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AN IMPACT OF UNIT TRUST OF INDIA (TRANSFER OF UNDERTAKING AND REPEAL) ACT, 2002 ON THE WORKING PERFORMANCE OF UTI MUTUAL FUND

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ABSTRACT

Indian economy and the Indian Capital Market in particular, have recorded growth during the decades of eighties and nineties. As the countries first and foremost mutual fund, Unit Trust of India had played a very important and supportive role in this process. As a pioneer institution, UTI came out proactively with several innovative schemes to mobilize larger household savings. UTI had brought schemes for everyone in the family, from the new born child to old and retired individuals. There are schemes for those who prefer safe and steady rising returns as well as high growth schemes for those who are ready to take some risk. UTI had also launched many offshore funds which guarantees higher returns, thus becoming an important investment vehicle for small investors on one hand and source of funds for economic development on the other hand..

Keywords: *Indian Economy, Indian Capital Market, Unit Trust of India, Economic Development.*

Introduction

Unit Trust of India was set up in 1964 under Unit Trust of India Act, 1963. The objective of UTI was "… to encourage savings and investment and participation in the income, profit and gains accruing…from the acquisition¸ holding management and disposal of securities." The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, by the initiative of the Government of India and Reserve Bank of India. An act of parliament established Unit Trust of India on 1963. Till 1987 UTI worked as a single public sector mutual fund. 1987 marked the entry of non-UTI public sector mutual funds set up by public sector banks and other financial institutions. With the entry of private sector funds in 1993, a new era started in Indian mutual fund industry, giving the Indian investors a wider choice of mutual funds families.

Earlier UTI was giving higher returns to its investors. But in 2002, in a turbulent market it could not stood up to its promise of higher returns to its flagship scheme Unit Scheme 1964(US-64) investors and there was a big gap between face value and NAV value of the scheme. Besides this, UTI have suspended the sale and repurchase of US-64 for six months from July, 2002. The crisis became uncontrollable for the UTI and then Government of India had intervened the situation and brought bailout packages for the benefits of investors. On 15th Jan., 2003, the Government of India signed an agreement with four sponsors SBI, PNB, BOB and LIC to operate the Unit Trust of India (Transfer of Undertaking and Repeal) Act 2002. As per the Repeal Act 22 schemes (all assured schemes) are transferred and vested in an administrator and 47 NAV based schemes are managed by UTI Mutual Fund which functions under Securities and Exchange Board of India (SEBI) guidelines. The present study is related to an impact of these changes on working performance of UTI Mutual Fund. The present study will cover all the schemes of UTI Mutual Funds including offshore funds.

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Review of the Literature

Though many published articles are available in the area of UTI Mutual Fund performance. Private sector mutual funds have recorded improvements in profitability, efficiency and growth in Asset under Management. In another study it was revealed that the assured returns schemes were the reason of worry of UTI. The performance of UTI Mutual Fund is related to several internal and external factors confronting the investors. The internal factors are lack of expertise while investing in companies, poor infrastructure, no incentive to fund managers and employees and unskilled management while in external factors, turbulent market, recession, non-recovery of industrial investments, cut-throat competition from other newly started both from public sector and private sector mutual funds, low return on investment and share market scams. In some other articles published in the economic times regarding improvements of infrastructure, training to existing staff, experts from private sectors should be given entry in the board and new professional should be recruited.

Major Hypothesis

The research hypothesis is a predictive statement that related an independent variable to a dependent variable. The central hypothesis of the present research work is "An impact of Unit Trust of India (Transfer of Undertaking and Repeal) Act 2002 on working performance of UTI Mutual Fund." After restructured of then UTI, the working performance of newly UTI Mutual Fund has drastically changed. Now it is working in an efficient manner. There is a hardly any standard norms to test due hypothesis. However we will try to find the answer of the research question through comparing the working performance of formerly UTI to newly UTI Mutual Fund. The research question of this study may be "whether working performance of UTI Mutual is better than UTI."

Testing of Hypothesis (T-Test and A-Test)

Testing of Investible Funds

We can test that whether ***percentage change in Investible Funds of UTI Mutual was more increased then UTI*** due to Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002. Test is taken at 5 per cent level of significance. For getting answer we use T-test as well as A-test. The Investible funds data of both UTI and UTI Mutual Fund are shown:-

Change of Investible Funds of UTI (during 1995-96 to 1999-2000) and UTI Mutual Fund (during 2013-14 to 2017-18)

No. Of Years (N)	**1**	**2**	**3**	**4**	**5**
Investible Funds of UTI (% change over last year)	-5	1	7	4	15
Investible Funds of UTI Mutual Fund (% change over last year)	11	23	20	35	6

For testing of above the fact, we may represent investible funds of UTI as X and the investible funds of UTI Mutual Funds as Y and then taking the null hypothesis that the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 does not bring any improvement in working performance of new UTI Mutual Fund, we can write:

$\boldsymbol{H_0}$: $\mu_1 = \mu_2$ which is equivalent to test $H_0 : \overline{D} = 0$

$\boldsymbol{H_1}$: $\mu_1 < \mu_2$ (as we want to conclude that Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 has been a success step.

Because of the matched pairs we use paired t-test and work out the test statistic 't' as under:

$$t = \frac{\overline{D}-0}{\sigma_{diff}/\sqrt{n}}$$

To find the value of t, we first work out the mean and standard deviation of differences as under:

Table 1

No. of Years (N)	**Investible Funds of UTI (% change over last year) X_i**	**Investible Funds of UTI Mutual Fund (% change over last year) Y_i**	**Difference ($D_i = Xi - Yi$)**	**Difference Squared D_i^2**
1	-5	11	-16	256
2	1	23	-22	484
3	7	20	-13	169
4	4	35	-31	961
5	15	6	9	81
N=5			$\sum \overline{D}_i$= - 73	$\sum D_i^2$= 1951

Testing of Rate of Return

We can also test that whether percentage change in rate of return of UTI Mutual was more increased then UTI due to Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002. Test is taken at 5 per cent level of significance. For getting answer we use T-test as well as A-test. The Rate of Return data of both UTI and UTI Mutual Fund are shown:

Change in Rate of Return of UTI (during 1995-96 to 1999-2000) and UTI Mutual Fund (2013-14 to 2017-18)

No. of Years (N)	**1**	**2**	**3**	**4**	**5**
Rate of Return of UTI (% change over last year)	10	17	15	16	17
Rate of Return of UTI Mutual Fund (% change over last year)	16	17	17	16	18

For testing of above the fact, we may represent the rate of return of UTI as X and the rate of return UTI Mutual Funds as Y and then taking the null hypothesis that the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 does not bring any improvement in working performance of new UTI Mutual Fund, we can write:

H_0 : $\mu_1 = \mu_2$ which is equivalent to test H_0 : $\overline{D} = 0$

H_1 : $\mu_1 < \mu_2$ (as we want to conclude that Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 has been a success step.

Because of the matched pairs we use paired t-test and work out the test statistic 't' as under:

$$t = \frac{\overline{D} - 0}{\sigma_{diff}/\sqrt{n}}$$

To find the value of t, we first work out the mean and standard deviation of differences as under:

Table 2

No. of Years (N)	**Rate of Return on Net Worth of UTI (% change over last year) X_i**	**Rate of Return on Net Worth of UTI Mutual Fund (% change over last year) Y_i**	**Difference ($D_i = X_i - Yi$)**	**Difference Squared D_i^2**
1	10	16	-6	36
2	17	17	0	0
3	15	17	-2	4
4	16	16	0	0
5	16	18	-2	4
N-5			$\sum \overline{D}_i$= -10	$\sum D_i^2$= 44

Testing of Reserve and Surplus

We can test that whether the reserve and surplus of UTI Mutual was more increased then UTI due to Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002. Test is taken at 5 per cent level of significance. For getting answer we use T-test as well as A-test. The Reserve and Surplus data of both UTI and UTI Mutual Fund are shown:

Increase in Reserve and Surplus of UTI (during 1995-96 to 1999-2000) and UTI Mutual Fund (during 2013-14 to 2017-180

No. Of Years (N)	**1**	**2**	**3**	**4**	**5**
Reserve and Surplus of UTI ((% change over last year) X_i	-18	-32	-73	17	351
Reserve and Surplus of UTI Mutual Fund (% change over last year) Yi	13	16	20	16	19

For testing of above the fact, we may represent reserve and surplus of UTI as X and the reserve and surplus of UTI Mutual Funds as Y and then taking the null hypothesis that the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 does not bring any improvement in working performance of new UTI Mutual Fund, we can write:

H_0 : $\mu_1 = \mu_2$ which is equivalent to test H_0 : $\overline{D} = 0$

H_1 : $\mu_1 < \mu_2$ (as we want to conclude that Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 has been a success step.

Because of the matched pairs we use paired t-test and work out the test statistic 't' as under:

t = $\frac{\bar{D}-0}{\sigma_{diff}/\sqrt{n}}$

To find the value of t, we first work out the mean and standard deviation of differences as under:

Table 3

No. of Years (N)	Reserve and Surplus of UTI (% change over the last year) X_i	Reserve and Surplus of UTI Mutual Fund (% change over the last year) Y_i	Difference ($D_i = X_i - Yi$)	Difference Squared D_i^2
1	-18	13	-31	961
2	-32	16	-48	2304
3	-73	20	-93	8649
4	17	16	1	1
5	350	19	331	109561
N-5			$\sum \bar{D}_i$= 160	$\sum D_i^2$= 121476

Testing of Gross Income/Revenue

We can test that whether Gross Income/Revenue of UTI Mutual was more increased then UTI due to Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002. Test is taken at 5 per cent level of significance. For getting answer we use T-test as well as A-test. The Gross Income/Revenue data of both UTI and UTI Mutual Fund are shown:

Increase in Gross Income/Revenue of UTI (during 1995-96 to 1999-2000) and UTI Mutual Fund (during 2013-14 to 2017-18)

No. of Years (N)	1	2	3	4	5
Gross Income/Revenue of UTI (% change over last year)	-9	1	12	-11	199
Gross Income/Revenue of UTI Mutual Fund (% change over last year)	3	29	15	14	24

For testing of above the fact, we may represent reserve and surplus of UTI as X and the Gross Income/Revenue of UTI Mutual Funds as Y and then taking the null hypothesis that the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 does not bring any improvement in working performance of new UTI Mutual Fund, we can write:

H_0 : $\mu_1 = \mu_2$ which is equivalent to test H_0 : $\bar{D}$ = 0

H_1 : $\mu_1 < \mu_2$ (as we want to conclude that Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 has been a success step.

Because of the matched pairs we use paired t-test and work out the test statistic 't' as under:

t = $\frac{\bar{D}-0}{\sigma_{diff}/\sqrt{n}}$

To find the value of t, we first work out the mean and standard deviation of differences as under:

Table 4

No. of Years (N)	Gross Income/Revenue of UTI (% Change over the last year) X_i	Gross Income/Revenue of UTI Mutual Fund (% change over the last year) Y_i	Difference ($D_i = X_i - Y_i$)	Difference Squared D_i^2
1	-9	3	-12	144
2	1	29	-28	784
3	12	15	-3	9
4	-11	14	-25	625
5	199	24	175	30625
N-5			$\sum \bar{D}_i$= 107	$\sum D_i^2$= 32187

Table 5

T-Testing conclusion

Particulars / Para Meters	Investible Funds of UTI & UTI MF (% change over last year) X_i	Rate of Return on Net Worth of UTI & UTI MF (% change over last year)	Reserve and Surplus of UTI & UTI MF (% change over last year)	Gross Income/Revenue of UTI &UTI MF (% change over last year)
$\bar{D} = \frac{\sum \bar{D}_i}{n}$	-14.6	-2.00	32	21.4
$\sigma_{diff} = \sqrt{\frac{\sum D_i^2 - \bar{D}^2 . n}{n-1}}$	13.31	2.45	170.55	86.45
$t=\frac{\bar{D}-0}{\sigma_{diff}/\sqrt{n}}$	-0.490	-1.828	0.084	**0.110**
Degree of freedom(N-1)	4	4	4	4
Table value of t-distribution for 5 degrees of freedom	-2.132	-2.132	2.132	2.132
T test value is higher/less then tabulated value	Higher	Higher	Less	Less
Hypothesis Accepted/ Rejected	Rejected	Rejected	Accepted	Accepted
Conclude or decision	UTI Act, 2002 is effective.	UTI Act, 2002 is effective.	UTI Act, 2002 is not effective.	UTI Act, 2002 is not effective.

Table 6

A-Testing conclusion

Particulars / Para Meters	Investible Funds of UTI & UTI MF (% change over last year) X_i	Rate of Return on Net Worth of UTI & UTI MF (% change over last year)	Reserve and Surplus of UTI & UTI MF (% change over last year)	Gross Income/Revenue of UTI &UTI MF (% change over last year)
$A = \frac{\sum D_i^2}{\sum D_i^{\ 2}}$	0.366	0.4400	4.745	2.810
5% level of significance the table value of A-statistic for (n-1) or (5-1) = 4 degree of freedom	0.376	0.376	0.376	0.376
A test is higher/less then tabulated value	Less	Higher	Less	Higher
Hypothesis Accepted/ Rejected	Rejected	Accepted	Rejected	Accepted
Conclude or Decision	UTI Act, 2002 is effective.	UTI Act, 2002 is not effective.	UTI Act, 2002 is effective.	UTI Act, 2002 is not effective.

Conclusion

- From the above T-test table, it is reasonable to believe that UTI Act, 2002 has effect on improvement in working performance of UTI Mutual Fund in terms investible funds and rate of returns while in terms of reserve and surplus and income / revenues it is not so effect.
- The A-test table also revealed that it is reasonable to believe that UTI Act, 2002 has effect on improvement in working performance of UTI Mutual Fund in terms investible funds and reserve and surplus while in terms of rate of returns and income / revenues it is not so effect.

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