

**FUNCTIONING OF THE UNIT TRUST OF INDIA:
AN APPRAISAL**

89

**BY
REKHA K. DATE**

**GOKHALE INSTITUTE OF
POLITICS AND ECONOMICS
PUNE - 411 004**

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FUNCTIONING OF THE UNIT TRUST OF INDIA :
AN APPRAISAL

A DISSERTATION
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(Rekha K. Date)

CHAPTER I

INTRODUCTION

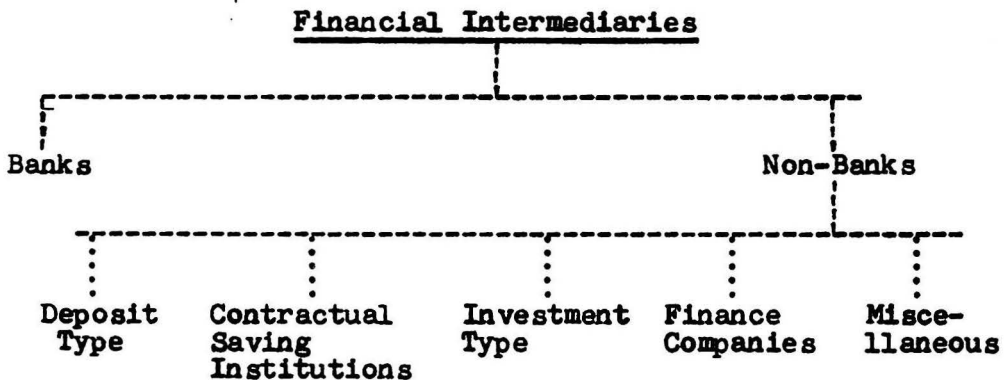
Self financing was the only method of financing consumption and investment expenditures in a rudimentary stage of an economy. In developing economies the importance of and emphasis on self financing gradually declines and external financing becomes relatively more important. External financing involves two methods - direct financing and indirect financing. In direct financing, finance is obtained by the deficit units directly from the ultimate surplus units. Indirect financing on the other hand implies that the deficit units obtain finance from financial intermediaries. That is, the ultimate borrowers get funds from ultimate lenders through the intermediation of financial intermediaries, which act as a link between ultimate borrowers and ultimate lenders i.e. deficit and surplus units. Financial intermediaries mobilise funds from surplus units. Due to various limitations of direct financing, indirect financing is becoming more and more important and as a result the financial intermediaries are required to play an increasingly important role in financing the expenditure of deficit units.

The term financial intermediaries is used for those institutions which collect savings from others, issuing in

return claims against themselves and use the funds thus acquired to purchase debt claims. To bring about an allround development of the economy in full fledged manner, it requires, among other things, immense financial resources. Economic growth is primarily a real phenomenon and is naturally dependent on real factors. Though finance is by no means a substitute for real resources, it has a crucial role in economic development. One of the primary tasks in the process of development is to mobilise the financial resources of the community and to channel them into productive investment. Further, a free flow of finance among all the branches of economic activity is absolutely necessary to ensure growth of the economy to its full potential. Financial activity is very important in the whole process of capital formation because on one side, the act of investment is confined to a class of economic units, say industrial units, who have necessary technical and market information while on the other hand, the activity of savings is largely diffused among innumerable individuals who lack skill, capacity and personal characteristics of active investment. Hence the transfer process is crucial and facilitates economic growth. Financial intermediaries perform the crucial function of mobilising savings and making them available for the production of real capital equipment and investing in them.

Classification of financial intermediaries :

A satisfactory classification of financial intermediaries, of course, will vary from country to country and from time to time. We can, in general classify financial intermediaries as banks and non-banks. However, it should be remembered that the distinction between banks and non-banks is gradually eroding. Non bank financial intermediaries are further classified into five different categories. The following chart gives an idea about this classification.



1. Deposit Type : These intermediaries have liabilities quite similar to the deposits held by commercial banks. e.g. mutual savings banks, savings and loan association and credit unions in the U.S.A.

2. Contractual Saving Institutions : These include intermediaries whose liabilities are defined by contracts for future payments under specified conditions e.g. LIC, PF etc.

3. Investment Type : These are the intermediaries whose liabilities are shares or trust agreements evidencing ownership or beneficial interest in long run securities e.g. municipal bond funds, mutual funds, investment companies.

4. Finance Companies : These are the intermediaries whose liabilities include commercial paper, bank borrowings and debentures. They have substantial equity capital.

5. Miscellaneous : This category includes government and quasi-government lending agencies whose liabilities are termed as agency securities. These include investment and brokerage houses that facilitate financial investment.

Features of an Investment Company :

After outlining, in brief, the various non-bank financial intermediaries we shall now turn to examine the features of an investment company in some detail.

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Features of an Investment Company :

After outlining, in brief, the various non-bank financial intermediaries we shall now turn to examine the features of an investment company in some detail.

1. Definition :

An investment company is a joint stock company formed for the collective investment of money subscribed in the form of share capital by its members.⁽¹⁾

The term investment company is used to designate a variety of financial institutions through which the accumulated funds of a large number of savers and investors are pooled together under centralised management to be invested in securities for the benefit of all participants.

2. Origin :

The investment company idea has its origin in Belgium. The "Societe General de Belegiue", established in 1822, is considered the first investment company and subsequently similar investment organisations were formed in Switzerland and France. The Foreign and Colonial Government Trust of London formed in 1868 is the real pioneer in the field of modern day concept of investment company.

3. Objective :

The aim of an investment company is to provide, particularly to small investors, the same opportunity to spread risk through diversification, which is available to

large individual and institutional investors. In addition, its aim is to give the investors, the benefits of trained, experienced and specialised management of finances.

4. Services provided by an investment company :

An investment company provides the following important services to investors :

- i) Reduction of risk through diversification,
- ii) Expert management,
- iii) Botheration-free investment,
- iv) Selection and timing of investment.

(i) Reduction of risk through diversification :-

Before discussing reduction of risk let us examine the types of risks involved with an investment.

Investment risk relates to the uncertainty about the size of future returns on the principal amount of money invested. Rate of return is the relationship between total amount realised and the principal amount originally invested. It is expressed as an annual percentage rate.

It is found that generally there is a positive relationship between the amount of risk assumed and the amount of expected return. That is, the greater the risk

taken, the larger the return expected and larger the likelihood of substantial loss in case of an unfavourable outcome. All investment decisions revolve round the trade-off between risk and return. The risk in holding securities is that the actual or realized returns might be less than the expected returns. There is no security that is totally riskless because one or more types of risk is always present, with the potential of affecting a security price or income performance. We may consider the following types of risk.

- (a) Purchasing Power risk
- (b) Market risk
- (c) Interest rate risk
- (d) Business risk.

(a) Purchasing Power risk : Whether an individual buys securities or holds surplus funds in bank or in cash form, he or she suffers from purchasing power risk, which is the erosion in the value of principal because of decreasing purchasing power of money. This is the consequence of an increase in general price level. Any security and its coupon rate designated in monetary terms suffers erosion of value because of fall in purchasing power of money.

(b) Market risk : Market risk is the loss of capital resulting from changes in prices of an equity share or a

debenture. Variability in return on equity shares caused by basic changes in investor expectations is also referred to as market risk. All investors who put their money in ordinary shares are exposed to market risk regardless of the financial position of the particular firm, or earning growth rates.

(c) Interest rate risk : Interest rate risk is the risk of loss of capital on existing securities brought about by changes in interest rate paid on new securities issued at any point of time. Fixed income securities are subject to interest rate risk and the loss can be severe over a long period of time.

(d) Business risk : The inability of a company to maintain its competitive position and lack of stability in its earnings is called business risk. Business risk can be divided into two components: external and internal. External business risk is the result of operating conditions imposed upon the firm by economic circumstances. Internal business risk is largely associated with the efficiency of operations of the firm.

After outlining the various types of risk associated with an investment, now we shall consider how these risks can be reduced through diversification. Diversification is

crucial in minimising undue risk. But many investors do not have sufficient funds to invest in a widely diversified portfolio. An investment company is able to diversify its investment as it can invest in a portfolio of securities which reduces risk at a given level of return i.e. diversification in right direction. Besides an investment company gets the benefits of economies of scale in operation as a result of which costs of operation are reduced. Because of bulk purchase of securities they can get securities at prices lower than those charged to individual investors. They can gather and analyse information at low cost per unit by spreading the total cost over a large volume of assets. Further, they can achieve lower transactions costs in buying and selling of securities.

Any investor, at any expected return, will prefer a portfolio that has the least risk, and at any given risk level, will prefer the portfolio that has the highest expected return. It is the objective of every investor to optimise the return for each level of risk. Appropriate diversification becomes very important in achieving this objective. An individual investor cannot, normally attain such a degree of diversification due to individual investment constraints such as financial, psychological and managerial. The services provided by an investment company help an individual investor to diversify his investment portfolio

and achieve the above mentioned objectives. When an investor purchases a share of an investment company he gets a proportionate share in the securities' portfolio owned by the investment company. Thus, an individual investor with even limited resources can get benefits of a diversified investment portfolio if he invests through an investment company.

(ii) Expert Management :

We have seen that diversification can be helpful in achieving the basic objective of an investor of optimising the return for a given level of risk. Construction of a diversified portfolio, however, requires expert management. This is available to the investor as investment companies generally employ expert managers to manage their portfolios. A proper selection and supervision of securities requires specialised knowledge, training, ability and aptitude on the part of the investor. If the investor does not have these qualities as well as time then his faulty decisions may result in a loss to him or he may get a return lower than what he could have otherwise achieved at a given level of risk, or he may have to take higher risk for a given level of return. The risks in respect of return are minimised when an investor invests through an investment company which has expert management and has a diversified portfolio.

(iii) Botheration-free investment :

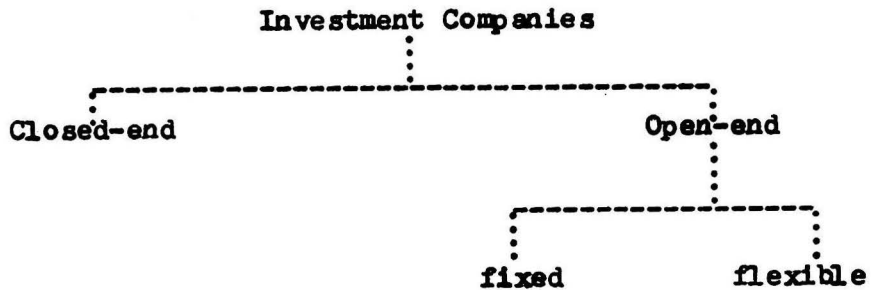
Investors get freedom from mental stress resulting from uncertainties associated with buying and selling of securities. An investment company relieves them from such a stress, as it is managed by professional experts who act scientifically in buying and selling of securities, for their clients and hence gives an assurance to the investors.

(iv) Selection and timing of investment :

Expertise in stock selection and timing of selection is made available to the investors by an investment company. For a profitable investment, proper time of sale and purchase of securities is very crucial. At an individual level it is very difficult to select proper time as an individual investor lacks necessary training and knowledge.

Classification of Investment Companies :

Investment companies are basically classified as open-end and closed-end companies. Open end companies are further classified as fixed and flexible companies.



1. Closed-end Company :

A closed-end company, like any other joint stock company, has a fixed amount of authorised capital and a stated amount of issued capital. The capital may consist of ordinary or preference shares. Besides, the companies may also raise loan capital. Their shares are traded on stock exchanges and the companies themselves are not required to repurchase them. The day to day market prices of shares of these companies are determined by the forces of demand and supply like any other security traded on the market. These companies are primarily concerned with investment of funds in securities of other companies. The management has wide discretion in the conduct of the affairs of the company. Income earned is pooled and distributed to the shareholders after meeting prior charges owing to loan capital, expenses, and remuneration for management.

2. Open-end Company :

Open-end companies do not have fixed capital. They continuously offer their shares for sale to existing or new investors. They are always ready to repurchase their own shares. Generally the price at which a unit is offered for sale represents the underlying value of their own assets. The capital structure of these companies is simple. There is only one type of capital i.e. the amount raised by selling of shares. There is no borrowed capital. The entire income of these companies, after meeting management remuneration and trustee fee, is distributed to shareholders.

Classification of an open-end company

a. Fixed Unit Trusts : The management of fixed trust does not have discretion in regard to selection of the company's investment portfolio. Investment is confined to a fixed list of securities on the premise that a permanent investment in certain shares will prove remunerative in the long run, irrespective of changes in economic, financial and other factors in the country. The function of management is confined to collection and distribution of income. The management prescribes the securities which are to be purchased and in what proportions. The securities once selected should be retained till the termination of the

trust. This type of trust lacks flexibility and dynamism e.g. future better investment opportunity, if any, cannot be utilised.

b. Flexible Trusts : To overcome the inability of fixed trusts to meet changing conditions, flexibility is introduced in the operations of a flexible trust by providing an alternative panel of securities in addition to the original block. The management has power to reconstitute the portfolio.

INVESTMENT COMPANIES IN INDIA :

After outlining the features of investment companies in general, we shall now turn to investment companies in India. Investment companies were developed much later in India compared to either the U.K. or the U.S.A. Though the Association of India and China claimed to be the first investment trust in India was reported to have been formed in 1869, effective development of investment trust movement commenced from 1930s. The reasons for late development basically lie in low volume of savings available for investment, as also partly because of absence of adequate investment outlets, conducive to the development of investment companies. The setting up of the Industrial

Investment Trust Ltd. by a prominent firm of stock brokers in Bombay (Messrs Premchand Raychand and Sons) marked the beginning of growth of investment trusts in India. There are currently two types of investment companies in India, viz. Private investment companies and mutual funds. Section 372 of the Indian Companies Act defines an investment company as a company whose principal business is acquisition of shares, stocks, debentures or other securities. The Reserve Bank of India for the purpose of directions to non-bank financial intermediaries, has defined an investment company as any company, not being a banking company, carrying on as its principal business acquisition of securities but does not include any company which is an industrial concern. The functions and working of the Unit Trust of India are analysed and evaluated in this study.

OBJECTIVE OF THE STUDY :

The present study aims at analysing the functioning of the Unit Trust of India (hereafter referred to as UTI) with a view to find out how far the objectives with which the UTI was established have been achieved.

Sources of data :

The study is essentially based on secondary data.

The annual reports of the UTI, the Reserve Bank of India's reports on Currency and Finance constitute the two important sources of data and information. Apart from these, the author visited the head of the UTI at Bombay and had the benefit of discussions with few officials on some of the aspects studied here. The officials, are of course, not responsible for the analysis made and conclusions drawn here.

Period of Study :

The reference period of study is 1964-65 to 1986-87. However, an effort has been made to provide recent data wherever possible.

Chapter Scheme :

Contents of the subsequent chapters outlined briefly, are as under.

The Second Chapter outlines the genesis and describes the Salient features of the UTI.

An attempt is made in the Third Chapter to analyse the role of the UTI as mobiliser of savings in the country.

A brief description of various schemes introduced by the Trust for mobilisation of savings is also included.

The Fourth Chapter is exclusively devoted to an examination of the investment policy of the UTI. It discusses how the funds of the Trust are invested in different assets and examines its impact on the profitability of the UTI.

The penultimate chapter considers pricing policy of the UTI.

The important findings and conclusions emerging from the present study are given in the last chapter.

NOTES :--

- 1.. Evidence on Financing of Industry and Trade
Volume VII, April 1978, p.2

London, Her Majesty's Stationery Office.

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CHAPTER II

GENESIS AND FEATURES OF THE UTI

A unit trust is a device by which a large number of people can pool their savings and have them invested in various types of securities on stock exchanges, the purpose being to earn a safe and satisfactory return on such investments. A unit trust is thus a financial intermediary which serves two basic purposes: (i) It mobilises the savings of the community in order to channelise them into productive corporate investments; and (ii) it provides a facility to persons of even modest means indirectly to own equity shares and fixed income securities of companies.

The special advantages of professional management, diversification and ready liquidity are the three characteristics of a unit trust. The concept of unit trust as a financial intermediary has gained wide acceptance and popularity in industrially developed countries. In India Unit Trust of India was established in 1964 as a public sector financial institution.

Early Discussions about the establishment of Unit Trusts in India :

The following paragraphs outline the situation which led to the establishment of the UTI.

Recommendation of the Central Banking Enquiry Committee :

The importance of Unit Trusts in mobilisation of savings, especially from small investors, was recognised as early as 1931, when the Central Banking Enquiry Committee submitted its report. In the Minority report of the committee, Manu Subhedar had urged the need for setting up of investment trusts to fill the gap in institutional structure concerned with financing industrial and other borrowers. The Minority report said, "An immeasurable benefit is bound to grow from establishment and proper working of Unit Trusts and the assistance which they give to the investor in creation of intermediate securities, which do not exist now, in providing a channel for investment in industrial and other fields where the primary investor would be too scared or too ignorant." (1)

Shroff Committee :

The desirability of setting up of such an institution was restated by Shroff Committee in 1954. The Committee on Finances for Private Sector (popularly known as Shroff Committee), appointed by the Reserve Bank of

India, to suggest ways and means for the provision of finance for private sector, was of the view that "Unit Trusts are suitable in India, where small savings have to be drawn into investment market in order to increase capital available for industries. The Committee, therefore, recommended, 'steps should be taken both by the public and private sectors to encourage the formation of such institutions'. (2)

An Article on Investment Trusts published in Reserve Bank of India Bulletin, October, 1960 :

RBI Bulletin, October 1960, published an article on investment trusts prepared by one of the officers in the Economics Department of the Bank. (3) The article attempted to indicate the possibilities of promoting growth of investment trusts, particularly Unit Trusts, in the light of the experience of similar institutions operating in the U.K. and the U.S.A.

The article observed: 'there is sufficient scope for making a beginning with the establishment of small unit trusts by well-known industrial houses, broker firms, insurance companies in India, with active encouragement from Government. Apart from mobilisation of savings of

small investors, the success of unit trusts would also contribute to the democratisation of industrial share ownership and thus to the furtherance of the objectives of the Directive Principles of State Policy'.⁽³⁾

Despite the above mentioned recommendations, Unit trusts did not make their appearance on the Indian financial scene till 1964. It was only in 1964 that the Unit Trust of India was established by the Government of India in the public sector as an open-end investment company.

The genesis of the UTI is traceable to the circumstances prevailing in the industrial securities market during 1960. "Following the Chinese aggression towards the end of 1962, the stock market slipped into a state of depression which continued for quite some time. Entrepreneurs were hesitant to enter capital market as new issues were devoid of investor support and companies found it difficult to raise fresh capital. Efforts were, therefore, made to mobilise savings and channelise them into productive investment for speeding up the process of industrial growth. As a part of these efforts an integrated approach was evolved in respect of the role of various financial intermediaries and the need for establishing the UTI stemmed from this approach."⁽⁴⁾

Features of the UTI :

1) Objectives of the UTI --

The basic idea behind the establishment of the UTI, as stated in 1963 by the then Finance Minister, T.T. Krishnamachari, was "to afford the common man a means to acquire a share in the widening prosperity based on steady industrial growth of the country which combines the advantages of minimum risk and reasonable return." In pursuance of this objective, the UTI bill was passed by the Parliament in December, 1963. The bill received President's assent on December 30, 1963 and the UTI was established on 1st February, 1964. Thus, the establishment of the UTI provided an opportunity to investors to invest through it in industrial share ownership with the risk of such investment reduced through professional management and diversification. The twin objectives of the UTI are as given below :-

(i) mobilising the savings of the community in order to channel them into productive corporate investment; and

(ii) providing facility to persons of even modest means to indirectly own equity shares and fixed income securities.

2) Functions --

The Trust carries out the following functions :

- i) Selling and purchasing of units,
- ii) Investing in, and acquiring, holding or disposing of securities and enforcing all powers and rights incidental to such investment,
- iii) Granting loans and advances against a security or immovable property,
- iv) Keeping money on deposits with companies or other corporate bodies, scheduled banks or such other institutions as may be prescribed,
- v) Investing in any paper or security floated by the Union Government or Reserve Bank of India,
- vi) Providing leasing and hire purchase finance to persons,
- vii) Providing merchant banking and investment advisory services,
- viii) Extending investment or portfolio management services to persons residing outside India,
- ix) Buying or selling of foreign exchange as may be necessary for the discharge of its functions, and

- x) Doing any other kind of business connected with mobilisation of savings or investments which the Union Government may authorise.

3) Sources of Funds --

(a) Capital Structure

The Trust has two types of capital viz., initial capital of Rs. 5 crores which is fixed, and unit capital which goes on changing according to the net sales of units.

1) Initial Capital : It is contributed by different institutions in the following manner :

i. Reserve Bank of India	Rs. 2.50 crores
ii. Life Insurance Corporation of India	Rs. 0.75 crores
iii. State Bank of India and its subsidiaries	Rs. 0.75 crores
iv. Scheduled Banks and other specified financial institutions	Rs. 1.00 crores

With the delinking on the Industrial Development Bank of India from Reserve Bank of India on February 16, 1976, under the Public Financial Institutions Laws (Amendment) Act, 1975, the initial capital of the UTI held by the RBI

and also the various powers exercised by the RBI under the UTI Act, 1963 stood transferred to the IDBI, making the UTI an associate institution of the IDBI.

ii) **Unit Capital** : This is distinct from the initial capital and is obtained from sale of units to the public. There are various schemes introduced by the UTI for raising the unit capital. The salient features of the schemes are discussed in the next chapter.

(b) Reserves and Reserve Fund

A part of profit earned is diverted towards reserves and reserve fund.

4) Management --

The general supervision, direction and management of affairs and business of the Trust is undertaken by a Board of Trustees.

(a) Constitution of the Board of Trustees

The Board of Trustees consists of 11 members.

1) The Chairman, to be appointed by Government of India in consultation with the IDBI.

- ii) The Executive Trustee appointed by the IDBI.
- iii) Four trustees nominated by the IDBI.
- iv) One trustee each nominated by the LIC and SBI.
- v) One trustee nominated by the RBI.
- vi) Two trustees elected by Scheduled Banks and other financial institutions which have contributed the initial capital.

(b) Terms of Office of Trustees

(i) The nominated trustees hold office during the pleasure of the nominating authority.

(ii) The elected trustees hold office for a period of four years.

(iii) Trustees are eligible for renomination and re-election.

(iv) The Chairman and Executive Trustee hold office for a term of five years. They are eligible for re-appointment.

(c) Meetings of Board

The Board should meet at least six times in a year and once in two months. All the questions which come up

before the Board are decided by a majority of votes of trustees present and voting. In the event of equality of votes, the chairman has a casting vote.

(d) Executive Committee

The Board is assisted by an Executive Committee consisting of four members i.e. chairman, executive trustee and two trustees nominated by the IDBI.

(e) Representation of unitholders

A look at the constitution of Board of Trustees indicates that all the trustees represent the initial capital contributors. The unitholders do not have any representation in the management.

5) Investment Policy --

The investment policy of the Trust takes into account the security of capital as well as a reasonable return on its investment. The Trust aims at building up a balanced portfolio consisting of fixed income-earning securities and variable income-yielding securities. There are broad guidelines regarding investment, the details of which are discussed in the next chapter.

6) Offices --

The head office of the UTI is located at Bombay. As on 30th June, 1987, it had Regional Offices at Bombay, Calcutta, Madras and New Delhi, branch offices at Ahmedabad, Bangalore, Bhubaneshwar, Gauhati, Hyderabad, Jaipur, Kanpur, Ludhiana, Patna, Trichur and Vijayawada. Its principal bankers are the State Bank of India, the Dena Bank, the Bank of Baroda, the United Commercial Bank, the Canara Bank and the Punjab National Bank. The Trust has 32,622 agents and 216 chief representatives in the agency force for sale and publicity of units as on 30th June, 1988.

7) Distribution of Income --

Net less than 90 percent of the gross income after deducting expenses is to be distributed to the unit-holders.

8) Pricing Policy --

The sale and repurchase prices of units are fixed and quoted by the UTI and are calculated on the basis of formula price. A detailed analysis of the features and limitations of the pricing formula is presented in the fourth chapter.

9) Taxation --

The trust enjoys various tax benefits such as the following.

i) The trust is exempted from payment of income-tax, super-tax and other taxes on its income.

ii) It is entitled to receive its dividend and interest income without tax deduction at source.

Initial contributors of capital are not required to pay surtax under Companies Surtax Act, 1964, on the income received by them from the UTI in respect of their initial contribution of capital.

10) Special Features --

i) Management and trusteeship are not differentiated :

The functions of management and trustees are combined in the Board of Trustees of the UTI. It is not wise to combine these two distinct functions. The function of management is to undertake the day to day decisions for management of the Trust, while Trustees are expected to evaluate the decisions of management. It is not appropriate for a single authority to take the decisions and to evaluate them.

ii) Capital Structure :

Unlike other unit trusts the world over, the UTI did not draw its initial capital from unit-holders, but from banks and specialised agencies.

iii) Ownership :

Unlike other unit trusts in the world, the UTI is owned by the Union Government; it is, thus a public sector institution.

After outlining the genesis and features of the UTI, we shall turn, in the next chapter to an examination of the efforts made by the Trust in mobilising savings of the public.

NOTES :--

- 1.. The Indian Central Banking Enquiry Committee 1931, Vol. I, Part II, Minority Report, p. 364
Government of India, Central Publication Branch, Calcutta.
- 2.. The Committee on Finances for Private Sector (Shroff Committee), 1954, p. 96, RBI, Bombay.
- 3.. K.M. Hanifa, Investments Trusts, RBI Bulletin, October, 1960, p. 1468
- 4.. Unit Trust of India, Review of Decade of Operations, 1974, p. 1

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CHAPTER III

MOBILISATION OF SAVINGS BY THE U.T.I.

Mobilising savings of the community in order to channel them into productive corporate investment is an important objective of the UTI. In this chapter an attempt is made to analyse how far the UTI has been successful in achieving this objective. In this analysis the main points of focus are :

- I: Tax benefits enjoyed by the unitholders.
- II: Description of schemes introduced by the Trust for mobilisation of savings.
- III: UTI's marketing mechanism.
- IV: Volume of savings mobilised by the Trust.
This analysis is attempted under two heads --
 - (a) aggregative; and
 - (b) scheme-wise analysis.
- V: Category-wise classification of unitholders.
- VI: Relative position of the UTI in financial assets held by household sector.

I: TAX BENEFITS ENJOYED BY THE UNITHOLDERS :

i) There is an exclusive exemption in income-tax on dividend received on units upto Rs. 3,000 per year.

ii) The limit for 100 percent exemption from income tax on contribution to Unit Linked Insurance Plan (ULIP) is Rs. 6,000; 50 percent on next Rs. 6,000; and 40% on the balance, subject to a maximum of Rs. 40,000.

iii) Investment in units qualifies for exemption from wealth tax within the overall limit of Rs. 5 lacs.

iv) Investment under Capital Gains Scheme qualifies for exemption of tax on capital gains.

v) There is no deduction of income tax at source while distributing dividend on the units.

II: SCHEMES FOR MOBILISATION OF SAVINGS :

Basically there are two types of schemes, viz. open-ended and closed-ended. Units under open-ended schemes are continuously offered for sale, while units under closed-ended schemes are offered for sale, during

specific periods fixed by the UTI. As on June 30, 1987, there were five open-ended schemes in operation and the Trust has introduced till 1987 twelve close-end schemes. In addition, two growth funds were also introduced during 1986. A brief description of each of these schemes is presented below.

A) Open-ended Unit Schemes :

1) Unit Scheme, 1964

This was the first scheme to be introduced by the Trust. Each unit under this scheme has a face value of Rs. 10. Units are offered for sale with a minimum of 10 units, in multiples of 10, at ruling sale price determined by the Trust. The price varies during the year, the lowest being in July every year. The primary objective of this scheme is to offer to unitholders a regular and growing income as well as safety and security of capital. The rate of dividend under this scheme has gradually increased—from 6.1 percent for 1964-65 to 18 percent for the year 1988-89.

The Reinvestment Plan 1966 under this scheme helps the unitholder to build up units from the dividend earned. The annual dividend earned is automatically reinvested

in further units. The UTI does the investment at July price, which is the lowest.

2) Unit Scheme, 1971

It is an Unit-Linked Insurance Plan (ULIP). It was introduced in October, 1971, in association with the LIC. It is a contractual plan which the residents of India can join. There are two plans under this scheme.

(a) Plan for a term of 10 years.

(b) Plan for a term of 15 years.

(a) Plan for a period of 10 years --

A persons in age group 18 to 45½ years can join the plan for an amount ranging between Rs. 3,000 and Rs. 40,000.

A small amount from the unit holder's contribution is paid to the LIC for providing life insurance cover. The rest is invested in units. There is no medical examination of the investor joining the plan; declaration regarding soundness of health by the applicant is sufficient.

In addition to the life insurance cover for the contracted amount, additional cover against accident is provided under arrangements with the General Insurance Corporation of India. This accident cover is for Rs. 15,000, irrespective of the contracted amount.

A member can withdraw from the plan by giving one month's notice. The risk cover starts only after completion of one year i.e. from the 2nd year onwards.

The dividend under this scheme has gradually increased, from 7.0 percent for 1971-72 to 13.75 percent for the year 1988-89.

3) Unit Scheme for Charitable and Religious Trust and Registered Societies, 1981

This scheme was introduced in October, 1981. It is a scheme meant for Charitable Trusts, Religious Trusts and Societies registered under Societies Registration Act, 1960. Each Unit under this plan has a face value of Rs. 100. Units are sold in multiples of 10, with a minimum of 100 units. Although the face value is Rs. 100, units are sold at a price fixed by the Trust. The unit holders can receive the dividend every year or they can reinvest the

dividend in units. This scheme differs from the earlier two schemes in one very important respect; it guarantees a minimum dividend of 12 percent per annum. The dividend under this scheme has been progressively increased from 12.5 percent for 1981-82 to 15.0 percent for the year 1988-89.

4) Capital Gains Unit Scheme, 1983

This scheme was launched in December, 1983. Under this scheme, units of face value Rs. 10 each are sold in multiples of 10, at a sale price determined by the Trust. The minimum number of units to be purchased is 500; there is no upper limit. Repurchases start only after a period of 3 years from the date of purchase. The investment under this scheme qualifies for exemption under Section 54(E) of Income Tax Act, 1961. If the capital gains are invested under this scheme, the investor gets an exemption from tax on capital gains. The rate of dividend under this scheme has been gradually increased from 8 percent from 1983-84 to 9.7 percent for the year 1988-89.

The other financial assets which qualify for exemption from capital gains are 3-year Rural Development Bonds which carry 7½ percent rate of interest, notified bonds issued by the IDBI which carry 9 percent rate of interest.

5) Children's Gift Growth Fund Unit Scheme, 1986

This is a scheme introduced by the Trust in 1986 exclusively for the benefit of children. Under this scheme any adult can give a gift to a child below the age of 15 years and invest it in units. The Trust has been very prompt in introducing this scheme. The gift tax exemption limit was raised from Rs. 5,000 to Rs. 20,000 during 1986, and the Trust immediately introduced this scheme, to take advantage of the favourable situation. This scheme guarantees a dividend of 12.5 percent per annum. The yearly dividend is reinvested at July special offer price. The fund provides for declaration of bonus dividend every five years. The amount thus invested is available to the donee child after the attainment of 21 years of age.

6) Parents' Gift and Growth Fund Unit Scheme, 1987

This scheme was launched on December 15, 1987. The scheme is primarily aimed at providing an opportunity for younger generation to create a fund for the benefit of their parents and elders. Moreover this scheme is also open to companies, bodies corporate and eligible trusts who can invest for the benefit of their employees. The scheme operates in two stages. Under the first stage, the amount invested in units grows at a compound rate by

reinvestment of dividend on half yearly basis at 12.5 percent per annum and cumulated for a period of 4 or 5 years as opted by an applicant. Under stage two, the amount thus accumulated will be reinvested together with any appreciation for a period of 5 years in the nearest Monthly Income Unit Scheme which offers an income distribution at 12 percent per annum by post-dated dividend warrants encashable on monthly basis. This scheme is likely to be extended to non-resident Indians in the near future.

B) Closed-ended Schemes :

The Trust has introduced several closed-end schemes in recent years to suit investors' preferences. Units under these schemes are offered for sale during specific periods fixed by the Trust. The various closed-end schemes and their features are given below.

1) Income Unit Scheme, 1982

This scheme introduced on May 1, 1982 was on tap during May-June, 1982. The face value of each unit was Rs. 100. Units were sold in multiples of 10, subject to a minimum of 20 units. With a view to ensure wide dispersal of holdings, the Trust placed an investment ceiling of

Rs. 10,000 per person. Multiple applications were not permitted. This scheme differs from the earlier schemes in the following respects.

- i) The Scheme is for a fixed period of 5 years.
- ii) Dividend for all the five years is determined in advance - 12 percent for the first year, 12.5 percent for next two years and 13 percent for last two years.
- iii) Dividend is paid on half-yearly basis.

2) Monthly Income Unit Scheme (MIS), 1983

This scheme introduced on March 1, 1983 was on tap for 2 months. Persons above the age of 55 years were eligible to invest in this scheme.

Widows, physically and mentally handicapped persons and certain institutions were also eligible to invest under this scheme. The face value of each unit was Rs. 100. The minimum and maximum limits for investment under this scheme were 50 and 1,000 units respectively. For institutional investors, the maximum limit was 5,000 units. This scheme guarantees a dividend of 12 percent per annum.

3) Growth and Income Unit Scheme, 1983

This scheme, introduced on April 15, 1983, was on tap for 2 months. The face value of each unit was Rs. 100. The minimum and maximum limits of investment were Rs. 3,000 and Rs. 15,000 respectively. The scheme promised a dividend of 10 percent per annum and a reasonable capital appreciation in about 5 years. Repurchase facility at par is provided every year between October and April.

4) Monthly Income Unit Scheme(2), 1983

The 2nd series of Monthly Income Unit Scheme was introduced in November, 1983 and was on tap for 2 months. This scheme was similar to the earlier Monthly Income Unit Scheme.

5) Monthly Income Unit Scheme (MIS)(3), 1984

As a result of keen interest shown by investors in the earlier two series of this scheme, the Trust launched the third scheme on September 1, 1984. The scheme was on tap for 2 months. The age limit of the investors was reduced to 50 years in this scheme from 55 years and multiple applications were also entertained. Other features regarding dividend, maximum and minimum limits of investment remained unchanged.

6) Monthly Income Unit Scheme(4), 1985

The fourth scheme was introduced in March, 1985. The sales were open for a period of 2 months. This scheme was similar to the Monthly Income Scheme(3).

7) Monthly Income Unit Scheme(5), 1985

The fifth scheme was on tap during September and October, 1985. This scheme was similar to Monthly Income Scheme(4).

8) Income Unit Scheme, 1985

This scheme was launched in 1985. This five year closed-ended scheme provided for a growing rate of dividend - 12 percent for the first year, 12.5 percent for each of the next two years and 13 percent for each year of the remaining period. The scheme offered two options - an investor could opt either for half-yearly dividend payment (non-cumulative) or for automatic reinvestment of dividend (cumulative) thus enabling the investor under cumulative plan to get Rs. 185 at the end of fifth year for every Rs. 100 invested. Repurchases were allowed from January 1, 1988. The scheme was kept open to resident adult individuals, mentally and physically handicapped persons, widows,

charitable and religious trusts and registered societies engaged in the welfare of old people.

9) Monthly Income Unit Scheme with Growth, 1986(6)

The Trust introduced the sixth scheme, Monthly Income Unit Scheme, with certain modifications in earlier schemes. In addition to a guaranteed dividend of 12 percent per annum, this series (unlike in the case of previous series) guaranteed a minimum capital appreciation of 2 percent at the end of fifth year. The age limit for general category was reduced to 45 years and for defence personnel to 35 years. The minimum investment amount was reduced to Rs. 1,000 from Rs. 5,000. The sale of units under this scheme was open during April and May, 1986.

10) Monthly Income Unit Scheme with Extra Growth(7) 1986

This scheme was introduced in October, 1986. The sale of units were open for 2½ months. This scheme was different from MISG(6), 1986, in only one respect in that it provided for bonus dividend at the end of fourth year.

11) Monthly Income Unit Scheme with
Extra Bonus and Growth 1987 (MISCG(8)), 1987

This scheme was introduced in April, 1987 and was on tap during April and May, 1987. This scheme was similar

to the previous Monthly Income Unit Schemes in all respects but for the withdrawal of age restrictions. It was open for all investors irrespective of age limits. The unit holders of earlier Monthly Income Unit Schemes were given the option to convert their unit holdings into (MISG(8), 1987.

12) Growing Income Unit Scheme, 1987

This scheme was on tap for a period of two months from January 1, 1987. This scheme guarantees a gradually increasing rate of dividend from 12.5 percent to 14 percent per annum and, in addition, a minimum 2 percent growth in capital on maturity. The dividend is payable half-yearly or can be cumulated on half-yearly basis as per the option of investors.

13) Growing Income Unit Scheme(II), 1987

It was a conversion scheme for unitholders under Income Unit Scheme 1982 to convert their holdings into Growing Income Unit Scheme (II), 1987. The unitholders opting for this scheme were paid a capital appreciation of about 4 percent in addition to dividend ranging between 12.5 percent and 14 percent per annum, either payable on half-yearly basis or reinvested at half-yearly intervals,

thus offering an opportunity to the unitholders to double their holding in the period of five and half years.

14) Growing Income Unit Scheme(III), 1987

This scheme was on tap during September and October, 1987. The scheme assures doubling of investment in 5 years and 9 months, under cumulative scheme with the rate of dividend payable under this scheme ranging between 12 percent and 13.5 percent.

14) The Monthly Income Unit Scheme with Extra Bonus Plus Growth(9), 1987

The scheme was launched on November 1, 1987 and was on tap for two months. A dividend of 12 percent per annum payable on monthly basis and 2 percent minimum growth on maturity was offered under the scheme. Also issue of bonus dividend in the fourth year was envisaged.

16) The Monthly Income Unit Scheme with Extra Bonus Plus Growth(10) 1988 (MISG(10) 1988)

The scheme was launched on April 1, 1988 and was on tap till May 31, 1988. The rate of dividend offered was 12 percent per annum with a bonus dividend in the 4th year

A minimum capital appreciation of 2 percent at the end of 5th year was also offered to the investors. With a view to enabling the investors to get a bank loan, the facility of noting a lien was extended under this scheme.

C) Growth Funds :

1) India Fund I --

Although UTI has been selling units to non-resident Indians since 1966, the volume of sales has been substantially low; e.g. sales to non-residents amounted to Rs.9.07 crores during 1985-86 and to Rs. 14.70 crores during 1986-87. The factor responsible for low response is that units cannot be openly advertised and sold in overseas markets because of certain restrictions imposed by foreign stock exchange authorities. As a result, most of the investments arise out of enquiries generated by individual agents of the UTI who assist non-resident Indians in investing their funds in our country. India fund seeks to overcome this handicap.

With a view to provide an opportunity to non-resident Indians and persons of Indian origin residing abroad and individuals and institutions resident outside

India to invest in the securities market of India, the Trust launched India Fund Unit Scheme in 1986 in association with the Merrill Lynch Capital Markets, a renowned international financial services institution. The India Fund was launched in July, 1986 and received an overwhelming response. As against the original issue of £ 60 million, the total subscriptions amounted to £ 128 million. Retaining 25 percent extra subscription, allotments were made for £ 75 million. The shares of India Fund are listed and quoted on the London Stock Exchange.

The Fund is managed by the UTI with an Advisory Board consisting of the Chairman of the Trust as its Chairman and representatives nominated by the UTI and Merrill Lynch.

The Fund declared a maiden token dividend of 2.50 percent for the first year of operation i.e. 1986-87. The investment value has recorded an appreciation of a little over 25 percent during this period. The NAV of the Fund had gone up by 184 percent to 284 crores as on June, 29, 1989, which compared favourably with the relative growth of 68 percent in Economic Times Index.

The Fund represents an innovative way of raising long-term foreign resources. The most important feature of this Fund is that the money brought in is virtually

permanent, unlike borrowings which are to be repaid. Given the difficult foreign exchange position of the country, a larger inflow of such resources may prove useful.

2) India Fund II --

The Trust launched India Fund II unit scheme in 1988 in association with Merrill Lynch Capital Markets. The Fund is listed on the New York Stock Exchange and is a company in perpetuity in keeping with regulations of the US Securities Exchange Commission. The size of Fund was \$ 60 million and it is invested in growth-oriented equities. The NAV of the Indian investments of Rs.66 crores was Rs. 99 crores as on June 29, 1989, showing a growth of 50 percent in less than one year. The NAV of the Fund was \$ 14.05 per share on the same day while the Fund was quoted at \$ 11.75.

The UTI is contemplating launching of a Japan Fund to tap the Japanese capital market, the richest capital market in the world to help Indian companies tide over the long-term requirements of Yen. It is reported that the UTI officials have already visited Japan and had discussions with the officials of some of the leading merchant banks and brokerage houses there to assess the climate for launching of the Fund.

3) UTI Mutual Fund - Mastershares --

Mr. V.P. Singh, the then Finance Minister, had said in his budget speech 1986, "The UTI should float a mutual fund scheme which will provide a channel for small investors to participate in the growth of capital market." In accordance with this announcement, the Mutual Fund Scheme was launched on September 19, 1986. The objective was to provide an opportunity for long term capital appreciation to small investors. Under this scheme, 5 crore master shares of Rs. 10 each at par were offered for sale to the public. Repurchases by the Trust start only after a period of 7 years. However, individual investors enjoy liquidity because the mastershares are listed on all Stock Exchanges in India and hence a secondary market for the shares is available.

The Mutual Fund is managed by an Advisory Board consisting of members with rich experience in the field of banking, finance, and industry. The Chairman of the UTI is the Chairman of this Advisory Board. The funds mobilised through this scheme were invested in a wide range of equities.

The Master shares received encouraging response from the public; as against the original issue of Rs. 50 crores,

the subscriptions received amounted to Rs. 158 crores. The Trust, with the approval of Comptroller of Capital Issues, Ministry of Finance, Government of India, retained Rs.150.43 crores.

The average net asset value of Mastershares is published every week. While the first Net Asset Value as on February 5, 1987, worked out to Rs. 10.41 crores, the Net Asset Value as on June 29, 1987 was Rs. 11.05, and on October 29, 1989 was Rs. 23.10.

The Mutual Fund is an important departure from the existing schemes of the Trust which has been playing safe by investing largely in more secured forms of investment like debentures. Mutual Funds have been highly successful in the U.S.A., Europe and some East Asian countries. It is expected that they will be successful in India too.

III: UTI'S MARKETING MECHANISM :

An investor can purchase units of the Trust in one or more of the following ways:

- 1) directly from the UTI offices;
- 1i) through agents appointed by the Trust;

- iii) from commercial bank offices nominated by the Trust; and
- iv) from designated post offices.

IV: VOLUME OF SAVINGS MOBILISED BY THE TRUST :

We may now attempt an analysis of volume of savings mobilised from the public by the Trust, through the various schemes outlined above. The volume of absolute savings mobilised each year depends on the amount of net sales of units in that year. The amount of net sales are obtained by deducting the amount of repurchases from the amount of sales. The analysis is done at two levels - aggregative and scheme-wise.

a) Aggregative Analysis

Here we shall consider aggregate gross and net sales. The annual gross sales over 23 years of operation ranged between a low of Rs. 2.2 crores in 1965-66 and a high of Rs. 2,015 crores in 1987-88, marked by considerable fluctuations from year to year (see table 3.1). The aggregate gross sales have reached Rs. 3,790 crores by June end 1989.

To decipher a trend, as there are year-to-year variation in net sales, we may analyse the annual data by five-year periods. The average annual gross sales were Rs. 13 crores for the first five-year period, Rs. 22 crores for the next five-year period, Rs. 50 crores for the subsequent five years period of 1975 to 1979 and Rs. 153 crores for the period of 1980 to 1984. The average annual gross sales for the last five-year period were a record Rs. 1,771 crores. A look at the data indicates that the rate of growth of sales was moderate during the first fifteen years years of operations, i.e. upto 1979. Thereafter, there was a substantial rise during the next five years i.e. from Rs. 50 crores to Rs. 153 crores. The last five years of the reference period showed a tremendous rise in average annual gross sales to Rs. 1,771 crores.

The actual amount of savings mobilised by the Trust is also influenced by volume of resale of units by unit-holders. The excess of the amount of gross sales over the amount of repurchases, as we said above, indicates the actual savings mobilised by the UTI.

Net Sales

The net sales show large variations between Rs. 1.0 crore in 1965-66 and Rs. 1,140 crores in 1986-87 (see

table 3.1). We may analyse the average annual net sales for five years periods. While calculating the average annual net sales, the year 1974-75 is excluded as it was an exceptional year, in the sense that the annual net sales were negative, i.e. the amount of repurchases exceeded the amount of sales. The factors enumerated below were responsible for this.

(i) There was a fall in absolute savings of household sector in financial assets from Rs. 3,632 crores of 1973-74 to Rs. 3,402 crores in 1974-75, i.e. 7.4 percent to 5.3 percent of Net National Product.

(ii) Units as media of investment became less attractive due to an increase in the rate of interest on bank deposits, post office savings accounts and National Savings Certificates during April and July 1974.

(iii) It was expected then, that the income and dividend distribution by the UTI might be reduced due to Dividend Restrictions Ordinance which stipulated a ceiling on distribution of dividend by companies to 12 percent of face value of their equity or $1/3$ of their profits whichever is lower.

Now let us turn to the analysis of average annual net sales. The average annual net sales were Rs. 11 crores for the first five years and Rs. 21 crores for the next five years, Rs. 47 crores for the period 1976 - 80 and Rs. 275 crores during the period 1981 to 1985. The average annual net sales during the period 1986 - 1989 were Rs. 1,245 crores.

These data indicate that the average annual net sales have increased slowly during the first 15 years of operations i.e. upto 1980; thereafter, there has been a significantly high growth in average annual sales. The factors that might have contributed to this significant rise may be reported here. The factors are presented under two heads - (i) measures taken by the Trust; and (ii) the fiscal policy of the Government.

(i) Measures taken by the Trust :

1) Innovative Schemes --

The UTI has introduced various innovative schemes since 1980, such as, Unit Scheme for Charitable and Religious Trusts and Registered Societies, 1981, Income Unit Scheme 1982, Capital Gains Unit Scheme 1983, Monthly Income Unit Scheme 1983, and its various series, Growth

and Income Unit Scheme 1983, Income Unit Scheme 1985, Growing Income Unit Scheme 1986, and Children's Gift Growth Fund Unit Scheme 1986. During the year 1986-87 the Trust introduced two growth funds viz. Mutual Fund and India Fund, and three other schemes, viz. Growing Income Unit Scheme 1987, Monthly Income Scheme with Growth (MISG 7 & 8) Contrary to this, there were only two schemes viz. Unit Scheme 1964 and Unit-Linked Insurance Plan 1971 upto 1980. Introduction of new schemes designed to suit investors' preferences has helped the Trust to increase its sales substantially. A look at the proportion of new schemes in total sales indicates that the contribution of new schemes continuously rose during the period 1983-84 to 1986-87; the proportions of new schemes in total annual sales were 43 percent, 45 percent, 59 percent and 83 percent respectively during the period. The substantial rise during 1986-87 is mainly attributable to the launching of Mutual Fund Scheme and India Fund Scheme. These two schemes together contributed 23 percent of total sales during the year.

2) Marketing Strategy --

The Trust introduced various measures for sales promotion and publicity during recent years. Mention may be made of the following points :

a) Agency Force:-

The Trust appointed from the very beginning agents for selling units. In addition to the agents, the Trust introduced a scheme of chief representatives in 1976-77. Under this scheme the Trust appoints chief representatives at district places, to act as development and liaison officers of the Trust and to supervise and coordinate the activities of agents in their jurisdiction and guide investors about investment in units. As on June 30, 1988, there were 32,622 agents and 216 chief representatives.

b) Project for Promotion of Units in Rural Areas (PURA):-

The Trust introduced in 1984-85 a special project for promotion of units in rural areas. To make rapid progress in mobilising rural savings, this project was extended to different states through fertiliser companies. As a result, a large number of people in rural areas were made aware of units as a medium of sound investment.

c) Differential Rates of Commission:-

The Trust introduced a scheme of differential rates of commission in 1985. Under this scheme the business from rural and semi-urban areas is given commission at a rate higher than that for business from urban areas. A total of

221 cities in the country were categorized as urban and metropolitan areas. The rest of the places were categorized as rural and semi-urban.

d) Sales Force of Established Companies:-

The Trust has been utilising, since 1986, the sales force of various established fertilizer companies such as Gujarat State Fertilizer Company, National Fertilizers Limited, Zuari Agro and Southern Petrochemicals Industries Corporation for sales promotion. Under a special arrangement, three department stores of Akbarally's at Bombay and Spencer's at Madras opened special counters for the distribution of application forms for the purchase of units and for acceptance of fully filled in application forms with cheques and drafts. The Peerless General Finance Company has been appointed as an agent of the UTI since 1989.

e) Appointment of some Hindustan Petroleum Dealers

As Agents:-

With the objective of providing more outlets to the investing public, the Trust appointed during 1985-86 these dealers as agents of the Trust. The agent petrol pump act as display centres of the Trust, from where people

can pick up application forms and relevant information material.

f) Publicity:-

The Trust has been using various publicity media such as television, radio, newspapers, hoardings, glowsigns, cinema slides, etc. for popularising units. Press advertisements are released in all languages covering the length and breadth of the country. Publicity literature is printed in majority of regional languages besides English.

(ii) Fiscal Policy :

The fiscal policy of the Government also influences the sales of units to some extent. Special tax concessions to the investment in units encourage sales while withdrawal of special tax benefits discourage sale of units, e.g. the investment in units under Unit Scheme 1964 qualified for exemption from Capital Gain Tax during 1977 to 1979 taking the sales under the scheme from Rs. 33 crores of 1977 to Rs. 96 crores by 1979. When this tax concession was discontinued the next year sales declined to Rs. 48 crores. We have already considered the various tax benefits enjoyed by the unit holders. Here a reference may be made to the following points.

1) Exclusive Tax Benefits

The Finance Act 1981, raised the limit for exclusive tax benefits for income earned from units to Rs. 3,000 per annum.

2) Capital Gains Scheme

The Trust introduced this scheme in 1983. Investment under this scheme qualifies for exemption from capital gains. Since its introduction, this scheme is contributing a substantial part of total sales, e.g. in the first year of its operation, the scheme contributed 30 percent of total sales, while its contribution was 25 percent of total sales during 1986-87.

b) Scheme-wise Analysis

Now we shall turn to the scheme-wise analysis of volume of savings mobilised by the Trust. For this purpose the period of study can be divided into two parts i.e. 1964-65 to 1980-81 and 1981-82 to 1986-87. The Trust had only open-ended schemes upto 1982. A beginning was made in introduction of closed-ended schemes during 1982 with the introduction of Income Unit Scheme, 1982.

Analysis for the period 1964-65 to 1980-81 :

During this period, the Trust had only two schemes viz. Unit Scheme 1964 and Unit Linked Insurance Plan (ULIP) 1971. Upto 1971 there was only one scheme i.e. Unit Scheme 1964; therefore, the volume of savings mobilised by the trust fluctuated with the fluctuations in sales under this scheme. As indicated earlier this was also the period during which aggregate sales increased slowly. Though there were two schemes, the Unit Scheme 1964 was the major contributor; its share was around 90 percent. The ULIP Scheme has been less popular since its introduction. Some of the factors responsible for low response to this scheme may be -- (i) the competition from pure life insurance policies, (ii) low maximum limit, the maximum risk cover provided under this scheme is Rs. 51,000, (iii) the risk cover starts from the second year of joining the plan, and (iv) from agents' point of view the rates of commission are lower compared to the rates offered by the Life Insurance Corporation of India.

Analysis for the period 1981-82 to 1987-88 :

The scheme-wise analysis for this period can be attempted in two ways - (i) the relative position of open-ended and close-ended schemes in total sales, and

(11) the relative position of various schemes within the open-ended schemes.

PROPORTIONS OF OPEN AND CLOSED-ENDED
SCHEMES IN TOTAL SALES (Percentages)

Year ended June 30.	Open-end	Closed-end
1982	58	42
1983	63	37
1984	90	10
1985	83	17
1986	74	26
1987	45	55
1988	62	38

It is seen from the above table that the proportion of close-end schemes has changed from year to year depending on the popularity of schemes introduced during that year. The proportion of close-end schemes increased gradually during 1983-84 to 1985-86. During 1986-87, however, the proportion has increased substantially, primarily due to the introduction of Mutual Fund Scheme and India Fund scheme. These two schemes together have contributed 25 percent of total sales in the year 1986-87. The rising

proportion of close-end schemes indicate its increasing popularity. Therefore, it may be suggested that the Trust should introduce more and more close-ended schemes.

A comparison of popularity of different open-ended schemes shows that the Unit Scheme 1964 has been the most popular scheme upto 1985-86 contributing around 50 percent of total sales under this category; however, during 1986-87 the Capital Gains Scheme has occupied the top place, contributing Rs. 318 crores i.e. 61 percent of total sales in that year under open-end category. The most popular schemes under this category are the Unit Scheme 1964 and Capital Gains Scheme 1983 - their combined share during 1986-87 was 81 percent in total sales. The remaining three schemes, viz. Unit Linked Insurance Plan 1971, the scheme for Charitable and Religious Trusts and Registered Societies 1981, and the Children's Gift Growth Fund, 1986, have together contributed only 19 percent of total sales. The Trust should examine the reasons for poor response to these three schemes and make efforts to popularise these schemes.

Region-wise Analysis :

For the sake of convenience, the activities the Trust conducts are divided into four regions viz. Western

region comprising of Goa, Gujarat, Madhya Pradesh and Maharashtra; Eastern region consisting of Assam, Bihar, Manipur, Meghalaya, Orissa, Tripura, West Bengal and Andaman and Nicobar; Southern region comprising Andhra Pradesh, Karnataka, Kerala, Tamilnadu and Pondicherry; Northern region comprising Chandigarh, Haryana, Himachal Pradesh, Jammu and Kashmir, Punjab, Rajasthan and Uttar Pradesh. The analysis about the relative shares of different regions in the country in aggregate sales of units under all schemes indicates that the Western region has been the major contributor throughout, contributing on an average more than 50 percent of total sales. The relative position of different regions during 1986-87 was :

Western region 40 percent, Northern region 25 percent, Southern region 19 percent and Eastern region 16 percent.

Reasons for such an uneven distribution should be investigated and appropriate action should be taken to popularise units in the Eastern, Northern and Southern regions.

V: CATEGORY-WISE CLASSIFICATION OF UNITHOLDERS :

In the evaluation of achievement of the objectives by the Trust, it is important to know the category-wise

classification of unit holders. The proportion of individuals and institutions in total unit-holders is important to know whether the UTI has been successful in mobilising the savings of middle and lower income group individuals. The important constraint in undertaking such an analysis is that the annual reports of the Trust since 1976-77 have not been publishing the category-wise classification of unitholders. The data available upto 1976 reveal that the proportion of individuals in total volume of savings mobilised was satisfactory (See Table 3.2). Though no precise data on the profile of unitholders is available since 1977, it is believed that a significant proportion of sales under Unit Scheme 1964 has come from corporate sector in last four or five years. This belief is strengthened by a news item in Economic Times which states that the Trust has made a record sale of Rs. 2,200 crores during the special offer period of July, 1988. On a rough reckoning, nearly one-third of fresh subscriptions is reported to be accounted for by corporate bodies and another one-third by banks. The balance of one-third, around Rs. 700 crores, is subscribed by individual investors.

VI : RELATIVE POSITION OF THE UTI INFINANCIAL ASSETS HELD BY THE HOUSEHOLD SECTOR :

The foregoing analysis explains the role of the UTI in mobilisation of savings in absolute terms. Now we shall turn to the relative position of units in financial assets held by the household sector and secular change in it. A look at the relative position of different financial assets in the portfolio of household sector indicates that the share of the UTI is very small, though registered a satisfactory rise over time. (Refer to Table 3.3). Its share was less than 1 percent upto 1984-85. It has increased to 4.7 percent in 1987-88. The shares of other financial assets during 1987-88 were: Bank Deposit 36.1 percent, Life Insurance Fund 7.6 percent, Pension and Provident Funds 18.5 percent, Claims on Government 10.2 percent. For increasing its share in the household portfolio of financial assets, the UTI should try to popularise units in different parts of country and take particular steps to make them popular in regions other than Western.

The important conclusion at which we arrive from the analysis is that the share of the UTI in the financial assets held by the household sector is quite

low. Therefore efforts are necessary to improve the share and for this units should be made more attractive. The attractiveness of the units depends on the yield on units which in turn depends on the rate of dividend and capital appreciation. The rate of dividend depends on the investment policy of the Trust, while capital appreciation is the result of pricing policy besides the investment policy. Both these policies viz. investment and pricing, are analysed in the next chapter.

TABLE 3.1
GROSS SALES AND REPURCHASES OF UNITS
UNDER VARIOUS SCHEMES OF THE UTI

(Amounts in crores of rupees)

Year ended 30th June	Sales	Repurchases	Repurchases as percent of units sold	Annual net sales	Cumulative Net Sales as on 30th June	Repurchases as percent of units outstanding
1965	19.1	0.4	2.1	18.7	18.7	2.1
1966	2.2	1.1	50.7	1.1	19.8	5.6
1967	9.2	2.0	21.5	7.3	27.0	6.9
1968	15.3	1.2	8.0	14.1	41.2	2.9
1969	17.2	1.2	9.8	15.5	56.7	2.9
1970	22.8	2.0	9.0	20.8	77.4	2.6
1971	18.0	3.2	17.8	14.8	92.3	3.5
1972	15.1	2.6	17.2	12.5	104.8	2.5
1973	23.0	3.0	13.0	20.0	124.8	2.4
1974	30.6	3.7	12.1	26.3	151.1	2.4
1975	17.2	20.3	118.6	- 3.1	148.2	13.6
1976	21.5	11.0	38.0	10.5	158.7	6.9
1977	34.5	7.8	23.1	26.7	185.4	4.2
1978	73.2	11.0	15.3	62.2	247.6	4.4
1979	101.5	9.2	9.5	92.3	339.9	2.7
1980	57.8	14.0	24.9	43.8	383.7	3.6
1981	52.1	15.7	33.8	36.4	420.1	3.7
1982	157.3	22.9	17.3	134.4	554.5	4.1
1983	166.9	15.5	10.1	151.4	705.9	2.2
1984	330.1	15.7	4.8	314.4	1020.3	1.5
1985	756.1	20.1	2.7	736.0	1756.3	1.1
1986	891.8	62.7	7.0	829.1	2586.4	2.4
1987	1261.1	121.3	9.6	1139.8	3726.1	3.3
1988	2015.0	334.7	16.6	2280.3	5406.4	6.1

Source: Annual Reports of the UTI.

TABLE 3.2CATEGORY-WISE CLASSIFICATION OF UNITHOLDERS

(Amount in Crores of rupees)

Year ended June 30.	Contribution from individuals.	Contribution from Institutions.	Total Sales of Units.
1965 a	17.33 92	1.40 8	18.73
1966 a	2.13 99	0.02 1	2.15
1967 a	8.95 99	0.08 1	9.03
1968 a	15.06 99	0.11 1	15.17
1969 a	16.80 99	0.12 1	16.92
1970 a	22.18 99	0.17 1	22.35
1971 a	16.93 96	0.64 4	17.57
1972 a	14.56 99	0.12 1	14.58
1973 a	21.80 96	0.73 4	22.53
1974 a	26.85 89	3.00 11	29.85
1975 a	15.68 91	1.55 9	17.23
1976 a	95.59 96	3.37 4	98.96

Source: The Annual Reports of the UTI.

a = Percentage in total sale of units.

TABLE 3.3

SAVINGS OF THE HOUSEHOLD SECTOR IN THE FORM OF FINANCIAL ASSETS
(At current prices)

		(Rs. Crores)								
		1970-71	1975-76	1980-81	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
(i)	Currency	355 (16.8)	342 (6.7)	1625 (13.4)	2026 (12.6)	2776 (14.8)	2938 (12.4)	2220 (8.8)	3065 (10.1)	4888 (15.1)
(ii)	Bank Deposits	754 (35.7)	2120 (41.8)	5550 (45.8)	6661 (41.4)	7978 (42.5)	9883 (41.6)	10518 (41.7)	13211 (43.5)	11710 (36.1)
(iii)	Non-Banking Deposits	67 (3.2)	130 (2.6)	378 (3.1)	870 (5.4)	1019 (5.4)	990 (4.2)	1248 (5.0)	1575 (5.2)	1691 (5.2)
(iv)	Life Insurance Fund	207 (9.8)	423 (8.3)	915 (7.6)	1235 (7.7)	1376 (7.3)	1556 (6.5)	1813 (7.2)	2116 (7.0)	2466 (7.6)
(v)	Provident and Pension Fund	490 (23.2)	1224 (24.2)	2122 (17.5)	2865 (17.8)	3052 (16.2)	3760 (15.8)	4215 (16.7)	5173 (17.0)	5985 (18.5)
(vi)	Claims on Government	105 (5.0)	899 (17.8)	711 (5.9)	1243 (7.7)	1976 (10.5)	3107 (13.1)	3150 (13.9)	3208 (10.5)	3325 (10.2)
(vii)	Shares and Debentures.	68 (3.2)	41 (0.8)	413 (3.4)	646 (4.0)	555 (3.0)	763 (3.2)	1189 (4.7)	1176 (3.9)	725 (2.2)
(viii)	Unit Trust of India	14 (0.7)	16 (0.3)	31 (0.2)	122 (0.7)	222 (1.2)	567 (2.4)	586 (2.3)	943 (3.1)	1535 (4.7)
(ix)	Trade Ddbt. (Net)	50 (2.4)	-128 (-2.5)	373 (3.1)	429 (2.7)	-164 (-0.9)	196 (0.8)	-82 (-0.3)	-132 (-0.4)	118 (0.4)
TOTAL	...	2110 (100)	5067 (100)	12118 (100)	16097 (100)	18790 (100)	23760 (100)	25217 (100)	30335 (100)	32443 (100)

NOTE : Figures in brackets are percentages to Financial Assets.

SOURCE : Report on currency and finance, 1987-88, Volume II.

CHAPTER IVINVESTMENT POLICY
OF THE UTI

The investment policy of the UTI is in conformity with the objectives of a flexible unit trust which allow a considerable managerial discretion to alter the composition of the portfolio. The UTI is declared a balanced fund, investing in both equity and fixed income securities. The management of the UTI endeavours to strike a proper balance between the two principles of security of principal and return on capital. The investment policy of the Trust has an important bearing on income earning capacity of the Trust and its dividend distribution to unitholders. The main points of focus in this chapter are :

- I. Legal restrictions on investment of funds,
- II. Pattern of investment and changes in it, over the years in different securities,
- III. Methods of investment of the Trust, viz. direct subscriptions, underwriting, private placement and market purchases; ~~and~~

IV. Implications of investment policy on the UTI's dividend rate.

I: LEGAL RESTRICTIONS :

There are broad regulations governing the Trust's investment from the point of view of diversification so as to spread the risk inherent in investment in industrial securities. The regulations are given below :

(i) The Trust's investment in any one company is restricted to 5 percent of the funds of the scheme or 15 percent of outstanding securities of that company,

(ii) The Trust's investment in capital initially issued by companies should not, in the aggregate, exceed 5 percent of total investible funds of the scheme.

It is not possible to find out whether the investment of the UTI is within these restrictions or not, because the annual reports do not publish the company-wise investment of the Trust. Data regarding UTI's investment in issues of new companies and issues of existing companies is also not presented separately by the annual reports.

II: PATTERN OF INVESTMENT :

Before analysing the pattern of investment we shall consider total investible funds of the Trust. The other points of focus are: (a) Distribution of funds over various assets, (b) Investment in quoted and unquoted securities, (c) Industry-wise investment.

Total Investible Funds :

There has been a substantial increase in total investible funds of the UTI during the last 24 years of its operations. The amount of investible funds which was only Rs. 25 crores at the end of June, 1965, reached a level of Rs. 6,680 crores by the end of June, 1988. There has been a continuous rise in total investible funds throughout the period, except in the year 1974-75 when there was a fall to the tune of Rs. 2 crores.

(See Table 4.1)

(A) Distribution of funds over various assets

The Trust invests in various assets such as industrial securities, money at call and short notice, unsecured short-term deposits, advance deposits against investment commitments etc. As regards security-wise

investment, the twenty-five year period falls quite distinctly into three phases :

- (i) 1964-65 to 1969-70; (ii) 1970-71 to 1976-77; &
- (iii) 1976-77 to 1986-87.

(i) First Phase 1964-65 to 1969-70 :

During the first phase until 1970, a larger and increasing proportion of the investible funds of the UTI was invested in securities yielding fixed return, i.e. preference shares and debentures. Specifically, the combined proportion of preference shares and debentures increased from 45.5 percent at the end of June, 1965 to 55.7 percent at the end of June, 1970, while that of ordinary shares declined from 38.7 percent to 35.8 percent during the same period (Refer to Table 4.1). The pattern of investment during this phase reflects the overall objectives of Unit Scheme 1964. It may be recalled that the UTI was conceived as a balanced flexible unit trust with the basic objective of providing safety of capital and continuously growing income to unitholders. The investment policy was oriented towards building and maintaining a balanced portfolio comprising both variable dividend and fixed interest securities. The guidelines framed under the Unit Scheme 1964 and Unit Scheme 1971,

accordingly, laid emphasis on securities of well established and sound companies providing safety of capital coupled with good yield.

(ii) Second Phase 1970-71 to 1976-77 :

During the second phase beginning with 1970, there was a shift of emphasis in favour of equities with a view to building up an equity-oriented portfolio with the objective of earning a better return and capital appreciation, without disturbing the balanced nature of the fund. These developments led to significant changes in the pattern of the UTI's investment. The Capital Unit Scheme, 1976, with emphasis on investment in growth stocks, marked the beginning of still greater emphasis on equity investment. As a result, the relative proportion of equities in total fund had consistently improved, accompanied by a corresponding decline in senior securities taken together. Thus, the ratio of equities to the total investments which was 35.8 percent at the end of June 1970 increased to 46.6 percent at the end of 1976-77. During 1975-76 it was even higher and reached a peak of 49.6 percent. The combined proportion of preference shares and debentures which was nearly 56 percent at the end of June 1970 declined to 36 percent at the end of June 1977. Another notable development relating

to the utilisation of UTI's funds, particularly since 1973-74, was the attempt to seek profitable outlets for investment such as bridge finance, fixed deposits, subscription to privately placed debentures. The underlying consideration was lack of good securities in the market.

The rise in proportion of equities was in accordance with the statement of the then Chairman, J.S. Raj, made during July, 1972 that the UTI proposed to increase its investment in equities with a view to improving the portfolio yield. The maximum proportion of equities in the history of the UTI was reached by the end of June 1976 which was 49.6 percent (See Table 4.1). Even this cannot compare favourably with investment in equities by similar institutions in the U.K. and the U.S.A. During 1976-77 mutual funds in the U.S.A. had invested 77 percent and Unit Trusts in U.K. 95 percent in equities. The change in investment policy of the UTI during this phase in favour of equities was a change in the right direction, but it turned out to be short-lived, the UTI falling back to its policy of undue preference to fixed interest securities. The annual reports of the Trust or statements made by the Trust do not indicate any reasons for giving up the equity-oriented investment portfolio.

(iii) Third Phase 1977-78 to 1986-87 :

During the third phase beginning with 1977 upto June end 1986, there was a continuous fall in proportion of equities in the UTI's aggregate investment. The proportion of equities declined from 46.6 percent at the end of June 1977 to 11.5 percent by June end 1986. In the next year, i.e. by end June 1987, the proportion of equities improved marginally to 13.6 percent, but it was essentially because of the introduction of two growth funds, viz. the Mutual Fund and the India Fund. If we exclude these two funds, it is seen that the proportion of equities had in fact declined from 11.5 percent at the end of June 1986 to 11 percent by end of June 1987. The combined proportion of debentures and preference shares increased from 36 percent to 42 percent during the same period. A look at the relative proportion of equities on one hand and debentures and preference shares taken together on the other indicate that the Trust deviated to a great extent from its objective of building up a balanced investment portfolio. The policy of continuously reducing the investment in equities definitely needs a serious reconsideration.

Other notable developments during the third phase are summarised below :

(a) Fall in proportion of preference shares :

This phase experienced a continuous decrease in the proportion of preference shares in total investments. The share of this asset in the total declined from 7.4 percent by end of June 1977 to 0.2 percent by June end 1987. In absolute terms also the amount of funds invested under this category registered a continuous fall since 1979, from Rs. 16.7 crores in 1979 to Rs. 9.2 crores by 1987. The fall may be attributed to the declining market popularity of preference shares due to non availability of secondary market and low yield. Similarly, if we consider the data on capital raised by non-government public limited companies, it is seen that the proportion of preference shares in the total has been negligible. For example, while an amount of Rs. 2.8 crores was raised through preference shares during 1982-83, the amount was even lower at Rs.0.8 crores during 1986-87, which correspond to 0.7 percent and 0.4 percent respectively.

(b) Fall in proportion of investment in Corporate Sector :

There was a noticeable fall in the proportion of investment in corporate sector. The share of corporate sector in the UTI's total investment which was 82.6 percent by the end of June 1977 declined to 67.2 percent by the end of June 1987.

(c) Rising Proportion of investment in money at call with Banks and unsecured short term deposits :

The proportion of investment in assets under this category in all other assets was only 17 percent at the end of June 1977, since then it has continuously increased to reach 48 percent by the end of June, 1987.

(d) Investment in Government Securities :

The proportion of investment in government securities in total investments during 1986-87 was 10 percent. Although the Trust was investing in government securities since inception the proportion has actually increased since 1980 reaching 10 percent by 1986-87. Earlier it was around 1 percent.

We may conclude that the present policy of the Trust is such that the proportion of fixed income assets in the investment portfolio had shown a continuous rise. In this context we may quote the statement of S.D. Deshmukh the executive trustee in 1973, while commenting on the predominance of fixed income yielding securities. He had said; "The Trust is a young institution; it is customary for unit trusts to place greater emphasis on fixed interest bearing securities in initial years".⁽¹⁾ The

proportion of equities in the investment portfolio during 1972-73 was 42.8 percent. In the context of the present proportion of 11 percent we have to say that the Trust has become younger than what it was during 1972-73 !

In regard to the rising proportion of fixed income assets in the UTI's portfolio, the authorities of the Trust state that it is due to lack of good equities in the market, and most schemes introduced by the Trust guarantee a minimum stated return to the unitholders. As soon as funds are received at Head Office in Bombay, these are immediately deployed in the inter-bank call money market or bill market. Later, the money is invested in profitable securities such as equities, debentures or short term inter-corporate deposits. This indicates that the investment in these assets is a stop gap arrangement but it is seen that the proportion of these assets has been very high. During 1986-87, 25 percent of the funds were invested in money at call with banks. It is stated that it is necessary to invest in these assets, as there is large inflow of funds daily which cannot be invested immediately in profitable assets. If we consider the total sales of Rs. 1,261 crores during 1986-87, on an average around 3½ crores rupees were received every day by the Trust which must be invested immediately. In this

regard K N Atmaramani, General Manager (Finance and Investment) has stated "we cannot afford to keep the money idle even for a day. We have to pay our unitholders dividend on the money they deposit with us from day one. It is like sitting in a taxi, the fare meter is always on".⁽²⁾ In this respect it may be suggested that the Trust can minimise the investment in these stop gap investments by planning its investments before hand based on projected inflow of funds. If this is done, it may become possible that Trust always has some plans for profitable investments which can be carried out as and when the funds come in. This can help to increase income also.

(B) Investment in quoted and unquoted securities

Another aspect of the pattern of investments of the UTI is distribution of investments in quoted and unquoted securities. There was predominance of quoted securities till 1972-73; the share of unquoted securities was only around one percent of total investments. Since 1973-74, however, the share of unquoted securities has recorded a sharp rise, reaching 78 percent in 1987. The predominance of unquoted securities in the investment portfolio has advantages like fixed income and lesser capital risk if

the unquoted securities consist of redeemable debentures. However, the chances of capital appreciation and the possibilities of higher income are lost.

The distribution of investment in quoted and unquoted securities has an important bearing on net assets value and thereby on the prices of units. While calculating the net assets value, the unquoted investment is considered at cost while in respect of quoted, market value is considered. Through proper selection of quoted securities it is possible to increase the net asset value per unit. But when a larger part of investment is in unquoted securities chances of appreciation in net asset value are reduced.

(C) Industry-wise Investment

The annual reports of the UTI publish information on industry-wise investment of the Trust. A look at this information for the last 23 years reveals that throughout the period the textile industry has claimed a lion's share, though its individual share has varied between 14 percent and 25 percent. The industries whose proportion in investments has increased during the last 23 years include Chemical and Pharmaceuticals from 3% to 19%, Engineering

from 14% to 20%, Transport Equipments from 4% to 5%. The industries whose proportions declined are Cement from 14% to 4%, Iron and Steel from 8% to 4%, Banks and Investment Companies from 6% to 0.8%. The industries whose proportions remained more or less stationary are Paper and Paper Products, Aluminium, Electricity Generation and Supply. (refer to Table 4.2).

A look at the relative position of different industries indicate concentration of investment in a few industries. During 1986-87, 60% of the funds were invested in only three industries, viz. Chemicals & Pharmaceuticals, Engineering and Textiles. In this context it may be suggested that the Trust should avoid concentration of investment in a few industries, which makes the return on investments of the trust unduly dependent on the performance of those industries wherein the investment is concentrated. A setback in the performance of these industries is bound to have an immediate and certain impact on the operating result of the Trust. It had actually happened with the Trust in 1968 when owing to a recession in the Engineering industry, the Trust had to be content with lower rate of return from its investments, mainly equities, in this industry. This fact has been admitted by the Chairman of the Trust in his annual statement for the year ended June 30, 1968.

The management of the Trust should therefore arrest and reverse the tendency of concentration of investment in a few industries and diversify into a variety of industries and make it broad-based. The diversification will help to disperse risk which is the rationale for small investors in investing in the Trust shares.

The Trust was conceived as a business proposition and, therefore, its viability and future may be ensured only by managing it in a business-like way. The challenge to the Trust is formidable but not forbidding.

UTI's investors are in dark about the companies included in the investment portfolio of the Trust. Company-wise data about the securities held by the Trust are not published. Only the number of companies in the investment portfolio is published, but not category-wise, which is more relevant.

III: METHODS OF INVESTMENT :

The Trust acquires securities through direct subscriptions, underwriting, private placement and through purchase in the secondary market.

(i) Underwriting :

The UTI being an investment company, underwriting is a method of acquiring securities for its portfolio rather than an arrangement to guarantee success of issues. The UTI participates in new issues market through its activity of underwriting. Underwriting enables the UTI to acquire sound securities in large blocks at reasonable prices for its continuously increasing investment resources.

(ii) Direct Subscription :

Under this method, securities are acquired by directly subscribing to the public issues of companies. This has been the most popular method of acquiring securities since 1983-84. The proportions of securities acquired through this method during 1985-86 and 1986-87 were 79 percent and 55 percent respectively.

(iii) Private placement of debentures :

Through this method it becomes possible for the Trust to acquire debentures of a particular company in desired quantity. Due to underdeveloped secondary market it becomes rather impossible to purchase debentures of a desired company in bulk. UTI can overcome this problem

through private placement. However, at the same time chances of acquiring debentures at a price lower than the face value are lost.

(iv) Purchases in the Secondary Market :

The Trust purchases securities from the stock market. As a public sector institution, it is expected that the activities of the Trust in the market should help establish stability in the capital market. However, in this respect one may say that the investors of the UTI are in dark about this responsibility of the Trust. Therefore, it may be suggested that the buying and selling of securities in the stock market for price stability should be minimal and occasional. In recent years it is seen that the participation of the Trust for this purpose has increased to a great extent. Either this should be changed or a provision may be made in the objectives of Trust for undertaking this responsibility. The UTI being a large institutional investor in the capital market, its sale and purchase activities have repercussions on prices of securities of different companies. However, the annual reports do not give any information about the activities of the Trust in the secondary market.

IV: IMPLICATIONS OF INVESTMENT POLICY
ON THE UTI'S DIVIDEND RATE :

The important sources of income for the UTI are dividend from equities, interest on debentures and other assets and capital gains from sale and purchase of securities. The annual reports of the Trust do not provide relevant information about the income earned from dividend and interest separately. However, data regarding profit on sale and redemption of investments is provided. In respect of income earned by the Trust, we must remember that the Trust is not required to pay any income-tax on income earned by it. In addition, post offices and banks, also do not charge any commission for providing their services to UTI.

While considering the income-earning capacity of the investment portfolio, we shall classify the investments of the Trust into two categories, viz. variable dividend earning securities and fixed income earning assets. In analysis of the distribution of investible funds over these two categories indicates that the proportion of variable dividend earning assets, as remarked earlier, had continuously declined since 1976-77, to reach 11 percent by end June 1987. The proportion of variable income earning and fixed income earning assets in the total

investment influences, in its turn, income earning ability of the Trust, and its dividend pay out. Income from fixed income earning assets largely depends on interest ceilings imposed by the Government. In case of variable dividend earning assets, however, there are chances of rising dividend and capital appreciation. However, there is also risk of capital loss and lower than expected dividend.

But the UTI with its expertise in management and availability of large funds can reduce this risk by portfolio diversification. When more and more funds are invested in fixed income assets, the capacity of the Trust to earn income becomes crucially dependent upon the prevailing interest rate ceilings. The policy of investing larger and larger funds in fixed income assets may impose serious constraints on income-earning capacity and thereby on the ability to declare dividend.

In respect of rate of dividend to unit-holders, it is expected that the income which an investor can get from investment in units must be fairly higher than what he can get if he manages his own portfolio. In this context we can compare the rate of dividend declared by the UTI with average rate of dividend paid by companies included in the RBI study on finances of large public limited companies. This study reveals that the average rate of dividend was 12.7 percent during 1983-84, 14

percent in 1984-85 and 15.7 percent in 1985-86. The RBI study, includes some loss making units as well. The rates of dividend on unit scheme 1964 for the same period were 14 percent, 14.25 percent and 15.25 percent. This comparison indicates that the performance of the UTI was not impressive. However, in case of investment in units, the unitholders, along with dividend income, get capital appreciation and in addition also enjoy tax benefits. The risk in investment in units is less and the investment has liquidity as the Trust is always ready to buy back its units.

At the time of launching of the Trust in 1961, the then Finance Minister T.T. Krishnamachari had stated that investors could expect a higher rate of return on the capital invested in units of the UTI than other government sponsored savings schemes. The yield record of the unit scheme 1964 indicates that this expectation of the Finance Minister has not been realised. Upto 1985-86, the yield on this scheme was around 11 percent, while National Savings Certificates and Public Provident Fund earned 12 percent interest.

We may now summarise the important conclusions shown up by this chapter --

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- (i) The pattern of distribution of investible funds in variable dividend earning and fixed income earning assets should be changed in favour of equities.
- (ii) Proper diversification of investment is necessary.
- (iii) The Trust should have an active portfolio management to improve the yield.

NOTES :--

- 1.. Deshmukh S.D., The UTI's Role in Providing Industrial Finance, Supplement to Capital, 15th January (1973).
- 2.. Bhagat, Mukarram, 'In Units We Trust', Business India, October 6 to 19 (1986).

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TABLE 4.1
EMPLOYMENT OF THE TRUST'S FUNDS

(Rs. Crores)

YEAR	Equity Shares	Preference Shares	Debentures	Advance deposits against investment commitments	Money at call with Banks	Unsecured short term deposits	Others	Total investible funds as on 30th June
1965	9.6 (38.7)	1.9 (7.8)	9.3 (37.8)				3.9 (15.7)	24.7
1966	10.7 (41.3)	2.5 (9.7)	10.9 (42.1)				1.8 (6.9)	25.9
1967	14.0 (41.2)	4.0 (11.8)	13.9 (41.2)				1.9 (5.8)	33.9
1968	18.7 (38.2)	7.7 (15.8)	19.9 (40.9)				2.4 (4.9)	48.7
1969	24.0 (36.7)	9.3 (14.3)	26.9 (41.0)				5.2 (8.0)	65.4
1970	31.6 (35.8)	11.9 (13.5)	37.2 (42.2)				7.5 (8.5)	88.2
1971	39.7 (37.7)	13.1 (12.4)	40.9 (38.9)				11.5 (11.0)	105.1
1972	44.6 (37.4)	13.9 (11.7)	41.9 (35.1)				18.8 (5.2)	119.3
1973	60.7 (42.8)	14.9 (10.5)	48.1 (33.9)				18.2 (12.8)	142.0
1974	77.9 (45.3)	16.4 (9.5)	53.2 (30.9)				24.5 (14.3)	172.1
1975	81.8 (48.1)	16.3 (9.6)	57.7 (31.6)				18.0 (10.7)	169.9
1976	91.6 (49.6)	16.2 (8.8)	55.8 (30.2)				21.0 (11.4)	184.6
1977	99.9 (46.6)	15.8 (7.4)	61.8 (28.6)				37.4 (17.4)	214.4
1978	112.3 (39.0)	14.4 (5.0)	66.3 (23.0)	19.3 (6.7)	57.5 (20.0)		20.3 (6.3)	288.2
1979	120.3 (29.9)	16.7 (4.1)	82.9 (20.0)	25.2 (6.2)	142.2 (35.4)		15.2 (4.4)	402.4
1980	126.7 (27.2)	15.9 (3.4)	112.3 (24.0)	62.2 (13.3)	108.4 (23.2)		41.5 (8.9)	467.0
1981	129.7 (24.8)	15.7 (3.0)	138.1 (26.4)	57.7 (11.0)	110.6 (21.2)	66.5 (12.7)	4.8 (1.7)	323.2
1982	152.3 (22.4)	13.6 (2.0)	195.3 (28.8)	54.9 (8.1)	141.9 (20.9)	89.2 (13.1)	31.8 (4.1)	679.0
1983	180.8 (20.8)	12.9 (1.4)	288.8 (33.2)	91.4 (10.5)	221.7 (14.8)	115.4 (13.3)	51.8 (6.0)	870.2
1984	214.8 (17.0)	11.8 (0.9)	487.9 (38.7)	117.8 (9.4)	(17.6)	133.5 (10.6)	73.8 (5.8)	1261.3
1985	279.1 (12.6)	10.3(0.5)	830.9 (37.6)	247.1 (11.2)	471.6 (21.3)	170.7 (7.7)	199.3 (9.1)	2209.6
1986	370.7 (11.5)	10.4 (0.3)	1314.6 (40.9)	328.1 (10.2)	632.1 (19.5)	257.1 (8.0)	305.0 (9.5)	3218.3
1987	620.8 (13.6)	10.2 (0.2)	1804.9 (39.6)	338.8 (7.4)	1166.4 (25.6)	236.7 (5.2)	386.1 (8.4)	4563.9

N. B. Figures in parentheses are percentages to total.

Source : Unit Trust of India, Annual Reports 1964-65 to 1986-87.

TABLE 4.2
INDUSTRY-WISE INVESTMENT OF THE UNIT TRUST OF INDIA

Year	Cement	Chemicals & Pharmaceuticals	Engineering	Iron & Steel	Textiles	Transport & Equipemnts	Others	Miscellaneous	Total
1965	13.8	2.9	14.1	7.6	21.3	4.7	21.6	14.0	100
1966	12.5	3.0	16.0	6.5	19.7	6.4	22.8	13.1	100
1967	10.2	3.4	16.1	6.1	20.2	5.3	26.0	12.8	100
1968	9.1	3.1	17.7	4.5	18.5	8.3	27.3	11.5	100
1969	8.2	4.7	17.1	3.7	18.2	7.0	30.3	10.8	100
1970	8.1	6.4	14.9	4.0	14.9	7.5	33.0	11.2	100
1971	7.5	7.0	14.3	7.3	14.6	7.0	32.2	18.1	100
1972	7.5	7.5	14.3	7.7	14.8	7.7	30.6	9.9	100
1973	7.0	7.9	14.4	9.1	17.9	7.0	28.1	8.6	100
1974	6.7	9.1	14.6	9.8	17.1	7.1	27.4	8.2	100
1975	6.5	10.7	14.6	9.6	15.7	7.1	27.8	8.0	100
1976	5.8	14.3	14.7	9.6	16.5	6.9	27.4	7.8	100
1977	5.1	13.7	13.9	9.0	16.2	6.6	27.6	7.9	100
1978	4.3	14.0	14.2	7.9	17.2	7.3	27.6	7.5	100
1979	3.4	14.7	16.2	7.0	18.5	7.5	23.9	8.8	100
1980	4.0	15.8	17.2	7.0	17.2	7.0	22.7	9.1	100
1981	4.0	14.4	16.4	8.0	17.0	6.5	25.5	8.2	100
1982	6.1	14.6	15.6	6.9	18.7	5.1	25.5	7.5	100
1983	4.4	15.7	15.9	8.1	21.3	5.6	22.0	9.00	100
1984	3.4	13.5	19.2	6.9	23.6	7.3	17.7	8.3	100
1985	4.8	15.4	17.1	4.8	25.3	7.8	15.7	9.1	100
1986	4.4	19.1	20.4	3.6	22.0	5.6	15.7	9.2	100
1987	4.7	19.2	19.2	3.6	19.3	5.0	15.5	13.5	100

SOURCE : The Annual Reports of the Unit Trust of India.

CHAPTER V

UTI'S PRICING POLICY

The relevance of pricing policy to the unit-holders is clear in that it has significant bearing on capital appreciation of their investment portfolio. It is equally important to UTI, as it is basic to the operations involving sale and repurchase. Its importance is recognised by the UTI which observes: "The fixing of actual sale and repurchase price is a matter of important policy because by adopting a particular pricing policy the Trust can influence, other things being equal, sales and repurchases in the desired directions".⁽¹⁾

The UTI determines its sale price of units and varies it from time to time on the basis of formula price. Three elements are taken into account for the purpose of formula price determination. These are: (i) basic price of units reflecting the market prices of underlying investments, (ii) income from such investments, and (iii) incidental charges.

The basic price per unit is arrived at by dividing the total market value of investments by the number of

units that have been issued and are outstanding. Apart from this basic determinant of price fixation, there are two other elements, mentioned above, that are usually taken into account. One is the income accrual from investments which a trust receives by way of dividend and interest, and the other is incidental charges which the Trust incurs in connection with the purchase and sale of securities in the market. The rationale of including the income element in the price of units is that the dividend that is paid to a unitholder pertains to the whole of accounting year irrespective of when units are purchased by him; that is, whether he buys them at the beginning of the year or at any time later. The income that goes on ~~accruing~~ to a trust from its investment is therefore included in the price of a unit which in effect means that a person who buys later must in fairness pay a higher price for units. Incidental charges are expenses like brokerage, commission, stamp duty and other management expenses which a trust has to incur in connection with its investment operations.

Though formula price is the basis of sale price, the Trust is authorised to deviate from the so-called formula price in the interest of the unitholders.

Deviation of sale price from formula price

This analysis is for the Unit Scheme 1964. We have seen that the sale price of units is based on formula price and the Trust has authority to deviate from the formula price in actual fixation of sale price. In fact it has been the deliberate policy of the Trust to keep the sale price below the formula price. Of the three factors necessary for formula price, information about only one factor viz. basic price or Net Asset Value is available. Therefore, instead of formula price, sale price of unit is compared with the net asset value per unit for each year.

The annual reports provide information about total asset value as on 30th June every year and the number of units outstanding. Net asset value per unit is calculated by dividing the total net asset value with the number of outstanding units. 50 lakhs units are added to the total number of units published in the annual report, because this scheme has an initial capital of Rs. 5 crores, contributed by different financial institutions. This initial capital of Rs. 5 crores is divided into 50 lakh units of Rs. 10 each, as the face value of units sold under this scheme is Rs. 10. The net asset value per unit

as on 30th June every year is compared with the July special offer price of that year. This comparison indicates that sale price of units is lower than the net asset value per unit during the period 1968-69 to 1986-87, with the exception of year 1974-75 (see table 5.1), which was an exceptional year in all respects. This means that units are sold at discount during the July special offer price. Not only during the special offer price but throughout the year units are sold at a discount. The maximum sale price is during May every year. Even if we compare the sale price during May with the net asset value per unit it is seen that the sale price is lower than the net asset value. The percentage of discount varies from year to year and there is no clear pattern. As a result of this sale price policy, the incoming unitholders are benefited since they are able to purchase an asset of higher value at a lower price.

It is seen from information furnished in Table 5.1 that units were sold at a price higher than the net asset value per unit during the period 1966 to 1969. During these years the net asset value per unit was less than the face value of Rs. 10. These were the initial years of the Trust and it was thought that the investors might lose confidence in the Trust if units were sold at

a price lower than the face value. The reason for selling units at variance with formula price is found to be a deliberate policy decision. "As a matter of deliberate policy the Trust has fixed the actual sale prices of units well below the formula price having regard to the need of making units attractive among investing public."⁽²⁾

Further, UTI states: "in actual practice, the Trust, as a measure of deliberate policy, has kept the sale price of units much below the formula price in order to keep its units at attractively low level throughout the year with a view to popularising them as a good and sound medium of investment among the potential investors, particularly among with small and medium/^{income} groups from whom it primarily seeks to mobilise savings".⁽³⁾

The policy is based on the assumption that selling units at a discount will attract investors. But the effect is likely to be opposite as, on account of keeping the sale price below the net asset value, the repurchase price has also been kept much below the net asset value. As a result the benefit of capital appreciation has not been passed on to the unitholders. Consequently a rational investor might think that the investment in units is no different from investment in national savings certificates, fixed deposits with banks and post offices

which yield regular income and do not yield any benefit of equity investment. For making units attractive the long term interests of the unitholders should be protected. The present pricing policy favours the incoming unitholders by selling the units at a discount. This benefit to the new unitholders is likely to be cancelled thereafter. The UTI should keep the sale and repurchase price of units nearer to its formula price which gives a fair approximation to the value of underlying securities. The unitholders should be aware of the fact that the price of units may change according to changes in the prices of underlying securities. In fact, it is the most important benefit of prices being fixed by the Trust.

The UTI is also conscious that the pricing policy should be such that it can give benefits of capital appreciation to the unitholders. In this regard we may quote the following statement of S.D. Deshmukh, the Executive Trustee of the UTI, "The Trust has to look to the interest of its three types of unitholders, viz. (i) those who choose to remain with the Trust, (ii) those who want to join the Trust and (iii) those who want to leave the Trust. It is true that the sales would be stimulated if units are offered at par. But it would not be proper to offer always an asset which has appreciated

in value, at par, nor would it be possible to pass on any appreciation to the outgoing unitholders if sales invariably take place at par." (4)

Actually, in practice, we find that the policy adopted by the UTI deprives the outgoing unitholders of proper capital appreciation.

During initial years, units were sold at par without any service charges. In all other countries we find that units are sold at a price inclusive of service charges. In India units are sold at a uniform price irrespective of the size of purchases. This is contrary to what is seen in other countries where prices are low for bulk purchases. The reason for uniform price being charged by the UTI may be that it was established basically to cater to the needs of middle income group whose purchases are mostly in small numbers.

A proper policy would be to make the investors think, not in terms of face value of Rs. 10 but in terms of asset value. In this context we may mention that under the UTI Act the Units have been given a face value of Rs. 10 per unit. This is an unnecessary complication. A unit simply represents a participation in the equity of the Trust. Thus, if there are 1,00,000 units each unit

has 1,00,000th share in income and assets of the Trust. The true nature of unit investment would have been made clearer to the investor if they were made to think not in terms of face value but in terms of intrinsic value. (5)

We may conclude that the policy of selling units at a price lower than the formula price may benefit the incoming unitholders but it is against the outgoing unitholders.

Repurchase Price

Repurchase price is important from the point of view of the unitholders as it determines capital appreciation which an investor can receive. The basis of determination of repurchase price like the sale price in terms of provisions of Unit Scheme 1964, is the formula price. The formula price comprises the net asset value per unit, reduced by redemption charges to be incurred by the UTI in relation to the realisation of investments.

The capital appreciation which an investor can receive depends upon the price he has to pay for purchase of units and the price which he gets when he resells the units to the UTI. In this context, the repurchase price fixed by the Trust becomes very crucial. The net asset

value per unit from year to year represents the appreciation in investments of the UTI, while the repurchase price from year to year represents the appreciation which a unitholder can get on his investment.

Now we may attempt an analysis of what part of appreciation in net asset value is being passed on to the unitholders. For this purpose we shall compare the net asset value on 30th June every year with the repurchase price during July in that year. e.g. the net asset value per unit as on 30th June 1987 was Rs. 15.56 and the sale price during July 1987 was Rs. 13.00 and the repurchase price was Rs. 12.40.

The policy regarding repurchase price is influenced by the policy regarding sale price. The repurchase price based on formula price will be less than the net asset value per unit. But as sale price is fixed at variance with formula price, the repurchase price has also to be at variance with the formula price. The repurchase price during the initial years of 1966 to 1969 and during 1974-75 has been higher than the net asset value per unit. Thus, during this period, the outgoing unitholder gained at the cost of the continuing unitholders.

A possible reason for keeping the repurchase price above the net asset value per unit in these years may be the fact that the net asset value per unit during these years was less than the per unit par value of Rs. 10. Therefore, adopting formula price would have resulted in a capital loss to the investors as the sale price during these years was Rs. 10 or more (refer table 5.1).

The repurchase price during all these years, except in the years mentioned above, has been much below the net asset value per unit, which had ranged between Rs. 9.50 to Rs. 15.50 while the repurchase price ranged between Rs. 10 to Rs. 12.40. Due to this peculiar pricing policy, the appreciation in net asset value per unit has not been completely passed on to the unitholders. Thus it is clear the pricing policy being followed by UTI is unfavourable to the outgoing unitholders.

The UTI seems to be essentially interested in keeping the sale and repurchase price nearer to the face value of Rs. 10 rather than bringing it closer to the net asset value or the formula price. This is evident by the fact that the sale price of a unit during the month of July varied within a range of Rs. 10 to Rs. 13 and the repurchase price varied within the range of Rs. 10 to Rs. 12.40 during the period 1964-87. The UTI may change

this policy and allow the prices of units to fluctuate according to the net asset value per unit, or may consider the idea of market determination of prices of units.

In light of the UTI's pricing policy and its implications on the return to the unitholders, we may examine the possibility of leaving the determination of prices of units to market forces of demand and supply. It is clear from the above discussion that due to peculiar pricing policy of the Trust the appreciation in the net asset value per unit has not been passed on to the unitholders. In initial years the policy of the Trust fixing prices of units was adopted to protect the investors from the vagaries of secondary market. During 1960s as the capital market was not much developed, this policy was considered beneficial to the investors. But now as the capital market is developed a re-examination of this policy is called for. The UTI may considering leaving the price of the units to be determined by market forces. In respect of Master Shares of the UTI this policy has already been adopted and it is seen that the Mastershare-holders are able to get a reasonable appreciation of their investment. For example, when issued in 1986 the price of Mastershare was Rs. 10; on 2/11/1989 the price of Mastershare was Rs. 16.15 i.e. the Masthershare holder has

received a 61.5 percent capital appreciation. In case of unit scheme 1964, however, the sale price of unit was Rs. 13 in 1986 and on 2/11/1989 the repurchase price was Rs. 13.65 i.e. the investor has received an appreciation of a mere 5 percent.

There are of course, disadvantages of prices being fixed by market forces. Basically, there is the risk of capital loss but then investment in units is not a riskless investment but a risky investment although the risk is reduced or minimised through diversification and expert management. Investors should be made to understand that the investment in units is subjected to all those risks involved with equity investment though risk is reduced by holding a properly diversified portfolio.

If it is not feasible to let the prices be determined by market forces, then, at least an effort should be made to fix the prices nearer the formula price rather than the face value of Rs. 10. If the prices of units are fixed by market, the prices of units and changes therein can become an indicator of the performance of the Trust.

One who has invested in 1964 under Unit Scheme 1964 will get a princely capital appreciation of Rs. 2.60

after 24 years, if he were to sell on July 1st 1988. This speaks for itself regarding the service rendered by the UTI to common man of converting his individual savings, into fruitful equity investment, for whose benefit it was established.

In the light of the foregoing discussions, it is apparent that the entire price policy of the Trust needs to be reexamined and rationalised.

Comparison of Appreciation in Net Asset Value of the UTI with Market Equity Price Indexes :

After outlining the implications of pricing policy of the Trust on unit-holders' return, we shall attempt an analysis which will, give us an idea about possible appreciation in investment portfolio of the Trust. The annual percentage appreciation in the NAV of the Trust is compared with the yearly appreciation in the security price indexes published by Financial Express and Economic Times in the last week of June. A look at this comparison (see Table 5.3) reveals that the percentage appreciation in NAV has been broadly in conformity with the index numbers of Economic Times and Financial Express. In the first decade of operations, the average appreciation in NAV of the Trust was 20 percent while that of Financial

Express and Economic Times was only 4 percent. During 2nd decade the appreciation in NAV of the Trust was 27 percent and that of Economic Times and Financial Express was 17 percent. In the last 2 years i.e. during 1985-86 to 1986-87, the average appreciation in NAV of Trust was 5 percent while that of Financial Express and Economic Times around 3 percent.

The conclusion at which we arrive at after discussions is that the UTI policy of keeping the actual prices at variance from the formula price needs a change in order to provide the benefit of a reasonable capital appreciation to the unit-holders.

NOTES :

1. Unit Trust of India, Review of a Decade of Operations, Bombay, 1974 p.3
2. Ibid, P. 1
3. Raj J.S., Unit Trust of India, Commerce Pamphlet-75, Bombay, 1974, p.2
4. Deshmukh, S.D. ' Unit Trust of India : A Rejoinder regarding UTI's Pricing Policy', The Financial Express, June 12, 1972.
5. Gupta L.C. Changing structure of Industrial Finance in India, London 1969, p. 75.

TABLE 5.1Deviation of Sale Price of Units
under Unit Scheme 1964 from NAV

Year end June 30	Net assets value per unit (Rs) on 1st July	Sale Price per unit (Rs) July	Deviation of sale price from NAV (Rs)
1965	10.00	10.00	NIL
1966	9.83	10.15	+0.32
1967	9.74	10.00	+0.26
1968	9.50	10.00	+0.50
1969	9.98	10.10	+0.12
1970	11.00	10.20	-0.80
1971	11.10	10.50	-0.60
1972	10.91	10.60	-0.31
1973	10.74	10.45	-0.29
1974	10.88	10.45	-0.43
1975	12.08	10.30	-1.78
1976	9.52	10.25	+0.73
1977	10.33	10.30	-0.03
1978	10.86	10.70	-0.16
1979	11.55	11.25	-0.30
1980	12.38	11.50	-0.88
1981	12.57	11.75	-0.82
1982	15.00	11.50	-3.50
1983	13.79	12.00	-1.79
1984	14.84	12.25	-2.59
1985	14.81	12.60	-2.21
1986	17.99	12.75	-5.24
1987	15.56	13.00	-2.56

Source : Annual Reports of the UTI.

TABLE 5.2Deviation of Repurchase Price of Units
under Unit Scheme 1964 from NAV

Year ended June 30	Net Assets value per Unit (Rs) on 1st July	Repurchase price in July (Rs)	Deviation of Repurchase Price-Net assets value per unit
1965	10.00		N.A.
1966	9.83	10.00	+0.26
1967	9.74	10.00	+0.50
1968	9.50	10.00	+0.50
1969	9.98	10.00	+0.02
1970	11.00	10.05	-0.95
1971	11.10	10.20	-0.90
1972	10.91	10.20	-0.71
1973	10.74	10.25	-0.49
1974	10.88	10.25	-0.63
1975	12.08	10.05	-2.03
1976	9.52	10.05	+0.63
1977	10.33	10.05	-0.28
1978	10.86	10.45	-0.41
1979	11.55	10.95	-0.60
1980	12.38	10.80	-1.58
1981	12.57	11.05	-1.52
1982	15.00	10.90	-4.10
1983	13.79	11.40	-1.39
1984	14.84	11.65	-1.19
1985	14.81	12.00	-2.81
1986	17.99	12.15	-5.84
1987	15.56	12.40	-3.16

Source : Annual report of the UTI.

TABLE 5.3

A comparison of the appreciation of the
NAV under Unit Scheme 1964 and Different
Market Indexes -----

Year	Economic Times	Financial Express	Reserve Bank of India	UTI
1966	3.56	1.28	-6.99	15
1967	-4.19	-2.57	6.85	29.55
1968	13.28	9.62	- 4.44	50.88
1969	24.04	25.84	13.42	42.91
1970	-0.90	1.22	8.99	36.62
1971	-1.53	-0.20	4.49	10.10
1972	-3.67	-3.70	-5.00	4.64
1973	14.83	18.60	-3.60	6.73
1974	29.76	26.21	18.88	35.03
1975	-32.95	-30.73	-1.83	-26.21
1976	18.45	26.77	-13.51	14.64
1977	9.50	9.94	6.18	13.37
1978	11.87	10.69	3.37	20.58
1979	20.16	18.51	21.42	20.55
1980	-0.08	0.15	9.82	10.99
1981	38.75		11.52	40.73
1982	-18.75	-13.47	18.90	5.06
1983	23.03	15.60	-7.15	28.70
1984	-0.41	1.54	13.50	23.60
1985	69.60	88.55	8.78	96.71
1986	12.98	19.62	62.66	15.35
1987	3.99	-13.96	4.06	-5.00

Sources :

1. Annual reports of the UTI.
2. RBI : Report on Currency and Finance (Various issues)
3. Financial Express and Economic Times (Various issues)

CHAPTER VICONCLUSIONS AND SUGGESTIONS

Functioning from Feb 1, 1964 the UTI, till recently was the only public sector investment institution in India which was mobilising savings of the masses for investing in securities of reputed companies and distributing the income derived therefrom among its unit-holders through annual dividend. Thus it gives every investor a chance to have a stake (may be very limited) in number of selected Indian corporate units, without worrying about the safety, liquidity and profitability of such complicated and sensitive investments.

Public Sector financial institutions/are criticised for poor performance and for falling short of what is expected from them. Here, however, one must remember that a private sector entrepreneur is responsible to himself and his shareholders for his actions and hence can take calculated risk and get the resultant benefit. Transfer the same person to any public institution and he may crack down under the pressures of accountability for all his decisions. The public responsibility is stated to be a big handicap. The objective of a private sector investment is purely economic and financial, while a public investment is bound by its responsibilities towards the State besides to its Shareholders. A public investment institution has to

support our country's infrastructure such as electricity, water supply, sewage, housing, land, development, etc.etc. Investment in these areas can not fetch a return equal to that in other areas in regard to profitability. The UTI being a public sector investment institution, its performance is to be judged against this background.

While considering the special features of the UTI, it is mentioned that the management and trusteeship functions are combined in the Board of Trustees. In this respect there is a need to effectively bring about a divorce between management and trusteeship. The conservative investment policy of the Trust may be due, to a great extent, to the combination of management and trusteeship in terms of the UTI Act, 1963, in Board of Trustees. This is in sharp contrast to the practice in other countries ^{where} ~~there~~ are three constituents, viz. trustees, managers and members. Trustees are responsible for safe investment of the funds while the managers are entrusted with the management of funds. Therefore, in respect of the UTI a divorce between management and trusteeship with well organised rights and duties of each may be a better arrangement. This would introduce more dynamism and at the same time would provide greater internal check and safety of funds.

A look at the constitution of the Board of Trustees reveals that the unit-holders do not have any representation on the Board of Trustees. Therefore, it may be suggested that some provision may be made to provide representation to the unit-holders.

Although the Trust has made all-out efforts to mop up savings of different sections of the society, it is not known for aggressive salesmanship. The units are sold directly through the offices of the Trust, post offices, branches of banks, brokers of recognised stock exchanges and agents of the UTI. These institutions and individuals lack enthusiasm and have not put in intensive efforts to boost up sale of units, may be due to low rates of commission. Encouragement may be given by raising the rates of commission and/or through some other measures.

The objective of the Trust is to 'endeavour to mobilise increasingly a larger volume of savings of the community and channel these into productive investment thus assisting the growth and development of the economy.'⁽¹⁾ UTI's role as a mobilizer of savings is to be judged by the amount of net sales i.e. gross sales minus repurchases. The analysis of net sales presented in Chapter III reveals that though there is a substantial rise in absolute amount of net sales over the years, the share of the UTI is ¹⁾ gross savings of the household sector held in the form

of financial assets is very low, around 4 percent in 1987-88. Its share was around 1.0 percent only upto 1983-84. This only shows that it has not succeeded significantly in its endeavour to mobilise savings. Its success can only be termed as moderate. The introduction of new schemes has helped the Trust to improve its proportion in the financial assets held by the household sector. In this regard it may be mentioned that though the UTI Act, 1963, was amended as early as in 1966 to enable the Trust to launch new schemes and savings plans including a savings cum insurance plan, new schemes were launched much later; for example Unit Linked Insurance Plan launched in 1971, was the second scheme after the original Unit Scheme 1964. The third scheme viz. The Scheme for Charitable and Religious Trusts and Registered Societies was introduced after a gap of another 10 years, in 1981. The launching of new schemes to suit the investor preferences actually gathered momentum in 1982. This could have come earlier.

One factor responsible for the Limited success of the UTI in mobilisation of savings may be the fact that only a small geographical area has been brought within the sales network of the UTI in any significant sense. 80 percent of the population resides in villages and 50% of the national income comes from agricultural sector.

The Trust had almost no approach to this section of the society. An effort has been made only recently to reach rural masses by utilising the marketing force of reputed fertilizer companies. As already brought out from the analysis in the Chapter III, a major contribution towards the net sales for almost all schemes is from western region and within western region the Bombay office's share is substantially high. It is, therefore, desirable to have a strong country-wide organisation for popularising units among masses. In collaboration with the branches of banks, the UTI's message should reach the interior of the country with such schemes as would suit rural folk. Rural people, especially the farmers, can not get benefit of July special offer price because in July they themselves need funds for agricultural activities. If units are sold at concessional price during harvest time or immediate post-harvest time, it may enable rural people to invest in units.

As pointed out in the chapter on investment policy, the inability of the UTI to mobilise larger savings is perhaps basically related to its investment and pricing policy. The UTI is not known for its dynamic investment policy. Its investment policy is conservative as indicated by a large proportion of debentures in its investment portfolio. As earlier mentioned, in the year ended June 1987, the proportion of fixed income assets in the

aggregate investment portfolio was around 90 percent and only 10 percent of the total investible funds were invested in equities. As a result the UTI has not been able to offer adequate return to their investment to its unit-holders. Although the Trust has gradually increased dividend under almost all schemes, the dividend paid by the UTI does not compare favourably with the return on equivalent risk class investments. It is therefore necessary for the Trust to pay a dividend at least equal to the average corporate dividend. The rate of dividend declared is on face value but the investor has to purchase the units at a price higher than the face value and hence the dividend yield is always lower than the declared rate of dividend. For example, although the dividend rate under Unit Scheme 1964 was kept constant at 9 percent during the period 1976-77 to 1978-79, the effective or actual rates of dividend during the same period were 8.7 percent, 8.4 percent and 8.0 percent respectively. The return on investment is an important parameter in investment decisions of an investor. The relatively low rate of dividend on units has been an obstacle in efforts made by the Trust to mobilise the savings on a large scale.

The Unit Trust lays greater emphasis on tax benefits to the unit-holders which have been stepped up gradually and consistently. These concessions are

however more beneficial to rich and tax-paying investing class as revealed by the following table.

Effect of Income Tax concessions on the rate of
dividend from the UTI 1976

<u>Income Slab (Rs.)</u>	<u>Rate of dividend (%)</u>	<u>Tax advantage (%)</u>	<u>Gross Return (%)</u>
8001 - 15000	8.75	1.15	10.6
15001 - 20000	"	2.15	10.9
20001 - 25000	"	3.35	12.1
25001 - 30000	"	4.35	13.1
30001 - 50000	"	6.85	15.6
50001 - 70000	"	10.65	19.4
70001 - 100000	"	13.45	22.2
Over 1,00,000	"	16.95	25.7

Tax concessions are not certainly of much value to relatively small investor mainly for whom the UTI was established. Tax concessions are not substitutes for a more meaningful investment policy and by themselves cannot be sufficient to stimulate public response.

The relatively low rates of dividend have been the result of the investment policy followed by the Trust. The UTI has paid little attention to equities and during recent

years the proportion of equities in total investment is continuously declining. The almost total concentration of the UTI on fixed income assets is certainly not indicative of sound investment management. The UTI, unlike individual investors, has the resources and ability to diversify away the risk. Its emphasis should be on encountering and reducing rather than avoiding risk. Thus there is an urgent need for rethinking over the investment policy on the part of the UTI.

Another aspect which influences the return to the investors is the pricing policy of the UTI. Eventhough the Trust is aware of the importance of proper pricing policy, in practice it is adopting the one which is having almost an opposite effect. It keeps the sale and repurchase price of units deliberately below the formula price. Moreover, it does not allow the unit prices to fluctuate in accordance with fluctuations in the market value of underlying securities. The tendency is to keep the price nearer to the face value of Rs. 10. Due to this peculiar pricing policy, incoming unit-holders are benefited at the cost of existing unit-holders. Similarly, the outgoing unit-holders can not get adequate capital appreciation. It is seen from the chapter on pricing policy that the Net Asset Value of the investment under Unit Scheme 1964 has changed in accordance with the market indexes

but this appreciation is not passed on to unit-holders due to specific pricing policy of the Trust. In this respect it may be suggested that there is an urgent need for rationalisation of the pricing policy.

Till recently, the UTI had a monopoly in this field. The move of the Government of India to allow Banks and Life Insurance Corporation of India to start mutual funds is really a welcome move since it makes this field competitive and one can expect a better efficiency and higher yields from the UTI due to this competition.

As UTI is a public sector investment institution operating with public funds it may be suggested that some body be established for periodical evaluation of the activities of the Trust.

NOTE :

1. R.S. Bhatt, UTI and Savings Mobilisation, Economic Times, July 20, 1967.

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