Juni Khyat ISSN: 2278-4632
(UGC Care Group I Listed Journal) Vol-12 Issue-01 No.01: 2022

PERFORMANCE EVALUATION OF SELECTED EQUITY MUTUAL FUNDS IN INDIA

[#1]**RAJU BADDAM,** ***Lecturer in Commerce, Dept of Commerce,***

[#2]**MALLESHAM ATLA,** ***Lecturer in Commerce, Dept of Commerce,***

SRR GOVT ARTS& SCIENCE COLLEGE, KARIMNAGAR, TELANGANA.

ABSTRACT: A mutual fund is a scheme in which several people invest their money for a common financial cause. The collected money invests in the capital market and the money, which they earned, is divided based on the number of units, which they hold. The mutual fund industry started in India in a small way with the UTI Act creating what was effectively a small savings division within the RBI.Over a period of 25 years this grew fairly successfully and gave investors a good return, and therefore in 1989, as the next logical step, public sector banks and financial institutions were allowed to float mutual funds and their success emboldened the government to allow the private sector to foray into this area. The advantages of mutual fund are professional management, diversification, economies of scale, simplicity, and liquidity. Before investing in any funds one should consider some factor like objective, risk, Fund Manager's and scheme track record, Cost factor etc. The most important trend in the mutual fund industry is the aggressive expansion of the foreign owned mutual fund companies and the decline of the companies floated by nationalized banks and smaller private sector players. Reliance Mutual Fund, UTI Mutual Fund, ICICI Prudential Mutual Fund, HDFC Mutual Fund and Birla Sun Life Mutual Fund are the top five mutual fund company in India. Reliance mutual funding is considered to be most reliable mutual funds in India. People want to invest in this institution because they know that this institution will never dissatisfy them at any cost. Since the inception of Mutual Fund industry in India a variety of Mutual Funds schemes are floated in market to cater the different needs of the investors. Due to the emergence of Mutual Funds as an essential investment device used by the investors to get the benefits of Equities without burning their hands in the Capital Market, it becomes imperative to closely monitor and evaluate the performance of these funds. e present study makes an attempt to evaluate the performance of selected equity mutual fund schemes by using various Risk- Return measures i.e. Sharpe Ratio, Treynor Ratio and Jensen's Alpha.

Keywords: Capital Market, Mutual Fund Industry, Equity Mutual Funds.

1. INTRODUCTION

There are a lot of investment avenues available today in the financial market for an investor with an investable surplus. He can invest in Bank Deposits, Corporate Debentures, and Bonds where there is low risk but low return. He may invest in Stock of companies where the risk is high and the returns are also proportionately high. The recent trends in the Stock Market have shown that an average retail investor always lost with periodic bearish tends. People began opting for portfolio managers with expertise in stock markets who would invest on their behalf. Thus we had wealth management services provided by many institutions. However they proved too costly for a small investor. These investors have found a good shelter with the mutual funds.

CONCEPT OF MUTUAL FUND:

A mutual fund is a common pool of money into which investors place their contributions that are to be invested in accordance with a stated objective. The ownership of the fund is thus joint or "mutual"; the fund belongs to all investors. A single investor's ownership of the fund isin the same proportion as the amount of the contribution made by him or her bears to the total amount of the fund.

Mutual Funds are trusts, which accept savings from investors and invest the same in diversified financial instruments in terms of objectives set out in the trusts deed with the view to reduce the risk and maximize the income and capital appreciation for distribution for the members. A Mutual Fund is a corporation and the fund manager's interest is to professionally manage the funds provided by the investors and provide a return on them after deducting reasonable management fees. The objective sought to be achieved by Mutual Fund is to provide an opportunity for lower income groups to acquire without much difficulty financial assets. They cater mainly to the needs of the individual investor whose means are small and to manage investors portfolio in a manner that provides a regular income, growth, safety, liquidity and diver sification opportunities.

DEFINITION:

"Mutual funds are collective savings and investment vehicles where savings of small(or sometimes big) investors are pooled together to invest for their mutual benefit and returns distributed proportionately".

 Copyright @ 2022 Author

"A mutual fund is an investment that pools your money with the money of an unlimited number of other investors. In return, you and the other investors each own shares of the fund. The funds assets are invested according to an investment objective into the funds portfolio of investments. Aggressive growth funds seek long-term capital growth by investing primarily in stocks of fast-growing smaller companies or market segments. Aggressive growth funds are also called capital appreciation funds".

Why Select Mutual Fund?

The risk return trade-off indicates that if investor is willing to take higher risk then correspondingly he can expect higher returns and vise versa if he pertains to lower risk instruments, which would be satisfied by lower returns. For example, if an investors opt for bank FD, which provide moderate return with minimal risk. But as he moves ahead to invest in capital protected funds and the profit-bonds that give out more return which is slightly higher as compared to the bank deposits but the risk involved also increases in the same proportion. Thus investors choose mutual funds as their primary means of investing, as Mutual funds provide professional management, diversification, convenience and liquidity. That doesn't mean mutual fund investments risk free. This is because the money that is pooled in are not invested only in debts funds which are less riskier but are also invested in the stock markets which involves a higher risk but can expect higher returns. Hedge fund involves a very high risk since it is mostly traded in the derivatives market which is considered very volatile.

2. REVIEW OF LITERATURE

In India, there are a few studies on mutual funds, which have a complete scientific analysis, primarily due to the comparatively short period of existence of mutual funds. Samir et al. (1994) reviewed the work done with respect to capital markets during the 15-year period from 1977 to 1992.

They mentioned that a large number of works are merely descriptive or prescriptive without rigorous analysis. However, a rigorous scientific research was carried out in this subject in other countries. Besides this, now we can obtain a lot of information through different websites or portals like 'mutualfundsindia.com'.

This chapter focuses on review of some select studies which are categorized into three sections:

(1) Performance evaluation studies
(2) Modelling dimension-literature
(3) Fund selection behavior /investors behaviour and
(4) Other relevant studies.

Performance evaluation methods:

Friend, Brown, Herman and Vickers (1962) offered the first empirical analysis of mutual funds' performance.3 Sharpe (1964), Treynor and Mazuy (1966), Jensen (1968), Fama (1972) and Grinblatt and Titman (1989, 1994) are considered to be classical studies in performance evaluation methods.

The following paragraphs indicate a brief description of the studies on 'performance evaluation of mutual funds'.

Sharpe (1964) made a significant contribution to the methods of evaluating mutual funds. His measure is based on capital asset prices, market conditions with the help of risk and return probabilities. Sharpe (1966) developed a theoretical measure better known as 'reward to variability ratio' that considers both average return and risk simultaneously in its ambit. The measure tested efficacy through a sample of 34 open-ended funds considering annual returns and standard deviation of annual return risk surrogate for the period 1954–1963. The average reward to variability ratio of 34 funds was considerably smaller than Dow Jones portfolio, and was considered enough to conclude that average mutual funds' performance was distinctly inferior to an investment in Dow Jones portfolio.

Treynor (1965) advocated the use of Beta Coefficient instead of the total risk. He argues that using only naïve diversification, the unsystematic variability of returns of the individual assets in a portfolio typically average out of zero. So he considers measuring a portfolio's return relative to its systematic risk more appropriate.

Teynor and Mazuy (1966) devised a test of ability of the investment managers to anticipate market movements. The study used the investment performance outcomes of 57 investment managers to find out evidence of market timing abilities and found no statistical evidence that the investment managers of any of the sample funds had successfully outguessed the market. The study exhibited that the investment managers had no ability to outguess the market as a whole but they could identify under-priced securities.

Jensen (1967) conducted an empirical study of mutual funds during the period 1954–1964 for 115 mutual funds. His results indicate that these funds are not able to predict security prices well enough to outperform a buy-the-market and hold policy. His study ignores the gross management expenses to be free. There was very little evidence that any individual fund was able to do significantly better than which investors expected from mere random chance.

Jensen (1968) measured the performance as the return in excess of equilibrium return mandated by Capital Asset Pricing model. Jensen's measure is based on the theory of the pricing of capital assets by Sharpe (1964) and Teynor (1965).

 Copyright @ 2022 Author

Smith and Tito (1969) conducted a study of 38 funds for 1958–1967 and published results relating to performance of mutual funds. However, Mc Donald (1974) examined the performance of selected 123 mutual funds during the period 1960–1969. He found that on an average, mutual funds perform about as well as native 'Buy and Hold' strategy.
Fama (1972) suggested alternative methods for evaluating investment performance with somewhat finer breakdowns of performance on stock selection, market timing, diversification and risk bearing.10 He devised a mechanism for the segregation part of an observed investment return due to managers' ability to pick up the best securities at a given level of risk from part that is due to the prediction of general market price movements.
Dunn and Theisen's (1983) study is about ranking by the annual performance of 201 institutional portfolios for the period 1973–1982 without controlling for fund risk. They found no evidence that funds performed within the same quartile over the ten-year period. They also found that ranks of individual managers based on five-year compound returns revealed no consistency.

3. TYPES OF MUTUAL FUNDS

Mutual funds have been gaining a lot of popularity in the recent past as an effective investment channel. Choosing the right type of fund for your investment needs will depend on your investment goal.
The most popular types of mutual funds in India are listed below:
- Equity funds
- Debt funds
- Money market funds
- Index funds
- Balanced funds
- Income funds
- Fund of funds
- Specialty funds

There are several other types of funds offered by the asset management companies in the country. We have segregated the same based on structure, asset class, investment objective, specialty, and risk, in the sections below.
Types of Mutual Funds based on structure
Open-Ended Funds: These are funds in which units are open for purchase or redemption through the year. All purchases/redemption of these fund units are done at prevailing NAVs. Basically these funds will allow investors to keep invest as long as they want. There are no limits on how much can be invested in the fund. They also tend to be actively managed which means that there is a fund manager who picks the places where investments will be made. These funds also charge a fee which can be higher than passively managed funds because of the active management. THey are an ideal investment for those who want investment along with liquidity because they are not bound to any specific maturity periods. Which means that investors can withdraw their funds at any time they want thus giving them the liquidity they need.
Close-Ended Funds: These are funds in which units can be purchased only during the initial offer period. Units can be redeemed at a specified maturity date. To provide for liquidity, these schemes are often listed for trade on a stock exchange. Unlike open ended mutual funds, once the units or stocks are bought, they cannot be sold back to the mutual fund, instead they need to be sold through the stock market at the prevailing price of the shares.
Interval Funds: These are funds that have the features of open-ended and close-ended funds in that they are opened for repurchase of shares at different intervals during the fund tenure. The fund management company offers to repurchase units from existing unitholders during these intervals. If unitholders wish to they can offload shares in favour of the fund.
Types of Mutual Funds based on asset class
Equity Funds: These are funds that invest in equity stocks/shares of companies. These are considered high-risk funds but also tend to provide high returns. Equity funds can include specialty funds like infrastructure, fast moving consumer goods and banking to name a few. They are linked to the markets and tend to
Debt Funds: These are funds that invest in debt instruments e.g. company debentures, government bonds and other fixed income assets. They are considered safe investments and provide fixed returns. These funds do not deduct tax at source so if the earning from the investment is more than Rs. 10,000 then the investor is liable to pay the tax on it himself.
Money Market Funds: These are funds that invest in liquid instruments e.g. T-Bills, CPs etc. They are considered safe investments for those looking to park surplus funds for immediate but moderate returns. Money markets are also referred to as cash markets and come with risks in terms of interest risk, reinvestment risk and credit risks.
Balanced or Hybrid Funds: These are funds that invest in a mix of asset classes. In some cases, the proportion of equity is higher than debt while in others it is the other way round. Risk and returns are balanced out this way. An example of a hybrid fund would be Franklin India Balanced Fund-DP (G) because in this fund, 65% to 80% of the investment is made in equities and the remaining 20% to 35% is invested in the debt market. This is so because the debt markets offer a lower risk than the equity market.

Copyright @ 2022 Author

Types of Mutual Funds based on investment objective

Growth funds: Under these schemes, money is invested primarily in equity stocks with the purpose of providing capital appreciation. They are considered to be risky funds ideal for investors with a long-term investment timeline. Since they are risky funds they are also ideal for those who are looking for higher returns on their investments.

Income funds: Under these schemes, money is invested primarily in fixed-income instruments e.g. bonds, debentures etc. with the purpose of providing capital protection and regular income to investors.

Liquid funds: Under these schemes, money is invested primarily in short-term or very short-term instruments e.g. T-Bills, CPs etc. with the purpose of providing liquidity. They are considered to be low on risk with moderate returns and are ideal for investors with short-term investment timelines.

Tax-Saving Funds (ELSS): These are funds that invest primarily in equity shares. Investments made in these funds qualify for deductions under the Income Tax Act. They are considered high on risk but also offer high returns if the fund performs well.

Capital Protection Funds: These are funds where funds are are split between investment in fixed income instruments and equity markets. This is done to ensure protection of the principal that has been invested.

Fixed Maturity Funds: Fixed maturity funds are those in which the assets are invested in debt and money market instruments where the maturity date is either the same as that of the fund or earlier than it.

Pension Funds: Pension funds are mutual funds that are invested in with a really long term goal in mind. They are primarily meant to provide regular returns around the time that the investor is ready to retire. The investments in such a fund may be split between equities and debt markets where equities act as the risky part of the investment providing higher return and debt markets balance the risk and provide lower but steady returns. The returns from these funds can be taken in lump sums, as a pension or a combination of the two.

OBJECTIVES OF THE STUDY:

- To evaluate and compare the performance of equity mutual fund schemes of selected companies.
- To compare the performance of equity mutual fund schemes of selected companies with the market return.

4. DATA ANALYSIS & INTERPRETATION

The study focuses on analyzing the performance of mutual fund by using three models i.e. Sharpe, Treynor, & Jensen. The study also aims to evaluate the performance of different selected schemes on the basis of their daily return recorded during the period from January 2017 to July 2020.

Sharpe's Index for Selected Equity Growth Schemes

Particulars	Rp	Rf	S.D	Sharpe's Index
Tata Equity P/E Fund – Growth	0.0008 93	0.065	-0.010193	6.2893162
UTI Equity Fund – Growth	0.0008 75	0.065	-0.008922	7.18728985
HDFC Equity Fund – Growth	0.0008 06	0.065	0.011176	-5.74391553
IDFC Equity Fund – Growth	0.0006 35	0.065	0.010927	-5.89045484
Axis Equity Fund – Growth	0.0068 69	0.065	0.009145	-6.3565883
HSBC Equity Fund – Growth	0.0005 81	0.065	0.009999	-6.44254425
Birla Sun Life 95 Fund – Growth	0.0008 32	0.065	-0.007091	9.04921732

Treynor Index for Selected Equity Growth Schemes

Particulars	**Rp**	**Rf**	**Beta**	**Treynor Index**
Tata Equity P/E Fund – Growth	0.000893	0.065	0.022353	-2.86793719
UTI Equity Fund – Growth	0.000875	0.065	0.038886	-1.64905107
HDFC Equity Fund – Growth	0.000806	0.065	-0.04571	1.40437541
IDFC Equity Fund – Growth	0.000635	0.065	-0.00826	7.792372881
Axis Equity Fund – Growth	0.006869	0.065	0.0831	-0.69953069
HSBC Equity Fund – Growth	0.000581	0.065	0.087264	-0.7382082
Birla Sun Life 95 Fund – Growth	0.000832	0.065	-0.03760	1.70655036

Jensen's Alpha Index for Selected Equity Growth Schemes:

Copyright @ 2022 Author

ISSN: 2278-4632
Vol-12 Issue-01 No.01: 2022

Particulars	Rp	Rf	Rm	Beta	Jensen's Alpha
Tata Equity P/E Fund – Growth	0.000893	0.065	0.071	0.022353	-0.13069406
UTI Equity Fund – Growth	0.000875	0.065	0.071	0.038886	-0.06665259
HDFC Equity Fund – Growth	0.000806	0.065	0.071	-0.04571	-0.12594859
IDFC Equity Fund – Growth	0.000635	0.065	0.071	-0.00826	-0.12877854
Axis Equity Fund – Growth	0.006869	0.065	0.071	0.0831	-0.043
HSBC Equity Fund – Growth	0.000581	0.065	0.071	0.087264	-0.14161474
Birla Sun Life 95 Fund – Growth	0.000832	0.065	0.071	0.037601	-0.13183767

Interpretation:

Higher the value of standard deviation of the fund returns, greater will be the total risk carried by the fund. As per the Sharpe Index Birla Sun Life 95 Fund – Growth fund has the least SD and high Sharpe ratio followed by UTI Equity Fund – Growth & Tata Equity P/E Fund – Growth fund. HSBC Equity Fund – Growth carries the highest risk as per Sharpe index.

As per the Treynor Index IDFC Equity Fund – Growth have performed best as it has higher ratio. As the Treynor ratio is high it reflects that an investor have generated high returns for the market risk he has taken.

HSBC Equity Fund & Birla Sun Life 95 Funds shows high alpha which means the funds have not earned enough with the amount of systematic risk taken.

5. CONCLUSION

❖ A mutual fund is a powerful investment option that has the potential to generate long-term wealth for investors. Mutual funds have schemes for all types of life goals, right from creating a pool of wealth to retirement. You have schemes for risk-averse and conservative investors.

❖ The option has benefits of diversification, low cost, flexibility to invest in smaller amounts and professional fund management.

❖ Combined with online investment platform you have a great tool that makes mutual funds investing a quick and hassle-free experience.

REFERENCES

❖ Tee, K. H. (2009). The effect of downside risk reduction on UK equity portfolios included with Managed Futures Funds. International Review of Financial Analysis, 18(5), 303–310.
❖ V K Bhalla Security analysis and portfolio management pp 141, volume 149
❖ Ramesh Chander Performance Appraisal of Mutual Funds in India, volume XIV Posted: 2002-12
❖ Donald E Fisher, Ronald J Jorden Security Analysis and Portfolio Management Posted: 1995
❖ B Nimalathan, R Kumar Gandhi; -Mutual fund financial performance analysis, excel international journal of multi disciplinary management studies, volume 2

Copyright @ 2022 Author