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IS THERE ANY IMPROVEMENT IN WORKING PERFORMANCE OF UTI MUTUAL FUND AFTER UNIT TRUST OF INDIA (TRANSFER OF UNDERTAKING AND REPEAL) ACT, 2002 ?

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ABSTRACT

After independence, the Indian economy and the Indian Capital Market in particular, have recorded growth during the decades of eighties and nineties. As the country's first mutual fund established by the Government of India, Unit Trust of India had played a very important and supportive role in this process. As a pioneer institution, UTI came out with several schemes as per the needs of investors and to mobilize larger household savings in keeping view of to invest in the industrial sectors. UTI had also launched many offshore funds which guarantee higher returns. 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." 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. 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 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. Chi- Square test (X^2-test) has been used to ascertain that investible funds, rate of returns, reserves and surplus and gross income/revenues of UTI Mutual Fund are more reasonably increased during the period from 2013-14 to 2017-18 due to Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002.

KEYWORDS*: Capital Market Pioneer institution, SEBI, Offshore Fund, NAV, Turbulent Market.*

Introduction

After independence, the Indian economy and the Indian Capital Market in particular, have recorded growth during the decades of eighties and nineties. As the country's first mutual fund established by the Government of India, Unit Trust of India had played a very important and supportive role in this process. As a pioneer institution, UTI came out with several schemes as per the needs of investors and to mobilize larger household savings in keeping view of to invest in the industrial sectors. 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.

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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.

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 and competitive 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 the working performance of newly UTI Mutual Fund in study period (2013-14 to 2017-18). The research question of this study may be "whether working performance of UTI Mutual Fund is better in 2013-14 to 2017-18."

Testing of Hypothesis: (Chi-Square Test)

The X^2 test, pronounced as chi-square test, is of the simplest and most widely used in statistical work. The X^2 test was first used by Karl Pearson in the year 1900. The quantity X^2 describes the magnitude of the discrepancy between theory and observation. It is defined as:

$$X^2 = \sum \frac{(fo - fe)^2}{fo}$$

Where fo= Actual(observed) frequency for a given cell and

fe=Expected frequency for that cell.

Increase of Investible Fund: (Testing of Hypothesis: X^2-test)

We can test that whether change in investible funds (period from 2013-14 to 2017-18) are more increased reasonably 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 X^2-test. The Investible funds data of UTI Mutual Fund after UTI Act, 2002 are shown:

Investment Funds of UTI Mutual Fund During 2013-14 to 2017-18

(In Billion)

No. of Years (N)	**1**	**2**	**3**	**4**	**5**
Investible Funds of UTI Mutual Fund	643	790	949	1282	1360

We can test the hypothesis that the UTI Act, 2002 is **insignificant**. Let us take hypothesis that the increase in Investment Funds or Asset under Management (AUM) due to UTI Act, 2002 is insignificant. If that is so, the probability of obtaining any one of the five numbers is 1/5 and as such the expected frequency of any one number coming upward is 5025*1/5=1004.8. Now we can write the observed frequencies along with expected frequencies and work out the value of X^2 as follows:

(Rs. Billion)

No. of Years (N)	**Investible Funds of UTI Mutual Fund During 2013-14 to 2017-18 [Observed Frequency(fo)]**	**Investible Funds of UTI Mutual Fund [Expected Frequency (fe)]**	**Difference $(fo-fe)^2$**	$\frac{(fo-fe)^2}{fo}$
1	643	1004.8	130899	130.27
2	790	1004.8	46139	45.92
3	949	1004.8	3114	3.10
4	1282	1004.8	76840	76.47
5	1360	1004.8	126167	125.56
N=5	5024			381.32

$$\bar{X}=\frac{Sum\ \ of\ all\ the\ values\ of\ the\ variable}{Number\ of\ observations}=\frac{5024}{5}=1004.8$$

Here $\bar{X}$=Arithemetic Mean

Chi-Square Test:

$$X^2=\sum\frac{(fo-fe)^2}{fo}=\mathbf{381.32}$$

Number of degrees of freedom=n-1=5-1=4. For degrees of freedom at 5% level of significance the table value of X^2=**9.49.** The calculated value of X^2 is more than the table value. Hence the hypothesis is rejected. We, therefore, conclude that the Investment Funds or Asset Under Management (AUM) is **significant**.

Increase of Rate of Return: (Testing of Hypothesis: X^2-test)

We can test that whether percentage change in rate of returns (period from 2013-14 to 2017-18) are more increased in UTI Mutual Fund 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 X^2-test. The Rate of Return data of UTI Mutual Fund are shown:

Rate of Returns of UTI Mutual Fund During 2013-14 to 2017-18

(In %)

No. of Years (N)	**1**	**2**	**3**	**4**	**5**
Rate of Return of UTI Mutual Fund	15	15	15	16	18

We can test the hypothesis that the UTI Act, 2002 is **insignificant.** Let us take hypothesis that the increase in Rate of Returns due to UTI Act, 2002 is insignificant. If that is so, the probability of obtaining any one of the five numbers is 1/5 and as such the expected frequency of any one number coming upward is 79*1/5=15.8. Now we can write the observed frequencies along with expected frequencies and work out the value of X^2 as follows:

(In %)

No. of Years (N)	Rate of Returns of UTI Mutual Fund During 2013-14 to 2017-18 [Observed Frequency (fo)]	Rate of Returns of UTI Mutual Fund [Expected Frequency (fe)]	Difference $(fo-fe)^2$	$\frac{(fo-fe)^2}{fo}$
1	15	15.8	0.64	0.04
2	15	15.8	0.64	0.04
3	15	15.8	0.64	0.04
4	16	15.8	0.04	0.00
5	18	15.8	4.84	0.27
N=5	79			0.40

$$\bar{X}=\frac{\text{Sum of all the values of the variable}}{\text{Number of observations}}=\frac{79}{5}=15.8$$

Here $\bar{X}$=Arithemetic Mean

Chi-Square Test:

$$X^2=\sum\frac{(fo-fe)^2}{fo}=\mathbf{0.40}$$

Hence, the calculated value of X^2=0.40.

Number of degrees of freedom=n-1=5-1=4. For degrees of freedom at 5% level of significance the table value of X^2=**9.49.** The calculated value of X^2 is less than the table value. Hence the hypothesis is accepted. We, therefore, conclude that the percentage change in Rate of Returns of UTI Mutual Fund due to UTI Act, 2002 is **insignificant.**

Increase in Reserves and Surplus: (Testing of Hypothesis: X^2-test)

We can test that whether increase in Reserves and Surplus (period from 2013-14 to 2017-18) are more increased in UTI Mutual Fund 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 X^2-test. The Reserves and Surplus data of UTI Mutual Fund are shown:

Increase in Reserves and Surplus of UTI Mutual Fund During 2013-14 to 2017-18

(In Crore)

No. of Years (N)	1	2	3	4	5
Reserves and Surplus of UTI Mutual Fund	1040	1209	1452	1687	2004

We can test the hypothesis that the UTI Act, 2002 is **insignificant.** Let us take hypothesis that the increase in Reserves and Surplus due to UTI Act, 2002 is insignificant. If that is so, the probability of obtaining any one of the five numbers is 1/5 and as such the expected frequency of any one number coming upward is 7392*1/5=1478.4. Now we can write the observed frequencies along with expected frequencies and work out the value of X^2 as follows:

(Rs. Crore)

No. of Years (N)	Reserve and Surplus of UTI Mutual Fund [Observed Frequency (fo)]	Reserves and Surplus of UTI Mutual Fund [Expected Frequency (fe)]	Difference $(fo-fe)^2$	$\frac{(fo-fe)^2}{fo}$
1	1040	1478.4	192194.56	184.80
2	1209	1478.4	72576.36	60.03
3	1452	1478.4	696.96	0.48
4	1687	1478.4	43513.96	25.79
5	2004	1478.4	276255.36	137.85
N=5	7392			408.96

$$\bar{X}=\frac{Sum\ of\ all\ the\ values\ of\ the\ variable}{Number\ of\ observations}=\frac{7392}{5}=1478.4$$

Here $\bar{X}$=Arithemetic Mean

Chi-Square Test:

$$X^2=\sum\frac{(fo-fe)^2}{fo}=\mathbf{408.96}$$

Hence, the calculated value of X^2=408.96.

Number of degrees of freedom=n-1=5-1=4. For degrees of freedom at 5% level of significance the table value of X^2=**9.49.** The calculated value of X^2 is higher than the table value. Hence the hypothesis is rejected. We, therefore, conclude that the increase in Reserves and Surplus due to UTI Act, 2002 is **significant.**

Increase of Gross Income/Revenue: (Testing of Hypothesis: X^2-test)

We can test that whether increase in Gross Income/Revenue (period from 2013-14 to 2017-18) are more increased in UTI Mutual Fund 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 X^2-test. The Income/Revenue data of UTI Mutual Fund are shown:-

Increase in Gross Income/Revenue of UTI Mutual Fund During 2013-14 to 2017-18

(In Crore)

No. Of Years (N)	**1**	**2**	**3**	**4**	**5**
Gross Income/Revenue of UTI Mutual Fund	506	653	750	853	1058

We can test the hypothesis that the UTI Act, 2002 is **insignificant**. Let us take hypothesis that the increase in Gross Income/Revenue to UTI Act, 2002 is insignificant. If that is so, the probability of obtaining any one of the five numbers is 1/5 and as such the expected frequency of any one number coming upward is 5025*1/5=1004.8. Now we can write the observed frequencies along with expected frequencies and work out the value of X^2 as follows:

(Rs. Crore)

No. of Years (N)	**Gross Income/Revenue [Observed Frequency (fo)]**	**Gross Income/Revenue of UTI Mutual Fund [Expected Frequency (fe)]**	**Difference** $(fo-fe)^2$	$\frac{(fo-fe)^2}{fo}$
1	506	764	66564	131.55
2	653	764	12321	18.87
3	750	764	196	0.26
4	853	764	7921	9.29
5	1058	764	86436	81.70
N=5	3820			241.66

$$\bar{X}=\frac{Sum\ of\ all\ the\ values\ of\ the\ variable}{Number\ of\ observations}=\frac{3820}{5}=764$$

Here $\bar{X}$=Arithemetic Mean

Chi-Square Test:

$$X^2=\sum\frac{(fo-fe)^2}{fo}=241.66$$

Hence, the calculated value of X^2=241.66.

Number of degrees of freedom=n-1=5-1=4. For degrees of freedom at 5% level of significance the table value of X^2=**9.49.** The calculated value of X^2 is higher than the table value. Hence the hypothesis is rejected. We, therefore, conclude that the increase in Gross Income/Revenues of UTI Mutual Fund due to UTI Act, 2002 is significant.

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