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An Empirical Study On Diversified Large Cap Mutual Funds Schemes And It's Performance Evaluation

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Abstract:

Financial planning and investment is an important decision various political and economic conditions in the world, Various factors like inflation, age income, purchasing, risk, , power has a major role in investment choice of an individual. One of the most prevalent modes of investment is in the method of mutual funds with passing time mutual fund industry in India has been steadily increasing tremendously awareness has to be improved at risk taking abilities of investors. After GLP of Indian policies there is much more increasing investments by foreign individuals and companies in way of FDI and FII, thus invite fundamental study for better future and growth aspects to be studied and to understand. This paper aims to know how the performance of mutual funds is evaluated and ranked after examining the NAV and their relevant returns so as to measure investment avenues. For the purpose eight public and private sector large cap equity diversified growth schemes over a period of three year viz.20015-18 have been taken through judgment sampling and Yield on 10 yr. govt. bond has been taken for the risk free rate of return viz.7.56% p.a. First portion of paper includes a necessary understanding about the mutual fund. The second portion includes of economic analysis. It's an empirical study affirming the ranking & assessment of funds based on two ratios namely, Treynor's& Sharpe's. The study shaped sufficient information of risk and return a complied with fund and their rank depending on their performance.

Key words : Financial, performance,planning,investment, NAV, schemes, mutual fund.

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INTRODUCTION

India is the fastest growing largest economy in the world and it has been steadily registering high progress rate after introduction of (LPG) Liberalization, Privatization, Globalization in 1991.The, but still labeled as a developing country in the globe. There is a vital need to increase the overall development in production to label India as Developed country by 2020. But this needs large amount of investment in productive activates. There are different ways to mobilize investments or funds from investors and savers .Mutual funds are one such way to mobilize funds from investors .Mutual funds are faith for pools of savings from the savings from savers and investors by way of sale of the units. It is been observed that under the ages of globalization demand for

Mutual funds are created as a link between investors and stock market through investing their amount in various securities in stock market. Mutual funds plays a significant role in pooling of investments from huge number of small investor and generate the return for their investments.

In mutual funds there are lot of chances of diversification of funds with the help of expert fund managers, it leads to decrease the risk and there is no opportunity in individual investment, because individual investor can keep their quantity in few companies only. So, there is huge risk compared to investing in mutual fund as mutual funds invest their funds in different sectors which reduces risk i.e. one sector may make profit other may make loss which is setoff, there is constant growth.

Mutual funds can generate schemes for any investing objectives. Through its numerous schemes it collects great mass from the investors. They invest these funds directly or indirectly into numerous companies, it will be helpful for creating of capital for such companies and running their business activities and also supportive to government by paying the various charges, the mutual finds helpful to the complete economic developments.

REVIEW OF LITERATURE

The primary objective of all economic entities is to increase the wealth of its shareholders who belong to different backgrounds and different levels. The main source capital to a company is its shareholders and suppliers who forgo their present consumption for savings to gain future gain and appreciation

Mishra ,al,. (2003) estimated mutual fund performance by means of lower partial moment in his paper, measures of assessing mutual funds' performance, so it is totally based on lower partial movement in this development. Risk from lower partial movement is measured by taking into account only those state in India is below a per-specified "target rate" like risk free returns

Kour et al. (2011) had scrutinized the performance valuation certain mutual funds like open ended schemes in India. They observed open ended mutual funds do not have accomplished

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against the bench mark index, the fund managers are fond to be poor in terms of the ability of market timing and selectivity.

Zaheeruddin et al. (2013) examined evaluating the performance of selected financial intermediaries' mutual funds. They found that, the investors can make their investment in ICICI fund as it is ranked in top ten position as per sarpe, Treynor and Jensen .

Adhav and Chauhan (2015) examined the performance of 390 schemes diversified categories of mutual funds. Returns, Risk and Sharpe ratio were investigated and paralleled to bench mark. Equity, Hybrid schemes accomplished fine when compared to other sectors in the study. NAV`s of the selected schemes were procured from Association of Mutual funds in India a bench mark and averages were considered for the study and ranked accordingly. The hypothesis that the schemes outperformed the bench mark indices was successfully accepted allowing the investors to believe in mutual funds as considerable option for savings and investment

Gandhi and Perumal (2016) analyzed the selected mutual funds from investor point of view. Certain mutual fund schemes of selected banks were put into analysis by using statistic tools and parameters like standard deviation, ratio analysis Base on the results it was found that Canara Bank performed well when paralleled to its Peers.

OBJECTIVES:

- To understand risk and returns of selected mutual funds schemes
- To evaluate performance of different schemes
- To gain practical insight into application of Sharpe's and Treynor's

RESEARCH METHODOLGY:

- **Research type :** the study is based only on NAVs w

  Empirical research method will be used **Sampling Technique :** eight mutual funds companies which are listed, are chosen for the duration of 3 years (data is collected every day basis) **Data Sources :**The main data sources are from the annual reports, they offer documents of mutual which are updated on internet fund schemes, and the NVNs, '. No primary data has been collected however. Mainly data was collected from websites which are listed below https://www.amfindia.com/net-asset-value/nav-history.

  - **Tools used**

    1. Mean
    2. Standard Deviation

3. Beta
4. Sharpe's ratio
5. Tyenor's

Data Analysis & Interpretation

The main part of the research started with the collection of raw data w.r.t NAV & historical data for the BSE large capital index for the period of 2015-2018. The funds selected for the purpose of the research are as laid below;

a) Calculation of the mean & standard deviation of the returns of the funds & index (on daily basis);

$$\text{Returns}= \frac{(NAVt-NAVt-1)*100}{NAVt-1}$$

The mean daily return for the year viz.254 days is calculated as below;
Mean return=ΣRi/n ;
n=jd days
Ri – Daily returns

DATA ANALYSIS AND INTERPRETATION-II

This part of the data analysis comprises of the next 4 steps as laid below

$$S = \left(\frac{R_p - R_f}{\sigma_p}\right)$$

$\mathbf{R}_{p=}$ average fund return (actual NAV)

$\mathbf{R}_{F=}$ Risk free rate of return

σ- Standard deviation of fund returns

Calculation of Treynor's reward –to-variability measure:

Tp= (Rp - Rf)

βp-

βp: Beta of portfolio

calculation of beta

$$\beta p: \boldsymbol{\beta} = \frac{n\sum xy - \sum x \sum y}{n\sum x^2 - (\sum x)^2}$$

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X: market returns

Y: Fund returns

Performance evaluation of mutual funds according to Sharpe's ratio

SL.No	Mutual fund	FUND RETURNS	RISK FREE RATE	STANDARD DEVIATION	SHARPE'S	RANK
1	HSBC	0.073	0.0756	0.91	-0.042	4
2	ICICI	0.035	0.0756	0.91	-0.044	5
3	SBI	0.044	0.0756	0.93	-0.035	3
4	TATA	0.100	0.0756	1.00	0.025	1
5	TAURUS	0.022	0.0756	0.95	-0.056	8
6	JM	0.59	0.0756	0.91	-0.018	2
7	HDFC	0.033	0.0756	0.92	-0.046	7
8	AXIS	0.038	0.0756	0.84	-0.045	6

According to present study undertake it is absorbed that none of the mutual funds are performing up to the mark, we can see that all the mutual funds except TATA are yielding less than risk free

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rate of interest. According to Sharpe's ratio the performance of all the selected mutual funds are not good.

Performance evaluation of mutual funds according to Treynor's ratio

SL.No	Mutual fund	FUND RETURNS	RISK FREE RATE	BETA	TREYNOR	RANK
1	HSBC	0.073	0.0756	0.56	-0.06	4
2	ICICI	0.035	0.0756	0.52	-0.07	5
3	SBI	0.044	0.0756	0.58	-0.05	3
4	TATA	0.100	0.0756	0.36	0.07	1
5	TAURUS	0.022	0.0756	0.19	-0.27	8
6	JM	0.59	0.0756	0.66	-0.03	2
7	HDFC	0.033	0.0756	0.61	-0.07	6
8	AXIS	0.038	0.0756	0.31	-0.12	7

We can see that even though beta (risk) is medium the returns are not to the mark. Only Tata mutual fund is performing well and providing good returns. From Treynor's ratio selected mutual funds are not performing well.

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Findings

1. Tata mutual fund is performing the best by providing comparatively high returns Jp Finance mutual fund second best performing and Taurus is performing the least
2. The linear relationship between risk & return does not hold true as there are many funds in whose cases σ & β are high they have a low return e.g. SBI, but true in case of Jm.
3. None of the fund performed to the mark.

CONCLUSION:

No dought MF is one of the greatest investment but is also subjected to certain risk. An investor who is willing to capitalize should be aware of risk and take proper decision while investing. In the present study all the selected all mutual fund did not perform well but TATAlarge cap scheme performed well compared to all other schemes. The procedure of mutual fund working is pretty decent and if the fund managers could provide requisite information regarding various funds and schemes, the rate of people investing in the mutual funds will be increased within a short perio since the study is undertaken only for a period of 3 years and based only on NAV's we cannot come into conclusion.

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