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## DMIMS

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## A STUDY ON FINANCIAL INCLUSION OF STREET VENDORS IN NAGPUR CITY

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### **Introduction**

An overwhelming 92 per cent of the Indian labour market is engaged in the informal sector. Street vending is an important economic activity and street vendors are broadly defined as self-employed workers in the urban informal sector who offer their labour for selling goods and services on the street in the absence of any permanent built-up structure (NPUSV 2006, p. 11). Approximately 2.5% of India's total population's sole source of existence is through street vending. Being in informal sector this is one of the most unorganized and unregulated professions in India with minimum policy

and low income groups at an affordable cost." Financial inclusion is one of the most important tools to achieve inclusive growth. Financial inclusion means making financial services accessible to the poor, giving them credit facilities to suit their needs and to generate self-employment opportunities for them.

### **Origin of the Research Problem**

Empirical evidence confirms that countries with a large proportion of their population excluded from the formal financial system also show higher poverty ratios and higher inequality (Thorat, 2008).

intervention. It is also a known fact that the street vendors are also less educated and by the very nature of their business operate without any fixed place of business or if they are operating at a fixed place have marginal assets with them. Therefore, there is an urgent need to provide them with easy means for credit access, in other words, make this segment of society financially inclusive.

According to The Committee on Financial Inclusion under the Chairmanship of Dr. C. Rangarajan, "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker section

Migration of the population from underdeveloped areas to urban areas in search of livelihoods has also contributed to the increase in the number of street vendors in the urban informal sector.

Access to finance is one of the major constraints for the informal sector of the country. Vendors have scarce resources for their trade and need to obtain credit at high rate of interest. They are also prone to exploitative practices of multiple authorities. For instance, in Bhubaneswar, the credit obtained from the wholesaler is to be paid back at the end of the day at a

high rate of interest of up to 110 per cent (Bhowmik, 2001) and sometimes it goes up to 125 per cent per day (Jhabvala, 2000).

The literature on financial inclusion has identified financial exclusion as reflection of a broader problem of “social exclusion”. In the industrialised and high income countries having a well developed banking system, studies have shown that the exclusion from the financial system occurs to persons who belong to low-income groups, the ethnic minorities, immigrants, the aged and so on (Barr, 2004; Kempson and Whyley, 1998; Connolly and Hajaj, 2001).

It therefore seems that the objective of inclusive growth shall remain unfulfilled if we fail to estimate the access to finance of these urban informal self-employed workers who play a prominent role in the informal sector.

### **Review of Literature**

Bhowmik (2000) in study on street vending shows that in general, street vendors earn very meagre wages (estimated as usually between Rs. 40 to Rs. 80 per day) – therefore, it would be accurate to generalise that most street vendors are desperately poor relative to their counterparts in the formal segment of the economy.

Peruvian economist Hernando de Soto (2000) has characterised the urban informal sector as one which is full of entrepreneurial activity and in which the participants might be able to improve their lot if they were only able to register their assets and hence obtain leverage from them. According to such a view, micro-level interventions such as provision of finance or institutional changes would be sufficient for the entrepreneurs concerned to enter the formal sector, which would then have the benefits of regularizing employment and workplace rights, increasing the tax base and so forth.

G Yasmeen (2003) studied on the innovative organizing strategies of street

vendors. She identified that the best way to promote the interests of informal food sector would be to facilitate the creation of membership based organizations comprised of food vendors. She felt that more associations like SEWA, SEWU and CCUVA are needed in developing countries to act as collective voices for people in the Informal food sector. Such organizations can help Informal food sector workers to access financing, social protection and secure affordable spaces to conduct business. She opined that micro entrepreneurs in the food sector, if organized can be valued by society for their economic and social role.

Agnello and Moller’s (2004) study showed that street vendors earn on average USD25.70 per day, and spend USD 24.20, leaving a profit of USD 1.48. With an average USD1.50 income from street vending per day, their per capita income falls below the poverty line of Phnom Penh. Thus, street vendors could be grouped among the poorest people in the urban population. Many micro-vendors do not have access to credit, even buying on credit for one day, since they are seen to be unreliable. The median for initial capital investment is around USD5 with a working capital of USD12.80.

Kusakabe’s (2006) study highlights that in the Thailand, Cambodia and Mongolia vendors with low capital operate as disguised wage workers, and those who want to expand need credit. Many do not have access to credit & 22.2 percent of street vendors received loans as compared to 80 percent for larger traders.

Debdulal Saha (2008) in his study on the Conditions of Decent Working Life of Street Vendors in Mumbai tries to understand the condition of working life of the street vendors in Mumbai within the framework of “decent work”. This study is explorative in nature, showing that the street vendors depend on the money lenders for their economic activity as well

as for social security purposes. The result shows that they are forced to borrow mainly for social security purposes at exorbitant rate of interest (amounting to 5-10% per month) rather than economic activities which in turn cause to lead them to fall into a “debt trap” situation.

**Objectives of the research paper:**

1. To overview the socio-economic background of street vendors in Nagpur city.
2. To know the income- expenditure of street vendors in Nagpur city.
3. To estimate the savings and preferred saving method,
4. To identify the sources of credit, purpose of credit of the street vendors in Nagpur city.
5. To explore the awareness of Jan Dhan Yojana amongst these vendors.

**Methodology of study**

This empirical and exploratory study is based on both Primary data and Secondary data. Primary data were collected from 50 street vendors from Nagpur city. Secondary data were collected from journals, websites, newspapers, books etc.

**Analysis of data**

The primary data of 50 street vendors was collected and the descriptive profile of the samle is as follows:

Table 1: Cross tabulation of Age and Gender of the respondents:

Age	No. Of Respondents	Male	Female
18-27	4	4	0
28-37	14	10	4
38-47	20	18	2
48-57	11	11	0
58-67	1	1	0
<b>Grand Total</b>	<b>50</b>	<b>44</b>	<b>6</b>

The age and marital status of the respondents are as follows:

Table 2: Cross tabulation of Age and Marital status of the respondents:

Age	Unmarried	Married	Divorced
18-27	4	0	0
28-37	1	13	0
38-47	0	19	1
48-57	1	14	0
58-67	0	1	0
<b>Total</b>	<b>6</b>	<b>43</b>	<b>1</b>

The age and educational qualifications of the respondents are as follows:

Table 3: Cross tabulation of Age and Educational qualifications of the respondents:

Age	Illite rate	can sign	prim ary	secon dary	grad uate
18-27			1	3	0
28-37			3	8	2
38-47	1		4	11	4
48-57	1	1	4	4	1
58-67			0	1	0
<b>Total</b>	<b>2</b>	<b>1</b>	<b>12</b>	<b>27</b>	<b>7</b>

The respondents were also asked about their caste and out of the total sample of 50 , 12 respondents belonged to SC/ST category, 28 belonged to OBC and 10 respondents were of other castes. There were 5 migrants out of the total sample of 50 respondents.

One of the objective of the research was to calculate the average income , expenditure and savings of the street vendors in the sample. The average income which was calculated using the

median income was Rs. 20,000 per month and the average expenditure was Rs. 10,375/- per month. On average the respondents reported to save Rs. 9875/- per month.

However to know whether there exists a significant difference in the monthly income of migrant street vendors and the street vendors belonging to Maharashtra T-test assuming unequal variance was used. The results of the test shows given in Table 4 shows that there is significant difference in the income levels of the migrants and the respondents from the state.

Table 4: t-Test: Two-Sample Assuming Unequal Variances

	<i>Migrated Y=1 n=0</i>	<i>Monthly income</i>
Mean	0.1	20750
	0.0918367	4130867
Variance	35	3.47
Observations	50	50
Hypothesized Mean Difference	0	
df	49	
	-	
	22.828658	
t Stat	18	
	4.57538E-	
P(T<=t) one-tail	28	
	1.6765508	
t Critical one-tail	93	
	9.15076E-	
P(T<=t) two-tail	28	
	2.0095751	
t Critical two-tail	99	

Similarly a test of significance for difference in various caste groups and monthly income was done by using One way ANOVA. The results show a significant difference in the monthly income of the various caste groups.

Table 5: Anova: Single Factor

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Groups	Count	Sum	Average	Variance	
Caste	50	148	2.96	0.44734694	
Monthly income	50	103750	2075	413086.7	
ANOVA					
Source of Variation	SS	df	F	P-value	F crit
Between Groups	1.0761E+10	1	521.003978	5.2352E-41	3.938110878
Within Groups	2024125022	98			
Total	1.2785E+10	99			

With respect to Savings in formal institutions 16 respondents have said to be saving in Banks, 21 in both Banks & Cooperatives , 4 in Banks & post office , only 1 respondents in post office and 4 respondents in all three. The rest of 5 respondents have said not to be saving in any formal institutions. Hence it can be said that formal institutions are reachable to the lower income class in Nagpur.

Also there is a very wide awareness about the Jan Dhan Yojna amongst the respondents as 46 out of 50 respondents replied in affirmative about this scheme.

A test of significance for difference in saving behaviour of male and female was also done.. The results as given in table 6 show a significant difference in the savings done in the formal institutions in both male and female respondents. As seen in the data out of 6 female respondents 5 respondents said that they save money in formal institutions .

Table 6: t-Test: Two-Sample Assuming Unequal Variances

	Sex	
	M=1	Savings in formal
	F=2	
Mean	1.12	4804
Variance	0.10775	11979983.6
Observations	50	50
Hypothesized Mean Difference	0	
df	49	
t Stat	9.81202	
P(T<=t) one-tail	448	
t Critical one-tail	1.88264	
P(T<=t) two-tail	E-13	
t Critical two-tail	1.67655	
	0893	
	3.76527	
	E-13	
	2.00957	
	5199	

To judge the level of credit indebtedness the respondents were asked to answer in yes and no Table 7 shows a cross tabulation of results of gender and the credit taken by the respondents.

Table 7: gender and the credit taken by the respondents

Gender	Yes	No	Grand Total
Male	35	9	44
Female	6		6
<b>Grand Total</b>	<b>41</b>	<b>9</b>	<b>50</b>

The preference of the respondents for taking loan shows that there is an

appreciable penetration of formal institutions in the credit availability to these street vendors.

Table 8: Gender & Credit agency

				Source of borrowing			
Gender	Bank	NGO	SHG	Cooperative	Money lenders	Banks & SHG	Grand Total
Male	23	1	3	4	1	1	33
Female	3		2	1			6
<b>Grand Total</b>	<b>26</b>	<b>1</b>	<b>5</b>	<b>5</b>	<b>1</b>	<b>1</b>	<b>39</b>

However inspite of the recent Pradhan Mantri Jeevan Suraksha Yojna targeted at the lower income class for life insurance only 17 respondents have opted for an insurance policy.

**Conclusion**

It can be said that as per the data of this paper that the financial inclusion of the street vendor in terms of savings , credit availability is appreciable in Nagpur but the Insurance of these street vendors eaves much to be desired. It is generally interpreted that the financial inclusion is about savings and availability of loans to the marginal sections by the formal institutions but the most important aspect of coveting risk is missed as shown in this research. Hence adequate awareness or bundling of products for this section should be done by the concerned authorities.

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## FOREIGN DIRECT INVESTMENT WITH SPECIAL REFERENCE TO CENTRAL INDIA

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### **Retail Industry**

The Retail Industry in India is highly unorganized sector in India, where retailing is mostly done through family owned small stores known as 'Kirana Shops'. It is the second largest sector for employment in India, largest being the agricultural sector. The Indian economy has seen a robust growth over the last 5 years, riding a high growth in the Service Sectors to 10.5% and manufacturing sector 9.4%.

### **Strong Growth in the Indian Retail Industry**

The retail sector in India is emerging as one of the largest sector in the economy.

- By 2015, the total market size estimated was around US \$600 billion, thereby registering a growth of 7.4% since 2000.
- Indian retail market is expected to nearly double to US \$1 trillion by 2020 ( from 600 billion in 2015).

Indian e-commerce is expected to reach US\$120 billion by 2020 from US\$30 billion in FY 2016.

### **Current Scenario of FDI in Retail Sector**

India is the fifth largest preferred retail destination globally.

It is also among the highest in the world in terms of per capita retail store availability.

After the entry of big foreign players in the market, the Indian Retail market has

become more competitive. The retail sector in India is very fast growing sector, which contributes more than 10% in the GDP and generate nearly 8% of employment. Indian B2B, B2C and online retail is expected to get great hike till 2020.

India's online market is also growing fast. According to the department of Industrial policies and Promotion, the Indian Retail trading has received FDI equity inflows of US\$537.61 million during April 2000-March 2016.

FDI plays a major role for any country to remove the problem like poverty and unemployment. So if investment is done in retail sector, it will directly help to remove the basic problem of the country.

### **Rationale for selecting this topic.**

Retailing is the largest private industry in India and second largest employer in the Indian economy. Comprising of both organized and unorganized sectors, Indian retail industry is one of the fastest growing industries in India. India has witnessed a revolution in Retail trade during the last two decades owing to rapid urbanization and changing consumption. The entry of the leading corporate houses into retail created a surge into the growth of the industry. One of the spectacular growth during the last two decades is the global economic landscape. FDI can be a powerful catalyst to spur competition in industries characterized by low competition and poor productivity.

### **Objectives of the study**

- To study and understand FDI Policy with regard to retailing in India
- To study and analyse the impact of FDI on Logistics management and front end retail in Central India.

### **Hypothesis Of The Study**

- Central India's Retail Sector have effective supply-chain efficiencies compare to other parts of India.

### **Research Methodology.**

The research work for this paper is done on the basis of secondary data. Secondary data source will be based on books, Annual Reports, News and Magazines, Journals, etc.

### **Universe of the Study**

The universe of the study will be Central india.

### **Data Analysis**

#### **Govt Policy for Retailing in India**

Indian government policy with regard to development of retail industry has been liberal and motivating. FDI is allowed in various sectors of the economy by the Central Govt. but FDI in retailing is still restricted and not allowed in full swing.

In January 2012, India approved reforms for single brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership but imposed the requirement that the single brand retailer source to 30% of its goods in India. Indian govt continues to hold on retail reforms for multi brand stores.

Non banking finance companies have got 100% approval for FDI which is expected to attract foreign capital in the country.

The National Authority of India is offering a risk cover to the foreign investors who are willing to invest in govt owned operational national highways, which

could cover risk associated with structural design fault, sub standard quality of construct and lose of traffic.

#### **Impact of FDI in retail in India**

Huge investment in retail sector will see gainful employment opportunities in agro-processing, sorting, logistics management and front end retail.

At least 10 million jobs will be created in the next three years in the retail sector.

Foreign retail majors will ensure effective supply-chain efficiencies. That will also create an opportunity for the local players in retail to learn from them.

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Foreign retail majors will ensure effective supply-chain efficiencies. That will also create an opportunity for the local players in retail to learn from them.

#### **Limitation of Retail in India in Infrastructure**

In case of infrastructure, there has been a lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism. Though India is the second largest producer of fruits and vegetables (about 180 million MT), it has a very limited integrated cold chain infrastructure. It has only 5386 stand alone cold storages having a total capacity of 23.6 million MT. But 80% of this capacity is used by potatoes alone.

Hence perishable items find it difficult to link to distant markets, including overseas market round the year. Storage infrastructure is necessary to carry out the agriculture produce for the rest of the period, other than production periods, to prevent distress sales. Lack of adequate

storage facilities cause heavy losses to the farmers in terms of wastage in quality and quantity of produce in general. Though FDI is permitted in cold chain to the extent of 100% through automatic route, FDI flow to the sector has not been significant, in the absence of FDI in retailing.

#### Supply Chain and Logistics.

Supply chain management means purchasing, operations, integrating and distribution. As supply chain becomes more complex, it deals with multiple vendors to coordinate. This results to easy creeping of inefficiency. Hence Logistics is required. Logistics is that part of the Supply Chain management which enables effective and efficient storage. This results in the flow of goods from point of origin of the raw materials-through the manufacturing cycle- to the point of consumption. Logistics providers offer critical value enhancing functions for all the stages of Supply Chain Management. Thus broadly speaking, the Indian logistics comprises of the entire inbound and outbound segments of the manufacturing and service supply chain.

The liberalizing economy is experiencing entry of large domestic and global firms in new businesses as well as enlargement of distribution network of many regional firms. The announcement of large retail projects by Reliance and Bharti will bring new technology, add additional warehouse capacity and will require fast and reliable movement of the goods in the country.

The e-choupal project was launched by ITC—a large diversified company with strong FMCG presence—in 200 in Central Indian State of Madhya Pradesh to re-organize the distribution of soyabean in rural market. Today, e-choupal reaches out to more than 3.5 million farmers in 31000 villages through internet connectivity and now covers a variety of agro business products. ITC was able to overcome the hurdles of Infrastructure inadequacy in

villages. It uses solar energy to power the batteries of the computer kiosks. Farmers are now able to make informed decisions as they understand the market better leading to high productivity. Various seeds and fertilizer companies are now able to reach wider market with lesser transaction costs. The e-choupal has provided market for more than 64 companies. ITC is now building a rural retail infrastructure on the foundation of e-choupal network thereby changing the rural distribution network.

#### Importance of Supply-Chain & Logistics of Central India.

Nagpur, being centrally located, has a very good connectivity with all types of transport. Also, Nagpur is declared as SEZ centre where many eminent organizations are planning to make a foothold in this economic boosting area. Also, Supply chain management involves optimizing the speed and efficiency. Speed is required as customers value fast service. The most effective supply chain delivers the product as fast and as cheap as possible. Many big companies also use complicated statistical tools such as computer algorithms that choose optimal routes for product shipping. Supply Chain is not only land based but air ways and water based connected

Raipur and Bhopal, other central areas, are very well connected with Nagpur, which further has good logistics with the Mumbai port. Hence it becomes easy for the companies to transport their goods for export to Nagpur.

Eg: Indorama Industries which is situated in Butibori, Nagpur, exports its products with the help of Nagpur's good logistics. Also Raipur, which is one of the fastest growing cities, is having its J/V with Walmart.

Bhopal is one of the leading cities for trade and commerce due to its good connectivity with many cities-directly or indirectly.

If all the infrastructure are in its fine fettle then a country can boost of its all round development. Finally, it can rightly be construed that better the transportation facilities, better is the economic health of the country.

### **Conclusion**

As logistics and supply chain management is vital for smooth flow of trade in the economy, tremendous growth is expected in the outsource of logistic service. While logistics outsourcing has been in existence for several decades, it was limited to transportation and logistics. Post liberalization, country has seen the outsourcing of the value added services like freight forwarding, fleet management, import/export and custom clearance.

The logistic and supply chain Industry is evolving rapidly and is the interplay of infrastructure, technology and new types of service providers. Changing govt policies on taxation and regulation of service providers will also play an important role in this process. Co-ordination across various govt agencies require govt approval and is a road block of multi modal transport in India. At the firm level, the logistics and supply chain management will have to move towards reducing the cycles times in order to add value to their customers.

## “AN EMPIRICAL ANALYSIS OF RISK AND RISK-ADJUSTED RETURNS OF SELECTED BALANCED MUTUAL FUND SCHEMES”

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### **Introduction to Mutual Fund**

A Mutual fund is just the connecting conduit or a financial liaison that permits a group of investors to pool their money together with a predetermined investment objective. The Mutual fund will have a fund manager who is responsible for investing the gathered money into specific securities (stocks or bonds). When investor invest in a Mutual fund, they are buying units or portions of the Mutual fund and thus on investing becomes a shareholder or unit holder of the fund.

In other sense, a Mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciations realized are shared by its unit holders in proportion to the number of units owned

by them. Thus a Mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

### **II. Balanced Mutual Fund –A Notion**

Mutual funds are classified by the type of investments they own. Some Mutual funds only own stocks. These are called equity funds. Some Mutual funds only

own bonds. These are called Debt funds or fixed income funds. But some Mutual funds own both, and these are called balanced funds or Hybrid funds.

Balanced funds provide investor with an option of single Mutual fund that combines both growth and income objectives, by investing in both stocks (for growth) and bonds (for income). Such diversified holdings ensure that these funds will manage downturns in the stock market without too much of a loss. But on the flip side, balanced funds will usually increase less than an all-stock fund during a bull market.

The proportion in which the balanced Mutual funds allocate their assets is usually 60% to 65% in stocks and the balance in bonds. The proportion is not disturbed while managing the fund as it is to remain within the pre set minimum and maximum limits.

### **III. Objectives of the Study**

- 1) To Analyze the Risk Measures associated with selected Balanced Mutual Fund Schemes.
- 2) To analyze the Performance of selected Balanced Mutual Fund Schemes on the basis of risk adjusted measures like Sharpe's Model, Treynor's Model and Jensen's model.

### **IV. Purpose of the Study**

There are oodles of investment options available in the market but most of the people consider safety as their key factor for investment & also consider regular income on their priority list. Capital appreciation or growth in their investment comes later in their gist. Therefore, as a result, Balanced Mutual fund schemes are the better investment options available for the investor in which they can invest & earn better returns with safety of their capital.

So, the main purpose of doing this study was to know about balanced Mutual fund schemes with reference to its performance in terms of return, risk and risk adjusted return.

### V. Review of Literature

**Garg (2011)** examined the performance of top ten Mutual funds that was selected on the basis of previous years return. The study analyzed the performance on the basis of return, standard deviation, beta as well as Treynor, Jensen and Sharpe indexes. The study also used Carhart's four-factor model for analyze the performance of Mutual funds. The results revealed that Reliance Regular Saving Scheme Fund had achieved the highest final score and Canara Robeco Infra had achieved the lowest final score in the one year category.

**Sathya Swaroop Debashish (2009)** measured the performance of the equity based Mutual funds in India. 23 schemes were studied over a period of April 1996 to March 2009 (13 years). The analysis was done on the basis of mean return, beta risk, coefficient of determination, Sharpe ratio, Treynor ratio and Jensen alpha. The analysis has been done on the basis of returns, followed by a comparison between market returns and the return on schemes. It was concluded that UTI Mutual fund schemes and Franklin Templeton schemes have performed excellently in public and private sectors respectively.

**Sharad Panwar and Dr. R. Madhumathi (2009)** study used sample of public-sector

sponsored & private-sector sponsored Mutual funds of varied net assets to investigate the differences in characteristics of assets held, portfolio diversification, and variable effects of diversification on investment performance for the period from May, 2002 to May, 2005. The study found that public-sector sponsored funds do not differ significantly from private-sector sponsored funds in terms of mean returns. However, there is a significant difference between public-sector sponsored Mutual funds and private-sector sponsored Mutual funds in terms of average standard deviation, average variance and average coefficient of variation (COV).

**Gupta and Gupta (2004)** in their paper evaluated the performance of 57 equity Mutual funds (including 10 tax planning funds) from 1999 to 2003 by applying five measures i.e. Rate of Return, Sharpe's Ratio, Treynor's Ratio, Jensen's Differential return measures and Fama's Component of investment performance. The researchers used weekly Net Asset Values (NAVs) for performance evaluation, S&P CNX Nifty as benchmark and weekly yield on 91 day Treasury bills (T-bills) as a surrogate for risk free rate of return.

**Singh (1999)** in his study analyzed the income, growth and balanced schemes of Mutual funds from 1994-95 to 1997-98 by using various measures such as composite rate of return, Sharpe's performance measure and Treynor's performance measure.

The study revealed that out of the various categories of Mutual fund schemes the income and balanced schemes performed better whereas the growth schemes did not perform well. The income schemes were the best performers out of all the categories of schemes.

**Panigrahi (1996)** studied the growth of the Mutual fund industry from 1991-92 to 1994-95 by using various components like rate of return, standard deviation,

coefficient of multiple determination and risk free rate of return and showed that both UTI and other Mutual funds grew enormously during the post liberalization period in terms of investible funds, number of investors and number of schemes. The study showed that non UTI Mutual funds launched many schemes but their growth in terms of investors and number of schemes was not impressive.

## VI. Data and Methodology

### Scope of the study

The scope of the study is limited to Balanced Mutual Fund schemes in India for the period 1st January 2011 to 31<sup>st</sup> December 2015. A total of 21 Balanced Mutual Fund schemes have been considered. Out of 21, 10 belong to HDFC Mutual Fund, while the rest belong to the ICICI Prudential Mutual Fund.

**Secondary Data:** The study has been carried out entirely on the basis secondary source. The major sources of secondary data are as given below:

For calculation of Returns, Risk & Risk adjusted Returns; the closing Net Asset Value (NAV) of the mutual funds along with daily closing price of the benchmark stock index i.e. NIFTY 50 has been used. NAV has been collected from the website of the Association of Mutual Fund of India (AMFI) & Nifty 50 Index values have been drawn from National Stock Exchange website.

Risk free rate of return refers to that minimum return on investment that has no risk of losing the investment over which it is earned. In this study,  $R_F$  is taken as the fixed deposit rate in the nationalized banks. For the present study, it has been marked as 6.5% per annum.

### Limitations of the Study

For the purpose of performance evaluation, those schemes have been selected which are in operation since last 5 years. These schemes relate to HDFC & ICICI Prudential Mutual Funds just & only open ended schemes have been considered for this purpose. Performance evaluation of all the schemes operated by selected mutual

funds was not possible because of non availability of sufficient data.

## VII. Data Analysis & Interpretation

### 1) Return Measures

Investors have to look into the return part before investing in the Mutual funds. Returns are the key indicators of their investment performance and are calculated from the historical NAV's.

In Mutual funds, NAV is the basic element used in calculating the returns because it keeps varying from one point of time to other. Thus, the purchase and sale value of investment is derived by multiplying the units purchased with NAV for respective period i.e. purchase date and sale date. In simple words, Net Asset Value is the market value of the securities held by the scheme. Since market value of securities changes every day, NAV of a scheme also varies on day-to-day basis.

### A) Annualized Return

Return is the gain or loss in the value of an asset in a particular period. It is usually quoted as a percentage. The general rule is that the more risk you take, the greater the potential for higher return – and loss.

**Absolute return or Point to Point Returns:** Absolute return is the increase or decrease that an investment achieves over a given period of time expressed in percentage terms. It's calculated as follows:

Absolute returns =  $100 * (\text{Selling Price} - \text{Cost Price}) / (\text{Cost Price})$

This measurement of return is the simplest and it does not consider time period. Most times it produces a large number so people are impressed!

**Simple Annualized Return:** The increase in value of an investment, expressed as a percentage per year.

**Simple Annualized Return = Absolute Returns/Time period.**

**Average Annual Return (AAR)**

Average annual return (AAR) is the arithmetic mean of a series of rates of return. The formula for AAR is:

$$\text{AAR} = (\text{Return in Period 1} + \text{Return in Period 2} + \text{Return in Period 3} + \dots + \text{Return in Period N}) / \text{Number of Periods or N}$$

**Table 1 exhibit Performance in terms of Annualized Return of Past 5 years & its Average of Balanced Mutual fund schemes:-**

SN	Mutual Fund Schemes	2011	2012	2013	2014	2015	Average Annualised Returns	Rank
1.	HDFC Arbitrage Fund - Retail Plan	7.46	8.73	8.18	7.78	7.43	7.916	21
2.	HDFC Arbitrage Fund - Wholesale Plan	7.70	9.03	8.30	7.94	7.60	8.114	20
3.	HDFC Balanced Fund	-10.57	26.56	8.78	51.47	3.01	15.85	1
4.	HDFC Children's Gift Fund - Investment Plan	-7.49	27.32	12.96	43.10	2.44	15.666	3
5.	HDFC Children's Gift Fund - Savings Plan	4.98	12.60	5.53	24.68	5.45	10.648	8
6.	HDFC Equity Savings Fund	5.64	12.39	6.76	15.72	2.04	8.51	17
7.	HDFC MF Monthly Income Plan - Short Term Plan	1.72	12.41	5.61	18.24	3.30	8.256	18
8.	HDFC MF Monthly Income Plan - Long Term Plan	-0.79	15.59	3.57	24.87	3.84	9.416	11
9.	HDFC Multiple Yield Fund - Plan 2005	6.11	11.84	6.65	20.43	4.67	9.94	10
10.	HDFC Prudence Fund	-15.83	30.08	2.06	51.76	0.29	13.672	7
11.	ICICI Prudential Advisor Series - Cautious Plan	2.72	11.94	1.19	22.02	2.99	8.172	19
12.	ICICI Prudential Advisor Series - Long Term Savings Plan	-5.44	21.20	0.27	29.60	1.23	9.372	12
13.	ICICI Prudential Advisor Series - Moderate Plan	-3.65	19.63	2.34	25.50	2.26	9.216	14
14.	ICICI Prudential Balanced Advantage Fund	-8.77	33.33	10.93	29.04	6.70	14.246	6
15.	ICICI Prudential Balanced Fund	-9.33	29.38	11.18	45.56	2.10	15.778	2
16.	ICICI Prudential Child Care Plan - Gift Plan	-26.10	42.34	2.87	54.26	0.23	14.72	4
17.	ICICI Prudential Child Care Plan - Study Plan	0.33	18.00	11.11	32.39	9.91	14.348	5
18.	ICICI Prudential Equity Arbitrage Fund	7.63	10.11	9.80	8.58	7.56	8.736	16
19.	ICICI Prudential Equity Arbitrage Fund - Institutional Plan	7.95	10.42	9.76	8.49	7.59	8.842	15
20.	ICICI Prudential MIP 25	-0.55	17.27	5.85	22.52	6.42	10.302	9

21.	ICICI Prudential Monthly Income Plan	1.83	13.63	5.40	21.03	4.75	9.328	13
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**Source: - Own Calculation**

**Interpretation: -**

Table 1 depicts Performance in terms of Average Annualized returns of last 5 years i.e. from 2011 to 2015 of 21 Balanced Mutual fund schemes & ranked them.

On analyzing schemes, it has been found that all the schemes generate positive average returns, none of them show negative return which is a good sign for the Industry as it increases investors confidence in Mutual fund investment especially it boost the investment in Balanced Mutual fund schemes. Schemes that occupy top positions are HDFC Balanced Fund, ICICI Prudential Balanced Fund, HDFC Children's Gift Fund - Investment Plan, etc.

**Benchmark:-**

Mutual fund schemes invest in the market for the benefit of unit holders. How well did a scheme perform this job? An approach to assess the performance is to pre-define a comparable - a Benchmark - against which the scheme can be compared.

To put it very simply, a benchmark gives a layman an opportunity to compare the performance of his/her investments with that of the broader market. At the same time, a fund house can also set target returns and strive to perform better than the benchmark index.

**Table 2 display Performance Comparison of Return of Balanced Mutual fund schemes with its Benchmark i.e. Nifty 50:-**

S N	Mutual Fund Schemes	Average Annualised Returns( R <sub>P</sub> )	Benchmark Average Returns (Nifty 50)	Difference (R <sub>M</sub> -R <sub>P</sub> )	Ran k
1	HDFC Arbitrage Fund - Retail Plan	7.916	7.064	0.852	21
2	HDFC Arbitrage Fund - Wholesale Plan	8.114	7.064	1.05	20
3	HDFC Balanced Fund	15.85	7.064	8.786	1
4	HDFC Children's Gift Fund - Investment Plan	15.666	7.064	8.602	3
5	HDFC Children's Gift Fund - Savings Plan	10.648	7.064	3.584	8
6	HDFC Equity Savings Fund	8.51	7.064	1.446	17
7	HDFC MF Monthly Income Plan - Short Term Plan	8.256	7.064	1.192	18
8	HDFC MF Monthly Income Plan - Long Term Plan	9.416	7.064	2.352	11
9	HDFC Multiple Yield Fund - Plan 2005	9.94	7.064	2.876	10

10	HDFC Prudence Fund	13.672	7.064	6.608	7
11	ICICI Prudential Advisor Series - Cautious Plan	8.172	7.064	1.108	19
12	ICICI Prudential Advisor Series - Long Term Savings Plan	9.372	7.064	2.308	12
13	ICICI Prudential Advisor Series - Moderate Plan	9.216	7.064	2.152	14
14	ICICI Prudential Balanced Advantage Fund	14.246	7.064	7.182	6
15	ICICI Prudential Balanced Fund	15.778	7.064	8.714	2
16	ICICI Prudential Child Care Plan - Gift Plan	14.72	7.064	7.656	4
17	ICICI Prudential Child Care Plan - Study Plan	14.348	7.064	7.284	5
18	ICICI Prudential Equity Arbitrage Fund	8.736	7.064	1.672	16
19	ICICI Pru Equity Arbitrage Fund - Institutional Plan	8.842	7.064	1.778	15
20	ICICI Prudential MIP 25	10.302	7.064	3.238	9
21	ICICI Prudential Monthly Income Plan	9.328	7.064	2.264	13

**Source: - Own Calculation**

### **Interpretation:-**

It has been observed that all schemes generate higher returns than the benchmark returns. Out of all, some schemes have better or enhanced values for example HDFC Balanced Fund, ICICI Prudential Balanced Fund, HDFC Children's Gift Fund - Investment Plan occupies top three positions respectively on comparison with Nifty 50.

These schemes were those which had outperformed the market index. Thus, the investors of these schemes have been rewarded well on their invested money.

### **Risk Measures**

Return alone should not be considered as the basis of measurement of the performance of a Mutual fund scheme, it should also include the risk taken by the Fund Manager because different funds will have different levels of risk attached to them.

Risk then, refers to the volatility - the up and down activity in the markets that occur constantly over a period of time. This volatility can be caused by a number of

factors - interest rate changes, inflation or general economic conditions. The main indicators of investment risk that apply to the analysis of stocks, bonds and Mutual fund portfolios are Standard deviation and Beta.

### **Standard deviation**

The Standard deviation of a fund measures the risk by measuring the degree to which the fund fluctuates in relation to its average return of a fund over a period of time. It is a measure of the consistency of a Mutual fund's returns. A higher Standard deviation number indicates that the Net Asset Value (NAV) of the Mutual fund is more volatile and, it is riskier than a fund with a lower Standard deviation.

### **Beta**

Another measure of fund's risk is Beta coefficient. Beta relates a fund's return with a market index and measures the sensitivity of the fund's returns to changes in the market index. In other words, Beta determines the volatility of a fund in comparison to that of its index or benchmark.

**Table 3 reveals Standard deviation & Beta of Balanced Mutual fund schemes:-**

S N	Mutual Fund Schemes	Standard Deviation of Portfolio( $\sigma_p$ )	Beta( $\beta$ )
1	HDFC Arbitrage Fund - Retail Plan	2.5685	0.0 154
2	HDFC Arbitrage Fund - Wholesale Plan	2.5754	0.0 124
3	HDFC Balanced Fund	20.3304	0.7 729
4	HDFC Children's Gift Fund - Investment Plan	18.8954	0.6 676
5	HDFC Children's Gift Fund - Savings Plan	11.1293	0.2 316
6	HDFC Equity Savings Fund	9.1214	0.1 555
7	HDFC MF Monthly Income Plan - Short Term Plan	10.8633	0.2 206
8	HDFC MF Monthly Income Plan - Long Term Plan	13.3382	0.3 327
9	HDFC Multiple Yield Fund - Plan 2005	9.7316	0.1 771
10	HDFC Prudence Fund	21.6795	0.8 789
11	ICICI Prudential Advisor Series - Cautious Plan	11.3676	0.2 416
12	ICICI Prudential Advisor Series - Long Term Savings Plan	16.1083	0.4 852
13	ICICI Prudential Advisor Series - Moderate Plan	14.8108	0.4 102
14	ICICI Prudential Balanced Advantage Fund	17.7001	0.5 858
15	ICICI Prudential Balanced Fund	19.7494	0.7 294
16	ICICI Prudential Child Care Plan - Gift Plan	24.4462	1.1 175
17	ICICI Prudential Child Care Plan - Study Plan	14.2014	0.3 771
18	ICICI Prudential Equity Arbitrage Fund	3.7851	0.0 267
19	ICICI Prudential Equity Arbitrage Fund - Institutional Plan	3.6095	0.0 243
20	ICICI Prudential MIP 25	12.8771	0.3 101
21	ICICI Prudential Monthly Income Plan	11.5074	0.2 476

**Interpretation:** - Higher the value of deviation of scheme's return, greater will be the total risk carried by the scheme. It is observed that the maximum deviation in scheme's return is shown by ICICI

Prudential Childcare-Gift Plan followed by HDFC Prudence Fund that show Standard deviation of 21.6795 then HDFC Balanced Fund have Standard deviation of 20.33 .

Higher the value of Beta of the schemes, greater will be the systematic risk carried by the fund. It is observed that out of all, only one scheme were found to be more risky ( $\beta > 1.0$ ) than the market namely, ICICI Prudential Childcare-Gift Plan with Beta of 1.1175.

Whereas schemes such as HDFC Prudence Fund, HDFC Balanced Fund, ICICI Prudential Balanced Fund schemes also show higher beta that means carries higher systematic risk.

Schemes with minimum Standard deviation and beta are HDFC Arbitrage Fund - Retail Plan, HDFC Arbitrage Fund - Wholesale Plan, ICICI Prudential Equity Arbitrage Fund - Institutional Plan etc.

**3) Risk-adjusted Return Measures:-**

An alternative approach to evaluate the performance of the Fund Manager is through the risk reward relationship. The underlying principle is that return ought to be commensurate with the risk taken. A Fund Manager, who has taken higher risk, ought to earn a better return to justify the risk taken. A Fund Manager who has earned a lower return may be able to justify it through the lower risk taken. Such evaluations are conducted through *Risk-adjusted Returns*. There are various measures of risk-adjusted returns. Some of which commonly used in the market are:-

- A) Sharpe Ratio
- B) Treynor Ratio
- C) Jensen Alpha
- D) Fama Ratio

**Sharpe Model/Ratio**

Sharpe ratio compute the risk premium of a fund as difference between the fund's Average return and the return of a risk – free Government security or Treasury bill over a given period. Sharpe ratio divides the risk premium by the fund's total risk i.e. Standard deviation. The formula of Sharpe ratio is:-

Sharpe ratio =  $(R_P - R_F) / \sigma_P$  Where,  $\sigma_P$  is Standard deviation of the fund.

The higher a fund's Sharpe ratio, the better a fund's returns and have been relative to the volatility the fund has experienced (as measured by standard deviation). Investors can then assess whether a fund's return justifies the risk or not.

**Treynor's Model**

Like Sharpe measure, Treynor ratio also compute the risk premium of a fund as difference between the fund's Average return and the return of a risk-free Government security or Treasury bill over a given period but with reference to systematic risk instead of total risk.

**Table 4 display Risk Adjusted Returns i.e. Sharpe Ratio & Treynor ratio of Balanced Mutual fund schemes with its Ranking**

S N	Mutual Fund Schemes	Sharpe Ratio	Ran k	Treynor Ratio	Ran k
1	HDFC Arbitrage Fund - Retail Plan	0.5513	5	91.9481	3
2	HDFC Arbitrage Fund - Wholesale Plan	0.6267	2	130.161	1
3	HDFC Balanced Fund	0.4599	8	12.0973	13
4	HDFC Children’s Gift Fund - Investment Plan	0.4851	6	13.7298	8
5	HDFC Children’s Gift Fund - Savings Plan	0.3727	10	17.9102	7
6	HDFC Equity Savings Fund	0.2204	16	12.926	10
7	HDFC MF Monthly Income Plan - Short Term Plan	0.1616	20	7.96011	17
8	HDFC MF Monthly Income Plan - Long Term Plan	0.2186	17	8.76465	15

9	HDFC Multiple Yield Fund - Plan 2005	0.3535	11	19.4241	6
10	HDFC Prudence Fund	0.3308	13	8.1602	16
11	ICICI Prudential Advisor Series - Cautious Plan	0.1471	21	6.92053	19
12	ICICI Prudential Advisor Series - Long Term Savings Plan	0.1783	19	5.91921	21
13	ICICI Prudential Advisor Series - Moderate Plan	0.1834	18	6.62116	20
14	ICICI Prudential Balanced Advantage Fund	0.4376	9	13.2229	9
15	ICICI Prudential Balanced Fund	0.4698	7	12.72	11
16	ICICI Prudential Child Care Plan - Gift Plan	0.3362	12	7.3557	18
17	ICICI Prudential Child Care Plan - Study Plan	0.5526	4	20.8115	5
18	ICICI Prudential Equity Arbitrage Fund	0.5907	3	83.7453	4
19	ICICI Pru Equity Arbitrage Fund - Institutional Plan	0.6488	1	96.3786	2
20	ICICI Prudential MIP 25	0.2953	14	12.2606	12
21	ICICI Prudential Monthly Income Plan	0.2458	15	11.4216	14

Source: - Own Calculation

### Interpretation: -

It could be seen that all schemes have recorded positive Sharpe & Treynor Ratio. Out of these schemes, some schemes have enhanced Sharpe ratio as well as better Treynor ratio such as ICICI Prudential Equity Arbitrage Fund - Institutional Plan, HDFC Arbitrage Fund - Wholesale Plan, ICICI Prudential Equity Arbitrage Fund etc. occupies Top Position. Thus, the investors of these schemes have been rewarded well on their invested money. Schemes that hold bottom positions are ICICI Prudential Advisor Series - Long Term Savings Plan, HDFC MF Monthly Income Plan - Short Term Plan, ICICI Prudential Advisor Series - Moderate Plan.

### Jensen Model

In simple sense, Jensen model is yet another risk-adjusted performance

measure. This measure is developed by Michael Jensen and sometimes referred as the differential return method. This measure involves evaluation of the returns that the fund has generated vis-à-vis the return actually expected of the fund given the level of its systematic risk. Required return of a fund at a given level of risk can be calculated as:

$$\text{Jensen's alpha} = \text{Portfolio Return} - [\text{Risk Free Rate} + \text{Portfolio Beta} (\text{Market Return} - \text{Risk Free Rate})]$$

The difference between a scheme's actual return and its optimal or expected return is its *Alpha*- a measure of the Fund Manager's performance. Positive alpha is indicative of out-performance by the Fund Manager; negative alpha might indicate underperformance.

**Table 5 display Risk Adjusted Measure of Performance i.e. Jensen Alpha of Balanced Mutual fund schemes with its Ranking**

S N	Mutual Fund Schemes	Average Annualised Returns( $R_p$ )	Jensen Alpha	Ran k
1	HDFC Arbitrage Fund - Retail Plan	7.916	1.4073	21
2	HDFC Arbitrage Fund - Wholesale Plan	8.114	1.607	19
3	HDFC Balanced Fund	15.85	8.9141	1
4	HDFC Children's Gift Fund - Investment Plan	15.666	8.7895	3
5	HDFC Children's Gift Fund - Savings Plan	10.648	4.0174	8
6	HDFC Equity Savings Fund	8.51	1.9223	17
7	HDFC MF Monthly Income Plan - Short Term Plan	8.256	1.6316	18
8	HDFC MF Monthly Income Plan - Long Term Plan	9.416	2.7284	11
9	HDFC Multiple Yield Fund - Plan 2005	9.94	3.3401	10
10	HDFC Prudence Fund	13.672	6.6763	7
11	ICICI Prudential Advisor Series - Cautious Plan	8.172	1.5357	20
12	ICICI Prudential Advisor Series - Long Term Savings Plan	9.372	2.5983	13
13	ICICI Prudential Advisor Series - Moderate Plan	9.216	2.4846	14
14	ICICI Prudential Balanced Advantage Fund	14.246	7.4156	6
15	ICICI Prudential Balanced Fund	15.778	8.8666	2
16	ICICI Prudential Child Care Plan - Gift Plan	14.72	7.5897	5
17	ICICI Prudential Child Care Plan - Study Plan	14.348	7.6353	4
18	ICICI Prudential Equity Arbitrage Fund	8.736	2.2209	16
19	ICICI Prudential Equity Arbitrage Fund - Institutional Plan	8.842	2.3283	15
20	ICICI Prudential MIP 25	10.302	3.6271	9
21	ICICI Prudential Monthly Income Plan	9.328	2.6884	12

**Source: - Own Calculation**

**Interpretation:**

Highest Value of Jensen's Measure are Found in HDFC Balanced Fund, ICICI Prudential Balanced Fund, HDFC Children's Gift Fund - Investment Plan etc. Higher Positive value of Jensen's measures indicates good market timing

ability of Fund Managers as regard investment in securities.

These Schemes earned high rate of return even more than average market rate of return at the same time they manage to place beta into lower side both together result into better and positive Jensen measure. Whereas, Lowest Jensen's measure found in HDFC Arbitrage Fund - Retail Plan , ICICI Prudential Advisor Series - Cautious Plan , HDFC Arbitrage Fund - Wholesale Plan .

**D) Fama Ratio**

Following the work of Sharpe, Treynor and Jensen M. C., Fama suggested a somewhat finer breakdown of performance. He developed an analytical framework that elaborates on the three risk-adjusted return methods (Treynor Index, Sharpe Index and Jensen alpha) to allow a more detailed breakdown of the performance of a fund.

This Eugene Fama's evaluation model assumes that the returns on managed portfolios can judged relative to those of naively selected portfolios with similar

risk levels. This model is different from all the above mentioned models in the sense that unlike them it is not primarily oriented to the analysis of overall performance of a fund but rather develops a more refined breakdown and assesses the source or components of performance. The technique uses the simple one-period version of the two-parameter model, all the perfect market assumptions, and derives the ex ante market line, which indicates the following equilibrium relationship between expected return and risk for any security.

$$R_p = RFR + \{[R_m - RFR] / \sigma_m\} \times \{[Cov(R_p, R_m)] / \sigma_m\}$$

This equation indicates that the expected return of a portfolio is equal to the risk less rate of return plus market price per unit of risk, times the risk of asset which is  $Cov.(R_p, R_m) / \sigma_m$ . If a Fund Manager believes that the market is not completely efficient and that he can make better judgment than the market, then an ex post version of this market line can provide a benchmark for the manager's performance. This ex post market line provides the benchmark used to evaluate managed portfolios in a sequence of more complex measures.

In this research study, an attempt has been made to examine the components and sources of investment performance in order to attribute it to specific activities of portfolio managers.

**Table 6 exhibits Fama's Net Selectivity calculated through application of Fama & French Three Factor model & its Ranking of Selected Balanced Mutual fund schemes:-**

SN	Mutual Fund Schemes	Average Annualised Returns (R <sub>p</sub> )	Fama	Rank
1	HDFC Arbitrage Fund - Retail Plan	7.916	1.3534	21
2	HDFC Arbitrage Fund - Wholesale Plan	8.114	1.55123	18
3	HDFC Balanced Fund	15.85	8.85452	1
4	HDFC Children's Gift Fund - Investment Plan	15.666	8.70549	3
5	HDFC Children's Gift Fund - Savings Plan	10.648	3.87676	8
6	HDFC Equity Savings Fund	8.51	1.7877	17

7	HDFC MF Monthly Income Plan - Short Term Plan	8.256	1.49125	19
8	HDFC MF Monthly Income Plan - Long Term Plan	9.416	2.59093	11
9	HDFC Multiple Yield Fund - Plan 2005	9.94	3.20283	10
10	HDFC Prudence Fund	13.672	6.64364	7
11	ICICI Prudential Advisor Series - Cautious Plan	8.172	1.39496	20
12	ICICI Pru. Advisor Series - Long Term Savings Plan	9.372	2.47942	13
13	ICICI Prudential Advisor Series - Moderate Plan	9.216	2.35504	14
14	ICICI Prudential Balanced Advantage Fund	14.246	7.31462	6
15	ICICI Prudential Balanced Fund	15.778	8.79668	2
16	ICICI Prudential Child Care Plan - Gift Plan	14.72	7.62421	4
17	ICICI Prudential Child Care Plan - Study Plan	14.348	7.50189	5
18	ICICI Prudential Equity Arbitrage Fund	8.736	2.14375	16
19	ICICI Pru. Equity Arbitrage Fund - Institutional Plan	8.842	2.25403	15
20	ICICI Prudential MIP 25	10.302	3.48817	9
21	ICICI Prudential Monthly Income Plan	9.328	2.54755	12

**Source: - Own Calculation**

#### **Interpretation: -**

Highest Value of Fama's Net Selectivity are again Found in HDFC Balanced Fund, ICICI Prudential Balanced Fund, HDFC Children's Gift Fund - Investment Plan etc. Higher Positive value of Fama's Net Selectivity indicates the superior stock selection ability of Fund Managers of these schemes.

These Schemes earned high rate of return even more than average market rate of return at the same time they manage to place beta into lower side both together result into better and positive Fama's Net selectivity.

Whereas, Lowest Fama's Net selectivity found in HDFC Arbitrage Fund - Retail Plan, ICICI Prudential Advisor Series - Cautious Plan, HDFC Arbitrage Fund - Wholesale Plan.

#### **VIII. Conclusion**

From above Performance and Risk analysis of the selected Balanced Mutual fund schemes, it's clear that all the funds

have performed well during the study period except HDFC Arbitrage Fund - Retail Plan & Wholesale Plan. The fall in the Nifty 50 during the year 2011 has impacted the performance of all the selected funds. Beside this, all funds beat the Market or Benchmark i.e. generating higher returns than the Market. It can be also said that the market timing ability of fund managers is also admirable. In the ultimate analysis it may be concluded that all the funds have performed well in the high risky or volatile market movement and market timing and superior stock selection ability of Fund managers is also worthy.

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## GOODS AND SERVICES TAX IN INDIA : AN OVERVIEW

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### Introduction

The word tax is derived from the Latin word „taxare’ meaning „to estimate”. “A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority” and is any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name.” Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavour to generate tax revenues to support government expenditure on public services and infrastructure development. Cascading tax revenues have differential impacts on firms in the economy with relatively high burden on those not getting full offsets. Analysis

of the tax levy can be extended to international competitiveness of the adversely affected sectors of production in the economy. Such domestic and international factors lead to inefficient allocation of productive resources in the economy. This results in loss of income and welfare of the affected economy. Even though the country has moved on the path of tax reforms since mid 1980s yet there are various issues which need to be restructured so as to boost productivity and international competitiveness of the Indian exporters.

GST is abbreviation for Goods and Service Tax. It is also known as VAT i.e. Value

added tax in few countries. GST/VAT is consumption based tax wherein the basic principle is to tax the value addition at the each business stage. To achieve this, tax paid on purchases is allowed as a set off / credit against liabilities on output. GST is levied on all transaction of goods and services. Thus, in principle, GST should not differentiate between ‘goods’ and ‘service’. Internationally, GST was first introduced in France and now more than 150 countries have introduced GST. Most of the countries, depending on there own socio economic formation, have introduced National level GST or Dual GST.

GST is different from the current tax structure in many ways. Currently, taxes treat goods and services differently. Goods attract Excise at manufacturing level and VAT at the time of sale. In contrast, services attract only one levy i.e. Service tax on provision of taxable services.

This distinction, in GST regime, would lose its importance as both goods and services would be treated as per for taxing purpose. A transaction in goods and services for a consideration would attract CGST and SGST. Also, the State Government now gets the power to tax service and Central Government gets the power to levy tax at distribution and retail level.

GST may resolve, not all, but surely most of the current issues such as the classification , valuation , double taxation disputes etc. on a positive note, most of the credit which is not available will be

available in GST regime such as the service provider will be eligible to avail credit of VAT, Luxury tax, Entertainment tax etc. The compliances are also expected to reduce drastically.

### **Need of GST in India**

The proposed GST seems to be based on the above principle. Following are the supporting reasons to adopt GST

- Present system allows for multiplicity of taxes, the introduction of GST is likely to rationalize it.

- Many areas of Services which are untaxed. After the introduction of GST they will also get covered.

- GST will help to avoid distortions caused by present complex tax structure and will help in development of a common national market

- Existing taxes i.e. Excise, VAT, CST, Entry Tax have the cascading effects of taxes. Therefore, we end up in paying tax on tax. GST will replace existing taxes.

- GST will lead to credit availability on interstate purchases and reduction in compliance requirements.

- Introducing GST will do more than simply redistribute the tax burden from one sector or Group in the economy to another.

- Achieves, uniformity of taxes across the territory, regardless of place of manufacture or distribution.

- Provides, greater certainty and transparency of taxes.

- Ensure tax compliance across the country

- GST will avoid double taxation to some

- The implementation of GST would ensure that India provides a tax regime that is almost similar to the rest of world. It will also improve the International cost

competitiveness of native Goods and Services.

- GST will provide unbiased tax structure that is neutral to business processes and geographical locations.

- If the Goods and Service Tax is implemented in the true spirit, it will have many positives for the stakeholders and will lead to a better tax environment.

### **Salient Features of GST**

- a) GST would be applicable on supply of goods and services as against the present concept of tax on the manufacture of goods or on sale of goods or on provision of services.

- b) GST would be a destination based tax as against the present concept of origin based tax.

- c) It would be a dual GST with the centre and the state simultaneously levying it on a common base. The GST to be levied by Centre would be called as CENTRAL GST (CGST) and that to be levied by the States would be called as STATE GST (SGST).

- d) An Integrated GST (IGST) would be levied on inter-state supply (including stock transfers) of goods and services. This would be collected by the Centre so that the credit chain is not disrupted.

- e) Import of goods or services would be treated as inter-state supplies and would be subject to IGST in addition to the applicable custom duties.

- f) For initial periods of two years or as further extended on the recommendation of the GST council, a non-vatable Additional Tax not exceeding 1% on inter-state supply of goods would be levied and collected by the centre and assigned to the originating state. The Select Committee of the Rajya Sabha has recommended that this tax should be levied only when the supply is made for a consideration.

- g) CGST, SGST & IGST would be levied at rates to be mutually agreed upon by

the Centre and the State under the aegis of the GST council.

h) GST would replace the following taxes currently levied and collected by the Centre:

- 1- Central Excise duty
- 2- Duties of Excise (medicinal and toilet preparations)
- 3- Additional Duties of Excise (goods of special importance)
- 4- Additional Duties of Excise (textiles and textile products)
- 5- Additional Duties of Custom (commonly known as CVD)
- 6- Special Additional Duty of Customs (SAD)
- 7- Service Tax
- 8- Cesses and surcharges insofar as far as they relates to supply of goods and services
- 9- State taxes that would be subsumed within the GST are:
- 10- State VAT
- 11- Central Sales Tax
- 12- Purchase Tax
- 13- Luxury Tax
- 14- Entry Tax
- 15- Entertainment Tax (not levied by the local bodies)
- 16- Taxes on advertisements
- 17- Taxes on lotteries, betting and gambling
- 18- State cesses and surcharges insofar as far as they relate to supply of goods and services.

a) GST would apply to all goods and services except Alcohol for human consumption, electricity and Real Estate.

b) GST on petroleum products would be applicable from a date to be recommended by the goods and services tax council.

c) Tobacco and tobacco products would be subject to GST. In addition, the Centre would continue to levy Central Excise duty.

d) A common threshold exemption would apply to both CGST and SGST. Taxpayers with a turnover below it

would be exempt from GST. A compounding option (i.e. to pay tax a flat rate without credits) would be available to small taxpayers below a certain threshold. The threshold exemption and compounding scheme would be optional.

e) The list of exempted goods and services would be kept to a minimum and it would be harmonized for the Centre and the State as far as possible.

f) Exports would be zero-rated.

g) Credit of CGST paid on inputs may be used only for paying CGST on the output and the credit of SGST paid on inputs may be used for paying SGST. In other words, the two streams of input tax credit (ITC) cannot be cross utilized, except in specified circumstances of inter-state supplies, for payment of IGST. The credit would be permitted to be utilized in the following manner:

- ITC of CGST allowed for payment of CGST.
- ITC of SGST allowed for payment of SGST.
- ITC of CGST allowed for payment of CGST & IGST in that order.
- ITC of SGST allowed for payment of SGST & IGST in that order
- ITC of IGST allowed for payment of IGST , CGST & SGST in that order.
- ITC of Additional Tax would not be permitted.

- Accounts would be settled periodically between the Centre and State to ensure that the credit of SGST used for payment IGST is transferred by the Exporting State to the Centre. Similarly the IGST used for payment for SGST would be transferred by the Centre to the Importing State.

- The laws, regulations and procedures for levy and collection of CGST and SGST would be harmonized to the extent possible.

#### **Benefits of GST**

For Business & Industry

- **Easy Compliance:** A comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.
- **Uniformity of Tax rates and structures:** GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certain and ease of doing business. In other words, GST would make doing business in the country tax , neutral , irrespective of the choice of place of doing business.
- **Removal of cascading :**A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.
- **Improved competitiveness :** Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for trade and industry.
- **Gain to manufacturers and exporters :** The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the International market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.



*For Central & State Government*

- **Simple and easy to administer:** Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.
- **Better controls on leakage:** GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.
- **Higher revenue efficiency:** GST is expected to decrease the cost of collection of tax revenues of the government, and will therefore, lead to higher revenue efficiency.

*For the Consumers*

- a) **Single and transparent tax proportionate to the value of goods and services :** Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.
- b) **Relief in overall tax burden :** Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

**Impact of GST**

*Food Industry*

The application of GST to food items will have a significant impact on those who are living under subsistence level. But at the same time, a complete exemption for food items would drastically shrink the tax base. Food includes grains and cereals, meat, fish and poultry, milk and dairy products, fruits and vegetables, candy and confectionary, snacks, prepared meals for home consumption, restaurant meals and beverages. Even if the food is within the scope of GST, such sales would largely remain exempt due to small business registration threshold. Given the exemption of food from CENVAT and 4% VAT on food item, the GST under a single rate would lead to a doubling of tax burden on food.

*Housing and Construction Industry*

In India, construction and Housing sector need to be included in the GST tax base because construction sector is a significant contributor to the national economy.

*FMCG Sector*

Despite of the economic slowdown, India's Fast Moving Consumer Goods (FMCG) has grown consistently during the past three – four years reaching to \$25 billion at retail sales in 2008. Implementation of proposed GST and opening of Foreign Direct Investment (F.D.I.) are expected to fuel the growth and raise industry's size to \$95 Billion by 201835 .

*Rail Sector*

There have been suggestions for including the rail sector under the GST umbrella to bring about significant tax gains and widen the tax net so as to keep overall GST rate low. This will have the added benefit of ensuring that all inter – state transportation of goods can be tracked through the proposed Information technology (IT) network.

*Financial Services*

In most of the countries GST is not charged on the financial services. Example, In New Zealand most of the services covered except financial services as GST. Under the service tax, India has followed the approach of bringing virtually all financial services within the ambit of tax where consideration for them is in the form of an explicit fee. GST also include financial services on the above grounds only.

*Information Technology enabled services*

To be in sync with the best International practices, domestic supply of software should also attract G.S.T. on the basis of mode of transaction. Hence if the software is transferred through electronic form, it should be considered as Intellectual Property and regarded as a service. And If the software is transmitted on media or any other tangible property, then it should be treated as goods and subject to G.S.T. 35 According to a FICCI – Technopak Report. Implementation of GST will also help in uniform, simplified and single point Taxation and thereby reduced prices.

*Impact on Small Enterprises*

There will be three categories of Small Enterprises in the GST regime.

- Those below threshold need not register for the GST
- Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime.
- Those above threshold limit will need to be within framework of GST Possible downward changes in the threshold in some States consequent to the introduction of GST may result in obligation being created for some dealers. In this case considerable assistance is desired. In respect of Central GST, the position is slightly more complex. Small scale units

manufacturing specified goods are allowed exemptions of excise upto Rs. 1.5 Crores. These units may be required to register for payment of GST, may see this as an additional cost.

**Conclusion**

It can be concluded from the above discussion that GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States majorly through widening of tax base and improvement in tax compliance. It can be further concluded that GST have a positive impact on various sectors and industry. Although implementation of GST requires concentrated efforts of all stake holders namely, Central and State Government, trade and industry. Thus, necessary steps should be taken.

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**ASSESSMENT OF RISK APPETITE OF RETAIL INVESTORS: A STRATEGIC AGENDA FOR MORE PARTICIPATION OF RANCHI (INDIA) BASED INVESTORS IN INDIAN STOCK MARKET**

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**Introduction:**

Despite India's GDP has increased 4.5 times from \$414 billion in 2001 to \$1.87 trillion in 2013, the development of the capital market has been uneven and its penetration has been limited. For instance, only 1.4% of Indian population is having Demat Accounts (a measure of direct participation in the stock market) as against 17.7% in USA, 16.4% in UK, and 9.4% in China. Also, the total number of active stock exchanges across India has reduced from 16 at the start of the decade to 4 in 2008-09, including two national exchanges, namely The National Stock Exchange of India (NSE) and Bombay Stock Exchange (BSE). Moreover, National Stock Exchange's share of total turnover across stock exchanges has surged dramatically from 61.53% in 2001-02 to 92.52% in 2008-09. Apart from NSE and BSE, the only two stock exchanges that are active are Calcutta Stock

Exchange and Uttar Pradesh Exchange as per 2008-09 data. Almost 80% of the NSE's turnover in India continues to come from the top five cities of Mumbai, Delhi, Kolkata, Ahmadabad and Chennai as on 2008-09. In fact, Mumbai accounts for more than half the total NSE turnover at

55%; where as Delhi, contributor of the second largest turnover has a market share of 14.97%. In such context, it wouldn't be difficult to ascertain about the contribution of a city like Ranchi. However, India having one of the highest savings rate in the world, city like Ranchi has potential to increase its contribution in the Indian capital market. However, it is important to study thought processes and perceptions, challenges and bottlenecks i.e., investing behavior of the investors of this city. That's why the macro project titled "An Analysis of Investment Behaviour of Retail Investors of Ranchi in Indian Stock Market" has been taken up for doctoral degree. Following section reveals about the macro Project.

**2. An Analysis of Investment Behavior of Retail Investors of Ranchi in Indian Stock Market:**

This project will help us to comprehend the investment behavior of retail investors, trading through different trading firms.

It will help to understand;

- a) What percentage of their income they invest in stock market by taking their demography and their earning source/jobs, social and economic strata into account.

- b) The return expectations of the retail investors
- c) About the risk appetite of different investors from different background.

### 2.1. Scope:

The Study is confined to the retail investors based at Ranchi (India). Mostly trading houses have Depository Participant (DP) accounts along with trading accounts. However, some other organizations like banks too provide DP account facility. Therefore, our study will although mostly consider the retail investors trading through trading houses; we will also extend our study to include retail investors of Indian stock market who don't trade through trading houses.

### 2.2. Objective:

The key objectives of this study are;

- To study the pattern (including return expectations) of retail investors' based at Ranchi
- To develop a risk appetite score for retail investors of different background.
- To devise models for different clusters on the basis of risk appetite score in order to stretch the incidence and depth of investment in Indian stock market.

### 2.3. Problem Statement/Research Gap:

- a) Researchers have studied the investors' investment pattern and risk tolerance capacity of the Investors in metros and big cities but small cities like Ranchi (India) has not been coming under the purview of such researches and the investors of cities like Ranchi are not alike that of metros.
- b) Existing literature surveyed so far depicts a wide spectrum of tools assessing risk tolerance capacity of investors in optimum asset allocation within an investment portfolio and consequential opportunity losses or gains for not investing in stocks. But a concrete approach to assess the

investors' attitude towards the risk toleration, as a whole, has been missing.

- c) As filler, our study will be putting a set of questions from different functions to each investor with quantified weight attached to every option so as to ascertain wholistic risk tolerating capacity. After assessing the risk tolerating capacity, the investors studied will be clustered and the strategies will be developed accordingly for different clusters.

### 2.4. Methodology:

The study will be an empirical one based on the primary data to be collected from the retail investors on their trading pattern, risk appetite and behavioural facets that determine the investment decisions. On the backdrop of this, there will be concrete information about the stock markets of India containing types of market, the way of functioning, scope and perceptions of investors from secondary sources.

- **For studying the trading pattern of retail investors**, 200 retail investors will be surveyed for knowing;
- The investable capacity of the investors

Whether the investors are first timer or matured

Whether they get actively involved in trading

Whether they are traders or investors

- How frequently they invest
- Whether they invest for need or take investment as an adventurous move
- Whether they are well-informed investors or mere speculators
- Whether they are investors of their own or due to persuasion/moral pressure.
- Their return expectations

- **For developing risk appetite score for retail investors;**

A Questionnaire will be administered on 200 investors to know their risk tolerance capacity and quantification will be done by assigning a score to them so as to know whether their risk appetite is high or low or

moderate. Two sample questions of the proposed Questionnaire are presented here for the purpose of developing risk appetite score of the investors.

<b>Questions with Options to Tick</b>	<b>Risk Tolerance Score (Won't be shown to the Respondents. Will be used in Analysis)</b>
<p>Q1. You take a job at a fast-growing company and are offered the following choices. Which one would you pick?</p> <p>1. Full-time employment contract of working till the retirement age with no course of prospects</p> <p>2. Part-time employment contract with an option with a potential to earn a bonus of 50% on company performance</p> <p>3. Part-time employment contract with the option to use your 50% bonus accrued to buy company's shares at a set price</p> <p>4. Full-time contract with a potential to earn a bonus depending on company performance</p> <p>5. Part-time contract with the option to use your bonus to buy the company's shares at a set price</p>	<p><b>0</b></p> <p><b>25</b></p> <p><b>50</b></p> <p><b>75</b></p> <p><b>100</b></p>
<p>Q2. If you have invested in a share and on the next trading day it declines by 10%, what will be your reaction?</p> <ul style="list-style-type: none"> <li>➤ You will wait and watch the stock since you have chosen fundamentally strong stock.</li> <li>➤ You will go for averaging by taking more shares at lower rate</li> <li>➤ You will book losses and exit from the stock to avoid any further deceleration</li> <li>➤ You will retain the stock and at the same time buy some other stocks in speculation</li> <li>➤ You will book losses, exit from the stock and won't be ready to make investment in future on any stock</li> </ul>	<p><b>50</b></p> <p><b>100</b></p> <p><b>25</b></p> <p><b>75</b></p> <p><b>0</b></p>

Each question will be assigned with a weight on the basis of its importance in the context of risk involved. Weighted average will be ascertained to arrive at a risk score for each investor.

**For Clustering of investors;**

Statistical Technique of Cluster Analysis will be used through SPSS. For this, the questions will be put in the following manner.

Instruction: Rate all the options of each facet mentioned in 1-5 point scale; 1 for lowest level of agreement ..... 5 for highest level of agreement

**Facet 1:** If you have invested in a share and on the next trading day it declines by 10%,

Options	Rating
You will wait and watch the stock since you have chosen fundamentally strong stock.	
You will go for averaging by taking more shares at lower rate	
You will book losses and exit from the stock to avoid any further deceleration	
You will retain the stock and at the same time buy some other stocks in speculation	
You will book losses, exit from the stock and won't be ready to make investment in future on any stock	

After knowing the responses of all the investors considered, through cluster analysis, they will be categorized into few clusters and thereafter appropriate strategies will be developed on the basis of the characteristics of each cluster.

**2.5. Data proposed to be collected:**

While secondary data will be collected from official websites of SEBI, BSE, NSE, Journals, Magazines and government official Gazettes and Bulletins, the primary data will be collected through personal interview based on as mentioned in the Methodology section from the selected 200 investors based at Ranchi investing in Indian Stock Market.

The population of the study is the investors at Ranchi investing in stock markets. The records of those investors will be available with the stock markets and with the brokerage houses through which they invest in the market. For obtaining the required sample units for survey purpose, the help of brokerage houses will be taken. Looking into the population nature, it has been decided to go for 200 investors for the purpose. After obtaining the database from the

brokerage houses, by way of judgmental sampling, 200 units will be selected.

**3. Backdrop of the Study of Risk Appetite of Retail Investors of Ranchi in Indian Stock Market:**

This Paper is just a part of the macro project in progress for doctoral degree, the synopsis of which has been presented in the previous section. In fact, this paper hovers around the second objective, i.e., to develop a risk appetite scores for retail investors of different background, of the macro project and it reveals the findings of the pilot study completed for 10 retail investors of Ranchi.

**3.1. Methodology:**

The questionnaire has been administered on 10 retail investors of Ranchi in Indian Stock Market the way it has been revealed in the previous section, i.e., the methodology of the macro project.

The questions used for this pilot study have been presented below.

<b>Questions with Options to Tick</b>	<b>Risk Tolerance Score</b> (was not shown to the Respondents but was used in Analysis)	<b>Weight of the Question</b> (was not shown to the Respondents but was used in Analysis)
<p>Q1. You take a job at a fast-growing company and are offered the following choices. Which one would you pick?</p> <p>1. Normal form of employment contract of working till the retirement normal course of prospects</p> <p>2. Year employment contract with an option with a potential to earn a 50% depending on company performance</p> <p>3. Year employment contract with the option to use your 50% bonus to buy the company's shares at a set price</p> <p>4. Year contract with a potential to earn a bonus depending on performance</p> <p>5. Year contract with the option to use your bonus to buy the company's shares at a set price</p>	<p><b>0</b></p> <p><b>25</b></p> <p><b>50</b></p> <p><b>75</b></p> <p><b>100</b></p>	<p><b>7</b></p>
<p>Q2. If you have invested in a share and on the next trading day it declines by 10%, what will be your reaction?</p> <ul style="list-style-type: none"> <li>➤ You will wait and watch the stock since you have chosen fundamentally strong stock. <b>50</b></li> <li>➤ You will go for averaging by taking more shares at lower rate <b>100</b></li> <li>➤ You will book losses and exit from the stock to avoid any further deceleration <b>25</b></li> <li>➤ You will retain the stock and at the same time buy some other stocks in speculation <b>75</b></li> <li>➤ You will book losses, exit from the stock and won't be ready to make investment in future on any stock <b>0</b></li> </ul>		<p><b>1</b></p>
<p>Q3. You need to cross a big Canal near your residence in order to catch the Bus on the other side of the Canal to face an interview. You are not a very good swimmer. Which of the following you would like to do?</p> <p>a) Cross the canal through the wooden Bridge located at a</p>	<p><b>25</b></p>	<p><b>9</b></p>

<p>distance of 0.5 km from your residence which has been bit unsafe since last couple of months</p> <p>b) Cross the canal through the concrete Bridge located at around 5 km away from your residence</p> <p>c) Cross through two ropes strongly tied with iron poles across the canal very close to your residence</p> <p>d) Cross the canal swimming across and then dress up on the other side to get ready for interview</p> <p>e) Cross the canal through the concrete Bridge located at around 5 km away from your residence one day before the interview day in order to avoid failure in reaching interview spot on time.</p>	<p><b>0</b></p> <p><b>50</b></p> <p><b>75</b></p> <p><b>100</b></p>	
<p>Q4. Your only 5-year old child got affected by common influenza. Near your residence, there is a medicine shop, the owner of which has been successfully giving medicines since its inception for such type of minor diseases without having Doctor's prescription. Which of the following will be your action?</p> <ul style="list-style-type: none"> <li>• Will consult the medicine shop keeper and give the medicine as per his advice</li> <li>• Will go for govt. hospital located 5 km away from your residence</li> <li>• Will go for a reputed private clinic which is 15 km away from your residence</li> <li>• Will not go for medicine with the impression that the common influenza will get cured automatically within a couple of days</li> <li>• Will call the doctor to your residence immediately and on his prescription you will go for specialty hospital</li> </ul>	<p><b>75</b></p> <p><b>50</b></p> <p><b>25</b></p> <p><b>100</b></p> <p><b>0</b></p>	<p><b>10</b></p>
<p>Q5. You are on probation in your service. No leave is credited to your account. But you have an urgency to attend the marriage ceremony of your best friend. What will you do?</p> <p>a) Will go for attending the marriage without caring the consequence of absence in the Office</p> <p>b) Will silently drop the idea of attending the marriage function without caring for strain on friendship</p> <p>c) Will go to the Office, sign on the attendance register and</p>	<p><b>100</b></p> <p><b>50</b></p>	<p><b>8</b></p>

<p>move out to attend the function without informing anybody</p> <p>d) Will approach the Boss for a special leave and if the Boss does not allow, will convey the same to the friend</p> <p>e) Will beg excuses from the friend for not attending the function without requesting your Boss for the leave</p>	<p>75</p> <p>0</p> <p>25</p>	
<p>Q6. You have a surplus income of Rs. 50000/- in your hand. Which of the following you would prefer to do?</p> <p>a) Will put your money in fixed deposit for 9% rate of interest per annum</p> <p>b) Will lend to one of your friends who is ready to pay 60% rate of interest per annum but without any mortgage</p> <p>c) Will lend to one of your neighbours who will give you 36% rate of interest with a mortgage of an asset valuing Rs. 30000/-</p> <p>d) Will prefer to put in stock market through one of your friends as you are not aware of the functioning of stock market</p> <p>e) Will start a small seasonal business like crackershop, Rakshi shop, etc.</p>	<p>0</p> <p>100</p> <p>75</p> <p>50</p> <p>25</p>	<p>2</p>
<p>Q7. If you have a choice to invest in Real Estate what would be your preference?</p> <p>a) Metros</p> <p>b) A-Grade Cities</p> <p>c) B-Grade Cities</p> <p>d) Sub-Urban Areas</p> <p>e) Rural Areas (Farm Houses)</p>	<p>0</p> <p>25</p> <p>50</p> <p>75</p> <p>100</p>	<p>6</p>
<p>Q8. Considering money is not a factor you would like to go for</p> <p>a) Primary Education Business</p> <p>b) Senior Secondary Education Business</p> <p>c) General Graduation Courses</p> <p>d) Specialized Courses</p> <p>e) Super Specialized Courses</p>	<p>0</p> <p>25</p> <p>50</p> <p>75</p> <p>100</p>	<p>3</p>

<p>Q9. Would you like to invest in small cap penny stock where chances of getting double are fair within a year or it may get vanished.</p> <p>a) 100% of your investment you would like to invest in the same <b>100</b></p> <p>b) 75% of your investment you would like to invest in the same <b>75</b></p> <p>c) 50% of your investment you would like to invest in the same <b>50</b></p> <p>d) 25% of your investment you would like to invest in the same <b>25</b></p> <p>e) 0% of your investment you would like to invest in the same <b>0</b></p>	<b>4</b>
<p>Q10. If you are going to do the business what it could be among given options?</p> <p>a) Perishable goods. <b>100</b></p> <p>b) Semi-perishable goods <b>75</b></p> <p>c) Non-perishable goods <b>50</b></p> <p>d) Wooden Products <b>25</b></p> <p>e) Metal Products <b>0</b></p>	<b>5</b>

The options of each question have been assigned with a score on the basis of the degree of risk inherent to each option. It has been developed in a 5-point scale (100, 75, 50, 25, 0), i.e., the most risky option with 100 score and the least risky option with 0 score. Again, since all the questions are not at par as regards to the level of risk involved in them, they have been weighted in a descending order, i.e.,

the most risky question has been weighted as 10 (out of 10 questions) and the least risky question has been weighted as 1. However, the questionnaire used for survey was not containing the risk score and weights.

**3.2 Analysis:**

The analysis is done separately for each investor to develop a risk appetite score. One case is presented below.

**Respondent (Investor) No. 1**

Question No.	Risk Appetite Score ( $R_s$ )	Weight (W)	Weighted Score ( $R_s w$ )
1	50	7	350
2	100	1	100
3	0	9	0
4	50	10	500
5	25	8	200

6	25	2	50
7	50	6	300
8	75	3	150
9	25	4	100
10	50	5	250
		$\sum W = 55$	$\sum R_{s,w} = 2000$
Weighted Average Score			<b>36.36</b>

Source: Primary Data

The consolidated score sheet developed by the analysis done as above of all 10 investors are presented below.

**Consolidated Risk Appetite Score Table**

<b>Respondent Sl. No.</b>	<b>Weighted Average Score (i.e., Risk Appetite Score)</b>
01.	36.36
02.	15.45
03.	23.18
04.	28.18
05.	17.72
06.	12.27
07.	17.27
08.	23.63
09.	18.63
10.	23.63

Source: Primary Data

**3.3. Findings:**

From the analysis done above, it is clear that the risk appetite score of 10 investors studied varies between 12.27 to 36.36. In absolute sense, although the risk appetite scores wholistically is not that appreciable, the spread in the present context is bit scientific. However, with the available

scores, if we cluster them on the basis of their risk appetite score, we may have the following three clusters; 1) Cluster-A (High Risk Appetite): Score Range; 12 – 20, 2) Cluster-B (Moderate Risk Appetite): Score Range; 21 – 29 and 3) Cluster-C (Low Risk Appetite): Score Range; 30 – 38. The spread of cases on different clusters is present in the table given below.

**Clusterization of Investors on the basis of Risk Appetite**

<b>Cluster</b>	<b>No. of Investors</b>
Cluster-A	01

(Investors with High Risk Appetite)	
Cluster-B (Investors with Moderate Risk Appetite)	04
Cluster-C (Investors with Low Risk Appetite)	05

Source: Primary Data

Cluster-wise findings are presented below.

**Cluster-A:** Although the investor in this cluster belongs to relatively lower income-group, his investment pattern matches to his wholistic risk appetite as ascertained in this paper. It is found that he used to put around 25% of his investible surplus in Indian stock market, that too, in long term investment. It seems investors with higher wholistic risk appetite score can be channelized for more investment in stock market devising effective customized strategies for them on the basis of technical support.

**Cluster-B:** All four investors in this cluster are well-educated and better-off as regards to their earnings. But lack of awareness and influence of negative word of mouth leading to a false impression on investing in the stock market, i.e., equivalent to getting involved in gambling, has insisted them to go for conventional modes of investment like bank fixed deposits instead of going for investing in stock market. It seems, they do have capability to invest in stocks but their mediocre wholistic risk appetite followed by judgmental approach land them into this cluster.

**Cluster-C:** Out of five investors in this cluster, two are retired persons whose income level is good devoid of any considerable liability. But owing to their conservative outlook, although they have Demant Account in the bank, they do not trade in stock market. In fact, most of their investment goes to conventional mode and a small fraction put into Mutual Fund. Two more investors from this cluster belong to well-to-do community and the

fact reveals that nearly 20% of their investible surplus goes to stocks. However, their wholistic risk appetite score is low owing to their high concern for the questions related to risk involved in life. Thus it is inferred that these two can be tapped for investing more in stocks. In fact, this type of investors may demand life insurance for the investors investing in stocks which may be the trump card for the success of the stock market in future. The remaining one investor in this category belongs to lower income group but he has more than required level of aggression depending upon the mood. This type of investors can be capitalized for short-term investment.

#### 4. Conclusion:

After the detailed survey on the behavior of retail investors belongs to different age group, profession, gender and annual income, we arrived at the fact that the retail investors of Ranchi are very keen to maximize their return but more or less at the cost of moderate risk only. It is also very interesting to know that retail investors are really least interested to invest in stock market and the reason behind this peculiar behaviour is, more or less, the lack of their exposure to stock market .They don't let there money to be played through others hand without any promise and commitment on return. Moreover, it seems that the word of mouth about the individual losses in stock market has created an impression of investing in stock market means putting money in gambling. On the other hand, they are very much confused to get positive inflation

adjusted return. It reflects that they are aware of actual rate of return (Rate of Return less Inflation) but they are highly disappointed for the fact that their actual rate of return is negative.

While giving open comment related to their feelings on functioning of stock market, they revealed that the initiatives to be undertaken by SEBI on the awareness programme of investors at Ranchi should be intense and far-reaching. Moreover,

they feel that there should be Certified Financial Planner with a proven track record at Ranchi to safeguard the interest of the investors. Although the investors are ready to bear the consultancy fees and portfolio management fees, it is very much painful for them as they are deprived of having the support as required, owing to absence of anybody to fill the gap. As a result, most of the retail investors are forced to stick to conventional modes of investment like investing in bank Fixed Deposits.

The most excruciating fact uncovered from the pilot study that the investors invested in ULIP finally ended with negative return as a contradiction to the IRDA guidelines. Amidst all these disappointing facts, the fact that gives a ray of hope for retail of investors at Ranchi is the SIPs as claimed by the investors. Some cautious investors who had gone for SIPs of leading Mutual Fund Houses had appropriated unexpected higher return. Owing to this, they have developed a thumb rule for themselves, i.e., to get the inflation adjusted positive return in today's market, one has to go through the route of SIPs in leading Mutual Fund Houses in the long run.

It's felt that in order to stretch the incidence and depth of retail investment in Ranchi concerning Indian Stock Market, the investors are to be informed about their risk tolerating capacity and they are to be trained adequately about the functioning of the Indian Stock Market.

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## A STUDY OF CARBON CREDIT IN INDIA: ISSUES AND CHALLENGES

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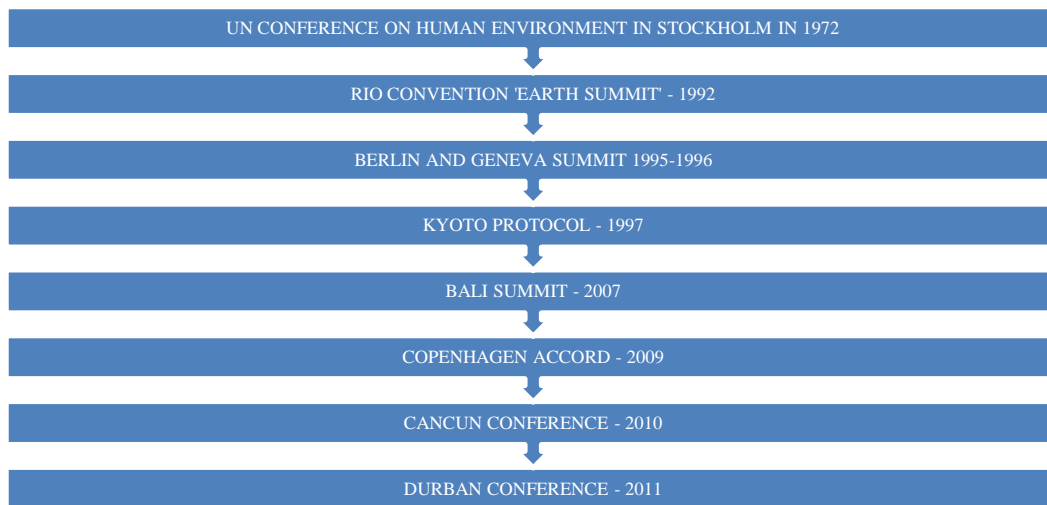
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### Introduction to the Topic

**Green House Gases and Their emission:**  
One challenge facing the human race is that of global warming. To address the issue of global warming, the United Nations Framework Convention on Climate Change (UNFCCC) was adopted in 1992, with the objective of limiting the concentration of Green House Gases (GHGs) in the atmosphere. Subsequently, to supplement the Convention, the Kyoto Protocol came into force in February 2005, which sets limits to the maximum amount of emission of Green House Gases (GHGs) by countries. The Kyoto Protocol at present commits 41 developed countries (known as Annex I countries) to reduce their GHG emissions by at least 5% below their 1990 baseline emission by the commitment period of 2008-2012. Six recognized GHG (Green House Gases) gases are Carbon dioxide, Methane, Nitrous oxide, Hydro-fluoro-carbons, Per-fluoro-carbons, Sulphur-hexa-fluoride. Need for reduction in GHG to maintain ecological balance and can be done in two ways:

- a) Sequestration, to reduce the impact of emissions.
  - b) Offset the impact of emission of GHG by undertaking greener project.
- There has been an increased awareness and concern lately, for pollution and global warming. In order to address these issues, member countries of the UNO have committed to the Kyoto Protocol to limit and reduce greenhouse gas emissions. Countries which control emissions are allotted carbon credits which is a tradable certificate representing the right to emit one tonne of carbon dioxide. A reduction in emissions entitles the entity to a credit in the form of a Certified Emissions Reduction certificate (CER). The CER is granted by a Board sponsored by the UNO to projects in developing countries. The CER is tradable and its holder can transfer it to an entity which needs Carbon Credits to overcome an unfavorable position on carbon emissions. India being relatively less industrialized is one of the largest beneficiaries of the Kyoto Protocol.

## History of Carbon Emission Conventions:



### kyoto Protocol:

As per the Kyoto Protocol, at present, developing and least-developed countries are not bound by the amount of GHG emissions that they can release in the atmosphere, though they too generate GHG emissions. Under the Kyoto Protocol, countries with binding emission reduction targets (which at present are applicable to developed countries) in order to meet the assigned reduction targets are issued allowances (carbon credits) equal to the amount of emissions allowed. An allowance (carbon credit) represents an allowance to emit one metric tonne of carbon dioxide equivalent. To meet the emission reduction targets, binding countries in turn set limits on the GHG emissions by their local businesses and entities. Further, in order to enable the developed countries to meet their emission reduction targets, Kyoto Protocol provides three market-based mechanisms

Joint Implementation (JI),

Clean Development Mechanism (CDM),

International Emission Trading (IET).

Under **JI**, a developed country with a relatively high cost of domestic GHG reduction can set up a project in another developed country that has a relatively low

cost and earn carbon credits that may be applied to their emission targets.

Under **CDM**, a developed country can take up a GHG reduction project activity in a developing country where the cost of GHG reduction is usually much lower and the developed country would be given carbon credits for meeting its emission reduction targets. Examples of projects include reforestation schemes and investment in clean technologies.

In case of CDM, entities in developing/least developed countries can set up a GHG reduction project, get it approved by UNFCCC and earn carbon credits. Such carbon credits generated can be bought by entities of developed countries with emission reduction targets. The unit associated with CDM is **Certified Emission Reduction (CER)** where one CER is equal to one metric tonne of carbon dioxide equivalent.

Under **IET**, developed countries with emission reduction targets can simply trade in the international carbon credit market. This implies that entities of developed countries exceeding their emission limits can buy carbon credits from those whose actual emissions are below their set limits. Carbon credits can be exchanged between businesses/entities

or bought and sold in international market at the prevailing market price.

These mechanisms serve the objective of both the developed countries with emission reduction targets, who are the buyers of carbon credits as well as of the developing and least developed countries with no emission targets (at present), who are the sellers/suppliers of carbon credits. The non-polluting companies from less developed countries can sell the quantity of carbon dioxide emissions they have reduced (carbon credits) and earn extra money in the process. This mechanism of buying and selling carbon credits is known as **Carbon Trading**.

#### **Accounting Aspects of Carbon Credit:**

There is currently no authoritative guidance either from the International Accounting Standards Board (IASB) or Financial Accounting Standards Board (FASB) in the US for accounting of carbon emissions and credits, although the boards have issued some guidance in the past. In 2004, IASB has issued IFRIC 3 – Emission Rights, to provide Guidance on this aspect, but soon withdrawn in June 2005 due to criticism on account of Potential volatility arising from recognizing changes in the value of allowances and movement of provisions for emissions in the income statement. Due to lack of any mandatory guidance on this there are currently divergent accounting practices in vogue. Differences exist on the accounting for development of projects under CDM mechanism, generation of CER's, timing of recognition, sales and inventory valuation etc. Currently carbon related transactions can be accounted with reference to IAS (Inventories), IAS (Government grants), IAS 37 (Provisions), IAS 38 (Intangible Assets) and IAS 39 (Financial Instruments)

#### **Taxation for Carbon Credits:**

The tax treatment of credits is an issue that has been a subject matter of considerable debate. Tax issues may arise at the time of entitlement of the credit, since the same could be viewed as a benefit arising from

the carrying on of a business specifically taxable under section 28(iv) of the Income-tax Act ('Act'), or on its sale, where questions may arise whether the receipt is on a capital or revenue account and in the case of the former whether there could be any taxable capital gains. In that background, the recent decision of the Tax Appellate Tribunal in M/s. Shree Cement Ltd. (ITA No. 504/JP/12) (ITAT Jp) does provide some guidance on the issue. The company had undertaken an approved project for reducing on-site and off-site emissions at its thermal power plants. This had resulted in generation of carbon credits of Rs.16 crores which was claimed as capital receipt and not taxable. The Tax Officer assessed the same as business income which was confirmed by the Commissioner of Income-tax (Appeals). Before the Tribunal, the appellant relied upon other Tribunal rulings. In the aforesaid rulings the Tribunal had held that the credits are not an offshoot of business but arise out of commercial concerns. According to the Tribunal the source of credit was world concern and environment and did not arise from the sale of a product, by-product or rendering of any services. Carbon credit had no element of profit or gain and it cannot be subjected to tax in any manner under any head of income. The proposed Direct Tax Code had clear provisions regarding the taxation of income from carbon credits. The Direct Tax Code makes it clear that carbon credits are business income and will be charged @ 30% (Flat).

#### **Objectives of the Study:**

- 2 To study the concept of carbon credits
- 3 To study the importance of Carbon Credits in India
- 4 To study the issues of Carbon credit accounting in India
- 5 To study the taxation issues in carbon credit accounting in India.
- 6 To examine the percentage of revenue from carbon credit trading to total revenue.

#### **Literature Review**

**Mr. Dhaval Sharma:**

In 1996 the Kyoto Protocol established a global policy aimed at reducing green house gas (GHG) emissions. In response, slow steady steps are being taken to implement carbon emission limits. Markets are being established so that companies can exchange carbon allowances. Turning the environment, a public good, into private property presents many economic challenges. India comes under the third category of signatories to UNFCCC. India signed and ratified the Protocol in August, 2002 and has emerged as a world leader in reduction of greenhouse gases by adopting Clean Development Mechanisms (CDMs) in the past few years.

**Mr. Manish Sachdev:**

In 1997, Kyoto Protocol, a voluntary treaty was signed by 141 countries to reduce the emissions of Global House Gases by 5.2% below 1990 levels by 2012. Certified Emissions Reductions (CE 64R) or Carbon credits are certificates issued certifying reduction in emissions. The developing Countries have been exempted from any such restrictions. These certificates can be traded in the Market and purchased by firms which find purchasing emission credits to offset its emissions lower in cost. Thus an opportunity has emerged for firms in developing countries like India, Brazil and China to boost their earnings by complying with norms. These additional cash flows from sales of credits result in an incremental internal rate of Return by 27%. This has opened up a new source of cash flow in project financing making unviable projects viable by exceeding the hurdle rate for investment returns. It will be pragmatic on part of firms to consider this mode of cash flows in project Financing.

**Benjamin J. Richardson:**

Climate finance is becoming an important feature of the emerging legal and policy regimes to address global warming. However, the current approach largely confines the financial sector to a

transactional agent to mobilize capital for clean energy and to broker emission allowance trading.

The sector's potential to leverage more sweeping positive changes in the economy as sought historically through the movement for socially responsible investment (SRI) has been insufficiently acknowledged. Indirectly, by regulating greenhouse gases the legal system is helping to create a business case for investors to respond to climate change threats. However, the potential contribution of SRI to address climate change problems more comprehensively is presently limited owing to inadequate governance frameworks, as well the sector's increasing abandonment of its traditional ethical Agenda.

**Issues & Challenges**

- 1) Companies never want to reduce emissions, they just want to accumulate credits and sell it to other companies, reducing emissions has become a secondary aspect and the primary aspect is to get profit.
- 2) Reducing emissions always calls for best technologies, conservation, and higher efficiency standards. All these things attract heavy expenditure, which the companies are reluctant to do. It is cheaper to pollute and buy credits than to go for such huge expenditures.
- 3) The carbon credit-generating plantation has resulted in the destruction of a native forest, the introduction of damaging invasive species, a reduction in biological diversity, the release of massive amounts of soil carbon, and the displacement of indigenous people thereby creating devastating effects.
- 4) The carbon market cannot be monitored or controlled, the temptation for all parties to cheat requires that every transaction to be scrutinized and every sale to be certified. There is no global institution or accounting system that can manage the complexity of this market.
- 5) The legal framework will never be strong enough: International legal

frameworks are usually very weak. Countries that want to use carbon credits to subsidize their emissions are already arguing for penalties so weak that they will not discourage cheating. Many of the Annex 1 (Russia, Turkey, Ukraine), Romania- these are some of the most corrupt and lawless countries are corrupt or desperate for foreign currency and will happily endorse doctored carbon credits.

6) Tree planting is not a solution to climate change: Carbon absorbed by forests is only removed from the carbon cycle for as long as the tree is standing and alive. Industrial forestry will not sequester carbon. Permanent reforestation is a once only removal of carbon from the cycle and cannot offset sustained overproduction.

7) The kyoto protocol has been hijacked by carbon traders: Corporations, the finance industry, and their government supporters demanded the insertion of carbon trading throughout the Kyoto Protocol as a condition for their continued support for the process. The intergovernmental negotiations are now concerned almost entirely with the structure and management of this vast international carbon trading regime.

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**“AN ANALYTICAL STUDY OF FUND UTILIZATION  
MANAGEMENT OF NON PROFIT ORGANIZATIONS IN NAGPUR  
DISTRICT “**

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**Introduction**

NGO are non-profit making agencies that are constituted with a vision by a group of like minded people, committed for the uplift of the poor, marginalized, unprivileged, underprivileged, impoverished, downtrodden and the needy and they are closer and accessible to the target groups. flexible in administration, quicker in decision making, timely in action and facilitating the people towards self-reliance ensuring their fullest participation in the whole process of development. The achievements and success of NGOs in various fields and the excellent work done by them in specific areas is no doubt a tremendous task that has helped to meet the changing needs of the social system. However, inspite of its achievements in various fields, NGOs are facing different problems which differ from organization to organization, region to region.

“Non governmental organizations” (NGO) refers to an association, society, foundation, charitable trust, non-profit corporation, or other juridical person that is not regarded under the particular legal system as part of the governmental sector and that is not operated for profit – viz., if

any profits are earned, they are not and cannot be distributed.

In India non profit / public charitable organisations can be registered as trusts, societies, or a private limited non profit company, under section-25 companies. Non-profit organisations in India (a) exist independently of the state; (b) are self-governed by a board of trustees or ‘managing committee’/ governing council, comprising individuals who generally serve in a fiduciary capacity; (c) produce benefits for others, generally outside the membership of the organisation; and (d), are ‘non-profit-making’, in as much as they are prohibited from distributing a monetary residual to their own members.

Good financial management is a key to an organizational sustainability. It will impact on decision making across the organisation and as such should be integrated into all aspects of an organization’s operations, from managing project budgets to gathering information for strategic decision-making. Non profit voluntary organisation must practice sound financial management and comply with a diverse array of legal and regulatory requirements. Whatever the size of the organisation,

sound financial strategy is a prerequisite to sustainability, rather than being seen as a separate function (merely doing book keeping), the finance should be integrated within, and add value to, the overall planning and management of an organisation. It is essential that organisation successfully manage their funding and financing sources to ensure the best and most efficient use of their financial resources.

#### **Area of study:-**

This paper aims to explore and evaluate the funding utilization and management of non-governmental organizations in Nagpur region. The paper critically assesses the extent to which these organizations are managed. The paper is organised as follows. First, it gives an overview of the concept of NGOs. Second, the paper delves into the discussion of the relations between NGOs and the financial flows in NGOs. This discussion is important as the interaction between the two can easily impact on the financial management and operation of NGOs. Third, we look at the governance and financial management issues within NGOs. Fourth, the development of NGOs in financial aspects .fifth, the paper examines the Management reforms taking place within the NGO sector; this includes lessons learnt and suggestions for improvement. The last section concludes and summarises the issues discussed

#### **Objective of study:**

The main objective of the study is to investigate the fund utilizing management in NGOs. More specifically the study aims to examine the following aspects of the selected undertaking.To study the Financial pattern of NGOs. examine the government financial support to NGO.

#### **History**

The term NGO is broad and ambiguous. It covers a range of organizations within civil society from political action groups to sports clubs. Its clear definite still remains contested. However, it can be argued that

all NGO's can be regarded as civil society organizations though not all civil society organizations are NGO's. The concept of NGO came into usage in 1945 following the establishment of the United Nations Organizations which recognized the need to give a consultative role to organisations which were neither government nor member states (Willett, 2002) NGOs take different forms and play different roles in different continents, with the NGO sector being most developed in Latin America and parts of Asia. The roots of NGOs are different according to the geographical and historical context. They have recently been regarded as part of the "third sector" or not for profit organizations. Although there is contestation of the definition of an NGO, it is widely accepted that these are organizations which pursue activities to relief the suffering, promote interests of the poor, protect environment, provide basic social services and undertake community development (Cleary, 1997).Such organizations should have certain fundamental features which distinguish them from others (Stephenson, 2003).

First, an NGO should be privately set up and sufficiently autonomous in its activity that is independent of direct government control. Secondly, an NGO should be non-profit making, which clearly defines its voluntary character. Thirdly, it is not constituted as a political party with the aim of attaining political power. Fourthly, NGO should support development that is demonstrating its public interest character (Schiavo-Campo et al 2001).

According to Turner and Hulme

"NGOs are generally registered organizations, community

Groups, professional associations, trade unions, cooperate

Charity organizations whose aim is to improve the well

Being of their members and of those areas in which they

Exists” (Turner and Hulme, 1997: 200).

The World Bank on the other hand sees NGO's as private organizations that pursue activities to relief suffering, promote the interest of the poor, protect the environment, provide basic social services, or undertake community development (WB 2001). In this paper the terms non-governmental organization and not for profit organizations will be used interchangeably under the umbrella of civil society.

The history of non-profit sector in India can, for the sake of convenience, be comprehended in four phases: the pre-colonial phase (1500 BC to late eighteenth century); the colonial phase (late eighteenth century to 1947 AD); the post-independence phase up to the emergency of 1975; and the post-emergency phase. It may, however, be noted that like all categorizations this one too is quite arbitrary and overly neat.

NGOs have been actively engaging in local, regional, national and international matters with (or against) government and business sectors since their beginning.

Understanding of NGOs (or 'non-profit' organizations or 'third sector' organizations) has become important to understanding how societies operate, struggle and develop.

### **Funding Sources of NGOs**

Almost every voluntary or non-profit organization requires money either to support its existing activities or to expand and improve its services. Fund raising has no option other than hard work, but if the voluntary agencies have a cause or programmes that deserve support and it is willing to really work at it, it can raise considerable awareness, goodwill and money.

Following are the funding methods used in NGOs

In today's *competitive/market stage* of non-profits, competition for funding is fierce. The nature of competition can be understood by the substitutes available to the contributors of the two major forms of funding sources for the non-profit organizations: revenue and donations. Donors viz. foundations, corporations, governments and individuals have the option to donate to NGOs in other developing countries or to the governments' institutes as product for product substitute, the option of donating to non-profits in donors' own homelands can be assumed as substitute of need, and non-altruistic spending of disposable income can be regarded as the generic substitution.

Revenue is collected by selling the product or service to the beneficiaries, which is similar to the activity carried out by business organizations. Other sources which do not fall into either of the above are the miscellaneous sources.

NGOs receive a greater part of their funds from international donors, besides which they use other sources such as government institutions, senior organizations, foreign individuals, member affiliates, occasional charities and beneficiaries. Frequently, NGOs look for some form of matching support from the beneficiaries which is the form of local and modest fundraising, initiatives or in the form of contributions in kind (e.g. contributing free unskilled labour or local administration of a construction project.) Some NGOs even generate funds by selling products or providing services in the marketplace, NGOs suppose that the people prefer such products and services because people know that the revenue is spent for the better causes.

### Vision and mission

NGOs India is committed to social justice, sustainable development and human rights. The right to communicate freely is a basic human right and a necessity for sustainable

development. Access to information is essential to informed decision-making at all levels.

NGOs India is committed to the dissemination of information and promotion of sustainable development initiatives, in response to the needs of under represented and marginalized sectors of society.

For bridging the data gap and improving information availability NGO network is committed to develop and establish an ideal medium for the Participation and exchange of a trusted and accurate source of quality information.

#### **Literature review :-**

In India and abroad, several studies have been made on voluntary organizations working in urban as well as rural areas. Much of the literature on voluntary organizations in Indian settings has come from traditional social work. Many of the Anthropologists, Sociologists and Political Scientists are engaged in the study of the voluntary organizations. Unfortunately, communication among the disciplines about their findings has been far from adequate.

Michael Banton's essay (1957) on the Anthropological Aspects of Voluntary Associations notes that "Voluntary Associations become more common and significant as societies advance in technology, complexity and scale". According to Banton, the associations function as a means of "organizing people in order to achieve new ends, such as the raising of capital, the regulation of prices and the provision of extra labour (Stefanovic et al., 2010).

#### **Research Methodology:**

For the research universe of the study consist of NGOs in Nagpur region and the beneficiary of the NGOs.

The scope of the research is restricted to the NGOs of Nagpur Region only.

#### **Sampling techniques :**

Here sampling techniques will be used as both Purposive Sampling and Random sampling.

**Purposive Sampling :-** It is also known as purposive or non probability sampling. This sampling method involves purposive or deliberate selection of particular units of the universe for constituting a sample, which represents the universe of the firm. When the population elements are selected for inclusion in a sample based on the ease of access it can be called as convince sampling. If the researcher wishes to secure the data then the researcher may select fixed number of persons and may conduct a survey and interviews.

In this case, from the complete hierarchy Ngo employees and beneficiary of NGOs will be taken in to thought.

**Random Sampling :-** A random sample gives every unit of the population a known and non- zero chance of being selected in the population. Randomness is the very basis of selecting a representative sample. Random sampling is not the same as chance selection. Random proportion in the sample as in the universe.

In this case random sampling will be done from the complete hierarchy Ngo employees and beneficiary of NGOs that are available at the time of research.

#### **Sample Frame:**

Sample frame is the actual set of units from which a sample has been drawn. In this case looking at the organizational hierarchy the sample frame will be the employees and the beneficiary from the different sectors in the Nagpur Region only.

#### **Sampling tools**

The data shall be collected through primary and secondary sources.

#### **Data collection :-**

##### Primary Data:

The primary data collected from NGOs employees and beneficiary through interview and questionnaires

Secondary Data:

The secondary data traced from office records, journals, annual reports, books websites and magazines.

**Scope of study :**

To study the various patterns of funding scheme this can be beneficial for NGO.

**Finding :**

In spite of various funding sources most of the NGOs are suffering from paucity of funds. Government does not give cent percent grants in aid or make delay in sanctions of grants for numerous programmes. NGOs have to make matching contributions which they are some times unable to manage and are, therefore, unable to avail themselves of the grants. Now a day's charity is not so strong in the minds and hearts of the people as it was in the ancient society.

**Conclusion :**

NGOs are the ones who really intend to care the uncared sections and the people at the bottom of the social stratum. India is

developing country which requires these type of committed, devoted and dedicated organizations for the development of the country. So, the government, the leaders, the donors, the politicians and the people should support these organizations and help them to solve their problems at the grass-root level. Than only their services are undoubtedly commendable in the uplift of the rural poor .

Utilization of fund in Non-Governmental organization and development of the sector seems to be influenced by different types of programs considered as "determinants in the study". This study will accused the impact of NGOs and their limits and opportunities in relation to social development and civil society, making particular reference to Nagpur Region only.

After successful completion of the study on "Utilization of fund in non-governmental organisations", it is recommends that; NGO should utilize the fund sources in proper way and organise various program to educate people for donation and impact that on society

## PERFORMANCE EVALUATION OF SELECTED EQUITY MID CAP MUTUAL FUNDS FOR THE YEAR 2013-14 TO 2015-16

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### INTRODUCTION

Mutual fund is not having specific definition but the SEBI regulations, 1993 defines a mutual fund as — “a fund in the form of a trust by a sponsor, to raise money by the trustees through the sale of units to the public, under one or more schemes, for investing in securities in accordance with these regulations”. A mutual fund is a professionally-managed

firm of collective investments that pools money from many investors and invested it in stocks, bonds, short-term money market instruments, and/or other securities. In a mutual fund, the fund manager, popularly known as the portfolio manager, trades the fund's underlying securities, incurring capital gains or losses, and collects the dividend or interest income. The investment proceeds are then passed along to the individual investors. The net asset value per share (NAV) is calculated on daily basis on the total value of the fund divided by the number of shares currently issued and outstanding.

In few years, Mutual Fund has emerged as a financial product which ensures one's financial wellbeing. Mutual Funds have not only contributed to the India's growth story but have also helped investors to tap into the success of Indian Industry. As information and awareness is spreading more and more people are enjoying the benefits of investing in mutual funds. The main reason the number of retail investors remains small is that eight out of ten people with incomes in India do not know

that mutual funds exist. But once people will be aware of mutual fund investment opportunities, the number who decides to invest in mutual funds will rise to as many as two in five people. With emphasis on increase in domestic savings and improvement in deployment of investment through markets, the need and scope for mutual fund operation has increased tremendously.

In this context, it is important to study the performance of the Indian mutual fund industry. Thus the involvement of mutual funds in the transformation of Indian economy has made it vital to view their services not only as a financial intermediary but also as a front runner as they are playing a significant role in distributing equity culture. The relation between risk and return determines the performance of a mutual fund scheme. As risk is proportionate with return, therefore, providing maximum return on the investment made within the acceptable associated risk level helps in separating the better performers from the laggards.

### EQUITY FUNDS

The main objective of equity mutual funds is to provide capital appreciation over a long period. A major portion of their investments is made in equities which provide potentially superior returns than other investment options. Equity schemes attracts the highest risk among the mutual fund schemes but also provides potentially the best possible returns among all mutual fund schemes as well.

The volatility of share prices attracts the high risk for equity mutual funds. These funds try to reduce the risk by diversifying the investments in different types of shares. One of the biggest advantages of equity fund is instant diversification. Also, it is usually easier and less expensive to invest in equity funds than to buy each and every stock in a fund's portfolio. Equity funds are also cheaper -- they're a way to avoid the often higher transaction costs and lower liquidity associated with trading individual stocks.

### REVIEW OF LITERATURE

A large number of studies have been done on the growth and financial performance of mutual funds.

**Treynor (1965)** presents a new way of viewing performance results. He attempted to rate the performance of mutual funds on a characteristics line graphically. The steeper the line, the more systematic risk or volatility a fund possesses. By incorporating various concepts, he developed a single line index,  $T_n$ , called Treynor index.

**Sharpe (1966)** explains in a modern portfolio theory context that the expected return on an efficient portfolio and its associated risk (unsystematic risk) are linearly related. By incorporating various concepts he developed a Sharpe index. In this paper he attempted to rate the performance on the basis of the optimal portfolio with the risky portfolio and a risk-free asset is the one with the greatest reward-to-variability. The unsystematic risk is related to particular security due to inefficient management.

**Fama (1972)** developed methods to distinguish observed return due to the ability to pick up the best securities at a given level of risk from that of predictions of price movements in the market. He introduced a multi-period model allowing evaluation on a period-by-period and on a cumulative basis. He branded that, return on a portfolio constitutes of return for security selection and return for bearing risk. His contributions combined the concepts from modern theories of portfolio

selection and capital market equilibrium with more traditional concepts of good portfolio management.

**Barua and Varma (1991)** evaluated the performance of master share (1987-1991) using CAPM approach from the view point of large investors, small investors and from fund management. The study had used ET Index as a proxy for market behavior. The risk adjusted performance is measured by using Sharpe, Jensen and Treynor measures. They used capital market line to study the risk return relationship of the fund from the prospective of large investors and security market line for small investors. The study concludes that the fund performed better than the market for small investors and fund management but the fund did not do well when compared to CML.

**Ms. Rajeswari T.R., Prof. V.E. Rama Moorthy (2001)** in the paper —An Empirical Study on Factors Influencing the Mutual Fund Scheme Selection by Retail Investors have expressed that mutual fund is a retail product designed to target small investors, salaried people and others who are not intimidated by the mysteries of stock market but, nevertheless, like to reap the benefits of stock market investing. At the retail level, investors are unique and are a highly heterogeneous group. Hence, their fund/scheme selection also widely differs.

**Shome (1994)** based on growth schemes examined the performance of the mutual fund industry between April 1993 to March 1994 with BSE SENSEX as market surrogate. The study revealed that, in the case of 10 schemes, the average rate of return on mutual funds were marginally lower than the market return while the standard.

**Gupta Ramesh (1989)** evaluated fund performance in India comparing the returns earned by schemes of similar risk and similar constraints. An explicit risk-return relationship was developed to make comparison across funds with different risk levels. His study decomposed total return into return from investors risk,

return from managers' risk and target risk. Mutual fund return due to selectivity was decomposed into return due to selection of securities and timing of investment in a particular class of securities.

**Gupta and Sehgal (1998)** evaluated performance of 80 mutual fund schemes over four years (1992-96). The study tested the proposition relating to fund diversification, consistency of performance, parameter of performance and risk-return relationship. The study noticed the existence of inadequate portfolio diversification and consistency in performance among the sample schemes.

**Roshni Jayam's (2002)** study brought out those equities had a good chance of appreciation in future. The researcher was of the view that, investors should correctly judge their investment objective and risk appetite before picking schemes, diversified equity funds were typically safer than others and index funds were the best when market movements were not certain. The researcher suggested Systematic Withdrawal Plan (SWP) with growth option was more suitable for investors in need of regular cash inflows.

**Jenson, Michal C. (1967)**,<sup>1</sup> The Performance of Mutual Funds in the Period 1945 – 1964<sup>1</sup>, The Journal of Finance, Vol 23, No. 2, pp.389 – 416. The research paper indicates the past performance of the fund, predict the future demand of the fund, investors attract to invest in Mutual Fund.

**Carhart, Mark M.1997**, on persistence in mutual fund performance, Journal of Finance 52, 57—82. On determination of the fund performance need to identification risk and measures fund return. The paper demonstrate how to identified scheme and diversification of the portfolio. The portfolio need to adjustment risk

### OBJECTIVIES

- 1) To study the performance of a growth scheme of a selected mutual funds
- 2) To examine the return from the selected mutual fund

- 3) To know whether the mutual funds are able to provide reward to variability and volatility

- 4) To identified security market return with fund return.

### SCOPE OF THE STUDY

The present study comprises of 5 mutual fund schemes launched by different private sector. The time period of this research work is from 1<sup>st</sup> Apr 2013 to 31<sup>st</sup> Mar 2016. The NAV of the selected scheme have been compared for three years with an annual return. Then these schemes have been compared with the bench mark return to evaluate the performance of these schemes.

### DATA COLLECTION

The present study is based on secondary data which is collected from various sources like published annual reports of the sponsoring agencies, online bulletins, journals books, magazines, brochures, newspapers and other published and online material.

### RESEARCH METHODOLOGY

The present study made an attempt to analyze the performance of the selected mutual fund schemes with the market during the period of the study. In order to achieve the objectives an analysis has been made to compare these schemes with the market on the basis of risk and return. Different statistical and financial tools are used to evaluate the performance of these mutual fund schemes under the present study. These tools and techniques include standard deviation, beta, alpha, R squared, Sharpe ratio.

### STATISTICAL TOOLS

**Alpha:** Alpha basically is the difference between the returns and investor expects from a fund. A positive alpha means the fund has outperformed its benchmark index. Whereas a negative alpha indicates an underperformance of the fund. The more positive an alpha the healthier for investors.

**Beta:** Beta is a measure of the volatility of a particular fund in comparison to the market as a whole, that is, the extent to which the fund's return is impacted by

market factors. Beta is calculated using a statistical tool called regression analysis. 'By definition, the market benchmark index of Sensex and Nifty has a beta of 1.0. Conservative investors should focus on mutual funds schemes with low beta. Aggressive investors can opt to invest in mutual fund schemes which have higher beta value for higher returns taking more risk.

**Standard Deviation (SD):** The total risk (market risk, security-specific risk and portfolio risk) of a mutual fund is measured by Standard Deviation (SD). In mutual funds, the standard deviation tells us how much the return on a fund is deviating from the expected returns based on its historical performance. In other words can be said it evaluates the volatility of the fund. The standard deviation of a fund measures this risk by measuring the degree to which the fund fluctuates in relation to its average return of a fund over a period of time. In other words, it is a measure of the consistency of a mutual fund's returns. A higher SD number indicates that the net asset value (NAV) of the mutual fund is more volatile and, it is riskier than a fund with a lower SD.

**Sharpe Ratio:** Sharpe ratio (SR) is another important measure that evaluates the return that a fund has generated relative to the risk taken. Risk here is measured by SD. It is used for funds that have low correlation with benchmark index. This ratio helps an investor to know whether it is a safe bet to invest in this

## FINDINGS

Name of the Scheme	NAV for Mar 2014	Total return for Mar 2014	NAV for Mar 2015	Total Return for Mar 2015	NAV for Mar 2016	Total return for Mar 2016
DSP-BR Micro Cap Fund - Direct (G)	20.076	32.99%	40.233	100.40%	41.815	3.93%
DSP-BR Micro Cap Fund - RP (G)	19.917	32.16%	39.644	99.04%	40.903	3.18%
SBI Small &	15.324	26.85%	29.795	94.43%	32.361	8.61%

fund by taking the quantum of risk. The higher the Sharpe ratio (SR), the better a fund's return relative to the amount of risk taken. In other words, a mutual fund with a higher SR is better because it implies that it has generated higher returns for every unit of risk that was taken. On the contrary, a negative Sharpe ratio indicates that a risk-free asset would perform better than the fund being analyzed.

**R-squared** R-squared measures the relationship between a portfolio and its benchmark. It can be thought of as a percentage from 1 to 100. R-squared is not a measure of the performance of a portfolio. A great portfolio can have a very low R-squared. It is simply a measure of the correlation of the portfolio's returns to the benchmark's returns. R-squared can be used to ascertain the significance of a particular beta or alpha. Generally, a higher R-squared will indicate a more useful beta figure. If the R-squared is lower, then the beta is less relevant to the fund's performance. General Range for R-Squared:

- 1) 70-100% = good correlation between the portfolio's returns and the benchmark's returns
- 2) 40-70% = average correlation between the portfolio's returns and the benchmark's returns
- 3) 1-40% = low correlation between the portfolio's returns and the benchmark's returns

<u>Midcap Fund - Direct (G)</u>						
<u>SBI Small &amp; Midcap Fund (G)</u>	15.154	25.66%	29.227	92.87%	31.268	6.98%
<u>Reliance Small Cap - Direct (G)</u>	13.611	43.29%	24.876	82.76%	25.176	1.21%

**Table (1) Comparative Statement of NAV and Total Return for the Selected Mutual Fund Schemes**

Table (1) explains about the comparative NAV (Net Asset value) for the selected mutual funds schemes. At the end of the March 2014 NAV & TOTAL RETURN for selected schemes DSP-BR Micro Cap Fund - Direct (G) is 20.076 & 32.99%, DSP-BR Micro Cap Fund - RP (G) 19.917 & 32.16%, SBI Small & Midcap Fund - Direct (G) 15.324 & 26.85%, SBI Small & Midcap Fund (G) 15.154 & 25.66%, Reliance Small Cap - Direct (G) 13.611 & 43.29%.

At the end March 2014 opening point of CNX Nifty were 6608.15 at the end of March 2015 closing point of CNX Nifty were 8613.35 hence there was an increase in NIFTY in the financial year 2014-15 which was 2005.2 points. This shows a great recovery in stock market growth because of stable inflation rate and stable interest rate in our economy maintained the growth of GDP of our country in the year 2014-15 the GDP rate was 7.3 percent but in the financial year 2013-14 the GDP rate was 6.7 percent hence this reveals that there was a rise in NAV of the selected scheme and the rise in NAV of the scheme shows positive return in total return of the

selected schemes (DSP-BR Micro Cap Fund - Direct (G) is 40.233 & 100.40%, DSP-BR Micro Cap Fund - RP (G) 39.644 & 99.04%, SBI Small & Midcap Fund - Direct (G) 29.795 & 94.43%, SBI Small & Midcap Fund (G) 29.227 & 92.87%, Reliance Small Cap - Direct (G) 24.876 & 82.76%).

In the financial year 2015-16 the opening point of CNX Nifty were 8613.35, and on the closing point of CNX Nifty were 7832.15, hence there was an decreasing point in CNX Nifty were 781.2. This happens mainly due to stable economy, not so vibrancy in the market. Over expectation from the new government and not meeting the targets within one year keeps the stable market movements. This predict the steady in the NAV & TOTAL RETURN in the selected schemes (DSP-BR Micro Cap Fund - Direct (G) is 41.815 & 3.93%, DSP-BR Micro Cap Fund - RP (G) 40.903 & 3.81%, SBI Small & Midcap Fund -Direct (G) 32.361 & 8.61%, SBI Small & Midcap Fund (G) 31.268 & 6.98%, Reliance Small Cap - Direct (G) 25.176 & 1.21%).

Name of the scheme	Beta	Alpha	Standard Deviation	R-Squared
<u>DSP-BR Micro Cap Fund - Direct (G)</u>	1.09	28.97	19.14	0.65
<u>DSP-BR Micro Cap Fund - RP (G)</u>	1.22	17.56	20.78	0.70
<u>SBI Small &amp; Midcap Fund -Direct (G)</u>	0.82	28.70	18.40	0.41
<u>SBI Small &amp; Midcap Fund (G)</u>	0.82	27.42	18.40	0.41
<u>Reliance Small Cap - Direct (G)</u>	1.24	24.80	22.93	0.59

**Table (2) Performance Analysis Based On Statistic Parameters**

Table (2) reveals about the statistical parameters used to analyze the

performance of the selected mutual fund scheme.

1. In DSP-BR Micro Cap Fund - Direct (G) it has beta value of fund 1.09 and alpha value of fund is 28.97 which says that the fund is more volatile to bench mark indices and it has outperformed by providing an better return to the investors where else it has an standard deviation of fund is 19.14, it shows that the funds risk factor is below average and overall the fund has performed well, R- Squared value of fund is 0.65 hence the fund has good correlation between funds return with its benchmark return.

2. In DSP-BR Micro Cap Fund - RP (G) it has beta value of fund is 1.22 and alpha value of fund is 17.56 which means the fund is more volatile to the bench mark indices and it has performed well in more volatile market. Where it has an standard deviation of fund is 20.78 that means the fund has high risk factor and also provided high return to the investors, R-Squared value of a fund is 0.70 it has good correlation with its benchmark return.

3. In SBI Small & Midcap Fund -Direct (G) it has beta value of 0.82 and alpha value of 28.70. The fund has more volatile to its bench mark indices and it has performed well in more volatile market,

where standard deviation of fund is 18.40 that means the funds risk factor is below average and overall fund perform well. R-Squared value of a fund is 0.41; it has good correlation with its benchmark return but has only above average return to the investors.

4. In SBI Small & Midcap Fund (G) it has beta value of 0.82 and alpha value of 27.42. The fund is less volatile to its benchmark indices and the alpha value of the fund says that the fund has performed equal to market movements. Where standard deviation of fund is 18.40 that means the fund is average risk and provided better return to the investors. R-Squared value of a fund is 0.41 it has good correlation with its benchmark return.

5. In Reliance Small Cap - Direct (G) it has beta value is 1.24 and alpha value is 24.80. The fund beta value says it is more volatile to its bench mark indices and alpha value of the fund says that it has performed well in the market. The standard deviation of the fund is 22.93 says that the funds above average risky and provide high return to the investors. R-Squared value of a fund is 0.59 it has good correlation with its benchmark return.

Name of the scheme	Sharpe Ratio	Ranking
<u>DSP-BR Micro Cap Fund - Direct (G)</u>	1.84	1
<u>DSP-BR Micro Cap Fund - RP (G)</u>	1.80	3
<u>SBI Small &amp; Midcap Fund -Direct (G)</u>	1.82	2
<u>SBI Small &amp; Midcap Fund (G)</u>	1.75	4
<u>Reliance Small Cap - Direct (G)</u>	1.39	5

**Table (3) Performance Analysis Based On Sharpe Ratio Analysis And Ranking**

Table (3) explains about the performance of a selected fund based on Sharpe ratio and ranking of the fund is made on their highest ratio. A higher Sharpe ratio is therefore better as it represents a higher return generated per unit of risk. In DSP-BR Micro Cap Fund - Direct (G) ratio were 1.84% which gives good return at high risk and have 1st rank where Reliance

Small Cap - Direct (G) has only 1.39% which has high risk with below average return having 5th rank. Where other funds have DSP-BR Micro Cap Fund - RP (G) have 1.80 and rank as 3rd, SBI Small & Midcap Fund -Direct (G) have 1.82% and rank as 2nd , SBI Small & Midcap Fund (G) have 1.75% and rank as 4th .

Name of the scheme	Bench Mark	3	years	Bench	Mark
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		return	Return
<u>DSP-BR Micro Cap Fund - Direct (G)</u>	S&P BSE Small Cap	44.46	25.11
<u>DSP-BR Micro Cap Fund - RP (G)</u>	S&P BSE Small Cap	43.44	25.11
<u>SBI Small &amp; Midcap Fund -Direct (G)</u>	S&P BSE Small Cap	42.46	25.11
<u>SBI Small &amp; Midcap Fund (G)</u>	S&P BSE Small Cap	40.70	25.11
<u>Reliance Small Cap - Direct (G)</u>	S&P BSE Small Cap	38.70	25.11

**Table (4) Comparative Analyses between Fund and Bench Mark Return**

Table (4) explains about the comparison made between funds return and its bench mark return.

(1) DSP-BR Micro Cap Fund - Direct (G) has its benchmark in S&P BSE Small Cap, its fund return as 44.46%, but it has its benchmark return as 25.11% in 3 years. The difference between the return was 19.35%. This shows that fund has outperformed in this 3 year period.

(2) DSP-BR Micro Cap Fund - RP (G) has its benchmark in S&P BSE Small Cap, its funds return as 43.44% and has its benchmark return as 25.11% in 3 years. The difference between the return was 18.33%. Over all funds has outperformed in this time period.

(3) SBI Small & Midcap Fund -Direct (G) has its benchmark in S&P BSE Small Cap, its funds return and benchmark return is 42.46% and 25.11% in 3 years. The difference between the return was 17.35%. The fund's performance was better with other funds.

(4) SBI Small & Midcap Fund (G) has its benchmark in S&P BSE Small Cap, its funds return and benchmark return is 40.70% and 25.11% in 3 years. The difference between the return was 15.59%. Over all funds has performed well in this 3 years

(5) Reliance Small Cap - Direct (G) has its benchmark in S&P BSE Small Cap, its fund return and benchmark return is 38.70% and 25.11% in 3 years. The difference between the return was 13.59%. Over all funds has performed well in this 3 years.

## CONCLUSIONS

From foregoing performance analysis of the selected five equity mid cap funds, it is clear that all the funds have performed well during the study period. The rise in the CNX NIFTY during the 3 years time period has impacted the performance of all the selected funds. In the ultimate analysis it may be concluded that all the funds have performed well in the high volatile market movement, therefore it is essential for investors to consider statistical parameters like alpha, beta, standard deviation while investing in mutual funds apart from considering NAV and TOTAL RETURN in order to ensure consistent performance of mutual funds.

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## **GST WOULD CHANGE THE PATH, INDIA DOES BUSINESS: WHO WILL WIN, WHO WILL LOSE**

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**Objectives of study:**

1. To know what is GST and how is vary from earlier VAT & other Indirect Tax system in India.
2. To study about why is necessary to introduce new tax structure (GST Bill) in the country.

3. To know How GST would be impact & benefit on various business sector including economy at large & society.
4. Challenges during implementation of GST.

**Introduction:**

The introduction of Goods and Services Tax (GST) would be a very noteworthy step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would moderate cascading or double

taxation in a major way and cover the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated to be around 25%-30%. Beginning of GST would also make Indian products competitive in the domestic and international markets. Studies show that this would have a boosting impact on economic growth. Last but not the least, this tax system would be more easier to understand & administer, because of its transparent and self policing character.

**What is GST?**

GST which stands for "Goods and Services Tax", and is proposed to be a comprehensive indirect tax levy on manufacture, sale and

consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by the Indian Central and State governments.

The initiative of moving towards the GST was first mooted by the then Union Finance Minister in his Budget for 2006-07. Initially, it was proposed that GST would be introduced from 1st April, 2010. The Empowered Committee of State Finance Ministers (EC) which had formulated the design of State VAT was requested to come up with a roadmap and structure for the GST. Joint Working Groups of officials having representatives of the States as well as the Centre were set up to examine various aspects of the GST and draw up reports specifically on exemptions and thresholds, taxation of services and taxation of inter-State supplies. Based on discussions within and between it and the Central Government, the EC released its First Discussion Paper (FDP) on the GST in November, 2009. This spells out the features of the proposed GST and has formed the basis for

discussion between the Centre and the States so far.

### **History:**

The taxes which will become a part of GST include central excise duty, services tax, additional customs duty, surcharges and state-level value added tax. Other levies which are currently applicable on inter-state transportation of goods are also likely to be done away with in GST regime.

### **Literature Review:**

The passage of the Constitution (122nd Amendment) Bill, 2014 for the introduction of the goods and services tax (GST) in Rajya Sabha marks a decisive crossing of the hump in the rollout of the ambitious indirect tax reform, which has been hanging fire since 2010. After this, the Bill is slated to head back to Lok Sabha for the ratification of amendments moved in the Upper House, followed by the next crucial step — a ratification of the Bill by a minimum of 15 states in their respective assemblies. This will have to be followed by the President's assent to the legislation to enable the rollout of GST by the intended deadline of April 1, 2017.

From an operational perspective, after the Presidential assent, a GST Council with representatives from the Centre and states will have to be formed within 60 days of the enactment of the Bill. The Council will be entrusted with recommending the tax rates, including the band of rates for goods and services. While states are still in the process of thrashing out a consensus on the rates, broadly the rate is expected to come down for manufactured goods and go up for services, according to the decision of the Empowered Committee of State Finance Ministers which has been laying out the guiding principle for setting the rate.

The enactment of the Constitutional Amendment Bill will kick off a legislative marathon, with broadly three enabling laws required to be passed to give shape to the new tax regime — laws on the Central GST (CGST) and Integrated GST (IGST) that need to be cleared by Parliament and

29 separate State GST legislations (SGST) that will have to be cleared by the respective state assemblies. States are likely to frame their GST laws in line with the CGST to enable implementation of the new tax regime. Alongside, the IT backbone for rolling out the tax regime, called GST Network (GSTN), will have to be commissioned which will facilitate online registration, tax payment and return filing.

After the passage of the Bill, Revenue Secretary Hasmukh Adhia tweeted that this is only the end of a beginning. He said the real hard work starts now and the government will make all attempts to implement GST as soon as possible. "We are ready with state-of-art IT design for GST implementation. Hardware and software will all be ready for testing by January 17," Adhia said in his tweets. The GSTN, being set up as a Section 25 (not for profit), non-government, private limited company in March 2013 to provide IT interface for GST, will essentially connect the database of states and Centre and taxpayers for seamless implementation of the indirect tax regime. IT major Infosys was given the Rs 1,380-crore contract last year to build the network and maintain it for five years after it becomes operational. Alongside, each taxpayer will be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits. This will bring the GST PAN-linked system in line with the prevailing PAN-based system for the income tax facilitating data exchange and taxpayer compliance.

In the words of former Finance Minister P Chidambaram, the "heart of this Bill is the rate of tax," and this being an indirect tax, it should be kept "as low as possible." A committee headed by Chief Economic Adviser Arvind Subramanian had recommended a revenue neutral rate of 15-15.5 per cent and a standard GST rate of 17-18 per cent, while Delhi-based think-tank NIPFP had earlier proposed rates above 26 per cent.

The GST Council will also decide on the draft GST law and Place of Supply rules

and also the exemptions, threshold limits, dual administration between the states and the Centre as well as on the reports of the Joint Committee constituted by the Empowered Committee of the State Finance Ministers on payment process, registration, refund process and return under GST, which are in public domain for suggestions. "Once such consensus is arrived at and blessed by the GST Council, various GST legislations such as the Central GST law, Integrated GST law and 29 State GST laws including allied rules and notifications will need to be passed by relevant legislative bodies. During this process, there will also be a need for substantial engagement with the industry bodies. Meeting the timeline of implementing GST by April 1, 2017 would require these processes to run in parallel and in a time-bound manner," Rajeev Dimri, Leader, Indirect Tax, BMR & Associates said

On the specifics of the tax rates, there seems to be divergence of opinion among states on what the optimal rate of tax should be. Plus, there are differences among the Centre and the states over who will administer businesses over a certain revenue threshold and on whether there will be a single or dual administration. In the debate on GST, while there has been a general consensus that transactions below Rs 1.5 crore will be administered by the states, there is some grey area over whether transactions above that will be audited only by the Centre or by both the Centre and states

Most tax experts, however, raised doubts over the efficacy of implementation of the IT network, especially for smaller manufacturers, even though they expect the switchover to effectively increase the purchasing power of the common man, without a real increase in the income. This is because goods are scheduled to cost less, as the tax content in the product price is expected to go down from the current level of over 27 per cent to a 20 per cent under the GST regime. The key to the

implementation will be the decision on rates, exemptions and thresholds. Also, there will be a challenge for the industry as the IT enabled network might be a hurdle for small players & for that the government should give at least six months to the industry before final implementation of GST, The impact of an increase in service tax rates on the common man, according to analysts, could be vastly exaggerated. Probable "Increase in GST rate for services from 15 per cent to a 20 per cent may not impact the common man as 85 per cent of the Indian

population does not consume any taxable service, other than mobile phones."

### **GST Bill – A journey from Jaswant singh to Arun Jaitley**

Getting the GST law through this time is a mirror image of "change with continuity" as Indian policymakers and politicians would say.

Soon after the Fiscal Responsibility and Budget Management Act was notified in 2003, Finance Minister [Jaswant](#)

[Singh](#) wanted to know from senior officials how they planned to go about implementing the new law that bound governments to reducing the fiscal deficit and revenue deficit annually, and meet fixed targets. By then, Singh had got as his adviser former Finance Secretary Vijay Kelkar, who had returned after a stint as India's representative on the board of IMF. The Minister was told by his adviser and other officials that the key to meeting targets set out in the FRBM law was to pursue a revenue-led strategy in other words, focus on raising overall revenues rather than cutting expenditure, which would impact development and growth. Singh approved a proposal to form a Task Force for Implementation of the FRBM Act, 2003, headed by Kelkar and with all Secretaries of his Ministry Revenue, Expenditure and Finance — and the Chief Economic Adviser.

By the end of 2003, with the committee still at work, the NDA government managed to get the Constitution (88th

Amendment) Bill through Parliament, which empowered the Centre to tax services. Much work had been completed by that time on the Value Added Tax or VAT, which was first announced years earlier. There was also a project on building a Tax Information Network or TIN. All this was aimed at bumping up India's low tax base, and its ratio of tax-to-GDP. The committee looked at models such as Canada, Australia and Brazil while it consulted some of the stakeholders. Its advice to the government in July 2004 by which time [Manmohan Singh](#) had become Prime Minister was to integrate the taxation of goods and services. The way forward, it suggested, was a new taxation system that would be simple, with a low tax rate to encourage compliance, and boost output and efficiency replacing multiple tax rates across states. The National Council for Applied Economic Research was commissioned to work on a model to make projections across various scenarios.

The Kelkar Committee recommended a single tax rate of 7% for states and 5% for the central government — in effect a 12% rate for most commodities and recommended an Indian Goods and Services Act that could be effective from April 1, 2005, and which would be consistent with global practice.

It also suggested that the number of tax rates be clipped to 3, with a threshold of Rs 40 lakh for registration. It cited the experience of China, which revamped its taxation law preceding the manufacturing boom that it enjoyed for decades starting in the early 1990s. According to the Task Force, a “grand bargain” was needed to bring states on board by emphasising that it was a win-win for both them and the Centre, without the tax base of the states getting eroded, and with an agreement on what to tax or exempt.

In his 2005 Budget, Finance Minister P Chidambaram announced his aim, in the medium and long term, to have the entire production-distribution chain covered by a national VAT or even better, a Goods and

Services Tax encompassing both the states and the Centre. In his next Budget in 2006, Chidambaram said he had set April 2010 as the date for launching GST. By November 2009, the first discussion paper on GST was released by the Finance Ministry. The Ninth Finance Commission headed by Kelkar had, in its report to the government, recommended a grant of Rs 5,000 crore to states, taking into consideration their worries over potential revenue losses. The Empowered Committee of Finance Ministers headed by West Bengal's Asim Dasgupta, too was at work trying to sort out issues and forge a consensus. Much later, after Chidambaram had moved to the Home Ministry, his successor, [Pranab Mukherjee](#), introduced in March 2011 a Bill to provide the enabling framework for GST. Chidambaram reckons that this draft was the best of what has been introduced so far. But in the face of resistance, the Bill was sent to Parliament's Standing Committee on Finance headed by [Yashwant Sinha](#), which made out a case for some changes.

As the years wore on, Dasgupta moved out after the Left lost power in West Bengal and Sushil Modi, Finance Minister of Bihar, succeeded him. By February 2013, when Chidambaram had returned to the Finance Ministry, he provided for Rs 9,000 crore as compensation to states. But the efforts of the government were stymied by some BJP-led states, including Gujarat which was then headed by [Narendra Modi](#). And by May 2014, when the national polls came, the Bill had lapsed and [Arun Jaitley](#), the Finance Minister in the new NDA government, had to introduce it again. The Y V Reddy-headed Finance Commission that year (2014) in its report recommended a compensation of Rs 50,000 crore to states against potential revenue losses without putting a number on the losses. In the 2015 Budget, Jaitley said the government was keen on introducing GST by 2016.

By May 2015, the government managed to get the Bill approved in Lok Sabha but

couldn't muster numbers in Rajya Sabha. The period was marked by acrimonious exchanges between the ruling party and the principal Opposition party, leading to a long stalemate. It was only in 2016 that the NDA reached out to the Congress on some of its major concerns, and started to work the back channels. On August 4, Chidambaram said he had gone on virtually a "chaar dham [yatra](#)" to get the Bill through, but couldn't succeed.

Getting the law through this time is a reflection of "change with continuity" as Indian policymakers and politicians would say.

In developing countries, indirect taxes comprise a higher share of total taxes; in developed countries, their contribution is significantly lower.

Indirect taxes in India have driven businesses to restructure and model their supply chain and systems owing to multiplicity of taxes and costs involved. With hopes that the Goods and Services Tax (GST) will see the light of the day, the way India does business will change, forever.

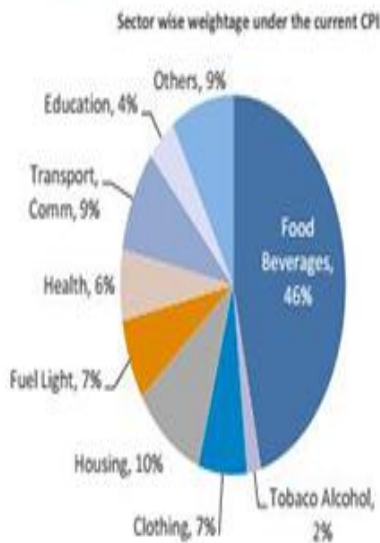
Total tax collection in India (direct &

indirect), currently stands at Rs 14.6 lakh crore, of which almost 34 per cent comprises indirect taxes, with Rs 2.8 lakh crore coming from excise and Rs 2.1 lakh crore from service tax. With the implementation of the GST (Goods and Services Tax), the entire indirect tax system in India (excise, state-level VAT, service tax) is expected to evolve. The tax revenue mix can change as per the economic condition of the country. In developing countries, indirect taxes comprise a higher share of total taxes; in developed countries, their contribution is significantly lower. For example in Australia, indirect tax contributes just 13 per cent of total tax collection. After GST, the percentage of indirect tax is expected to increase in India.

**Not covered under the GST purview:**

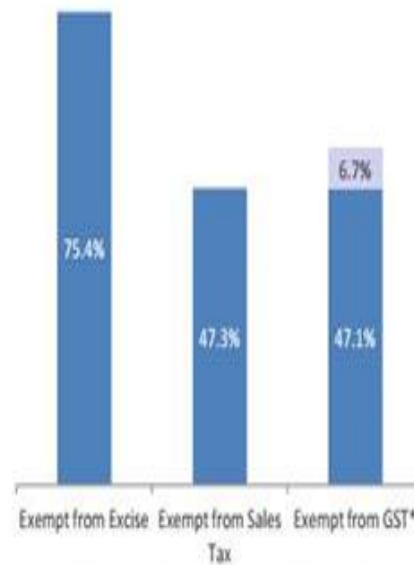
1. Petroleum products
2. Entertainment and amusement tax levied and collected by panchayat /municipality/district council
3. Tax on alcohol/liquor consumption
4. Stamp duty, customs duty
5. Tax on consumption and sale of electricity

Impact of GST on the CPI Basket:



Note: GST will have a significant impact on only 20-25% Items in the CPI basket

Impact of GST on Excise and Sales tax:



Note: Over 50% of goods under the CPI Basket will be exempt from Excise or Sales tax

Source: Edel Invest Research

**GST objectives:**

1. Ensuring availability of input credit across the value chain
2. Minimizing cascading effect of taxation
3. Simplification of tax administration and compliance
4. Harmonisation of tax base, laws, and administration procedures across the country
5. Minimising tax rate slabs to avoid classification issues
6. Prevention of unhealthy competition among states
7. Increasing the tax base and raising compliance

**Implementation challenges:-**

1. Lack of adaptation

2. Lack of trained staff
3. Double registration can increase compliances and cost
4. Lack of clear mechanism to control tax evasion
5. Hard to estimate the exact impact of GST

**Impact on inflation:**

Under the proposed GST, effective tax rate on goods (comprising around 70-75 per cent of the CPI basket) will decline. A significant proportion (35-40 per cent) of goods (majorly agriculture products) is not subject to tax and we expect a status quo in future.

At present, services-oriented components constitute 25-30 per cent of the CPI basket with a major share belonging to housing, transport and communication sector. Service tax is not imposed on certain (12 per cent of the CPI basket) services and these services are expected remain exempt under GST regime. A hike in tax rate on services is unlikely to have any material direct impact on CPI. Thus, the overall transition to GST will not have a significant impact on inflation

**Sector wise impact of GST: -**

**Automobiles:** The effective tax rate in the sector currently ranges between 30 per cent and 47 per cent.

**Highlights:-**

- ▶ On implementation of GST the tax rate is expected to fluctuate between 20-22 per cent.
- ▶ It is expected to drive overall demand and reduce cost for the end user by about 10 per cent.

▶ The transportation time and the overall cost will be reduced as the goods will be transferred from one state to another by easily surpassing various octroi and check points.

▶ In addition to this, the cost for the logistics and supply chain inventory will be curtailed by almost 30-40 per cent.

**Impact:** In a long run, GST is expected to remain positive for automobile sector.

▶ The implementation of GST will essentially benefit companies, which have not availed tax exemptions in the past.

Impact On Different Sectors

	Impact of Tax Rate	Inventory Management	Logistics	For Organised Players	Overall Impact
Cement	😊	😊	😊	😊	😊
Consumer Durables	😊	😊	😊	😊	😊
FMCG	😊	😊	😊	😊	😊
Pharmaceuticals	😊	😊	😊	😞	😊
Automobile	😊	😊	😊	😊	😊
Cap Goods	😊	😞	😊	😞	😊
IT/Ites	😊	😞	😊	😞	😊
Media	😞	😞	😞	😞	😞
BFSI	😊	😞	😞	😞	😊
Textile	😞	😊	😊	😊	😞
Building /Home Material	😊	😊	😊	😊	😞
Telecommunications	😞	😞	😞	😞	😞
Metals	😞	😞	😊	😞	😊
Multiplex	😊	😞	😞	😞	😊

😊 Positive      😞 Neutral      😞 Negative

**Key beneficiaries:** Maruti Suzuki, Hero MotoCorp, Bajaj Auto, Eicher Motors, Ashok Leyland

**Consumer durables**

The current tax rate for the sector ranges between 7 per cent and 30 per cent.

**Highlights:-**

▶ It will lead to the reduction of the price gap between the organised and unorganised sector.

▶ The warehouse/logistics costs across the operational and non-operational segments will be curtailed. This will improve the operational profitability by almost 300-400 bps.

▶ The 7th Pay Commission is also expected to boost demand and fund inflow

in the consumer durables sector by the end of the year.

**Impact:** The impact may remain neutral or negative, specifically for companies which either enjoy tax exemptions or fall under

the concessional tax bracket.  
**Key beneficiaries:** CGCE, Havells, Voltas, Blue Star, Bajaj Electricals, Symphony, Hitachi

**FMCG**

**Impact:** The impact may remain neutral or negative, specifically for companies which either enjoy tax exemptions or fall under the concessional tax bracket.

**Key beneficiaries:** CGCE, Havells, Voltas, Blue Star, Bajaj Electricals, Symphony, Hitachi

**Furnishing and home decor**

**Impact:** Currently, the effective tax rate for the sector ranges above 20 per cent.

**Highlights:**

► After the implementation of GST,

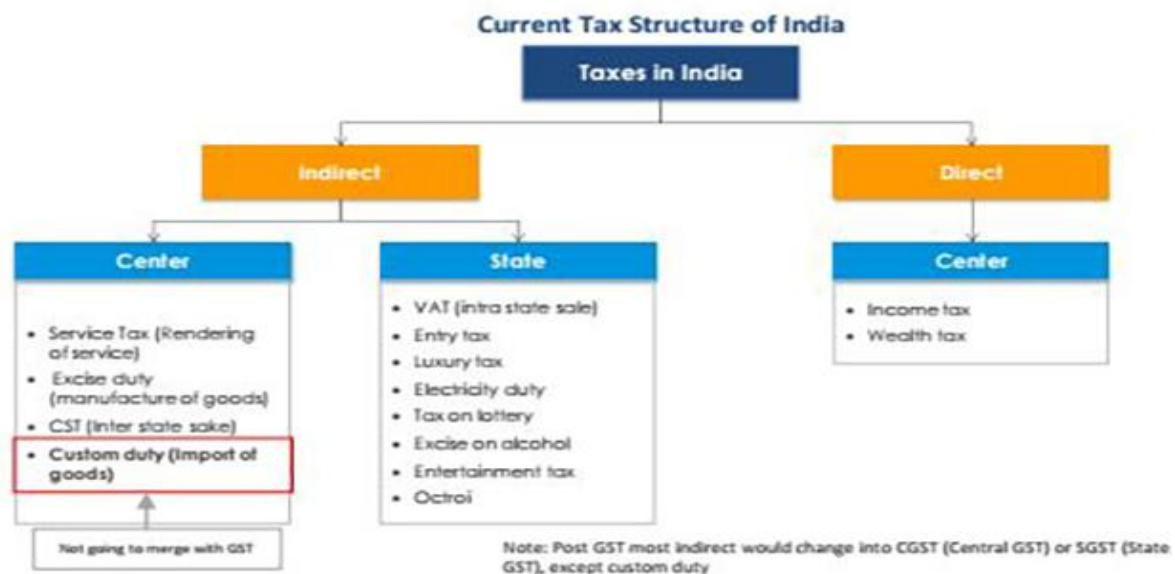
paints and other construction chemicals companies will benefit from lower tax rate.

► At present, the market share for the organised sector is about 65-70 per cent. Effective tax correction practices under the GST regime will ensure that the price difference amongst the unorganised sector and the organised sector is narrowed. This will improve opportunities for the organised sector.

► The overall cost and competitiveness in products such as like ceramic tiles, faucets, sanitary ware and plywood & laminates manufacturer will be curbed.

**Impact:** - Implementation of GST is expected to bring the unorganised sector under a uniform tax base and improve growth opportunities for the organised sector.

**Key beneficiaries:** Asian Paints, Berger Paints, Kansai Nerolac, Akzo Nobel, BASF India, Pidilite, HSIL , Cera Sanitary ware, Green ply, Greenlam Industries, H&R Johnson (Prism Cements), Kajaria Ceramics.



**Logistics**

**Highlights:**

The implementation of GST will lead to lower transit time and thereby generate

higher truck utilisation. This will boost demand for high tonnage trucks and lead to overall reduction in transportation costs. It will facilitate seamless inter-state flow of goods, which is expected to

directly accelerate demand for logistics services.

**Impact:**

The logistics sector is largely fragmented and comprises many unorganized players. Several players in the unorganised sector avoid tax which generates a cost gap between them and the organized players. With the GST coming into picture, we expect an overall positive impact, with a reduction in the cost competitiveness as all the players will be brought under a uniform tax base, thereby improving growth opportunities for the organized players.

**Key beneficiaries:**

VRL Logistics, GATI, Blue Dart, Transport Corporation of India, Snowman Logistics

**Cement**

Currently, the tax on cement ranges between 27 per cent and 32 per cent.

**Highlights:**

- ▶ The tax rate for the cement sector is expected to decline to 18-20 per cent under the GST regime.
- ▶ This is expected to lead to savings in the transportation cost, which currently comprises up to 20-25 per cent of total revenue.
- ▶ Thereby, overall realisations of cement companies will substantially improve post GST rollout.

**Impact:** The impact of GST will be positive, as the companies will also be able to save on their logistic costs, due to rationalisation of warehouses and lower transportation costs (due to decline transit time).

**Key beneficiaries:** ACC, Ultratech, JK Cement, Shree Cement.

**Entertainment**

We have divided in two main categories i.e. Multiplexes and Media. We expect a significant impact on both the sectors after implementation of GST.  
**Multiplexes:** This category attracts different taxes such as service tax, entertainment tax and VAT among others. Currently, the effective tax ranges between

22-24 per cent.

**Highlights:**

- ▶ It is expected GST tax rate will trickle down to 18-20%.
- ▶ Reduction in taxes will lead to an increase in average ticket price (ATP) and higher revenue.
- ▶ There exist several challenges pertaining to:
  - ▶ Availability of limited credit for service tax paid on lease rentals, maintenance cost, advertisements, security charges.
  - ▶ No credit is available on the taxes paid on capital expenditure.
  - ▶ The VAT credit on available on the purchase of F&B can be offset against VAT liability on F&B sales.
  - ▶ Entertainment tax rate on box office collections ranges between 22-24 per cent and the same is not cenvatable against any input taxes.

**Impact:** The overall impact is expected to be positive and the Ebitda margins of the players are expected to increase by 250-350 bps.

**Key beneficiaries:** PVR, Inox Leisure

**Media:**

Currently, the effective tax rate for the DTH providers ranges between 20-21 per cent ( this includes service tax of 14 per cent and entertainment tax of around 5-7 per cent). The effective tax range for the broadcasters is around 14-15 per cent.

**Highlights:-**

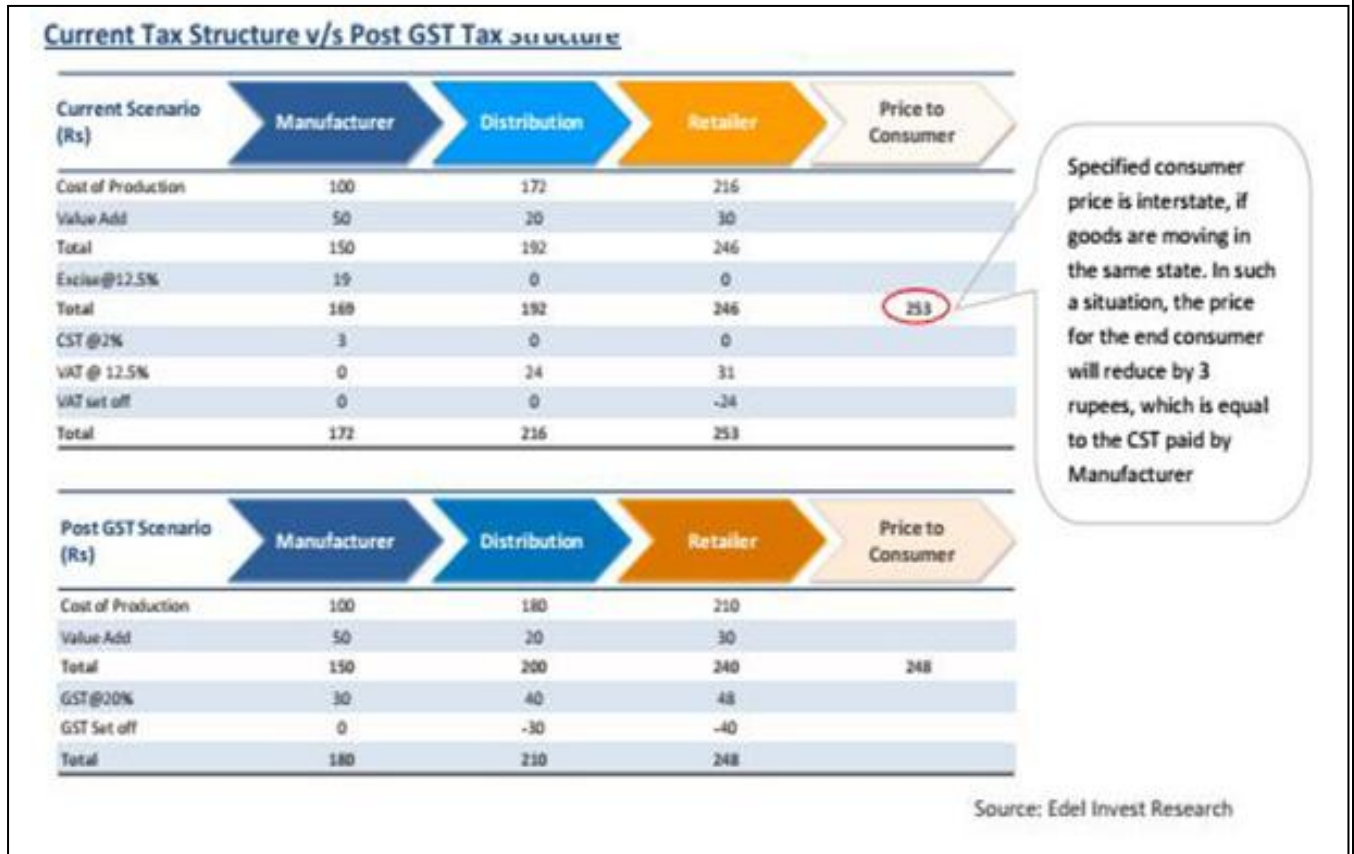
- ▶ On implementation of GST, a blanket rate of around 18-20 per cent will apply, which is lower than current tax rate for the DTH provider and higher for the broadcaster.
- ▶ Currently the news and print sector is exempted from all indirect taxes. Post GST, we expect concessional rates to be introduced in this sector.

**Impact:-**

- ▶ Implementation of GST will be healthy for the DTH providers and downbeat for broadcasters.
- ▶ The overall impact on the news and print sector will be neutral.

**Key beneficiary:** Dish TV  
 Marginally negative : Zee, Sun, HT Media  
 and Jagran Prakashan

**Current Tax Structure v/s Post GST Tax Structure:**



**Textiles/garments:**

The effective tax rate for the sector currently ranges between 6-7 per cent

**Highlights:-**

► Under the GST regime, there is no clarity whether a lower rate will continue for the readymade garments.

► Companies may be negatively impacted

in case the output tax rate is high.

► Going forward, several export companies may also avail duty drawback benefits. Though we await more clarity on the impact of these benefits.

**Key players to be impacted:** Arvind, Raymond, Page Industries

**Pharma :**

Currently, the sector enjoys various location-based tax incentives. The effective tax rate (excise duty) for most companies is much below the statutory tax rate (6 per cent).

**Highlights:-**

► The concessional tax bracket for the sector is expected to continue.

► The existing tax exemptions will continue until expiry of the tax exemption period. Going forward it will be difficult to bring forth the new exemptions.

► GST is also expected to address inverted duty structure and lower logistic costs for the sector.

**Impact:** It is expected remain neutral for the pharmaceutical sector.

**IT & ITeS:**

Currently, the IT industry is subject to an effective tax rate of 14 per cent.

**Highlights:-**

► The tax rate under GST is expected to increase to 18-20 per cent.

► The industry earns a large part of its revenue from exports, which will continue to be exempt under GST.

► Litigation around taxability of canned software will probably end under GST regime as there will be no distinction

between goods and services.

**Impact:** It is expected to range from being neutral to slightly negative.

**Telecom:**

Currently, telecommunication services are subject to service tax of 14 per cent.

**Highlights:-**

► the tax rate is expected to increase to 18 per cent under GST.

► It is expected that the telecom companies may pass the increased tax burden on postpaid subscribers.

► Availability of input tax credit will lower the sector's capex cost.

**Impact:** Increase in effective tax rate may be marginally negative for the sector. The telecommunication companies may not be able to pass on all the increase in taxes to all the end consumers, especially the ones in the lower Arpu prepaid segment.

**Metal:**

Currently, the effective tax rate for base metal products is 19-21 per cent:

**Highlights:-**

► VAT ranges from 4-5% depending on the state

► Excise 12.5%, CST 2% and entry taxes in respective states.

**Impact:** Under GST, it is not known whether metal products will attract a special rate that is lower than the standard GST rate.

**Banking and financial services:**

Currently the effective tax rate is 14 per cent, which is levied only on fee component (and not interest) of the transaction.

**Highlights:-**

► Under GST, effective tax rate on fee-based transactions is expected to increase to 18-20%.

► As the taxes on the input services will increase, operating expenses (comprising of rent, legal & professional fee, advertisement, insurance, telecommunication and other expenses) will also increase marginally.

**Impact:** With the implementation of GST a

moderate increase in the cost of financial services such as loan processing fees, debit/credit card charges, insurance premiums, etc. is expected.

**Conclusion:**

As we all know that GST will replace over previous indirect tax laws in India. However the introduction of new GST Law is in still under vain and would have to face lot of problem for implementation the same, there will be strong possibility of reducing basic tax rate and ultimately get benefited to society at large.

Currently, proposed version is quite complex due to multiple tax slabs and because coverage is narrow. Therefore, we expect the benefits from GST to accrue over time, rather than immediately," Nomura said in a research note. Over time, as the GST council widens the tax net, minimizes the tax slabs and lower the standard tax rates, we expect the benefits to be substantial, it added.

GST benefits are likely to accrue over time rather than immediately, though in the long run the indirect tax regime

will boost growth, lower costs and strengthen tax revenues, says a report.

The GST Council has agreed on a 4-tier GST tax structure of 5, 12, 18 and 28 per cent, with lower rates for essential items and the highest for luxury and demerit goods that would also attract an additional cess.

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## A CRITICAL STUDY OF FINANCIAL INCLUSION INITIATIVES OF GOVERNMENT WITH REFERENCE TO SLUM DWELLERS IN THE CITY OF NAGPUR, MAHARASHTRA STATE.

**DR. ASHA TIWARI**  
LSD & SMT RP COLLEGE  
FOR WOMEN

**MRS. SINDHU SHYAM GHATE**  
LSD & SMT RP COLLEGE  
FOR WOMEN

### **Introduction:**

There has been continuous efforts taken by the Government of India and the Reserve Bank of India to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades including - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of

mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc. The fundamental objective of all these initiatives is to provide the financial services to the large section of the hitherto financially excluded Indian population.

The term "financial inclusion" has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. The Alliance for Financial Inclusion (AFI) is the world's largest and most prominent network of financial inclusion policymakers from developing and emerging economies who work together to increase access to appropriate financial services for the poor. AFI's core mission is to adopt and expand effective inclusive financial policies in developing nations in an effort to lift 2.5

billion impoverished, unbanked citizens out of poverty.

The Reserve Bank of India (RBI) set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborty, the chairman of Indian Bank.

Mangalam became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit.

### **International Status**

The study financial inclusion of slum dwellers in Nagpur city has an international significance. The importance of financial inclusion of poor people is being increasingly recognized. The norms and conditions of financial inclusion are different in India than that are observed in western countries. Many researches have been carried out on the financial inclusion of poor people but not particularly slum dwellers. This kind of research will highlight awareness of slum dwellers regarding financial inclusion.

### **National Status**

The policy makers now have started giving importance to financial inclusion of poor people in India. In this study an attempt will be made to analyze the financial position of the slum dwellers in India. As a result slum dwellers awareness about financial inclusion play a very significant role here.

#### **Rationale of the Study:**

Since 2000 financial inclusions for poor people have been started. But slum dwellers are not aware of this scheme. Economic growth of the nation depends upon the upliftment of the poor people. Financial inclusion of poor people will definitely help in the economic growth of the nation.

The origin of schemes of financial institutions could be traced back in the year 2000, but the slum dwellers were not aware about it.

This research study is being conducted to find out / know the awareness of financial inclusion among slum dwellers. And also to encourage /motivate the slum dwellers to participate in the schemes of financial inclusion by convincing them about its benefits.

#### **Literature Review**

**Rangarajan Committee, 2008** on financial inclusion observed that financial inclusion of hitherto excluded segments of the population is critical to sustain and accelerate growth momentum. For achievement of the same, the committee has put forward multi-pronged strategies including establishment of National Mission on Financial Inclusion, revitalizing the RRBs and Cooperatives, introducing MFI model (SHG- bank linkage) and Business Facilitator and Business Correspondent Model.

**Subbarao, 2009**, Financial inclusion is important because it is considered as an important condition for sustaining growth. Such access is especially powerful for the poor as it provides them opportunity to build savings, make investments and avail credit.

Access to financial services also helps the poor to insure themselves against income shocks and equips them to meet emergencies such as illness, death in the family or loss of employment. It helps them to get away from the clutches of usurious money lenders.

**Nilanjan Bhattacharjee, 2014**, Financial inclusion of the identified slum dwellers in Assam: Many slum dwellers are still not aware of various financial products and they are reluctant to take the advantages of formal financial sector. These people are usually go for borrowing a heavy amount of loans from the informal sectors for meeting their requirements.

They habitually park their investable surplus funds to the unorganized sectors with the expectation to earn more profit within a shorter period, but it is very unfortunate to mention here that most of these unorganized sectors usually manipulate them and try to grab their investible surplus by providing various ponzi schemes. Therefore, financial literacy and financial awareness among these groups of people are very important and distance from the formal financial sectors is not a major factor of financial exclusion in urban areas. To create awareness and improve financial literacy level in the identified slum dwellers, Government of India and RBI should come forward to frame some effective policies and implement it through appropriate governance so that universal banking services can be extended to the un-served.

#### **Objectives of the Study**

**To understand the concept of Financial Inclusions.**

**To find out the awareness of slum dwellers regarding the various benefits of Financial Inclusions.**

**To study the impact of Financial Inclusions on the Financial position of the slum dwellers.**

- **To study the contribution of Public sector and Private sector banks in the financial inclusion of slum dwellers.**

**Data Analysis:**

In early 19th century, many people from western part of Vidarbha & Chhattisgarh migrated in search of job and started settling in old city area of Nagpur i.e. near Empress Mill (Cotton Industry). The squatting in Nagpur has been taken place in proximity to the place of work and open land or low lying unused areas. 45 slum pockets were identified for the first time during the development plan of Nagpur in 1971. Presently, there are a total of 439 slums in city, out of which 421 are recognized in NMC official data. Out of the 439 slums, there are 279 notified (Slum has legal status) and 142 non notified (Slums do not have any legal or administrative status) and 18 newly identified slums. The number of households in slums is 209,001 and the average size is about 6 per family.

The land ownership of slum is about 18% slums on the private land, 34% slums on mix which includes government, industrial and private ownership and remaining 48% slums on government land. Government had not given any security of tenure or any tenure right to any of the slums located in Government land. Three main types of Settlements are identified in Nagpur in terms of settlement development processes, Organic settlements, unauthorized housing layouts and Squatters.

In Nagpur, approximately 40 % of the population lives in slums. There are 287 notified (legal) slums, where inhabitants pay taxes and 137 non-notified (illegal) slums. The inhabitants are mostly rickshaw puller, seasonal small vendors, house maid servants with a family income ranging from a meager Rs.1500 to Rs.3000 (£23 to £46) per month. After a hard and low-earning working day, most of the men spend their daily earnings on homemade illicit liquor which is very

harmful to the human body. Excessive alcohol consumption is the most common cause for an early death amongst the men in the slum areas. In addition, due to poor hygiene, poor sewage systems and irregular clearing of the garbage, diseases including malaria, cholera and abdominal problems are widely spread among the slum dwellers. Since 2006, in an effort to address some of these issues the Sangam has initiated development work within the Urban Slums. The three Slum-Centers are currently in Gujarwadi, Saraswati Nagar and Sewa Nagar slums and through these three Slum-Centres the Sangam reaches out into 15 of the urban slums with more than 70,000 residents.

Through the Self Help Groups, the women are motivated to meet regularly in order to discuss local issues and concerns, including the importance of regular saving. The ultimate aim is to make the women self-sufficient, so that they will be able to effectively deal with the many different issues and challenges of the slums without being dependent on any Non Government Organization or other bodies.

**Government initiatives:**

The Priority Sector Lending initiative was established by RBI to ensure that those sectors of the economy, which may not get timely and adequate credit in the absence of this special dispensation, have access to credit tools from Indian banks. The list of sectors has been revised in April 2015 and includes agriculture, micro and small enterprises, education, housing, export credit, etc. New sectors like renewable energy and social infrastructure have been added too and the new norms require banks to ensure that 8% of their loans go to small and marginal farmers.

RBI has relaxed a number of norms and requested documents to open a bank account by people who plan to keep a balance lower than Rs 50,000 and whose total credit in all

the accounts together will not exceed Rs 100.000 in a year (simplified KYC form, June 2014). Similarly a simplified bank saving account opening has been put in place and RBI has permitted banks to open branches without taking authorization in tier 3 to 6 cities, towns and villages. RBI also asked banks to provide all the material related to opening accounts, disclosures, etc. in the regional languages. Banks were permitted in 2006 to partner with other rural organizations, like NGOs, SHGs, MFIs, etc., while RBI reinforced self-regulation in the microfinance.

Some of the important measures taken by Indian Government, RBI & NABARD to give people better services through their policies and plans which are as follows:

- **Customer Service Centre Scheme.**
- **Credit Counseling Centre Scheme.**
- **Adhaar Card Schemes.**
- **The National Agriculture Insurance Scheme.**
- **No-Frill Accounts Scheme.**
- **Know Your Customers Scheme.**
- **General Credit Card Scheme.**
- **Project On Processor Cards Scheme.**
- **Micro Finance Development Fund Scheme.**
- **BF and BC Model Scheme.**
- **Micro Pension Model Scheme.**
- **Nationwide Electronic Financial Inclusion System Project Scheme.**
- **Financial Literacy Scheme.**
- **National Rural Financial Inclusion Plan Scheme.**
- **Shg-Post Office Linkage Scheme.**
- **Financial Inclusion Technology Fund Scheme**
- **Separate Plan For Urban Financial Inclusion Scheme.**
- **Electronic Benefit Transfer Scheme**
- **Financial Literacy through Audio Video Medium Scheme.**

### **Conclusions:**

Despite 67 years as an independent nation, India is still lagging behind in the process of providing financial services to the masses with nearly half the households remaining unbanked, and nearly ninety percent villages not having bank branches. More importantly, people in these unbanked areas do not fully appreciate why they need a bank account at all, or why loans from the formal sector are more useful than the informal sector. The advantages of a financially inclusive model are many-fold. Illustratively, unbanked and underprivileged could receive appropriate and timely payments for social benefit and employment schemes through the Direct Cash Transfer program.

The GoI and all the actors of the financial sector need to take into account all aspects of financial inclusion. The increase of the number of accounts is not sufficient as a worrying proportion of them is dormant. Coordination should be improved among public and private actors, the latter being fully integrated in national schemes and policies. The depth of the financial sector should also be a matter of attention, as well as the sustainability of the financial inclusion results obtained so far. It is important to know if they rely only on the special schemes and measures implemented or if they will remain at this level overtime, or even progress further.

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## AN ANALYTICAL STUDY OF FACTORS AFFECTING INVESTMENT DECISIONS OF INVESTORS OF NAGPUR CITY

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### **Introduction:**

Much of economic and financial theory is based on the notion that individuals act rationally and consider all available information in the decision-making process. However, researchers have uncovered a surprisingly large amount of evidence that this is frequently not the case. Dozens of examples of irrational behaviour and repeated errors in judgment have been documented in academic studies. The late Peter L. Bernstein wrote in **Against The Gods** that the evidence "reveals repeated patterns of irrationality, inconsistency, and

incompetence in the ways human beings arrive at decisions and choices when faced with uncertainty."

The primary objective of this study is to help the investors in taking their investment decisions by using the various tools of fundamental analysis. Because of the absence of proper knowledge many investors lost their money in share market. This project aims to draw a proper guideline to help the investment decision.

Due to severe global crisis, there exist a huge volatility take place in the world financial markets and Indian markets have been no exception. Understanding the stock markets as how it works & what to expect from it, is a huge piece of armour that an individual entering in to the battlefield of stock market can take with him. Extreme moments in stock prices because of fear and anticipation made life tough for a rational

investor. Understanding the irrational behaviour deserves more important that it has ever had. Today's investment decisions demand a better understanding of individual investors' behavioural biases.

In the recent past there have been perceptions that volatility in the market has gone up; Inter and Intra-day volatility. News items and some clinical research papers also provided figures to evidence this argument. SEBI undertook a comprehensive and deep analysis of volatility by using several statistical techniques to measure and analyse it. 18 countries covering almost all continents- developed as well as emerging markets and young and old markets- have been analysed. The results show that the volatility has not gone up much in the recent past as it has been perceived. Indian stock market provides a very high rate of return and comparatively moderate volatility. Efficiency of Indian market appear to have improved in the past few years owing to contraction in settlement cycles, introduction of derivative products, improvement in corporate governance practices etc.,. Stock market returns exhibit informational efficiency and approximates to normal distribution.

### **Literature Review:**

**Muradoglu, Metin and Argac (2001)** examined the long-run relationship between stock returns and three monetary variables (overnight interest rate, money supply and foreign exchange rate) in Turkey. They pointed out that the whole sample period

(1988-1995) showed no co-integrating relationship between stock prices and any of the monetary variables. This is also true only for the first sub-sample (1988-1989) but all the variables were co integrated with stock prices for the second (1990-1992) and third sub-samples (1993-1995). Nevertheless, in general, Ibrahim and Aziz (2003), Booth and Booth (1997), Wongbanpo and Sharma (2002), Chen (2003), Chen et al. (2005) and Mukherjee and Naka (1995) reveal that the rate of inflation, money growth, interest rates, industrial production, reserves, and exchange rates are the most popular significant factors in explaining the stock market movement. However, empirical studies by Barrows and Naka (1994) conclude that inflation has negative effects on the stock market. The 'exchange rate channel' by Pan et al. (2007) is consistent with the 'flow oriented' exchange rate model, introduced by **Dornbusch and Fisher (1980)**. They affirm that exchange rate movements initially affect the international competitiveness and trade position, followed by the real output of the country, and finally affects the current and future cash flows of companies, which can be inferred from the stock price movements. **Donatas, P., & Vytautas B.,(2009)** analyses the relationships between a group of macroeconomic variables and the Lithuanian stock market index and reveals that some macroeconomic variables lead Lithuanian stock market returns.

A detailed survey of the studies and reports related to the topic was conducted. Most of the studies were on developed countries and only a few studies were available in the Indian context. It was seen that the range of methods used varied from simple regression and correlation in a few cases to causality and co-integration tests in many cases. There was no consistent pattern of relationship and the studies were non-conclusive and in case of certain periods and

of countries, it was seen that long term relationship prevailed whereas the relationship was too short term in case of certain others. Studies were more conclusive with respect to developed countries but were period specific and country specific. The validity of the period varied from very short term and event based to medium term and long term in some cases.

**Muradoglu, Metin and Argac (2001)** examined the long-run relationship between stock returns and three monetary variables (overnight interest rate, money supply and foreign exchange rate) in Turkey. They pointed out that the whole sample period (1988-1995) showed no co-integrating relationship between stock prices and any of the monetary variables. This is also true only for the first sub-sample (1988-1989) but all the variables were co integrated with stock prices for the second (1990-1992) and third sub-samples (1993-1995). Nevertheless, in general, Ibrahim and Aziz (2003), Booth and Booth (1997), Wongbanpo and Sharma (2002), Chen (2003), Chen et al. (2005) and Mukherjee and Naka (1995) reveal that the rate of inflation, money growth, interest rates, industrial production, reserves, and exchange rates are the most popular significant factors in explaining the stock market movement. However, empirical studies by Barrows and Naka (1994) conclude that inflation has negative effects on the stock market. The 'exchange rate channel' by Pan et al. (2007) is consistent with the 'flow oriented' exchange rate model, introduced by **Dornbusch and Fisher (1980)**. They affirm that exchange rate movements initially affect the international competitiveness and trade position, followed by the real output of the country, and finally affects the current and future cash flows of companies, which can be inferred from the stock price movements. **Donatas, P., & Vytautas B.,(2009)** analyses the relationships between a group of

macroeconomic variables and the Lithuanian stock market index and reveals that some macroeconomic variables lead Lithuanian stock market returns.

**Objective of the study:** The objectives of the study are:

- To identify the factors affecting the volatility in stock market.
- To understand the factors affecting the investment decisions.
- To understand the use of the tools of Fundamental analysis in predicting the volatility in Share Market.

**Hypothesis:**

- A significant relationship is observed between Sensex volatility and the Economic Growth.

**Sampling Unit & Sample Size:**

In this study the sampling unit is **present investor and prospective investor, Financial Advisors, Stock Brokers and Financial Analysts.**

Responses of **160** respondents was received and used for analysis which included:

- 100 from present and prospective investors (mostly Businessmen)
- 30 Stock Brokers and sub brokers
- 30 Financial Advisors and Financial Analysts.

The dimensions created were as follows:

**Table: Dimensions of Fundamental Analysis**

Economic Volatility	Market Volatility	Behavioural Volatility	Fundamental volatility
GDP	World Events	Scandals	Company News
Exchange Rate	Demand & Supply	Speculations	Politics
Hype Created in Market	Natural Disaster		
Interest Rates	War & Terrorism		
Inflation			
Industry Performance			

**Descriptive Statistics**

**Table: Descriptive Statistics**

	Mean	Std. Deviation	Std. Error Mean	Ranking
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**Tools Used and Methods of Analysis:**

Statistical tools used for the analysis varied from simple graphical analysis and descriptive statistics and factor analysis to detailed time series analysis using econometric tools and statistical software SPSS ver. 20.

**Data Analysis:**

Factor analysis is performed on various factors and they are classified under four dimensions viz. Economic Volatility, Market Volatility, Behavioural Volatility and Fundamental Volatility which is as follows:

Factors like GDP, Exchange Rate, hype Created in market, Interest Rates, Inflation and Industry Performance come under one dimension so they were named as Economic Volatility. Factors like World Events, Demand and Supply, Natural Disaster and War & Terrorism are classified under next dimension which was named as Market Volatility. Factors like Scandals and Speculations are classified under dimension Behavioural Volatility and lastly the remaining factors like Company News and Politics are classified under the dimension Fundamental Volatility.

World Events	1.8688	.87683	.06932	6
GDP	2.0188	.70463	.05571	8
Exchange Rate	1.4750	.52545	.04154	1
Scandals	3.1313	1.53419	.12129	14
Company News	1.9250	1.32963	.10512	7
Hype created in market	1.8438	1.13574	.08979	5
Politics	2.6500	1.47601	.11669	12
Demand & Supply	1.5625	.74974	.05927	2
Natural Disaster	2.3688	1.20597	.09534	11
Speculation	2.6625	1.21255	.09586	13
War & Terrorism	2.3188	1.36613	.10800	10
Interest Rates	1.6813	.54220	.04287	4
Inflation	2.0750	1.18984	.09407	9
Industry Performance	1.6000	.63642	.05031	3

The above table shows the descriptive statistics with mean and standard deviation of the responses received from the present and prospective investors on the fact that how much they agree that the given fundamental factor affect the stock market movement. The responses received were ranked on the basis of their mean, which shows that as per the respondents the factor which affects the stock market volatility is Exchange rate. The top 10 important factors including exchange rate as per the respondents are Demand & Supply, Industry Performance, Interest Rates charged by

Banks, Hype created in market, world events, company news, GDP, Inflation and War & Terrorism respectively.

According to the respondents the least important factors are Natural Disaster, Politics Speculation and Scandals respectively.

Thus to verify this analysis, one sample t-test is applied by taking the test value of 2.5 being the Median value of the responses, and following results were obtained:

**Table One-Sample Test**

	Test Value = 2.5					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
World Events	-9.106	159	.000	-.63125	-.7682	-.4943
GDP	-8.639	159	.000	-.48125	-.5913	-.3712
Exchange Rate	-24.675	159	.000	-1.02500	-1.1070	-.9430
Scandals	5.205	159	.000	.63125	.3917	.8708
Company News	-5.470	159	.000	-.57500	-.7826	-.3674
Hype created in market	-7.309	159	.000	-.65625	-.8336	-.4789
Politics	1.285	159	.200	.15000	-.0805	.3805
Demand & Supply	-15.817	159	.000	-.93750	-1.0546	-.8204
Natural Disaster	-1.377	159	.171	-.13125	-.3195	.0570
Speculation	1.695	159	.092	.16250	-.0268	.3518
War & Terrorism	-1.678	159	.095	-.18125	-.3946	.0321
Interest Rates	-19.101	159	.000	-.81875	-.9034	-.7341
Inflation	-4.518	159	.000	-.42500	-.6108	-.2392
Industry Performance	-17.888	159	.000	-.90000	-.9994	-.8006

From the above table it was found that the alpha value of 0.05 is less than the calculated sig. (2-tailed) values of the variables Politics (0.200), Natural Disaster (0.171), Speculation (0.092) and War & Terrorism (0.095), which means that stock market volatility is not affected by these 4 factors. However, rest of the 10 factors affect stock market volatility.

In majority of the factors i.e. 10 factors out of 14 the alpha value of 0.05 is less than the significance (2-tailed) value, which means that **hypothesis “A significant relationship is observed between Sensex volatility and the Economic Growth” is accepted.** Thus this can be said that volatility in Stock prices cannot be explained with the help of variable of Economic Growth.

#### **Conclusions:**

Despite the heightened attention received by stock market, investor base of Indian stock market is miserably low. Theoretically, stock market investment aims at risk diversification and direct participation in project financing in a widespread manner. It, therefore, requires the existence of a relatively large number of investors with the sophistication, means and ability to shoulder such risks. However, irrespective of the long array of reform programmes implemented, fraudulent practices and excessive speculation are still a nightmare to genuine investors in the country. People do not consider stock market as formal financial institutions like banks. Instead it is treated as a gambling place for speculators. Serious policy initiatives are required in this regard so as to make stock market a more relevant institution.

Factors like GDP, Exchange Rate, hype Created in market, Interest Rates, Inflation and Industry Performance come under one dimension so they were named as Economic Volatility. Factors like World Events,

Demand and Supply, Natural Disaster and War & Terrorism are classified under next dimension which was named as Market Volatility. Factors like Scandals and Speculations are classified under dimension Behavioural Volatility and the factors like Company News and Politics are classified under the dimension Fundamental Volatility. According to the respondents, the least important factors are Natural Disaster, Politics Speculation and Scandals respectively. The decision of investment by the investors is least affected by these factors.

According to the study, the investment decision of the investors is most affected by the Exchange rate movements and Demand and Supply. Investors also consider Industry Performance as one of the important factor that influences the stock market movement.

Thus it is concluded that in the short run the fundamental macroeconomic factors may play a vital role in explaining the stock market volatility.

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## EMERGENCE OF PRIVATE SECTOR IN NEW ECONOMY: AN INSIGHT

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There is a broad consensus that the global center of economic growth is moving to Asia, and as a large emerging nation with a growing middle class, India has captured the attention of the developed economies looking for new investment and trade opportunities. Those sectors which are growing very fast rate in India are called the Emerging Sectors. By some estimates Indian economy will grow from its current \$1.8 trillion GDP to a GDP close to \$ 30 trillion to be the world's third largest in 2030.

Emerging sector refers to an industry within an economy or a country that is in its initial stage of development, and is expected to grow rapidly in coming few years. The word sector may also be used for a group of industries. For example, economists generally divide all the industries in an economy in broad groups such agricultural, manufacturing and service sectors. So a sector of economy to qualify as emerging sector must satisfy two conditions. The first condition is that it is a sector which has established its presence but is not very big currently and the other condition is that it is currently growing fast and holds the promise

to become an important sector of the economy in near future.

Based on these two criteria the sectors, qualifying as emerging sector in Indian Economy today are Food Processing, Manufacturing Sector, Health Care, Organized Retailing, Education and

Training, Tourism, Entertainment, Insurance, Knowledge Process Outsourcing etc. Currently none of these sectors is very big, but they are growing very fast and likely to become significantly bigger in near future. An industry qualifies as emerging sector, not only on the basis of its existing stage, but also on expectation of future growth. Thus it is not possible to identify emerging sectors of an economy with certainty. There are bound to be some disagreement among experts on the list of emerging sectors of an economy.

Private sector includes all different types of individual or corporate enterprises, both domestic and foreign, engaged in different fields of productive activity. Private sector enterprises are owned and managed by the private sector. These private sector enterprises are mostly characterized by certain common characteristics like private initiative, profit motive and ownership and management in private hands.

In 18th and 19th century, most of the countries of the world adopted the policy of laissez faire where the Governments followed a policy of non-interference in economic activity by the State. This had led to huge expansion of private sector in almost all the countries of the world. In recent times, the private sector has changed its character and is now quite different from the private enterprises of the past.

Now-a-days, the private sector in the form of corporate industrial units are normally owned by the shareholders and managed by professional managers, where they are not only guided by profit motive but also by expansion, consolidation, arousing social consciousness, social responsibilities, social welfare etc.

Now-a-days, the scope of private enterprises is very much restricted due to the expansion of public sector in different countries of the world. Even the capitalist countries like USA, Japan, Western European countries etc. have developed public sector in some strategic areas like defence production, aircraft production, atomic energy, multi-purpose projects etc.

In a developing country like India, with the continuous expansion of the public sector, the productive areas open for the private sector has gradually squeezed. It is only during the post-1991 period of economic liberalisation, more and more areas are being made open for the private sector and the industrial activities in this sector gained its momentum both through participation of domestic and foreign, private companies.

In India, the distinction between the private sector and the public sector gained its importance, particularly after the introduction of Industrial Policy Resolutions 1948 and 1956, paving the way for the adoption of mixed economy in India.

These industrial policy resolutions firstly reserved certain industrial areas for the public sector; secondly allowed certain existing industries in the private sector to continue along with the public sector, whose future development would be restricted to the public sector alone and finally, reserved certain other areas exclusively for the private sector.

Broadly, the public sector in India is assigned with the responsibility of developing and managing heavy and basic industries, economic and social economic infrastructure but the private sector has been assigned with the task of developing consumer goods industries. While the railways, civil aviation, power generation and distribution, banks, insurance and other financial institutions are reserved in the public sector, but the private sector has been allotted with the entire agriculture and allied activities, plantation, mining, internal trade both wholesale and retail, foreign trade, road freight traffic etc.

At present, the organized areas of the private sector is mostly controlled by the corporate industrial sector and the unorganized agricultural and cottage industrial sector are controlled by the household sector and private individuals. In the initial stage of economic development, investment in the public sector was quite necessary to accelerate the pace of economic development as well as for the development of basic and heavy industries and the infrastructural areas so as to provide necessary support to private sector.

As the private sector investment is very much interested in quick-yielding projects and high profitability areas, thus, the investment in those projects having long-gestation periods and low-profit yielding are mostly reserved for the public sector. The growing sickness of the public sector and the policy of economic liberalisation introduced in India particularly after post

1991 period, i.e., after the introduction of New Industrial Policy, 1991, the policy towards the public and the private sector has been reversed.

The new policy has made provision for reducing the load of public sector enterprises showing either low rate of return or incurring losses over the years. The new policy has now reduced the list of industries under the public sector to 8 against the 17 industries reserved earlier as per 1956 policy.

The industries which are now removed from the list of reserved industries for the public sector and made open for the participation of private sector enterprises include iron and steel, electricity, air transport, ship building, heavy machinery industries, telecommunication and telecommunication cables and instruments.

Thus, with the growing economic liberalisation of the Indian economy, more and more areas are now being made open for the participation of private sector enterprises. Accordingly, the industrial activities in the private sector gained its momentum through the participation of both domestic and foreign private companies. Thus, in recent times, private sector has been assigned with increasing role and responsibilities in a developing country like India.

#### **Growth of Private Sector in India:**

At the dawn of independence, almost the entire productive activities and trade were owned and managed by the private sector. At that time, the role of public sector was insignificant, and its activity was very much confined to irrigation, power, railways, ports, ordinance, posts and telegraphs etc. But the activity of the public sector was gradually expanded in different new fields by both the Centre and the States.

Accordingly, the public sector started to play a significant role in different areas; in

terms of investment, turnover, capital formation, import substitution, contribution to export etc. Even after the huge expansion of the public sector, the private sector still continued to play a dominant role in all spheres and thereby accounting nearly 80 per cent of the gross domestic product and about 90 per cent of the total employment. In a narrow sense, private corporate sector provides a picture about the private sector. Thus, it is quite important to study the growth of private corporate sector in comparison to that of public sector.

#### **Changing Scenario of Indian Corporate Sector:**

Indian Corporate Sector has largely experienced a considerable change in its total scenario in recent years, especially after the announcement of Industrial Policy Reforms, 1991. In the post-reform period, pre-entry scrutiny and the clearance of the industrial projects of big business houses by the MRTP Commission is now no longer required.

As a result, there is considerable increase in investments undertaken by a good number of enterprises or industrial houses of the private corporate sector. Side by side, the volume of investments made by the public sector undertakings (PSUs) has also increased significantly.

In recent years, a detail study on the performances of the business houses in private corporate sector along with public sector undertakings has been undertaken by "Business Standard, March, 2002". This study covers all total 1,000 companies. Out of these, 594 private sector companies of 50 business houses and 32 public sector undertaking (PSUs) mostly giant in nature, i.e., all total 526 companies out of 1,000 companies are studied in detail.

The Government Support and Control and the Private Sector:

In order to provide necessary support and finance to the private sector, the Government of India has set up a huge network of development banking and financial institution since independence. These institutions include Industrial Finance Corporation of India (IFCI), the State Financial Corporation's (SFCs), the Industrial Development Bank of India (IDBI), the Industrial Credit and Investment Corporation of India (ICICI), the EXIM Bank, the National Bank for Agricultural and Rural Development (NABARD) etc.

These institutions are providing adequate financial support to different large, medium and small scale industries, agricultural sector, traders, export oriented units etc. In addition to these institutions, the Government has set up some other institutions to assist the private sector in the form of infrastructure, technological development, raw material supply, marketing arrangements etc.

With such intention both the Centre and the State Governments have developed industrial estates, growth centres, industrial parks, technological parks for the development of the industrial centres. Moreover, the Government has been providing necessary fiscal incentives in the form of tax holiday or tax concessions etc. to various new industrial and export oriented units.

Thus, on many occasions the Government claim that the expansion and development of the private sector have been mostly due to active support and incentives offered by the Government under necessary situations.

Besides, the Government has set up an extensive control and regulatory structure

for the private sector under which it has to work. The Planning Commission has been entrusted with the fixation of level of investment, overall targets etc. for the private sector for each Five-Year Plan.

### **Prospects of the Private Sector:**

Since independence, the private sector was assigned with a secondary role to participate in the industrial activity of the country by the Government. It was only since the Sixth Plan, the Government started to assign much responsibility to the private sector by allocating about 47 per cent of the total planned investment in the private sector.

Side by side, the private sector has also improved its condition, showing sufficient buoyancy and registering higher rate of growth by raising higher volume of funds from the capital market and also by setting up many joint ventures in some other countries. In spite of that, the private sector of India was about 20 years behind the schedule as compared to that of other developing countries.

In order to overcome such gap, a series of measures has been taken by the Government so as to improve the conditions of the private sector. These measures include permitting automatic expansion of capacity to a good number of industries, providing special incentive to export oriented units, exemption from MRTP restrictions on industrial units producing export goods, granting licenses easily to industrial units located in "zero industry" districts, fastening the licensing procedures, liberalization of import and pricing policies etc. All these measures which were introduced during the Sixth Plan, were further liberalized and strengthened during the Seventh Plan.

Moreover, the Government has announced the New Industrial Policy, 1991, which has

liberalized the private sector considerably. The main changes brought by this new policy include abolishing the system of industrial licensing for all industrial undertaking except for a short list of 18 industries, reducing the list of industries under public sector to 8 as against the 17 industries reserved earlier, inviting private sector participation in PSUs earning higher profit, abolishing, the system of pre-entry scrutiny of investment decisions of the MRTP companies, removing the asset limit of the MRTP companies, providing automatic permission for foreign technology agreement, removal of mandatory convertibility clause etc.

Thus, the new policy has assigned a greater role on the private sector by removing restrictions and controls and introduced a liberalized regime for the private sector of the country. Thus, the prospects of the private sector in the future development programme of the country is quite bright under the new liberalized regime.

Private sector has now been allowed to participate in those basic, difficult and strategic areas to compete with the public sector of the country. Thus, this is quite a challenging situation before the private sector of the country. It is expected that the private sector will be able to accept this challenge and prove its worth within the definite time frame.

Entirely new or restructured industrial sectors, growing at a rate faster than overall economy, such industries usually come into being when customers need change, new technologies replace older ones, or when new socio economic conditions emerge. Emerging sectors in an economy are types

of markets that seem to be getting more important in that economy. These markets seem to have the potential to grow. As for examples, this varies from country to country. Worldwide, the most likely emerging sector appears to be “green power”. Companies that have good products in this sector should be able to experience rapid growth in the near future. So an industry will qualify as an emerging sector, when it is still small, but its growth begins to accelerate.

For an industry qualifies as emerging sector, not only on the basis of its existing stage, but also on expectation of future growth. As explained above the four sectors there are many other sectors like Insurance, Textiles, Entertainment, Manufacturing which comes under the criteria of emerging sectors.

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## “AN ANALYTICAL STUDY OF FINANCIAL AND ECONOMIC ASPECT OF THE NREGA WITH REFERENCE TO CHANDRAPUR DISTRICT”

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### **Introduction:-**

The National Rural Employment Guarantee Act (NREGA) is a historic legislation passed by the Government of India in September 2005. Ministry of Rural Development claims it as a revolutionary program to transform the rural economy and improvement in livelihood with a promise of inclusive growth. The government has referred to it as

an Act of the people, by the people, and for the people. The NREGS guarantees a hundred days of unskilled employment to each household in every financial year at an equal wage rate for both male and female workers. Additionally, it guarantees the “right to work” as a legal right of every able-bodied adult in rural India. It is fundamentally different in a way from all other wage employment programmes operating since 1980 is that these programmes do not guarantee employment as a legal right.

It provides ample opportunities for creating rural public assets, which has been largely neglected. It helps to enhance the purchasing power of rural households, thereby contributing to poverty alleviation. The NREGS achieves twin objectives of rural development and employment. The NREGS stipulates that works must be targeted towards a set of specific rural development activities such as water conservation and harvesting, afforestation, rural connectivity, flood control and protection such as construction and repair of embankments,

etc. Digging of new tanks/ponds, percolation tanks and construction of small check dams are also given importance.

NREGS is also significant act in many ways such as grass-root level participation of common citizen and beneficiary through democratic process, multi-layered social audit and transparency mechanism by involvement of civil society, comprehensive planning at village level towards sustainable and equitable development etc. The major outcome expected from this programme to improve the quality of life of rural households who are vulnerable to out-migration in search of daily wage employment by channelising the wage workforce towards developmental activities at the village level itself. This would eventually help the poor in getting the livelihood security. Many academicians and practicenors have high expectations from NREGS. Noted agriculture scientist M.S. Swaminathan described NREGS as the world’s largest ecological security programme, which can successfully strengthen the ecological foundations for sustainable agriculture. Some civil society experts even claim that the NREGS is truly a historic opportunity for dramatic socio-economic transformation in rural India. The NREGS, which promises the largest ever employment programme in human history, has the potential to provide a "big push" in India's regions of distress. It has put money into the hands of the poorest of the poor on a scale that is unprecedented in the history of

independent India. Prof Jean Dreze, one of the architects and experts of the ambitious NREGS says that, ‘NREGS represents a new hope for the rural poor. Instead of shrill rhetoric for or against the programme, what is required is serious discussion of how to make it work.’ There is little doubt that every quarter of the civil society and government are enthusiastic as well as skeptical about the direction, this massive will take.

NREGS was launched in two hundred selected districts on 2nd February 2006 in Phase I and was extended to 130 more districts in 2007-08 in Phase II. It was further extended to the remaining 285 districts from 1st April 2008 onwards, in Phase III. Since NREGS is demand-driven. People who need job will demand for it and the government is legally bound to provide the same. In case of failure to do so, the government has to ensure mandatory unemployment allowance. For the first time, rural communities have been given not just a development programme, but also a regime of rights along with it. NREGS has unprecedented commitment of financial resources by the government of India who has earmarked huge funds to insure that finances do not come on the way of success of this scheme. This outlay is justified by the financial scrutiny and the emphasis on planning of works and mechanisms of social audit means that quality of works is centrally important. This is not a welfare programme but a development initiative,

chipping in with crucial public investments for creation of durable assets, which can provide much-needed momentum to growth in the most backward regions of India. The thrust is on construction of earthen dams, bunds and ponds as part of a watershed development strategy.

**Aim & objective**

The objective of this research is to look at the financial and economic aspects of the NREGA. It will be studying the implications for the rural economy as a result of the minimum wage and employment instituted by the Act.

**Hypothesis**

H<sub>1</sub>: Officials faced problem while implementing NREGA scheme

**Methodology**

The methodology adopted by the intuition is balance of primary and secondary resources. The assessment has been carried out using primary data collected through a survey instrument as well as collection of secondary data through various sources like government records, Panchayat records, life histories of people and observation on field. The collection of data commenced in February 2013 with the finalization of the survey instruments.

The sampling method adopted by the organization was random however; there has been a conscious effort to insure the maximum representation of the most marginalized including women the sampling design.

**Table 1: Information about Total No. of NREGA workers registered in the village**

The information regarding Total No. of NREGA workers registered in the village of respondent involved in implementation of NREGA is shown in following Table.

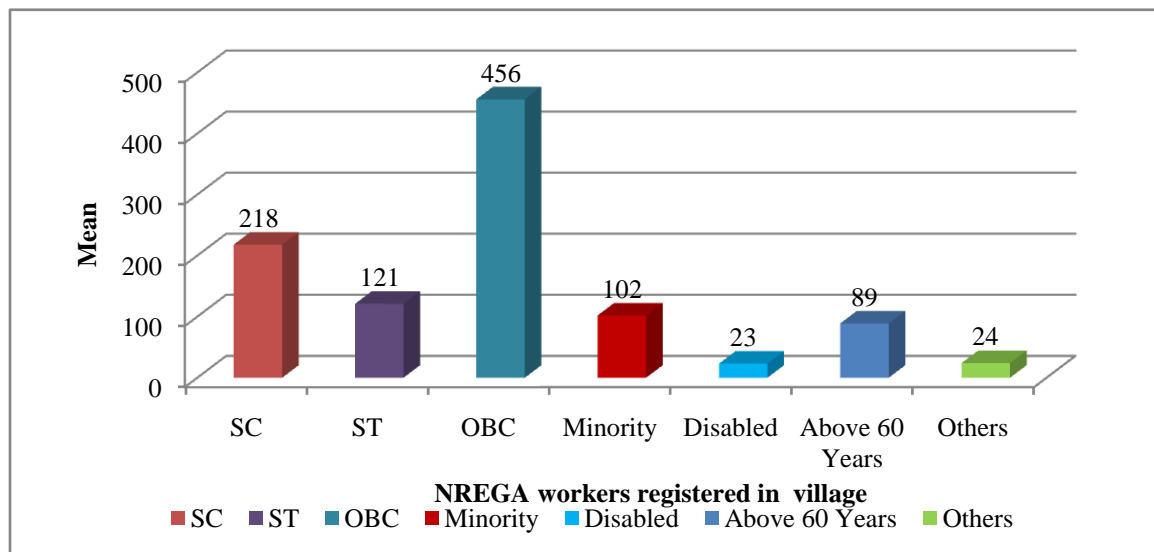
	Mean	SD	Min	Max
SC	218	±24	198	265
ST	121	±11	112	134

OBC	456	±34	398	489
Minority	102	±21	71	123
Disabled	23	±8	13	37
Above 60 Years	89	±12	42	87
Others	24	±9	18	36

Source: Survey Data

It is observed that on an average 218±24 workers belonging to SC category were registered under NREGA in study area, average no. of ST workers registered under NREGA was 121±11. It is also evident that

on an average no. of OBC, Minority, Disables and above 60 year workers registered under NREGA in study area was 456±34, 102±21, 23±8 and 89±12 respectively.



**Fig.1:** Information about Total No. of NREGA workers registered in the village

**Table 2: Responses about facing problems while employing beneficiaries on work under scheme**

The responses of respondent, involved in implementation of NREGA about facing problems while employing beneficiaries on work under scheme is shown in following Table

	No. of Respondent	Percentage
Yes	324	64.8
No	124	24.8

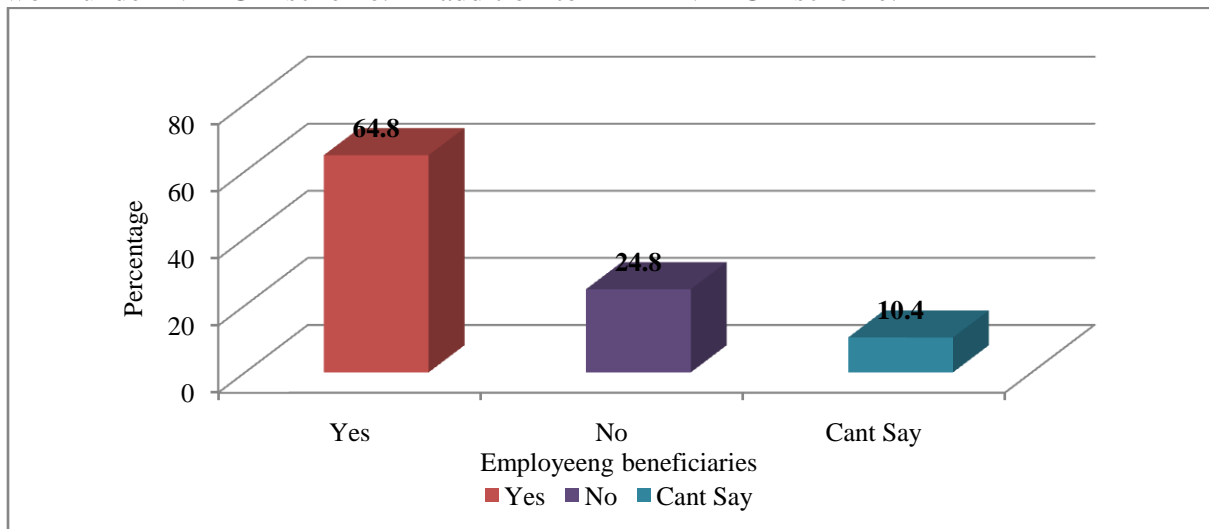
Can't Say	52	10.4
<b>Total</b>	<b>500</b>	<b>100</b>

Source: Survey Data

It is observed that out of total 500 respondents involved in implementation of NREGA, 324(64.8%) respondents faced problem while employing beneficiaries on work under NREGA scheme, whereas 124(24.8%) respondents did not faced problem while employing beneficiaries on work under NREGA scheme. In addition to

this, 52(10.4%) respondents were uncertain about facing problem while employing beneficiaries on work under NREGA scheme.

It is observed from the Table 2 that majority of respondents faced problem while employing beneficiaries on work under NREGA scheme.



**Fig. 2:** Responses about facing problems while employing beneficiaries on work under scheme

**Table 3: Type of problem faces by respondents while employing beneficiaries on work under NREGA**

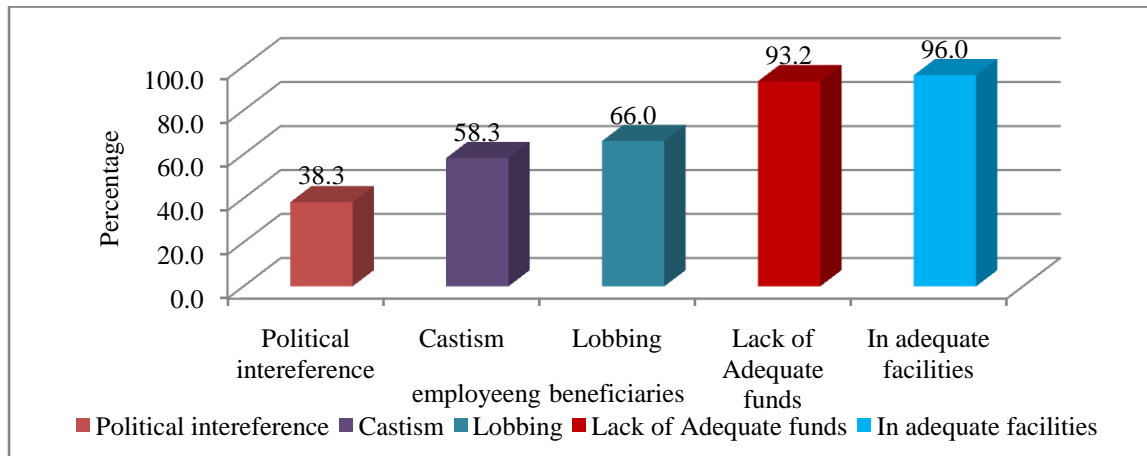
Information regarding type of problem faced by respondents involved in implementation of NREGA about employing beneficiaries on work under scheme is shown in following Table

Problems	No. of Respondent	Percentage	Total
Political interference	124	38.3	324
Castism	189	58.3	324
Lobbing	214	66.0	324
Lack of Adequate funds	302	93.2	324
Inadequate facilities	311	96.0	324

Source: Survey Data

It is observed that out of total 324 respondents facing problem while employee beneficiaries on the work under NREGA, 124(38.3%) respondents faced problem of political interference, whereas 189(58.3%) respondents faced problem of castism. In addition to this, problems such as lobbying, lack of adequate fund and inadequate facility was faced by 214(66%), 302(93.2%) and 311(96%) respondents respectively.

It is observed from the Table 3 that significant no. of respondents faced problems such as lobbying, lack of adequate fund and inadequate facilities while employing beneficiaries on work under NERGA scheme.



**Fig. 3:** Type of problem faces by respondents while employing beneficiaries on work under NREGA

problem while employing beneficiaries on work under NREGA scheme. It is also observed from the Table 3 that significant no. of respondents faced problems such as lobbying, lack of adequate fund and inadequate facilities while employing beneficiaries on work under NERGA scheme. Hence hypothesis **H<sub>1</sub> is accepted.**

### Conclusion:-

The objective here has been to explain data rather than draw interpretations and conclusions. The findings are fact based and the conclusion represents the inferences drawn from the findings. Care has been taken as not to draw conclusions which go beyond the data related to the study. The majority of officials involved in implementation of NREGA scheme felt that beneficiaries are fully benefited through NREGA scheme, However; it is also apparent from the results that considerable no. of i.e. 60.6% officials felt that beneficiaries are partially benefited

and benefited to a very less extent through scheme. These results showed that there is no clear cut agreement on benefits of NREGA to beneficiaries. Officials are uncertain regarding improvement of socio-economic status of the people after execution of NREGA program/scheme were uncertain regarding their satisfaction with the quality of works executed in their Panchayat/block under NREGA program/scheme.

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## STRATEGIES IN FINANCIAL DERIVATIVE TRADING

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### **TRADING IN DERIVATIVES:**

In this chapter we shall take a brief look at the trading system for NSE's Futures and Options market. However, the best way to get a feel of the trading system is to actually watch the screen and observe trading.

### **Futures and Options Trading System:**

The futures & options trading system of NSE, called NEAT-F&O trading system, provides a fully automated screen-based trading for Nifty futures & options and stock futures & options on a nationwide basis as well as an online monitoring and surveillance mechanism. It supports an order driven market and provides complete transparency of trading operations. It is similar to that of trading of equities in the cash market segment.

The software for the F&O market has been developed to facilitate efficient and transparent trading in futures and options instruments. Keeping in view the familiarity of trading members with the current capital market trading system, modifications have been performed in the existing capital market trading system so as to make it suitable for trading futures and options.

### **Entities in the Trading System:**

There are four entities in the trading system. Trading members, clearing

members, professional clearing members and participants.

#### **1. Trading members:**

Trading members are members of NSE. They can trade either on their own account or on behalf of their clients including participants. The exchange assigns a trading member ID to each trading member. Each trading member can have more than one user. The number of users allowed for each trading member is notified by the exchange from time to time. Each user of a trading member must be registered with the exchange and is assigned a unique user M. The unique trading member ID functions as a reference for all orders/trades of different users. This ID is common for all users of a particular trading member. It is the responsibility of the trading member to maintain adequate control over persons having access to the firm's User IDs.

#### **2. Clearing members:**

Clearing members are members of NSCCL. They carry out risk management activities and confirmation/inquiry of trades through the trading system.

#### **3. Professional clearing members:**

A professional clearing members is a clearing member who is not a trading

member. Typically, banks and custodians become professional clearing members and clear and settle for their trading members.

#### 4. Participants:

A participant is a client of trading members like financial institutions. These clients may trade through multiple trading members but settle through a single clearing member.

#### Client Broker Relationship in Derivative Segment:

A trading member must ensure compliance particularly with relation to the following while dealing with clients:

- ▶ Filling notes as per the prescribed format to the client
- ▶ Ensuring timely pay-in and pay-out of funds to and from the clients
- ▶ Resolving complaint of clients if any at the earliest.
- ▶ Avoiding receipt and payment of cash and deal only through account payee cheques.
- ▶ Sending the periodical statement of accounts to clients
- ▶ Not charging excess brokerage
- ▶ Maintaining unique client code as per the regulations.

#### TYPES OF ORDERS and CONDITIONS thereon

The system allows the trading members to enter orders with various conditions attached to them as per their requirements. These conditions are broadly divided into the following categories:

##### 1. Time conditions

2. Price conditions
3. Other conditions

Several combinations of the above are allowed thereby providing enormous flexibility to the users. The order types and conditions are summarized below.

#### i. Time conditions

- **Day order:** A day order, as the name suggests is an order which is valid for the day on which it is entered. If the order is not executed during the day, the system cancels the order automatically at the end of the day.
- **Immediate or Cancel (IOC):** An IOC order allows the user to buy or sell a contract as soon as the order is released into the system, failing which the order is cancelled from the system. Partial match is possible for the order, and the unmatched portion of the order is cancelled immediately.

#### 1. Price condition

- a) **Stop-loss:** This facility allows the user to release an order into the system, after the market price of the security reaches or crosses a threshold price e.g. if for stop-loss buy order, the trigger is 1027.00, the limit price is 1030.00 and the market (last traded) price is 1023.00, then this order is released into the system once the market price reaches or exceeds 1027.00. This order is added to the regular lot book with time of triggering as the time stamp, as a limit order of 1030.00. For the stop-loss sell order, the trigger price has to be greater than the limit price.

#### 1. Other conditions

1. **Market price:** Market orders are orders for which no price is specified at the time the order is entered (i.e. price is market price). For such orders, the system determines the price.

- i. **Trigger price:** Price at which an

order gets triggered from the stop-loss book.

- 1) **Limit price:** Price of the orders

after triggering from stop-loss book.

**Pro:** Pro means that the orders are entered on the trading member's own account.

- 1) **Cli:** Cli means that the trading member enters the orders on behalf of a client.

### **Futures and options market instruments**

The F&O segment of NSE provides trading facilities for the following derivative instruments:

1. Index based futures
2. Index based options
3. Individual stock options
4. Individual stock futures

### **STRATEGIES FOR DERIVATIVE TRADING: STRADDLE:**

An options strategy with which the investor holds a position in both a call and put with the same strike price and expiration date.

Straddles are a good strategy to pursue if an investor believes that a stock's price will move significantly, but is unsure as to which direction. The stock price must move significantly if the investor is to make a profit. As shown in the diagram above, should only a small movement in price occur in either direction, the investor will

experience a loss. As a result, a straddle is extremely risky to perform. Additionally, on stocks that are expected to jump, the market tends to price options at a higher premium, which ultimately reduces the expected payoff should the stock move significantly.

### **1. STRANGLE:**

2. An options strategy where the investor holds a position in both a call and put with different strike

prices but with the same maturity and underlying asset. This option strategy is profitable only if there are large movements in the price of the underlying asset. This is a good strategy if you think there will be a large price movement in the near future but are unsure of which way that price movement will be. The strategy involves buying an out-of-the-money call and an out-of-the-money put option. A strangle is generally less expensive than a straddle as the contracts are purchased out of the money.

### **3. PROTECTIVE PUT**

A risk-management strategy that investors can use to guard against the loss of unrealized gains. The put option acts like an insurance policy - it costs money, which reduces the investor's potential gains from owning the security, but it also reduces his risk of losing money if the security declines in value.

If an investor purchased a stock for \$10 that is now worth \$20 but he has not sold it, he has unrealized gains of \$10. If he doesn't want to sell the

stock yet (perhaps because he thinks it will appreciate further) but he wants to make sure he doesn't lose the \$10 in unrealized gains, he can purchase a put option for that same stock (called the "underlying stock") that will protect him for as long as the option contract is in force. If the stock continues to increase in price, say, going up to \$30, the investor can benefit from the increase. If the stock declines from \$20 to \$15 or even to \$1, the investor is able to limit his losses because of the protective put.

#### 4. EQUITY COLLAR:

A collar is created by:

- Long the underlying
- long a put option at strike price X (called the "floor")
- Short a call option at strike price (X+a) (called the "cap")

These latter two are a short Risk reversal position. So:

Underlying - Risk reversal = Collar

The premium income from selling the call reduces the cost of purchasing the put. The amount saved depends on the strike price of the two options.

Most commonly, the two strikes are roughly equal distances from the current price. For example, an investor would insure against loss more than 20% in return for giving up gain more than 20%. In this case the cost of the two options should be roughly equal. In case the premiums are exactly equal, this may be called a zero-cost collar; the return is the same as if no collar was applied, provided that the ending price is between the two strikes.

On expiry the value (but not the profit) of the collar will be:

- X if the price of the underlying is below X
- the value of the underlying if the underlying is between X and (X+a), inclusive
- X+a if the underlying is above X+a.

#### 1. BUTTERFLY SPREAD

A neutral option strategy combining bull and bear spreads. Butterfly spreads use four option contracts with the same expiration but three different strike prices to create a range of prices the strategy can profit from. The trader sells two option contracts at the middle strike price and buys one option contract at a lower strike price and one option contract at a higher strike price. Both puts and calls can be used for a butterfly spread.

Butterfly spreads have limited risk, meaning you can only lose your initial investment. Your maximum return is when the price of the underlying asset remains around the middle strike price.

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**“AN ANALYTICAL STUDY ON COMMODITY MARKETS IN SOUTH INDIA”**

Dr. RAJESH VAIDYA

ANIL KUMAR G.K

**1. Introduction:**

Commodities Futures’ trading...! in India have a long history. The first commodity futures market appeared in 1875. But the new standardized form of trading in the Indian capital market is an attractive package for all the people who earn money through speculation by trading into FUTURES. It is a well-known fact and should be remembered that the trading in commodities through futures’ exchanges is merely, “Old wine in a new bottle”.

The trading in commodities was started with the first transaction that took place between two individuals. We can relate this to the ancient method of trading i.e., BARTER SYSTEM. This method faced the initial hiccups due to the problems like: store of value, medium of exchange, deferred payment, measure of wealth etc. This led to the invention of MONEY. As the market started to expand, the problem of scarcity piled up.

The farmers/traders then felt the need to protect themselves against the fluctuations in the price for their produce. In the ancient times, the commodities traded were – the Agricultural Produce, which was exposed to higher risk i.e., the natural calamities and had to face the price uncertainty. It was certain that during the scarcity, the farmer realized higher prices and during the oversupply he had to loose his profitability. On the other hand, the trader had to pay higher price during the scarcity and vice versa. It was at this time that both joined hands and entered into a contract for the trade i.e., delivery of the produce after the harvest, for a price decided earlier. By this both had reduced the future uncertainty.

One stone still remained unturned- ‘surety of honoring the contract on part from either of the parties’. This problem was settled in the year 1848, when a group of traders in CHICAGO came forward to standardize the trading. They initiated the concept of “to-arrive” contract and permitted the farmers to lock in the price upfront and deliver the grain at a contracted date later. This trading was carried on a platform called CHICAGO BOARD OF TRADE, one of the most popular commodities trading exchanges’ today. It was this time that the trading in commodity futures’ picked up and never looked back.

Although in the 19th century only agricultural produce was traded as a futures contract, but now, the commodities of global or at least domestic importance are being traded over the commodity futures’ exchanges. This form of trading has proved useful as a device for HEDGING and SPECULATION. The commodities that are traded today are:

- Agro-Based Commodities... Wheat, Corn, Cotton, Oils, Oilseeds etc..
- Soft Commodities..... Coffee, Cocoa, Sugar etc
- Livestock..... Live Cattle, Pork Bellies etc
- Energy..... Crude Oil, Natural Gas, Gasoline etc
- Precious Metals..... Gold, Silver, Platinum etc
- Other Metals..... Nickel, Aluminum, Copper etc.

**2. Literature Review:**

### 2.1 Commodity Futures in India:

According to Bhagwat (2015) Commodity futures trading in India has a long and old history, India's first commodity exchange was established in 1875 with the Bombay Cotton Trade Association. Futures market in bullion was began to emerge in Mumbai in 1920. Currently, in India, there are 22 recognized commodity exchanges, of which the six national level electronic multi-commodity exchanges are: NMCE, (Ahmedabad); MCX, (Mumbai); NCDEX, (Mumbai); ICEX, (Mumbai); ACE, (Ahmedabad); and UCX, (Mumbai). India has experienced phenomenal growth in the commodity derivatives markets since 2003, once the Government lifted restrictions on futures trading. At present, there are 6 National Level Commodity Exchanges operates in India. Secondary data collected from books, journals, magazines websites of Forward Markets Commission (FMC) and national level commodity exchanges in India for the period 2009-10 to 2013-14. This paper is an attempt to investigate for the structure and performance of commodity exchanges in India. MCX is the world's largest future's commodity exchange in Silver, Gold, and Crude Oil. The national exchanges accounted for 99.72% of the turnover of commodity futures contracts traded in India during Financial Year 2013-14. MCX alone had a market share of 84.89% in 2013-14.

Commodity derivatives were introduced in India with a dual purpose of promoting price discovery and enhancing risk management in the commodities market. A transaction tax (of 0.01 per cent) on commodity futures trading was introduced in the Union Budget 2013-14. This study examines the rationale behind such a tax. It also checks for the validity of the proposition that such taxes generate additional revenue. A 50-day and 120-day event study was conducted to assess

the impact of CTT imposition on the total volume traded of a few select commodity futures as well as on the overall efficiency of the commodity market. Results for the event study suggest a significant drop in traded volumes of commodity futures such as gold, copper, crude oil and menthe oil. (Malik 2014)

### 2.2 Relationship Between Gold and Silver

Sundararajan (2014) examines the relationship between gold and silver over the 2001-2013 periods. This period covers a very extensive range of economic conditions, political change in major producers and increased sophistication in asset markets generally. It includes, at the start of the period, the attempted cornering of the silver market only. Thus, prime fact is that one would not expect to necessarily see a stable relationship between gold and silver. Gold and silver have historically been seen as close substitutes for one another, both being precious metals that can be used to back currency and both having been used as currency. There is significant evidence that these metals can play a useful role in diversifying risk, as well as being an attractive investment in their own right, thus, one might expect that the prices share similar dynamics. However, there are also economic fundamentals that may act to drive the prices of gold and silver apart. The main objective is to study about the relationship between gold and silver in commodity market. The secondary objectives are to study different factors affecting the gold & silver price & to find out how price of gold & silver fluctuate in the Indian commodity market. After effective research it's found that there is significant relationship between gold & silver. The tools used are correlation, regression & ANOVA. The study will help investors to know the relationship and influence of factor over the price of the gold

and silver. This study also may be taken as a guide to investors who will invest in gold or silver.

3. Objectives of the Study:

- To study about major exchanges trading in Indian commodity market.
- To study about participants in Indian derivative market.
- To understand the basics of commodity market and to discover the Emerging prospects (Gold, Copper and Silver) in the Indian commodity market.
- To study the gender-wise preference of investment alternative among equity and commodity.
- To study income wise preference of investment alternatives among equity and commodity.
- To identify the perception of investors in commodities market

4. Hypothesis of the study:

- There is insignificant difference over the preference of equity or commodity investment option between male and female.
- The preference of investment in equity or commodity is not affected with the change in level of income.

5. Research Methodology

5.1 Type of research: Based on the objectives of the study, the descriptive research method will be used. Descriptive study is taken up when the researcher is interested in knowing the investor perception in commodities market. The conclusions are arrived at from the collected data. Statistical tools like independent sample t-test and ANOVA is used to analyze the data collected from the survey.

5.2 Sample Size: A Sample size of 100 respondents from among the investors our South India

5.3 Sampling Techniques- Simple Random Sampling and Judgemental Sampling is used in this research.

5.4 Data Collection of the study: Primary data is collected from the present investors with the help of structured questionnaire collected from 100 respondents of South India.

6. Analysis and Interpretation:

To test the hypothesis “There is insignificant difference over the preference of equity or commodity investment option between male and female” one sample t-test is applied where following results were obtained:

Table 1.1 Independent Samples Test

	Levene's Test for Equality of Variances	t-test for Equality of Means
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	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Where do you invest?	.011	.917	-	98	.258	-.23529	.20688	-	.17525
			1.137					.64583	
			-	69.046	.254	-.23529	.20436	-	.17238
			1.151					.64297	

The Significance value obtained from the Levene’s Test in the table 1.1 is 0.917 which is more than the alpha value of 0.05 ( $p > 0.05$ ), which states that null hypothesis is accepted and hence it is found from the study that there is no significant difference in the preference of Equity or Commodity investment among Male and Female investors.

Further, to test the hypothesis “The preference of investment in equity or commodity is not affected with the change in level of income” one Way ANOVA is applied using SPSS ver. 20 taking the preference of investors as dependent factor and level of income as fixed factor, where following results were obtained:

Table 1.2 ANOVA

Have you invested in Equity or Commodity?

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.842	3	.281	.426	.735
Within Groups	63.318	96	.660		
Total	64.160	99			

The above table shows that the f value obtained from the test is 0.426 and the significance value obtained is 0.735 which is more than the alpha value of 0.05 ( $F = 0.426, p > 0.05$ ), hence null hypothesis is accepted, which states that there is insignificant difference in the preference over equity and commodity irrespective of the income of the investors.

7. Conclusions:

- Investment in commodity market has its own risk involved in it. It is better to analysis the risk involved before

making the investment. The study states that equity market have certain level of positive impact over commodity.

- ANOVA proved that null hypothesis exists and thus proved there is no relation between the level of income of investors for the choice of investment alternative. Even though, equity is considered to be the best alternative source of investment. It was found during the study that investor’s tendency to switch to gold

investment when they find the market to be too risky.

- One Sample t-test proved that null hypothesis exists and thus proved that there is no significant difference between male and female investors over the choice of investment alternative. Even though, it was general tendency that males are likely to invest more in equity and females are likely to invest more in gold and silver. But it has been proved opposite to this.

#### 8. Recommendations:

On the basis of analysis and findings of the study, following suggestions were made to the investors:

- Investors should not enter the market when it is highly volatile.
- Before placing the order, investors should understand the trend of market.
- Due to heavy fluctuations in the market it is therefore recommended not buy in bulk quantity. There is famous saying that do not put all the eggs in one basket.
- Commodity derivatives is more risky but compared to returns both are at same level.

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