

Comparative analysis of SBI Mutual Fund and ICICI Prudential Mutual Fund in Jharkhand

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Abstract: *Mutual funds are defined as a vehicle that pools the savings from number of small investors having predetermined investment objective and make large corpus of these savings and invest the same in a diversified portfolio. It provides a mechanism to participate in stock market without knowing the intricacies of the market. The paper attempts to examine the investor's preference towards SBI Mutual funds and ICICI Prudential mutual fund in Jharkhand. ICICI Prudential asset Management Company established in 1993 has become the second largest company in the country in terms of assets under management in the year 2015. The company emphasizes on bridging the gap between savings and investment by providing the range of simple and diverse investment solutions to meet the needs of the investors. SBI mutual fund established in 1987 is a joint venture between SBI and AMUNDI (France), one of the leading asset management companies in the world. For analyzing the performance of ICICI Prudential mutual fund schemes and SBI mutual fund schemes in Jharkhand various statistical tools like chi square test and factor analysis has been used.*

Keywords: *Investor's preference, Performance, Investment, SBI mutual fund schemes, ICICI Prudential mutual fund schemes.*

1. INTRODUCTION

Savings ratio in India is about 30% which is one of the best ratios across the world. But Indian investors are confused about their investment decision. Investors generally are risk averse and they always look out for the investment opportunities where their investment is safe and secure. Investors at the same time, also look for the investment avenues which provide them good returns. Indian financial market is basically an agent driven market where the agent's advice their clients regarding the viability of various financial products. Agents are more interested in their commission rather than investment objectives of the investors and they push the products in which they are earning a high commission. So considering the present financial distribution system and the quality of advice available in the market, Mutual funds are boon for investors who are not aware of the complexities of the stock market.

Mutual funds pools the savings of the investors and invests the same into equity, Debentures, money market securities etc in accordance with the objectives of the investors and offer document. Mutual funds offer wide variety of schemes as per the risk & return appetite of the investors which includes 100% debt, 100% equity, hybrid schemes, balanced schemes, Gold ETF'S, Gold Funds etc. Mutual fund schemes are easy to understand and compare as the objective of the scheme and risk involved are well defined in the offer document. Investment through mutual funds also provides advantage like professional management of the fund and risk diversification.

The study attempts to analyze the investor's preference toward SBI Mutual fund Schemes and ICICI Prudential Mutual fund schemes in Jharkhand. SBI mutual fund established in 1987 is a joint venture between SBI and AMUNDI(France), one of the leading asset management companies in the world. SBI mutual fund is India's largest mutual fund sponsored by the banks with a network of 222

points of acceptance 30 Investor Service Centers, 59 Investor Service Desks and 6 Investor Service Points all over India. ICICI Prudential asset Management Company established in 1993 has become the second largest company in the country in terms of assets under management in the year 2015. The company emphasizes on bridging the gap between savings and investment by providing the range of simple and diverse investment solutions to meet the needs of the investors. The asset management company is a joint venture between ICICI and Prudential Plc, one of the major players in the UK financial service sector. Countersigning an exponential growth, the AMC has extended to 120 locations across the country with an investor base of 3 million.

2. LITERATURE REVIEW

Ramasamy et al (2003) analyses the relative importance of the various factors considered for the evaluation of mutual funds. The survey highlights the major three factors influencing the choice of mutual funds are size of funds, past performance and cost of transaction. Muller et al (2008) investigated the impact of investor's sentiment on mutual fund flows. The paper affirms that the investor sentiments significantly impact the volatility, especially higher when the investor's sentiment is bearish. Xiao et al (2011) explains the information reflected by the investor's behavior and its impact on the stock market. The results explain that mutual funds changing their positions will have different influences to the spread and the trading started by the liquidity buyer will widen the volatility. Jain et al (2006) scrutinized the effect of timing parameters on the equity mutual funds in India. The paper assessed the importance of timing parameters by performing T-Test on a sample of 36 equity mutual funds drawn from 21 asset management companies. The research affirms that the market timing abilities of managers is crucial in getting the higher performance. Kaushik et al (2015) attempts to assess the various determinants that determine the investor's behavior in mutual funds. The research asserts that the behavior of the investor can be explained with perception, socio economic characteristics like age, gender etc and awareness of the individual investor. In exception to the belief, the risk perception of the investor has no influence on the investment decision of the investor. Paul et al (2015) tests the skills of the mutual fund managers by examining the achieved performance in mutual fund portfolios. The research found no evidence of the superior performance skill in the sample considered for Indian mutual fund industry. Wilhelmsson et al (2016) focuses on the individual characteristics like financial literacy, saving motives and risk attitude of the investors to

analyze their propensity to sell the units in the poorly performing market. The research finds that the basic knowledge about the mutual funds and current market condition influences the dwindling of the disposition effect whereas the author finds no evidences for the technical knowledge affecting the propensity to sell.

3. RESEARCH METHODOLOGY

For the study the primary data has been collected through structured questionnaires and the same has been statistically analyzed with an appropriate tool. Stratified Random Sampling approach has been adopted to give proper representation to the sample thus considered. The data has been collected from 40 respondents from various cities in Jharkhand. 56.3% of the respondents belong to Ranchi city. 46.9% of the respondents were aged less than 30 years whereas 90.6% of the respondents were male.

For analyzing the performance of ICICI mutual fund schemes and SBI mutual fund schemes in Jharkhand various statistical tools like chi square test and factor analysis has been used. Both the hypothesis were tested at 5% significance level.

Objective of the study

- To understand the role of mutual fund in Indian Economy
- To examine the performance of SBI Mutual fund in Jharkhand
- To analyze the performance of ICICI mutual fund in Jharkhand

Limitation of the study

- The data has been collected from 40 respondents out of which only 32 were suitable for analysis. The result may vary with higher sample size.
- Majority of the respondents are from Ranchi city alone.

Hypothesis

H1: Mutual fund plays a vital role in the Indian economy

H2: Performance of SBI mutual fund is better than ICICI Bank

4. ANALYSIS & FINDINGS

Hypothesis Testing:

H1: Mutual fund plays a vital role in the Indian economy

To test hypothesis 1, a chi square test for equal proportions was applied by using SPSS.

In this highly volatile market, do you think Mutual Funds are a destination for Investments?

	Observed N	Expected N	Residual
Yes	31	16.0	15.0
No	1	16.0	-15.0
Total	32		

Test Statistics

	In this highly volatile market, do you think Mutual Funds are a destination for Investments?
Chi-Square	28.125 ^a
df	1
Asymp. Sig.	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 16.0.

From the table above the value of chi square statistic was 28.125 and its corresponding p value was $0.000 < 0.05$. Since the p value was less than 0.05, we can conclude that the mutual funds play important role in Indian economy. Hence, we can accept the alternate hypothesis and reject the null hypothesis.

H2: Performance of SBI mutual fund is better than ICICI bank.

In order to test hypothesis 2, a chi square test for equal proportions was applied by using SPSS.

In which Mutual Fund you have invested?

	Observed N	Expected N	Residual
SBI Mutual fund	11	10.7	.3
ICICI Prudential Mutual funds	7	10.7	-3.7
Others	14	10.7	3.3
Total	32		

Test Statistics

	In which Mutual Fund you have invested?
Chi-Square	2.313 ^a
Df	2
Asymp. Sig.	.315

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 10.7.

From the table above the value of chi square statistic was 2.313 and its corresponding p value was $0.315 > 0.05$. Since the p value was more than 0.05, we can conclude that the performance of SBI mutual fund is not better than ICICI bank. Hence, we can accept the alternate hypothesis and reject the null hypothesis.

Factor Analysis

Factor analysis has been conducted to identify the various factors that influence the investor's behavior towards mutual funds in Jharkhand. KMO and Bartlett's test was applied to check whether the data is factorable. The KMO statistic was 0.379 and its corresponding p value was $0.000 < 0.05$ indicating that the R matrix is not identity matrix and data is factorable. The factor analysis was able to extract 9 components where the first component explained 22.668% of the variance, second explained 10.67%, third explained 9.875.163%, fourth explained 8.685% fifth explained 8.576%, sixth explained 6.79% and seventh explained 5.935% of the variance after rotation. The total variance was 83.556%. The factor analysis was able to extract 9 components with a variance of 83.556%. All the items had a factor loading of more than 0.4. Hence all the items were considered for further analysis.

Rotated Component Matrix^a

	Component								
	1	2	3	4	5	6	7	8	9
Television							.761		
Internet						.804			
Friends/ Relatives						.713			
Newspapers/Journals					.644	-.484			
Sales Representatives	.778								
Liquidity	.875								
High Return	.571			.406					
Professional Management		.762							
Diversification		.870							
Brand Image							.821		
Risk			.845						
Price								.896	
Past Performance									.723
Current NAV									.840
Reputation			.893						
Mutual Fund Manager	.566		.560						
Rating		.443		.458	.440				
Exit Load		.724							
Portfolio of SCHEME	.697	.488							
Asset size	.576			.514					
Inefficient investment advisors					.729				
Past Experience					.767				
Lack of Knowledge		-.465						.408	
Difficulty in scheme selection				.911					
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.									

5. FINDINGS

- The study affirms that 96.9% of the respondents in Jharkhand believe that mutual funds are good options for investments when compared to other sources of investment.
- Majority (68.8%) of the respondents prefer investment in long term/ growth schemes followed by balanced scheme (18.8%), Income schemes (9.4%) and tax saving schemes (3.1%). Moreover 68.8% of the respondents prefer open ended schemes.
- As 96.9% of the respondents consider that mutual funds are good destination for investments in Jharkhand, it is ensured that mutual funds plays a vital role in the Indian economy as it channelizes the savings of people to productive uses which leads to the development of the country.
- Chi Square test affirms that the performance of SBI Mutual fund is not better than the performance of ICICI Prudential mutual funds as the p value is .315 which is more than .05.
- The factor analysis was able to extract 9 components that influence the behavior of the investor in Jharkhand. The nine components are classified as follows:
 1. Liquidity & Return Preference (X_1)
 2. Features of Scheme (X_2)
 3. Risk Profile (X_3)
 4. Ratings (X_4)
 5. Available Information/ Experience (X_5)
 6. Source of Information (X_6)
 7. Brand value in market (X_7)
 8. Price of Unit (X_8)
 9. Current and past performance of scheme (X_9)

So it can be considered that the Investor's behavior (Y) in Jharkhand is a function of the above 9 factors i.e.

$$Y = f (X_1, X_2, X_3, X_4, X_5, X_6, X_7, X_8, X_9)$$

6. CONCLUSION

The study concludes that the mutual funds are a desirable avenue of investment in Jharkhand and mutual funds plays a vital role in the economic development of the country. Mutual funds are preferred among the investors and it pools their savings and channelizes their savings into productive purpose. Investment in long term, open ended schemes are preferred over other schemes. While comparing the

performance of ICICI Prudential mutual funds and SBI Mutual funds in Jharkhand, it was analyzed that the performance of SBI mutual fund is not better as compared to ICICI Prudential mutual funds which evidences that the people do not prefer public sector schemes much over private sector mutual funds schemes.

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