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The Global Financial Crisis and the Indian Mutual Funds Industry

ABSTRACT

The Indian mutual fund industry witnessed the impact of global financial crisis .Therefore it becomes imperative to examine the consequences of global financial crisis on the Indian mutual funds industry. This papers aims at evaluating the performance of various categories of schemes. It also traces to find out the significant difference between the number of new schemes launched in the pre and post recession period, the fund mobilized under these new schemes and the monthly asset under management. For this purpose paired sample t-test has been applied. It was found on the basis of study that there is no significant difference between the number of new schemes launched during the pre and post recession period of study (t=2.219;df=5;p=0.07). The study found that there was significant difference in the funds mobilized in the pre and post recession period (t=3.438; df=5; p=0.01). Finally the results also show that there is significant difference between the monthly average asset under management in the pre and post recession period.

Keywords: Mutual funds, Recession, Asset under Management & Gilt Funds.

INTRODUCTION

Economic recession can be defined as decline in countries GDP (negative growth rate) for at least two quarter or longer. How ever the National Bureau of Economic Research of US defines economic recession as a significant decline in the economic activity spread across the economy, lasting more than a few months, normally visible in real GDP growth, real personal income, employment (non-farm payrolls), industrial production, and wholesale-retail sales." The recent economic crisis is due to the sub prime crisis, which originated in U.S.A. As U.S.A is considered to be the engine of world economy and any down turn in its economy will surely going to have an impact on the world economy. The Indian mutual funds industry too bear the burnt of this slow down as there was deceleration in the growth of assets under management of mutual funds, the number of new schemes launched during this period went down dramatically, the funds mobilized under these new schemes too went down and the returns of the most of the funds were negative.

The year 2008 started with sounding note for the mutual funds industry and it kept the momentum it has gained in the previous year and reached the highest Assets under management in May 2008 when it crossed 6 trillion (6 lakh crore). However the Indian mutual funds industry could not keep the momentum for long as by October it started loosing its assets under management as assets under management in October 2008 was 431902 crore compared to 531639 crore in the corresponding month in 2007.There was thus a decline of over 18% in average asset under management. But the average AUM which lost 23.52% as on December 31, 2008 as compared to December 2007 was much less when compared to Sensex which plunged to 52.47%, the steepest in the last three-decade. This was due to decrease in inflow of foreign funds. The recent down turn in the world economy can be blamed to the absence of a sound regulatory framework and mismatch between financial innovation and the ability of the regulator to monitor them.

The Indian mutual funds industry kept its momentum until October 2008, when faced liquidity crisis due to redemption pressure of liquid funds in which it lost 18.34%. The other area of concern, which let down average asset under management, was redemption pressure of the corporates. The shortcomings in the regulatory frame work allowed fund managers to launch fixed maturity plans, this did not required fund manager to disclose portfolios taking advantage of this they invested in low quality assets which did not match their average maturity. These were worst affected due to redemption pressure.

Let us now have a synoptic view of total asset under management of five big players of the industry in the recessionary period , which garnered Rs. 2,37,956 cr constituting 56.51% of total average AUM. Reliance topped in the category having highest asset under management with Rs. 70,208 cr while HDFC and UTI hold the second and third place with Rs. 46,757 and Rs. 42,548 cr respectively. LIC MF was the biggest gainer with an upsurge of 23.24% and for the first time it found its place in the top ten category replacing Kotak and DSP Black Rock. The other players which registered a double digit rise are JP Morgan, Birla, ICICI and Canara Robecco Mutual Fund. The new players have to bore the brunt maximum due to financial liquidity crisis are Edelweiss Mutual Fund, Mirae Asset Mutual Fund and Bharti AXA Mutual Fund lost a whooping 53.14%, 35.49% and 31.61% respectively.

OBJECTIVE OF THE STUDY

The study aims to find out the impact of recession on the Indian mutual funds industry. How recession has impacted the average asset under management, the launch of new schemes and funds mobilized under these schemes. The paper also traces the reason behind recession and its overall impact on Indian capital market in general and mutual funds in particular.

Research methodology

The secondary data for the study have been collected from various secondary source of information, such as Published report of Association of Mutual funds Industry, Web site of Security and Exchange Board of India, Altogether the relevant Journals and periodicals, Research Papers, Articles, News Dailies and Websites are consulted by the Researcher.

Hypotheses

The study tests the following hypothesis to find out the impact of recession on the Indian mutual funds industry.

Hypothesis 1

The null hypothesis of the study assumes, H_0: There is no significant difference between the number of new scheme launched in the pre-recession period and the post recession period, while the alternate hypothesis of the study assumes, H_1: There is a significant difference between number of new schemes launched in the pre recession period and the post recession period.

Hypothesis 2

The null hypothesis of the study assumes, $\mathbf{H_0}$: There is no significant difference between the funds mobilized in the pre recession period and post recession period by the new schemes while the alternate hypothesis of the study assumes, $\mathbf{H_1}$: There is a significant difference between the funds mobilized in the pre recession period and post recession period by the new schemes.

Hypothesis 3

The null hypothesis of the study assumes, $\mathbf{H_0}$: There is no significant difference between the monthly average assets under management in the pre recession period and post recession period while the alternate hypothesis of the study assumes, $\mathbf{H_1}$: There is a significant difference between the monthly average assets under management in the pre recession period and post recession period.

PERFORMANCE EVALUATION MEASURE

For analyzing the data statistical tools have been used. For test of significance paired sample t-test has been done. Paired sample t-test is a statistical technique that is used to compare two population means in the case of two samples that are correlated. Paired sample t-test is used in 'before after' studies, or when the samples are the matched pairs, or the case is a control study.

t- test (paired sample) for test of significant difference

$$t = \frac{\bar{d} - o}{s} \times \sqrt{n} \text{ or } t = \frac{\bar{d}\sqrt{n}}{s}$$

$\bar{d}$ = the mean of the difference

S = the standard deviation of the difference

Value of S is calculated as follows:

$$S = \sqrt{\frac{\Sigma(d - \bar{d})\,2}{n-1}}$$

Note: It is based on n – 1 degree of freedom

PERFORMANCE OF MUTUAL FUNDS CATEGORY WISE

The mutual funds did not faired well in post recession period as could not generate return commensurate with the risk under taken. The worst affected were the equity funds, which turn negative due to poor performance of the stock market. However the gilt and debt funds performed some what better but their performance was no where compared to there past performance in pre recession periods. This can be observed from table -1 where the performance of gilt medium and long term were superior than other category generating over 34% return in the best category followed by debt medium term instruments (20.07%) the worst performer were the funds in the equity category funds like equity technology, equity tax plans which generated negative return of -57.61 and -56.92 as can be observed from table –1.However in the Equity category Hybrid- Arbitrage funds generated positive return 8.03%. Under this category UTI SPREAD-G gave the best return of 10.5%.

MUTUAL FUNDS

Table 1: Return of Mutual Fund

S.No.	One-year Ending January 14, 2009	Cat. Avg.		Best Fund		Worst Fund	
		Return (%pa)	Growth of Rs. 100	Return (%pa)	Growth of Rs. 100	Return (%pa)	Growth of Rs. 100
1.	Gilt: Medium & Long-term	17.81	117.81	34.99	134.99	-6.17	93.83
2.	Debt: Medium-term Inst.	13.97	113.97	20.07	120.07	8.55	108.55
3.	Gold ETF	10.82	110.82	All gold ETFs have same returns			
4.	Debt: Medium-term	10.72	110.72	30.76	130.76	-4.06	95.94
5.	Debt: Short-term	10.37	110.37	16.23	116.23	1.13	101.13
6.	Debt: Specialty	10.17	110.17	25.04	125.4	2.99	102.99
7.	Debt: Short-term Inst.	9.43	109.43	16.61	116.61	-6.01	93.99
8.	Debt: Liquid Plus Inst	9.29	109.29	10.34	110.34	8	108
9.	Debt: Floating Rates ST Inst	9.13	109.13	9.42	109.42	8.75	108.75
10.	Debt: Liquid Plus	9.09	109.09	9.95	109.95	7.89	107.89
11.	Debt: Floating Rates LT Inst	9.05	109.05	9.72	109.72	8	108
12.	Debt: Floating Rates ST	9.01	109.01	10.21	110.21	7.79	107.79
13.	Debt: Floating Rates LT	8.9	108.09	10.08	110.08	7.45	107.45
14.	Debt: Ultra Short-term Inst	8.84	108.84	9.38	109.38	7.02	107.02
15.	Gilt: Short term	8.46	108.46	20.65	120.65	0	100
16.	Debt: Ultra short-term	8.31	108.31	9.59	109.59	4.75	104.75
17.	Hybrid: Arbitrage	8.03	108.03	10.05	110.5	6.35	106.35
18.	Hybrid: Monthly Income	-3.94	96.06	21.34	121.34	-13.5	86.5
19.	Hybrid: Debt oriented	-10.32	89.68	10.32	110.32	-33.99	66.01
20.	Equity: Pharma	-33.65	66.35	-23.09	76.91	-49.33	50.67
21.	Equity: FMCG	-34.21	65.79	-26.72	73.28	-44.41	55.59
22.	Hybrid: Asset Allocation	-37.31	62.69	-28.14	71.86	-48.67	51.33
23.	Hybrid: Equity oriented	-42.54	57.46	-15.78	84.22	-71.1	28.9
24.	Equity: Auto	-50.42	49.58	-45-85	54.15	-54.99	45.01
25.	Equity: Banking	-51.89	48.11	-42.54	57.46	-61.23	38.77
26.	S & P CNX Nifty	-54.32	45.68	-	-	-	-
27.	Sensex	-54.79	45.21	-	-	-	-
28.	Equity: Diversified	-56.59	43.41	-38.82	61.18	-81.99	18.01
29.	Equity: Tax Planning	-56.92	43.08	-48.93	51.07	-65.73	34.27
30.	Equity:Technology	-57.61	42.39	-42.22	57.78	-63.32	36.68

Source: www.valueresearchline.com

It can be observed from table-2 below that the share of investment is highest under income category constituting 52% of the total investment.

It is evident from table-2 the share of equity category has gradually cone down from 25% since October 2008 to 18 % in April 2009.

Table-2: Assets Under Management As on April 30, 2009

Category	Open End	Close End	Interval Fuund	Total	% to Total
Income	250575	53476	2029	306080	52
Equity	89666	18715	126	108507	18
Balanced	10299	1670	-	11969	2
Liq/MoneyMkt.	142432	-	-	142432	24
Gilt	6347	-	-	6347	1
ELSS-Equity	12217	2050	-	14267	3
Gold ETF	717	-	-	717	@
Other ETF	627	-	-	627	@
FOF investing Overseas	2570	-	-	2570	@

Source: www.AmfiIndia.com

MUTUAL FUNDS NET INFLOWS

The mutual funds industry grew at a good pace in early part of 2008, however with the onset of recessionary trend mutual funds industry too begin to experience out flow of funds primarily due to the poor performance of the stock market. This outflow was significant from equity funds, which became evident from October 2008 due to redemption pressure. This was due to poor performance of assets under this category. During January 2008, the net inflow (total purchase less total redemptions) was Rs 12,717cr which declined to Rs 136cr in April 2009 due to redemption pressure.

Funds Mobilised by New Scheme Launched

The year 2008 saw the launch of many new innovative schemes to attract the investors. Most of the schemes were of income category. However the industry could not maintain the momentum for long and it suffered badly during the post recession period as the number of new schemes launched came down dramatically. The number of schemes launched in April 2008 was 36, which increased to 103 in September 2008 an increase of over 118%. The number of schemes launched was maximum in September 2008 and funds mobilized under these new schemes was Rs.22809 crs as it can be observed from the table-3.

Table-3: Pre Recession Schemes Launched and Funds Mobilised

Month	New Scheme Launched	Fund mobilized(Rs Crs)
Apr-08	36	5010
May-08	46	9731
Jun-08	64	15058
Jul-08	62	14063
Aug-08	85	19610
Sep-08	103	22809

Source: Compiled from Monthly Data of AMFI

The picture was not so rosy in post recession period in which impact was largely felt in the month October. It is evident from table-4 that number of new schemes launched in the month of October was 68 a reduction of 33% in the number of new schemes launched. It is also evident from the table-4 that number of new schemes launched was lowest in Feburary 2009 and also the fund mobilsed was lowest amounting to Rs.10 crore. Hence it can be ascertained on the basis of the table 3 and 4 that that recession had an adverse impact on the Indian mutual funds industry.

Table-4: Post Recession Schemes Launched and Funds Mobilised

Month	New Scheme Launched	Fund mobilised (Rs.Crs)
Oct-08	68	7004
Nov-08	36	4229
Dec-08	21	762
Jan-09	5	37
Feb-09	3	10
Mar-09	22	4854

Source: Compiled from Monthly Data of AMFI

ASSET UNDER MANAGEMENT

The mutual funds industry saw slump in average assets under management in the post recession period. However in the pre recession period the mutual funds industry grew at an alarming pace this was due to better performance of the index.

It can be observed from table-5 that the Indian mutual funds industry crossed the 6 trillion marks in May 2008.There after the average assets under management shows declining phase. It is evident from table-6 that average asset under management was lowest in November 2008.

Table-5: Pre Recession Monthly Average Asset Under Management

Month	AUM(Rs,Crs)
Apr-08	573411
May-08	600526
Jun-08	564752
Jul-08	529631
Aug-08	544364
Sep-08	529103

Source: Compiled from Monthly Data of AMFI

Table-6: Post recession Monthly Average Asset Under Management

Month	AUM(Rs.crs
Oct-08	431902
Nov-08	402029
Dec-08	421117
Jan-09	460949
Feb-09	500973
Mar-09	493285

Source: Compiled from Monthly Data of AMFI

Thus on the basis of table-5 and table- 6 it can be inferred that that recession had an impact on the Indian mutual funds industry. As the average assets under management shows a declining trend since October 2008.

Analysis of Pre and Post Recession of Indian Mutual Funds Industry

It can be observed from table –7 that when the study takes into account the number of new schemes launched it finds no significant difference between the number of new schemes launched during the pre and post recession period of study ($t=2.219; df=5; p=0.07$). The study found that there was significant difference in the funds mobilized in the pre and post recession period ($t=3.438; df=5; p=0.01$). Finally it can be observed from the table-7 that there is significant difference between the monthly average asset under management in the pre and post recession period.

Table-7: Comparison of Mutual Funds Before and After Recession

Parameters	Pre Recession	Post Recession	t-stastics	Significance
No. of new schemes launched	66	25.88	2.219	0.07
Funds Mobilized by new schemes	14380.17	28160.00	3.438	0.01
Monthly Average assets under management	556964.5	451709.2	3.935	0.01

Source: Authors Own Compilation

SUMMARY AND CONCLUSIONS

The year 2008 though achieved some new heights in terms of asset under management, launch of new and innovative schemes, and entry of new players. All this happened in the first six month of the year. In the second half of the year the achievement could not be sustained and there was decline in every sphere of mutual funds industry. However in the first quarter of 2009 the industry has started showing the sign of recovery as there is gradual increase of assets under management and also launching of new and innovative schemes.

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