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Guardians' misdemeanour

Millions of small investors are being short-sold by the mutual funds, says **Uttam Gupta**

ALONG with liberalisation of the financial markets, recent years have witnessed proliferation of mutual funds. Investment in the instruments issued by Mutual Funds (MF) by millions of ordinary investors was expected to provide a centralised and convenient route for tapping the wide range of opportunities offered by an expanding capital market.

The logic is simple. The ordinary investor left to himself is not competent to keep track of companies with good fundamentals and, therefore, unable to get a good return on his investment. Nor does he have, by nature, the kind of savings that can take advantage of the wide range of shares and other instruments of different companies. And yet, he wants to share a slice from the growth opportunities.

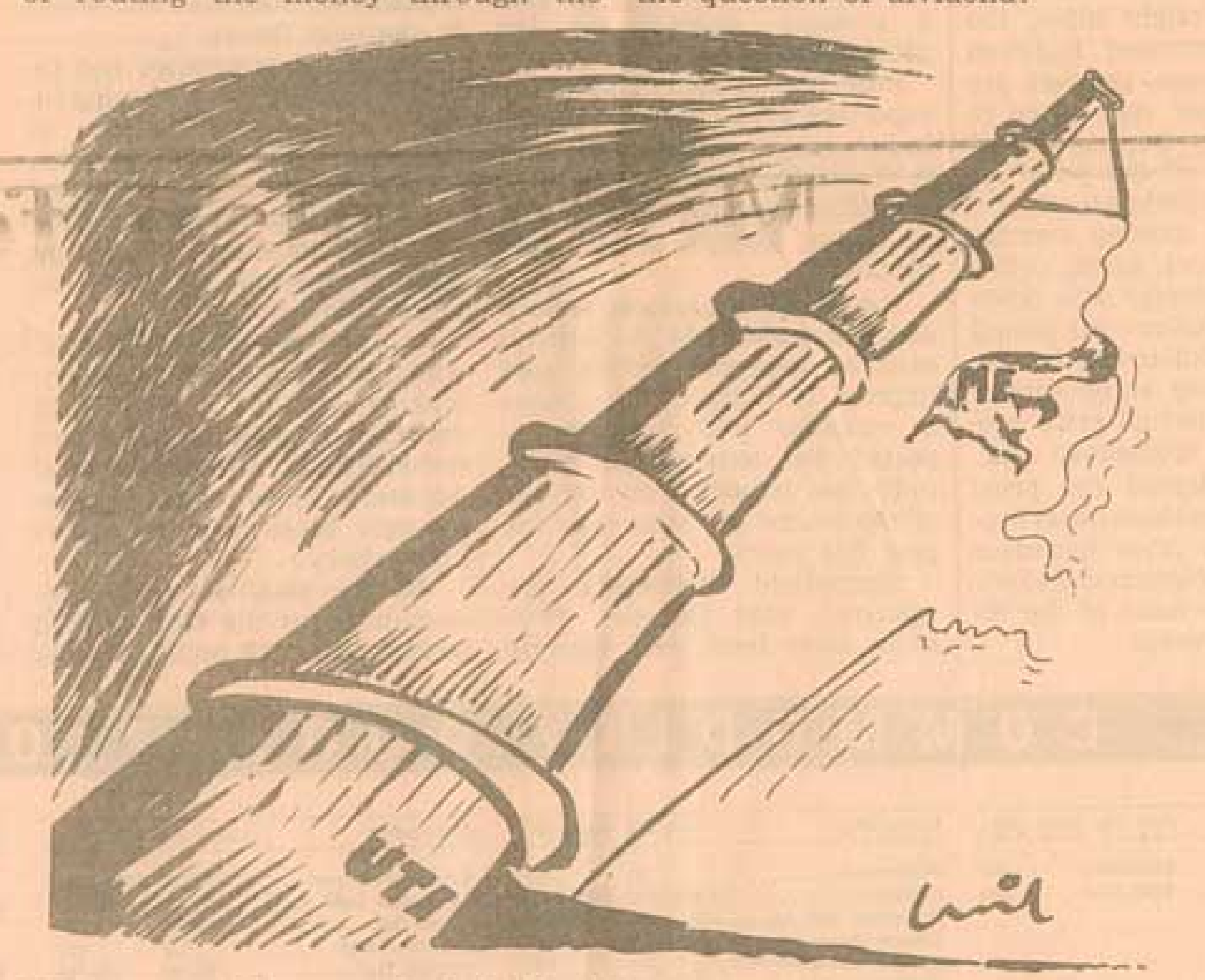
The MF sought to fill this gap. And it has done so, very successfully. It has garnered the hard-earned savings of investors — a staggering Rs 2000 crore in the Master Plus in 1990-91 and about Rs 5000 crore in Mastergain in 1991-92, both floated by the UTI. Unfortunately, even after 4 and 3 years respectively since the launching of the schemes, no dividend has been paid to the holders of these shares.

True, the prospectuses did not mention payment of dividend as an obligation. But does it behove the UTI to hold back on what is morally due to the investors under a technical loophole? After all, even assuming a modest interest of 15 per cent p.a., the former would have earned about a whopping Rs 1,500 crore on the funds collected through Mastergain and another Rs 1000 crore on Master Plus during the period.

It might be argued that the money was invested predominantly in company shares and that the gain was only by way of appreciation in the value of their portfolio. The UTI would point to the Net Asset Value (NAV) of Master Gain at Rs 18 and Master Plus at Rs 25 to demonstrate the point. However, this is only of academic value to the shareholders as the market price of these shares at Rs 17 and Rs 12 for the Master Plus and Mastergain respectively are well below the NAV.

It is too good to believe that the UTI is not earning any dividend or interest income at all on the various investments. For, large chunks of the funds are invested in equity of existing companies with good track record, for financing their expansion and modernisation programmes or just the working capital requirements, which yield dividends at fantastic rates.

It is morally incumbent on the UTI and other MF institutions to share these gains with the investors. It should not be forgotten that had the investors directly invested their funds in select scrips (most discriminating persons do prefer this course) instead of routing the money through the UTI, they would have got both dividend and capital appreciation.



Although majority of the other MFs have come up in the immediate past i.e. 1993-94 onwards, there is not much of encouraging news from them either. Morgan Stanley which collected an unprecedented Rs 1,200 crore earlier this year, is presently quoted at Rs 7.50 against the issue price of Rs 10 and NAV of Rs 10.52. Likewise, the Taurus MF and the ICICI MF are also quoting at a discount in the market.

For the ordinary investors, it is a highly disappointing situation. There is no dividend income, no benefit of appreciation in asset value and no chance to sell the stock at a price that looks reasonably attractive. The only other attraction left is that in the long run, they would be better off in that their investment would grow in value, and securely. Well, if that were the sole criterion, then a time deposit in the bank would have served the same purpose.

Alternatively, had someone invested money in Indira Vikas Patra in say 1990-91, he would have got away with double the initial sum in a matter of six years which is barely two years from now. In sharp contrast, a MG or MP holder is still guessing about the fate of his investment, leave aside the question of dividend.

The problem has to be solved by seeking to regulate the actions of the MFs in a manner that would best subserve the interest of the investing public. First and foremost, there is need for greater transparency in the working of the MFs. The investors are entitled to get reports on their operations on a quarterly basis, at least. Merely publishing a few highlights is not enough. It is amazing that the UTI, which has a monumental corpus of Rs 52,000 crore and whose operations are so crucial to the fate of the millions of investors, does not even publish its balance sheet and annual reports.

Providing the balance sheet to the investor should be made mandatory as that would reveal how funds are being managed. For, the quality of management will determine what deal the investor gets in terms of return on his investment. The report should also indicate the methodology of the computation of the NAV and reasons for the deviation of the market values from the NAV.

Second, a minimum dividend payout should be mandated and, if necessary, the MF should unload some of its holdings to generate the necessary cash. After all, there is a precedent: Holders of Unit 1964 scheme not only get regular dividend, but also enjoy the benefit of enhancement in the value of the Units. Someone who bought a unit for Rs 13 (face value Rs 10) four years ago, can sell it for Rs 17 being the ruling price in the first week of July, 1994 even after availing of the 26 per cent dividend for 1993-94, which on the purchase price, would translate to about 20 per cent.

Third, there is no reason why a big gap should exist between the NAV on the the one hand and prevailing market price of the MG and MP on the other. One major reason is that since the UTI has not declared any dividend on the two major schemes — neither has it given any indication to that effect for the future — there is hardly any buying interest in the scrip resulting in depressed market value. The obligation to maintain a minimum dividend would itself generate enough buying interest, and thus contribute to increased market price, and enhancing the holders'liquidity in the bargain.

Fourth, the UTI should undertake to buy back the scrip from the investor after a minimum period of not more than three years and at a price equivalent to the NAV. This would help in improving market confidence and encourage the possibility of a bomming secondary market with attendant improved prospects for capital appreciation and ultimate benefit to shareholders.

Finally, there is no reason why the UTI should not come under the Sebi's ambit. Merely, because it was created through an act of parliament, the fundamentals do not change. So long as the functions and objectives of the mutual fund activities are the same , various entities whether in public or private sector should be governed by common law and regulations, framed for the purpose.