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Analyzing the Interplay between Risk Tolerance, Investor Biases, and Mutual Fund Performance

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ABSTARCT: The Indian financial landscape has undergone significant transformation in recent decades, through mutual funds evolving as a pivotal component of this change. The exponential progress of the mutual fund business in India can be accredited to rising financial literacy, increasing disposable incomes, and greater awareness of investment opportunities. This study examines the influence of selected mutual fund companies our economy, focusing on their role in promoting economic development, enhancing market liquidity, and contributing to capital formation. The research explores how mutual funds influence stock market dynamics, direct investments into key industries, and foster financial inclusion. Additionally, it evaluates investor behaviour, risk tolerance, and portfolio management strategies to understand their implications on long-term investment outcomes.

KEYWORDS: Mutual Funds, Economic Growth, Financial Inclusion

I. INTRODUCTION

In recent decades, the Indian financial landscape has witnessed significant changes, and one of the key contributors to this transformation has been the rise of the mutual funds. Our mutual fund industry has experienced exponential growth, owing to factors such as growing financial literacy, rising disposable incomes, and greater awareness of investment opportunities. These funds have not only provided a platform for individuals to invest but also played a crucial role in channelling domestic savings into productive sectors of the economy, thus contributing to overall economic growth.

The present study aims to scrutinize the impact of certain mutual fund companies on the Indian economy, with a focus on their role in promoting economic development, enhancing market liquidity, and contributing to the capital formation process. It will explore how these companies influence the stock market, the flow of investments into key industries, and the creation of jobs, while also Analysing their role in fostering financial inclusion.

1.2 SCOPE OF STUDY

This study will examine the effect of selected mutual fund companies on our Indian economy. It will focus on their contributions to economic growth, market liquidity, and financial inclusion. The research will also look into the investment strategies of these funds and their effect on different sectors. Additionally, the study will explore the challenges these companies face in the current economic environment.

1.3 OBJECTIVES OF THE STUDY

- To understand the influence of risk tolerance on the selection of mutual funds and the investor's overall portfolio strategy.
- To examine the impact of investor behaviour on portfolio management and long-term investment outcomes in the context of mutual funds

II. RESEARCH METHODOLOGY

In this project, secondary data is used over a 5-year period. A total of 10 key ratios were calculated, the data was processed using Excel spreadsheets for calculations and trend visualization, with a focus on interpreting the implications of each ratio to identify the company's strengths, weaknesses, and overall financial position. The **Period of Study** for this research is from **2020 to 2024**. This five-year timeframe was chosen to analyse the financial performance and liquidity trends of **Nippon Life India** using key financial ratios. Examining this period provides

insights into the company's financial stability, investment strategies, and overall impact on the Indian mutual fund industry.

III. LITERATURE REVIEW

S. Bhatia & P. Goyal (2021)¹ This paper investigates the performance of equity mutual funds in India from 2015 to 2020 using Sharpe Ratio, Treynor's Ratio, and Jensen's Alpha. **M. Kumar & R. Sharma (2020)**² This study explores the relationship between macroeconomic variables such as inflation, interest rates, and GDP growth, and the performance of mutual funds in India. Using a multiple regression model, the study finds that macroeconomic factors have a significant impact on mutual fund returns, especially for fixed-income and debt-based funds. **K. S. Mehta & R. Singh (2022)**³ This paper compares the performance of Indian mutual funds with global mutual fund schemes using risk-adjusted performance measures like Sharpe Ratio and Sortino Ratio.

IV. ANALYSIS AND INTERPRETATION

4.1 CURRENT RATIO:

The Current Ratio is a key financial metric that evaluates a company's ability to meet short-term liabilities using short-term assets.

TABLE NO: 4.1.1
CURRENT RATIO FOR NIPPON INDIA MUTUAL FUND

Year	Current Assets	Current Liabilities	Current Ratio
2024	3,774.04	200.59	18.8147
2023	3,341.26	156.36	21.36902
2022	3,277.63	159.24	20.58296
2021	2,909.45	169.85	17.12953
2020	2407.4	195.84	12.29269

INTERPRETATION

Nippon Life India Asset Management's Current Ratio increased from 12.29 (2020) to 18.81 (2024), showing a strong liquidity position. The highest ratio (21.37 in 2023) suggests excess liquidity, which may indicate idle assets that could be better utilized

4.2 CASH RATIO:

The Cash Ratio is a financial metric that assesses a company's ability to meet short-term liabilities using only its most liquid assets cash and cash equivalents.

TABLE NO: 4.2.1
CASH RATIO FOR NIPPON INDIA MUTUAL FUND

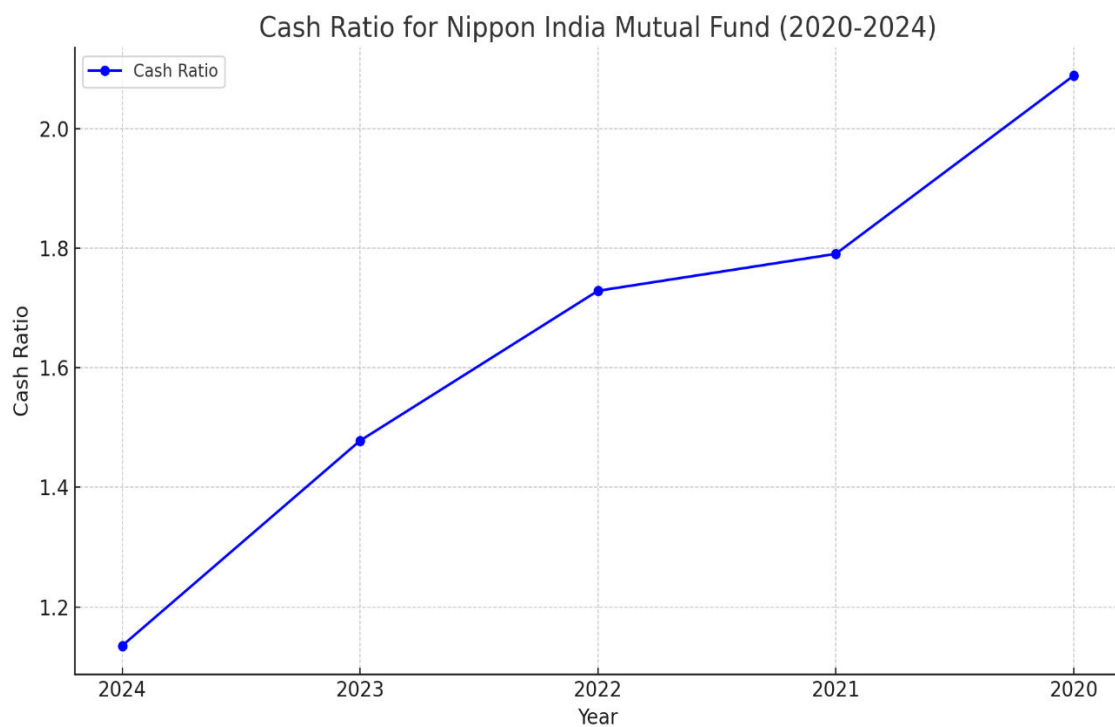
Year	Cash & Equivalents	Current Liabilities	Current Ratio
2024	227.68	200.59	1.135052

¹ **S. Bhatia & P. Goyal (2021):** "Performance Evaluation of Mutual Funds in India: An Empirical Study".

² **M. Kumar & R. Sharma (2020)** "Impact of Macro-Economic Factors on Mutual Fund Performance in India".

³ **K. S. Mehta & R. Singh (2022)** "A Comparative Study of Mutual Fund Performance in India and International Markets".

2023	231.12	156.36	1.478127
2022	275.32	159.24	1.728963
2021	304.17	169.85	1.790815
2020	409.11	195.84	2.089001



INTERPRETATION

Nippon Life India Asset Management's Cash Ratio declined from 2.09 (2020) to 1.14 (2024), indicating reduced cash reserves relative to short-term liabilities. The 2024 ratio of 1.14 suggests that the company still holds enough cash to cover its immediate liabilities, ensuring strong liquidity.

4.3 LIQUIDITY RATIO

The Liquidity Ratio is a financial metric that evaluates a company's ability to meet its short-term obligations using its current assets.

TABLE NO : 4.3.1
LIQUIDITY RATIO FOR NIPPON INDIA MUTUAL FUND

Year	Liquid Asset	Current Liabilities	Quick Ratio
2024	987.45	200.59	4.922728
2023	854.32	156.36	5.463801
2022	812.78	159.24	5.10412
2021	765.43	169.85	4.506506
2020	689.21	195.84	3.51925

INTERPRETATION

Nippon Life India Asset Management's Liquidity Ratio increased from 3.52 (2020) to 4.92 (2024), indicating a strong ability to meet short-term obligations using liquid assets.

The higher ratio in 2023 (5.46) suggests the company had surplus liquid assets that could have been reinvested

V. CONCLUSIONS

Nippon Life India Asset Management demonstrates strong liquidity, as indicated by its rising Current and Liquidity Ratios. However, the peak levels in 2023 suggest potential inefficiencies due to idle assets, which could be better utilized for growth. The declining Cash Ratio, while still maintaining financial stability, highlights the need for prudent cash management. By implementing these strategic measures, Nippon Life India Asset Management can achieve improved capital efficiency, maximize returns, and maintain financial stability in a dynamic market environment.

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