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A Comparative Study on the Financial Performance of Selected Mutual Fund Schemes

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Abstract

Mutual Fund, today, has emerged as one of the most popular financial investment tools. The mutual fund industry is the rising and fast growing segment of the Indian Financial Market. It provides a variety of schemes to suit the needs and risk return profile of different categories of investors. Mutual funds help the small and medium size investors to participate in today's complex and modern financial scenario. Investors can participate in the mutual fund by buying the units of the fund. In this study the researcher has attempted to make a comparison among mutual find schemes (large cap, small cap and diversified) so that the investor can get understanding which scheme is the best to invest. Through the application of Jenson, Trey nor and Sharpe rank method, the best scheme is suggested.

Keywords: *Mutual find schemes, financial investment, high returns, low risk.*

Introduction

A mutual fund is a trust with professionally managed investment support that collects and channelize the savings of a number of investors who bear a common financial goal and invests in shares, debt securities, money-market securities or a combination of these. And these investors on investments in funds are known as unit holders. These securities are professionally managed on behalf of the unit holders and each investor holds a share/unit of the portfolio in ration of their investment and net fund value, which is, entitled to profits as well as losses. Income earned or loss through these investments and the capital appreciation realized is divided among its unit holders in proportion to the number of units owned by them after deducting applicable expenses, load and taxes.

Recent Trends in Mutual Funds In India

Lackluster stock market performance, rising inflation and anticipation of a rise in interest rates has led to a tapering of growth in the Indian mutual fund industry in the recent years. In the year 2014, change in government and rise in expectations of people leads to sudden growth in capital market. A parallel growth was also observed in the Indian mutual fund industry. Over the last 5 years, the Assets under Management (AUM) of Indian mutual fund industry grew from 67093099 lakhs in FY 2012 to 182958449 lakhs in FY 2017 showing a compound annual growth rate (CAGR) of 22.21%. Further, the AUM of the Indian mutual fund industry witnessed an exceptional growth of 35.17% in FY2017. According to Association of Mutual Funds in India (AMFI) data, AUM grew from Rs. 13.53 lakh crore in March 2016 to Rs. 18.29 lakh crore in March 2017.

Market Share of AMC

AUM penetration of the Indian mutual fund industry as a per cent of GDP is only Approx. 6 percent (Paul, 2014). Despite the relatively low penetration of mutual funds in India, the market is highly concentrated. Though, there are 44 AMCs currently operating in the sector, the AUM of the industry is concentrated with five leading fund houses. Approx. 57 per cent of the total AUM is shared by, ICICI, HDFC, Reliance, Birla Sun Life and SBI Mutual fund.

Rank	Fund Houses	AUM (in Lakh)	Percentage (%)

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1	ICICI Prudential Mutual Fund	24296130.61	13.28
2	HDFC Mutual Fund	23717761.00	12.96
3	Reliance Mutual Fund	21089063.82	11.53
4	Birla Sun Life Mutual Fund	19504900.94	10.66
5	SBI Mutual Fund	15702527.68	8.58
	Others	78647965.78	42.99
	Total	182958349.83	100

Source AMFI- as on 31st March 2017

Rationale of The Study

India is one among the top 7 world's largest economy and India's savings rate is very high in comparison to other countries. In order to accelerate economic development of our country, it is not only necessary to increase the rate of savings but also to improve the holding pattern of such savings. As investment directly in the equity shares is too risky, mutual funds have become route in mobilization and allocation of resources. The mutual fund industry has registered a healthy growth in the past few years. But still there is lot scope as the rate of conversion of household savings into mutual fund investment in our country is very low. And the awareness about Mutual Funds, its different schemes and its benefits may boost the investment in MF schemes.

With this emergence of many companies offering various schemes an average investor is unable to take a decision regarding selection of scheme. This critical study would help potential investors for making investment decisions, as well as it will be helpful to researchers for further detailed study. Many studies have been undertaken on the performance of mutual fund schemes. However, particular study in the schemes that are selected here is insufficient.

Thus, there is a need for the present study to bring to light the performance of these selected schemes of mutual funds, which can help the retail investors to make valued judgment and support in selecting category of schemes on the basis of performance. This study will also help the society at large, government, academicians, and managers of asset management companies as well.

Statement of The Problem

Many schemes have been offered by various mutual fund companies providing a variety of benefits. Among varied options it may be difficult for investors to opt scheme which suits their investment objective. This research aims at analyzing the factors that influence the investment decisions with regard to mutual find schemes.

Objectives of The Study

To analyze and compare the performance of the selected mutual fund equity schemes on risk and return basis.

To analyze the data, draw conclusion and give suggestions.

Hypothesis of The Study

H_{01}: There is no significant difference between the average returns of Large Cap Mutual Fund Schemes and Mid Cap Mutual Fund Schemes in India.

H_{02}:There is no significant difference between the average returns of Mid Cap Mutual Fund Schemes and Diversified Mutual Fund Schemes in India.

H_{03}: There is no significant difference between the average returns of Large Cap Mutual Fund Schemes and Diversified Mutual Fund Schemes in India

Profile of the Selected Mutual Funds

In this study for the purpose of performance evaluation of equity schemes top five mutual fund companies have been selected on the basis of performance related to their market share

Name of the Mutual fund houses are as follows :

ICICI Prudential Mutual Fund
HDFC Mutual Fund
Reliance Mutual Fund
Birla Sun Life Mutual Fund
SBI Mutual Fund

Schemes from the above selected mutual funds are taken for study and performance analysis. The performance of selected mutual funds has been analyzed on the basis of risk - return relationship using standard performance evaluation measures. The researcher has attempted to analyze the performance of the selected 15 schemes of the top five selected mutual funds companies during the period April 2007 to March 2017. Sample schemes selected are from the category Large Cap, Mid & Small Cap and Diversified / Multi Cap funds one each from each category of top five funds house. All the selected schemes are with Growth option. Schemes category wise are as under:

Large Cap Funds: Funds which invest a larger proportion of their corpus in companies with large market capitalization are called large cap funds. Large Cap schemes one each from selected top five funds houses are as follows:

ICICI Prudential Top 100
HDFC Top 200
Reliance Top 200
Birla Sun Life Top 100
SBI Magnum Blue Chip

Mid & Small Cap Funds: Mutual funds which diversify investments in between mid and small cap companies are termed as mid and small cap funds. The proportion of investment tends more towards mid size market capitalization companies but proportion between midcap and small cap may vary from fund to fund:

ICICI Prudential Midcap Fund
HDFC Midcap Opportunities Fund
Reliance Mid & Small Cap Fund
Birla Sun Life Midcap Fund
SBI Magnum Midcap Fund

Diversified/Multi Cap Funds: These are diversified mutual funds which can invest in stocks across market capitalization and so are also termed as Multi cap Funds. These funds resort to portfolio formation commensurate with the market condition.

ICICI Multi cap Fund
HDFC Equity Fund
Reliance Equity Opportunities Fund
Birla Sun life Equity Fund
SBI Magnum Multi cap Fund

Review Of Literature

Many scholars have made studies on investors' behaviour, and many studies are going on. Also many researches on the performance of mutual fund schemes had been conducted. From the available studies from secondary sources the literature is reviewed here to have better clarity of investors' behaviour and the study. The purpose of literature survey in any study is to help the researcher, to find out the gap between the research that has already been conducted and the theoretical linkage of the research.

Deepak Agrawal(2011) in his research found that since the development of the Indian Capital Market and regulations of the economy in 1992 there have been structural changes in both primary and secondary markets. Mutual funds are primary contributors to the globalization of financial markets and one of the main sources of capital flows to emerging economies. Despite their importance in emerging markets, little is known about their investment allocation and strategies. In his article he has provided an overview of mutual fund activity in emerging markets and describes about their size and asset allocation. He has analyzed the Indian Mutual Fund Industry pricing mechanism with empirical studies on its valuation and analyze data at both the fund-manager and fund-investor levels. His study revealed that the performance is affected by the saving and investment habits of the people and the second side the confidence and loyalty of the fund Manager and rewards affects the performance of the MF industry in India.

Prajapati, K. P., & Patel, M. K. (2012) in their research evaluated the performance of Indian mutual funds which is carried out through relative performance index, risk-return analysis, Treynor's ratio, Sharp's ratio, Sharp's measure, Jensen's measure, and Fama's measure. The data for analysis used is daily closing NAVs. The study period was 1stJanuary 2007 to 31st December, 2011. The results of performance measures concluded that most of the mutual fund have given positive return during 2007 to 2011.

Ferreira, M. A., Keswani, A., Miguel, A. F., & Ramos, S. B. (2012) for the purpose of research utilizes a new data set to study the determinants of the performance of open–end actively managed equity mutual funds in 27 countries. During analysis they found that mutual funds underperform the market overall. The results show important differences in the determinants of fund performance in the USA and elsewhere in the world. The US evidence of diminishing returns to scale is not a universal truth as the performance of funds located outside the USA and funds that invest overseas is not negatively affected by scale. Their findings suggest that the adverse scale effects in the USA are related to liquidity constraints faced by funds that, by virtue of their style, have to invest in small and domestic stocks. Country characteristics also explain fund performance. Funds located in countries with liquid stock markets and strong legal institutions display better performance.

Inder S. and Vohra D. (2012) conduct study to evaluate the long run performance of the selected index fund schemes and to make comparative analysis of the performance of the schemes on the basis of the risk-return framework for the period January, 2005 to December, 2011. The performance measures used are standard deviate on, Beta, Alpha, R-Squared, Sharpe measure, Jensen measure, Treynor measure and Sharpe differential return measure. The results indicate that out of the schemes considered in the study, the ICICI Prudential Index Fund, Tata Index Fund and Franklin India Index Fund had performed better in case of Growth option of Index Fund. While, in case of Dividend option the Franklin India has shown better performance. Franklin India Mutual Fund has been able to capture market very well in both growth as well as dividend options by showing the lowest of tracking error.

Research Gap

Based on the previous studies or literature review it is found that so far some researches deal with statistical tools or quantitative tools to analyze the performance of the mutual fund schemes. No researches have focused on comparing the similar type of open ended growth schemes in various categories like Large Cap, Mid & Small Cap and Diversified/Multi Cap funds. Hence this research has been taken to fill the gap to compare selected schemes from top five fund mutual fund houses in the various categories by using of different statistical and ratio analysis.

Research Methodology

Research design is the conceived plan and structure of investigation to obtain answers to the research questions. This research was organized in the following manner. Initial step is to analyse the performance of NAV three category of equity schemes namely Large Cap, Mid &small Cap and diversified or Multi Cap schemes from the top five mutual fund houses, so that best schemes in each would be sorted out for investment and then find out that which category gives better return over different period of time.

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Secondary Data Analysis : For the analysis of performance of mutual fund schemes return, risk, beta and coefficient of determination of selected schemes with benchmark return and risk were applied for 10, 5 and 3 years among five schemes in each type category of equity schemes of Large Cap, Mid & Small Cap and Multi Cap/ Diversified funds of top five mutual fund houses in AUM namely ICICI, HDFC, Reliance, Birla and SBI in each. The data analysis is mainly done through the three important measures of mutual funds. 1. Sharpe, 2. Treynor and 3. Jensen Alpha Measure. For make a comparison Independent T Test was applied to determine the best category of mutual fund in terms of returns for investment.

Performance Analysis of Large Cap funds

The results of return, risk, beta and coefficient of determination of selected large cap schemes with benchmark return for all the five schemes for 10 years shows competency to make out strong case for investment as they have given more return as compare to benchmark index.

The maximum return was from HDFC Top 200 (1.3147) and minimum return was from SBI Blue Chip (1.1105). Standard Deviation of schemes is to measure the risk of the fund and it is found that all five schemes have more risk. It is observed that maximum deviation of fund returns is shown by HDFC Top 200 (6.8783) whereas ICICI Top 100 (6.0334) was the least risky scheme. In the context of Beta (β) which implies the responsiveness of the return on the mutual fund scheme in association with the fluctuations in the benchmark index. HDFC Top 200 (0.934) found to be more risky among all the selected schemes whereas ICICI Top 10 (0.817) found to be more stable and less risky. The co-efficient of determination (R^2) is measured with the market index of S&P BSE 100 for the period of study. The highest R Square value was found in Birla Top 100 (0.960) followed by SBI Blue Chip (0.958), Reliance (0.955), HDFC (0.953) and ICICI (0.948) which indicated that these schemes have performed well diversification.

Ranking of Large Cap Schemes on the Basis of Sharpe, Treynor And Alphameasure for 10 Years (April 2007 To March 2017)

S.No.	Schemes	Sharpe Measure	Ranks	Treynor Measure	Ranks	Jenson Alpha	Ranks
1	ICICI Top 100	0.0791	3	0.5836	3	0.2220	4
2	HDFC Top 200	0.0959	1	0.7060	1	0.3682	1
3	Reliance Top 200	0.0700	4	0.5217	4	0.2508	3
4	Birla Top 100	0.0848	2	0.6220	2	0.2599	2
5	SBI Blue Chip	0.0693	5	0.5091	5	0.1764	5

Sharpe ratio depicts scheme excess returns earned above risk-free return to per unit of standard deviation. It is revealed from the above table that highest positive value of Sharpe measure was found in HDFC Top 200 (0.0959) and the lowest sharp value was found in SBI Blue Chip (0.0693). In the context of Treynor measure which depicts the funds excess return above risk free rate per unit market risk (Beta), HDFC Top 200 (0.7060) is the top performer of the schemes whereas SBI Blue Chip (0.5091) showed least Treynor value among the selected Large cap schemes. Higher the alpha value represents that fund return has over performed the benchmark index. Higher alpha was found with HDFC Top 200 (0.3682) and SBI Blue Chip remains at last with least alpha value (0.1764).

It is clear from the findings, all the five schemes for five years shows competency to make out a strong case for investment. The maximum return was from SBI Blue Chip (1.5667) and minimum return was from HDFC Top 200 (1.2881). It is observed that the maximum deviation of fund returns is shown by HDFC Top 200 (5.1528) followed by Reliance Top 200 (4.5064), whereas SBI Blue Chip (3.804) was the least risky scheme with lower SD.

In the context of beta, it is observed that the Reliance Top 200 (1.004) and HDFC Top 200 (1.168) large cap schemes of mutual fund have registered beta more than one. In the other three schemes ICICI Top 100 (0.896), Birla Top 100 (0.990) and SBI Blue Chip (0.856) have beta value less than one indicated low risk in these schemes. The highest R Square value was found in Birla Top 100 (0.961) followed by HDFC Top 200 (0.936), SBI Blue Chip (0.922), ICICI Top 100 (0.908), and Reliance Top 200 (0.904) which indicated that these schemes have performed well diversification.

Performance Analysis of Mid Cap funds

The results of return, risk, beta and coefficient of determination of selected schemes with benchmark return of Midcap Fund, all the five schemes shows competency to make out a strong case for investment. The maximum return was from HDFC Midcap Opportunities (1.6002).It is observed that maximum deviation of fund returns is shown by SBI Midcap (8.873)whereas HDFC Midcap Opportunities (6.643) was the least risky scheme. It is observed that all the five Midcap schemes of mutual fund have registered beta less than one, SBI Midcap (0.980) is more aggressive whereas HDFC Midcap Opportunities (0.7339) found to be less risky and safe among the selected Midcap schemes. The highest R Square value was in Birla Midcap (0.948) which indicated that these schemes have performed well diversification among all other schemes.

Ranking of Mid Cap Schemes on the Basis of Sharp, Treynor and Alpha Measure for 10 Years (April 2007 to March 2017)

S.No	Schemes	Sharpe Measure	Rank	Treynor Measure	Rank	Jenson Alpha	Rank
1	ICICI Midcap	0.0753	5	0.6775	5	0.1890	5
2	HDFC Midcap Opportunities	0.1423	1	1.2879	1	0.6754	1
3	Reliance Mid & Small Cap	0.1088	3	0.9863	2	0.4029	3
4	Birla Midcap	0.1102	2	0.9844	3	0.4559	2
5	SBI Midcap	0.0844	4	0.7646	4	0.2893	4

From the above table, the higher positive value of Sharpe measure was found in HDFC Midcap Opportunities (0.1423). In the context of Treynor measure, HDFC Midcap Opportunities (1.2879) is the top performer and ICICI Midcap (0.6775) showed lower Treynor value. Results of Jensen measure among all the schemes higher alpha was found with HDFC (0.6754) and ICICI Midcap (0.1890) fund showed least alpha value.

It is clear from the results of return, risk, beta and coefficient of determination of selected Mid Cap schemes for five years, all the five schemes shows competency to make out a strong case for investment. The maximum return was from SBI Midcap (2.1657). It is observed that maximum deviation (risk) of fund is shown by Reliance Mid & Small Cap (5.245). In the context of beta, all the five Midcap schemes of mutual fund have registered beta less than one. Reliance Mid & Small Cap (0.930) is more risky whereas SBI Midcap (0.798) found to be less risky. The highest R Square value was found in Birla Equity (0.915) and it indicated that the scheme have performed well diversification.

Analysis of Diversified / Multi Cap Funds

The results of return, risk, beta and $R^2$of selected schemes for all the five schemes for 10 years shows competency to make out a strong case for investment. The maximum return was from Reliance Equity Opportunities (1.3676) and minimum return was from SBI Multi cap (1.0344). It is observed that maximum deviation of fund is shown by HDFC Equity (7.3252)and is more risky whereas SBI Multi cap (6.6338) was the least risky scheme. In the context of Beta (β) it was found that HDFC Equity (0.961) is more aggressive and is risky whereas ICIC (0.649) found to be less risk. It is found that highest R Square value was found in Birla (0.959) which indicated this these schemes have performed well diversification.

Ranking of Diversified Schemes on the Basis of Sharpe, Treynor and Alpha Measure for 10 Years(April 2007 To March 2017)

S.No	Schemes	Sharpe Measure	Rank	Treynor Measure	Rank	Jenson Alpha	Rank
1	ICICI Multicap	0.0773	4	0.7966	1	0.2933	4
2	HDFC Equity	0.0944	2	0.7189	3	0.3593	2
3	Reliance Equity Opportunities	0.0991	1	0.7597	2	0.3887	1
4	Birla Equity	0.0869	3	0.6557	4	0.2963	3
5	SBI Multicap	0.0572	5	0.4319	5	0.0761	5

Higher positive value of Sharpe measure was found in Reliance Equity Opportunities (0.0991). SBI Multi cap (0.0572) is having lowest sharp value and is the least performer. In context of Treynor measure, it is revealed from the above table that ICICI Multi cap (0.7966) is the top performer of the schemes whereas SBI Multi cap (0.4319) is the least performer. From the results of Jensen measure, higher alpha was found in Reliance Equity Opportunities (0.3887) and is the top performer. SBI Multi cap (0.0761) having lower alpha value and showing that this scheme has just given return near to its benchmark.

It is clear from the findings, all the five schemes for five years shows competency to make out a strong case for investment. The maximum return was from Birla Equity (1.7465) and minimum return was from HDFC Equity (1.3693). It is observed that maximum deviation of fund returns is shown by HDFC Equity (5.395) whereas SBI (4.272) was the least risky scheme. In the context of beta, it is observed that ICICI Multi cap (0.943), Reliance Equity (0.996) & SBI Multi cap (0.944) diversified schemes of mutual fund have registered beta less than one which indicates that they belong to low risk category but in the case of HDFC Equity (1.198) and Birla Equity (1.056) which found the value of beta more than one indicated high risk and are more volatile and risky. The highest R Square value was found in HDFC Equity (0.929) which indicated that this scheme have performed well diversification.

Conclusion

Mutual fund companies should come forward with full support for the investors in terms of advisory services, participation of investor in portfolio design, ensure full disclosure of related information to investor, proper consultancy should be given by mutual fund companies to the investors in understanding terms and conditions of different mutual fund schemes, such type of fund designing should be promoted that will ensure to satisfy needs of investors, mutual fund information should be published in investor friendly language and style, proper system to educate investors should be developed by mutual fund companies to analyze risk in investments made by them, etc. On the other it is required from government and regulatory bodies point of view that more laws should be there to secure the funds of investors to be exploited, more tax rebate should be given on mutual fund investment, proper and effective grievance system, right of investor education, and more control on asset management companies should be there.

The implication is that the level of awareness, that is, the knowledge and information one has on a particular company stock/ about the stock market, greatly affects the investor behaviour than the perceived risk attitudes. The more knowledgeable one is, the more likely one is to invest.

Suggestions

This study has given some suggestions for creating awareness about the mutual fund investment and schemes so that mutual fund investors may get information that help out in their investment decision. Intermediaries proving consultancy, they would understand the need of investors and suggest plan accordingly. These are as follows:

- Government and Mutual Fund organizations should also take some initiative to motivate women investors by educating them and providing extra benefits to them in all types of investments.
- It is also suggested the AMC's should come up with some focused investment solutions for focused group of investors. Where they canmanage investments taking risk and can get better returns beating inflation.
- Government and investment companies should takeinitiative to come forward with full support for the investors in terms of investors' awareness, advisoryservices, participation of investor in portfolio design& management, ensure full disclosure of related information to the investors.
- Proper consultancy should be given to the investors after identifying their needs & make them understand terms, conditions and operations of different schemes.

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