
TRENDS AND ANALYSIS OF EQUITY NEW FUND OFFER (NFO) : AN EMPIRICAL ANALYSIS

Dr. Amit Kumar Singh*

Dr. Vijay Vrat Arya**

Dr. Neeru Suman***

ABSTRACT

Indian stock market has always been a lucrative option of investment, whether; it is equity market, commodity market, or mutual fund. It is common to believe to earn maximum return for a given level of risk. Wiser decision is important to safeguard the interest of investors. As far as most secure and good return option is concerned, mutual fund are preferred most. In this paper the Equity New Fund Offer (NFO) has been considered for analysis. The funds invest large amount of their corpus in the equity share of companies for the long-term return.

This paper analyses the trend of Equity New Fund Offer during the year 2002-2014, by referring secondary data. Regression modeling has been used to find out growth rates in terms of number of NFOs, amount of NFOs, and average size of NFOs. Findings concludes that there is negative growth rate of New Fund Offer in terms of number raised, i.e., 2% p.a. compounded annually. There is also evidence of positive growth rate of .01% p.a. compounded annually in terms of amount raised. It also revealed that NFOs have brought an positive growth rate of 2.2% p.a. compounded annually in terms of average size.

Keywords: New fund offer, mutual funds.

INTRODUCTION

The investor in stock market desires to earn maximum return for a given level of risk. Among various financial instruments, equity shares offer a highest return but at the same time it carry a high risk. Therefore, investors prefer some other route from where he can earn return with minimum risk. A mutual fund is a trust that pools the saving of a number of investors, who share a common financial goal. Under mutual funds scheme, portfolio manager pools savings of investors desiring to invest their funds in corporate securities. The pooled funds are then invested in securities of different companies after

proper study of their profiles. The returns generated out of such investments are distributed among the investors after charging the fees of portfolio managers. Therefore, a mutual fund is the most suitable investment for the common man, as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

A mutual fund scheme may be open-ended or close-ended scheme. An Open End Scheme does not specify the period of redemption. An investor can buy or sell units on daily basis. The price of sale or purchase of units is linked to Net annual value of the units. On the other hand, the Closed End Scheme specifies the

*Assistant Professor, Department of Commerce, Shaheed Bhagat Singh College, University of Delhi, New Delhi

**Assistant Professor, Department of Commerce, Shaheed Bhagat Singh College, University of Delhi, New Delhi

***Research Scholar, Faculty of Commerce, Rajasthan University, Jaipur.

period of subscription. The investors are allowed to invest in the scheme by purchase of units up to the specified date.

The (NFOs) are again in limelight. So far this year, the Rs 10 lakh – crore. Indian mutual fund sector has launched 45 new equity offers, the most since 2007, when 48 NFOs (the most so far) had hit the market. The impact of global financial crisis of 2008, has a huge impact on mutual fund schemes. It had taken a hit, amid a sharp drop in the stock market. In 2012, only eight NFOs had hit the market, raising a cumulative Rs. 503 crore, the least since 2003. Most of the NFOs launched this year are close-ended schemes, with a lock-in of three to five years. Of the Rs. 6,426 crore raised this year, 80%, or Rs. 5,000 crore, has been mobilised through the close-ended route.

In this paper the equity oriented scheme has been considered for analysis. The funds invest large amount of their corpus in the equity share of companies for the long-term return. The aim of growth funds is to provide capital appreciation over the medium to long-term. Such schemes normally invest a major part of their corpus in equities. Such funds have comparatively high risks. These schemes provide different options to the investors like dividend option, capital appreciation, etc. and the investors may choose an option depending on their preferences.

OBJECTIVE OF THE STUDY

To understand the Equity New Fund Offer in the Indian market and analyse the trend of Equity New Fund Offer during the year 2002-2014.

RESEARCH METHODOLOGY

In order to analyse the trend of Equity New Fund Offer during the year 2002-2014, secondary data has been referred. The main data source for the present study is taken from the AMFI for the year 2002 to 2014. As far as data analysis is concerned, regression model has been used to find out growth rates in terms of number of NFOs, amount of NFOs, and average size of NFOs.

REVIEW OF LITERATURE

Mc Donald (1974) examined the performance of 123 mutual funds in relation to the stated objectives of each fund. The results showed positive relationship between fund objectives and risk measures. This implied that a funds risk increases when it becomes more aggressive.

Gupta (2000) evaluated 73 mutual fund schemes based on weekly NAV data for the five-year period, i.e., from April 1, 1994 to March 31, 1999. The empirical results reported a mixed performance of sample schemes during the study period. No conclusive evidence scheme was available which warranted their performance to be superior to the relevant benchmark.

Narasimhan and Vijayalakshmi (2001), evaluated the performance of the Mutual Funds in terms of achieving diversification benefit and fund manager's timing ability. The study found that there was a general shift in the investment strategy of holding a diversified portfolio and in optimizing the risk-returns of investments to invest in predictive winners of the period.

Jama J. (2002), made an attempt to examine the competitive advantage for players in Mutual Funds based on the perception of Mutual Funds. The study analysed the key competitive advantage factors

namely, brand name, risk management ability, customer service, expertise in portfolio management and strong research base.

Singh and Tripathi (2002) conducted a study, based on a survey of 150 respondents in Delhi. Their results showed that investor in general, did not perceive the risk inherent in mutual fund investment and used it primarily as a task saving instrument. However, open ended schemes and balanced funds were most preferred by the investor.

Deb, Banerjee, and Chakrabarti (2007), examined the market timing and stock selection ability of the Indian Mutual Funds managers with a sample of 96 Indian equity Mutual Funds schemes. The study used unconditional and conditional measures. The results of the study indicated that the Indian mutual fund managers had a lack of market timing ability and presence of stock selection ability in both models during the study period.

Sehgal and Jhanwar(2008), 'On Stock Selection Skills and Market Timing Abilities of Mutual Fund Managers in India evaluated the stock selectivity and timing ability of 60 equity based growth mutual funds in India. On daily basis, about 28% of the sample funds exhibit significantly positive alpha (selectivity coefficient) based on Jenson's four factor versions, which controls for style characteristics such as size, value and momentum. The timing ability seemed to be multi-dimensional as about 10% of the fund managers timed the momentum factor besides the market factor.

Anshuman (2009), found that top-performing funds receive net inflow of new money. However, funds that perform unwell did not lose many assets. A high correlation between the rating and the subsequent cash inflow into the fund was one such standard that investors consider while making investments. The

study also compared the funds' performance in the out-of-sample period (different period) with the in-the-sample period (sample data period) ratings.

TRENDS IN EQUITY NEW FUND OFFER

The trends in Equity NFO are studied by taking the data of NFO from the year 2002 to 2014. Table-1 The variables studied include the number of NFOs, the amount raised through NFOs, the average size of NFOs. The average size of NFOs is calculated by dividing amount of NFO with number of NFOs. The growth of NFOs in terms of number of NFOs, amount of NFOs, average size of NFOs is calculated by applying the following semi-log equation:

$$\text{Log } Y = a + bt + ut$$

where,

Y= Number of NFOs/ Amount of NFOs/Average size of NFOs

a = Intercept term

b = growth rate

t = time (years)

u = error term

TABLE No.-1

Year	No of NFO	Funds Mobilised (Rs. Crore)	Average
2002	21	301	14.333333
2003	10	519	51.9
2004	29	4384	151.17241
2005	43	25225	586.62791
2006	39	36741	942.07682
2007	48	29284	610.08333
2008	41	21701	529.29268
2009	17	4411	259.47059
2010	23	4659	202.56522
2011	11	645	58.636364
2012	8	503	62.875
2013	18	2381	132.27778
2014 (sept 30)	45	6426	142.8
Total	353	137180	

TABLE No.-2

NUMBER OF NEW Fund Offer
SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.1327
R Square	0.017609
Adjusted R Square	-0.0717
Standard Error	0.638292
Observations	13

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.080333	0.080333	0.197176	0.665619
Residual	11	4.481582	0.407417		
Total	12	4.561914			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	45.33016	95.00536	0.477133	0.642606	-163.775	254.4355	-163.775	254.4355
Year	-0.02101	0.047313	0.44404	-0.665619	-0.12515	0.083127	-0.12515	0.083127

Table -2 reflects the growth of New Fund Offer in terms of number raised. The NFOs have declined at the rate of 2% p.a. compounded annually. And the P-value shows that the results are not significant. The decline in the number of NFOs is due to various frauds and scams. The retail investor are not willing to invest his hard earned money as the NFOs has not given any incentive to the investor in the long run

TABLE No.-3

Amount
SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.003808
R Square.	1.45E-05
Adjusted R Square	-0.09089
Standard Error	1.761707
Observations	13

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.000495	0.000495	0.00016	0.990149
Residual	11	34.13972	3.103611		
Total	12	34.14021			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	4.944433	262.2179	0.018856	0.985294	-572.193	582.0822
Year	0.001649	0.130586	0.012631	0.990149	-0.28577	0.289068

Table-3 reflects the growth of New Fund Offer in terms of amount raised. The NFOs amount has increased at the rate of .1% p.a. compounded annually. In this case, the P-value shows that the results are not significant. The increase in the amount mobilization of NFOs is due to increase in the return and finding equity NFO as better investment option as compared to investment in equity shares.

TABLE No.-4

Average size of NFO

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.073397
R Square.	0.005387
Adjusted R Square	-0.08503
Standard Error	1.25234
Observations	13

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.093441	0.093441	0.059579	0.811655
Residual	11	17.25192	1.568356		
Total	12	17.34536			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	-40.3857	186.4022	-0.21666	0.83244	-450.654	369.8829	-450.654	369.8829
Year	0.022659	0.09283	0.244088	0.811655	-0.18166	0.226975	-0.18166	0.226975

Table -4 reflects the growth of New Fund Offer in terms of average size. The NFOs amount have increased at the rate of 2.2% p.a. compounded annually. And the P-value shows that the results are not significant. The increase in the amount mobilization of NFOs is due to increase in the return and finding equity NFO as better investment option as compared to invest in equity shares.

CONCLUSION

After analyzing the trends of Equity New Fund Offer, using regression modeling, three important conclusion have been drawn, first, the negative growth rate of New Fund Offer in terms of number raised, i.e., 2% p.a. compounded annually. The decline in the number of NFOs is due to various frauds and scams. It also reflect that the Retail investors are not willing to invest his hard earned money as the NFOs have not given any incentive to the investor in the long run. The second, conclusion is that NFOs have shown a positive growth rate of 0.1% p.a. compounded annually in terms of amount raised. The increase in the amount mobilization of NFOs is due to increase in the return and finding equity NFO as better investment option as compared to investment in equity shares. Lastly, NFOs have brought an positive growth rate of 2.2% p.a. compounded annually in terms of average size, which is due to increase in the return and finding equity NFO as better investment option as compared to investment in equity shares.

REFERENCES

- Donald (1974), "Objectives and Performance of Mutual Funds". Journal of Financial and Quantitative Analysis.
- Deb, S. G.; Banerjee, A. and Chakrabarti, B.B. (2007), "Market Timing and Stock Selection Ability of Mutual Funds in India: An Empirical Investigation", Vikalpa, Vol. 32, No.2.
- Gupta, A. (2000), "Market Timing Abilities of Indian Mutual Fund Manager: An Empirical Study", Applied Finance, Vol.6, No.2.
- Narasimhan, M.S. and Vijayalakshmi, S. (2001), "Performance Analysis of Mutual Funds in India", Finance India, Vol.15, No. 1.
- Ramachandran, G. (1997), "Irrelevance of CAPM and Problems with Fund Performance Metrics", Management and Accounting Research, Vol.1, No.2.

Singh, Y.P. and Tripathi, V. (2002), "Mutual funds investors' preferences and perceptions", Indian journal of commerce.

Singh, Y.P. (2006), "Fundamentals of Investment", Galgotia Publishing Company.

Sanjay Sehgal and Manoj Jhanwar (2008), "On Stock Selection Skills and Market Timing Abilities of Mutual Fund Managers in India", International Research Journal of Finance and Economics Issue 15, 1450-2887.

Thenmozhi. M. and Fareed Jama. J. (2002), "Competitive Advantage for Players in Mutual Funds Industry: A Study based on The Perceptions of Mutual Funds", Management and Accounting Research, Vol.5, No.4.

Web Sites

www.amfi.com

www.businessstandard.com