A STUDY ON FORECASTING THE FUTURE GROWTH RATES OF MUTUAL FUNDS: PREDICTIVE MODELS AND MARKET IMPLICATIONS WITH REFERENCE TO HDFC

[1] P. Harini, [2] Annaldas Chandana
[1]Assistant Professor, [2]MBA Student
DEPARTMENT OF MBA
Sree Chaitanya College of Engineering, Karimnagar

ABSTRACT

While some people prioritise safety, others may place a higher value on independence. While one parent plans for his child's schooling, another may save up for that infamously stormy day—or even for life after retirement. Obviously, the necessary goods will vary depending on whether the targets are resistant to any range.

The Indian mutual funds market caters to a wide range of investors with its comprehensive plan selection. Value reserves, obligations, fluid, overlay, and modified assets are all part of the scope of things. Additionally, there are savings accounts that are just for certain age groups, as well as for small and large investors. Further assurance that the investors will not be conned out of their rightful money is provided by the establishment of a legal framework with sufficient teeth to protect investor interests. When these factors are considered, the advantages they provide transcend the boundaries of investor class, making them an all-encompassing fascination.

People from many walks of life who are looking to invest have a lot of options, but they all seem to agree that mutual funds provide the best combination of benefits. In order to meet the varying demands of investors, the mutual fund business is always brainstorming new strategies, plans, and alternatives related to liquidity, profit frequency, and rate of return.

Consideration of the investors' introduction to mutual funds, including their risk tolerance and preferences in various plans, plans, and choices, was deemed necessary in light of the growing difficulty in the market so as to provide better administration.

1. INTRODUCTION TO MUTUAL FUND

Mutual fund is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer document.

Investments in securities are spread across a wide cross-section of industries and sectors and thus the risk is reduced. Diversification reduces the risk because all stocks may not move in the same direction in the same proportion at the same time. Mutual fund issues units to the investors in accordance with quantum of money invested by them. Investors of mutual funds are known as unit holders.

The profits or losses are shared by the investors in proportion to their investments. The mutual funds normally come out with a number of schemes with different investment objectives which are launched from time to time. A mutual fund is required to be registered with Securities and Exchange Board of

India (SEBI) which regulates securities markets before it can collect funds from the public.

A mutual fund is set up in the form of a trust, which has sponsor, trustees, asset Management Company (AMC) and custodian. The trust is established by a sponsor or more than one sponsor who is like promoter of a company. The trustees of the mutual fund hold its property for the benefit of the unit holders. Asset Management Company (AMC) approved by SEBI manages the funds by making investments in various types of securities. Custodian, who is registered with SEBI, holds the securities of various schemes of the fund in its custody. The trustees are vested with the general power of superintendence and direction over AMC. They monitor the performance and compliance of SEBI Regulations by the mutual fund.

Mutual fund in India

Unit Trust of India was the first mutual fund set up in India in the year 1963. In early 1990s, Government allowed public sector banks and institutions to set up mutual funds.

In the year 1992, Securities and exchange Board of India (SEBI) Act was passed. The objectives of SEBI are to protect the interest of investors in securities and to promote the development of and to regulate the securities market.

As far as mutual funds are concerned, SEBI formulates policies and regulates the mutual funds to protect the interest of the investors. SEBI notified regulations for the mutual funds in 1993. Thereafter, mutual funds sponsored by private sector entities were allowed to enter the capital market. The regulations were fully revised in 1996 and have been amended thereafter from time to time. SEBI has also issued guidelines to the mutual funds from time to time to protect the interests of investors.

All mutual funds whether promoted by public sector or private sector entities including those promoted by foreign entities are governed by the same set of Regulations. There is no distinction in regulatory requirements for these mutual funds and all are subject to monitoring and inspections by SEBI. The risks associated with the schemes launched by the mutual funds sponsored by these entities are of similar type

You can make money from a mutual fund in three ways:

1) Income is earned from dividends on stocks and interest on bonds.
2) If the fund sells securities that have increased in price, the fund has a capital gain.
3) If fund holdings increase in price but are not sold by the fund manager, the fund's shares increase in price. You can then sell your mutual fund shares for a profit.

Advantages of Mutual Funds:

- **Professional Management** - The primary advantage of funds is the professional management of your money. Investors purchase funds because they do not have the time or the expertise to manage their own portfolios. A mutual fund is a relatively inexpensive way for a small investor to get a full-time manager to make and monitor investments.
- **Diversification** - By owning shares in a mutual fund instead of owning individual stocks or bonds, your risk is spread out. The idea behind diversification is to invest in a large number of assets so that a loss in any particular investment is minimized by gains in others.
- **Economies of Scale** - Because a mutual fund buys and sells large amounts of securities at a time, its transaction costs are lower than what an individual would pay for securities transactions.

- **Liquidity** - Just like an individual stock, a mutual fund allows you to request that your shares be converted into cash at any time.
- **Simplicity** – Minimum investment is small.

Disadvantages:

• **Dilution** - It's possible to have too much diversification. Because funds have small holdings in so many different companies, high returns from a few investments often don't make much difference on the overall return.

• **Taxes** - When making decisions about your money, fund managers don't consider your personal tax situation.

NEED OF THE STUDY

1. Mutual funds are dynamic financial intuitions which play crucial role in an economy by mobilizing savings and investing them in the capital market.

2. The activities of Mutual funds have both short and long term impact on the savings in the capital market and the national economy.

3. Mutual funds, trust, assist the process of financial deepening & intermediation.

4. To banking at the same time they also compete with banks and other financial intuitions.

5. India is one of the few countries to day maintain a study growth rate is domestic savings.

SCOPE OF THE STUDY:

The study is limited to the analysis made on two major types of schemes offered by six banks. Each scheme is calculated in term of their risk and return using different performance measurement theories. The reasons for such performance in immediately analyzed in the commentary. Column charts are used to reflect the portfolio risk and return.

OBJECTIVES

MAIN OBJECTIVE:

- A study on **Growth rate analysis of mutual funds** in **HDFC Limited (AMC)**, are effecting on the financial performance of the company.

ANCILLARY OBJECTIVES:

- To know the different mutual fund schemes in **HDFC Limited (AMC)** mutual Fund.
- To know the concept of Mutual funds.
- To know how the **HDFC Limited (AMC)** Mutual funds are participating in the stock market.
- To know how the **HDFC Limited (AMC)** Mutual funds are effecting on the overall performance of the **HDFC Limited (AMC)** Company.

2. METHODOLOGY

Meaning of research: The method and technique that are used for conducting the research. Research methodology is a systemic way of solving research problem this methodology includes all the stages of research such as research process, research design, sampling design, data collection, data analysis, data interpretation and data presentation.

Research Process: - This is the process of conducting entire research in such away to solve the research problem. It includes identification of problem conducting the research and interpretation of the data and reporting.

To test the Different Mutual fund Schemes and its effect on the Business with reference to the HDFC Mutual Funds.

Research design: - It indicates a design of research problem and research process

1. Information collected from the Questionnaire to the **HDFC Limited (AMC)** Mutual Fund Hyderabad branch.

2. I collect all the Financial Statements from the **HDFC Limited (AMC)** Mutual fund websites.

Data collection:-The objective of the present study can be accomplished by conducting a systematic research to know the effect of **HDFC Limited (AMC)** Mutual Fund Schemes on the Business.

1. Primary data The information presented in the report is primary data, i.e. the data Collected from the "**HDFC Limited (AMC)**" through the Questionnaire.

2. Secondary data

Secondary data is taken from

- Website
- **HDFC Limited (AMC)**Journals
- Security Analysis (sem-4)
- Brocuhers

Tools for data analysis:- To analyse the information (or) data collected form Branch Manager and various financial Statements the following tools are used:

1. Percentages
2. Averages
3. Range
4. Graphs
5. Bar Chart

LIMITATIONS

- Mostly the data is related to the secondary data.
- To collect the primary data from the company is difficult task and it is a confidential matter to the company.
- The product is restricted to only mutual funds.
- The data is only limited to financial performance of the mutual funds.
- The collected primary data is only from the one branch head of Hyderabad.
- The comparison for the financial performance of the company is taken only.

3. TYPES OF MUTUAL FUND SEHEMES

BY STRUCTURE

- Open-Ended Schemes
- Close-Ended Schemes
- Interval Schemes

BY INVESTMENT OBJECTIVE

- Growth Schemes
- Income Schemes
- Balanced Schemes
- Money Market Schemes

OTHER SCHEMES

- Tax saving Schemes
- Special Schemes
- Index Schemes
- Sector Specific Schemes

Mutual fund schemes may be classified on the basis of its structure and its investment objective.

By Structure:

Open-ended funds

An open ended fund is one that is available for subscription all through the year. These do not have a fixed maturity. Investors can conveniently buy and sell units at Net Asset Value ("NAV") related prices. The key feature of open-end schemes is liquidity.

Closed-ended funds

A closed end fund has a stipulated maturity period which generally ranging from 3 to 15 years. The fund is open for subscription only during a specific period. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units of the scheme on the stock exchanges where they are listed.

Interval funds

These combine the features of open-ended and closed-ended schemes. They are open for sale or redemption during pre-determined intervals at NAV related prices.

By Investment Objective:

Growth funds

The aim of growth funds is to provide capital appreciation over the medium to long-term. Such schemes normally invest the majority of their corpus in equities. It has been proven that returns from stocks, have outperformed most other kind of investments held over the long term. Growth schemes are ideal for investors having a long-term outlook seeking growth over a period of time.

Income funds

The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures and government securities. Income funds are ideal for capital stability and regular income.

Balanced funds

The aim of balanced funds is to provide both growth and regular income. Such schemes periodically distribute a part of their earning and investment both in equities and fixed income securities in the proportion indicated in their offer documents. In a rising stock market, the NAV of these schemes may not normally keep pace, or fall equally when the market falls. These are ideal for investors looking for a combination of income and moderate growth.

Money market funds

For over 30 years, money market funds have treated investors well. Money market funds have been around for 30 years and are a very popular place for investors to park their money.

Money market funds are a type of mutual fund that invests in short-term (less than a year) debt securities of agencies of the U.S. Government, banks and corporations and U.S. Treasury Bills. They are fixed at $1 per share and only the yield fluctuates.

Load Funds

A load fund is one that charges a commission for entry of exit. That is, each time you buy or sell units in the fund, a commission will be payable. Typically entry exit loads range from 1% to 2%. It could be corpus is put to work.

No-Load Funds

A No-Load fund is one that does not charge a commission for entry or exit. That is, no commission is payable on purchase or sale of units in the fund. The advantage of a No-Load fund is that the entire corpus is put to work.

Other Schemes:

Tax saving Schemes:

These schemes offer tax rebates to the investor under specific provisions of the Indian income tax laws as the Government offers tax incentives for investment in Equity Linked Saving Scheme (ELSS) and Pension Schemes are allowed as deduction u/s 88 of the Income Tax Act. The Act also provide opportunities to investors to save capital gains u/s 54EA and 54EB by investing in Mutual funds, provided the capital asset has been sold to April 1,2000 and the amount is invested before September 30,2000.

Special Schemes:

Industry Specific Schemes

Industry Specific Schemes invest in the industries specified in the offer document. The investment of these funds is limited to specific like Info Tech, FMCG, and Pharmaceuticals etc.

Index Schemes:

Index Funds attempt to replicate the performance of a particular index such as the BSE sensex or the NSE.

SECTORAL SCHEMES:

Sectoral funds are those, which invest exclusively in a specified industry or a group of industries or various segments such as ‘A’ Group shares or initial public offerings.

4. FINDINGS

SHARPE’S: As per Sharpe performance measure, a high Sharpe ratio is preferable as it indicates a superior risk adjusted performance of a fund. From the above **HDFC GOLD Fund – Growth** and **Axis banking Debt fund-Growth** show a better risk-adjusted performance out of top4 AMC’S.

TREYNOR’s: As per TREYNOR’S ratio the Treynor’s reward to volatility - having high positive index is favorable. Therefore, as per this ratio also **Axis banking Debt fund-Growth** is preferable.

5. SUGGESTIONS TO INVESTORS:

Investing Checklist

- Financial goals & Time frame

(Are you investing for retirement? A child’s education? Or for current income?)

Risk Taking Capacity

Identify funds that fall into your Buy List

Obtain and read the offer

Documents match your objectives

- In terms of equity share and bond weightings, downside risk
- protection, tax benefits offered, dividend payout policy, sector focus
- Performance of various funds with similar objectives for at least 3-5 years
- Think hard about investing in sector funds For relatively aggressive investors
- Close touch with developments in sector, review portfolio regularly – Look for `load' costs
- Management fees, annual expenses of the fund and sales loads
- Look for size and credentials
- Asset size less than Rs. 25 Crores
- Diversify, but not too much
- Invest regularly, choose the S-I-P
- MF- an integral part of your savings and wealth building plans.

6. CONCLUSIONS

- EQUITY FUNDS-Axis Banking Debt Fund-Growth is doing very well, according to the study's findings.
- You will make money if you put your money with HDFC-Growth.

- As a whole, the Axis Bank Debt Fund-Growth seems to be doing really well.
- Potential backers of mutual funds must be informed about them.
- The industry's management and investors should be open and honest about their goals.
- As a result of global AMCS lining up to join the Indian markets, mutual funds have grown by 100%.
- Rural regions may also be accessed via mutual funds.

BIBILIOGRAPHY

I. TEXT BOOKS

Donald E Fischer
Ronald J Jordan — Security Analysis Portfolio Management

H.Sadhak — Mutual Fund in India

III. MAGAZINES

Business India

Business World

IV. NEWS PAPERS

Economic Times

Business Standard.