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An Inquiry into the Performance of Indian Mutual Fund Schemes

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Abstract – Many of the financial instruments mutual fund is one of the most attractive financial investment instrument that plays a vital role in the economy of a country. The present paper investigates the performance of 15 open-ended, growth-oriented equity schemes for the period from April 2011 to March 2016 (five years) of transition economy. The study used the monthly NAV of different schemes to calculate the returns from the fund schemes. BSE-Sensex has been used for market portfolio. The results of the study concluded that all the schemes have represented positive returns. The maximum return was from DSP-BR Micro Cap Funds (G) and Reliance Small Cap Fund (G) and minimum return was from Sundaram SMILE Fund – IP (G) and Sundaram Select Midcap – IP (G). In the context of Risk, it is observed that out of 15 schemes, only 1 scheme have registered a beta value greater than one indicated that they belonged to more risk category. The remaining 14 schemes have registered beta less than one which indicated that they belonged to low risk category.

Keywords: Mutual funds, Performance evaluation, Risk, Return

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INTRODUCTION

Many of the financial instruments mutual fund is one of the most attractive financial investment instrument that plays a vital role in the economy of a country. Mutual fund schemes provides new opportunities for investors. Mutual fund Industry was introduced in India 1963 with the formation of Unit Trust of India.

In India the origin of Mutual Funds industry can be traced since the enactment of UTI (Unit Trust of India) Act, 1963.Due to various historic reasons the unit trust of India has enjoyed the monopoly in the mutual funds industry and it still maintains its prominent position. Mutual fund industry in India has grown rapidly since its liberalization in 1993 (Goyal, 2015). During the last few years many extraordinary and rapid changes have been seen in the Mutual fund industry. Therefore, due to the changed environment it becomes important to investigate the mutual fund performance. The present paper investigates the performance of open-ended, growth-oriented equity schemes. Open-ended mutual fund schemes are those which don’t have a fixed maturity and these schemes offer new units for sale and ready to buy securities at any time. The success of any scheme depends upon the competence of the management and its soundness.

LITERATURE REVIEW

The present study deals with the review of literature on ‘An Inquiry into the Performance of Indian Mutual Fund Schemes’. A number of studies on evaluating the performance of Indian Mutual Fund Schemes have been conducted in India and foreign countries. Review of some of the studies is presented in the following discussion: -

Jayadev (1996) in their study examined the performance of two growth-oriented mutual funds namely Mastergain and Magnum express by using monthly returns. Jensen, Sharpe and Treynor measures have been applied in the study and pointed out that according to Jensen and Treynor measure Mastergain have performed better and the performance of Magnum was poor according to all three measures.

Afza and Rauf (2009) in their studied the performance of open ended Pakistani mutual funds with the help of using the quarterly data for the period of 1996-2006. The study measure the fund performance with the help of Sharpe ratio by using pooled time-series and cross sectional data and also focused on different attributes such as fund size, expenses, age, turnover and liquidity. The results of the study found significant impact on fund performance.

On the other hand **Kundu (2009)** evaluated the stock picking performance of 31 growth-oriented equity schemes in India. The study used the period for three years i.e., from April 2005 to March 2008. The study concluded that the mutual fund schemes on an average had failed to outperform the market and 32.26 percent sample schemes showed a mix match of risk-return trade-off and It also concluded that Jensen measure found that 61.29 percent sample schemes have showed superior but statistically insignificant stock selection performance of their fund managers.

Ali, Naseem and Rehman (2010) examined the performance of 10 mutual funds in which 5 were conventional and 5 were Islamic for the period from 2006 to 2008 with the help of Sharpe and Treynor measures. The results found that the funds of Pakistan were able to add more value either conventional or Islamic. The study also found that some of the funds were underperformed, so these funds were facing diversification problems during the study period.

Sondhi and Jain (2010) evaluated the market risk and investment performance of equity mutual funds in India. The study used a sample of 36 equity fund for a period of 3 years. The study examined whether high beta of funds have actually produced high returns over the study period. The study also examined that open-ended or close ended categories, size of fund and the ownership pattern significantly affect risk-adjusted investment performance of equity fund. The results of the study confirmed with the empirical evidence produced by fama (1992) that high beta funds (market risks) may not necessarily produced high returns. The study revealed that the category, size and ownership have been significantly determinant of the performance of mutual funds during the study period.

Shanmugham and Zabiulla (2011) conducted the stock selection strategies of selected equity mutual fund managers using conditional and unconditional measures over the period of April 2006 to December 2009. The study revealed that the daily returns of all schemes were positive. From Jensen measure, it found that 22 schemes out of 35 were positive alpha, showed superior performance but only two schemes have positive and statistically significant alphas.

On the other hand the study conducted by **Goyal (2015)** examined the performance of top ten mutual funds in India. The findings of the study showed that all the mutual funds scheme are provided higher average returns as compare to the market though the standard deviation is little higher. The study found that amongst all the top 10 mutual fund Franklin India opportunity fund was the best having lower coefficient of variation and higher sharp ratio, Treynor ratio and Jensen alpha.

Solanki (2016) in their study examined the performance of mutual fund. The study used the period from 1 April 2007 to 31st March 2016. The study compared the selected mutual fund schemes return with Benchmark BSE National 100 and Sensex returns. The study concluded that all the selected schemes showed an average return higher than the in comparison to the market return i.e., BSE 100 and Sexsex except one i.e., Reliance Focused Large Cap Fund. It concluded that the Reliance Pharma Fund, Reliance NRI equity fund, Reliance Focused Large Cap Fund and Reliance Equity Opportunity Fund in BSE 100 and Reliance Focused Large Cap Fund in Sensex had performed better than the other schemes in comparison of risk and return.

OBJECTIVE OF THE STUDY

The present study is concerned with the following objective:

- To observe the performance of selected schemes on the basis of risk-return.

RESEARCH METHODOLOGY

To examine the mutual fund schemes performance, 15 schemes were selected at random basis. Monthly NAV of different schemes have been used in this study for the period of five years i.e., April 2011 to March 2016 (five years). BSE-Sensex has been used for market portfolio. In the study the monthly yield on 91-day Treasury bills have been used as risk-free rate. The study was mainly secondary data based. Data regarding NAV were obtained from the web site of www.mutualfundindia.com and www.amfiindia.com for the period of April 2011 to March 2016. Data for monthly closing price for the benchmark index (BSE-Sensex) were collected from web site of Bombay Stock Exchange (www.bseindia.com). Data for 91 day Treasury bills rate were collected from the web site of RBI, India (www.rbi.org.in.com).

Return: The monthly returns of the schemes were computed by using the following equation.

$$Rpt = \frac{NAV_t - NAV_{t-1}}{NAV_{t-1}}$$

Where, Rpt is return on fund scheme, NAVt is the net asset value of the scheme at the end of the month 't', NAVt-1 is net asset value of the scheme at the end of the month 't-1. Similarly, the monthly returns for the market index were calculated by using this formula:

$$Rmt = \frac{MarketIndex_t - MarketIndex_{t-1}}{MarketIndex_{t-1}}$$

Where, Rmt is the return of the market index, Market Indext is the market value of the index at the end of the month 't', Market indext-1 is the market value of the index at the end of the month 't-1'.

RESULTS AND ANALYSIS

Return of selected mutual fund schemes

Return: Table 1 represents the results of return, All the schemes have represented positive returns. The maximum return was from DSP-BR Micro Cap Funds

(G) and Reliance Small Cap Fund (G) and minimum return was from Sundaram SMILE Fund – IP (G) and Sundaram Select Midcap – IP (G).

Table 1

Return of Selected Schemes

Sr. No.	Name of the Schemes	Scheme Return
1	DSP-BR Micro Cap Funds (G)	0.0315
2	Reliance Small Cap Fund (G)	0.0313
3	Franklin Smaller Cos (G)	0.0304
4	Mirae Emerging Blue Chip Fund (G)	0.0296
5	UTI Transport & Logistic (G)	0.0291
6	SBI Magnum Midcap Fund (G)	0.0286
7	Can Robeco Emerg- Equities (G)	0.0276
8	Principal Emerging Blue Chip (G)	0.0274
9	L & T India Large Cap Fund (G)	0.0270
10	Franklin India Prima Fund (G)	0.0265
11	Birla SL Pure Value Fund (G)	0.0259
12	UTI Mid Cap (G)	0.0257
13	L&T Midcap Fund (G)	0.0254
14	Sundaram SMILE Fund – IP (G)	0.0252
15	Sundaram Select Midcap – IP (G)	0.0251

Risk: In the context of Risk, it is observed from the table 2 that out of 15 schemes, only 1 scheme have registered a beta value greater than one indicated that they belonged to more risk category. The remaining 14 schemes have registered beta less than one which indicated that they belonged to low risk category.

Table 2

Risk of Selected Schemes

Sr. No.	Name of the Schemes	Scheme Return
1	DSP-BR Micro Cap Funds (G)	1.053
2	Reliance Small Cap Fund (G)	0.942
3	Franklin Smaller Cos (G)	0.934
4	Mirae Emerging Blue Chip Fund (G)	0.858
5	UTI Transport & Logistic (G)	0.851
6	SBI Magnum Midcap Fund (G)	0.757
7	Can Robeco Emerg- Equities (G)	0.741
8	Principal Emerging Blue Chip (G)	0.737
9	L & T India Large Cap Fund (G)	0.732
10	Franklin India Prima Fund (G)	0.725
11	Birla SL Pure Value Fund (G)	0.722
12	UTI Mid Cap (G)	0.715
13	L&T Midcap Fund (G)	0.713
14	Sundaram SMILE Fund – IP (G)	0.712
15	Sundaram Select Midcap – IP (G)	0.625

CONCLUSIONS

The present paper investigates the performance of 15 open-ended, growth-oriented equity schemes for the period from April 2011 to March 2016 (five years) of transition economy. Monthly NAV of different schemes have been used to calculate the returns from the fund schemes. BSE-Sensex has been used for market portfolio. The results of the study concluded that all the schemes have represented positive returns. The maximum return was from DSP-BR Micro Cap Funds (G) and Reliance Small Cap Fund (G) and minimum return was from Sundaram SMILE Fund – IP (G) and Sundaram Select Midcap – IP (G). In the context of Risk, it is observed that out of 15 schemes, only 1 scheme have registered a beta value greater than one indicated that they belonged to more risk category. The remaining 14 schemes have registered beta less than one which indicated that they belonged to low risk category.

There are more areas and lot of scope for the study that can further examined. The present study has its limitation in term of number of schemes and period of the study under studied. In the study only the open-ended schemes have been analyzed. Further research, may attempt to analyze and compare more and more mutual fund schemes and large study period by using different benchmark and investigate the open-ended schemes with close-ended schemes.

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