

# PARAMETRIC EVALUATION OF MUTUAL FUND PERFORMANCE –HDFC

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## ABSTRACT

Investments goals vary from person to person. While somebody wants security, others might give more weight age to returns alone. Somebody else might want to plan for his child's education while somebody might be saving for the proverbial rainy day or even life after retirement. With objectives defying any range, it is obvious that the products required will vary as well.

Indian Mutual Funds industry offers a plethora of schemes and serves broadly all tope of investors. The range of products includes equity funds, debt, liquid, gilt and balanced funds. There are also funds meant exclusively for young and old, small and large investors. Moreover, the setup of a legal structure, which has enough teeth to safeguard investor's interests, ensures that the investors are not cheated out of their hard earned money. All in all, benefits provided by them cut across the boundaries of investor category and thus create for them, a universal appeal.

Investors of all categories could choose to invest on their own in multiple options but opt for Mutual Funds for the sole reason that all benefits come in a package. The Mutual Fund industry is having its

hands full to cater to various needs of the investors by coming up with new plans, schemes and options with respect to rate of returns, dividend frequency and liquidity.

In view of the growing competition in the Mutual Funds industry, it was felt necessary to study the investors orientation towards Mutual Funds i.e. their pattern of risk apatite and preferences in various schemes, plans and options in order to provide a better service,

## 1. INTRODUCTION

### Parametric Analysis

This technique is used to determine a product's place in the marketplace alongside the competition. Plots are made of different aspects of the product (E.g. the speed of a car against cost) together with the corresponding aspects of competing products. This technique will show relationships between different aspects which are sometimes not immediately obvious or known. In order to be effective, a large number of different plots must be done. Most of these will show no obvious relationships, however a few will reveal strong relationships between different aspects. For instance, if a plot reveals that a product's cost is higher than the

competitions when plotted against the speed of the car, this suggests that the targeted cost for the product is too high. This information helps to produce a product design specification for the new product.

This technique has the added advantage that it is relatively inexpensive, because plots are made using readily available published data about competing products. A typical plot is shown. The plot marked anomaly would suggest that this product needs further investigation to reveal why its parameters depart so markedly from competing products.

Mutual Fund Industry which is a relatively of a post-economic reforms phenomena in India, has been expanding during this Period in branch and bound Many commercial banks, insurance companies entered into mutual fund industry apart from foreign players. In the early years of evolution of mutual fund industry in the Indian financial market it was a monopoly and continued to be the same till very recent time. Then many players both foreign and Indian entered in the Mutual Fund Industry.

This increased the competition between the various firms working in the mutual fund Industry The need for developing various new schemes arises so as to attract investors towards the firm and equally encouraging them to invest. This growth in the Mutual Fund Industry and scope of increasing markets has further increased the competition between the firms in the industry.

The competitions had given raise to demand for specialized products and skills of various individuals who can contribute towards the containment and growth of individual firms in the mutual firm industry. This gave rise to various related organizations and individuals working as specialized teams in the various areas of mutual funds. One such organization is **HDFC Asset Management Company Ltd (AMC)** it comes into pictures where the investors apply for the units in a Mutual Fund schemes and verify the validity and eligibility of the investor and allots the units

The mutual fund companies now receive millions of applications if a new scheme is launched.

This is due to the wide spread awareness created among the urban and rural Population of India. It therefore becomes a Herculean task to Manage the flooding applications However it should be noted that this is a Onetime activity similar to that of a short run project It is needless to State that a given mutual fund firm will not be possessing The technological, human and knowledge resources to take up such a gigantic task, it is in fact not needed by a mutual fund firm to create such a vast organizational structure when it is seen from the point of view scale of economies. Further to this problem, the mutual fund industry does not know where it stands in the current volatile and turbulent environment. This may be the reason they prefer to hire the services of professionals firm with specialized knowledge and Expertise.

These developments have led to an outcome that today, launching of mutual fund scheme has become a well organized activity which is accomplished through the coordinated endeavors of task groups.

The asset management companies have designed various schemes in accordance with the requirements of the various sections on investors on basis of equity linked, debt instruments linked, commodities linked and specific industry linked instruments. The investor today is given a wide range of options to invest in various types of funds according to his interests and capabilities.

Mutual funds enable even a small investor to invest, as most of the mutual funds just start from a minimum amount of investment hence even a small investor can invest into a mutual fund and reap returns in the same proportions as the other big time investors. This shows that mutual fund industry is one which aims at every section of the society. To deal with this large population of investors and the competition, the asset management company has been forced to develop and design new schemes and hire the services of professionals.

mutual fund industry involves various operations from the stage of identification of the target group or defining a market segment, designing a scheme which comes up to the expectations and aspirations of the target group or market segment, reaching the selected market through launching the scheme which is thereby called NFO, till the stage of investing the amount raised in accordance with the norms stipulated with

offer document and distributing the returns to the investor by way of dividend, after making adequate provision for taxation and other operating costs. All this process is well organized and performed in a specific order. There are various related organizations which specialize in the activities at various stages of the functioning of the mutual funds.

It is therefore felt expedient to examine the various intricacies involved in the new fund offer (NFO). Specifically the various documents that are being processed, the parameters evolve either customarily or by legal mandate to scrutinize the applications. Various stages involved in the scrutiny, the rejection criteria, the creation of human organization to monitor the activities, the communication channel and the structure of the organized activities and the legal environment of NFO to some extent. Such a dissertation would help to come out with a comprehensive report which may serve as a guide for the prospective entrants into mutual fund investment and to the existing mutual fund investors to some extent.

## **2. NEED AND IMPORTENCE 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 of the study:

- **Study of Mutual funds in HDFC Asset Management Company Ltd (AMC)**
- To study the technical, procedural, legal dimensions of the NFO
- To examine briefly the organizational structure, communication network, resource requirements to launch a new fund
- To study a sample of application drawn.

### 3. Methodology of study:

To fulfill the objective of the study both primary and secondary data has been collected. Primary data is the data collected specifically for the study. Data is collected directly from people and organizations via

questionnaires or surveys before being analyzed to reach conclusions concerning the issues covered in the questionnaire or survey.

In this study primary data was collected through interaction with staff of **HDFC Asset Management Company Ltd (AMC)** . and the applications of Reliance equity fund.

Secondary data is the data collected previously by someone else for some other purpose which can be analyzed and interpreted according to requirements. For example, sources of secondary data are government publications, newspapers, worldwide web etc.

In this study the Secondary data is mainly taken from

- \* The company's training material.
- \* Reconciliation statements.
- \* Other documents generated within the organization which have to Access
- \* [www. hdfc.com](http://www.hdfc.com),  
[www.amfiindia.com](http://www.amfiindia.com),[www.sebi.com](http://www.sebi.com).

### Limitations of study:

\* Analysis of the applications is carried out by taking the applications from Reliance equity Fund. The data available is therefore restricted by the design of the application.

\* The inspection of applications is done on the basis of a sample of 120 applications. Though the sample is drawn randomly, the possibility of sampling

fluctuations affecting the findings cannot be ruled out.

\* Numerical data like number of applications received, total subscription amount received, statement of accounts, investor details, etc are not available and therefore a description of these aspects is given.

\* NFO process may not be same for all mutual funds that are released. It may differ from one fund to other depending upon the size like the no. of applications received, subscription amount received, etc.

#### 4. Parametric and Nonparametric Statistics

When analyzing data for a research project you're often confronted with a decision about what kind of statistical analysis to perform. There are literally hundreds of tests from which to choose and you have to be careful to select the one that is the most appropriate for your data. If you select an inappropriate test then you may make an incorrect interpretation about your data and your manuscript will likely be rejected during a journal review process. Although it is impossible to give a definitive method for selecting appropriate tests in a brief article such as this, one aspect of statistical tests that is often confusing will be discussed – the difference between parametric and nonparametric statistical tests.

When you gather scientific data, one of the first statistics you'll typically calculate is the mean. This statistic is

used to indicate average value of a population or sample. If the mean is combined with another common statistic called the standard deviation, then the pair of numbers tells the researcher both the central tendency of the group of numbers and their spread. A large standard deviation reflects a large spread in the data – the numbers are diverse and far apart. A small standard deviation reflects a tightness of the data – the numbers are close together. However, before you can really depend on these statistics to give you accurate information about the data, you're required to make the assumption that the data are normally distributed – that is, if you were to plot the data in a histogram, it would create a graph that looks like the well-known bell-shaped curve. When data behave in this way you can make some simple assumptions about the data. For example, the mean plus or minus one standard deviation contains about 65% of the data, and the mean plus or minus two standard deviations contains about 95% of the data. This information is often used to create a range of values in which you might expect future sampled data to appear.

When statistics are calculated under the assumption that the data follow some common distribution such as the normal distribution we call these parametric statistics. It follows that statistical tests based on these parametric statistics are called parametric statistical tests. Thus, when the data are normal, we can then use a host of well-known parametric statistical tests to analyze our data -- such

as t-tests, analysis of variance, linear regression, and others.

However, what happens when your data are not normally distributed? Suppose you create a histogram of your data and it doesn't look like the bell-shaped curve. Suppose it has two humps or it has most of its data at one end of the distribution with some of the data trailing off into a long tail. Now what can you do? There are several ways to approach non-normal data, but we'll only discuss one in this article – using a non-parametric test in lieu of a standard parametric test. Non-parametric tests are also called distribution-free tests since they do not make the assumption that the data follows some distribution.

For example, suppose you have two independent groups (corresponding to two drugs) on which some measurement has been made – for example, the length of time until relief of pain. You want to determine if one drug has a better overall (shorter) time to relief than the other drug. However, when you examine the data it's obvious that the distribution of the data is not normal (You can test for normality of data using a statistical test.) If the data had been normally distributed, you would have performed a standard independent group t-test on this data. But since the assumption of normality cannot be made, what can you do? Fortunately for almost every parametric test in the statistical toolbox, there is a corresponding non-parametric test. In this case a corresponding nonparametric test is the Mann-Whitney test. Using the Mann-Whitney test you can calculate a

significance level to help you determine the answer to your research question – are the values of the observations from one group significantly lower than the observations from the other group? (Notice that we're not comparing means.)

Other standard parametric tests also have corresponding non-parametric counterparts. The Wilcoxon Signed Rank test can be used for the paired t-test. The Kruskal-Wallis test can be used for a one-way independent group analysis of variance, and so on.

Why not just always use non-parametric tests? Since non-parametric tests do not make an assumption about a distribution of the data, they have less information to use to determine significance. Thus, they are less powerful than the parametric tests. That is, they have a more difficult time finding statistical significance.

Therefore, if a parametric test is appropriate it should be used because it gives you a better chance of finding significances when they exist. If the parametric test is not appropriate, then a non-parametric test is a reasonable substitute.

When using WINKS, you may refer to the diagrams in Appendix B (in the printed manual) to help you determine which parametric or nonparametric test is appropriate for your data

**New fund offer (NFO):**

When a mutual fund asset management company announces Public issue of units of a new fund/scheme it is called a New Fund Offer (NFO).

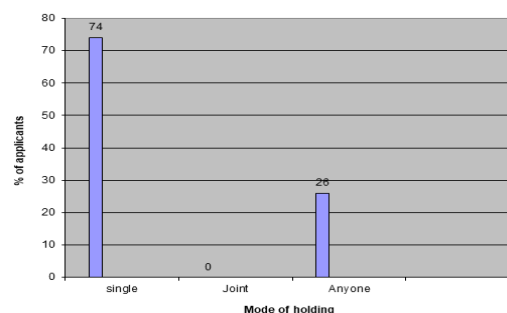
When a mutual fund company plans for a new fund offer it first informs to the registrar or the back office functions provider like HDFC through email. This is called as “NFO Launching Information Mail” send by the fund manager of the asset management company to the NFO coordinator of the HDFC. In this Mail the fund manager will ask the NFO coordinator to get ready for the new fund with the required man power and software.

Later they send the sample application form, the key information memorandum (KIM) and offer document to HDFC. This offer document sets forth concisely, necessary information about the scheme for a prospective investor to make an informed investment decision on the scheme described. The offer document contains the salient features of the scheme like NFO opening date, NFO closing date, Scheme name, Scheme class, reopening date, plans available banks involved, number of bank branches involved, minimum amount – fresh purchase, maximum amount – fresh purchase, expected number of applications, entry load and exit load. The unit manager or the NFO coordinator will arrange a meeting where the AMC team, NFO expert’s team, Data entry team, Reconciliation team and the dispatch team will discuss and fix the target dates by which the work has to be completed accordingly.

## 5. DATA ANALYSIS AND INTERPRETATION

### Holding profile of applicant:

Particulars	Single	Joint	Anyone	Total
No. of applicants	89	0	31	120
% of applicants	74	0	26	100

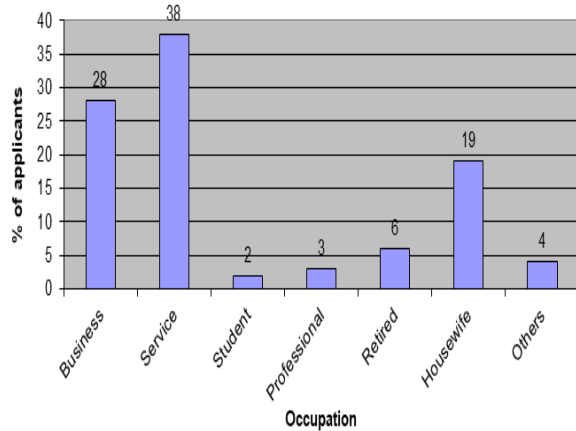


### Interpretation:

It can be seen that majority of the applicants prefer to hold the allotted units individually and 26% prefer to hold anyone/survivors. This corroborates with the age profile of the applicants.

### Occupation profile of applicants:

Particular	Business	Service	Student	Professional	Retired	Housewife	Others	Total
No. of applicants	34	46	2	4	7	23	5	120
% of applicants	28	38	2	3	6	19	4	100



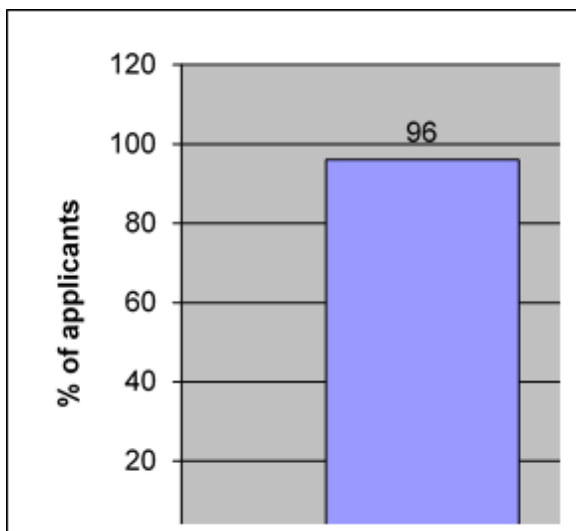
**Interpretation:**

Majority of the applicants are from services personnel at 38%, next comes business People are 28%. The housewife occupy 3<sup>rd</sup> highest at 19%. It is found that professionals and retired are at the lowest.

**STATUS:**

**a) Residential status of individual applicants:**

Particulars	Resident	NRI	Total
No. of applicants	104	4	108
% of applicants	96	4	100

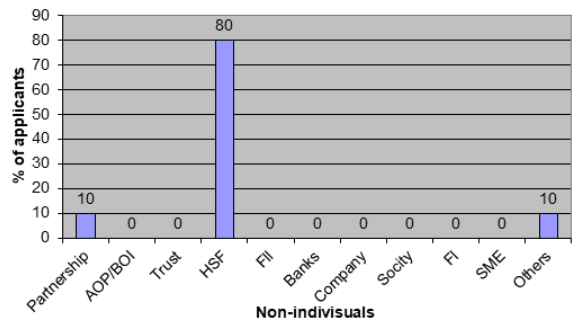


**Interpretation:**

It can be observed from the table and the chart that the majority of applicants are resident individuals constituting 96% the applicants and remaining 4% are the Non-resident Indians.

**b) Status of non-individuals:**

Particulars	Partnership	AOP/BOI	Trust	HUF	FI	Banks
No. of applicants	1	0	0	10	0	0
% of applicants	10	0	0	80	0	0
Particulars	Company	Society	FI	SME	Others	Total
No. of applicants	1	0	0	10	0	0
% of applicants	10	0	0	80	0	0



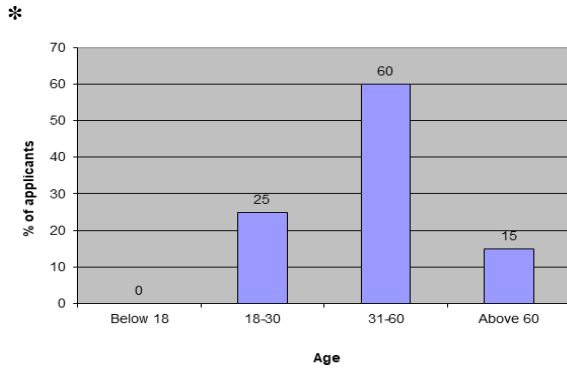
**Interpretation:**

In the non-individuals category HUF occupied the highest at 80% and next 10% is for partnerships. In others category 10% is found and all other non-individual entities have recorded zero applications.

**Age profile of the applicants:**

Particulars	Below 18	18 - 30	31 - 60	Above 60	Total
No. of applicants	0	30	72	18	120
% of applicants	0	25	60	15	100

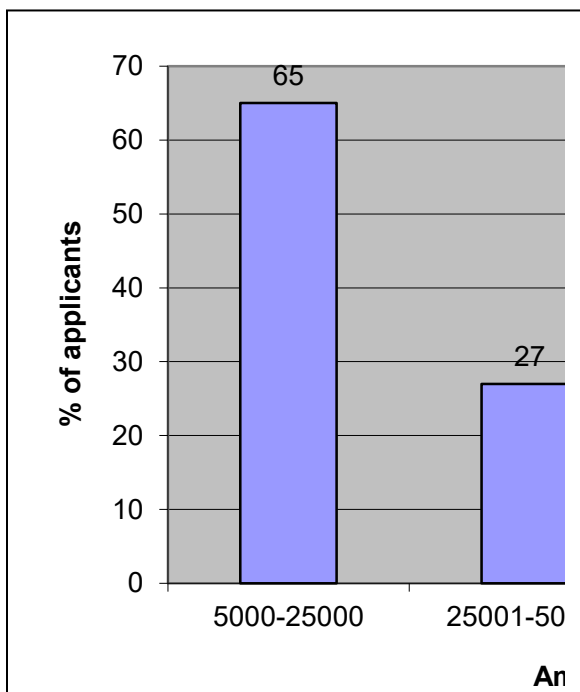




**Interpretation:**

The age profile of the applicants shows that the majority of the applicants fall into the age Group 31-60 years and the percentage of them being 60. This is followed by the age Group 18-30 years and 15% of the applicants are above 60 years.

**Investment profile of the applicants:**



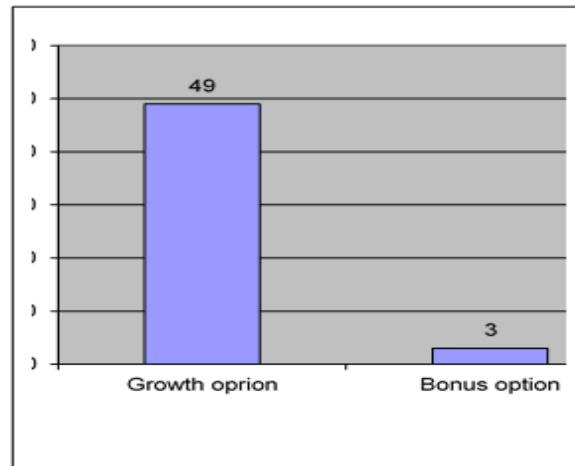
Particulars	5000-25000	25001-50000	50001-100000	Above 100000	Total
No. of applicants	78	32	4	6	120
% of applicants	65	27	3	5	100

**Interpretation:**

Amount of investment is high at 65% in the range 5000-25000 and it is very low at 3% in 50001-100000, but the next slab. Above 100000 has registered 5%.

**Scheme profile of applicants:**

Particulars	Growth option	Bonus option	Dividend reinvestment	Dividend payout	Total
No. of applicants	59	4	37	20	120
% of applicants	49	3	31	17	100

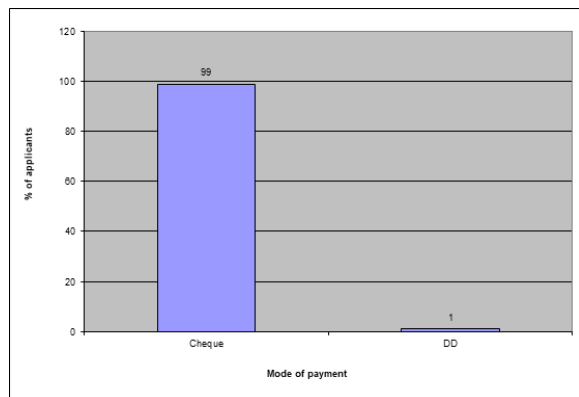


**Interpretation:**

Majority of the applicants Opted the growth option and the option of dividend reinvestment is 31%. This means that 80% of the applicants are not investing for income sake rather they look at the accumulation of profits.

**Analysis of mode of payment:**

Particulars	Cheque	DD	Total
No. of applicants	119	1	120
% of applicants	99	1	100

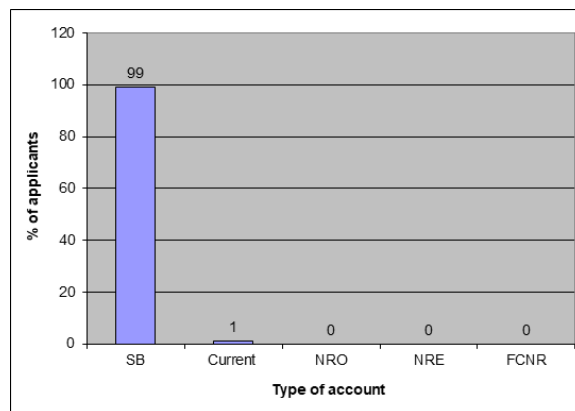


**Interpretation:**

The mode of payment reflects upon the quality of applicants. On an average 99% have paid through cheques and therefore the NFO is able to attract good quality retail investors.

**Analysis of type of account:**

Particulars	S B	Curr ent	NR O	N R E	FC NR	To tal
No. of applicants	119	1	0	0	0	120
% of applicants	99	1	0	0	0	100

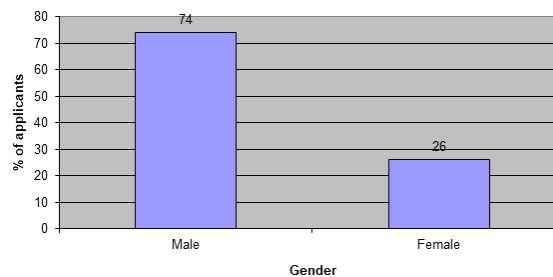


**Interpretation:**

Majority of the payments have been made from Savings Bank account (SB). No payments have been found from NRO, NRE, and FCNR even though 4% of the applicants are NRI s

**Gender profile of the applicants:**

Particulars	Male	Female	Total
No. of applicants	89	31	120
% of applicants	74	26	100



**Interpretation:**

The female participation in the NFO is low at 26%. The male applicants are very high at 76% as is not normally found in institutional investments.

**6. FINDINGS:**

- \* The NFO is found to be a complex activity calling for creating an organization polling the knowledge and expertise of people in different areas.
- \* The NFO process is simple and well structured as long as it is to investor to investor, but thereafter the process is lengthy time consuming and found to be overlapping at some stages.
- \* The SEBI regulations governing NFO are comprehensive and protect investor's interest at each level.
- \* Different funds have been designing different forms of applications for NFO.
- \* An analysis of sample of applications revealed the following
  - O Majority applicants prefer to hold the units individually.
  - O Majority of the applicants are in service.
  - O NRI s share is about 4% of the total.
  - O More than 2/3<sup>rd</sup> of the applicants are HUF s.
  - O The model age group is 31-60.
  - O The most common investment amount is 5000-25000.
  - O About half of the applicants prefer Growth option.
  - O Almost all applicants make the payments by cheques.
  - O There were no NRO, NRE and FCNR accounts.
  - O Majority the applicants are male, and.

### **SUGGESTIONS AND RECOMMENDATIONS:**

- \* Different funds have been using different forms of applications. A standardized form of application maybe designed by the competent authority and should be made mandatory for all funds to use the standard application form.
- \* The NFO process is very complex and there is a need to simplify the process by eliminating certain unnecessary steps in the process ie instead of carrying out audit for three times and appropriate internal check system maybe devised to keep the errors within the tolerance limits.
- \* The NRI subscribers to the fund may be encouraged to make the payments from NRO, NRE and FCNR accounts.
- \* The application from institutional investors and foreign institutional investors are to be encouraged through a package of incentives.
- \* The participation of senior citizens in the NFO s may be encouraged as they are likely to hold more surpluses compared to others.
- \* The holding of units in joint names shall be encouraged.

- \* There is a need to investigate the reasons for HUF s occupying more than 2/3<sup>rd</sup> share in the non-individual applications as its not a body corporate.
- \* A savings from all channels of India / World are to be tapped by the NFO rather than one or two states applying for a loin share of the option.

## 7. CONCLUSIONS

- From the study analysis conducted it is clear that in EQUITY FUNDS-SBI MUTUAL FUND is performing very well.
- Investing in the **HDFC GOLD Fund – Growth** will leads to profits.
- By seeing the overall performance **HDFC GOLD Fund –Growth** is performing very well.
- The prospective investors are needed to be made aware of the investment in mutual funds.
- The Industry should keep consistency and transparency in its management and investors objectives.
- There is 100% growth of mutual fund as foreign AMCS are in queue to enter the Indian markets.
- Mutual funds can also portrait in to rural areas.

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