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A Study on Indian Mutual Funds

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Abstract: The proposed work deals with the review of performance of Indian Mutual funds. Mutual Fund industry is a hastily rising sector in Indian Financial Market. Mutual fund investment is quite popular among small and household investors, who mobilize their savings for investment in the capital market. India has a majority of middle class families who want to yield the maximum returns on their investment by taking the less risk. In banks and post offices investment is safe but due to lower interest rates it is less attractive while in mutual funds through professional and sound fund management, it reduces the risk as well as earns high rate of return on investment.

Index Terms: Mutual fund, higher return, capital gains.

I. Introduction

Mutual fund industry in India has emerged as the most dynamic segment of the Indian financial system. The mutual fund industry grew by leaps and bounds during the last few years. With the excess number schemes available for the investors. To choose, it becomes essential for retail investor to know the performance of the mutual funds in order to make better informed decision.

Mutual funds play extremely crucial role in Indian economy. They are for mobilization and channelization of savings from individuals and households towards the capital markets, mutual funds have shown a tremendous growth in the quantum of their assets under management over the last few years. A Mutual fund is type of Investment Company that collects the money from investors and collectively invests in stocks, bonds, or money market instruments. Mutual funds offer several benefits to the investors like diversification, professional management, tax benefits, transparency, liquidity, flexibility, choice of schemes, low cost etc. Each mutual fund is managed by a fund manager, who is using his investment management skill and necessary research works ensures much better returns than what the investors can manage on his/her own. This paper reviews the performance of equity mutual fund schemes..

II. Mutual Fund Library

Singla and Singh (2000) evaluated performance of selected mutual funds by using risk-return relationship models given by Sharpe, Treynor and Jenson. For the purpose this study 12 growth-oriented mutual fund schemes were selected for that Monthly data were collected during the period from Oct. 1992 to Sept. 1996 and also comparison was done with the returns of the BSE National Index during the same period. The results showed that during the period average value of b was 0.556 whereas minimum and maximum values were 0.246 and 0,821 for Magnum multiplier and UGS-5000 respectively. The b values show that the schemes UGS-5000 Can share and Master plus 91 were more risky as compared to other mutual fund schemes Coefficient of determination (R^2) was on an average 0.522 with minimum and maximum values of 0.32 and 0.81 for IndRatna and Master plus 91 schemes showing high diversification of portfolios in case of Master plus 91 that resulted in reduced total risk (0.0759) as against R^2 (0.32) and total, risk (0.1642) in case of IndRatna scheme. On calculating mean returns in a non-risk adjusted measure of performance gives average monthly market return of 0.0027 while average monthly return for the sample schemes was -0.0766, Evidently mutual fund schemes provided less average monthly return than the market index. Only 2 out of 12 schemes, i.e. UGS-5000 and Master plus 91 have average return higher than, the market index, Sharpe's ratio average value of 12 mutual funds was -0.142 as against market index of -0.0926 showing that mutual funds have performed poorly with regards to return on investment as compared to market. Only4 out of 12 schemes, i.e. Master share, UGS-5000/Master plus 91 and Magnum showed values -0.0904, 0.0309, 0.0816 and -0.083 respectively, higher than market index. Treynor index (TI) calculated showed the average value of schemes at -0.0327 as against -0.0072 of market index. Only two schemes, UGS-5000 (0.0028) and Master plus 91(0.0086) showed higher returns than that of the market. Schemes showing lower than market TI indicated that investors who invested in these schemes to form a well diversified portfolio did not recover adequate returns per unit of systematic risk undertaken.

Turan and Bodla (2001) they analyses the performance of public and private sector mutual funds growth in India in terms of resource mobilization, promotion of various schemes and their investment pattern for a period 1995 to 1998. This study is completely depending on the secondary source of data. The study used secondary as well as primary data. To carry out return and risk analysis and evaluate performance of mutual funds according to Sharpe's, Treynor's and Jensen's Model a large sample of mutual fund schemes consisting of 70 schemes in 1995, 79 schemes in 1996, 88 schemes in 1997 and 81 schemes in 1998 was taken on judgment basis. The primary data was collected from 325 investors from Haryana, Delhi and Chandigarh. The analysis showed that a large majority of both listed and open-ended schemes incurred losses during the reference period. The poor performance might be due to the fact that most of the fund managers adopted defensive investment strategies. The study suggested that in order to make mutual funds an attractive investment product differentiation and innovations should be introduced.

Wayne Ferson, Darren Kisgen and Tyler Henry (2002), evaluated the performance of fixed income mutual fund schemes using stochastic discount factors from continuous-time term structure models. Time-aggregation of the models for discrete returns generates additional empirical "factors," and these factors contribute significant explanatory power to empirical the models. They provide the first conditional performance evaluation for US fixed income mutual funds, conditioning on a variety of discrete ex ante characterizations of the state of the term structure and the economy. During 1985-1999 fixed income funds returned less on average than passive benchmarks that don't pay expenses, but not in all economic states. Fixed income funds typically do poorly when short term interest rates or industrial capacity utilization rates are high, and offer higher returns when quality-related credit spreads are high. They found more heterogeneity across fund styles than across characteristics-based fund groups. Mortgage funds underperform a GNMA index in all economic states. These excess returns are reduced, and typically become insignificant, when they adjust for risk using the stochastic discount factors.

Chalam(2003) in his paper attempted to examine investment pattern of the investors and identified the variables which is influencing the investment behavior of investors. An attempt was specifically made to know the factors responsible for specific attraction towards the different schemes of mutual funds. He also suggested some measures for enhancement of the popularity of mutual fund schemes in the public. The study covered the period from 1997 to 2002. For collection of primary data, a sample of about 200 investors belonging to different occupations, this analysis highlighted that a majority of investors preferred to real estate investments, followed by mutual fund schemes, gold and other precious metals. The category-wise analysis showed that employees invested more in real estate followed by household sector which invested equally in real estate and gold ornaments. The investors' preferences on securities revealed that most of them liked to invest in debt instruments owing to their assured and risk free return. The majority of the investors were interested to invest in growth schemes to take reinvestment benefit rather than the regular dividend. Among the various influencing factors that induced investment in mutual funds, return and tax saving formed more determinant factors.

O P Gupta and Amitabh Gupta(2004) evaluated the investment performance of select Indian mutual fund schemes during the four-year period from April 1, 1999 to March 31,2003. For this purpose, they used weekly returns based on NAV for 57 growth schemes. S&P CNX Nifty Index has been used as a proxy for the market portfolio, while weekly yields on 91-day Treasury bills have been used as a surrogate for risk-free rate of return. The investment performance has been studied in terms of five measures viz., (a)Rate of Returns Measure (b) Sharpe's ratio (c) Treynor's Ratio (d) Jensen's Differential Return Measure and (e) Fama's Components of Investment performance. The empirical results reported here indicate mixed performance of sample funds during the study period. There is no conclusive evidence, which suggests that performance of Indian mutual funds is superior to the market. However, there is some evidence that some of the funds are performing better than the market. Further, they found that the sample funds are not adequately diversified. However, the diversification level seems to have changed over time. Thus, the results are similar to the ones reported earlier for the Indian market.

S.V.D.NageswaraRao, LeenaShrivastava and Vishnu S Ramachandra(2005), evaluated the performance of 21 equity (growth) oriented mutual by funds using data envelopment analysis (DEA), Semi-Standard Deviation, Negative Potential Measure, and Morning Star Methodology. The results are compared with those obtained using conventional performance evaluation methods are Sharpe, Treynor, and Jensen. DEA is a multi input-output analytical tool, which includes transaction costs, diversification efficiency, and fund manager's stock selection skills in addition to risk and return. Semi-standard deviation and Negative potential are modified risk measures which reflect a fund's downside risk only. They used two evaluation windows of

1997-2000 and 2001-2004 to analyze rank migration, and 5 investment horizons of 1,3,6,12 and 24 months to include preferences of different investors.

Design (2006)the study attempts to made an investigation on perceptions of women investors' towards mutual funds, the investments are generally made by the investment in mutual funds. The women investors on the whole are irresolute in investing in mutual funds unpaid to a variety of causes similar to be not having enough knowledge about the mutual funds, and their different investment measures, market fluctuations, different risks connected with the investment, evaluation of investment and redressal of complaint concerning their a variety of investment connected evils, investments is a custom particularly incarnate into women. Even in the previous, while women are mostly based on their spouses' earnings, they worn to put aside to convene crisis as well as for prospect actions. And also the women are did not having any knowledge concerning a variety of investment instruments. But as past, the circumstances have completely different.

Subbiah Somasundaram (2007) examined the relative performance of actively managed equity funds and the passively managed index funds. Long standing debate exists between the active and passive management in the finance literature. Their paper utilized the unconditional and conditional variants to evaluate the performance on a sample of 91 funds during the period 2003:4 to 2007:7. The broad based S&P CNX 500 is used as benchmark in this study. The study used multi beta (Style-Size), lagged vector variables (T-Bills, Term Structure Yield Spread).Using these stock picking and market timing ability was evaluated in the Indian context. Finally the efficacy of passive funds was examined. The results show active funds with positive risk adjusted excess returns post fees (excludes loads) but not significantly large enough at 1% and 5%. Results show fund Managers positive stock selection ability but negative market timing skill. Study found the market co-efficient and alpha negatively correlated. Passive funds are affected by cost rather than tracking error. Finally the use of lagged vector variables in the dynamic conditional model has a great impact on the performance results compared to the traditional techniques. With regards to the above highlighted factors, this study results were consistent with the past findings but contradicts the efficient market hypothesis.

Sanjay Sehgal and ManojJhanwar (2008) evaluated the performance of selected equity diversified schemes of mutual funds in India. They argued that multi-factor benchmarks provide better selectivity and timing measures compared to one-factor CAPM as they control for style characteristics such as size, value and momentum. The results timing ability, and to some extent stock selectivity improve when they use daily instead of monthly data. They feel that higher observation frequency captures the trading skills of more active fund managers in a better fashion. They show that timing should be examined in a multi-dimensional framework with additional measures for timing of style characteristics. Further their timing results are not an outcome of any spurious statistical phenomenon.

Raju and Rao (2009) performance evaluation of Indian mutual funds of selected 60 schemes in terms of public and private sector mutual funds. They used two significant methods like, Treynor and Mazuy and Hendrickson and Merton with the BSE Sensex and NSE Nifty as market substitutes. The results indicated that most of the chosen mutual fund schemes are performing well and it was observed that 29 schemes had positive market timing and 20 schemes exhibited positive values. As per Hendrickson and Merton model 23 schemes exhibited positive Gama values with BSE Sensex as market surrogate. The market timing ability of the Managers of growth schemes was better than the managers of balanced and income Schemes.

Bismal Jaismal & Namita (2010) examined the performance of Indian Mutual Fund Industry from the liberalization era. The research is conducted during the study period from 1993-2009, for this study they selected 100 actively traded open-ended funds with reference to growth schemes. By applying conditional models they get the results, the mutual funds provide good returns than various reruns on risk free securities but not capable to outperform the standard selection in conditions of average return and also association flanked by fund return. The positive correlation between fund return and market return, the high difference between these two factors (Sharpe, treynor) indicates that mutual funds are able to earn higher return due to selectivity, but proper balance is not maintained between selectivity and diversification. They concluded that impacted factors of market be additional stern, throughout unenthusiastic presentation of the funds wild the influence of selectivity ability of fund managers was additional than the other issue on the fund presentation in times at optimistic return through funds. There is no conclusive evidence that indicate that performance of Mutual Fund Industry in India is superior for the market during the study period.

Gupta, Shivani (2011) in her paper explained the current state of mutual fund industry based on following aspects: assets under management growth, asset under management to GDP ratio, share of mutual fund in household financial savings in India, products, industry structure and problems associated with mutual funds. The study revealed that low customer awareness levels and financial literacy posed the biggest challenge in channelizing household savings into mutual funds. Further, fund house showed limited focus on increasing retail penetration. The researcher viewed that mutual fund industry was largely product-led and not customer focused. She suggested strong regulatory framework, transparency and disclosure policies, customer involvement, wider approach to cover Tier 2 and Tier 3 cities, up gradation of technology, innovation in products and customer satisfaction for survival of mutual funds in competitive environment.

Vyas and Moonat (2012) studied the perception and behaviour of mutual fund investors in Indore, Madhya Pradesh. The study was based on 363 mutual fund investors. The results revealed that most of the respondents invested in equity options with a time span of one to three years. Though 73 per cent of the investors were aware about the risk associated with mutual funds yet only 53 per cent investors analyzed the risk. Lump sum investment was the most preferred mode followed by SIP. Gold was the most important option among investors and mutual funds ranked 6th in this regard. Further mutual funds got an average score on all parameters like safety, liquidity, reliability, tax benefits and high returns.

Rama Krishna Mishra (2013) they study investor perception towards mutual funds investment in the selected are of Odisha, by taking 136 samples in Bhuvaneswar. The main objective of this paper is the main aspect mutual funds affecting the perception of investors and also by taking large and small investors based on the explored factors, they reveals that majority of the small investors are favourable to the perception investment and returns since means score 3.324 and 3.289, the large investors mean is 3.923, 3.642 regarding the level of opinion about important aspects of mutual fund. Finally they conclude majority of the small investor are favorable to perception of returns on tax and investment, where the large investor these factors are future and returns.

Sowmya G (2014) an attempts to study to examine the performance of mutual funds in India along through that terminologies at the mutual funds in public limited companies and private limited companies and they are analyzed performance and growth of mutual funds schemes, and they revealed most of the schemes performed well and it provide a necessary and sufficient result to help to choose the best portfolio to get maximum return with minimum risk. They revealed the Birla sun life equity fund was out performed compared to the other selected schemes. The beta and alpha of the all schemes have shown that there was more risk than returned.

B.Vijaya Prakash, T.Talwar (2015) analyses the growth of Indian mutual fund industry through resource mobilization of Indian mutual fund industry during period from 2004-05 to 2013-14. The main objective of the research to know the mobilization of funds, assets under management, scheme wise AUM sector-wise, resource mobilization of mutual fund industry in India, by using various statistical tools like, averages, percentages. They reveals that the sector wise resource mobilization of mutual funds has increased with 8,39,708 crores to 9,76,800 in the year 2013-14. The private sector mobilization of resources has increased 7,36,463 crores in 2004-05 to 8, 49,397 crores in 2013-14.scheme wise resource mobilization of mutual fund companies are 5,65,0129 crores and this was followed by growth scheme 6,48,120. The Indian mutual fund industry has gained tremendous growth particularly in post liberalization era, with income funds growth and balanced funds are managed more schemes in-terms of assets under management as well as resource mobilization. While comparing with UTI and public sector, the private sector mutual fund industry has became a most prominent player in the market, in-terms of mobilization of resource.

Poonam Gautham Sharma (**2016)** they are intended to study the development of mutual fund industry in India since its starting period i.e 1964-2016 by using different growth aspects, mutual fund industry along with some guidelines of the SEBI for the safe investment and getting reasonable return. The main objective of the study is to reveal the Indian mutual fund industry from it inception to present position, by sing various statistical tools like, average, percentage and CAGR. They find, that Indian mutual fund industry has achieve 24.03 in AUM and attained the amount 13, 53,453 crores during the year 2016. The income and growth oriented scheme are investor investor's first choice during the year 1964 the mutual fund industry started only with 5 schemes, after the entry of private sector there is 2420 schemes in 2016. These schemes offered by various AMCs and AMC are also increase from 9 AMCs TO 44 AMCs up 31st march 2016. They concluded the Indian mutual fund industry is expected tremendous growth in few decades still in India the mutual fund are not recognised as preferable investment as investor point of view, the Indian mutual fund industry as to make efforts towards the stable growth and sustained profit rather than short term growth.

Megharaja B & Dr. Chalawadi CI(2017) The researcher has been selected sectors equity mutual fund to measure their performance in terms of risk and returns base as compare with benchmark return in the market along with risk free rate of return 364 day T-bill and majority of schemes performing better than the market, the study majority selected schemes returns made better than market returns, SBI Magnum COMMA Fund, UTI Energy Fund were not able to earn rather than market, totally concludes that which researcher selected schemes managed by the portfolio manager has taken good stock selection.

Manoj Kumar Dash & Dr.Gouri Shankar Lall (2018) This Study helps to investors for taking investment decision relating to mutual fund schemes and it shows mutual fund is better platform for investment and it provide good return with low risk. It creates awareness that the mutual funds are beneficial investment for risk averse investors. The mutual fund industries provide to the investors with a wide range of investments options according to his risk bearing capacities and interest. Besides they also give a good return to the investors. This paper analyses fifteen mutual fund schemes of Different Companies. From this study we find Sundaram Global Advantage scheme is shows the greater value of Sharpe ratio as compare to other selected schemes hence this scheme provides better return. Sundaram Global Advantage Schemes is a highest ratio as compare to other selected schemes. It shows the grater skills in managing the investment. After calculating beta value of the selected schemes we find The HSBC India Opportunities Fund Growth is more volatile as compare to LIC MF EQUITY GROWTH and other selected schemes. The Kotak Global Emerging Market Opp. Eg. Off share Growth is less volatile as compare to selected schemes.

III. Conclusion

From the literature review it is found that so far some researchers deal with statistical tools or quantitative tools to analyze the performance of the mutual funds. All are used one or two methods to evaluate performance of mutual funds. Some of the researches focused only on particular fund and tells that pros and cons of the funds. But no detailed study has been undertaken to assess the performance analysis of equity schemes. Hence there is scope to fill the gap for analyzing the performance of selected Mutual Funds with reference to equity diversified and sector specific mutual fund schemes comparing with benchmark of S&P CNX Nifty, by using various measures like, risk, return, Karl Pearson's Co-efficient of correlation, T-test, F-test, Sharpe, Treynor, Jensen, Fama measures will be used for the analysis.

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