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### RESEARCH ARTICLE

#### ROLE OF MUTUAL FUND IN INDIAN FINANCIAL SYSTEM.

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#### Abstract

Investing in stock markets directly and making a profit is not everyone's cup of tea because of not having in-depth knowledge, up & down of share market and not availability of time. Therefore such task is best left to professional investors and fund managers, which is what Mutual Funds do. This paper is an attempt to understand the role of mutual fund in the Indian Financial System. This study was carried out on the mutual fund investors in India. The 110 respondents were collected as sample. The result shows that more than 50% of people are aware about the mutual funds, most of investors will prefer higher return factor before investing their money. The researcher also evaluate the performance of top ten mutual funds and found long term equity is considered to be best in terms of returns and risk factor.

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#### Introduction:-

The history of mutual funds dates back to nineteenth century Europe, in particularly the Great Britain. Robert Fleming set up in 1868, the first investment trust called foreign and colonial investment trust which promise to manage the finances of the moneyed classes of Scotland by spreading over a number of different stocks. The investment trusts and other investment trusts which were subsequently set up in Britain and the US resembled today's close ended mutual fund the first mutual fund in us was set up in March 1924.

A mutual fund is a financial intermediary that pools the savings of investors for a collective investment in a diversified portfolio of securities. A fund is mutual as all of its returns minus its expenses are shared by the fund investors. A mutual fund serves as a link between the investors and securities market to generate returns. It is a collective saving scheme as it plays an important role in mobilizing savings of small investors and channelizing the same for productive ventures in the Indian economy.

The funds and investment of mutual fund are held by trusts of which the investors alone are the joint beneficial owners. Trustees oversee the management of the investors' money by the investment manager. A mutual fund may offer multiple products, variously called schemes, plans and funds to investors. Each mutual fund scheme will have a different portfolio of securities and may offer different facilities and costs to the investors. Investors choose the scheme that gives them exposure to the investments they want.

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A mutual fund is managed by asset management company (AMC) the activities of AMC are supervised by its own board of directors and by the board of trustees of the mutual fund who act in the interest of investors. All major decisions are taken by the AMC are subject to trustee approval.

Mutual fund provides a convenient way for investors to invest in different asset classes. The investment objective of fund will determine the asset class in which the fund invests and portfolio of securities created. Mutual funds can be broadly categorized into equity funds, debt funds, hybrid funds and other funds.

The present study made efforts in this regard to suggest ways to penetrate this mode of investment deep in Indian society it also provides the information that what present investor expects. Therefore, in this current scenario it is very important to identify needs of mutual funds investors, their preference for mutual funds schemes and its performance where many schemes are flooded in to market, it is important to analyze needs of consumers and to find out which factors affects consumers' needs the most.

### **Review of Literature:-**

Mutual funds are looked upon by individual investors as financial intermediaries/portfolio managers who process information, identify investment opportunities, formulate investment strategies, invest funds and monitor progress at a very low cost. Thus, the success of mutual funds is essentially the result of the combined efforts of competent fund managers and alert investors. The study said that, mean reversion in prices of stock is backed by investor's retrogression which is based upon investor's psychology to overvalue firm's recent performance in forming future expected results which is also known as endowment effect (De Bundt and Thayer, 1985).

The investor is ready to invest in those fund or schemes which have resulted good rewards and most investors' is attracted by those funds or schemes that are performing better over the worst (Hippolyta, 1992). The household investor for the objective to find investors' preferences to invest in mutual funds and other available financial assets Gupta (1994). Jambodekar (1996) conducted his study to size-up the direction of mutual funds in investors and to identify factors that influence mutual fund investment decision. Sujit Skidder and Amrita Pal Singh (1996) conducted a survey to peep in to the behavioral aspects of the investors of the North-Eastern region in direction of equity and mutual fund investment. Shaman Sunder (1998) conducted a survey with an objective to get an in-depth view into the operations of private sector mutual fund with special reference to Kothari Pioneer. Ajani Chakarabarti and Harsh Runagate (2000) emphasized the importance of brand in ascertaining competence of asset management companies

Various researchers have stated various views on the mutual fund investment that how mutual funds are growing in the country in private sectors, the factors influencing the mutual fund decisions. Some other researcher is peeping into behavioral pattern in mutual funds in north eastern states. Other studies show about the household investor's preference to invest in mutual funds or financial assets. Some managers see the firm's recent performances and future expected results. Our paper focuses on the study of the role of mutual funds in Indian Financial Sector.

### **Objectives of the Study:-**

1. To find out the level of awareness of mutual funds among investors.
2. To evaluate the performance of top 10 mutual funds on the basis of return parameters.
3. To find out the importance of factors like liquidity, higher return company's reputation and other factors that influence investment decision of mutual fund holder.
4. To find out the type of scheme of mutual fund preferred by investors.

### **Research Methodology:-**

The research study was based on exploratory research to find out the awareness level & importance of factors for investment in mutual funds and to describe these factors and evaluate the performance preferred scheme for of mutual fund descriptive research was used.

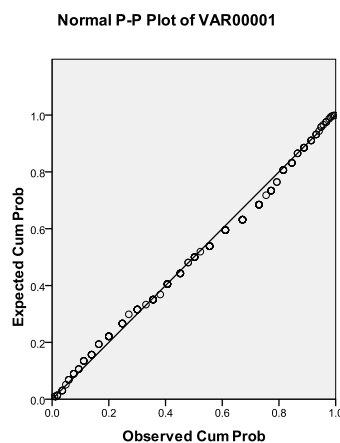
Primary research was conducted to know the level of awareness of mutual funds among investors. To check the level of awareness questionnaire was prepared and these questionnaire was sent through mail among those who are mutual fund investors in India only and secondary research was conducted to know the performance of top 10 mutual funds based on their return parameters for their further research analysis in this research study an attempt has been made to find out the awareness level regarding mutual funds and schemes in which they are investing.

A survey was conducted during November 2017. A sample of 110 individuals who are investors in mutual funds or who have invested in mutual funds prior and the individuals who are planning to invest in mutual funds. The survey was done through a pretested questionnaire. The questions contained in the questionnaire were just about the basic awareness of mutual funds. The purpose of this study were to find out the awareness level of mutual funds among individual's investors, the factors they are taking into consideration and in which type of mutual funds schemes is preferred by them is also studied. The sources of data are primary based on the individual opinion about mutual funds and secondary research findings presented in published books, journals and research report. The scale used in questionnaire is five-point Likert scale and multiple choices single response questions.

### Data Analysis and Findings:-

#### Normality of variables:-

The collected dataset was analyzed by SPSS-17. Mean computation and mean centric values were drawn for testing normality of data. The P-P plot was prepared and shown normality of data also the shapiro's test for Normality was also used to check the normality of the data. All the values are more than .05 which shows that data are normal.



#### Reliability measure:-

The internal consistency of was evaluated by Cronbach's alpha. The table-1 shows that items are internal consistent (.81)

#### Reliability Statistics:-

**Table-1:- Awareness level**

Cronbach's Alpha	N of Items
.81	5

#### Content & Construct Validity Measure:-

The panel of experts had analyzed that, items of scale was correlated with the objective. So the scale have content validity. The construct validity was verified by applying factor analysis. Before going on for factor analysis, applicability of factor analysis is tested. The KMO & Bartlett's score was .788 (>.5) & significant (.000) at 1% level of significance; prove the applicability of factor analysis.

The loading of each items (Table-3) in communalities matrix were more than 0.5 so, all items are contributing in the variables with the sample size 110. So, it proved convergent validity. The Eigen value (3.55) & (1.08) are more than 1 signified the construct validity.

**Table 2:- KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.778
Bartlett's Test of Sphericity	Approx. Chi-Square	112.008
	Df	21

	Sig.	.000
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**Table 3:-** Communalities.

	Initial	Extraction
VAR00001	1.000	.478
VAR00002	1.000	.621
VAR00003	1.000	.729
VAR00004	1.000	.615
VAR00005	1.000	.563
VAR00006	1.000	.954
VAR00007	1.000	.617
Extraction Method: Principal Component Analysis.		

**Table 4**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.550	50.712	50.712	3.550	50.712	50.712	3.550	50.708	50.708
2	1.028	14.683	65.395	1.028	14.683	65.395	1.028	14.687	65.395
3	.841	12.019	77.414						
4	.596	8.517	85.931						
5	.453	6.468	92.400						
6	.324	4.623	97.022						
7	.208	2.978	100.000						
Extraction Method: Principal Component Analysis.									

As per The Table-4 there are two components whose Eigen value is more than 1. These two components are important by verifying the component one and component two the names have been given as the awareness and market risk of mutual funds. The component 1 is highly significant and it explains the variance of more than 50%.

**Table 5: Rotated Component Matrix** Extraction Method:

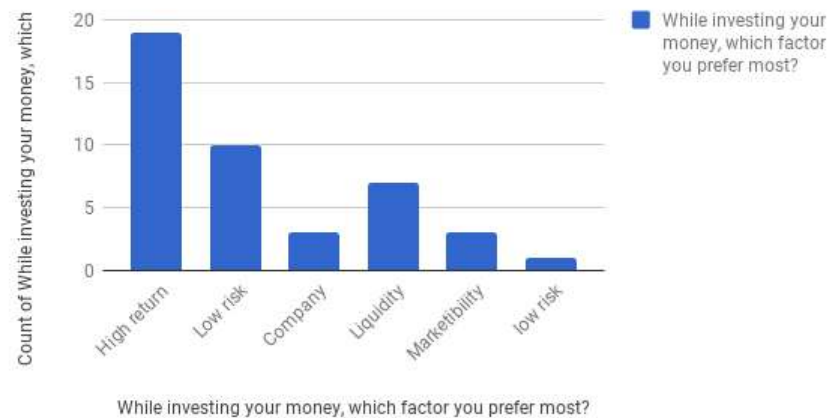
	Component	
	1	2
VAR00001	.691	-.025
VAR00002	.778	-.122
VAR00003	.846	-.116
VAR00004	.772	.136
VAR00005	.751	.009
VAR00006	.003	.977
VAR00007	.769	.161

Fund Name	Fund Type	1 Year Returns	3 Year Returns	5 Year Returns	Risk Grade	Return Grade
ICICI Prudential Focused Blue-chip Equity Fund	Equity: Large Cap	19.99%	13.25%	18.83%	Below Average	Above Average
Franklin India Prima Plus Fund	Equity: Multi cap	16.77%	17.26%	21.10%	Low	Average
ICICI Prudential Value Discovery Fund	Equity: Multi cap	12.09%	14.22%	22.59%	Below Average	Above Average
DSP BlackRock Opportunities Fund	Equity: Multi cap	23.92%	18.39%	22.17%	Average	Above Average
Axis Long Term Equity Fund	ELSS	16.80%	16.57%	24.52%	Low	Above Average
DSP BlackRock Tax Saver Fund	ELSS	22.02%	17.16%	22.49%	Below Average	Above Average
ICICI Prudential Corporate Bond Fund	Debt: Credit Opportunities	9.88%	9.85%	9.29%	Low	Average
Franklin India Ultra Short Bond Fund – Super Institutional Plan	Debt: Ultra Short Term	9.31%	9.61%	9.75%	Below Average	High
Reliance Dynamic Bond Fund	Debt: Dynamic Bond	10.93%	10.74%	9.74%	High	Average
Birla Sun Life Short Term Fund	Debt: Short Term	9.10%	9.56%	9.49%	Average	Average

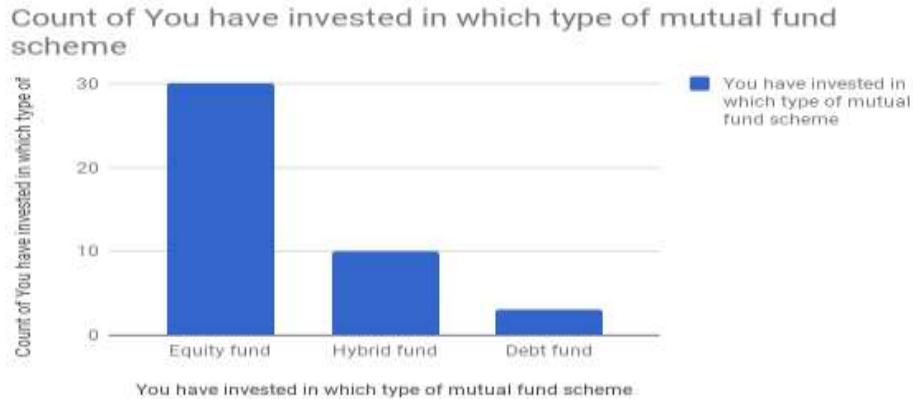
**Table 6:-** Evaluation of 10 mutual Fund on the basis of return Parameter.

From the above table it shows that Axis long term equity is considered to best type of mutual funds in terms of returns and risk factors. 24.52% a 5 year return, risk is low and the return grade is above average.

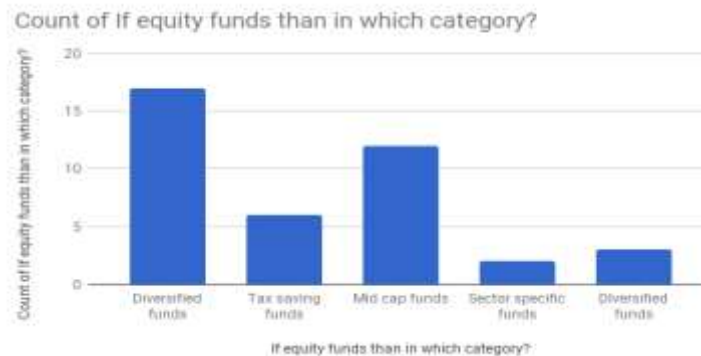
Count of While investing your money, which factor you prefer most?



From the above graph high return is considered by investors while they are investing money in mutual funds.



According to the results investors are prefer to invest in equity funds as it gives higher returns and less risky. As compared to debts they are more risky than equity funds.



According to the graph in equity fund investor prefer diversified fund.

### Discussions & Implication:-

This research paper consists of four parts that is awareness of mutual funds, factors critical for investing in particular mutual funds, to check the performance of top ten mutual funds on the basis of their returns and the type of scheme of mutual fund preferred by investors.

The first part is about the general awareness of mutual funds and to understand this factor analysis was used to find out the level of awareness of mutual funds the test shows that more than 50% of people are aware about the mutual funds. The second phase of the study is about the factors preference while investing money in mutual funds from the above findings it is clear that most of investors prefer higher return from these funds while investing their money. From the above observation it is clear that if the investors wants higher returns most of them are investing in equity funds and in equity they are choosing diversified funds (they are not large nor small type funds). The study was to evaluate the performance of top ten mutual funds from the above table axis long term equity is considered to be best in terms of returns and risk factor. The return of axis long term equity is the high as compared to all other funds.

World's saving scenario in financial assets is drastically improving as compared to physical and debt assets. With lesser risk and greater diversifications options mutual funds have emerged as a preferable profit-making option with the expectations of regular and higher returns on these funds investors are attracted to opt for mutual funds. As explained before that investor's getting higher returns is the highest among all other factors such as liquidity marketability etc. Advisors play a very important role in financial service sectors. Increase in the number of products in financial services the role of investment advisors become more critical and more demanding as the investors rely on these advisors while making investments as while selecting any schemes investor prefer to look at their past performances and returns. The top performing schemes in AMC'S is the easiest way for evaluating any of the schemes for the investors to invest.

**Limitations/Future Scope of Study:-**

The major limitation faced during the research was the availability of time, people and money. The present study required more responses. The study covers only few aspects of mutual funds as there are other major aspects of mutual funds in the present financial system, some major schemes are not included in the current study which has resulted in decrease of sample size.

The present study is quite small covering only few aspects of mutual funds regarding the awareness of mutual funds in the present environment where it's considered the most important tool of investment from then and now. Even there is more scope to extend the present research further. The same kind of study might carry further for a shorter span of time say two to three months. By considering this other main aspect of mutual funds can be covered.

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