

A Study On Performance Analysis Of Select Mutual Fund Schemes In India

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Abstract:

In India, there are various investment avenues available for investors to invest and earn profitable return. Among the others financial products, investment in mutual fund ensures the minimum risks and maximum return to the investors. The need and scope of the mutual fund operation has increased as the emphasis is being made on increase in domestic savings and improvement in diversification of investments. Thus it became important to study the mutual fund industry and the performance of the mutual funds. This study aims to evaluate the performance of a few select mutual fund schemes of India.

A Mutual Fund is a trust that pools the savings of a large number of investors who share a common financial goal. Each mutual fund has common financial goal and the money is invested in accordance with the objective. Fund is managed by a professional fund manager, who is responsible for implementing a fund's investing strategy and managing its portfolio trading activities. Each investor in the mutual fund participates proportionally (based upon the number of shares owned) in the gain or loss of the fund. Any investor can invest minimum amount that is affordable and diversify their portfolio in different sectors depending upon their interests and risks. The money thus collected is then invested in capital market instruments such as shares, debentures, and other securities in accordance with objectives as disclosed in offer document. The investment is done by the mutual fund through the expertise of a team of professional money managers. Investment in securities is spread across a wide cross-section of industries and sectors and thus the risk is reduced. Diversification reduces the risk as because all stocks may not move in the same direction at the same time in the same proportion. The combined holdings of a mutual fund are collectively known as the mutual funds portfolio. Mutual fund issue „units“ to the investors in accordance with the quantum of the proportion of money invested by them. „Units“ are nothing but a large number of small fractions of equal value a fund are divided into. Investors of mutual funds are known as unit holders. The income earned through interests and dividends from the investments and the capital gains realized by a fund on sale of these investments are shared by its unit holders in proportion to the number of units owned by them.

Keywords: Performance Analysis of Select Mutual Fund Schemes- investments in shares, debentures, government securities

INTRODUCTION

Mutual fund is vehicle that pools the investment from the investors with a common financial ambition. Investors who are not aware about capital markets do not consider it as investment avenue. Thus Mutual Fund is a boon for those investors. The investment collected from these investors is invested in different types of capital market instruments like equity, debentures, bonds etc. Compared to stock market the investors get limited returns as the risk is also less. Their investment is in the form of units. The returns from the investments by the mutual fund companies are shared in proportion to their investment in funds. However mutual funds provide an opportunity to investment in different portfolios with diversified permutations and combinations of the instruments in the stock markets. Mutual funds are versatile in nature and suits to the needs of different investors. Mutual funds gained popularity over decade as it diversifies the risk and pools the investment and run by investment professionals. In this research paper an attempt is made to compare the performance of balanced mutual fund schemes between mid cap and small cap fund on the basis of return and risk evaluation. The analysis was achieved by assessing various financial tests like Average Return, Sharpe Ratio, Treynor Ratio, Jensen's Ration, Standard Deviation, Beta and Alpha. The analysis has reported diversified and varied results.

The SEBI (Mutual Funds) Regulations 1993 define a mutual fund (MF) as a fund established in the form of a trust by a sponsor to raise monies by the Trustees through the sale of units to the public under one or more schemes for investing in securities in accordance with these regulations.

According to Association of Mutual Funds in India (AMFI)

“A mutual fund is a trust that pools the savings of a number of investors who share common financial goal. Anybody with an investible surplus of as little as a few thousand rupees can invest in mutual funds. This investor buys units of a particular mutual fund scheme that has a defined investment objective and strategy.”

Mutual fund is a financial instrument which provides a platform where a common man could fruitfully convert a pittance into great rupee by wisely investing into the right scheme according to his risk taking abilities. There are a number of investment opportunities available to the investors in the present era. They are free to investment in any part of the world. Investors have quick and immediate access to the information about their investment. Mutual fund is an innovative financial instrument which rose from different permutations and combinations of the secondary securities based on investment objective. This called for growth of different types of mutual fund schemes and funds based on structure like open ended and close ended, based in investment like growth scheme, balance scheme, income scheme, money market scheme and other funds like tax savings scheme, index funds, sector funds etc. There are even more innovative instruments called Derivative Mutual Funds.

Mutual Funds emerged as successful source of investment with the power of knowledge of fund managers who can track the market movements, offering innovative funds according to the investment objective of the investor, diversification of risk, less costly, high liquidity, transparency in its operations, affordability of small investors, regulated under by the SEBI etc. However higher tax rates, fluctuating returns, over diversification are to be considered as the some of the limitations of mutual funds.

REVIEWS OF LITERATURE

Minal Bhojani (2018) has evaluated a study on performance evaluation of top equity scheme of mutual fund in India. The purpose of the study is to investigation about equity scheme performance of five years in India. The researcher has use sample of ten equity scheme of mutual fund. Researcher has concluded that all top fund perform good under sharpe ratio, Treynor ration and Jenson Index in their study period of the research.

Mr. Sangiseti Manoj and Mr. Bondu Avinash (2017) have analysed the performance evaluation of select Large Cap mutual funds in terms of their return and risk from various fund houses in India. The researchers have taken two years of the data of select mutual fund. Researchers have summarized that all the mutual fund schemes from various fund houses were affected with losses due to pandemic. Similar to the Sharp Index method, Treynor index also have negative values due to the negative returns of the various funds in India.

Sharad Panwar and Dr. R. Madhumathi of Indian Institute of Technology, Madras (2016) on “characteristics and performance evaluation of select mutual funds in India”, identified differences in characteristics of public-sector sponsored & private-sector sponsored mutual funds and compare their performance using traditional investment measures. Net Asset Value (NAV) for the medium-term period May,2002 to May,2005 of select mutual funds along with the index value of the two benchmark market indices, namely S &P CNX NIFTY and CRISIL Balanced Fund Index were taken. They primarily used Sharpe ratio, Jensen’s alpha, excess standard deviation adjusted return (eSDAR) and found out that private-sector Indian sponsored mutual funds have outperformed both Public-sector sponsored and Private-sector foreign sponsored mutual funds.

The paper by Dr. Rao (2015) on “PERFORMANCE EVALUATION OF INDIAN MUTUAL FUNDS” evaluated the performance of Indian Mutual Fund Schemes in a bear market using relative performance index, risk-return analysis, Treynor’s ratio, Sharpe’s ratio, Jensen’s measure, Fama’s measure. The study finds that Medium Term Debt Funds were the best performing funds during the bear period of September 98-April 2002 and 58 of 269 open ended mutual funds provided better returns than the overall market returns.

Ashok Banerjee & Prof. B BChakrabarti (2007) on “performance of Indian equity mutual funds vis-a vis their style benchmarks: an empirical exploration”, used Return Based Style Analysis (RBSA) to evaluate equity mutual funds in India using quadratic optimization of an asset class factor model proposed by William Sharpe and analysis of the relative performance of the funds with respect to their style benchmarks. Their study found that the mutual funds

Juan Carlos(2005) on “portfolio performance: factors or benchmarks?” analyzed whether it was more appropriate to apply a factor-based or a characteristic-based model - both known as benchmarks in portfolio performance measurement using the Linear model, asset pricing model and Fama and French factors. The study showed that if information on returns was used and a linear model was proposed that adjusted return to a set of exogenous variables, then the right side of the equation reported the achieved performance and the passive benchmark that replicated the style or risk of the assessed portfolio.

STATEMENT OF THE PROBLEM

The mutual fund industry is a rapidly growing sector in the Indian financial market. Though there are different options for investment, the investment in mutual fund through sound fund management provides the benefits for the investors to invest in capital market with low risk and high of rate of returns as there is diversification of funds. There are many investment avenues available for investors. It is required that the investors need to have good knowledge regarding risk and return of the funds they are investing. Thus this study helps to analyse the performance of the select mutual fund schemes for the purpose of investment.

OBJECTIVES OF THE STUDY:

- To study the current status of mutual funds in India.
- To measure the risk- return relationship and market volatility of the select mutual funds.
- To examine the performance of select schemes by using portfolio performance evaluation models namely Sharpe, Treynor and Jensen Ratio

PERFORMANCE MEASURES OF MUTUAL FUNDS:

Mutual Fund industry today, with about 30 players and more than six hundred schemes, is one of the most preferred investment avenues in India. However, with a plethora of schemes to choose from, the retail investor faces problems in selecting funds. Factors such as investment strategy and management style are qualitative, but the funds record is an important indicator too. Though past performance alone cannot be indicative of future performance, it is, frankly, the only quantitative way to judge how good a fund is at present., there is a need to correctly assess the past performance of different Mutual Funds.

Worldwide, good Mutual Fund companies over are known by their AMCs and this fame is directly linked to their superior stock selection skills. For Mutual Funds to grow, AMCs must be held accountable for their selection of stocks. In other words, there must be some performance indicator that will reveal the quality of stock selection of various AMCs.

Return alone should not be considered as the basis of measurement of the performance of a Mutual Fund scheme, it should also include the risk taken by the fund manager because different funds will have different levels of risk attached to them. Risk associated with a fund, in a general, can be defined as variability or fluctuations in the returns generated by it. The higher the fluctuations in the returns of a fund during a given period, higher will be the risk associated with it.

RESEARCH METHODOLOGY**DATA COLLECTION**

The data of the select mid cap and small cap funds has been collected from secondary data published from Karvy stock broking ltd, Hyderabad

SAMPLE DURATION

The duration of these mutual funds of Small cap and Mid cap were taken throughout the financial year i.e. from March 31st 2106 to April 1st 2017, in all these six select companies.

STATISTICAL TOOLS

Risk, Returns, Sharpe's Ratio, Treynor's Ratio, Jenson's Ratio(Beta) co-efficient.

DATA ANALYSIS AND INTERPRETATION**RESULTS OF RISK INDICATORS OF SELECT MID CAP FUNDS****TABLE 1: RISK INDICATORS OF SELECT MID CAP FUND**

MID CAP FUND	AVG RETURNS	SD	BETA	ALFA
UTI	0.05204976	0.714802891	0.033225	0.329518805
AXIS	0.03344060	0.081371102	0.008699	0.351268
KOTAK	0.02933579	0.707341936	0.05369	0.728952185

Source: Computed from the Secondary Data collected from Karvy Stock Broking ltd, Hyderabad

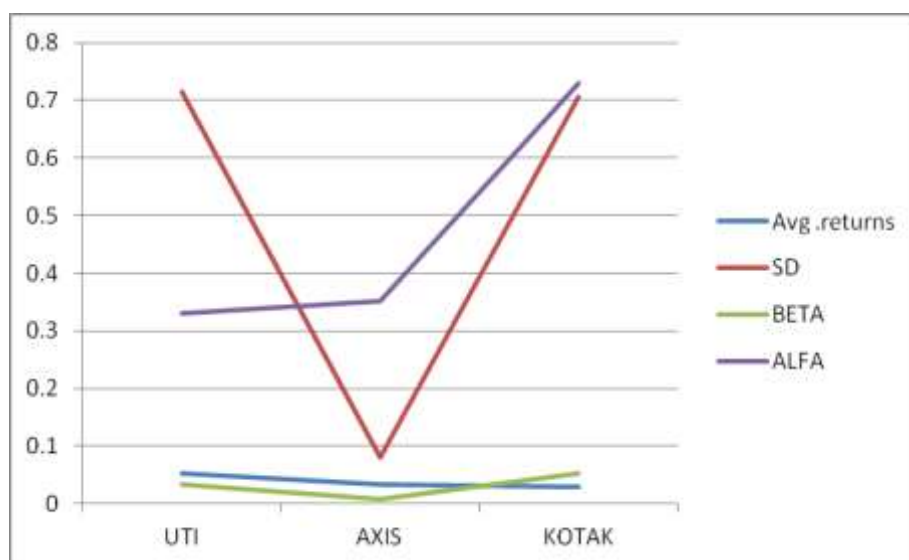
**Graph 1: Risk indicators of select mid cap fund**

Table 1 explains the risk indicators of select mid cap mutual fund. It is clear from the above table that annual average returns value range from 0.05204976 to 0.02933579 that highest returns is from UTI Balance i.e. 0.05204976. Axis balanced return is 0.033440601, Kotak Balanced fund return is 0.02933579. The standard deviation measures the volatility of the fund the least standard deviation is identified with Axis balanced fund with 0.081371102. Beta is the coefficient of mutual funds volatility. The schemes of beta range from

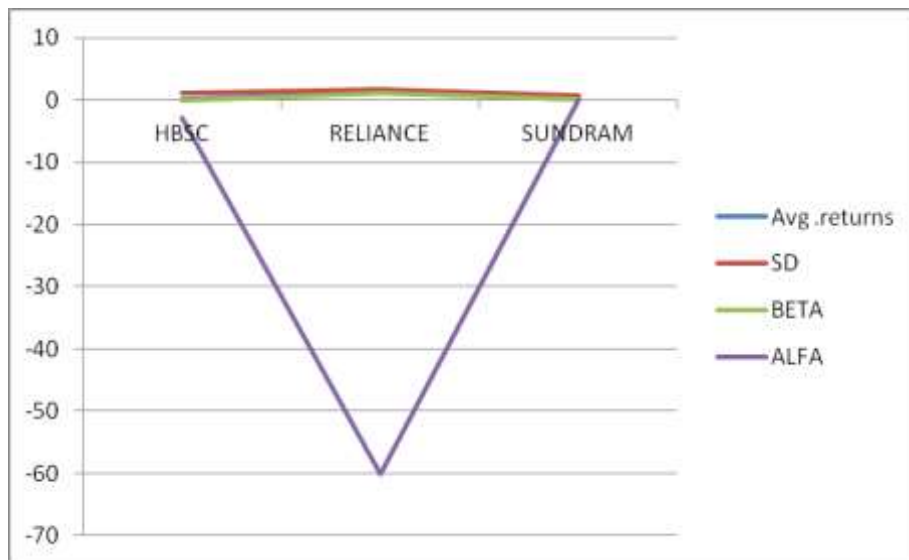
0.05369 to 0.008699 which is more than one however Kotak balanced is the highly risky fund. The fund's Alphanage from 0.728952185 to 0.329518805.

RESULTS OF RISK INDICATORS OF SELECT SMALL CAP FUNDS

TABLE 2: RISK INDICATORS OF SELECT SMALL CAP FUND

MUTUAL FUNDS	AVG RETURNS	SD	BETA	ALPHA
HBSC	0.107622208	1.109378242	-0.02528	-2.919194879
RELIANCE	1.333129639	1.75203782	1.124035	-60.0278412
SUNDRAM	0.048028618	0.765020317	0.040805	0.142133608

Source: Computed from the Secondary Data collected from Karvy Stock Broking ltd, Hyderabad



GRAPH 2: RISK INDICATORS OF SELECT SMALL CAP FUND

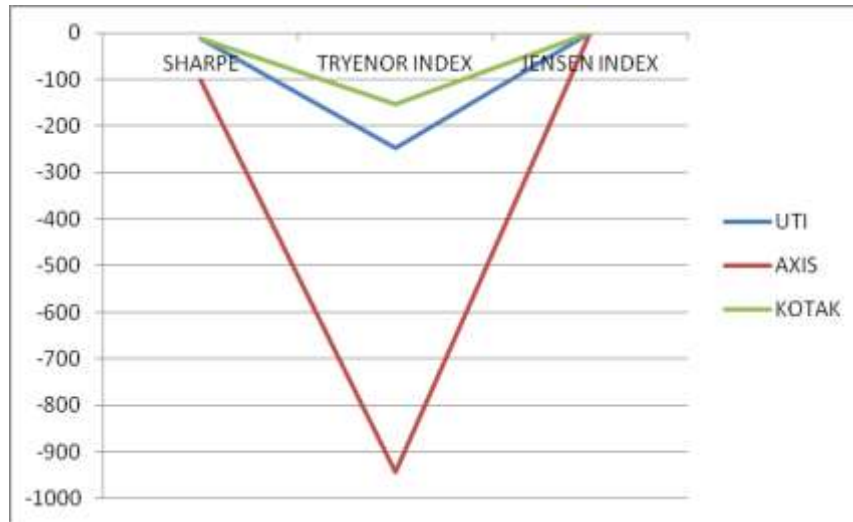
Table 2 explains the risk indicators of select small cap fund, from the table it clear the annual average returns value range from 1.333129639 to 0.048028618 the highest return of the Small cap fund is contributed by Reliance balanced scheme The standard deviation of the fund ranges from 1.75203782 to 0.76502031. Beta is the coefficient of mutual funds volatility. The fund's beta ranges from 1.124035 to - 0.02528 which is more than one, however the fund's highly risky fund is HBSC balanced. The schemes Alpha range from 0.142133608 to -60.0278412 the schemes is outperformed by Sundaram balanced scheme.

RESULTS OF PERFORMACE MEASURES OF SELECT MID CAP MUTUAL FUND

TABLE 3 : PERFORMACE MEASURES OF SELECT MID CAP MUTUAL FUND

MID CAP FUND	SHARPE	TRYENOR INDEX	JENSEN INDEX
UTI	-11.4688	-246.743	-0.22029
AXIS	-100.927	-944.076	-0.05768
KOTAK	-11.6219	-153.112	-0.35598

Source: Computed from the Secondary Data collected from Karvy Stock Broking ltd, Hyderabad



GRAPH 3: PERFORMACE MEASURES OF SELECT MID CAP MUTUAL FUND

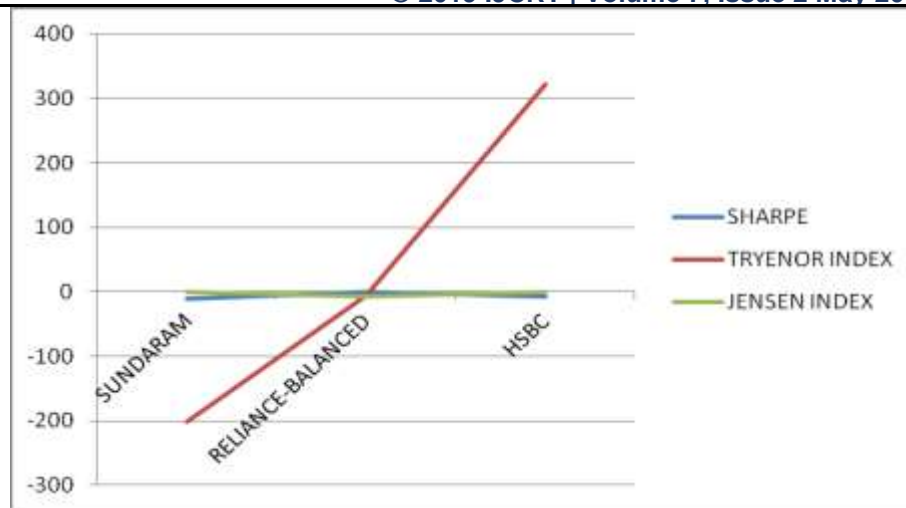
Table 3 explains the performance measure of the select mid cap fund. The annual Sharpe ratio for schemes is the excess return over risk free return (Rf) per unit of risk i.e. per unit standard deviation. Axis balanced scheme’s negative values with -100.92 indicates it terrible performance. Treynor ratio measures the excess returns earned over risk free returns per unit of systematic risk. In this Axis balanced scheme (-944.076) the performance is insignificant. Jensen ratio values from 3 select mid cap fund schemes is the regression of excess return of three schemes (dependent variables) with excess returns of the market (independent variable). Higher value indicates better performance it should be observed that all the schemes in the funds are performed negatively.

RESULTS OF PERFORMACE MEASURES OF SELECT SMALL CAP MUTUAL FUND

TABLE 4: PERFORMACE MEASURES OF SELECT SMALL CAP MUTUAL FUND

SMALL CAP MUTUAL FUND	SHARPE	TRYENOR INDEX	JENSEN INDEX
SUNDARAM	-10.7212	-201.005	-0.27054
RELIANCE-BALANCED	-0.35019	-6.15361	-7.45257
HSBC	-7.33959	322.1242	0.167592

Source: Computed from the Secondary Data collected from Karvy Stock Broking ltd, Hyderabad



GRAPH 4: PERFORMACE MEASURES OF SELECT SMALL CAP MUTUAL FUND

Table 4 explains the performance measure of the mid cap fund. The annual Sharpe ratio for schemes is excess return over risk free return (R_f) per unit of risk i.e. per unit standard deviation. Sundaram balanced scheme indicates high negative value i.e -10.7212. Treynor ratio measures the excess returns earned over risk free returns per unit of systematic risk. Sundaram balanced scheme (-201.005) is the ill performer of the fund.

Jensen ratio values from mid-cap fund scheme is the regression of excess return of three schemes (dependent variables) with excess returns of the market (independent variable) higher Alpha value indicates worst performance. Jensen alpha measure calculates the excess return that a portfolio generates over its expected return. The higher the alpha, the more a portfolio has earned above the level predicted. According to which HSBC performs high with 0.167592

CONCLUSION

The present paper investigates the performance of mid cap and Small cap schemes of three balanced funds each for the period from March 31st 2106 to April 1st 2017. Daily closing NAV of the schemes have been used to calculate the returns from the fund schemes. The performance of the select 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. Results of the study have showed that out of the two scheme of both mid cap and small cap funds have evidences of outperforming the benchmark return. Not all the funds have represented positive values. In Mid cap fund the performance Axis balanced fund is very insignificant where as in the small cap fund the performance HSBC Balanced is considered desirable. However, from the above study it can be said that the schemes have diversified results.

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