A PROJECT REPORT

ON

"PORTFOLIO MANAGEMENT AND MUTUAL FUND ANALYSIS"

FOR

IDBI BANK

SUBMITTED TO UNIVERSITY OF PUNE

IN PARTIAL FULFILLMENT OF 2 YEARS FULL TIME COURSE

MASTERS IN BUSINESS ADMINISTRATION (M.B.A)

SUBMITTED BY

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(BATCH – 2006-07)

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ACKNOWLEDGEMENT

This project bears imprint of all those who have directly or indirectly helped and extended their kind support in completing this project.

At the time of making this report I express my sincere gratitude to all of them.

I would like to express my sincere gratitude to Mr. Pradeep Kumar Das (Cluster Head-Maharashtra, IDBI Bank) and Mr. Dhananjay Lele (Branch Head IDBI Bank) for giving me this opportunity to undergo this lucrative project with IDBI Bank Pune.

I am indebted to Mrs. Dhanashree Patki (Senior Relationship Manager IDBI Bank), Mrs. Nisha Bhat (Relationship Manager), Mrs. Shilpa Prabhu (Relationship Manager) and Mrs. K.S Jyothilakshmi (Relationship Manager) for their encouraging and kind support throughout the project.

I am extremely thankful and obliged to Prof. Rajesh Vhatkar (Internal Project Guide) for providing streamed guidelines since inception, till the completion of the project.

I would also thank IDBI employees and customers, whom I met during the course of this project, for their support and for providing valuable information, which helped me, complete this project successfully.

At this moment I also thank almighty God for the blessings showed upon me, my parents for their support and care and also my friends for their valuable suggestions.

This project report is a collective effort of all and I sincerely remember and acknowledge all of them for their excellent help and assistance throughout the project.

-Mayur. M. Shukla

Contents

SR. NO.	PARTICULARS	PAGE NO.
1.	EXECUTIVE SUMMARY	1
2.	COMPANY PROFILE	5
3.	OBJECTIVE	7
4.	THEREOTICAL BACKGROUND	8
5.	RESEARCH METHODOLOGY	19
6.	PRODUCT PROFILE	20
7.	DATA ANALYSIS	22
8.	IDEAL PORTFOLIO	37
9.	FINDINGS	39
10.	LIMITATIONS	42
11.	CONCLUSION	43
12.	BIBLIOGRAPHY	44

The Project on “Portfolio Management and mutual fund analysis” was carried out for IDBI Bank from 1st June to 31st July 2006.

Overview:

The project on “Portfolio Management and mutual fund analysis” was carried out in IDBI bank F.C Road Branch. The intention behind taking over this project with IDBI bank was to primarily understand the role of banks in providing investment solutions and advices to its customers. The project was carried out for the period of two months i.e. from June 1, 2006 to July 31, 2006. The project was done by analyzing the different investment options available and to compare them with the mutual fund investments. For the purpose of analyzing the investment pattern and selecting effective and beneficial schemes of mutual funds different available schemes were thoroughly analyzed and then a ideal portfolio of those investment options available was made.

Finally the ideal portfolio was created to understand the importance of portfolio management and to ease the selection of different mutual fund schemes and the weightage to be given to them.

RESEARCH OBJECTIVE

- To evaluate investment performance of selected mutual funds in terms of risk and return.
- To evaluate and create an ideal portfolio consisting the best mutual fund schemes which will earn highest possible returns and will minimize the risk.
- Basically to understand the concept of portfolio management and its relation to mutual funds.
- Also to analyze the performance of mutual fund schemes on the basis of various parameters.

SCOPE OF PROJECT

- The funds are selected to which IDBI Bank is advisor. The Schemes were categorized and selected on evaluating their performance and relative risk.
- The scope of the project is mainly concentrated on the different categories of the mutual funds such as equity schemes, debt funds, balanced funds and equity linked savings schemes etc.
- The ideal portfolio is created by analyzing the risk pattern of the schemes and distributing the overall risk to earn maximum returns.

RESEARCH METHODOLGY

- Research Methodology is a very organized and systematic medium through which a particular case or problem can be solved.
- It is analytical, descriptive and quantitative research where the comparison between the different mutual fund schemes is made on the basis of risk, volatility and return.
- For data collection purpose the secondary source was used like mutual fund factsheet, books, websites and IDBI bank mutual fund reckoners.

FINDINGS AND ANALYSIS

- The collection of information is based on the secondary probe.
- The information has been collected through various books, studies and annual reports of various institutions like Reliance, IDBI, ICICI, HDFC etc. In addition various journals, magazines, articles, books, published documents have also been considered in the project work.
- An attempt has been made to evaluate the performance of the selected mutual fund schemes. Performance of mutual fund schemes has been evaluated by using the

following performance measures (a) Risk (b) S.D. (c) Beta (d) Jensen alpha (e) Sharpe Ratio.

LIMITATIONS

- To get an insight in the process of portfolio allocation and deployment of funds by fund manager is difficult.
- The project is unable to analyse each and every scheme of mutual funds to create the ideal portfolio.
- The portfolio of mutual fund investments can change according to the market conditions. This project is carried out and evaluated on the basis of the market conditions from 1st June to 31st July 2006.

CONCLUSION

- Out of the different schemes that has been compared none of the scheme is better on all the fronts like risk, volatility and the returns.
- Mutual fund investments are not short term investment avenues but they are more of a long term investment avenue.

COMPANY PROFILE

For over 40 years IDBI has essayed over a key nation building role. First as the apex Development financial Institution (DFI) in the realm of the industry and now as a full service commercial bank. Today IDBI as a new generation universal bank touches the lives of a millions of Indians through an array of corporate and retail products and services without diluting its mandated finance obligations. On April 2, 2005 IDBI merged its hitherto banking subsidiary (IDBI Bank Ltd.) with itself. The appointed date of merger was October 1, 2004.

Boasting of a business size (deposit plus advances) of around 79000 crores, and a major Government shareholding (53%) the bank lays much store by its motto 'Technology redefines customer service'. As of April 30, 2006 IDBI delivery channels comprised of 172 branches, 4 extension counters and 382 ATM's spread across 101 cities- clear evidence of its efforts to spread wings across the country.

IDBI's financial strength has been recognized by international credit ratings agencies which reflects IDBI's strong market position as one of India's leading financial institutions, with its consistent profitability and sound capitalization. A strong capital base (capital adequacy ratio 14.80% well above the regulatory minimum of 9%) ensures that it is well placed for growth of business and ready to adequately address the prospective enhanced Basel-II capital requirements.

The bank which has consistently earned profits since its inception, has committed and competent human capital to power its aggressive growth plans. What's more, professionals like accountants, engineers, economists and experts in IT, law, management, agriculture and treasury operations form part of its HR talent pool.

IDBI is a board managed organization. The responsibility for the day to day management of operations of the bank is vested with the Chairman and the Managing Director and two Deputy Managing Directors, who draw upon the support and expertise of a cross disciplinary Top Management Team. As on March 31, 2006, IDBI has a combined employee base of 4548, including professionals from the field of accountancy, management engineering, law, computer technology, banking and economics.

The net NPA ratio on March 31, 2006 was 1.01, the Capital Adequacy Ratio was 14.80. The earning per share was Rs.7.75 and the P/E ratio was 10.10. The profit per employee was 0.12 crore and the business per employee was 17.32 crore.

Today IDBI rides on the back of a robust business strategy, a highly competent and dedicated workforce and state of the art information technology platform, to structure and deliver personalized banking services and customized financial solutions to its clients.

OBJECTIVE

- Primarily to understand the basic concepts of Portfolio management and Mutual funds and its benefits as an investment avenue.
- Secondly, to compare and evaluate the performance of different equity mutual fund schemes of different companies on the basis of risk, return and volatility.
- Thirdly, to suggest the schemes which are out performers and laggards.
- Finally to create and ideal portfolio in which risk will be distributed towards different schemes and will earn higher rate of return.

THEREOTICAL BACKGROUND

INVESTMENT OPTIONS:

Savings form an important part of the economy of any nation. With the savings invested in various options available to the people, the money acts as the driver for growth of the country. Indian financial scene too presents a plethora of avenues to the investors. Though certainly not the best or deepest of markets in the world, it has reasonable options for an ordinary man to invest his savings. Let us examine several of them:

Banks

Considered as the safest of all options, banks have been the roots of the financial systems in India. Promoted as the means to social development, banks in India have indeed played an important role in the rural upliftment. For an ordinary person though, they have acted as the safest investment avenue wherein a person deposits money and earns interest on it. The two main modes of investment in banks, savings accounts and Fixed deposits have been effectively used by one and all. However, today the interest rate structure in the country is headed southwards, keeping in line with global trends. With the banks offering little above 9 percent in their fixed deposits for one year, the yields have come down substantially in recent times. Add to this, the inflationary pressures in economy and you have a position where the savings are not earning. The inflation is creeping up, to almost 8 percent at times, and this means that the value of money saved goes down instead of going up. This effectively mars any chance of gaining from the investments in banks.

Post Office schemes

Just like banks, post offices in India have a wide network. Spread across the nation, they offer financial assistance as well as serving the basic requirements of communication. Among all saving options, Post office schemes have been offering the highest rates. Added to it is the fact that the investments are safe with the department being a Government of India entity. So the two basic and most sought for features, those of return safety and quantum of returns

were being handsomely taken care of. Though certainly not the most efficient systems in terms of service standards and liquidity, these have still managed to attract the attention of small, retail investors. However, with the government announcing its intention of reducing the interest rates in small savings options, this avenue is expected to lose some of the investors. Public Provident Funds act as options to save for the post retirement period for most people and have been considered good option largely due to the fact that returns were higher than most other options and also helped people gain from tax benefits under various sections. This option too is likely to lose some of its sheen on account of reduction in the rates offered.

Company Fixed Deposits

Another oft-used route to invest has been the fixed deposit schemes floated by companies. Companies have used fixed deposit schemes as a means of mobilizing funds for their operations and have paid interest on them. The safer a company is rated, the lesser the return offered has been the thumb rule. However, there are several potential roadblocks in these. First of all, the danger of financial position of the company not being understood by the investor lurks. The investors rely on intermediaries who more often than not, don't reveal the entire truth. Secondly, liquidity is a major problem with the amount being received months after the due dates. Premature redemption is generally not entertained without cuts in the returns offered and though they present a reasonable option to counter interest rate risk (especially when the economy is headed for a low interest regime), the safety of principal amount has been found lacking. Many cases like the Kuber Group and DCM Group fiascoes have resulted in low confidence in this option.

The options discussed above are essentially for the risk-averse, people who think of safety and then quantum of return, in that order. For the brave, it is dabbling in the stock market. Stock markets provide an option to invest in a high risk, high return game. While the potential return is much more than 10-11 percent any of the options discussed above can generally generate, the risk is undoubtedly of the highest order. But then, the general principle of encountering greater risks and uncertainty when one seeks higher returns holds true. However, as enticing as it might appear, people generally are clueless as to how the stock market functions and in the process can endanger the hard-earned money.

For those who are not adept at understanding the stock market, the task of generating superior returns at similar levels of risk is arduous to say the least. This is where Mutual Funds come into picture.

Mutual Funds are essentially investment vehicles where people with similar investment objective come together to pool their money and then invest accordingly. Each unit of any scheme represents the proportion of pool owned by the unit holder (investor). Appreciation or reduction in value of investments is reflected in net asset value (NAV) of the concerned scheme, which is declared by the fund from time to time. Mutual fund schemes are managed by respective Asset Management Companies (AMC). Different business groups/ financial institutions/ banks have sponsored these AMCs, either alone or in collaboration with reputed international firms. Several international funds like Alliance and Templeton are also operating independently in India. Many more international Mutual Fund giants are expected to come into Indian markets in the near future.

The benefits on offer are many with good post-tax returns and reasonable safety being the hallmark that we normally associate with them. Some of the other major benefits of investing in them are:

Number of available options

Mutual funds invest according to the underlying investment objective as specified at the time of launching a scheme. So, we have equity funds, debt funds, gilt funds and many others that cater to the different needs of the investor. The availability of these options makes them a good option. While equity funds can be as risky as the stock markets themselves, debt funds offer the kind of security that is aimed for at the time of making investments. Money market funds offer the liquidity that is desired by big investors who wish to park surplus funds for very short-term periods. Balance Funds acter to the investors having an appetite for risk greater than the debt funds but less than the equity funds. The only pertinent factor here is that the fund has to be selected keeping the risk profile of the investor in mind because the products listed above have different risks associated with them. So, while equity funds are a good bet for a long term, they may not find favour with corporates or High Networth Individuals (HNIs) who have short-term needs.

Diversification

Investments are spread across a wide cross-section of industries and sectors and so the risk is reduced. Diversification reduces the risk because all stocks don't move in the same direction at the same time. One can achieve this diversification through a Mutual Fund with far less money than one can on his own.

Professional Management

Mutual Funds employ the services of skilled professionals who have years of experience to back them up. They use intensive research techniques to analyze each investment option for the potential of returns along with their risk levels to come up with the figures for performance that determine the suitability of any potential investment.

Potential of Returns

Returns in the mutual funds are generally better than any other option in any other avenue over a reasonable period of time. People can pick their investment horizon and stay put in the chosen fund for the duration. Equity funds can outperform most other investments over long periods by placing long-term calls on fundamentally good stocks. The debt funds too will outperform other options such as banks. Though they are affected by the interest rate risk in general, the returns generated are more as they pick securities with different duration that have different yields and so are able to increase the overall returns from the portfolio.

Liquidity

Fixed deposits with companies or in banks are usually not withdrawn premature because there is a penal clause attached to it. The investors can withdraw or redeem money at the Net Asset Value related prices in the open-end schemes. In closed-end schemes, the units can be transacted at the prevailing market price on a stock exchange. Mutual funds also provide the facility of direct repurchase at NAV related prices. The market prices of these schemes are dependent on the NAVs of funds and may trade at more than NAV (known as Premium) or less than NAV (known as Discount) depending on the expected future trend of NAV which in turn is linked to general market conditions. Bullish market may result in schemes trading at Premium while in bearish markets the funds usually trade at Discount. This means that the money can be withdrawn anytime, without much reduction in yield. Some mutual funds however, charge exit loads for withdrawal within a period.

Besides these important features, mutual funds also offer several other key traits. Important among them are:

Well Regulated

Unlike the company fixed deposits, where there is little control with the investment being considered as unsecured debt from the legal point of view, the Mutual Fund industry is very well regulated. All investments have to be accounted for, decisions judiciously taken. SEBI acts as a true watchdog in this case and can impose penalties on the AMCs at fault. The regulations, designed to protect the investors' interests are also implemented effectively.

Transparency

Being under a regulatory framework, mutual funds have to disclose their holdings, investment pattern and all the information that can be considered as material, before all investors. This means that the investment strategy, outlooks of the market and scheme related details are disclosed with reasonable frequency to ensure that transparency exists in the system. This is unlike any other investment option in India where the investor knows nothing as nothing is disclosed.

Flexible, Affordable and a Low Cost affair

Mutual Funds offer a relatively less expensive way to invest when compared to other avenues such as capital market operations. The fee in terms of brokerages, custodial fees and other management fees are substantially lower than other options and are directly linked to the performance of the scheme. Investment in mutual funds also offers a lot of flexibility with features such as regular investment plans, regular withdrawal plans and dividend reinvestment plans enabling systematic investment or withdrawal of funds. Even the investors, who could otherwise not enter stock markets with low investible funds, can benefit from a portfolio comprising of high-priced stocks because they are purchased from pooled funds.

As has been discussed, mutual funds offer several benefits that are unmatched by other investment options. Post liberalization, the industry has been growing at a rapid pace and has crossed Rs. 100000 crore size in terms of its assets under management. However, due to the low key investor awareness, the inflow under the industry is yet to overtake the inflows in banks. Rising inflation, falling interest rates and a volatile equity market make a deadly

cocktail for the investor for whom mutual funds offer a route out of the impasse. The investments in mutual funds are not without risks because the same forces such as regulatory frameworks, government policies, interest rate structures, performance of companies etc. that rattle the equity and debt markets, act on mutual funds too. But it is the skill of the managing risks that investment managers seek to implement in order to strive and generate superior returns than otherwise possible that makes them a better option than many others.

What is Portfolio Management?

An investor considering in securities is faced with the problem of choosing from among a large number of securities. His choice depends upon the risk return characteristics of individual securities. He would attempt to choose the most desirable securities and like to allocate his funds over this group of securities. Again he is faced with problem of deciding which securities to hold and how much to invest in each. The investor faces an infinite number of possible portfolios or groups of securities. The risk and return characteristics of portfolios differ from those of individual securities combining to form a portfolio. The investor tries to choose the optimal portfolio taking into consideration the risk return characteristics of all possible portfolios.

Phases of Portfolio Management

- Security Analysis
- Portfolio Analysis
- Portfolio Selection
- Portfolio Revision
- Portfolio Evaluation

❖ Security Analysis

(a) **Fundamental analysis:** This analysis concentrates on the fundamental factors affecting the company such as EPS (Earning per share) of the company, the dividend payout ratio, competition faced by the company, market share, quality of management etc.

(b) **Technical analysis:** The past movement in the prices of shares is studied to identify trends and patterns and then tries to predict the future price movement. Current

market price is compared with the future predicted price to determine the mispricing. Technical analysis concentrates on price movements and ignores the fundamentals of the shares.

(c) **Efficient market hypothesis:** This is comparatively more recent approach. This approach holds that market prices instantaneously and fully reflect all relevant available information. It means that the market prices will always be equal to the intrinsic value.

❖ Portfolio Analysis

A portfolio is a group of securities held together as investment. It is an attempt to spread the risk allover. The return & risk of each portfolio has to be calculated mathematically and expressed quantitatively. Portfolio analysis phase of portfolio management consists of identifying the range of possible portfolios that can be constituted from a given set of securities and calculating their risk for further analysis.

❖ Portfolio Selection

The goal of portfolio construction is to generate a portfolio that provides the highest returns at a given level of risk. Harry Markowitzh portfolio theory provides both the conceptual framework and the analytical tools for determining the optimal portfolio in a disciplined and objective way.

❖ Portfolio Revision

The investor/portfolio manager has to constantly monitor the portfolio to ensure that it continues to be optimal. As the economy and financial markets are highly volatile dynamic changes take place almost daily. As time passes securities which were once attractive may cease to be so. New securities with anticipation of high returns and low risk may emerge.

❖ Portfolio Evaluation

Portfolio evaluation is the process, which is concerned with assessing the performance of the portfolio over a selected period of time in terms of return & risk. The evaluation provides the necessary feedback for better designing of portfolio the next time around.

Measurement of risk

Risk refers to the possibility that the actual outcome of an investment will differ from the expected outcome. In other words we can say that risk refers to variability or dispersion. If any investment is said to invariable it means that it is totally risk free. Whenever we calculate the mean returns of an investment we also need to calculate the variability in the returns.

❖ Variance and Standard Deviation

The most commonly used measures of risk in finance are variance or its square root the standard deviation. The variance and the standard deviation of a historical return series is defined as follows:

$$\sigma^2 = \left(\frac{\sum_{i=1}^{n} (Ri - \overline{R})}{n - 1} \right)^2$$

❖ Beta

A measure of risk commonly advocated is beta. The beta of a portfolio is computed the way beta of an individual security is computed. To calculate the beta of a portfolio, regress the rate of return of the portfolio on the rate of return of a market index. The slope of this regression line is the portfolio beta. It reflects the systematic risk of the portfolio.

Performance Measures Of Mutual Funds

Mutual Fund industry today, with about 34 players and more than five hundred schemes, is one of the most preferred investment avenues in India. However, with a plethora of schemes to choose from, the retail investor faces problems in selecting funds. Factors such as investment strategy and management style are qualitative, but the funds record is an important indicator too. Though past performance alone can not be indicative of future performance, it is, frankly, the only quantitative way to judge how good a fund is at present. Therefore, there is a need to correctly assess the past performance of different mutual funds.

Worldwide, good mutual fund companies over are known by their AMCs and this fame is directly linked to their superior stock selection skills. For mutual funds to grow, AMCs must be held accountable for their selection of stocks. In other words, there must be some performance indicator that will reveal the quality of stock selection of various AMCs.

Return alone should not be considered as the basis of measurement of the performance of a mutual fund scheme, it should also include the risk taken by the fund manager because different funds will have different levels of risk attached to them. Risk associated with a fund, in a general, can be defined as variability or fluctuations in the returns generated by it. The higher the fluctuations in the returns of a fund during a given period, higher will be the risk associated with it. These fluctuations in the returns generated by a fund are resultant of two guiding forces. First, general market fluctuations, which affect all the securities present in the market, called market risk or systematic risk and second, fluctuations due to specific securities present in the portfolio of the fund, called unsystematic risk. The Total Risk of a given fund is sum of these two and is measured in terms of standard deviation of returns of the fund. Systematic risk, on the other hand, is measured in terms of Beta, which represents fluctuations in the NAV of the fund vis-à-vis market. The more responsive the NAV of a

mutual fund is to the changes in the market; higher will be its beta. Beta is calculated by relating the returns on a mutual fund with the returns in the market. While unsystematic risk can be diversified through investments in a number of instruments, systematic risk can not. By using the risk return relationship, we try to assess the competitive strength of the mutual funds vis-à-vis one another in a better way.

In order to determine the risk-adjusted returns of investment portfolios, several eminent authors have worked since 1960s to develop composite performance indices to evaluate a portfolio by comparing alternative portfolios within a particular risk class. The most important and widely used measures of performance are:

- The Treynor Measure
- The Sharpe Measure
- Jenson Model

❖ The Treynor Measure

Developed by Jack Treynor, this performance measure evaluates funds on the basis of Treynor's Index. This Index is a ratio of return generated by the fund over and above risk free rate of return (generally taken to be the return on securities backed by the government, as there is no credit risk associated), during a given period and systematic risk associated with it (beta). Symbolically, it can be represented as:

Treynor's Index (Ti) = (Ri - Rf)/Bi.

Where, Ri represents return on fund, Rf is risk free rate of return and Bi is beta of the fund.

All risk-averse investors would like to maximize this value. While a high and positive Treynor's Index shows a superior risk-adjusted performance of a fund, a low and negative Treynor's Index is an indication of unfavorable performance.

❖ The Sharpe Measure

In this model, performance of a fund is evaluated on the basis of Sharpe Ratio, which is a ratio of returns generated by the fund over and above risk free rate of return and the total risk associated with it. According to Sharpe, it is the total risk of the fund that

the investors are concerned about. So, the model evaluates funds on the basis of reward per unit of total risk. Symbolically, it can be written as:

Sharpe Index (Si) = (Ri - Rf)/Si

Where, Si is standard deviation of the fund.

While a high and positive Sharpe Ratio shows a superior risk-adjusted performance of a fund, a low and negative Sharpe Ratio is an indication of unfavorable performance.

❖ Jenson Model

Jenson's model proposes another risk adjusted performance measure. This measure was developed by Michael Jenson and is sometimes referred to as the Differential Return Method. This measure involves evaluation of the returns that the fund has generated vs. the returns actually expected out of the fund given the level of its systematic risk. The surplus between the two returns is called Alpha, which measures the performance of a fund compared with the actual returns over the period. Required return of a fund at a given level of risk (Bi) can be calculated as:

Ri = Rf + Bi (Rm - Rf)

Where, Rm is average market return during the given period. After calculating it, alpha can be obtained by subtracting required return from the actual return of the fund.

Higher alpha represents superior performance of the fund and vice versa. Limitation of this model is that it considers only systematic risk not the entire risk associated with the fund and an ordinary investor can not mitigate unsystematic risk, as his knowledge of market is primitive.

Research methodology

Research methodology is a very organized and systematic way through which a particular case or problem can be solved efficiently.

It is a step-by-step logical process, which involves:

- Defining a problem
- Laying the objectives of the research
- Sources of data
- Methods of data collection
- Data analysis & processing
- Conclusions & Recommendations

Research inculcates scientific and inductive thinking and it promotes the development of logical habits of thinking and organization.

Methodology Used:

Descriptive Analytical Research

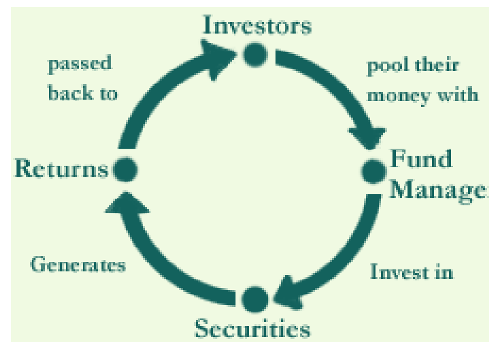
- Under this type the researcher has to use the facts and information already available and analyse them to make evaluation of the market.
- In analytical research the researcher has to use the facts already available, and analyse these to make the critical evaluation data of the material.
- Data has been collected from the Fact sheet of the various mutual fund schemes and used those data's for the research. In fact sheet past returns were given of different funds.

- Data also included value of risk measuring instruments like Standard Deviation, Beta etc from the secondary data from the websites such as www.valueresearchonline.com.

Product Profile

CONCEPT OF MUTUAL FUNDS

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 then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciation realised are shared by its unit holders 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 basket of securities at a relatively low cost. The flow chart below describes broadly the working of a mutual fund:



What are the benefits of investing in Mutual Funds?

Qualified and experienced professionals manage Mutual Funds. Generally, investors, by themselves, may have reasonable capability, but to assess a financial instrument, a professional analytical approach is required, in addition to access to research and information as well as time and methodology to make sound investment decisions and to keep monitoring them.

Since Mutual Funds make investments in a number of stocks, the resultant diversification reduces risk. They provide small investors with an opportunity to invest in a larger basket of securities.

The investor is spared the time and effort of tracking investments, collecting income, etc. from various issuers, etc. It is possible to invest in small amounts as and when the investor has surplus funds to invest. Mutual Funds are registered with SEBI. SEBI monitors the activities of Mutual Funds. In case of open-ended Funds, the investment is very liquid as it can be redeemed at any time with the fund unlike direct investment in stocks / bonds.

Risk involved in investing in Mutual Funds?

Mutual Funds do not provide assured returns. Their returns are linked to their performance. They invest in shares, debentures and deposits. All these investments involve an element of risk. The unit value may vary depending upon the performance of the company and companies may default in payment of interest / principal on their debentures / bonds / deposits. Besides this, the government may come up with new regulations, which may affect a particular industry or class of industries. All these factors influence the performance of Mutual Funds.

Data Analysis

Prudential ICICI balanced fund

Scheme objective: The scheme seeks to generate long term capital appreciation and current income by investing in a portfolio of equities, fixed income and money market securities. The approximate allocation to equity would be in the range of 60-80 per cent with a minimum of 51 percent and the approximate debt allocation is 40-49 percent, with a minimum of 20 percent.

Composition:

Equity 65.96 %

Debt 24.27 %

Cash 9.77 %

Risk analysis:

Standard deviation: 4.82

Beta: 1.23

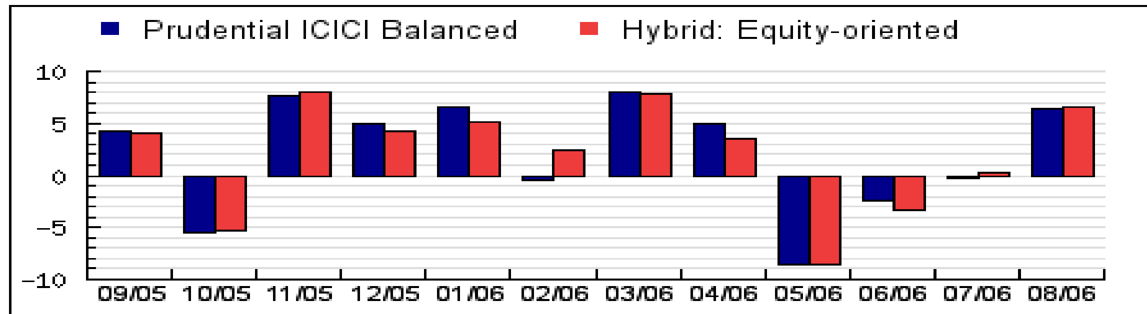
Sharpe ratio: 0.64

Alpha: 1.18

Trailing returns:

3 Months	1 year	3 years	5 years	Since launch

14.46	54.98	48.43	29.79	18.85



Relative performance (Fund Vs Category Average)

Analysis

We cant expect miracles in Prudential ICICI Balanced. Though it can take us to our goal in a stable fashion. The last five calendar years are testimony to this fact that it has consistently been delivering an above average performance. Last year also the fund kept its record intacat the return was up 38.70 percent against the category average of 32.56 percent.. So on an average we can rate this fund in low risk segment which can perform in a consistent manner.

(All data as on March 31, 2006. Returns up to one year are absolute and those above are compounded.)

Franklin India prima plus

Scheme objective: The scheme aims to provide growth of capital and regular dividend from a portfolio of equity, debt and money market instruments and focusing on the wealth creating companies across all sectors and market cap ranges.

Composition:

Equity 92.59 %

Debt 0.01 %

Cash 7.39 %

Risk analysis:

Standard deviation: 6.03

Beta: 0.80

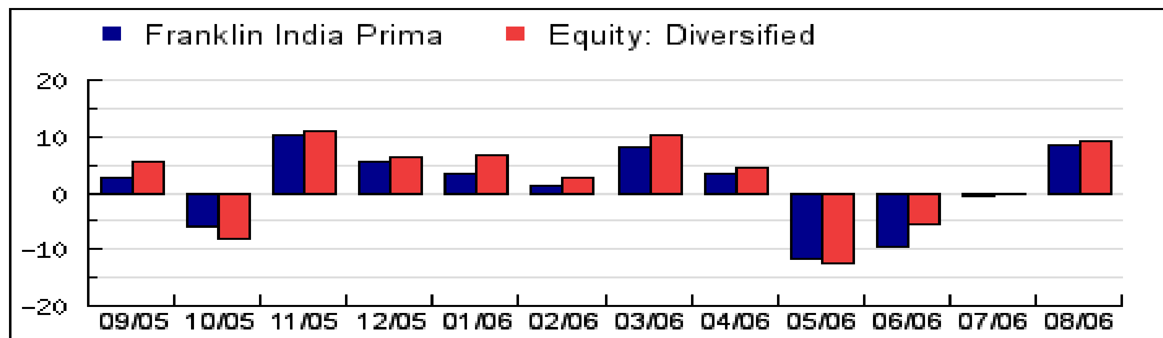
Sharpe ratio: 0.073

Alpha: 1.69

Trailing returns:

3 Months	1 year	3 years	5 years	Since launch
23.03	79.28	71.4	42.86	23.47

Relative performance (Fund Vs Category Average)



Relative performance (Fund Vs Category Average)

Analysis

This fund was launched around the peak of the IPO boom, Prima Plus started as a stock collector. By March 1996, the funds portfolio was totally out of focus with nearly 200 stocks in its kitty, including many small cap and illiquid issues. Despite relentless cleaning if the portfolio, the fund took nearly four years to consolidate. Since 1998 the fund has been focusing on large and mid caps and to a more manageable number of issues –45—60 in the last two years. It grew at a fast pace to make up for initial losses with big bets in technology some of which included scripts such as Satyam. Hughes. Zee and Mastek. Losing nearly 32 percent has made in a conservative with high concentration on large caps. This year the fund from the word go has been almost fully invested. Since the start of the year the fund is up 11.91 percent as on February 28, 2006. Today it favours diversified financial and technology sector stocks.

(All data as on March 31, 2006. Returns up to one year are absolute and those above are compounded.)

Reliance vision fund

Scheme objective: The fund seeks capital appreciation by investing in larger stocks with good fundamentals and good long term prospects.

Composition:

Equity 95.76%

Debt 0.00 %

Cash 4.24 %

Risk analysis:

Standard deviation: 6.97

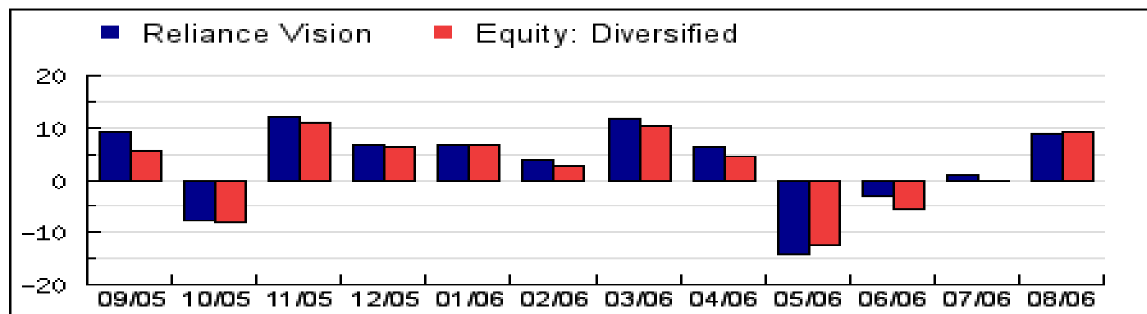
Beta: 0.92

Sharpe ratio: 0.70

Alpha: 1.81

Trailing returns:

3 Months	1 year	3 years	5 years	Since launch
23.64	79.64	80.47	62.11	29.93



Relative performance (Fund Vs Category Average)

Analysis

Reliance vision is a good choice for those who want high returns but can deal with some downside in bear markets. The fund was an average performer in the early part of its nine year existence, but it has staged an impressive turnaround in the past few years. The fund has never shield away from shuffling its portfolio between large caps and mid caps to boost performance. This strategy has worked especially well in the last two years. In 2002 it topped the category with a mind boggling 72 percent return against the category average of just 20 percent. Year 2003 also proved to be an excellent year thanks to a higher exposure in banks an healthcare stocks. Year 2004 and 2005 were the ups and downs for the fund respectively.

(All data as on March 31, 2006. Returns up to one year are absolute and those above are compounded.)

Principal dividend yield fund

Scheme objective: The scheme aims to provide capital appreciation by investing predominantly in a well diversified portfolio of companies that have a relatively high dividend yield.

Composition:

Equity 91.69 %

Debt 0.00 %

Cash 8.31 %

Risk analysis:

Standard deviation: N/A

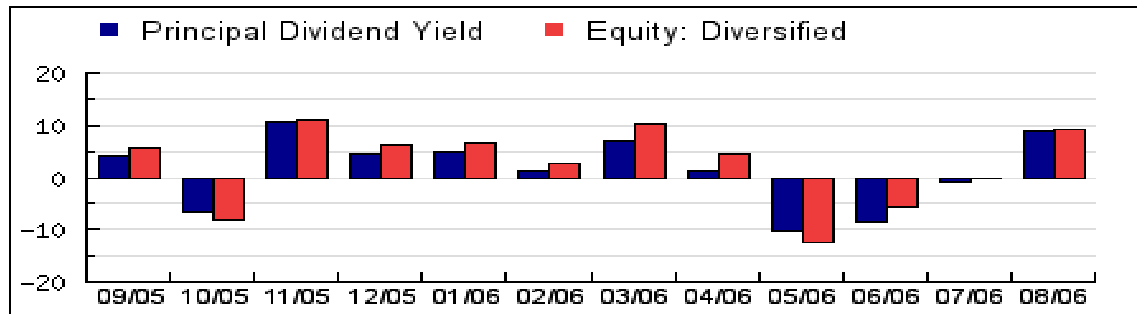
Beta: N/A

Sharpe ratio: N/A

Alpha: N/A

Trailing returns:

3 Months	1 year	3 years	5 years	Since launch
13.64	49.82	N/A	N/A	42.84



Relative performance (Fund Vs Category Average)

Analysis

Principal dividend yield is the second of the six dividend yield funds presently available. The fund is quite young and was launched in September 2004 with the aim of providing capital appreciation by investing predominantly in a well diversified portfolio of companies that have a relatively high dividend yield. The strategy of investing in a high dividend yielding stocks is a conservative strategy and therefore can lead to relatively lower returns during the times when the stock markets are scaling new peaks by the day. The situation is no different for this fund which has under performed other diversified equity funds by quite a margin. This fund may add value during bearish markets because of its conservative strategy.

(All data as on March 31, 2006. Returns up to one year are absolute and those above are compounded.)

HDFC top 200 fund

Scheme objective: The scheme seeks to capital appreciation and would invest up to 90 percent in equity and the remaining in debt instruments. Also the stocks would be drawn from the companies in the BSE 200 index as well as 200 largest capitalized companies in India.

Composition:

Equity 97.93 %

Debt 0.00 %

Cash 2.07 %

Risk analysis:

Standard deviation: 6.95

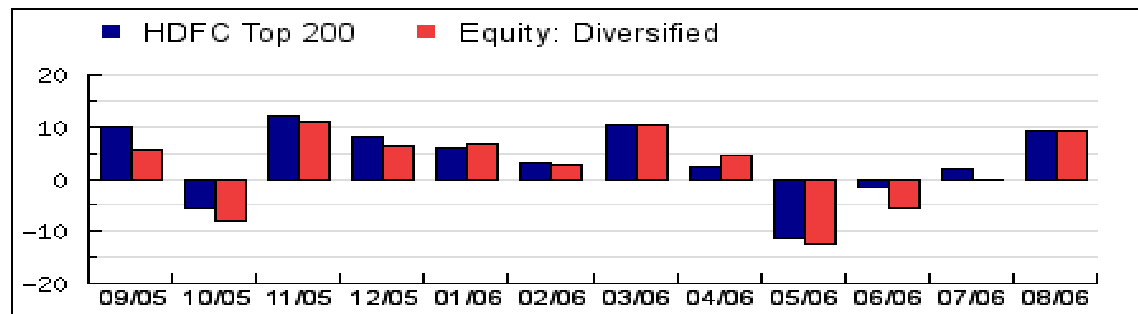
Beta: 0.91

Sharpe ratio: 0.70

Alpha: 1.78

Trailing returns:

3 Months	1 year	3 years	5 years	Since launch
20.35	84.03	79.62	47.58	29.44



Relative performance (Fund Vs Category Average)

Analysis

With a quality conscious portfolio and a preference for large caps the fund will add value to those who want to step into the equity markets with a conservative approach. This fund is especially targeted to those people who want to invest in India's largest companies. This fund limits its investing universe to the stocks constituting primarily the BSE 200 index plus stocks that can qualify to be among the 200 largest capitalized companies. The stocks that the fund normally invests in are typically large caps blue chip and are frequently traded. The fund has stayed largely diversified at the stock level though the exposure to the top three holdings tends to be higher than some of its peers.

(All data as on March 31, 2006. Returns up to one year are absolute and those above are compounded.)

Kotak 30 fund

Scheme objective: This is an open-ended large-cap, diversified equity fund, which seeks to generate capital appreciation from a portfolio of predominantly equity and equity related securities with investment in, generally, not more than 30 stocks.

Composition:

Equity 90.87 %

Debt 0.00 %

Cash 9.13 %

Risk analysis:

Standard deviation: 7.14

Beta: 0.90

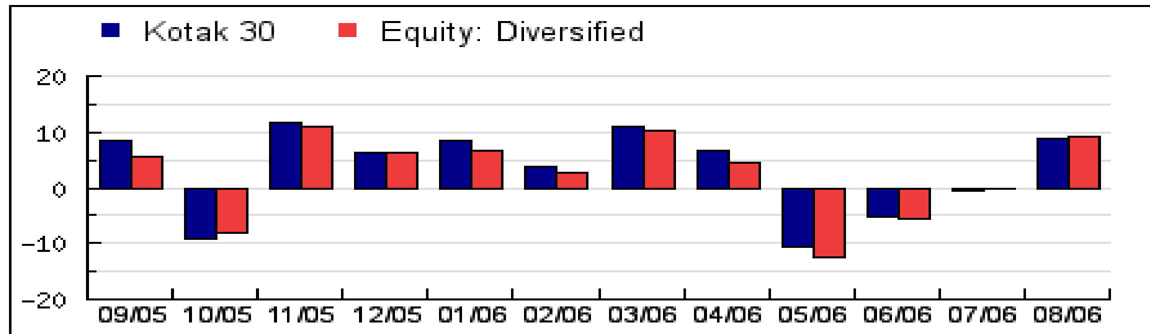
Sharpe ratio: N/A

Alpha: N/A

Trailing returns:

3 Months	1 year	3 years	5 years	Since launch

17.43	37.79	54.75	46.83	31.00



Relative performance (Fund Vs Category Average)

Analysis

Having stormed into the top performers league over the last six months period – Kotak 30 continues to churn out healthy returns for the investors. Kotak 30 is the top performer amongst its peers over the last 3 months period and third top performer over the 6 months time frame, while it ranks 19th on its one year performance. Kotak 30 has churned out an impressive return of 27.5% annualized since its inception in December 1998 as compared to 12.5% annualized yielded by its benchmark Sensex for the same period. Banking on a bottom-up approach to stock picking, Kotak 30 has consistently out performed its benchmark index by significant margins.

(All data as on March 31, 2006. Returns up to one year are absolute and those above are compounded.)

HDFC equity fund

Scheme objective: The scheme seeks to provide long term capital appreciation by predominantly investing in high growth companies.

Composition:

Equity 97.30 %

Debt 0.00 %

Cash 2.70 %

Risk analysis:

Standard deviation: 6.45

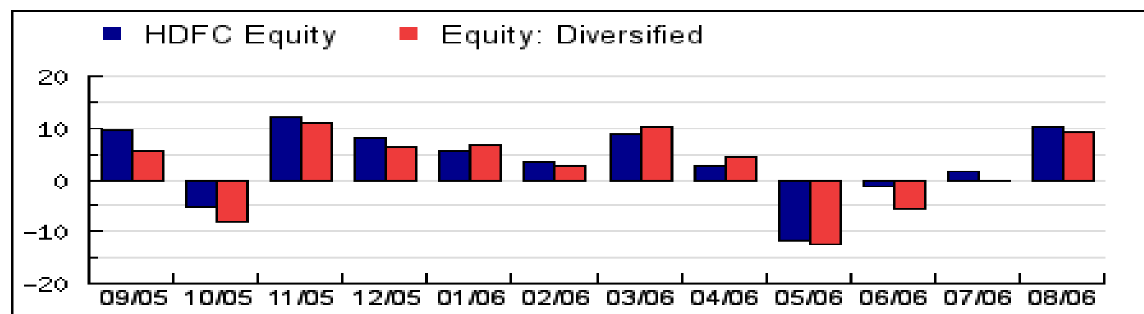
Beta: 0.85

Sharpe ratio: 0.74

Alpha: 1.90

Trailing returns:

3 Months	1 year	3 years	5 years	Since launch
18.82	90.24	78.76	50.55	25.3



Relative performance (Fund Vs Category Average)

Analysis

This fund has an amazing feat to its credit. This is the only diversified equity fund that has outperformed the category average return every time in the last seven calendar years. Top quartile performances in the four of the last five years with an average volatility makes this fund suitable as a core holding. HDFC equity is one of the most versatile funds available to the Indian investors. In fact its ability to change with times is responsible for a great show even in tough times. Its top three sectors technology automobile and financial services account for nearly 54 percent of the portfolio and technology alone accounts for 21 percent out of it.

(All data as on March 31, 2006. Returns up to one year are absolute and those above are compounded.)

HDFC prudence fund

Scheme objective: The scheme seeks periodic returns and long term capital appreciation from a balanced portfolio of debt and equity.

Composition:

Equity 60.35 %

Debt 36.55 %

Cash 3.10 %

Risk analysis:

Standard deviation: 4.47

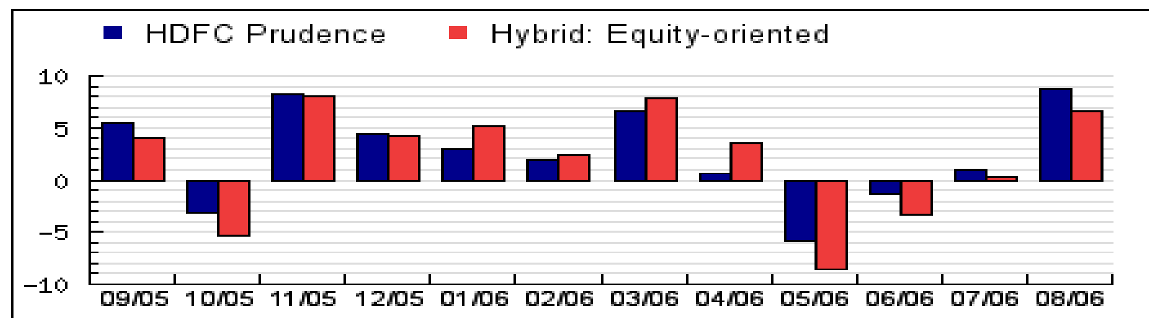
Beta: 1.02

Sharpe ratio: 0.81

Alpha: 2.05

Trailing returns:

3 Months	1 year	3 years	5 years	Since launch
11.75	60.89	58.47	40.51	23.27



Relative performance (Fund Vs Category Average)

Analysis

In the five years ending October 07, 2005 this fund has outperformed an average diversified equity fund with a 60:40 equity debt portfolio. Within its category the fund has rarely been rated below four stars and has donned up top ratings since December 2002. This speaks volumes about the funds consistency. The fund's long term performance has been praiseworthy. In more than 10 years of existence the fund has put up a top quartile performance every year. If we ignore the recent few months, the fund has delivered by largely sticking to its 60-40 equity debt allocation. Even in 2003 when the markets were on fire it continued with this approach and gained 91.92 percent. Astute sector moves and a portfolio spread over 20 to 30 stocks has clicked for the fund.

(All data as on March 31, 2006. Returns up to one year are absolute and those above are compounded.)

Kotak balanced fund

Scheme objective: The scheme seeks to exploit the capital appreciation of equity and the stable returns of the debt and money markets instruments. It aims to minimize the risk that arises out of even the most carefully picked equity stocks.

Composition:

Equity 62.50 %

Debt 33.65 %

Cash 3.86 %

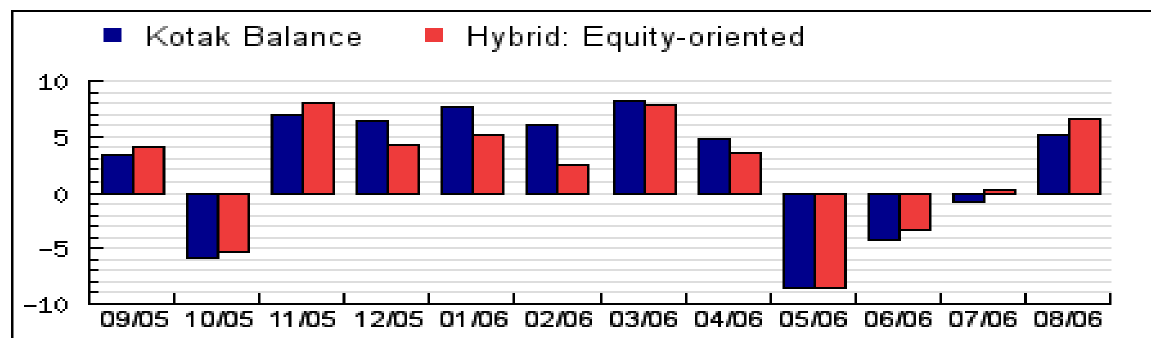
Risk analysis:

Standard deviation: 5.12 **Beta:** 1.23

Sharpe ratio: 0.66 **Alpha:** 1.49

Trailing returns:

3 Months	1 year	3 years	5 years	Since launch
23.29	67.9	53.76	33.3	24.01



Relative performance (Fund Vs Category Average)

Analysis

This fund has a reasonable long term performance record. In the last two calendar years it has landed itself in the top quartile returns. In 2005 the fund gained 43.19 percent to comprehensively beat 32.56 percent return of an average peer. In 2004 too it had returned nearly 25 percent to win a place among the top three funds in the category. The fund has also benefited by not being very rigid with its asset allocation in the past for e.g. when the bulls returned to the equity markets in the early 2002 the fund reduced its bond exposure from an average 41 percent in 2001 to around 33 percent in 2002. The portfolio has once again gone for a complete overhaul. The exposure to equities has gone up to 68 percent now. A well diversified portfolio is also a plus here. The fund always keeps 20 to 30 stocks and limits exposure in individual stocks to around 6 percent at most. This funds versatility is hard to beat. Long term investors would be rewarded here.

(All data as on March 31, 2006. Returns up to one year are absolute and those above are compounded.)

Prudential ICICI blended fund Plan A

Scheme objective: To generate efficient risk adjusted return for the investor by using arbitrage opportunity in equity and equity derivative market.

Composition:

Equity 75.51 %

Debt 21.88 %

Cash 2.61 %

Risk analysis:

Standard deviation: N/A

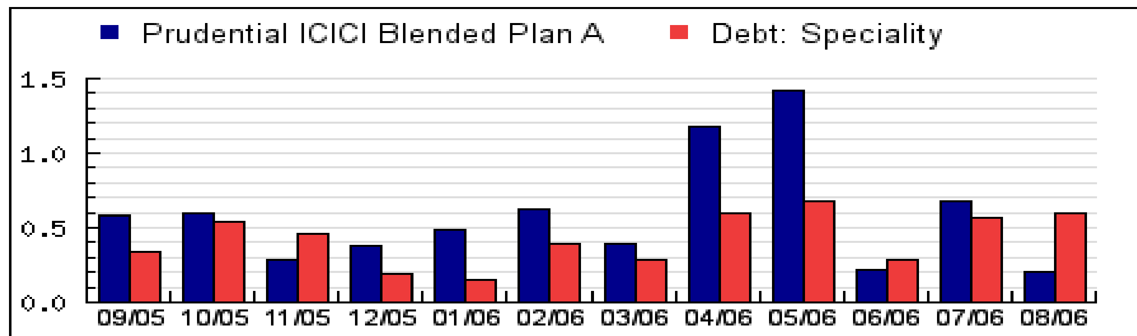
Beta: N/A

Sharpe ratio: N/A

Alpha: N/A

Trailing returns:

3 Months	1 year	3 years	5 years	Since launch
1.31	7.18	N/A	N/A	7.36



Relative performance (Fund Vs Category Average)

Analysis

These funds, popularly known as Arbitrage Funds or Derivative Funds are recognized for modest and secured returns across the world and are comparatively safer investment option when compared with equity funds. Arbitrage in the financial parlance is the practice of taking

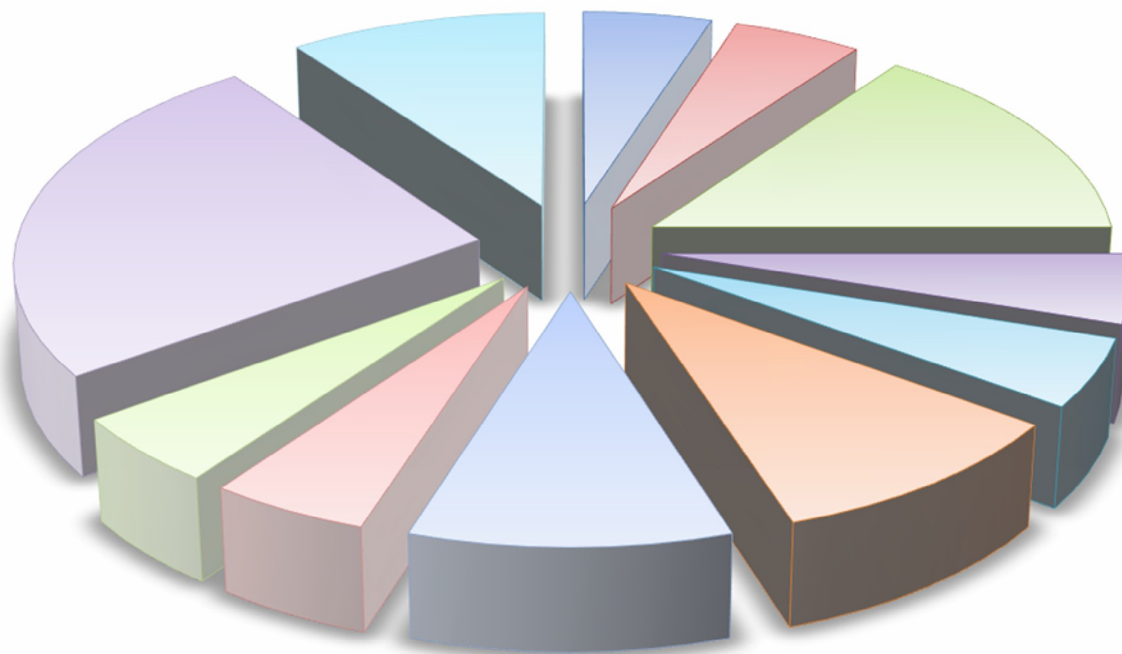
advantage of a state of imbalance between two or more markets i.e. it involves buying and selling of equal quantities of a security in two different markets with the expectation that a future change in price in one market will be offset by an opposite change in the other. One of the markets is usually cash or spot, while the other is derivatives. Though it cannot generate the kind of returns that an equity fund can but will not give negative returns either. Also being coming under the category of equity funds post tax returns enhances in such funds compared to the debt funds. There is no denying that such funds provide good hedge against volatile markets but the concern is that investment opportunities catering to the mis-pricing of securities in different markets to generate returns may be few and difficult to spot and would require the fund managers to be very active.

(All data as on March 31, 2006. Returns up to one year are absolute and those above are compounded.)

IDEAL PORTFOLIO

Fund Scheme	Weightage	Type
Prudential ICICI balanced fund	**5%**	Balanced
Franklin India prima plus	**5%**	Equity
Reliance vision fund	**15%**	Equity
Principal dividend yield fund	**5%**	Equity
HDFC top 200 fund	**5%**	Equity
Kotak 30 fund	**10%**	Equity
HDFC equity fund	**10%**	Equity
HDFC prudence fund	**5%**	Balanced
Kotak balanced fund	**5%**	Balanced
Prudential ICICI blended fund Plan A	**25%**	Arbitrage

(The total allocations made in the above fund are made to the total investment amount to be made by the individual. 10 percent of the total investment amount is kept aside for liquidity.)


Prudential ICICI balanced fund
Franklin India prima plus
Reliance vision fund
Principal dividend yield fund
HDFC top 200 fund
Kotak 30 fund
HDFC equity fund
HDFC prudence fund
Kotak balanced fund
Prudential ICICI blended fund Plan A
Liquidity

The Ground rules of Mutual Fund Investing

Moses gave to his followers 10 commandments that were to be followed till eternity. The world of investments too has several ground rules meant for investors who are novices in their own right and wish to enter the myriad world of investments. These come in handy for there is every possibility of losing what one has if due care is not taken.

1. **Assess yourself:** Self-assessment of one's needs; expectations and risk profile is of prime importance failing which, one will make more mistakes in putting money in right places than otherwise. One should identify the degree of risk bearing capacity one has and also clearly state the expectations from the investments. Irrational expectations will only bring pain.
2. **Try to understand where the money is going:** It is important to identify the nature of investment and to know if one is compatible with the investment. One can lose substantially if one picks the *wrong* kind of mutual fund. In order to avoid any confusion it is better to go through the literature such as offer document and fact sheets that mutual fund companies provide on their funds.
3. **Don't rush in picking funds, think first:** one first has to decide what he wants the money for and it is this investment goal that should be the guiding light for all investments done. It is thus important to know the risks associated with the fund and align it with the quantum of risk one is willing to take. One should take a look at the portfolio of the funds for the purpose. Excessive exposure to any specific sector should be avoided, as it will only add to the risk of the entire portfolio. Mutual funds invest with a certain ideology such as the "Value Principle" or "Growth Philosophy". Both have their share of critics but both philosophies work for investors of different kinds. Identifying the proposed investment philosophy of the fund will give an insight into the kind of risks that it shall be taking in future.
4. **Invest. Don't speculate:** A common investor is limited in the degree of risk that he is willing to take. It is thus of key importance that there is thought given to the process of investment and to the time horizon of the intended investment. One should abstain from speculating which in other words would mean getting out of one fund and investing in another with the intention of making quick money. One would do

well to remember that nobody can perfectly time the market so staying invested is the best option unless there are compelling reasons to exit.

5. **Don't put all the eggs in one basket:** This old age adage is of utmost importance. No matter what the risk profile of a person is, it is always advisable to diversify the risks associated. So putting one's money in different asset classes is generally the best option as it averages the risks in each category. Thus, even investors of equity should be judicious and invest some portion of the investment in debt. Diversification even in any particular asset class (such as equity, debt) is good. Not all fund managers have the same acumen of fund management and with identification of the best man being a tough task, it is good to place money in the hands of several fund managers. This might reduce the maximum return possible, but will also reduce the risks.
6. **Be regular:** Investing should be a habit and not an exercise undertaken at one's wishes, if one has to really benefit from them. As we said earlier, since it is extremely difficult to know when to enter or exit the market, it is important to beat the market by being systematic. The basic philosophy of Rupee cost averaging would suggest that if one invests regularly through the ups and downs of the market, he would stand a better chance of generating more returns than the market for the entire duration. The SIPs (Systematic Investment Plans) offered by all funds helps in being systematic. All that one needs to do is to give post-dated cheques to the fund and thereafter one will not be harried later. The Automatic investment Plans offered by some funds goes a step further, as the amount can be directly/electronically transferred from the account of the investor.
7. **Do your homework:** It is important for all investors to research the avenues available to them irrespective of the investor category they belong to. This is important because an informed investor is in a better decision to make right decisions. Having identified the risks associated with the investment is important and so one should try to know all aspects associated with it. Asking the intermediaries is one of the ways to take care of the problem.
8. **Find the right funds**: Finding funds that do not charge much fees is of importance, as the fee charged ultimately goes from the pocket of the investor. This is even more important for debt funds as the returns from these funds are not much. Funds that charge more will reduce the yield to the investor. Finding the right funds is

important and one should also use these funds for tax efficiency. Investors of equity should keep in mind that all dividends are currently tax-free in India and so their tax liabilities can be reduced if the dividend payout option is used. Investors of debt will be charged a tax on dividend distribution and so can easily avoid the payout options.

9. **Keep track of your investments**: Finding the right fund is important but even more important is to keep track of the way they are performing in the market. If the market is beginning to enter a bearish phase, then investors of equity too will benefit by switching to debt funds as the losses can be minimized. One can always switch back to equity if the equity market starts to show some buoyancy.
10. **Know when to sell your mutual funds:** Knowing when to exit a fund too is of utmost importance. One should book profits immediately when enough has been earned i.e. the initial expectation from the fund has been met with. Other factors like non-performance, hike in fee charged and change in any basic attribute of the fund etc. are some of the reasons for to exit.

Investments in mutual funds too are not risk-free and so investments warrant some caution and careful attention of the investor. Investing in mutual funds can be a dicey business for people who do not remember to follow these rules diligently, as people are likely to commit mistakes by being ignorant or adventurous enough to take risks more than what they can absorb. This is the reason why people would do well to remember these rules before they set out to invest their hard-earned money.

Limitations

This report gives an insight about mutual funds and mutual fund schemes but with few limitations as follows:

- The big question is how to judge a mutual fund before investing? It is important for an investor to consider a fund's performance over several years.
- The report only analyses equity mutual fund schemes of only some funds and there are around 34 AMCs offering wide range of scheme but to analyze them is a tedious task.
- This information is mainly regarding of those mutual funds were collected to which IDBI is an advisor.
- Different fund managers adopt different strategies to improve performance. While one fund manager may have invested in speculative stocks may over a period, another one who have invested in speculative stocks may have struck gold in that year to outperform the former by a long way.
- Lack of proper knowledge and awareness about advantages and disadvantages associated with various schemes among the investor.
- Usually there is a tendency among investors to ignore the consistency of returns over a period of time rather they focus on absolute returns generated in the short term.

Conclusion

After studying & analyzing different mutual fund schemes the following conclusions can be made:

- "Winning" with stocks means performing at least as well as a major market index over the long haul. If one can sidestep the common investor mistakes, then one has taken the first and biggest step in the right direction.
- Diversified stock portfolios have offered superior long term inflation protection. Equities are especially important today with people living longer and retiring early.
- To understand stock funds, one needs to be familiar with the characteristics of the different types of companies they hold.
- Portfolio managers have done a fairly good job in generating positive returns. It may lead to gain investors confidence. Thus over all good performance of the funds is a sign of development in new era in capital market.
- On the basis of the analysis the performance of the schemes during the study period can be concluded to be good.
- Those who want to eliminate the risk element but still want to reap a better then it would be advisable to go for debt or arbitrage schemes which ensures both safety and returns.

So the future of mutual funds in India is bright, because it meets investor's needs perfectly. This will give boost to Indian investors and will attract foreign investors also. It will lead to the growth of strong institutional framework that can support the capital markets in the long run.

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   - **IDBI fund Reckoner**
3. **Books and magazines**
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