A COMPARATIVE STUDY ON PERFORMANCE OF MUTUAL FUNDS AND ITS SCHEMES IN INDIA

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ABSTRACT:
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. Mutual Fund is one of the most effective instruments for the small & medium investors for investment and offers opportunity to them to participate in capital market with low level of risk. The performance of mutual fund schemes is dependent on the right strategy adopted by the fund managers in designing the portfolio. Among various investment modes, Mutual Fund is the most suitable investment mode for the common man, as it offers an opportunity to invest in a diversified and professionally managed portfolio at a relatively low cost.
Keywords: *Mutual funds, schemes, investors, banks*

1.0 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. Over the past decade, mutual funds have increasingly become the investor's vehicle of choice for long-term investment. It becomes pertinent to study the performance of the mutual fund. The relation between risk-return determines the performance of a mutual fund scheme. As risk is commensurate with return, therefore, providing maximum return on the investment made within the acceptable associated risk level helps in segregating the better performers from the laggards. Many asset management companies are working in India, so it is necessary to study the performance of it which may be useful for the investors to select the right mutual fund.

2.0 LITERATURE REVIEW:

Sapar & Narayan (2003) examines the performance of Indian mutual funds in a bear market through relative performance index, risk-return analysis, Treynor's ratio, Sharp's ratio, Sharp's measure, Jensen's measure, and Fama's measure with a sample of 269 open ended schemes (out of total schemes of 433). The results of performance measures suggest that most of the mutual fund schemes in the sample of 58 were able to satisfy investor's expectations by giving excess returns over expected returns based on both premium for systematic risk and total risk.

Selvam et.al (2011) studied the risk and return relationship of Indian mutual fund schemes. The study found out that out of thirty five sample schemes, eleven showed significant t–values and all other twenty four sample schemes did not prove significant relationship between the risk and return. According to t-alpha values, majority (thirty two) of the sample schemes' returns were not significantly different from their market returns and very few number of sample schemes' returns were significantly different from their market returns during the study period.

Nithya R. (2004) state that the values of mutual funds to the target people by identifying Asset Management Company that is performing well and identifying the top schemes in the category such as equity, balanced, Monthly Income Plan(MIP) & Income in the Assets Management Company (AMC), and it performed well and met the expectations.

Wadhwa, B.; Kaur, D (2015) studied the factors responsible for the selection of mutual fund as an investment option and also analyzed the impact of various demographic variables on investors attitude towards mutual fund by taking three hundred respondents from Delhi region. One third respondents had given positive response and half of them had neutral response towards mutual fund. The authors found significant association between attitude and demographic features of respondents such as: age, gender, income & occupation. It was also found that no significant association between education & attitude towards mutual fund.

OBJECTIVES:

1. To study about the mutual funds in India
2. To study about mutual fund schemes
3. To give brief idea about mutual funds available in India
4. To give idea about the regulation of mutual funds in India

Concept of mutual funds

A mutual fund is a trust that pools the savings of a no. of investors, who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciations realized are shared by its unit holders in proportion to the number of units owned by them. Thus a mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in diversified, professionally managed basket of securities at a relatively low cost.

History of the Indian Mutual Fund Industry

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank of India. The history of mutual funds in India can be broadly divided into four distinct phases

First Phase – 1964–87 Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Rs.6, 700 crores of assets under management.

Second Phase – 1987–93 (Entry of Public Sector Funds) 1987 marked the entry of non-UTI, public sector mutual funds set up by public sector banks and Life Insurance Corporation of

India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first non-UTI Mutual Fund established in June 1987 followed by Can bank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92). LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990. At the end of 1993, the mutual fund industry had assets under management of Rs. 47,004.

Third Phase – 1993–2003 (Entry of Private Sector Funds) With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993. The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996.

Fourth Phase – since February 2003 In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs. 29,835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes. The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations. The second is the UTI Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs.76, 000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.

Structure of Mutual Funds in India Like other countries, India has a legal framework within which mutual funds must be constituted. Unlike in the UK, where two distinct 'trust' and 'Corporate' structures are followed with separate regulations, in India, open ended and close ended funds operate under the same regulatory Structure, and are constituted along one unique structure, and are constituted along one unique structure-as unit trusts. A Mutual Fund in India is allowed to issue open-ended and close end schemes under a common legal structure. Therefore a mutual fund may have general differential schemes (open and close end) under it i.e. under the Unit Trust at any point of time. The structure which is required to be followed by Mutual Funds in India is laid down under SEBI (Mutual Fund) regulations, 1996.

HDFC Mutual Fund

HDFC mutual fund was set up on June 30, 2000 with two sponsors namely Housing Development Finance Corporation ltd. and Standard Life Insurance ltd. HDFC mutual fund came into existence on 1 0 Dec. 1999 and got approval from the SEBI on 3 rd July 2000 .Housing Development Finance Corporation Limited, more popularly known as HDFC Bank Ltd, was established in the year 1994, as a part of the liberalization of the Indian Banking Industry by Reserve Bank of India (RBI). It was one of the first banks to receive an 'in principle' approval from RBI, for setting up a bank in the private sector. The bank was incorporated with the name 'HDFC Bank Limited', with its registered office in Mumbai. The following year, it started its operations as a Scheduled Commercial Bank. Today, the bank boasts of as many as 1412 branches and over 32 75 ATMs across India.

Products and Schemes of HDFC mutual fund

Equity funds, balanced funds, Debt funds and Liquid funds

Prudential ICICI Mutual Fund The mutual fund of ICICI is a joint venture with Prudential PLC. Of America, one of the largest life insurance companies in the USA. Prudential ICICI mutual fund was set up on 1 3 th of Oct. 199 3 with two sponsors. ICICI Bank started as a wholly owned subsidiary of ICICI Limited, an Indian financial institution, in 199 4 . Four years later, when the company offered ICICI Bank's shares to the public, ICICI's shareholding was reduced to 4 6%. In the year 2000, ICICI Bank offered made an equity offering in the form of ADRs on the New York Stock Exchange (NYSE), thereby becoming the first Indian company and the first bank or financial institution from non-Japan Asia to be listed on the NYSE. In the next year, it acquired the Bank of Madura Limited in an all-stock amalgamation. Later in the year and the next fiscal year, the bank made secondary market sales to institutional investors

Products and Schemes of HDFC mutual fund

Equity funds, balanced funds, Debt funds, Liquid funds, Children's gift fund

Other Players in Mutual Fund

Bank of Baroda mutual fund (BOB MF) 30 OCT. 1992

Benchmark mutual funds (June 1 2, 2001).

Birla Sun life MF (1871)

Chola mutual fund (3 Jan. 1997)

Can bank mutual fund (Dec. 19, 1987)

LIC mutual fund (19th June, 1989)

Reliance mutual fund (30 June, 1995)

Sahara mutual fund (18 July, 1996)

GIC (General Insurance Corporation of India). Etc.

3.0 METHODOLOGY:

Performance in terms of Average Returns, Standard Deviation, Beta and R^2

The performance of selected funds is evaluated using average return, standard deviation, Beta and R^2. Return alone should not be considered as the basis of measurement of the performance of a mutual fund scheme, it should also include the risk taken by the fund manager because different funds will have different levels of risk attached to them. Risk associated with a fund, in a general, can be defined as variability or fluctuations in the returns generated by it. The higher the fluctuations in the returns of a fund during a given period, higher will be the risk associated with it.

Evaluation Parameters Following parameters have been used to evaluate the performance to said Asset Management Companies (AMCs). Net Asset Value (NAV) It is the amount which a unit holder would receive if the mutual fund were wound up. An investor in mutual fund is a part owner of all its assets and liabilities. Returns to the investor are determined by the interplay of two elements Net Asset Value and Costs of Mutual fund.Net Asset Value is the mutual fund's calling card. It is the basis for assessing the return that an investor has earned. Mutual funds sell their shares to the public and redeem them at current NAV, which is calculated as under;

$$\text{NAV} = \frac{\text{Net asset of the scheme}}{\text{Number of units outstanding}}$$

Where net asset of the scheme is defined as;

Net Assets of the scheme= Market value of investment + Receivables + Other accrued income + other assets – Accrued expenses – Other payables – other liabilities

Risk Free Rate A risk less asset has zero variability of returns. If an investor buys an asset at the beginning of the holding period with the known terminal value, such type of asset can be called as risk-less or risk free asset. Government securities and nationalized bank deposits fall under this category. In this study, 91-days Treasury bill have been extracted from respective monthly SEBI Bulletins and used as a proxy for risk free rate of return.

Standard Deviation (SD) Its significance lays in the fact that sample is free from defects of sampling, it measures the absolute dispersion, the greater the SD; greater will be magnitude of the deviation of the values from their mean. Small SD means high degree of uniformity & homogeneity of a series. The total risk is measured in terms of standard deviation.

Beta Beta is a fairly commonly used measure of risk. It basically indicates the level of volatility associated with the fund as compared to the benchmark. The success of beta is heavily dependent on the correlation between a fund and its benchmark. If the fund portfolio doesn't have relevant benchmark index then the beta would be inadequate. A beta that is greater than one means that fund is more volatile than the benchmark, while a beta of less than one means that the fund is less volatile than the index. A fund with a beta very close to 1 means the fund's performance closely matches the index or benchmark.

Coefficient of Determination (R^2) The R^2 is a measure of a security's diversification in relation to the market. The closer the R^2 is to 1.00, the more completely diversified the portfolio. R^2 is ranging from 1 to 100, gives an idea about how well a fund's performance correlates with that of the benchmark. An R^2 of 0 means that a fund's returns have no correlation with the market and an R^2 of 1.00 indicates that a fund's returns are completely in sync-up and down-with the benchmark.

The performance of selected funds is evaluated using average return, standard deviation, Beta and R^2. Return alone should not be considered as the basis of measurement of the performance of a mutual fund scheme, it should also include the risk taken by the fund manager because different funds will have different levels of risk attached to them. Risk associated with a fund, in a general, can be defined as variability or fluctuations in the returns generated by it. The higher the fluctuations in the returns of a fund during a given period, higher will be the risk associated with it.

Table 1 Return and Risk of Mutual Fund Schemes

1	2	3	4	5	6
S.No	**Schemes**	**Average Return (Monthly)**	**Total Risk (Std. Deviation)**	**Beta**	**R**
1	SBI Contra Fund	0.0163601	0.0786799	0.9627420*	0.88430215
2	Kotak Opportunities Fund	0.01679639	0.0815609	0.9863392*	0.86435148
3	Birla Sunlife Dividend Yield Plus Fund	0.01427274	0.0713848	0.8148696*	0.76892085
4	HDFC Growth Fund	0.01610818	0.072105	0.8962191*	0.91155583
5	ICICI Prudential Dynamic Fund	0.01735794	0.0705591	0.8444962*	0.84475441
6	Tata Ethical Fund	0.01554503	0.0813038	0.9683483*	0.83740327
7	UTI MNC Fund	0.01395328	0.0595073	0.6634898*	0.73192174
8	HSBC India Opportunities Fund	0.01300302	0.0724259	0.8812375*	0.87462856
	BSE SENSEX	**0.01412505**	**0.076853**	**1**	**1**

Performance in terms of Sharpe Ratio The Sharpe Ratio measures the fund's excess return per unit of its risk (i.e. total risk). This ratio indicates the relationship between the portfolio's additional return over risk-free return and total risk of the portfolio, which measured in terms of standard deviation. The results of the Sharpe Ratios of the selected mutual fund schemes of all the growth option with the benchmark portfolio have been presented below:

Table 2 Sharpe Ratios of Mutual Fund Schemes-Growth Option

S.No	Schemes	Sharpe Ratio
1	SBI Contra Fund	0.137560337
2	Kotak Opportunities Fund	0.138050489
3	Birla Sunlife Dividend Yield Plus Fund	0.12237715
4	HDFC Growth Fund	0.146609976
5	ICICI Prudential Dynamic Plan Fund	0.167534359
6	Tata Ethical Fund	0.123095806
7	UTI MNC Fund	0.14143495
8	HSBC India Opportunities Fund	0.103086736
	Sharpe Ratio of the BSE Sensex	0.111748137

4.0 CONCLUSION:

In India, innumerable mutual fund schemes are available to general investors which generally confound them to pick the best out of them. This study provides some insights on mutual fund performance so as to assist the common investors in taking the rational investment decisions for allocating their resources in correct mutual fund scheme. The data employed in the study consisted of monthly NAVs for the open-ended schemes. the performance of mutual fund in terms of Average returns, seventy five percent of the diversified fund schemes have shown higher and superior returns and remaining have shown inferior returns. In terms of standard deviation, sixty two percent of the selected schemes are less risky than the market. All the funds have beta less than one and positive which imply that they were less risky than the market portfolio and in terms of coefficient of determination (R^2), all eight funds were near to one which indicates higher diversification of portfolio. Mutual fund is also better and preferable for those who want their capital appreciation.

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