

# COMPARATIVE BENCHMARK ANALYSIS OF SELECTED LARGE CAP AND SMALL AND MIDCAP MUTUAL FUND SCHEMES- A STUDY OF POST BUDGET IMPACT ON EQUITY SCHEMES

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## ABSTRACT-

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India (UTI) at the initiative of the Reserve Bank of India (RBI) and the Government of India. The objective was to attract small investors and introduce them to market investments. In 1963, UTI was established by an Act of Parliament as only entity offering mutual funds in India. New era in the mutual fund industry began in 1993 with the permission granted for the entry of private sector funds. The year 1999 marked the beginning of a new phase in the history of the mutual fund industry in India, in terms of both amount mobilized from investors and assets under management. This paper attempts to study the performance in terms of monthly as well as yearly returns of selected private sector Large Cap as well as Small and Midcap Mutual Fund schemes ranked as 1 by CRISIL as on 7<sup>th</sup> Feb 2018. Secondary data has been collected for analysis from [www.moneycontrol.com/mutualfundindia](http://www.moneycontrol.com/mutualfundindia). The comparison has been done with benchmark returns within each cap as well as among the schemes themselves. The paper has also drawn out the opinion for suitability of schemes to different classes of investors and have also traced the effect of the new budgetary change announced in Jan 2018 on overall Mutual Fund Equity schemes.

**KEYWORDS-** Unit Trust of India, Public Sector Mutual funds, Private sector Mutual funds, Large cap schemes, Small and Midcap Schemes, CRISIL

## I INTRODUCTION

A mutual fund is a professionally-managed investment scheme, usually run by an asset management company that brings together a group of people and invests their money in stocks, bonds and other securities. They are financial intermediary which invest in equity, bonds, debentures, commercial paper and government securities. Some are purely equity and others can be hybrid which vary from fund to fund. These units can be purchased or redeemed as needed and is reflected at the fund's current net asset value (NAV). These NAVs keep fluctuating, according to the fund's holdings. All the mutual funds are registered with SEBI. They function within the provisions of strict regulation created to protect the interests of the investor.

The biggest advantage of investing through a mutual fund is that it gives small investors access to professionally-managed, diversified portfolios of equities, bonds and other securities, which would be quite difficult to create with a small amount of capital. Investors are also given option of getting dividends declared periodically or to participate in capital appreciation of scheme. An equity fund is a mutual fund that invests principally in stocks. It can be actively or passively (index fund) managed. Equity funds are also known as stock funds. equity funds are ideal investment vehicles for investors that are not as well-versed in financial investing or do not possess a large amount of capital with which to invest. Equity funds are practical investments for most people.

The attributes that make equity funds most suitable for small individual investors are the reduction of risk resulting from a fund's portfolio diversification and the relatively small amount of capital required to acquire shares of an equity fund. The price of the equity fund is based on the fund's net asset value (NAV) less its liabilities. A more diversified fund means that there is less negative effect of an individual stock's adverse price movement on the overall portfolio and on the share price of the equity fund. Equity funds are managed by experienced professional portfolio managers.

Public mutual funds are open to the public to invest in. They are managed by professional fund managers, who actively invest in various securities to achieve the mutual funds' stated objectives, which could be capital growth or income. Private mutual funds are an exclusive investment with a limited number of investors. The

minimal investment for a share of a private mutual fund is much higher than that of a public mutual fund. There is little or no government regulation. Private mutual funds, including hedge funds, tend to be more leveraged than public mutual funds.

## VARIOUS SCHEMES FOR INVESTING IN MUTUAL FUNDS.

### Schemes according to Maturity Period:

A mutual fund scheme can be classified into open-ended scheme or close-ended scheme depending on its maturity period.

**An open-ended fund or scheme-** is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period. Investors can conveniently buy and sell units at Net Asset Value (NAV) related prices declared on a daily basis. The key feature of open-end schemes is liquidity.

**A close-ended fund or scheme-** has a stipulated maturity period e.g. 5-7 years. The fund is open for subscription only during a specified period at the time of launch of the scheme. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units of the scheme on the stock exchanges. These mutual funds schemes disclose NAV generally on weekly basis.

### Schemes according to Investment Objective:

#### Growth / Equity Oriented Scheme

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.

#### Income / Debt Oriented Scheme:

The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures, Government securities and money market instruments. Such funds are less risky compared to equity schemes. These funds are not affected because of fluctuations in equity markets. The opportunities of capital appreciation are also limited. The NAVs of such funds are affected because of change in interest rates in the country.

#### Balanced Fund:

The aim of balanced funds is to provide both growth and regular income as such schemes invest both in equities and fixed income securities in the proportion indicated in their offer documents appropriate for investors looking for moderate growth. They generally invest 40-60% in equity and debt instruments. However, NAVs of such funds are likely to be less volatile compared to pure equity funds.

#### Money Market or Liquid Fund:

These funds are also income funds and their aim is to provide easy liquidity, preservation of capital and moderate income. These schemes invest exclusively in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money, government securities, etc. Returns on these schemes fluctuate much less and are appropriate for corporate and individual investors as a means to park their surplus funds for short periods.

#### Gilt Fund:

These funds invest exclusively in government securities. Government securities have no default risk. NAVs of these schemes also fluctuate due to change in interest rates and other economic factors.

**Index Funds:** Index Funds replicate the portfolio of a particular index such as the BSE Sensitive index, S&P NSE 50 index (Nifty), etc. These schemes invest in the securities in the same weightage comprising of an index. NAVs of such schemes would rise or fall in accordance with the rise or fall in the index. Necessary disclosures in this regard are made in the offer document of the mutual fund scheme.

### LARGE CAP AND SMALL CAP SCHEMES.

Funds which invest a larger proportion of their corpus in companies with large market capitalization are called large cap funds, which offer stable and sustainable returns over a period of time. Mutual funds which diversify investments in between mid and small cap companies are termed as mid and small cap funds. The proportion of investments between midcap and small cap may vary from fund to fund. These funds invest in a mix of midcap and small cap stocks. They are positioned on a high-risk return trade-off plan compared to a large cap fund. mid-cap usually prefers those companies that are future's runaway success. Whereas, small cap companies are generally younger companies or start-ups that have a lot of scopes to grow.

**Market Capitalization:** Large cap companies have a market capitalization of more than INR 1000 crore, while mid-caps could be companies with a market cap of INR 500 Cr to INR 1000 Cr, and a market cap of the small cap could be less than INR 500 Cr.

**Companies:** Infosys, Unilever, Reliance Industries, Birla, etc., are a few well-known large cap companies in India. Some of the most emerging, i.e. mid-cap companies in India are Bata India Ltd, City Union Bank, PC Jeweller Ltd, etc. And some of the well-known small-cap companies in India are India bulls, Indian Overseas Bank, Just Dial, etc.

**Risks:** Mid cap and small cap funds are more volatile than large-cap funds. Large cap mutual funds tend to outperform both mid and small cap funds during the bull market.

## II REVIEW OF LITERATURE

**Dr. Sarita Bahl & Meenakshi Rani (2012)** The paper investigates the performance of 29 open-ended, growth-oriented equity schemes for the period from April 2005 to March 2011 (six years) of transition economy. Monthly NAV of different schemes have been used to calculate the returns from the fund schemes. BSE-Sensex has been used for market portfolio. The historical performance of the selected schemes were evaluated on the basis of Sharpe, Treynor, and Jensen's measure whose results will be useful for investors for taking better investment decisions. The study revealed that 14 out of 29 (48.28 percent) sample mutual fund schemes had outperformed the benchmark return. The results also showed that some of the schemes had underperformed, these schemes were facing the diversification problem.

**Sahil Jain (2012)** This paper has made an attempt to study the performance of equity based mutual funds. A total of 45 schemes offered by 2 private sector companies and 2 public sector companies, have been studied over the period April 1997 to April 2012 (15 years). The analysis has been made using the risk-return relationship and Capital Asset Pricing Model (CAPM). The overall analysis finds that HDFC and ICICI have been the best performers, UTI an average performer and LIC the worst performer. SENSEX and NIFTY has been used as benchmark portfolio.

**Dr. Rajesh Manikraoji Naik & M R Senapathy (2013)** This study is an attempt to understand the Performance of the Equity Funds with respect to SBI. The Companies would have to shape products suitable for the investors and market them effectively by increasing the awareness of investors. SBI Mutual Funds (Sectoral ) are performing very Good as compared to other mutual funds. Various indices have been used for comparison.

**Dr Vikas Choudhary, and Preeti Sehgal Chawla (2014)** This study has made an attempt is made to analyse the performance of the growth-oriented equity diversified schemes on the basis of return and risk evaluation. The analysis was achieved by assessing various financial tests like Average Return, Sharpe Ratio, Treynor Ratio, Standard Deviation, Beta and Coefficient of Determination (R<sup>2</sup>) by utilising benchmark portfolio BSE Sensex for all growth/equity scheme

**Dr. M. Ravichandran & T. Iswarya (2016)** This paper has analysed the five year annual growth return given in their schemes to measure the risk return relationship of selected sector fund schemes and to compare them on the basis of sharpe , treynor ,and Jensen’s measure whose results will be useful for investors for taking better investment decisions. BSE- Sensex has been used for market portfolio.

**Muralidhar Prasad Ayaluru (2016)** In this study 10 top performing schemes offered by Reliance Mutual Funds are selected to make a comparative study on the risk and return offered by these funds. From the study it is observed that among the selected funds Reliance Small cap fund is considered as a fund with moderate risk as well as moderate returns, against which the Reliance Bank Fund is considered as high risk with high returns. From the study, it is concluded that all the selected 10 reliance funds are performing above the selected bench mark return and managed by the fund satisfactorily. There are funds suitable for type of any investor.

**Md. Qamruzzaman ACMA (2014)** an attempt is made to evaluate the performance of 32 growth oriented mutual funds on the basis of monthly returns compared to benchmark returns by taking risk adjusted performance measures suggested by Jenson, Treynor and Sharpe are employed widely known as Treynor ratio, Sharpe ratio, and Jensen’s alpha. The study found that, over the selected mutual funds shows positive monthly return and upward trend in comparison to market return. Different risk return measures show similar performance indication with exception of few mutual funds scheme due to market return in inconsistent with return from mutual funds i.e., negative market return. It can be concluded that, the growth oriented mutual funds have not performed better than their respect to volatility most of the funds have not performed better.

### III OBJECTIVES OF THE STUDY

- 1.To evaluate and interpret the performance of selected schemes in Large cap as well as Small and Midcap
- 2.To compare the performance of each with benchmark returns.
3. To predict the suitability of schemes to the selected type of investors.
- 4.To compare the performances schemes of Large cap and Small and Midcap in line with their respective benchmarks.
5. To trace out influence of Budget announced in Jan 2018 on returns.

### IV RESEARCH METHODOLOGY

Secondary data have been taken for analysis in this research. Selected Equity mutual fund schemes in Large Cap as well as Small and Midcap as on 7 February 2018 which were Ranked 1 on Credit Rating Information Services of India Limited have been taken for analysis. Within each category of large cap as well as Small and Midcap, Comparative analysis is done with other Schemes in same category as well as with benchmark return within that category. Two years data have been taken from <http://www.moneycontrol.com/mutualfundindia/>. However, interpretation has been given with reference to monthly as well as yearly performances of the selected schemes. The Benchmark used for Large cap schemes is Nifty 50 Returns and for Small and Midcap schemes is Bse Small cap returns.

### V DATA ANALYSIS

Large Cap Schemes (Table 1)

Scheme name	NAV	1m%	3 m%	6 m%	1yr%	2 yr%
<b>IDFC Focused Equity Fund - Direct Plan (G)</b>	41.595	-4.7	2.3	8.1	37.9	30.3
<b>Kotak Select Focus Fund - Direct Plan (G)</b>	34.257	-3.3	-0.5	2.2	20.1	25.1

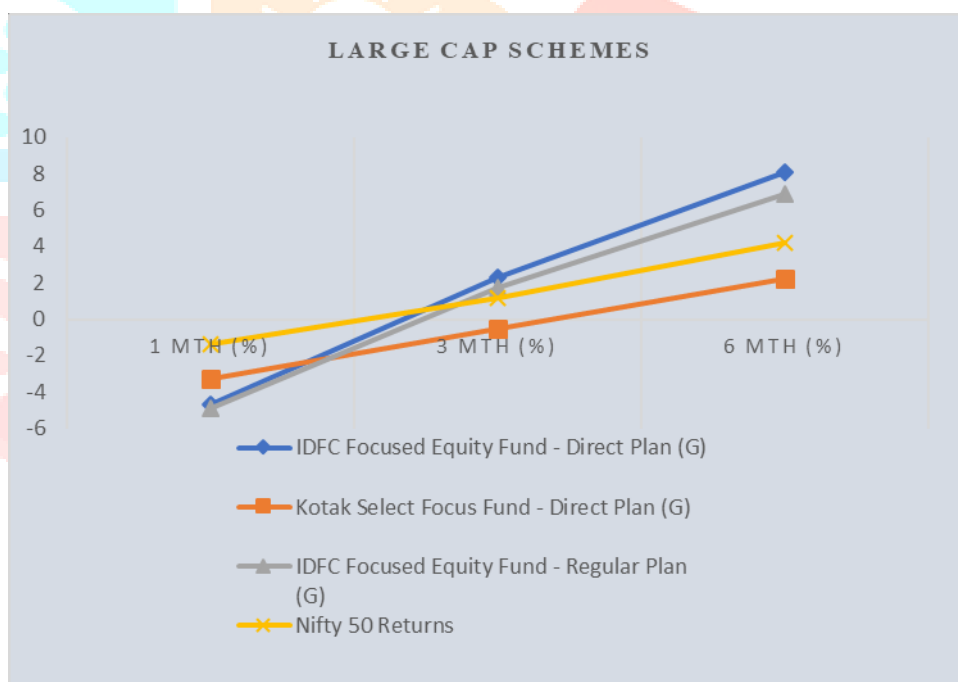
<b>IDFC Focused Equity Fund - Regular Plan (G)</b>	39.075	-4.9	1.7	6.9	35.6	28.2
<b>Nifty 50 Returns</b>	---	-1.4	1.2	4.2	19.5	19.1

INTERPRETATION

Table 1 depicts the performance of selected equity diversified large cap schemes returns for a period of 2015-2017. It also indicates benchmark index returns during this period.

Seventh column indicates the returns of two years by different schemes. Among all IDFC Focused Equity Fund - Direct Plan (G) has shown satisfactory performance with returns of about 30.3% and highest NAV 41.595. Moreover compared to benchmark returns during the period of six months both the schemes i.e. IDFC Focused Equity Fund - Direct Plan (G) and IDFC Focused Equity Fund - Regular Plan (G) have outperformed the standard benchmark returns. Subsequently, up to the period of one year and two years all the schemes have outperformed the benchmark but IDFC Focused Equity Fund - Direct Plan (G) have provided exceptionally well returns. Although, looking from the perspective of risk averse investors Kotak Select Focus Fund - Direct Plan (G) have provided a consistent return with uprising trend during the period of two years. Thus, from the perspective of regular returns and capital appreciation Kotak Select Focus Fund - Direct Plan (G) holds good. Other two schemes provide volatile returns and are preferred by Risk bearing investors with high return needs.

The performance of these Large cap schemes is shown through a graph below along with benchmark returns.



SMALL AND MIDCAP SCHEMES (TABLE 2)

Scheme Names	NAV	1m%	3 m%	6 m%	1yr%	2 yr%

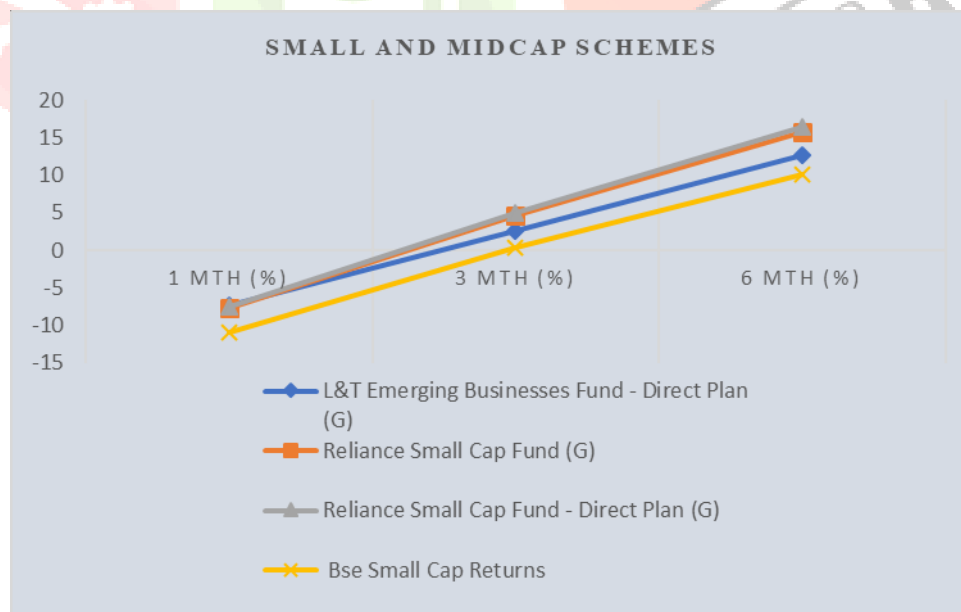
<b>L&amp;T Emerging Businesses Fund - Direct Plan (G)</b>	28.253	-7.4	2.6	12.6	39.7	39.6
<b>Reliance Small Cap Fund (G)</b>	45.182	-7.6	4.7	15.7	39.4	35.9
<b>Reliance Small Cap Fund - Direct Plan (G)</b>	47.366	-7.5	5	16.5	41.2	37.5
<b>Bse Small Cap Returns</b>	---	-10.9	0.4	10.1	31.1	29.5

**INTERPRETATION**

Table 2 depicts the performance of selected equity diversified Small and Midcap Schemes returns for a period of 2015-2017. It also indicates benchmark index returns during this period.

Seventh column indicates the returns of two years by different schemes. Among all three L&T Emerging Businesses Fund - Direct Plan (G) have shown satisfactory performance with high returns of 39.6%. Moreover, compared to benchmark returns over a period of six months as well as one year of 10.1% and 31.1% respectively, all three schemes in the Small and Midcap have outperformed the standard returns. Looking to the performance of Reliance Small Cap Fund - Direct Plan (G), it can be summarised that the scheme has provided highest return among other two schemes i.e. L&T Emerging Businesses Fund - Direct Plan (G) and Reliance Small Cap Fund (G) for the consecutive period of 3 months, 6 months and 1 year. However, from the point of view of consistency and stability of earnings L&T Emerging Businesses Fund - Direct Plan (G) have provided quite a stable and uprising return over period of two years. Other two schemes i.e. Reliance Small Cap Fund (G) and Reliance Small Cap Fund - Direct Plan (G) have provided with higher returns but have being volatile over long time period. Thus, investors going for lesser risk and high returns would prefer L&T Emerging Businesses Fund - Direct Plan (G) Scheme and for business investors with higher expectation of returns can go for Reliance Small Cap Fund - Direct Plan (G) Scheme with highest NAV among all of 47.366 in short as well as medium term period.

The performance of these Large cap schemes is shown through a graph below along with benchmark returns.



**VI CONCLUSION**



It is accepted fact that Large Cap Mutual funds invest their corpus in the companies having huge market capitalisation rate along with asset backing. However, large cap schemes do provide a stable and consistent return but provide relatively lower return compared to Small and Midcap Schemes which invests in companies with quite higher risk with attractive returns. Many of the schemes in Small and Midcap have outperformed the benchmark returns. Whereas, in case of Large Cap many schemes have performed lower than benchmark in their short time period. Although, Small and Midcap schemes sometimes depict a volatile return can be preferred by investors of business class. Sub sequentially, large cap schemes have demonstrated appropriate performance during long run period and thus can be good avenue for investors with low return needs and having demands of capital appreciation. Major change after the budget is that all dividends in Equity and Equity Oriented Funds will now be taxed at the rate of 10 percent and any Long-Term Capital Gains (LTCG) over Rs 100,000 per year on Equity Mutual funds will now be taxed at 10 percent. This may impact the after tax returns and consequentially flows in funds. This has made dividend schemes slightly disadvantaged compared to growth schemes.

## VII-RECOMMENDATIONS

Mutual funds are long-term investment vehicles and investors should not get in and get out according to market movements. Investment should be according to their risk appetite and investment horizon. Investors should try to make changes in their portfolio during market volatility. Mutual fund advisors suggest according to risk appetite and investment horizon so as to invest in small and midcap space anytime. India's equity fund managers are advising investors to stick to large cap funds and limit or avoid exposure to mid and small cap stocks in 2017 as the year is expected to be volatile. According to fund managers, large cap funds not only offer higher safety on the relative basis, particularly during high volatility, such funds restrict their investments to blue-chip companies. The average one-year return for large-cap equity schemes has been around 20 per cent. The Nifty 50 index has rallied around 10 per cent from its December 2016 lows. Large cap companies are generally associated with better liquidity, are well researched, and are managed by promoters or management with good track record. This helps infuse a sense of comfort and safety among investors. In the past one year, however, mid-cap and small-cap schemes have outperformed large cap funds. In the past one year, however, mid-cap and small-cap schemes have outperformed large cap funds. Afterall, investor knowledge and experience about the markets play a dominant role in determining the composition of their portfolio investments along with data movements of various schemes during last few months.

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