

DEMONETISATION EFFECTS ON MUTUAL FUNDS- A COMPARATIVE STUDY BETWEEN SBI BANKING & FINANCIAL SERVICES FUND AND AXIS LONG TERM EQUITY FUND

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Abstract

A currency in circulation is being discontinued and replaced by a new one in the economy is the whole concept behind Demonetisation. Restricting of the 500 and 1000 section money notes happened as a lawful delicate on declaring demonetisation on November 2016 by Prime Minister Narendra Modi. In other words, it can also be said that demonetization is an act of stripping a currency unit of its status as legal tender. The sudden declaration of demonetisation in the country has created lots of chaos and confusion among the common people of the country. The government explains that the main objective of this move was to curb the black money, corruption and fake money menace. This study is conducted to understand the effects on NAV due to demonetisation. Mutual fund's cost depends on price per unit, which is its Net Asset Value or NAV.

INTRODUCTION

Money is something which is accepted as a medium of exchange, a unit of account, a store of value and standard of deferred payments. Only cash and currency are included in definition of money. Demonetisation means making legal tender money invalid or taking away of the four above mentioned functions of money. Prime Minister Narendra Modi announced on 8th November, 2016 that Rs. 500 and Rs. 1000 would cease to be legal tender from midnight onwards. This announcement sucked out 86% of the currency notes amounting to 15.44 lakh crore, in circulation till then. The major reason for this drastic measure was taken to control back economy which is run by black money, havalas and fake currency, which is used to finance terrorism and other unlawful and underworld activities. Until December 30, 2016, the demonetised currency in possession can be deposited with the banking system.

Cash in the economy

Estimates suggest that the reduction in GDP could be somewhere between 10 to 330 basis points. Given the widespread reliance on cash, the actual impact could be bigger. The following highlight the dependence of the Indian economy on cash.

- India is amongst the most cash-intensive economies in the world with a cash –GDP ratio of 12%.
- Cash in circulation to private consumption ratio in India is 20%
- Card transaction account for 4% of the personal consumption expenditure.

In such a cash-dependent economy, all of a sudden around 86% of the cash supply has been rendered useless. This has effectively imposed a tight constraint on real economic activity. This constraint will initially be felt most acutely in the cash-intensive sectors such as agriculture, construction, gems, and jewellery, textile, trade, transportation, and real estate, as well as in the activities in the vast informal sector of the country. Beyond the initial impact, the shock from demonetisation is likely to set off a domino effects that will impinge on activities far removed from the cash intensive

sectors. This impact may result in the protracted economic slowdown going beyond the current financial year.

It is likely that firms and household will innovative is an attempt to get around the cash constraint. Formal financial services will provide support to those who have access to them. Firms in the retail business that utilise the formal financial services will face a rise in demand as consumers shift from the cash economy to the digital economy. These innovations will dampen the effects of the shock to some extent, however, they cannot act as much of a cushion in an economy which is so overwhelmingly dependent on cash. So, even if the share of digital transactions doubles, it would still represent only a small portion of the transactions in the economy.

A mutual fund is a pool of funds collected from multiple investors which invests in assets like stocks and bonds. Mutual funds are managed by Asset Management Companies (AMCs). Each AMC will typically have several mutual fund schemes. The total size of the mutual fund industry in India crossed Rs 23 lakh crore in 2018.

People nowadays prefer mutual funds due to its liquidity. It gives them exposure to a basket of stocks and bonds at a very low cost. Mutual fund expense ratios are typically 1.5-2.5% of the investment. This amount pays for fund administration, fund manager fees and much else. This is possible because these costs are spread between hundreds of different investors. Mutual funds are tightly regulated by the Securities and Exchange Board of India (SEBI) and their NAV (Net Asset Value) is disclosed on a daily basis. Their portfolios are also disclosed each month and various other details about are available in the public domain.

People will have to first select a fund category. Equity funds should be chosen if they are willing to take a high level of risk and have a time horizon of more than 5 years. For a moderate risk appetite, one will have to look at hybrid funds. If one have a low risk appetite, one can stick to debt funds. All mutual funds, even debt funds carry some risk.

Once the choice of fund category is done the next step is to select an individual fund by comparing its performance to its benchmark and peers over a reasonably long period of time. Other factors to be taken into consideration are fund manager's experience, portfolio, expense ratio, etc.

NEED FOR THE STUDY

Anyone can invest in mutual funds. The minimum investment can be as low as Rs 500. Both resident Indians and NRIs (Non-resident Indians) can invest in mutual funds. Mutual fund investment can be done in the name of your spouse or kids. If the child is a minor (below 18), parents details have to be mentioned while investing and they have to operate the account till he or she turns 18. Even partnerships, LLPs, Trusts and Companies can invest in mutual funds. Mutual funds are raised through small investments. Due to demonetisations many changes have taken place in the financial sector. As lakhs of people have invested their hard earned money in mutual fund, the study to know their performance is necessary. So the effects on demonetisation consideration for this study.

SIGNIFICANCE OF THE STUDY

A mutual fund's overall cost will depend on the price per fund unit. This is its Net Asset Value or NAV. Mutual funds begin with a unit cost of Rs. 10 and it rises as a fund's assets under the management grow. So, popular funds will have a higher NAV than a less popular one. Hence it is important to know the Net Asset Value when selecting a mutual fund. The demonetisation effect on mutual fund has to be scrutinised.

OBJECTIVES

- To evaluate the effects of demonetisation on mutual fund
- To evaluate the performance of mutual funds in relation with demonetisation

Pre Demonetisation NAV (72 daybefore)		Post Demonetisation NAV (72 days after)		Current NAV	
Axis Long Term Equity Fund	SBI Banking & Financial Services Fund	Axis Long Term Equity Fund	SBI Banking & Financial Services Fund	Axis Long Term Equity Fund	SBI Banking & Financial Services Fund
20.5906	10.89280	21.0561	11.92080	22.1822	14.8249
20.6488	10.89270	21.183	12.07440	22.1573	14.8266
20.5727	10.85230	20.6391	11.7394	21.9417	14.7197
20.5611	10.83290	19.9415	11.2479	21.6548	14.5697
20.5222	10.83970	20.0423	11.3118	21.8377	14.8181
20.8126	11.02440	19.9673	11.2306	21.4661	14.4994
20.9046	11.07370	20.0041	11.1623	21.6551	14.559
20.8769	10.98750	19.648	10.9268	22.1315	14.8936
20.9828	11.07530	19.8557	11.0534	22.3332	15.1141
21.04	11.14350	19.9164	11.1075	22.3445	15.2276
20.9788	11.16230	19.7654	10.9724	22.5143	15.3433
20.9893	11.07630	20.148	11.2239	22.5507	15.4334
21.1809	11.19270	20.1623	11.1712	22.683	15.6467
21.1122	11.10380	20.2178	11.2702	22.6359	15.5393
21.2315	11.19750	20.4722	11.3391	22.315	15.3399
21.4466	11.36860	20.3801	11.2416	22.0696	15.1942
21.3381	11.43460	20.082	11.0783	22.0854	15.2626
21.4745	11.52610	20.1113	11.1068	22.1392	15.2219
21.7755	11.59290	20.1439	11.1147	22.328	15.3209
21.7878	11.65360	20.029	11.0105	22.3743	15.4436
21.8033	11.74460	20.3698	11.1683	22.413	15.539
21.7579	11.64180	20.1257	11.1864	22.2033	15.3874
21.4691	11.47590	20.195	11.0214	22.0727	15.2582
21.5008	11.46060	20.0669	11.0249	22.0645	15.314
21.714	11.68880	20.0164	10.9684	21.9902	15.2819
21.814	11.70660	20.0246	11.0734	21.7582	15.2843
21.7593	11.67110	19.8441	11.0476	21.7458	15.2947
21.4843	11.52090	19.7262	10.9819	21.7641	15.3294
21.4947	11.47270	19.7009	10.8781	21.6386	15.2961
21.5787	11.64440	19.5041	10.8812	21.5108	15.1738
21.5063	11.64400	19.4564	10.7468	21.7233	15.2815

21.5121	11.70990	19.2288	10.7349	21.5993	15.2646
21.6	11.81320	19.4239	10.6197	21.5979	15.3016
21.5546	11.83110	19.5759	10.7183	21.5786	15.1997
21.4681	11.79950	19.7916	10.7388	21.5426	15.1869
21.4803	11.76350	19.8784	10.867	21.4986	15.0839
21.5769	11.80550	19.9232	10.932	21.5466	15.0503
21.5215	11.81750	19.9276	10.8505	21.4635	15.0387
21.5321	11.85400	19.8481	10.8788	21.3073	14.9501
21.4754	11.86070	19.9474	10.8549	21.0532	14.7053
21.7383	11.98620	20.0402	10.9632	21.0363	14.6852
21.8259	12.14240	20.2095	11.0024	21.0216	14.8667
21.8333	12.11960	20.2434	10.9938	21.1703	15.1201
21.8863	12.10970	20.2158	11.0724	19.0841	14.9807
22.0915	12.38670	20.2226	11.2733	19.1549	14.9658
22.0093	12.28010	20.2185	11.2547	19.2614	14.9941
22.142	12.39080	20.3285	11.2972	19.4745	15.13
22.0028	12.28600	20.3734	11.4042	19.6161	15.2644
21.6427	12.02880	20.2033	11.4194	19.485	15.249
21.6028	12.07560	20.2566	11.4658	19.3359	15.1762
21.6678	12.05470	20.5104	11.4501	19.235	15.0804
21.791	12.07140	20.9962	11.275	19.2242	15.0512
21.7437	12.01500	20.9913	11.3581	19.129	15.0622
21.6977	11.93640	20.8127	11.449	18.999	14.9117
21.6987	11.97280	18.9426	11.6665	18.7936	14.8193
21.9087	12.19190	18.9384	11.8078	18.7475	14.8634
21.8933	12.12560	18.9815	11.7261	18.9594	14.9749
21.7373	12.03190	19.0907	11.6637	18.9902	15.1368
21.7346	11.98530	19.1104	11.9854	18.9672	15.1279
21.8045	12.02870	19.0866	11.9961	19.2223	15.1327
21.4695	11.70790	19.0398	12.0243	19.3422	15.0277
21.6239	11.85950	19.0967	12.114	19.3388	15.0139
22.0574	12.13500	19.1118	12.1165	19.2831	15.0282
22.1078	12.16140	18.9223	12.068	19.3608	15.1553

22.0898	12.16750	19.1326	12.0405	19.5903	15.5334
22.0707	12.15080	19.2563	12.0341	19.6933	15.6592
22.0016	12.14220	19.3339	12.0565	19.6211	15.6455
22.002	12.13840	19.3557	12.0833	19.6684	15.7213
21.6941	11.96870	19.2634	12.0252	19.9491	15.9451
21.7352	12.05780	19.2737	12.11	20.0636	16.0671
21.4665	11.94370	19.2043	12.2612	20.1752	16.1706
21.7772	12.10470	19.2327	12.3041	20.12	16.166

DATA ANALYSIS AND INTERPRETATIONS

Table 1.1

BEFORE DEMONETISATION

Hypothesis Test: Independent Groups –Before Demonetisation(t-test, pooled variance)			
Axis Long Term Equity Fund	SBI Banking & Financial Services Fund		
21.541372	11.716760	mean	
0.407934	0.428160	std. dev.	
72	72	n	
140.97	t		
0.000	p-value (two-tailed)		

From the above table, the NAV of the two core mutual funds namely Axis long term equity fund and SBI banking & financial services fund are selected for a period of 72 days prior to the demonetisation. According to the table, the average NAV of Axis long term equity fund was Rs. 21.54 ± 0.40 and SBI banking & financial services fund was Rs. 11.71 ± 0.42 . Statistically the NAV of these two mutual funds were compared with the support of independent sample t-test and the t value is 140.97, p-value = 0.000 (p less than 5%). Thus there is significant difference in the NAV of two mutual funds, higher mean is attributed to Axis long term equity fund.

Table 1.2

AFTER DEMONETISATION

Hypothesis Test: Independent Groups –After Demonetisation(t-test, pooled variance)			
Axis Long Term Equity Fund	SBI Banking & Financial Services Fund		
19.865782	11.350539	mean	
0.554743	0.460347	std. dev.	
72	72	n	
100.23	t		
0.000	p-value (two-tailed)		

From the above table, the NAV of the two core mutual funds namely Axis long term equity fund and SBI banking & financial services fund are selected for a period of 72 days immediately after the demonetisation. According to the table, the average NAV of Axis long term equity fund was Rs. 19.86 ± 0.55 and SBI banking & financial services fund was Rs. 11.35 ± 0.46 . Statistically the NAV of these two mutual funds were compared with the support of independent sample t-test and the t value is 100.23, p-value = 0.000 (p less than 5%). Thus there is significant difference in the NAV of two mutual funds, higher mean is attributed to Axis long term equity fund.

Table 1.3
CURRENT PERIOD

Hypothesis Test: Independent Groups – Current period (t-test, pooled variance)		
Axis Long Term Equity Fund	SBI Banking & Financial Services Fund	
20.869236	15.190915	mean
1.303614	0.340195	std. dev.
72	72	n
35.76		t
0.000		p-value (two-tailed)

From the above table, the NAV of the two mutual funds namely Axis long term equity fund and SBI banking & financial services fund are selected for a period of 72 days from the current period. According to the table, the average NAV of Axis long term equity fund was Rs. 20.86 ± 1.30 and SBI banking & financial services fund was Rs. 15.19 ± 0.34. Statistically the NAV of these two mutual funds were compared with the support of independent sample t-test and the t value is 35.76, p-value = 0.000 (p less than 5%). Thus there is significant difference in the NAV of two mutual funds, higher mean is attributed to Axis long term equity fund.

Table 1.4
Comparison of Axis Long Term Equity Fund-Pre, Post and Current period

	Mean	n	Std. Dev	Mutual funds	
	21.5414	72	0.40793	Axis Long Term Equity Fund-Pre Demonitisation	
	19.8658	72	0.55474	Axis Long Term Equity Fund-Pst Demonitisation	
	20.8692	72	1.30361	Axis Long Term Equity Fund-Current Period	
	20.7588	216	1.09271	Total	
Source	SS	df	MS	F	p-value
Treatment	102.391	2	51.1955	70.66	0.000
Error	154.323	213	0.72452		
Total	256.714	215			
Post hoc analysis- Tukey simultaneous comparison t-values (d.f. = 213)					
		Axis Long Term Equity Fund-Post Demonitisation	Axis Long Term Equity Fund-Current Period	Axis Long Term Equity Fund-Pre Demonitisation	
		19.8658	20.8692	21.5414	
Axis Long Term Equity Fund-Post Demonitisation	19.8658				
Axis Long Term Equity Fund-Current Period	20.8692	7.07*			
Axis Long Term Equity Fund-Pre Demonitisation	21.5414	11.81*	4.74*		

critical values for experiment wise error rate:	
0.05	2.38

From the above table, a comparison was done for pre, post, and current period NAV of Axis long term equity fund with reference to demonetisation. It is noted that the average price of pre demonetisation was Rs. 21.54, post demonetisation was Rs. 19.86 and current period was 20.86. Thus it is concluded that the NAV of Axis long term equity fund for the last 216 days prior to the analysis was Rs. 20.75.

ANOVA test was done to examine the statistical significance. Accordingly, the F value is 70.66 and p value is 0.000 (p less than 5%) showed there is significant difference in the NAV of Axis long term equity fund for the three different period considered. Accordingly, a post hoc test was performed with the support of Tukey simultaneous comparison method. It is clear that there is experiment wise error rate between pre demonetisation with post demonetisation (error rate 11.81) and pre demonetisation with current period (error rate 4.74) showed that the NAV of Axis long term equity fund during the pre demonetisation period was high.

Similarly, there is significant difference between current period NAV with post demonetisation (error rate 7.07), favour to current period. Thus it can be concluded that demonetisation has a big blow over the NAV of Axis long term equity fund and truly speaking till now the recovery hasn't effected. Anyhow, by comparing with post demonetisation, the current period NAV has improved.

Table 1.5
Comparison of SBI Banking & Financial Services Fund -Pre, Post and Current period

	Mean	n	Std. Dev	Mutual funds	
	11.71676	72	0.428160	SBI Banking & Financial Services Fund-pre demonetisation	
	11.35054	72	0.460347	SBI Banking & Financial Services Fund-Post Demonetisation	
	15.19092	72	0.340195	SBI Banking & Financial Services Fund-Current Period	
	12.75274	216	1.782520	Total	
Source	SS	df	MS	F	p-value
Treatment	646.856768	2	323.4283840	1898.90	0.000
Error	36.279069	213	0.1703243		
Total	683.135837	215			
Post hoc analysis- Tukey simultaneous comparison t-values (d.f. = 213)					
		SBI Banking & Financial Services Fund-Post Demonetisation	SBI Banking & Financial Services Fund-Pre Demonetisation	SBI Banking & Financial Services Fund-Current Period	
		11.35054	11.71676	15.19092	
SBI Banking & Financial Services Fund-Post	11.35054				

Demonetisation				
SBI Banking & Financial Services Fund-Pre Demonetisation	11.71676	5.32*		
SBI Banking & Financial Services Fund-Current Period	15.19092	55.83*	50.51*	
critical values for experiment wise error rate:				
	0.05			2.38

From the above table, a comparison was done for pre, post, and current period NAV of SBI banking & financial services fund with reference to demonetisation. It is noted that the average price of pre demonetisation was Rs. 11.71, post demonetisation was Rs. 11.35 and current period was 15.19. Thus it is concluded that the NAV of SBI banking & financial services fund for the last 216 days prior to the analysis was Rs. 12.75.

ANOVA test was done to examine the statistical significance. Accordingly, the F value is 1898.90 and p value is 0.000 (p less than 5%) showed there is significant difference in the NAV of SBI banking & financial services fund for the three different period considered. Accordingly, a post hoc test was performed with the support of Tukey simultaneous comparison method. It is clear that there is experiment wise error rate between current period with post demonetisation (error rate 55.83) and current period with pre demonetisation (error rate 50.51) showed that the NAV of SBI banking & financial services fund during the current period is highly favourable. This implies that the demonetisation has really helped and supported SBI banking & financial services fund to augment the performance. .

CONCLUSION

The impact of demonetisation on mutual funds growth is expected to stay for one or two years. Multicap funds are expected to be very volatile in short term. People are going to be uncertain of what is the expected growth and therefore they will react to every event – budget, GST, interest rate change etc. In long-term, it is expected to give good returns. People will start preferring equity investment (mutual funds or direct) more than other traditional – real estate, gold etc. As per the results of this study demonetisation is a blessing for SBI banking & financial services fund in comparison with Axis Long Term Equity Fund.

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