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AN ANALYSIS OF GAP BETWEEN THE PUBLIC AND PRIVATE SECTOR MUTUAL FUNDS IN INDIA

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Mutual fund industry has become extremely popular in Indian financial system. A mutual fund works on the principle of collective investment and is expected to provide the benefits of diversification and professional management. Mutual fund is an investment avenue designed primarily for the investors having small and infrequent savings and lacking requisite skills for investment management. Thus, the mutual funds are significant financial intermediary collecting funds mainly from small investors and investing them in financial market securities. The paper tries to establish the gap between the public and private sector mutual funds in India with the help of Gap Index Analysis. The study covers the period from the year 1998-99 to 2009-10. The study is based on the secondary data which has been collected from the fact books and published annual reports of both types of mutual funds for the twelve years. The paper found that the private sector mutual funds are gaining more in terms of magnitude of mobilization of funds compared to that of public sector mutual funds. Further, the study also found that there is a strong evidence of relationship between the pattern of the gap movement between mobilization of funds and redemption / repurchase of public and private sector mutual funds.

***Keywords**: Mobilization of Funds, Redemption, Repurchase, Public and Private Sector Mutual Funds and Gap Index, Net in / out flow.*

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INTRODUCTION

Mutual fund industry today is one of the most attractive investment avenues in India. Mutual fund is a good investment option for the medium and small investors who have limited resources and do not have professional knowledge about stock market and other investment opportunities. Mutual funds are the significant financial intermediary collecting funds mainly from small investors and investing them in financial market securities. A mutual fund is an investment company or trust that pools the resources of thousands of its shareholders or unit holders and invest it on behalf of these diversified securities and a cross section of companies to attain the objectives of the investors, which in turn achieve income or growth or both i.e. steady return or capital appreciation or both along with low risk. Thus, mutual funds offer several benefits to the investors like diversification, professional management, tax benefits, transparency, liquidity, flexibility, choice of schemes and low cost etc.

Mutual funds act as an intermediary where the investors get the convenience of investing with comparatively small amount in professionally managed portfolio along with other facilities that increase the investor's attraction towards the capital market of the country. Although the concept of mutual funds in India is not as old as in the rest of the globe. It was first adopted in Netherlands (1822) by King William 1, while some others have opinion that this concept has been first started by Dutch merchant Adriaan van Ketwich who created his investment trust in 1774. Ketwich has given the theory that diversification may increase the appeal of investments to smaller investors with minimal capital.

In India the mutual funds industry has been pioneered with the enactment of unit trust of India act 1963, which started its operations in 1964. The encouraging trend has been observed since then. Mutual funds, in India, are being regulated by Securities and Exchange Board of India (SEBI) and the apex bank in the country i.e. Reserve Bank of India (RBI). According to Department of Public Enterprises (DPE), the mutual-funds registered with and regulated by SEBI, where the Government, its financial institutions and public sector banks holds/hold individually or collectively more than 50percent of equity in the Asset Management Company of that mutual funds, is known as Public Sector Mutual Funds. On the contrary the Asset Management Company (AMC), who's more than 50percent of equity paid-up capital is being held by private company/ies or private sector business houses, is known as Private Sector Mutual Funds.

REVIEW OF LITERATURE

Gali (1995) evaluated the past performance of the mutual funds and assessed the factors that have an influence on the performance. The factors considered were portfolio turnover, size and expenses charged to the fund. He further found that mutual funds in general do not provide risk adjusted returns. It was also found that mutual funds do not have market timing ability. Gupta and Sehgal (1998) tried to find out the investment performance of 80 schemes managed by 25 mutual funds, 15 in private sector and 10 in public sector for the time period of June 1992-96. The study has examined the performance in terms of funds diversification and consistency of performance. The study concluded that mutual fund industry's portfolio diversification has performed well. But it supported the consistency of performance**.**

Sahadevan and Thiripalraju (1997) analyzed the performance of private sector funds. They compiled and analyzed the monthly average return and standard deviation of 10 selected private sector-funds. The investigation revealed that in terms of the rate of return, 5 funds viz., Alliance 95, ICICI Power, Kothari Prima, Kothari Pioneer Blue Chip and Morgan Stanley Growth Fund outperformed the market, during the period of comparison. The analysis also showed that, by and large, performance of a fund is not closely associated with its size. Block & French (2002) emphasized the importance to use multiple index while evaluating the performance of equity mutual funds. Rao (2003) studied the performance evaluation of Indian mutual funds in bear market through relative performance index. He found that most of the mutual fund schemes were able to satisfy investor's expectations by giving excess returns over expected returns.

Zakri Y. Bello (2005) matched a sample of socially responsible stock mutual funds matched to randomly select conventional funds of similar net assets to investigate differences in characteristics of assets held, degree of portfolio diversification and variable effects of diversification on investment performance. In light of the above review, a research was undertaken to delineate the difference or similarity between the performance of public sector and private mutual funds. The public sector of mutual funds comprises of the mutual funds sponsored by public-sector banks, financial-Institutions along with Unit Trust of India (UTI). All other mutual funds sponsored by the private companies or business houses are taken under the category of Private sector mutual funds.

OBJECTIVES OF THE STUDY

1. To study the Gap mobilization of resources in public and private sector mutual funds.
2. To study the gap in redemption / repurchase by the public and private sector mutual funds.
3. To compare the performance of public and private sector mutual funds in India.

RESEARCH METHODOLOGY

The Study: The present study is exploratory in nature. Two mutual funds viz. public sector mutual funds and private sector mutual funds have been selected for the purpose of this study.

The Sample: The study covers the period of twelve years i.e. from 1998-99 to 2009-10. Editing, classification and tabulation of the financial data which has been collected from the secondary sources have been done as per the requirement of the study.

Tools for Data Collection: The study is based on the secondary sources of information which is collected from the various related fact books along with the AMFI, SEBI, published annual reports, manuals and other office records.

Tools for Data Analysis: For the purpose of analyzing the collected data of both the categories of funds, mean, percentage and correlation coefficient have been applied. In order to measure the extent of difference between various parameters of study regarding mutual funds with their special reference to mobilization of fund, repurchase/redemption, cumulative net assets position, net in/out flow of the two sectors of mutual funds industry i.e., private sector mutual funds and public sector mutual funds, the Gap-Index Analysis is carried out as suggested by Sharad Kumar and Sreeramulu (2007).

The Gap-indices is worked out as a percentage of the difference of the value of the variables between public (PB) and private (PV) sector mutual funds as ratio of aggregate value. The purpose of the Gap-index construction is to see whether or not the gap between two sectors is changing over period of study (1998-99 to 2009-10). It is suitable to give graphical presentation of the changing pattern in the gap, to have and idea about the fluctuations in gap. The analysis through Gap-Indices is considered as a non-parametric technique and advanced statistical techniques are not considered appropriate as gap between two sets of mutual funds (public and private), on the variables are expected to be quite large.

- GAP-INDEX (G.I) = | {(PB-PV)|/ (PB+PV)} X100

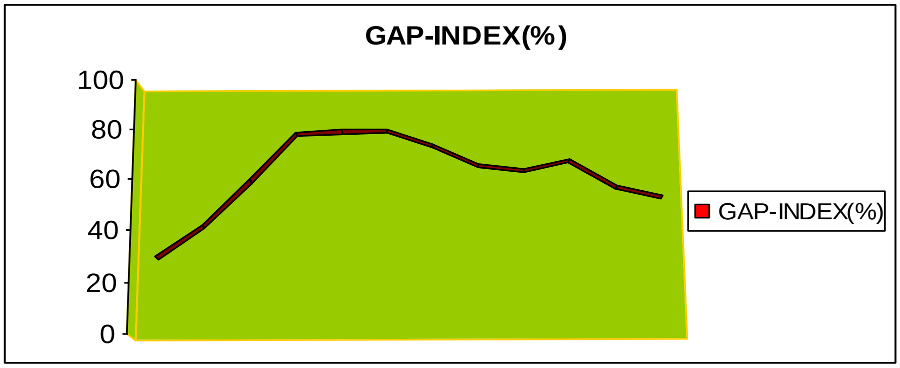
RESULTS AND DISCUSSION

The Gap Index Analysis has been used to measure the extent of difference between mobilization of funds and repurchase / redemption of the public and private sector mutual funds in India. These variables are being analysed in Table 1, 2 and Figure 1, 2 as under

Gap-Index Analysis of Mobilization of Funds in Public and Private Sector

In order to measure the extent of difference between mobilization of funds by public-sector and private sector mutual funds spread over 12-years period of study, the Gap-Index-Analysis was adopted as per methodology discussed earlier. The table 1 gives the gap index values in respect of mobilization of funds for private sector and public-sector mutual funds from 1998-2010. Table 1 exhibits that the gap index values in respect of mobilization of funds for public and private sector are 31 percent in the year 1998-99, 43 percent in 1999-2000, 61 percent in 2000-01, 80 percent in 2001-02, 81 percent in 2002-03 and 2003-04, 75 percent in 2004-05, 67 percent in 2005-06, 65 percent in the year 2006-07, 69 percent during the year 2007-08, 58 percent in 2008-09 and 54 percent in the year 2009-10. Thus, it ranged from 31 percent in the year 1998-99 to 54 percent in the year 2009-10. This shows that the gap has been widening very fast up to 2003-04 and has shown a decline thereafter. The analysis also suggests that the private sector mutual funds are gaining more in terms of magnitude of mobilization of funds compared to that of public sector mutual funds.

Figure- 1: Trend of the Gap Based on Mobilization of Funds in Public-Sector and Private Sector Mutual Funds Data Set



The pattern of the trend of movement of the gap between the two has also been shown in Figure 1. The figure has suggested that the gap reaching up to 81percent in 2003-04 from 31percent in 1998-99 and finally settled at 54percent in 2009-10. If the trend continues to be the same it is likely that the both the private and public sector mutual funds may come more closer to each other in terms of mobilization of funds.

Gap-Index Analysis of Redemption/Repurchase in Public and Private Sector Mutual Funds

In the above analysis, we have measured the gap between two-sectors and accordingly it is essential to analyze the gap between redemption/repurchase also as this sub-segment is directly associated with the mobilization of funds. The Gap-Index Analysis carried out for Redemption / Repurchase in respect of public sector and private sector mutual funds spread over a period of 12 years and presented in Table 2.

Figure: 2 Trend of the Gap Based on Gap-Indexes for Redemption / Repurchase of Public and Private Sector Mutual Funds data set

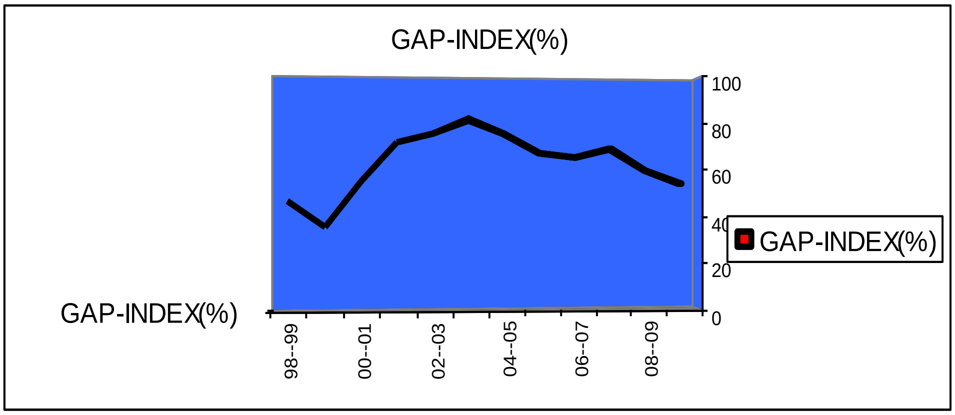


Figure- 3: Gap Indices of Mobilization of Funds in Public-Sector and Private Sector Mutual Funds and Redemption / Repurchase of Public and Private Sector Mutual Funds based on data sets

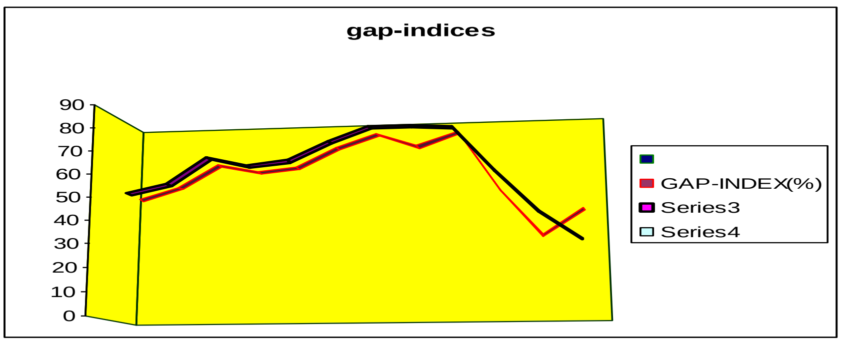


Table 2 depicts the gap index values in respect of redemption / repurchase of public and private sector mutual funds are 46 in the year 1998-99, 35 in 1999-2000, 55 in 2000-01, 81 in 2001-02, 75 in 2002-03, 81 percent in 2003-04, 75 percent in 2004-05, 67 percent in 2005-06, 65 percent in the year 2006-07, 69 percent during the year 2007-08, 59 percent in 2008-09 and 54 percent in the year 2009-10. Thus, it fluctuated from 46 in the year 1998-99 to 54 percent in the year 2009-10. It appears on the analysis that the year 1998-99 being an outlier or abnormal (a reported earlier also), the index has shown some difference but however from 1999-2000 onwards a steady growth is observed up to 2003-04 with a peak of 81percent Gap-Index, which appears to be significantly high. As in the case of the mobilization of funds the gap in redemption also started receding there after and touched a point of 54percent of gap-index during 2009-10.

However if the trend goes like this it may be projected that the redemption in private and public sector mutual funds may show quite closeness after 2009-10.The pattern or the trend on gap-index has also been shown in Figure 2 and Figure 3 shows the gap indices.

Correlation Analysis

In order to measure the relation between gap-index of mobilization of funds and redemption/repurchase, the Karl Pearson's coefficient of correlation(r) is calculated. The coefficient of correlation (r) is found to be of the order of .92 and is found to be significant at 1percent level of significance. The analysis suggests that there is strong evidence of relationship between the pattern of the gap–movement over different periods of the study between mobilization of funds and Redemption/Repurchase of public sector and private sector mutual funds. Figure 3 shows the superimposition of the two Gap-Indices curves and the relationship is self-explanatory.

However it may be mentioned here that the individual growth in mobilization of funds for public and private sector are 63percent and 75 percent respectively. In the case of redemption / repurchase these are 63 percent and 80 percent respectively, which further strengthen the idea that the redemption / repurchase are showing almost the same status of growth as in the case of mobilization of funds. This phenomenon has been observed with a high-degree of correlation between gap-indices as discussed above.

CONCLUSION AND SUGGESTIONS

On the basis of foregoing analysis, the following conclusions and suggestions can be made:

1. To measure the extent of difference between mobilization of funds by public and private sector, the period spreads over 12 years. The Gap-Index Analysis was adopted. It is observed that the gap has been widening very fast up to 2003-04 and has shown a decline thereafter.
2. The private sector mutual funds are gaining more in terms of magnitude of mobilization of funds compared to that of public sector.

3. The gap is reaching up to 81 percent in 2003-04 from 31 percent in 1998-99 and finally settled at 54 percent in 2009-10.
4. If the trend continues to be the same it is likely that both the private and public sector mutual funds may come more closure to each other in terms of mobilization of mutual funds.
5. The Gap-Index-Analysis suggest that the year 1998-99 being an outlier or abnormal (as reported earlier also). The index shows some difference but from 1999-00 onwards a steady growth is observed up to 2003-04 with a peak of 81 percent Gap-Index.
6. The gap in redemption also started receding after 2003-04 and touched a point of 54 percent during 2009-10.
7. It may be projected that the redemption in private and public sector mutual funds may show quite closeness after 2009-10.
8. To measure the relation between Gap-Index of mobilization of fund and redemption / repurchase a high degree of co-efficient of correlation of the order of .92 is found to be significant at 1 percent level of significance.
9. The analysis suggests that there is a strong evidence of relationship between the pattern of the gap movement between mobilization of funds and redemption / repurchase of public and private sector mutual funds.

LIMITATIONS OF THE STUDY

The study confined only public and private sector mutual funds in India and covers only twelve years i.e. from 1998-99 to 2009-10. As study is based only the secondary sources of information it faced asymmetry problem of timing for getting equal times results of mutual funds. Only the gap index analysis has been used to draw the conclusions that too only for two aspects that is mobilization of funds and repurchases and redemptions of mutual funds in India.

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Annexure

Table: 1 Gap Index for Mobilization of Funds in Public-Sector and Private Sector Mutual Funds

YEARS	PB	PV	GAP-INDEX (percent)
1998--99	14864.23	07846.50	31
1999--00	17515.57	43725.66	43
2000--01	17948.28	75009.11	61
2001--02	16724.91	147798.26	80
2002--03	30610.70	284095.49	81
2003--04	55540.59	534649.28	81
2004--05	103245.07	736463.30	75
2005--06	183446.05	914703.26	67
2006--07	338619.53	1599873.44	65
2007--08	683623.69	3780752.63	69
2008--09	1133602.96	4292750.31	58
2009--10	2320539.26	7698483.37	54

Source: Complied from the Annual-Reports

Table: 2 Gap-Indexes for Redemption / Repurchase of Public and Private Sector Mutual Funds

YEAR	Redemption / Repurchase of PB	Redemption / Repurchase of PV	GAP-INDEX (percent)
1998--99	17266.6	6393.8	46
1999--00	13712.17	28559.18	35
2000--01	18669.78	65159.59	55
2001--02	22599.6	134748.37	81
2002--03	38483.75	272026.05	75
2003--04	51276.66	492104.78	81
2004--05	105644.26	728863.8	75
2005--06	173643.6	871726.53	67
2006--07	323672.4	1520835.78	65
2007--08	663126.07	3647448.68	69
2008--09	1127881.65	4326767.88	59
2009--10	2292387.2	7643555.18	54

Source: Compiled from the Annual-Reports