

# “A Comparative Study of Equity Based Mutual Fund of Reliance and HDFC”

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**Abstract** Mutual funds are key 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. This study provides an overview of mutual fund activity in emerging markets. It describes about their size and their asset allocation. All fund managers are not successful in the formation of the portfolio and so the study also focuses on the empirically testing on the basis of fund manager performance and analyzing data at the fund-manager and fund-investor levels. The study revealed that the performance is affected by the saving and investment habits of the people and at the second side the confidence and loyalty of the fund Manager and rewards- affects the performance of the MF industry in India.

**Keywords —** Net Asset Value (NAV), Asset Under Management (AUM)

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## INTRODUCTION

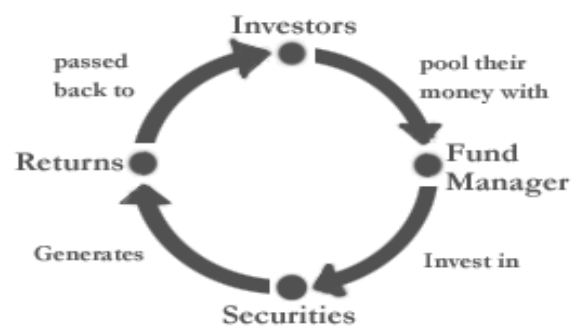
A mutual fund is a pool of money, collected from investors, and is invested according to certain investment options. A mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. A mutual fund is created when investors put their money together. It is therefore a pool of the investor's funds. 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.[1]

The most important characteristics of a fund are that the contributors and the beneficiaries of the fund are the same class of people, namely the investors. The term mutual fund means the investors contribute to the pool, and also benefit from the pool. There are no other claimants to the funds. The pool of funds held mutually by investors is the mutual fund.

A mutual funds business is to invest the funds thus collected according to the wishes of the investors who created the pool. Usually, the investors appoint professional investment managers, to manage their funds. The same objective is achieved when professional investment managers create a product and offer it for

investment to the investor. This product represents a share in the pool, and pre-states investment objectives. [2] Thus a mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

**Fig. 1 Mutual Fund Operation Flow Chart**



## 2. OBJECTIVES OF THE RESEARCH PAPER:

1. To make a comparative analysis of equity based mutual fund in India.
2. To analyze the performance of private sector Mutual Funds: Reliance Equity Growth fund along with HDFC Equity Growth fund.

### 3. RESEARCH METHODOLOGY

#### 3.1 Data Collection:

✓ For this study, average NAV of Mutual Fund is collected for the period of 1st January, 2009 to 31 December, 2011 along with the index-value of BSE SENSEX is also considered for the same period.

✓ Secondary data is used for the analysis which is collected through various sources like internet, books of journals and newspaper articles.

#### 3.2 Techniques & Tools:

Mispricing of the Mutual funds can be evaluated by comparing the return on market and return on stock. During the pricing period of the return on stock is negative, then it indicates overpricing and if are positive indicates underpricing. Relative performance measurement is used to measure the performance of the MF with SENSEX. The various statistical tools have been used to compare the performance of the funds.

✓ **Standard Deviation (SD):** its significance lies in the fact that sample is free from defects of sampling, it measures the absolute dispersion, the greater the SD, and 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 actual mean is considered for the given Tabulated data. The square of standard deviation of returns gives the Variance. Coefficient of variation (COV) is found by dividing standard deviation by mean returns.

✓ **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 a relevant benchmark index than a beta would be grossly 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.[4] The formula for the beta of an asset within a portfolio is :

$$\beta = \frac{n \sum R_{xi} R_{yi} - \sum R_{xi} \sum R_{yi}}{n \sum (R_{xi})^2 - (\sum R_{xi})^2}$$

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- Where n = No. of Observations
- Rxi = Market excess return
- Ryi = Security excess return

**The Sharpe Measure:** In this model, performance of fund is evaluated on the basis of sharpe ratio, which is a ratio of returns generated by the fund over and above risk free rate of return and the total risk associated with it.[3] According to Sharpe, it is the total risk of the fund that the investor are concerned about so, the model evaluates fund on the basis of reward per unit of total risk, symbolically, it can be return as :

$$\text{Sharpe index (Si)} = (\text{Rp} - \text{Rf}) / s_p$$

Where, Si= Sharpe index ratio

s<sub>p</sub> = Standard deviation of the portfolio return.

R<sub>p</sub> = Portfolio average return

R<sub>f</sub> = Risk free rate of interest.

While a high and positive Sharpe Ratio shows a superior risk adjusted performance of a fund, a low and negative Sharpe Ratio is an indication of unfavorable performance.

### 4. RELIANCE MUTUAL FUND

The Reliance Mutual Fund is one of the most popular and leading mutual fund in India. The Fund is owned by Anil Dhirubhai Ambani Group and with respect to net worth it ranks among the top three of all the private financial service providers in India. It is an ISO 9001:2000 certified company, which offers innovative mutual fund products to a wide pool of customers. The Reliance mutual fund products are available in hundred and seventy nine cities across India. It is one of the fastest growing mutual funds in India and the main reason of its popularity is that it has a wide portfolio of products that meets the requirements of each and every type of investors. The Reliance Mutual Fund is headed by Mr. Sundeep Sikka - the CEO of the company.

#### 4.1 Details of Reliance Mutual Fund:

✓ The schemes of Reliance Mutual Fund are being managed by Reliance Capital Asset Management Ltd, which is a subsidiary of Reliance.

- ✓ Reliance Capital Ltd holds 93.37% of the paid-up capital of the Reliance Capital Asset Management Ltd.
- ✓ The value of the cumulative assets that are being managed (also called Assets Under Management (AUM)) amounted to Rs. 81728 crores, as on 30th September. 2011.

#### 4.2 Reliance Equity Growth Schemes:

The aim of growth funds is to provide capital appreciation over the medium to long- term. [5]Such schemes normally invest a major part of their corpus in equities. Such funds have comparatively high risks. These schemes provide different options to the investors like dividend option, capital appreciation, etc. and the investors may choose an option depending on their preferences. The investors must indicate the option in the application form. The mutual funds also allow the investors to change the options at a later date. Growth schemes are good for investors having a long-term outlook seeking appreciation over a period of time.

#### FUND FEATURES

Types of Scheme	Open Ended
Nature	Equity
Option	Growth
Inception Date	Mar 28, 2006
Face Value (Rs/Unit)	10
Expense Ratio (%)	1.99
Portfolio Turnover Ratio	80
Entry Load	Entry Load is 0%.
Exit Load	If redeemed between 0 year to 1 year; 1%
Asset Management Company	Reliance Capital Asset Management Ltd. 11th & 12th Flr One India Bull Centre, Tower 1 841 Senapati Bapat Marg, Elphinstone Rd Mumbai - 400013 Tel.- 30994600 ,30301111
Registrar	Karvy Computershare Pvt. Ltd. 21, Avenue 4,

	Street No 1, Banjara Hills Hyderabad
Latest NAV	13.26 as on Mar 14, 2012
Benchmark Index - S&P Nifty	5,463.90 as on Mar 14, 2012
52 - Week High	14.41 as on Apr 5, 2011
52 - Week Low	10.53 as on Dec 20, 2011
P/E	17.74 as on Feb – 2012
P/B	4.23 as on Feb – 2012
Dividend Yield	1.16 as on Feb – 2012
Market Cap (Rs. in crores)	66,922.36 as on Feb – 2012
Large	58.12 as on Feb-2012
Mid	14.58 as on Feb-2012
Small	NA
Top 5 Holding (%)	41.60 as on Feb – 2012
No. of Stocks	21

#### 5. HDFC MUTUAL FUND

HDFC Mutual Fund is governed by HDFC Asset Management Company Limited (AMC). The HDFC mutual fund was approved by SEBI in June 2000. Equity Funds, Balanced Funds, and Debt Funds are the mutual fund schemes offered by HDFC Mutual Fund. It is regulated by HDFC Asset Management Company Limited (AMC) which works as an Asset Management Company (AMC) for HDFC Mutual Fund. HDFC Asset Management Company Limited (AMC) is a Joint Venture concern between the large scale housing finance company HDFC and British investment firm Standard Life Investments Limited. The HDFC Asset Management Company Limited conducts the activities carried out by the HDFC Mutual Fund and manages the assets of various mutual fund schemes.

##### 5.1 HDFC Growth Equity Scheme

The main aim of HDFC Equity Fund is to providing capital appreciation through investments predominantly in equity oriented securities

## FUND FEATURES

Types of Scheme	Open Ended
Nature	Equity
Option	Growth
Inception Date	January 01, 1995
Face Value (Rs/Unit)	10
Expense ratio (%)	1.78
Portfolio Turnover Ratio	27.76
Entry Load	Entry Load is 0%.
Exit Load	If redeemed between 0 year to 1 year; 1%
Asset Management Company	HDFC Asset Management Company Limited Ramon House Churchgate, Mumbai
Registrar	Computer Age Management Services Private Limited A&B, Lakshmi Bhavan 609, Anna Salai Chennai
Latest NAV	269.18 as on Mar 14, 2012
Benchmark Index – CNX 500	4,343.05 as on Mar 14, 2012
52 - Week High	290.30 as on Apr 27, 2011
52 - Week Low	215.06 as on Dec 20, 2011
P/E	20.38 as on Feb – 2012
P/B	3.99 as on Feb – 2012
Dividend Yield	1.13 as on Feb – 2012
Market Cap (Rs. in crores)	69,832.63 as on Feb – 2012 66.29 as on Feb-2012

	9.42 as on Feb-2012
	4.44 as on Feb-2012
Top 5 Holding (%)	41.03 as on Feb – 2012
No. of Stocks	35

## 6. FINDINGS:

### 6.1 Sensex Returns

Table 6.1: Sensex Returns

Year	Beginning	Closing	Sensex Returns (%)
2009	9720.55	17464.81	79.67
2010	17473.45	20509.09	17.37
2011	20621.61	15454.92	-25.05

### 6.2 Reliance Mutual Equity Fund:- Growth

Table 6.2: NAV & Sensex Returns

	Year	Beginning NAV	End NAV	NAV Return	BSE Return
	2009	9.83	15.2	54.22	79.67
	2010	15.27	15.2	-0.39	17.37
	2011	15.27	10.6	-30.38	-25.1
Total				23.44	71.98
Mean				7.814	23.99
Stand. Deviation				35.03	43.01
Beta				0.81	
Sharpe Index				-0.005	

### 6.3 HDFC MUTUAL EQUITY FUND:- GROWTH

**Table 6.3: NAV & Sensex Returns**

	Year	Begin ning NAV	End NAV	NAV Return	BSE Retur n
	2009	114.5	231.1	101.72	79.6
	2010	232.5	298.5	28.36	17.4
	2011	299.8	218.7	-27.04	-25
Total				103.04	71.9
Mean				34.35	23.9
Stand. Deviation				52.74	43.1
Beta				1.23	
Sharpe Index				0.49	

## 7. CONCLUSION

### 7.1 Standard Deviation

	Reliance equity growth fund	HDFC equity growth fund
SD of Sensex returns	43.01	43.01
SD of Funds returns	35.02	52.74

SD of Reliance equity growth fund is lower to the HDFC equity growth fund supports lower level of risk hence Reliance equity fund is found more stable.

### 7.2 Beta

In case of Reliance equity growth fund the value of Beta (.81) is less than 1, it means the funds are less volatile

than the Index. Whereas, HDFC equity growth fund is highly volatile because its Beta value (1.23) is more than 1. Thus, HDFC equity growth fund is more volatile in comparison to Reliance equity growth fund as well as benchmark index.

### 7.3 Sharpe's Performance Index

This index assigns the highest value to assets that have best risk – adjusted average rate of return. The larger the Sharpe index, better the fund has performed. HDFC growth fund ranked as better fund because its index (0.49957) is higher than Reliance growth fund (-.0053). Although the SD is higher in comparison to the Reliance growth fund but HDFC growth fund better performed by using sharp's measure.

## 8. SUGGESTIONS:

Mutual Fund Company must possess the following points:

- ✓ **Professional Management:-** AMC must be managed by the Professional who should research, selects and monitors the performance of the securities the fund purchases.
- ✓ **Diversification:-** Diversification is an investing strategy that can be neatly summed up as "Don't put all your eggs in one basket." Spreading your investments across a wide range of companies and industry sectors can help lower your risk if a company or sector fails. Some investors find it easier to achieve diversification through ownership of mutual funds rather than through ownership of individual stocks or bonds.
- ✓ **Affordability:-** Some mutual funds accommodate investors who don't have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases, or both.
- ✓ **Liquidity:-** Mutual fund investors can readily redeem their shares at the current NAV after deducting any fees and charges assessed on redemption at any time. Past performance influences the future performance of the funds. Performance of the funds can be drastically improved by the better incentives to the fund manager.

Thus, it can be concluded that financial analysts rely primarily on financial statement analysis i.e Balance sheet, Profit and loss statements, cash flow statements in evaluating companies reported financial results, and where as less use of technical analysis was found. The negative returns reported in the research were due to the depressed monetary market only.

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