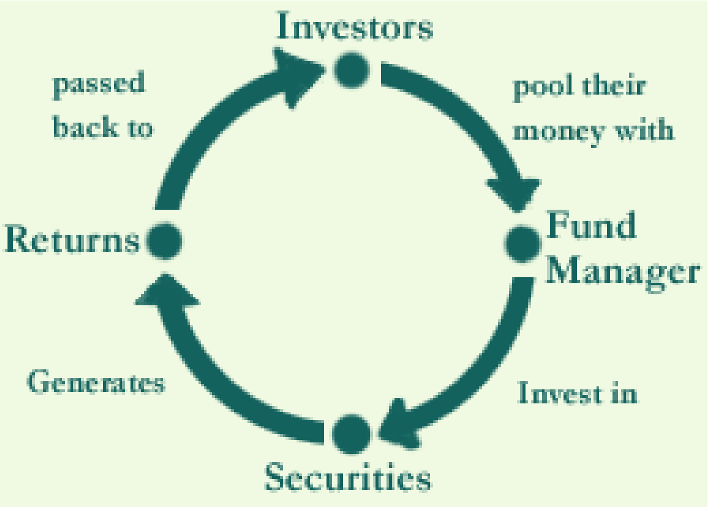
A mutual fund uses the money collected from investors to buy those assets which are specifically permitted by its stated investment objective. Thus, an equity fund would buy equity assets – ordinary shares, preference shares, warrants etc. A bond fund would buy debt instruments such as debentures, bonds or government securities. It is these assets which are owned by the investors in the same proportion as their contribution bears to the total contributions of all investors put together.

Any change in the value of the investments made into capital market instruments (such as shares, debentures etc) is reflected in the Net Asset Value (NAV) of the scheme. NAV is defined as the market value of the Mutual Fund scheme's assets net of its liabilities. NAV of a scheme is calculated by dividing the market value of scheme's assets by the total number of units issued to the investors.

A Mutual Fund is an investment tool that allows small investors access to a well-diversified portfolio of equities, bonds and other securities. Each shareholder participates in the gain or loss of the fund. Units are issued and can be redeemed as needed. The funds Net Asset value (NAV) is determined each day.

When an investor subscribes to a mutual fund, he or she buys a part of the assets or the pool of funds that are outstanding at that time. It is no different from buying "shares" of joint stock Company, in which case the purchase makes the investor a part owner of the company and its assets. However, whether the investor gets fund shares or units is only a matter of legal distinction.

MUTUAL FUND OPERATION FLOW CHART



From the above chart, it can be observed that how the money from the investors flow and they get returns out of it. With a small amount of fund, investors pool their money with the funds managers. Taking into consideration the market strategy the funds managers invest this pool of money into reliable securities. With ups and downs in market returns are generated and they are passed on to the investors. The above cycle should be very clear and also effective. The fund manager while investing on behalf of investors takes into consideration various factors like time, risk, return, etc. so that he can make proper investment decision.

2. ADVANTAGES AND DISADVANTAGES OF MUTUAL FUND

ADVANTAGES :

- Professional management
- Portfolio Divercification
- Reduction / Diversification of Risk
- Liquidity
- Flexibility & Convenience
- Reduction in Transaction cost
- Safety of regulated environment
- Choice of schemes
- Transparency

DISADVANTAGE :

- No control over Cost in the Hands of an Investor
- No tailor-made Portfolios
- Managing a Portfolio Funds
- Difficulty in selecting a Suitable Fund Scheme

3. CATEGORIES OF MUTUAL FUND

1. Based on their structure:

- Open-ended funds
- Close-ended funds

2. Based on their investment objective:

- Equity funds
- Debt funds
- Balanced fund

  i) Debt-oriented funds -Investment below 65% in equities.

  ii) Equity-oriented funds -Invest at least 65% in equities, remaining in debt.

- Liquid fund

WHY INVESTORS NEED MUTUAL FUND

Mutual funds offer benefits, which are too significant to miss out. Any investment has to be judged on the yardstick of return, liquidity and safety. Convenience and tax efficiency are the other benchmarks relevant in mutual fund investment. In the wonderful game of financial safety and returns are the tows opposite goals and investors cannot be nearer to both at the same time. The crux of mutual fund investing is averaging the risk.

Many investors possibly don’t know that considering returns alone, many mutual funds have outperformed a host of other investment products. Mutual funds have historically delivered yields averaging between 9% to 25% over a medium to long time frame. The duration is important because like wise, mutual funds return taste bitter with the passage of time. Investors should be prepared to lock in their investments preferably for 3 years in an income fund and 5 years in an equity funds. Liquid funds of course, generate returns even in a short term.

3. MUTUAL FUND INDUSTRY IN INDIA

The first introduction of a mutual fund in India occurred in 1963, when the Government of India launched Unit Trust of India (UTI). UTI enjoyed a monopoly in the Indian mutual fund market until 1987, when a host of other government-controlled Indian financial companies established their own funds, including State Bank of India, Canara Bank, and Punjab National Bank. This market was made open to private players in 1993, as a result of the historic constitutional amendments brought forward by the then Congress-led government under the existing regime of Liberalization, Privatization and Globalization (LPG). The first private sector fund to operate in India was Kothari Pioneer, which later merged with Franklin Templeton. In 1996, SEBI, the regulator of mutual funds in India, formulated the Mutual Fund Regulation which is a comprehensive regulatory framework.

According to AMFI, there are 46 Mutual Funds as of December 2016. The average assets under management of top 6 mutual funds in India for the quarter Oct 2016 to Dec 2016 is given below:

S.No.	Mutual Fund Name	Average AUM
1.	ICICI Prudential Mutual Fund	22798878.6
2.	HDFC Mutual Fund	22182451.24
3.	Reliance Mutual Fund	19584543.28
4.	Birla Sun Life Mutual Fund	18080832.79
5.	SBI Mutual Fund	14099693.06
6.	UTI Mutual Fund	12938937.76

4. HISTORY OF SBI MUTUAL FUND

SBI Mutual Fund is a bank sponsored fund house with its corporate headquarters in Mumbai, India. It is a joint venturebetween the State Bank of India, an Indian multinational, Public Sector banking and financial services company and Amundi, a European asset management company.

The mutual fund industry in India originally began in 1963 with the Unit Trust of India (UTI) as a Government of India and the Reserve Bank of India initiative. Launched in 1987, SBI Mutual Fund became the first non-UTI mutual fund in India. In July 2004, State Bank of India decided to divest 37 per cent of its holding in its mutual fund arm, SBI Funds Management Pvt Ltd, to Societe Generale Asset Management, for an amount in excess of $35 million. Post-divestment, State Bank of India's stake in the mutual fund arm came down to 67%.In May 2011, Amundi picked up 37% stake in SBI Funds Management, that was held by Societe Generale Asset Management, as part of a global move to merge its asset management business with Crédit Agricole.

Presently, SBI Mutual Fund manages over Rs. 17000 crores of assets. The fund has a network of 100 collection branches, 26 investor service centres, 28 investor service desks and 40 district organisers.

Key Milestones

- 1987 - Establishment of SBI Mutual Fund
- 1991 - Launch of SBI Magnum Equity Fund
- 1999 - Launch of sector funds, India's first contra fund
- 2004 - Joint Venture with SGAM
- 2006 - Became the first bank-sponsored fund to launch an offshore fund– 'SBI Resurgent India Opportunities Fund
- 2011 - Stake Transfer from SGAM to AMUNDI
- 2013 - Acquisition of Daiwa Mutual Fund, part of the Tokyo-based Daiwa Securities Group
- 2013 - Launch of SBI Fund Guru, an investor education initiative
- 2015 - Employees' Provident Fund Organisation decided to invest in the equity market for the first time by investing Rs. 5,000 crore in the Nifty and Sensex ETFs (Exchange Traded Fund) of SBI Mutual Fund

5. DATA ANALYSIS

The **Association of Mutual Funds in India** (AMFI) is dedicated to developing the Indian Mutual Fund Industry on professional, healthy and ethical lines and to enhance and maintain standards in all areas with a view to protecting and promoting the interests of mutual funds and their unit holders.

A **fund fact sheet** is a document published by a fund house. It lists details of each of the schemes managed by the fund house. Available on the website of the company, it is a vital document and is useful to ascertain important information on the scheme.

Published on a monthly basis, here are some of the things a fund fact sheet covers:

1. The portfolio depicts how the money that you invested in a scheme has been deployed in various securities.
2. The performance of the scheme — as depicted by (some of the terms that you cam across earlier) CAGR, Beta, Standard Deviation & Sharpe ratio.
3. The size and investment details of the scheme.

Direct v/s Regular :

A Direct plan is what you buy directly from the mutual fund company (usually from their own website), whereas a Regular plan is what you buy through an advisor, broker or distributor (intermediary).In a regular plan, the mutual fund company pays commission to the intermediary. This is then recovered as an expense from the plan. In mutual fund speak, the expense ratio is higher for a regular plan.

The below data shows a comperison between **average AUM (Nov, 2016)** of different mutual fund companies with SBIMF for **Direct Plans**.

Category of Investor **1** : Retail Investor

2 : Corporates

3 : Banks/FIs

4 : FIIs/FPIs

5 : High Networth Individuals

DATA REPRESENTATION :

In the given tables, the data represent the percentage conversion of ratio of the business being brought in through the investor in a particular asset class by an investor type by any company to SBI Mutual Fund.

$$\textbf{Value} = \frac{\textit{Average AUM of the competitor}}{\textit{Average AUM of SBIMF}} \times 100$$

So, if the value is less than 100% then it depicts that SBIMF is leading from the competitor in that particular investor segment and vice versa.

A. HDFC v/s SBI

INCOME / DEBT ORIENTED SCHEMES

	1	2	3	4	5
Liquid/ Money Market	279.48%	130.70%	49.46%	0.00%	287.44%
Gilt	99.57%	172.92%	65.56%	-	127.39%
FMP	264.81%	138.54%	0.66%	-	235.62%
Debt(assured return)	-	-	-	-	-
Infrastructure Debt Funds	-	-	-	-	-
Other Debt Schemes	302.23%	139.65%	73.33%	0.00%	707.38%
Grand Sub-Total	263.49%	137.10%	58.99%	48.34%	381.14%

GROWTH / EQUITY ORIENTED SCHEMES

ELSS	189.55%	250.00%	-	-	489.25%
Others	197.16%	111.19%	0.25%	10928.72%	286.11%
Grand Sub-Total	196.02%	111.23%	0.25%	10928.72%	287.84%

Note: The given data is the percentage conversion of the ratio of the average AUM of the given companies.

Interpretation : Here we can clearly see that in retail investor segment, corporate investor segment and High Networth Individuals we are trailing in both income/debt oriented schemes. SBIMF needs to map our products against HDFC, in these assest class to seeif they appeal to these customer segments.

B. Birla v/s SBI

INCOME / DEBT ORIENTED SCHEMES

	1	2	3	4	5
Liquid/ Money Market	117.62%	129.09%	52.16%	96.88%	149.28%
Gilt	23.75%	16.32%	47.02%	-	8.11%
FMP	33.08%	113.53%	0.00%	-	35.02%
Debt(assured return)	-	-	-	-	-
Infrastructure Debt Funds	-	-	-	-	-
Other Debt Schemes	342.13%	199.71%	79.54%	5267.43%	508.29%
Grand Sub-Total	208.67%	155.22%	63.09%	4066.36%	205.09%

GROWTH / EQUITY ORIENTED SCHEMES

	1	2	3	4	5
ELSS	66.00%	1400.00%	-	-	84.15%
Others	93.75%	122.76%	57.12%	37.04%	156.76%
Grand Sub-Total	89.60%	123.17%	57.12%	37.04%	156.14%

Note: The given data is the percentage conversion of the ratio of the average AUM of the given companies.

Interpretation : The AUMs of many schemes of SBIMF is satisfactory except in the Foreign institutional investor/ Foreign portfolio investor segment for the debt oriented schemes in which Birla is leading with 4066.36%.

C. ICICI v/s SBI

INCOME / DEBT ORIENTED SCHEMES

	1	2	3	4	5
Liquid/ Money Market	229.30%	144.53%	182.64%	80.78%	184.14%
Gilt	57.00%	169.86%	18.87%	-	88.52%
FMP	82.23%	167.47%	3.29%	-	81.18%
Debt(assured return)	-	-	-	-	-
Infrastructure Debt Funds	-	-	-	-	-
Other Debt Schemes	295.69%	160.01%	96.39%	168.06%	539.67%
Grand Sub-Total	219.22%	156.04%	141.66%	151.78%	249.30%

GROWTH / EQUITY ORIENTED SCHEMES

	1	2	3	4	5
ELSS	108.44%	1818.60%	-	-	164.06%
Others	178.83%	134.49%	27.75%	612.17%	339.61%
Grand Sub-Total	168.29%	135.03%	27.75%	612.17%	338.11%

Note: The given data is the percentage conversion of the ratio of the average AUM of the given companies.

Interpretation : If we analyse the the grand sub totals of the companies then we can see that ICICI is leading in almost every investor segment. We need to focus more on the FPIs as the percentage ratio is very high in FII/FPIs for equity oriented schemes.

D. Reliance v/s SBI

INCOME / DEBT ORIENTED SCHEMES

	1	2	3	4	5
Liquid/ Money Market	692.24%	114.34%	86.79%	1.30%	119.83%
Gilt	650.08%	44.64%	88.83%	-	8.04%
FMP	1267.48%	205.92%	23.80%	-	64.24%
Debt(assured return)	-	-	-	-	-
Infrastructure Debt Funds	-	-	-	-	-
Other Debt Schemes	1354.61%	238.71%	104.21%	881.78%	131.75%
Grand Sub-Total	1104.61%	184.08%	93.24%	676.71%	88.55%

GROWTH / EQUITY ORIENTED SCHEMES

	1	2	3	4	5
ELSS	158.39%	139.53%	-	-	1236.16%
Others	190.92%	82.20%	15.38%	2447.45%	138.23%
Grand Sub-Total	186.05%	82.22%	15.38%	2447.45%	147.59%

Note: The given data is the percentage conversion of the ratio of the average AUM of the given companies.

Interpretation : In retail investor segment and Foreign Portfolio Investor we are trailing in both income/debt oriented schemes. SBIMF needs to map our products against Reliance, in these assest class to see if they appeal to these customer segments. While the performance in the Bank category is appreciable.

E. UTI v/s SBI

INCOME / DEBT ORIENTED SCHEMES

	1	2	3	4	5
Liquid/ Money Market	129.07%	181.73%	52.61%	0.00%	15.96%
Gilt	9.86%	10.04%	13.40%	-	13.01%
FMP	272.82%	100.37%	40.40%	-	71.98%
Debt(assured return)	-	-	-	-	-
Infrastructure Debt Funds	-	-	-	-	-
Other Debt Schemes	403.65%	92.87%	78.91%	0.00%	122.34%
Grand Sub-Total	272.79%	123.69%	63.67%	0.91%	68.57%

GROWTH / EQUITY ORIENTED SCHEMES

	1	2	3	4	5
ELSS	16.58%	177.91%	-	-	79.91%
Others	77.58%	56.53%	39.70%	2.81%	56.53%
Grand Sub-Total	68.44%	56.57%	39.70%	2.81%	56.73%

Note: The given data is the percentage conversion of the ratio of the average AUM of the given companies.

Interpretation : The only segment in which we are trailing is the retail investor segment and corporate investor segment of debt oriented schemes otherwise in all other investor type segments SBIMF leading with a great number from the UTI.

6. Recommendation and Conclusion

In the previous section we have already analysed the data and interpreted it but the data present in the given report shows the results only for the month of november. After analysing the performance of SBIMF against some other competitors (HDFC, Birla, ICICI, Reliance and UTI) in the previous three quarters of 2016, It was found that the Banks and Finantial Institutions have contributed well but we lag in the Foreign Portfolio Investor Segment. Also, in the past few months the AUM growth is satisfactory in the Retail Investor Segment, Corporate Segment and High Networth Individuals segment. We need to maintain a momentum to sustain lead vis-a-vi competitors.

ANNEXURE

GLOSSARY

Annual Return

The percentage of change in net asset value over a year's time, assuming reinvestment of distribution such as dividend payment and bonuses.

Asset Allocation

Asset Allocation involves the allocation of the total corpus or fund available with the Mutual Funds to different class of assets like equities, bonds, derivatives etc. The asset allocation is done in keeping the objective of the scheme into consideration.

Benchmark

A parameter with which some thing can be compared with. For example, the performance of an equity scheme can be benchmarked against the BSE Sensex. In this case, the BSE Sensex will be known as the benchmark index.

Bond

A debt instrument issued either by a company, the government or its agencies. It carries a fixed interest and promises return of principal on a specified date.

Close-ended schemes

Schemes which have a fixed tenor of maturity.

Debt / Income Funds

Funds that invest in income bearing instruments such as corporate debentures, PSU bonds, gilts, treasury bills, certificates of deposit and commercial papers. Although these funds are less volatile, the underlying investments carry a credit risk. Comparatively, these funds are less risky and are preferred by risk-averse investors.

Dividend

Portion of profits that a company or a mutual fund distributes to its shareholders or unit holders.

Expense Ratio

It is the ratio of total expenses to net assets of the fund. Total expenses include management fees, the cost of shareholder mailings and other administrative expenses.

Equity Schemes

Schemes where more than 65% of the investments are done in equity and equity related securities of various companies. These funds tend to provide maximum returns over a long-term horizon. However, the returns from these funds are directly linked to the stock market and are volatile as compared to those from debt funds.

Exit Load

The fee charged at the time of redemption. It amounts to the difference between the NAV of the units of a scheme and the price at which existing units are redeemed. The fee has to fall within the overall limit laid down by SEBI.

Fund

A mutual fund is a trust under the Indian Trust Act. Each fund manages one or more schemes.

Fund Management Costs

The charge levied by an AMC on a mutual fund for managing their funds.

Gilt funds

Funds which invest only in government securities of different maturities with virtually no default risk. While returns are steady and secure, they are generally lower than those from other debt funds.

Guaranteed Returns

The return assured by the mutual funds as a minimum return in certain schemes, subject to meeting the conditions stipulated by SEBI.

Investment objective

The declared purpose of investment of a mutual fund scheme.

Investment strategy

The internal guidelines that a fund follows in investing the money received from the investors

Liquid Fund

A fund that invests its corpus in short term instruments like call markets, treasury bills, Commercial Paper (CP), Certificate of Deposit (CD). Generally returns are very low in these funds. These funds are meant for the big corporate to park their fund for a very short period of time like one week.

Liquidity

The cash and cash equivalent assets available with a fund to meet expenses and immediate redemption requirements of the investors.

Management fee / expense

Fee, within the limits laid down by sebi, charged by the AMC for managing of the mutual fund scheme.

Net Asset Value (NAV)

Basically NAV is refers to the price of the unit of the mutual fund and is calculated as:
This is the performance indicator for a mutual fund scheme. On can buy the units of the mutual funds at the prevailing NAV plus the entry load as applicable.

Open-ended Schemes

Schemes for which a fixed date of redemption is not specified. the fund offers to sell and buy units at any time at prices linked to the prevailing nav.

Performance

Performance of an investment indicates the returns from an investment. the returns can come by way of income distributions as well as appreciation in the value of the investment.

Portfolio

The basket of investments in which the funds of a scheme are deployed.

Securities

The holdings of a mutual fund, such as stocks or bonds. stocks are securities representing ownership shares. bonds are securities representing a contractual debt obligation of the issuer to repay the holder, with interest.

Shares

Units of ownership in a corporation or a mutual fund. in a mutual fund, the value of each unit is calculated by dividing net assets by the number of shares.

Stocks

Stocks represent a part equity ownership of a corporation. when someone holds stocks of a certain company, it means that he/she owns shares of that company and therefore becomes a part owner of that company in proportion to his/her holding. these securities generally have the most potential for capital appreciation, but their rights are subordinated in the event of a company liquidation or bankruptcy.

Systematic investment plan (SIP)

A systematic investment plan allows an investor to buy units of a mutual fund scheme on a regular basis by means of periodic investments into that scheme in a manner similar to instalments paid on purchase of normal goods. the investor is allotted units on a predetermined date specified in the offer document of the scheme. here the plan allows the investor to take advantage of the rupee cost averaging methodology.

Top-down investing

The top-down style of investment management places primary importance on country or regional allocation. top-down managers generally focus on global economic and political trends in selecting the countries or regions where they expect to find investment opportunities. only then do they employ a more fundamental analysis of individual stocks in order to make their final selections.

Transaction costs

The costs incurred by the buying and selling of securities including broker commissions and the difference between dealer buying and selling price.

Volatility

In investing, volatility refers to the ups and downs of the price of an investment. the greater the ups and downs, the more volatile the investment.

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