"A Study of Performance of Top 5 Mutual Funds in India"

by Thoufiqulla[a]

Abstract

Mutual Funds play a major role in boosting the habits of savings among the Indian people as the Indians are less risk takers with high returns expectation. The investment in mutual fund depends on the risk and return analysis and market performance. A mutual fund is a common pool of money into which investors with common investment objectives place their contributions that are to be invested, in accordance with the stated objective of the scheme. The investment manager invests the money collected into assets that are defined by the stated objective of the scheme. For example, an Equity fund would invest in Equity and Equity related instruments and a Debt fund would invest in Bonds, Debentures, and Gilts etc., Hence the analyzing the performance of different mutual funds play a major role. The determinants of fund performance include fund attributes such as age, size, fees, management structure and management tenure, and country characteristics such as economic development, financial development, familiarity, and investor protection.

Keywords: *Mutual fund, risk factor, Fund attributes, Risk-return investment, safety, security,*

[a]Thoufiqulla,
Assistant Professor,
VFGC, Tumkur, Karnataka, India.

1. Introduction

Mutual Funds have become a widely popular and effective way for investors to participate in financial markets in an easy, low-cost fashion, while muting risk characteristics by spreading the investment across different types of securities, also known as diversification. It can play a central role in an individual's investment strategy. They offer the potential for capital growth and income through investment performance, dividends and distributions under the guidance of a portfolio manager who makes investment decisions on behalf of mutual fund unit holders. A mutual fund is a pure intermediary which performs basic function of buying &selling security on behalf of its investors or unit holders. Mutual funds mobilize saving from a large number investors & invest these funds in share and other securities mutual funds are sine qua non for the development of the capital markets & the creation of the equity cult in an economy.

1.1 Evolution of Mutual Funds

The inception of Unit Trust of India marked the evolution of the Indian mutual fund industry in the year 1963. The basic objective at that time was to attract the small investors or retail investors for investment and it was made possible through the collective efforts of the Government of India and the Reserve Bank of India. The history of mutual fund industry in India can be better understood divided into Following stages:

Stage 1. Establishment and Growth of Unit Trust of India - 1964-87Unit Trust of India enjoyed complete monopoly when it was established in the year1963 by an act of Parliament. UTI was set up by the Reserve Bank of India and it is continued to operate under the regulatory control of the RBI until the two were delinked in 1978 and the entire control was transferred in the hands of Industrial Development Bank of India (IDBI). UTI launched its first scheme in 1964, named as Unit Scheme 1964 (US-64), which attracted the largest number of investors in any single investment scheme over the years.UTI launched more innovative schemes in 1970s and 80s to suit the needs of different investors. It launched ULIP in 1971, six more schemes between 1981-84, Children's Gift Growth Fund and India Fund (India's first offshore fund) in 1986, Master share (India’s first equity diversified scheme) in 1987 and Monthly Income Schemes (offering assured returns) during 1990s. By the end of 1987, UTI's assets under management grew ten times to Rs 6700 crores.

Stage II. Entry of Public Sector Funds - 1987-1993

The Indian mutual fund industry witnessed a number of public sector players entering the market in the year 1987. In November 1987, SBI Mutual Fund from the State Bank of India became the first non-UTI mutual fund in India. SBI Mutual Fund was later followed by Can bank Mutual Fund, LIC Mutual Fund, Indian Bank Mutual Fund, Bank of India Mutual Fund, GIC Mutual Fund and PNB Mutual Fund. By 1993,the assets under management of the industry increased seven times to Rs. 47,004crores. However, UTI remained to be the leader with about 80% market share.

Stage III. Emergence of Private Sector Funds –

1993-96The permission given to private sector funds including foreign fund management companies (most of them entering through joint ventures with Indian promoters) to enter the mutual fund industry in 1993, provided a wide range of choice to investors and more competition in the industry. Private funds introduced innovative products, investment techniques and investor-servicing technology. By 1994-95, about 11private sector funds had launched their schemes.

Stage IV. Growth and SEBI Regulation - 1996-2004: The mutual fund industry witnessed robust growth and stricter regulation from the SEBI after the year 1996. The mobilizations of funds and the number of players operating in the industry reached new heights as investors started showing more interest in mutual funds. Investors' interests were safeguarded by SEBI and the Government offered tax benefits to the investors in order to encourage them. SEBI (Mutual Funds)Regulations, 1996 was introduced by SEBI that set uniform standards for all mutual funds in India. The Union Budget in 1999 exempted all dividend incomes in the hands of investors from income tax. Various Investor Awareness Programmes were launched during this stage, both by SEBI and AMFI, with an objective to educate investors and make them informed about the mutual fund industry. In February 2003, the UTI Act was repealed and UTI was stripped of its Special legal status as a trust formed by an Act of Parliament. The primary objective behind this was to bring all mutual fund players on the same level. UTI was re-organized into two parts:

1. The Specified Undertaking, 2. The UTI Mutual Fund Presently Unit Trust of India operates under the name of UTI Mutual Fund and its past schemes (like US-64, Assured Return Schemes) are being gradually wound up. However, UTI Mutual Fund is still the largest player in the industry. In 1999, there was a significant growth in mobilizations of funds from investors and assets under management

Stage V. Growth and Consolidation –

2004 Onwards The industry has also witnessed several mergers and acquisitions recently, examples of which are acquisition of schemes of Alliance Mutual Fund by Birla Sun Life, Sun F&C Mutual Fund and PNB Mutual Fund by Principal Mutual Fund. Simultaneously, more international mutual fund players have entered India like Fidelity, Franklin Templeton Mutual Fund etc. There were 29 funds as at the end of March 2006. This is a continuing stage of growth of the industry through consolidation and entry of new international and private sector players.

2. Literature Review

N. Bhagyasree Mrs. B. Kishori (April 2016) in the study "A Study on Performance Evaluation of Mutual Funds Schemes in India" investigated the 30open ended mutual funds to understand the performance of mutual funds. The 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.

Mr. Sunil M. Adhav , Dr. PratapM.Chauhan(Feb 2015) in the study "Comparative Study of Mutual Funds of Selected Indian Companies" says that India's mutual fund market has witnessed phenomenal growth over the last decade. The consistency in the performance of mutual funds has been a major factor that has attracted many investors. The present research is an attempt to study comparative performance of mutual funds of selected Indian companies. The study focus on mutual fund schemes of selected Indian companies comprising Equity, Debt and Hybrid Schemes. The total of390 schemes comprising of 178 equity mutual funds, 138 debt schemes and 74 hybrid schemes are selected for the study. The performance of selected Indian companies' mutual fund is analyzed with the help of Return, risk(standard Deviation), and Sharpe ratio. Also the selected mutual funds are compared with their respective benchmark.

SonaliAgarwal , Chand Tandon & P. S. Raychaudhuri (December 2015) in the Paper "A Study of Mutual Funds from Different Sectors in India" investigate the savings habits of the people. Savings constitute a major part of GDP in India. These savings flow into different investment avenues. People commit their funds in expectation of some future returns in terms of revenue or capital. The main hurdle in this process is the selection of the appropriate security which involves complete market and security analysis along with portfolio management.

Dr. S L Gupta & Meenakshi Garg (2014) in the paper "A study of performance evaluation of selected Mutual Funds in India" Revels that there is no significant difference among the performance of mutual fund based on Sharpe &Treynor models. Mutual funds are providing significant returns to the investors but still fails to obtain the confidence for the investment from the investors.

Zhi Da, Pengjie Gao, and Ravi Jagannathan(2011) in the article "Impatient Trading, Liquidity Provision, and Stock Selection by Mutual Funds" showed that a mutual fund's stock selection skill can be decomposed into additional components that include liquidity-absorbing impatient trading and liquidity provision. The study proved that past performance predicts future performance better among funds trading in stocks affected more by information events Past winners earn a risk-adjusted after-fee excess return of 35 basis points per month in the future. Most of that superior performance comes from impatient trading. The paper also states that impatient trading is more important for growth-oriented funds, and liquidity provision is more important for younger income funds.

3. Importance of the study

The present study can be grate helpful to research agencies, academicians, mutual funds investors, business school students, mutual funds companies etc., The study focuses on the present & future scenario in the mutual funds industry, which is concern with the rapidly changes in the capital market with respect to the investors preference. An attempt is made for the cope up with the problems facing by the investors that earn a handsome return with the minimum level of risk.

4. Objectives of the study

1) To Study the performance of selected mutual funds.
2) To evaluate and compare the performance of equity diversified mutual fund schemes of selected companies.
3) To compare the performance of equity diversified mutual fund schemes of selected company's vis-à-vis the market.

5. Research Methodology

Secondary data is taken as a basis of analysis in this research. Top five asset management companies is selected as per AUM as on March 4, 2016.. Five equity diversified mutual fund schemes, debt mutual funds and hybrid funds etc., each from selected AMCs is selected randomly .Daily data about the closing Net Asset Value of the selected schemes has collected from the websites www.indiainfoline.com and www.nseindia.moneycontrol.com.

6. Data Analysis

a) Equity diversified

Scheme Name	Asset Rs in Cr	NAV	1w%	3w%	6w%	1y%	3y%	5 y%
ICICI PruExp&Other Services-	7.31	28.59	1.1	4.6	15.3	31.1	45.0	--
ICICI PruExp&Other Services-RP (G)	183.34	28.39	1.1	4.6	15.1	30.6	44.2	82.5
ICICI Pru US Bluechip - Direct(G)	11.65	15.82	0.6	1.1	4.0	15.7	42.9	--
ICICI Pru US Bluechip Equity(G)	180.65	15.70	0.6	1.0	3.8	15.3	42.3	--
Birla SL Intl. Equity A -Direct(G)	8.62	15.96	0.1	-0.4	3.7	11.8	30.7	--

Interference:

The performance of selected equity diversified schemes return for a period of it also depicts the average Portfolio return and scheme return performance in comparison to the benchmark.

The fifth column shows the schemes-wise return for five years in which gives highest return of 82.5% in the year 2014 by ICICI Pru Exp& Other Services-RP (G) and also from the inception. It is followed by ICICI Pru Exp &Other Services-DP (G),ICICI Pru US Blue chip -Direct (G),ICICI Pru US Blue chip Equity (G) and Birla SL Intl. Equity A -Direct (G) with 45.0, 42.9, 42.3, 30.7 return respectively.

In all five years duration ICICI Pru Exp &Other Services-RP (G) is performed well compared to others schemes.

b) Debt Long Term (Table 2)

Scheme name	Asset (Rs.Cr)	NAV	1w%	3w%	6w%	1y%	3y%	5 y%
L&T Gilt Fund - Direct (G)	38.90	29.58	0.2	2.1	2.3	5.3	9.6	--
ICICI Pru Long Term Plan (G)	57.26	13.80	0.2	0.7	2.6	5.3	9.6	20.4
ICICI Pru Long Term - Direct (G)	3.04	13.80	0.2	0.7	2.6	5.3	9.6	--
Templeton Corporate Bond-Direct (G)	36.96	12.48	0.2	1.0	2.8	6.4	9.4	--
ICICI Pru Long Term Plan-PP (G)	5.02	13.63	0.1	0.7	2.5	5.2	9.3	19.8

Interference:

The performance of selected Debt Long Term return for a period of 2009 to 2014. It also depicts the average Portfolio return and scheme return performance in comparison to the benchmark.

The fifth column shows the schemes-wise return for five years in which gives highest return of 20.4% in the year 2014 by ICICI Pru Long Term Plan (G) and also from the inception followed by ICICI Pru Long Term Plan-PP (G) with return of 19.8% . It is followed by L&T Gilt Fund -Direct (G), ICICI Pru Long Term - Direct (G) and Templeton Corporate Bond-Direct (G), with 9.6, 9.6 and 9.4% for third year return respectively.

In all five years duration, ICICI Pru Long Term Plan (G) and ICICI Pru Long Term Plan-PP (G is performed well compared to others schemes.

7. Findings

1) Different types of mutual funds have different levels of volatility or potential price, and those with the greater chance of losing value are also the funds that can produce the greater returns for you over time. So risk has two sides: it causes the value of your investments to fluctuate, but it is precisely the reason you can expect to earn higher returns.
2) Conventionally, the difference between debt and equity is the risk involved. Debt is that encompasses bank deposits, government-backed deposits, other deposits as well as mutual funds that invest in debt paper.
3) Equity means stocks as well as equity mutual funds. Everyone knows that debt is less risky than equity, and that's true. However, for the purpose of planning a targeted investment, it's more useful to think of debt and equity in a different manner.
4) The important difference between the two is that their risk and return curve varies in a very different way over different time-scales. Debt returns are predictable and there are many government-guaranteed deposits available to the Indian investor.
5) Risk then, refers to the volatility - the up and down activity in the markets and individual issues that occur constantly over a period of time. This volatility can be caused by a number of factors - interest rate changes, inflation or general economic conditions. It is this variability, uncertainty and potential for loss, that causes investors to worry. We all fear the possibility that a stock we invest in will fall substantially. But it is this very volatility that earns higher long-term returns from these investments, than from a savings account.

8. Suggestions

1) For periods exceeding three to five years, equity investments are extremely likely to give strong positive returns. This is especially true if stick to a broad selection of the relatively large-cap companies and if you invest gradually, as in through an SIP.
2) Debt returns are low, barely matching or only slightly exceeding the rate of inflation. Equity returns have the potential of being much higher but can be volatile. However, the volatility of equity is a relatively short-term phenomenon.
3) Speaking in terms of risk, this means that instead of saying that equity has higher risk, we should actually be saying that equity's risk drops over time and at a long enough timescale, the returns-to-risk ratio becomes far more attractive than debt. And there's the point about how all this fits into your targeted investment goals. The formula is simple debt for the short-term, and equity for the long-term.
4) In recent months, there has been a shift in favor of long bond funds with relatively higher maturities (both gilts and corporate bonds), as investors were looking to take advantage of the expected fall in interest rates. On the equity side, sharp rallies have resulted in profit booking in equity funds while periods of market corrections have seen positive net flows.

9. Conclusion

Overall, all selected mutual fund companies have positive return. ICICI mutual fund has performed well. Birla SL Intl. Equity A -Direct (G) and DWS Top Euro land Offshore Fund (G) mutual fund have lower level of risk compare to Franklin and DSP.

The rise in stock prices encouraged investors to book profits and shift money to debt schemes because the latter will generate healthy returns when interest rates soften, fund managers said. Clearly, investors are not convinced the stock market will continue to rise, with key indices touching a new high this year.

In recent years mutual fund industries succeeded to attract the investors by its attractive market returns. In a short span of time leading companies are generating sufficient funds by performing well. Form the study it can be concluded that performance of selected mutual funds are satisfactory.

10. References

1) ***N. Bhagyasree Mrs. B. Kishori*** *(April 2016) "A Study on Performance Evaluation of Mutual Funds Schemes in India"Volume 2 | Issue 11 | April 2016 ISSN (online): 2349-6010.*
2) ***Mr. Sunil M. Adhav , Dr. PratapM.Chauhan*** *(Feb 2015) in the study "Comparative Study of Mutual Funds of Selected Indian Companies"Volume No.04, Issue No. 02, ISSN (online): 2394-1537.*
3) ***SonaliAgarwal , Chand Tandon& P. S. Raychaudhuri*** *(December 2015) in the Paper "A Study of Mutual Funds from Different Sectors in India"IndianJournal ofCapitalMarketsVolume 2, Issue 4,*
4) ***Dr. S L Gupta &MeenakshiGarg*** *(2014) "A study of performance evaluation of selected Mutual Funds in India"*
5) ***Sahadevan, K.G. and Thiripalraju*** *(1997), "Mutual Funds - Data Interpretations AndAnalysis", Prentice Hall of India Private Limited, New Delhi, (1997).*
6) ***Pandey I M*** *(2005), "Financial Management", Vikas publication house private Ltd. 9th edition .pp 427,428.*
7) ***Bhole L M*** *(2005), "Financial Institutions and markets", Tata McGraw hill Companies.4th edition. Chapter 12 pp 12.2, 12.5,12.7*
8) ***BodieZvi,*** *Kane Alex, Marcus Alan J, Mohanty Pitabas.(2006), "Investments" TataMcGraw hill Companies, 6th edition chapter 4 pp 110,114,116,121,122.*
9) ***Miglani S K*** *(June 2010) "performance appraisal of Mutual Funds in India: Empirical*