IARJSET ISSN (O) 2393-8021, ISSN (P) 2394-1588

International Advanced Research Journal in Science, Engineering and Technology

ISO 3297:2007 Certified ⪤ Impact Factor 7.105 ⪤ Vol. 9, Issue 7, July 2022

DOI: 10.17148/IARJSET.2022.9751

A STUDY OF INVESTMENT TRENDS IN FINANCIAL SERVICES SECTOR MUTUAL FUND SCHEMES IN INDIA

Dr. Tanka Prasad Upadhyaya

Associate Professor, Head, Department of Banking, DHSK Commerce College, Dibrugarh, Assam, INDIA

Abstract: In recent times, Indian investors increasingly have turned towards mutual funds to invest in order to achieve their various financial goals. Mutual funds proffer the advantages of diversification and professional management. A mutual fund pool money from numerous investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The combined holdings the mutual fund owns are known as its portfolio. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. This article will guide our mutual fund investors in understanding the benefit of mutual funds investment and also to select suitable fund for achieving their financial goals. A sectoral fund is an equity fund that invests the money of investors in businesses belonging to the same industry or sector. These funds let investors take exposure in specific sectors of the economy by putting all their money in companies of the same sector. As of late, SEBI's re-categorization has modified the foundation to determine whether an organization is large cap, small-cap, or mid-cap. Large cap organizations are those that constitute the top 100 companies in terms of market capitalization. The present study is an attempt to analyse investment trends in financial services sector mutual fund schemes in India

Keywords: Equity, Financial Service sector, NIFTTY, Mutual Fund,

I. INTRODUCTION:

Different investment avenues are available to investors and amongst all, Mutual funds offer good investment opportunities to the investors. A mutual fund serve as a link between the investors and the securities market by mobilizing savings from the investors and investing them in the securities market to generate returns. Like all investments, they also carry certain risks. The investors should compare the risks and expected returns after adjustment of tax on various instruments while taking investment decisions. The investors may seek advice from experts while making investment decisions. Mutual fund is a mechanism for pooling money by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer document. Investments in securities are spread across a wide cross-section of industries and sectors and thus the risk is diversified because all stocks may not move in the same direction in the same proportion at the same time. Mutual funds issue units to the investors in accordance with quantum of money invested by them. Investors of mutual funds are known as unit holders. The profits or losses are shared by investors in proportion to their investments. Mutual funds normally come out with a number of schemes which are launched from time to time with different investment objectives. A mutual fund is required to be registered with Securities and Exchange Board of India (SEBI) before it can collect funds from the public

II. FINANCIAL SERVICES SECTOR MUTUAL FUNDS:

Financial Services is one of the most important sectors of an economy. Financial Services sector comprises of both Banks and Non-Banking Lending Institutions; Insurance and Asset Management Companies are also part of Financial Services Sector. A strong and well regulated Financial Services Sector can be critical for the growth of an economy. Financial Services Sector mutual funds are those sector funds whose asset allocation is made mostly towards the equities of Indian banks and financial services sectors such as Insurance companies, Asset Management Companies, Brokerage companies etc.. These funds are expected to do well and beat the benchmark when the banking sector is doing well.

Since Financial Services Sector mutual funds are sector funds, they basically carry a higher risk of concentration as compared to any other class of mutual funds. Therefore, sectoral funds are suitable for those investors who are willing to bear higher levels of risk in exchange for the potential to enjoy benchmark-beating returns when the banking sector is doing well. These funds are apt for aggressive investors who seek to tap on the potential of the banking sector stocks and earn higher returns in the long run. It is necessary to have a long-term investment horizon to mitigate the associated

IARJSET ISSN (O) 2393-8021, ISSN (P) 2394-1588

International Advanced Research Journal in Science, Engineering and Technology

ISO 3297:2007 Certified ⁜ Impact Factor 7.105 ⁜ Vol. 9, Issue 7, July 2022

DOI: 10.17148/IARJSET.2022.9751

risks to a greater extent. Investing in these funds gives investors exposure to a portfolio constituted by the top-performing banking equities. By investing in these funds, investors can gain exposure to a well-constituted portfolio of banking securities.

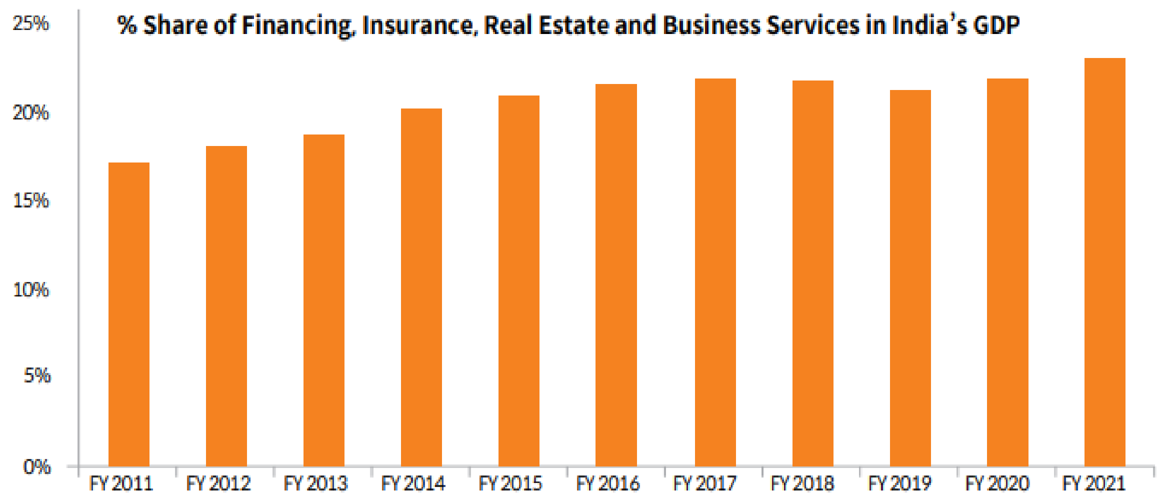
III. FINANCIAL SERVICES IN INDIA:

Financial services in India is made up of components of financial system such as commercial banks, insurance companies, non-banking financial corporations, cooperatives, pension funds, mutual funds and other smaller financial institutions. The Indian banking system consists of 12 Public Sector Banks, 22 Private Sector Banks, 46 Foreign Banks, 56 Regional Rural Banks, 1485 Urban Cooperative Banks and 96,000 Rural Cooperative Banks in addition to co-operative credit institutions (source: RBI, data as on: 31st March 2021). Most Investors associate Financial Services Sector with Banks. However, the ambit of Financial Services Sector is broader. Apart from Banks, we have Non-Banking Lending Institutions like Term Lending, Housing Finance, Commercial Vehicle Finance, Leasing and Hire Purchase Companies, etc.

The asset management industry in India has been growing at a Compounded Annual Growth Rate (CAGR) of 17.5% over the last 10 years (as on 30th June 2021, Source: AMFI). The total Assets Under Management (AUM) of the Mutual Fund industry Rs. 33,66,876,195 Crores as on 30th June 2021 (source: AMFI). The life and general insurance industry has also registered impressive growth. Premiums collected by life insurance companies have grown at a CAGR of 8% over the last 10 years (as on 31st March 2020 Source: IRDAI). The total premium of LIC and private sector life insurance companies in FY 2019-20 stood at Rs 5,72,910 Crores (Source: IRDAI annual report, FY 2019-20). Financial services sector in India has been growing at a rate faster than the Gross Domestic Product (GDP) growth rate of India. As per Reserve Bank of India (RBI), the share of Financing, Insurance, Real Estate and Business Services in India's GDP has been growing steadily over the last several years from 17.2% in FY 2010-11 to 23.2% in FY 2020-21.

Fig: 1

Chart showing % Share of Financial, Insurance, real estate and Business services in India's GDP



Source: RBI Annual Report from 2011 to 2021

IV: IMPORTANCE OF FINANCIAL SERVICES IN EQUITY MARKET AND GOVERNMENT REFORMS IN FINANCIAL SERVICES IN INDIA:

Financial services provide the free flow of capital and liquidity in the marketplace. When the sector is strong, the economy grows, and companies in this industry are better able to manage risk. The stocks of Banking & Financial Services in the market capitalization of Indian equities has been going up steadily over the last decade or so and it is now the largest sector in both the Nifty 50 Index and also the broader market (Nifty 500 Index).The Government of India has taken a number of initiatives to bring reform and make stronger the banking sector since 1991. The Pradhan Mantri Jan Dhan Yojana aimed at providing financial inclusion to all Indians, has brought nearly 43 crore Indians under the banking system (source: Ministry of Finance, data as on 30th June 2021). The Government has also enacted a number of reforms for public sector banks including mergers, recapitalization, recognition of Non Performing Assets (NPAs) and recoveries. In this year's Union Budget, the Government increased the Foreign Direct Investments (FDI) limit in the insurance sector from 49% to 74%. The Government has also made a major thrust for digitization of

© IARJSET This work is licensed under a Creative Commons Attribution 4.0 International License

IARJSET ISSN (O) 2393-8021, ISSN (P) 2394-1588

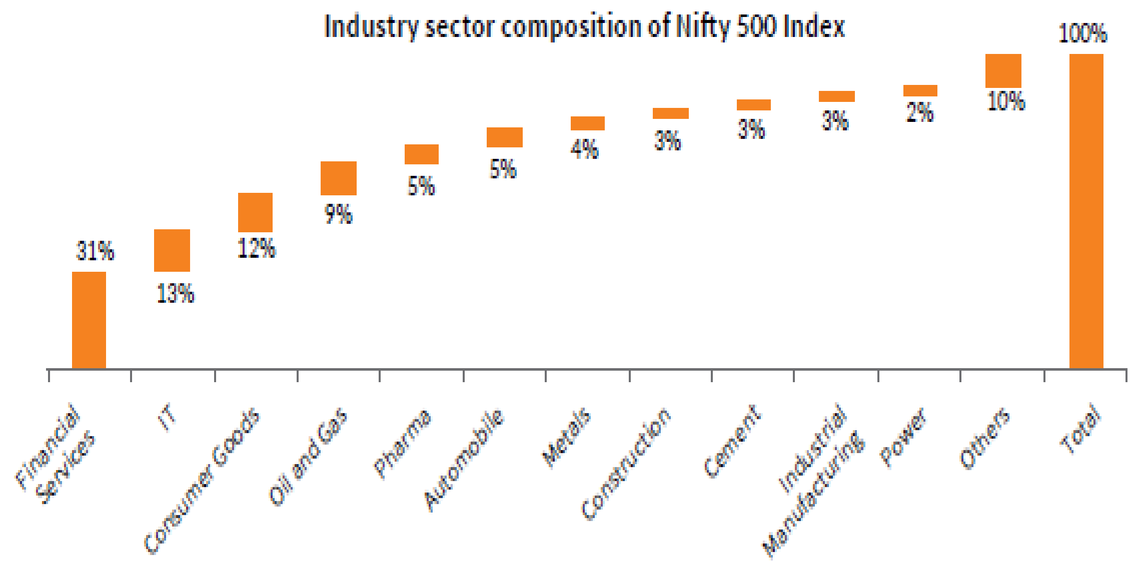
International Advanced Research Journal in Science, Engineering and Technology

ISO 3297:2007 Certified ⁘ Impact Factor 7.105 ⁘ Vol. 9, Issue 7, July 2022

DOI: 10.17148/IARJSET.2022.9751

payments through the Jan Dhan, Aadhaar and Mobile (JAM) trinity. The Banking and Financial Services Sector is expected to play a key role in the revival of economic growth in the post COVID scenario.

Fig: 2
Chart Showing Industry - Sector Composition of Nifty 500 Index

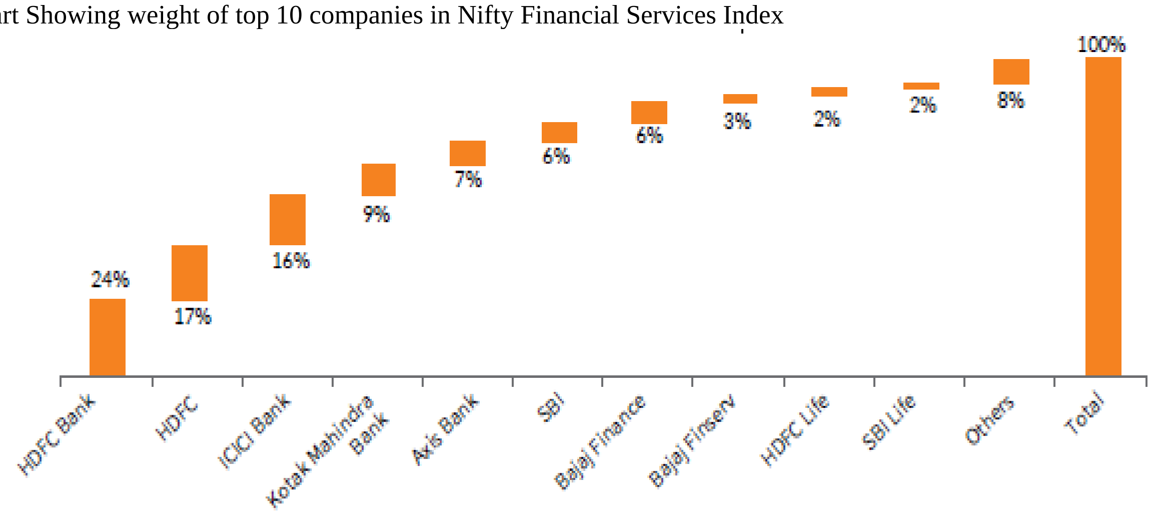


Source: National Stock Exchange (as on 30th June 2021). Sector classification is as per AMFI

V: NIFTY FINANCIAL SERVICES INDEX:

Nifty Financial Services Index which comprises of the 20 largest financial services companies by free float market cap in the National Stock Exchange (NSE) includes banks, financial institutions, housing finance, insurance companies and other financial services companies. NIFTY Financial Services Index is computed using free float market capitalization method, wherein the level of the index reflects the total free float market value of all the stocks in the index relative to particular base market capitalization value. The chart below shows the weight of top 10 companies in Nifty Financial Services Index.

Fig: 3
Chart Showing weight of top 10 companies in Nifty Financial Services Index



Source: **National Stock Exchange**

IARJSET ISSN (O) 2393-8021, ISSN (P) 2394-1588

International Advanced Research Journal in Science, Engineering and Technology

ISO 3297:2007 Certified ⁜ Impact Factor 7.105 ⁜ Vol. 9, Issue 7, July 2022

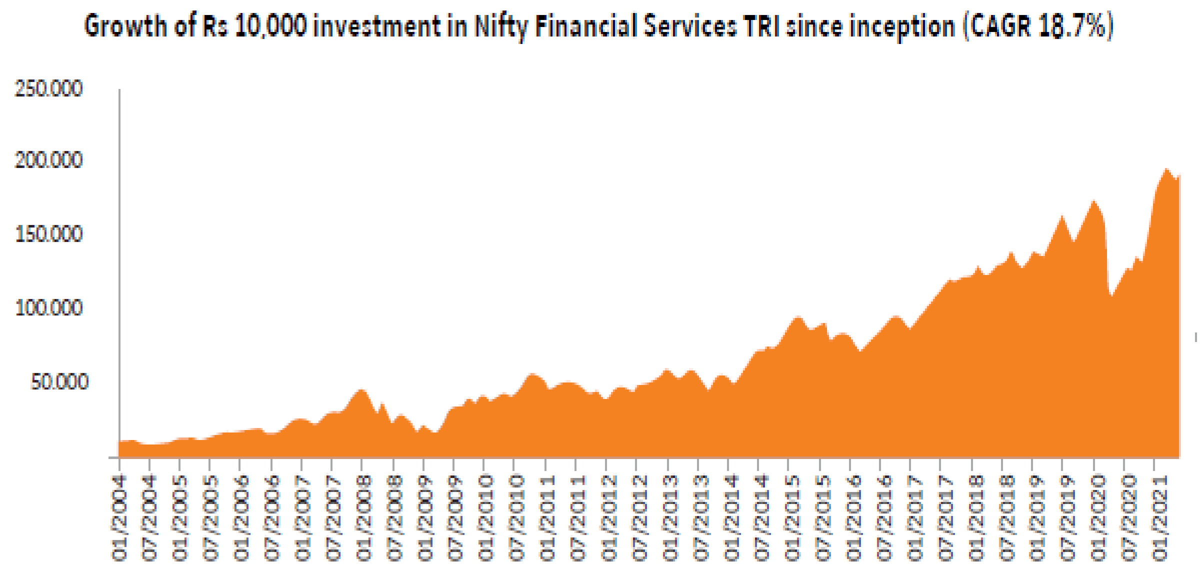
DOI: 10.17148/IARJSET.2022.9751

VI: ONE OF THE BEST PERFORMING SECTORS:

The chart below shows the 5 and 10 year returns of different sectoral indices versus Nifty 50 Index (as on 30th June 2021). We can thus see that Nifty Financial Services Total Return Index (TRI) has not only outperformed Nifty 50 TRI but it has been one of the best performing sectors in the market over longer investment tenures.

Fig: 4

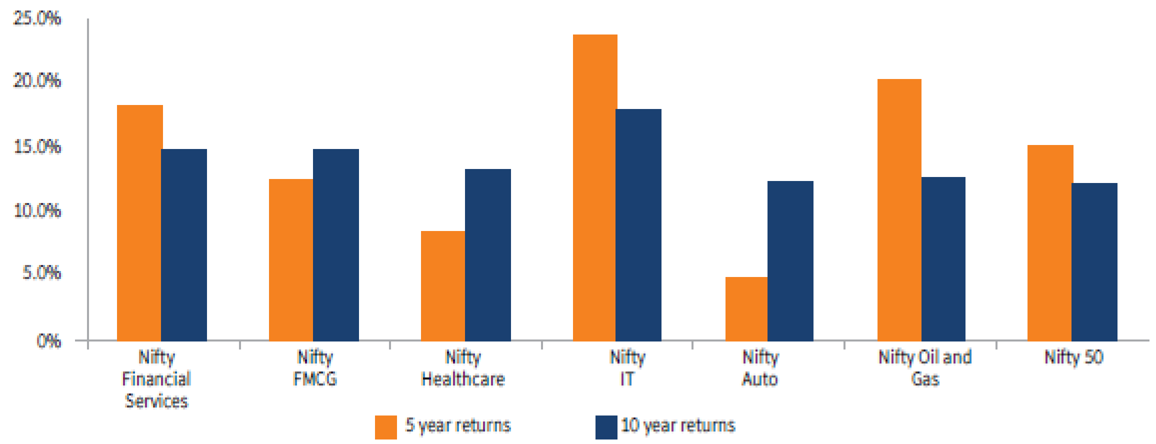
Chart showing grwth of Rs.10000/- investment in Nifty financial srvices Index since 2002-2021



Source: National Stock Exchange, (Period: 1st Jan 2004 to 30th June 2021).

Fig: 5

Chart showing different sectoral indices and their wightages



Source: National Stock Exchange, (Period: 1st July 2011 to 30th June 2021). Note: All indices are total returns indices (TRIs). Returns are in CAGR.

© IARJSET This work is licensed under a Creative Commons Attribution 4.0 International License

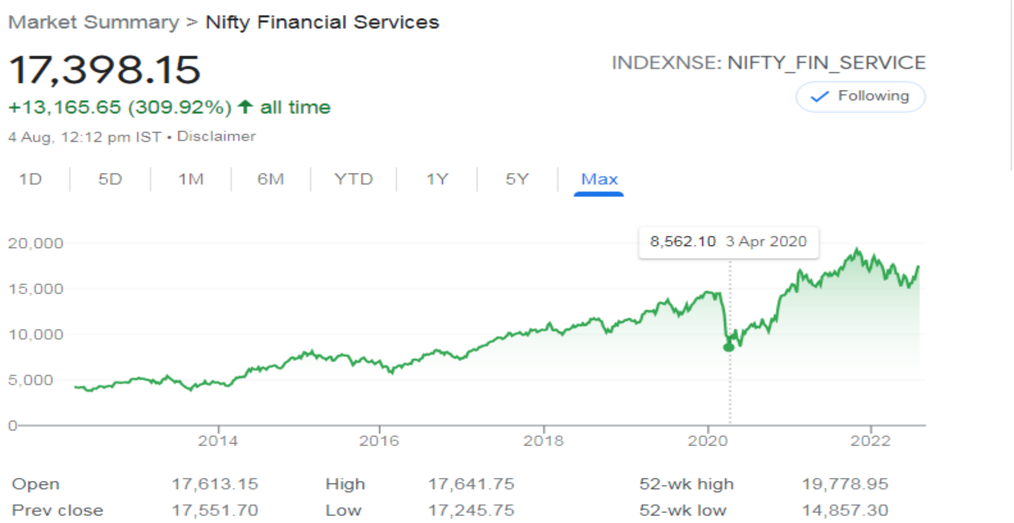
IARJSET ISSN (O) 2393-8021, ISSN (P) 2394-1588

International Advanced Research Journal in Science, Engineering and Technology

ISO 3297:2007 Certified ⁜ Impact Factor 7.105 ⁜ Vol. 9, Issue 7, July 2022

DOI: 10.17148/IARJSET.2022.9751

Fig: 6
Chart showing All Time Return by Nifty Financial Services index

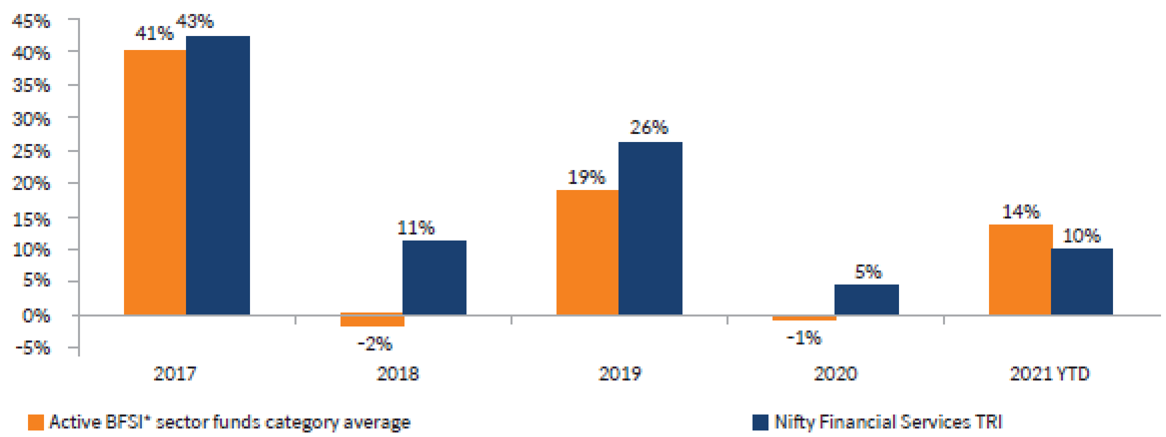


Source: Moneycontrol.com

VII: PASSIVE INVESTING IN FINANCIAL SERVICES:

Aside from diversified equity funds, which have financial services in their portfolios, there are sectoral funds which invest only in financial services, yet most of these funds have failed to beat Nifty Financial Services TRI (see the chart below). In 3 out of the last 5 years, even most of the top quartile funds in the category were unable to beat the Nifty Financial Services TRI (Total Return Index). as a result, a passive exposure to this sector through ETFs or Index Funds may make sense.

Fig: 7
Chart showing Passive vs Nifty Financial Services Sector Mutual fund returns



Source: Advisorkhoj Research (as on 9th July 2021). Note: All indices are total returns indices (TRIs). Returns are in CAGR.

VIII: THINGS TO CONSIDER BY INVESTORS BEFORE INVESTING IN SECTORAL BANKING FUNDS:

Since sectoral banking funds concentrate their portfolio by investing only in equity-linked securities of the Indian banking sector, they carry a higher risk of concentration. Hence, it becomes essential to have a long-term investment horizon to let investments go through the market cycles and provide stable returns in the long run. Other than the risk of concentration, these funds come attached to market risk and volatility risk. Volatility risk is the possibility of the sudden

IARJSET ISSN (O) 2393-8021, ISSN (P) 2394-1588

International Advanced Research Journal in Science, Engineering and Technology

ISO 3297:2007 Certified ⁜ Impact Factor 7.105 ⁜ Vol. 9, Issue 7, July 2022

DOI: 10.17148/IARJSET.2022.9751

change in the price of the security, which may result in significant losses upon redemption. Market risk is the possibility of losses due to the movement in the price of the securities for various factors that are beyond the control of investors. Therefore investors have to consider the following factors before investing in sectoral banking funds:

a) Investment horizon: Since the risk of concentration associated with these funds is on the higher side, investors require having a long-term investment horizon. Staying invested for a more extended period of time ensures that the risks are mitigated to a greater extent. It is advisable to enter these funds only if investment horizon is at least five years.
b) Risk profile: The risk levels associated with sectoral banking funds are fairly high since they invest only in the securities of a particular sector. These funds are expected to do well when the banking sector is doing well. Therefore, these funds are suitable for aggressive investors.

IX: BENEFITS OF PASSIVE INVESTING: INVESTORS OF PASSIVE INVESTMENT IN MUTUAL FUNDS MAY ATTAIN THE FOLLOWING BENEFITS

- **No unsystematic risks:** Fund managers of active funds are overweight/underweight on some stocks relative to the index with the aim of creating alphas. This gives rise to unsystematic risks. ETFs and index funds aim to replicate the performance of the index. There is no unsystematic risk.
- **Rule based Portfolio construction:** Rule based selection and weighing ensures that indices are faithful representative of the intended objective with scheduled rebalancing of stocks ensuring inclusion of more relevant stock and exclusion of stock which doesn't satisfy or capture the objective anymore
- **Lower costs:** Total Expense Ratios (TERs) of passive funds are much less than active funds. Costs are deducted in the NAVs of Mutual Fund Schemes. Therefore, a scheme with the lower costs will have higher returns for the same performance of underlying portfolio.

X: CONCLUSION:

Although diversified equity funds should form the core of investor's investment portfolio, he/she may allocate a portion of investments to sectoral funds to boost portfolio returns or tactically take advantage of market opportunities. Financial Services funds make sense both from a long term viewpoint (outperformed Nifty over the 10 years) as well as in the current situation. As our economy gets back on the path of growth after the Covid-19 shock, banking and financial services sector will play a major role. Such investors should have high to very high risk appetites and long investment tenures (at least 5 years). All investors should consult with their financial advisor if required before investment.

REFERENCES:

1. Debasish, Sathya Swaroop Investigating Performance of Equity-based Mutual Fund Schemes in Indian Scenario. KCA Journal of Business Management, 2(2), 1-15. (2009).
2. Garg, Sanjay 'A Study on Performance Evaluation of Selected Indian Mutual Funds. International Journal of Innovation Creativity and Management' (IJICM), 1(1), 1-10. (2011)
3. Jayadev, M. Mutual Fund Performance: An Analysis of Monthly Returns. Finance India, 10 (1), 73-84. (1996)
4. Kundu, Abhijit. 'Stock Selection Performance of Mutual Funds Managers in India: An Empirical Study. Journal of Business and Economic Issues', 1(1) 59-73. (2009)
5. Nishi Sharma "Indian Investors Perception towards mutual funds", Business Management DynamicsVol.2, No.2, Aug 2012, pp.01-09. (2009)
6. Prabakaran, G and Jayabal, G. Performance Evaluation of Mutual Fund Schemes in India: An Empirical Study. Finance India, 24 (4), 1347-1363. (2010)
7. Raja J, Ganesha "Mutual Funds, the Millennium Strategy", The Journal of The All India Management Association, Vol. 39(10), pp.42-47.
8. SEBI (MUTUAL FUNDS) REGULATIONS, 1996, (2000),
9. Sondhi, H.J and Jain, P.K . Market Risk and Investment Performance of Equity Mutual Funds in India: Some Empirical Evidence. Finance India, XXIV (2), 443-464. (2010)
10. Shanmugham, R and Zabiulla 'Stock Selection Strategies of Equity Mutual Fund Schemes in India. Middle Eastern Finance and Economics, ISSN 1450-2889, Issue 11, 19-28. (2011)
11. http://www.sebi.gov.in/cms/sebi_data/commondocs/mutualfundupdated06may,pdf master circular for mutual funds, 2021