Performance Analysis of Indian Mutual Fund Industry with Special Reference to Equity Schemes

Mr. V. G. Murugan[1], Dr. G. Haranath[2]

[1]Research Scholar Bharathiar University, Coimbatore Email: murugan.vg82@gmail.com
[2]Research Supervisor Bharathiar University, Coimbatore Email: drgharanath@yahoo.com

ABSTRACT: *Mutual funds are pooling of funds from various investors and make investment in share market through fund manager who possess high professional skill expertise knowledge in capital market. So, Mutual funds are riskless investment with more advantages such as liquidity, flexibility, performance management, transparency, better returns etc. This paper deals with equity mutual funds that are offered for investment by the various fund houses in India, This study mainly focused on the performance of selected equity mutual fund schemes in terms of risk- return relationship. The main objective of this research work is to analysis financial performance of selected mutual fund schemes through the statistical parameters. The findings of this research study will be help full to investors for his future investment decisions.*

KEY WORDS: *Equity, schemes, Mutual fund, performance, sharpe, Treynor, Jenson, measure*

I INTRODUCTION

Mutual fund industry in India is a growing industry. Excess of income by the individuals basically plans to make an investment in various investment avenues such as stock, land and precious metals. Revolution in investment took place during 19th century through the banking system as it provide many investment options like Fixed deposits (FDs), government bonds, Public Provident Fund (PPF) to its investors. With the growth of capital market, investment in stocks became a good option for generating higher returns. However, more risk and lack of knowledge about the movement of stock prices were also associated with them. Therefore, mutual funds emerged as an ultra-modern method of investment to lessen the risk at low cost with experts‟ knowledge.

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 a common financial goal and invest it in capital market instruments such as shares, debentures and other securities. The income earned and capital appreciation thus realized is shared by its unit holders in proportion to the number of units owned by them. Thus, it offers to common man an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

Because of the large number of mutual fund companies and schemes, retail investors are facing problems in selecting right funds. Also, it is of paramount importance for policy makers, governing bodies and mutual fund companies to analyze as which schemes are efficient performers. Therefore, to study the performance analysis of mutual funds and the methods of improving it are of vital prominence.

II EQUITY FUNDS

Equity funds have the objective to provide capital appreciation over a long term. A major portion of their investments is in equities which provide potentially superior returns than other avenues of investment. Equity schemes offer potentially the best possible returns among all mutual fund schemes but carry the highest risk as well.

The equity funds are high on the risk scale as the share prices are volatile. These funds try to reduce the risk by diversifying the investments in different types of shares. One of the greatest advantages of equity funds is instant diversification. Also, it is usually easier and less expensive to invest in equity funds than to buy each and every stock in a fund„s portfolio. Equity funds are also cheaper -- they're a way to avoid the often higher transaction costs and lower liquidity associated with trading individual stocks.

III LITERATURE REVIEW

Review of the literature plays an important role in any research, it is considering the importance of mutual funds and several academicians have tried to study the performance of various mutual funds. Literature on mutual fund performance evaluation is enormous. Herewith some of the research studies that have influenced the preparation of this study substantially are discussed under this section:

1. **Dr. Ashok Kumar & Dr. Ashok Kumar (2018).** Mutual fund investment becomes an ideal investment during the last few years in India. It poses a medium risk and provides good returns to the investors on their savings. There is more than a thousand schemes are available in the market of mutual funds. Sector mutual funds are highly risky compared to the other diversified equity schemes. During the recession period, some sector performed a better and provides better return than their benchmarks. In the present study, we explain the top most popular sector funds which hold the top most assets under management of equity as well as performed well during the recession time period. These sector mutual funds are banking sector fund, Software sector fund, the Pharmaceutical sector fund, etc. Banking sector holds the 13% to 22% of the equity and well-managed sector funds provide 52.43% returns while worst managed sector provide 13.75% during the recession time period in 2008-09. Second largest equity holding sector is software sector fund. This sector holds 8% to 14%. Pharmaceutical sector grasps 6% to 8% and Auto sector seize 3% to 6% of the equity.

2. **Geeta Rani & Dr. Vijay Singh Hooda (2017).** The aim of this paper is to evaluate the performance of mutual fund schemes ranked one by CRISIL. To analysis the performance of selected funds‟ schemes, mean returns and their standard deviation were considered and then basic measures in this regard- Sharpe‟s Ratio, Jensen‟s Ratio and Treynor‟s Ratio were ascertained and interpreted accordingly. Finally, Tata equity P/E fund is found to be good performer among the selected schemes during April 2016 to March 2017.

3. **Shivangi Agarwal, Nawazish Mirza (2017).** Investing through mutual funds has gained interest in recent years as it offers optimal risk adjusted returns to investors. The Indian market is no exception and has witnessed a multifold growth in mutual funds over the years. As of 2016, the Indian market is crowded with over two thousand mutual fund schemes, each promising higher returns compared to their peers. This comes as a challenge for an ordinary investor to select the best portfolio to invest making it critical to analyze the performance of these funds. While understanding and analysing the historical performance of mutual funds do not guarantee future performance, however, this may give an idea of how the fund is likely to perform in different market conditions. In this research we address multiple research issues. These include measuring the performance of selected mutual schemes on the basis of risk and return and compare the performance of these selected schemes with benchmark index to see whether the scheme is outperforming or underperforming the benchmark. We also rank funds on the basis of performance and suggest strategies to invest in a mutual fund and therefore, our findings have significant relevance for investing public.

4. **Alka Solanki (2016).** In this paper the researcher tried to evaluate the performance of Reliance open-ended equity schemes with growth option. The period of the study spans from 1st April 2007 to 31st March 2016.To evaluate the performance of the selected mutual fund schemes, monthly returns are compared with Benchmark BSE National 100 and SENSEX returns.

5. **N. Bhagyasree & Mrs. B. Kishori (2016).** The present paper investigates the performance of open-ended, growth-oriented equity schemes for the period from April 2011 to March 2015 of transition economy. Daily closing 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 30 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. In the study, the Sharpe ratio was positive for all schemes which showed that funds were providing returns greater than risk free rate. Results of Jensen measure revealed that 19 out of 30 schemes were showed positive alpha which indicated superior performance of the schemes.

6. **Mili Kar & Parag Shil (2015).** In this paper an attempt has been made to evaluate the performance of mutual fund schemes is to see whether the mutual fund schemes are outperforming or underperforming than NSE G-Sec Composite Index and to see the competency of schemes to make out a strong case for investment. The study covers the period between April 1996 and March 2011 and evaluates the performance of 40 debt oriented open ended schemes having corresponding growth and dividend options. The empirical results reported that the variance of only 17.5 percent of total schemes was explained completely by the market and in overall, NSE G-Sec Composite Index outperformed the scheme returns. The study concludes there was no significant difference exists between Schemes Returns and NSE G-Sec Composite Index Returns.

7. **Ms. Shilpi Pal & Prof. Arti Chandani (2014)** assessed "A Critical Analysis of Selected

   Mutual Funds in India" using various statistical measures the present study aims to evaluating the performance of a few selected income or debt mutual funds schemes of India on the basis of their daily NAV. Popularity of income schemes has only increased in the last decade. Income mutual funds they have seen tremendous growth in their number of schemes from 91 on 31st march 2001 to 330 on 31st march 2010. 506 in 2008 was the maximum ever in terms of total schemes floating in the market. This category has seen a decline only twice in the last decade. First fall was posted in the year 2003 and the second fall was reported in the year 2010. One striking fact which comes to light is the huge percentage contribution of income schemes towards the total AUM of the Indian mutual funds industry.

8. **Syed Husain Ashraf and Dhanraj Sharma (2014).** In this paper, an attempt has been made to analyses the performance of equity mutual funds industry against risk free rate and benchmarks return over the five years. The samples consists 10 growths oriented-open ended- equity mutual fund schemes belong to 5 public and 2 private mutual fund companies. Results are tested through risk-return analysis, Coefficient of Variation, Treynor‟s ratio, Sharp‟s ratio, Jensen‟s measure, Fama‟s measure and Regression analysis. The data used is monthly closing NAVs and benchmark market index closing for the study period of April 2007 to March 2012. The risk return analysis revealed that out of 10 schemes 3 have underperform the market, 7 are found to have lower total risk than the market and all the schemes have given returns higher than risk free rates. The Treynor ratio of all the mutual funds scheme are over perform the benchmark market index and Sharpe ratio of 3 mutual funds scheme underperform the benchmark market index. The result of regression analysis suggests that benchmark market return index has statistically significant impact on mutual fund return at 5% level of significance.

9. **Dr.R.Narayanasamy & V. Rathnamani (2013)** This study, basically, deals with the equity mutual funds that are offered for investment by the various fund houses in India, This study mainly focused on the performance of selected equity large cap mutual fund schemes in terms of risk- return relationship . The main objective of this research work is to analysis financial performance of selected mutual fund schemes through the statistical parameters such as (alpha, beta, standard deviation, r-squared, Sharpe ratio). The findings of this research study will be help full to investors for his future investment decisions.

10. **Dr.B.Nimalathasan & Mr.R.Kumar Gandhi (2012)** This article focused on the financial performance analysis of mutual fund schemes (equity diversified schemes and equity mid-cap schemes) of selected banks (State Bank of India, Canara Bank- Public Bank, ICICI Bank, HDFC Bank-Private Bank).The objectives of this research work is to analysis the financial performance of selected mutual fund schemes through the statistical parameters (Standard Deviation, Beta and Alpha) and ratio analysis (Sharpe Ratio, Treynor Ratio, Jenson Ratio, Information Ratio).The results of the research work concern Among the Open ended – Tax Saving schemes, Canara Robeco Equity Diversified is the preferred and ranked top most, at the same time among the Open ended – Midcap schemes, HDFC Capital Builder is the preferred and ranked top through various tools. These research findings useful to the investors in terms of understanding the financial performance of the mutual fund schemes. Also this research finding is useful to the Mutual Fund Company in terms of Behavioral aspects of mutual funds.

IV STATEMENT OF PROBLEM

Mutual Funds are best alternative for those who do not have much knowledge about how to trade in capital market. Mutual funds investment is one of the easiest and liked investment alternatives for the investors. The features

of mutual funds attract investors to invest money in mutual funds. Fund manager who highly professionally skilled and who continuously monitor towards market movements makes investors risk less.

The research gap noticed here was, most of the researchers selected only one or two statistical tools for their study, there is no in depth analysis on mutual funds. Some of the researchers randomly selected few schemes from various funds of mutual funds for their performance analysis and to some extent other more researchers provided only the pros and corns of few mutual fund schemes in Indian mutual fund industry. Thus, these types of studies fail to cover accuracy in choosing best performing funds for investor to take right decision.

In this study, the researcher plans to cover completely about equity fund related schemes for the analysis. So that, the investor could gain a complete knowledge about on equity fund schemes. This information will help investor to take better decision for financial planning.

V SCOPE OF THE STUDY

Increased middle class people in our country started to make an investment in capital market and mutual funds. Since capital market is fully risk oriented, so, many people think to make an investment in mutual funds. Mutual funds are pooling of funds from various investors and make investment in share market through fund manager who possess high professional skill expertise knowledge in capital market. So, Mutual funds are riskless investment with more advantages such as liquidity, flexibility, performance management, transparency, better returns etc. Since various schemes are available in mutual funds, the investors are confused to select the best one.

The study is entirely based on the secondary data. The scope of the study was limited to the period of 2009-18. The study reveals the performance of various equity schemes of mutual funds in India to provide efficiency for investors. This study gains knowledge to the investor to choose best return generating scheme in mutual through analysis.

VI OBJECTIVES OF STUDY

The present study aims to review & evaluate the performance of selected equity mutual fund schemes in India.

VII LIMITATIONS OF THE STUDY

The major limitations of the study are:

1. The study covers only selected equity schemes of mutual fund.
2. The duration of the study period was limited i.e. 2009-18.
3. The study has been conducted and analyzed based on set of available information, which is governed by time factor.

VIII DATA COLLECTION

The present study is based on secondary data which is collected from various sources like published annual reports of asset management companies, online bulletins, journals books, magazines, brochures, newspapers and other published and online material. Top 15 Equity Schemes of mutual funds is selected as per AUM. The selected schemes are:

1. HDFC Equity fund
2. HDFC Top 200
3. Franklin India Prima fund
4. Principal Growth fund
5. Sundaram Growth fund
6. Sundaram Selected Midcap Fund
9. Reliance Pharma fund
10. ICICI Prudential FMCG Fund
11. IDFC Equity Fund
12. SBI Magnum fund
13. HSBC Equity fund
14. UTI Equity fund

7. Reliance Vision fund
8. Reliance Growth fund
15. JM Basic Equity Fund

IX TOOLS USED FOR ANALYSIS

This study made an attempt to analyze the performance of the selected equity mutual fund schemes with the market return during the period of the study. In order to achieve the objectives an analysis has been made to compare these selected equity schemes with the market on the basis of risk and return. Different statistical and financial tools are used to evaluate the performance of these selected mutual fund schemes under this study. The tools considered by the researcher in the study have been discussed as under:

- **Sharpe Ratio**: The Sharpe ratio (aka Sharpe's measure), developed by William F. Sharpe, is the ratio of a portfolio's total return minus the risk-free rate divided by the standard deviation of the portfolio, which is a measure of its risk. The Sharpe ratio is simply the risk premium per unit of risk, which is quantified by the standard deviation of the portfolio.

$$S = \frac{r_p - r_f}{\sigma_p}$$

Where S is the Sharpe ratio, r_p the return of the portfolio,
r_f the risk-free rate, and
σ_p the standard deviation of returns of the portfolio.

- **Treynor Ratio:** While the Sharpe ratio measures the risk premium of the portfolio over the portfolio risk, or its standard deviation, Treynor's ratio, popularized by Jack L. Treynor, compares the portfolio risk premium to the systematic risk of the portfolio as measured by its beta.

$$T = \frac{r_p - r_f}{\beta_p}$$

Where T is the Treynor ratio, r_p the return of the portfolio, r_f the risk-free rate, and β_p the beta of the portfolio.

- **Jensen's Ratio:** Jensen's alpha (aka Jensen index), developed by Michael C. Jensen, uses the Capital Asset Pricing Model (CAPM) to determine the amount of the return that is firm-specific over that which is due to market volatility as measured by the firm's beta in relation to the market beta.

$$\alpha = r_p - [r_f + \beta_p(r_m - r_f)]$$

Where a is the Jensen‟s alpha, r_p the return of the portfolio,
r_m the return of the market portfolio,
r_f the risk-free rate, and β_p the beta of the portfolio

- **Average Returns:** The performance evaluation is done by comparing the returns of a mutual fund scheme with returns of a benchmark portfolio. In this study, the returns have been called as average returns. Average return is obtained by taking the simple mean of monthly returns, whereby monthly returns are calculated by using the NAVs of the mutual fund scheme.

- **Standard Deviation (SD**) The measure of SD indicates the volatility. SD evaluates the volatility of the fund. The standard deviation of a fund measures the risk by measuring the degree to which the fund fluctuates in relation to its average return of a fund over a period of time. In other words, it is a measure of the consistency of a mutual fund's returns. A higher SD number indicates that the net asset value (NAV) of the mutual fund is more volatile and, it is riskier than a fund with a lower SD.

.

- **Beta:** Beta is a measure of the volatility of a particular fund in comparison to the market as a whole, that is, the extent to which the fund's return is impacted by market factors Beta value which is below 1.0 indicate the fund is low risk category, the value which is more than 1.0 indicate the fund is in high risk category

- **Alpha:** The measure of alpha shows the price risk apart from the performance of fund. A positive alpha means the fund has outperformed with its benchmark index, where a negative alpha indicates that a fund had underperformed with its Benchmark index. The positive alpha is the healthier for investors.

- **R-Squared:** The correlation between bench mark return and portfolio return is given by R- squared. R-squared measures the relationship between a portfolio and its benchmark. It is simply a measure of the correlation of the portfolio's returns to the benchmark's returns. R-squared can be used to ascertain the significance of a particular beta or alpha. Generally, a higher R-squared will indicate a more useful beta figure. If the R-squared is lower, then the beta is less relevant to the fund's performance.

X CONCLUSION

Mutual fund industry is one of the most important investment sources for small investors to make capital appreciation for their investment. Mutual funds have to face tough competition with other financial products which give equal and better returns. The performance analysis of equity mutual fund schemes was completely undergone in the study to provide knowledge to the investor to make right decision. Thus, this study will be useful for the investors to select the right mutual fund scheme from various schemes even available in the market.to make a better return.

XI REFERENCES

1. *Kumar Ashok, Rani Suman (2018) The growth of mutual funds in India: A special reference to sectorial mutual funds International Journal of Advance Research, Ideas and Innovations in Technology (Volume 4, Issue 2)*

2. *Geeta Rani & Dr. Vijay Singh Hooda (2017). "Performance Evaluation of Mutual Fund Schemes: A Study of Selected Topper Schemes" IOSR Journal of Business and Management (IOSR-JBM) Volume 19, Issue 10. Ver. IX. (October. 2017), PP 01-06*

3. *Shivangi Agarwal, Nawazish Mirza (2017) A study on the risk-adjusted performance of mutual funds industry in India Review of Innovation and Competitiveness Volume 3 | Issue 1 | 2017*

4. *Alka Solanki (2016) "A Study of Performance Evaluation of Mutual Fund and Reliance Mutual Fund" Abhinav National Monthly Refereed Journal of Research in Commerce & Management Volume 5, Issue 5 (May, 2016)*

5. *N. Bhagyasree & Mrs. B. Kishori (2016) A Study on Performance Evaluation of Mutual Funds Schemes in India IJIRST –International Journal for Innovative Research in Science & Technology| Volume 2 | Issue 11 | April 2016*

6. *Mili Kar & Parag Shil (2015) Performance of Selected Debt Oriented Mutual Fund Schemes in India: A Study In Comparison With the Market Portfolio Returns - IOSR Journal of Business and Management (IOSR-JBM) Volume 17, Issue 4.Ver. IV (Apr. 2015), PP 47-57*

7. *Ms. Shilpi Pal & Prof. Arti Chandani (2014) "A Critical Analysis of Selected Mutual Funds in India" Procedia Economics and Finance 11 (2014) 481 – 494*

8. *Ashraf SH, Sharma D (2014) Performance Evaluation of Indian Equity Mutual Funds against Established Benchmarks Index. Int J Account Res 2: 113*

9. *Dr.R.Narayanasamy & V. Rathnamani (2013) "Performance Evaluation of Equity Mutual Funds (On Selected Equity Large Cap Funds)" International Journal of Business and*

   Management Invention Volume 2 Issue 4 ǁ April. 2013ǁ PP.18-24

10. *Dr.B.Nimalathasan & Mr.R.Kumar Gandhi (2012) "Mutual Fund Financial Performance Analysis- A Comparative Study on Equity Diversified Schemes And Equity Mid-Cap Schemes". EXCEL International Journal of Multidisciplinary Management Studies Vol.2 Issue 3, March 2012, ISSN 2249 8834.*