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COMPARATIVE ANALYSIS OF MUTUAL FUNDS: UNVEILING PERFORMANCE AND CHARACTERISTICS FOR INFORMED INVESTMENT DECISIONS

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Abstract

In order to identify which mutual funds offer the best returns and satisfy the investor's needs, a comparative study of selected mutual funds often entails examining the performance and traits of several mutual funds. In the study, variables like standard deviation, beta, sharp ratio, and Jensen Alpha are compared. The research paper's data is gathered over the course of the previous five years. Investors can choose mutual funds that most closely match their investment objectives and risk tolerance by performing a study like this.

Keywords: - Mutual funds, debt funds, standard deviation, beta, sharp ratio, and Jensen Alpha

Introduction

Although mutual funds were first offered in India in 1963, it wasn't until the early 1990s that they became widely accepted as a form of investing. In 1992, the Securities and Exchange Board of India (SEBI) was founded, and by regulating the sector and fostering transparency and investor protection, it significantly contributed to the expansion of mutual funds in the nation. The Unit Trust of India (UTI), founded in 1964 by the Indian government, was the country's first mutual fund. Up until the early 1990s, UTI was the only mutual fund available in the nation. The State Bank of India established the SBI Mutual Fund, the first non-UTI mutual fund, in 1987. Other public sector banks and financial organisations started their own mutual funds during the following few years. The Indian economy became more open to foreign investment and experienced a spike in foreign capital inflows as a result of the economic liberalization measures of the early 1990s. Several private sector mutual funds entered as a result, including collaborative partnerships with international asset management firms. Over 40 mutual fund providers are currently functioning in India, providing a variety of products to meet the demands of various investors. Over time, the mutual fund sector grew dramatically and has emerged as a key channel for ordinary investors to participate in the capital

markets. The main objective of the study is to compare the performance of many schemes in order to determine which the best one for investors is.

Review of literature

Many scholars, professionals, and publications have authored articles outlining the fundamental idea of mutual funds, describing their features, and reviewing the trends in the development of mutual funds. They also stressed the significance of mutual funds for the growth of the Indian capital market.

Gupta (2022) conducted a Study on the Top 5 Midcap Equity Funds in a Comparative Analysis of Mutual Funds Schemes. Five mid-sized equity funds—midcap funds—were the subject of the study. The examination of five midcap equity funds was compared using five years' worth of data. Five midcap equity fund returns, five midcap equity fund betas, five midcap equity fund Sharpe ratios, and five midcap equity fund Treynor's ratios were used in the comparison. The analysis found that the Sharpe ratio and beta were the most accurate metrics.

Chauhan (2021) The study compares Reliance Mutual Fund to a number of other mutual fund schemes using data from a survey of mutual fund schemes. The comparison uses Cohen's F square, regression analysis, analysis of variance, dependent, and independent variables to compare mutual fund schemes based on their NAV R-squared. The dependent variable and independent variable for the two mutual funds are identified.

Sudha (2020) this study was titled "Comparative Study on Selected Mutual Funds." The evaluation of the performance of equities funds, liquid funds, balanced funds, gilt funds, income funds, and index funds is the main objective of the study. The data are provided by the NSE, BSE, and money control. The simple average approach, simple standard deviation method, simple comparative method, and simple ranking method were the study's key tools. In terms of average return, SBI Magnum Blue Chip equities fund came out on top, followed by Birla G-Sec Glit fund, and LIC Normura MF Index Fund came in last. The HDFC Top 200 equities fund came out on top in terms of standard deviation, while the Overnight fund came in last. This study advises investing in funds that perform well.

Magdum (2019) the goal of this study was to assess equity-based mutual fund plans. Investigations were conducted over a five-year period between January 2013 and September 2018 on a total of 21 schemes offered by two public sector and two private sector companies. A risk-return connection and the Capital Asset Pricing Model (CAPM) were both used in the analysis. The returns of multiple mutual fund schemes can be compared using the CAPM tool. The analysis shows that private sector mutual fund schemes (ABSL & ICICI) are slightly riskier and more lucrative than public sector ones (SBI & UTI).

Anand (2017) examined the various mutual fund plans offered by HDFC and SBI as a choice for Indian retail investors. This study intends to comprehend and assess the investment performance of chosen mutual funds in terms of risk and return using a variety of statistical methods and metrics. The study was restricted to the numerous mutual fund programmes provided by SBI and HDFC, as well as the returns and investment possibilities open to Indian clients.

Data interpretation and analysis

6.1 Comparing HDFC Banking and PSU debt funds vs. Kotak Banking and PSU debt funds.

Table (6.1.1) Returns

	HDFC banking and PSU debt funds	Kotak banking and PSU debt funds
3 months	1.6%	1.5%
6 months	2.87%	2.98%
1 years	4.35%	4.36%
3 years	6.05%	6.11%
5 years	7.23%	7.47%

Chart (6.1.1) Returns

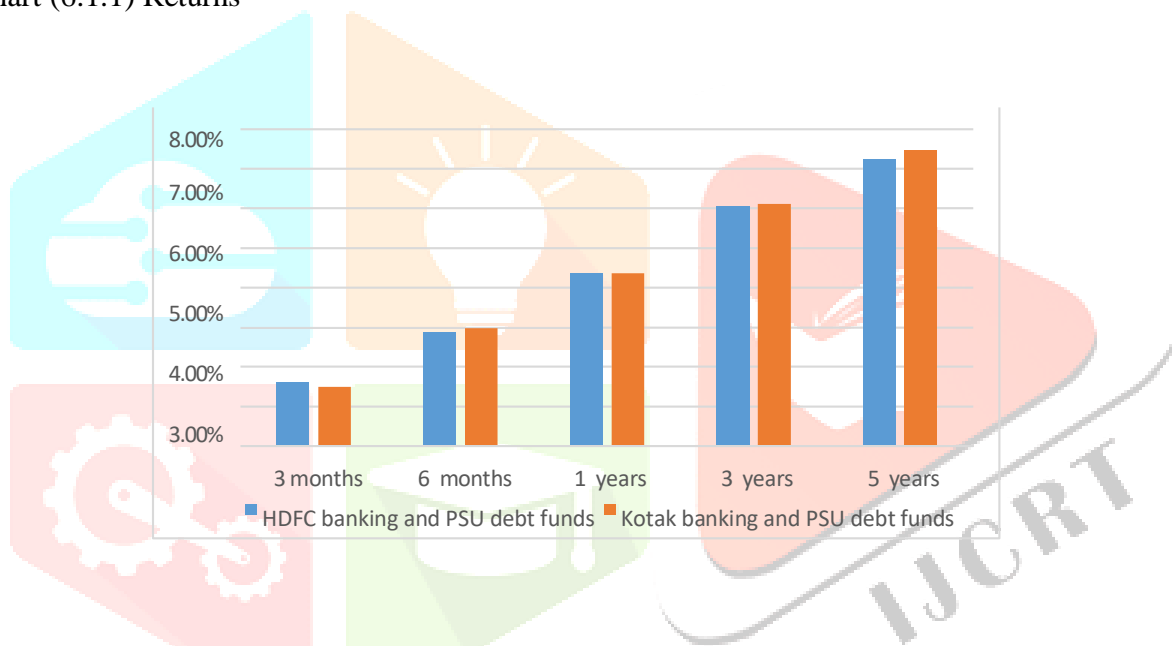
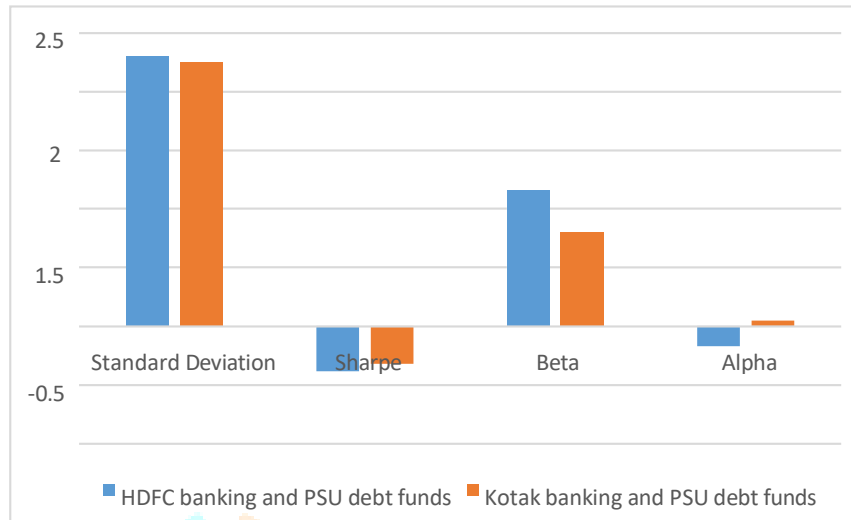


Table (6.1.2)- Risk Measure

	HDFC banking and PSU debt funds	Kotak banking and PSU debt funds
Standard Deviation	2.3	2.25
Sharpe	-0.38	-0.32
Beta	1.16	0.8
Alpha	-0.17	0.05

Chart (6.1.2) Risk measure



Debt funds that only lend to banks and government organisations are called banking and public sector debt funds. Due to the high caliber of the borrowers, the chance of default is relatively minimal. However, as interest rates in the economy increase, they are affected. Because all money market instruments are debt funds that pay interest on their assets and are less volatile in nature, it can be shown that both schemes have produced positive returns over the past five years while avoiding negative returns. For both high volatility strategies, the standard deviation. According to the Sharpe ratio, an investor would be better off looking to invest in risk-free assets. With a lower beta value of 0.8 than HDFC banking and PSU debt funds, Kotak banking and PSU debt funds are predicted to do better in a bear market than HDFC banking and PSU debt funds. Alpha has produced superior returns after adjusting for risk.

6.2 Comparing HDFC Corporate Bond Fund Direct Plan-Growth & Kotak Corporate Bond Fund Direct-Growth

Table (6.2.1) Returns

	HDFC Corporate Bond Fund Direct Plan – Growth	Kotak Corporate Bond Fund Direct – Growth
3 months	1.65%	1.5%
6 months	3.00%	2.8%
1 year	4.17%	4.27%
3 year	6.35%	5.81%
5 year	7.39%	7.12%

Chart (6.2.1) Returns

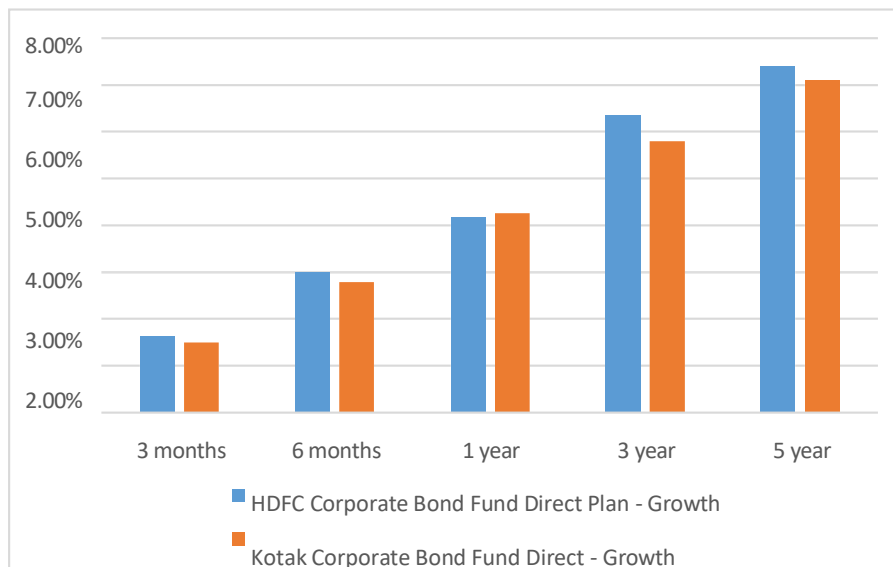


Table (6.2.2) Risk Measure

	HDFC Corporate Bond Fund Direct Plan - Growth	Kotak Corporate Bond Fund Direct – Growth
Standard Deviation	2.32	1.59
Sharpe	-0.19	-0.64
Beta	0.74	0.49
Alpha	-0.39	-0.99

Chart (6.2.2) Risk Measure



Mutual funds that invest largely in corporate bonds issued by businesses include the HDFC Corporate Bond Fund Direct Plan-Growth and the Kotak Corporate Bond Fund Direct-Growth. Corporate bond funds, like the Kotak Corporate Bond Fund and the HDFC Corporate Bond Fund, are thought of as having lesser risks than equity funds but also lower potential returns.

The credit quality and diversification of the bonds held in each fund's portfolios will be among the many variables that determine each fund's unique risk and return profile. With the largest standard deviation, the HDFC corporate bond fund direct plan - growth is significantly riskier than the kotak corporate bond fund direct plan - growth. Kotak Corporate Bond Fund Direct-Growth's Sharpe ratio is lower than HDFC Corporate Bond Fund Direct-Growth's. The Kotak Corporate Bond Fund Direct - Growth should perform better because of its lower beta. The HDFC Corporate Bond Fund Direct Plan - Growth provides a greater risk-adjusted return.

6.3 Comparing HDFC Flexi Cap Funds & Kotak Flexi Cap Fund

Table (6.3.1) Returns

	HDFC Flexi Cap Funds	Kotak Flexi Cap Fund
3 months	-0.46%	-2.77%
6 months	7.64%	3.21%
1 year	11.51%	1.17%
3 year	21.99%	14.07%
5 year	11.92%	10.5%

Chart (6.3.1) Returns

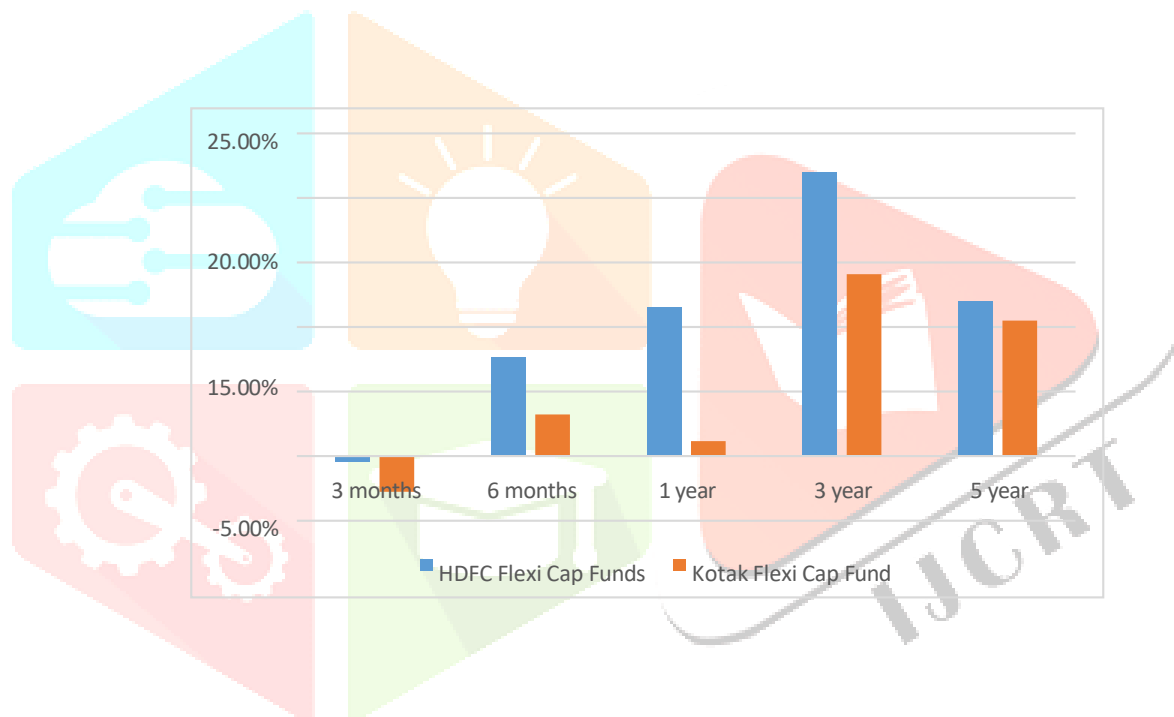
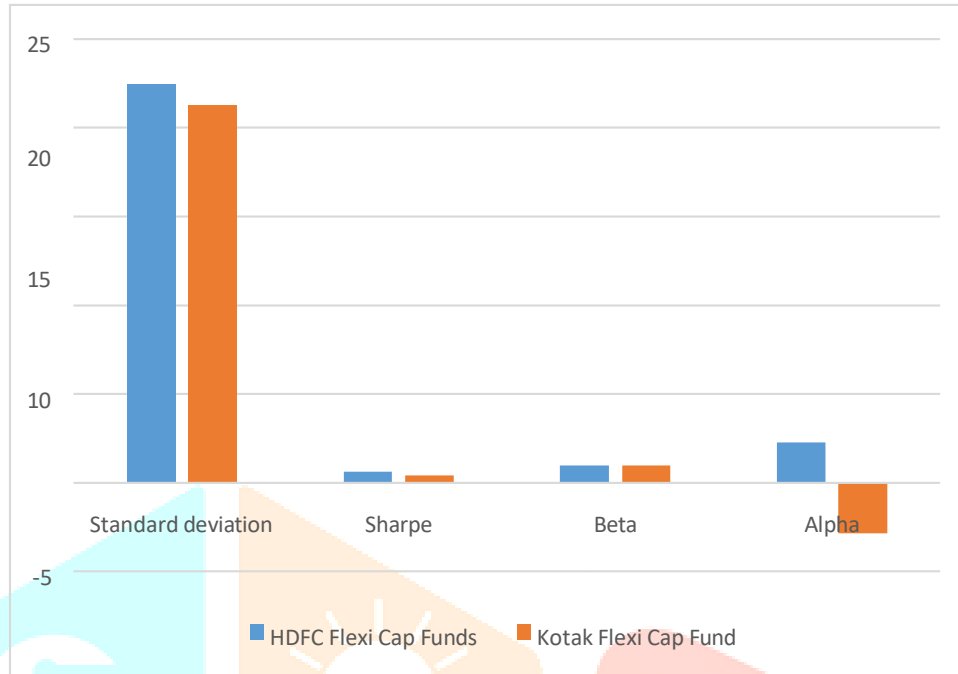


Table (6.3.2) Risk measure

	HDFC Flexi Cap Funds	Kotak Flexi Cap Fund
Standard deviation	22.44	21.24
Sharpe	0.62	0.41
Beta	0.99	0.97
Alpha	2.3	-2.85

Chart (6.3.2) Risk measure



Both funds invest in a mix of equity and debt assets in an effort to achieve long-term capital growth. Although both funds have historically outperformed, investors should consider their existing portfolio and the state of the market before making an investment because previous performance is no guarantee of future outcomes. Both products are more risky than debt funds and are equity-oriented.

However, they could potentially offer greater long-term rewards. Both the HDFC Flexi Cap Fund and the Kotak Flexi Cap Fund have significant beta and standard deviation. The Sharpe ratio and alpha ratio of the Kotak Flexi Cap Fund are bad, whereas those of the HDFC Flexi Cap Fund are superior in terms of risk adjusted return.

CONCLUSION

For investors trying to make wise investing selections, a comparison analysis of a few mutual funds utilising risk indicators like the Sharpe ratio, beta, standard deviation, alpha, and returns can be quite insightful. The excess return of a mutual fund above a risk-free rate can be compared to its volatility using the Sharpe ratio, which gauges risk-adjusted return. The mutual fund has produced better returns for the amount of risk taken, according to a higher Sharpe ratio. The sensitivity of a mutual fund's returns to changes in the market is measured by beta. When the beta is 1, the fund's returns follow the market's movements; when the beta is higher than 1, the fund's returns are thought to be more volatile than the market. The historical volatility of a mutual fund's returns is gauged by standard deviation. An indication that the fund's returns have been less erratic over time is one with a lower standard deviation. A mutual fund's risk-adjusted performance in comparison to its benchmark index is measured by alpha. While a negative alpha suggests that the fund underperformed its benchmark, a positive alpha shows that the fund has outperformed its benchmark. Returns offer a comprehensive evaluation of a mutual fund's performance over a specific time frame.

Investors can assess the historical performance, risk profile, and expense ratio of each fund based on a comparative research of mutual funds utilising these risk factors to make knowledgeable investing selections.

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