A Study on Performance Evaluation of Selected Equity Mutual Funds in India

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Abstract:
In India capital market endows with a variety of investment alternatives to the investors, to assist them to invest in different investment tools and to make certain the profitable return. Along with diverse range financial products, mutual fund ensures the maximum return and minimum risks to the investors. Development of various mutual fund schemes in the Indian capital market has proved to be one of the most catalytic investment avenue in generating significant investment growth .The Asset management companies are taking vigorous part in financial affluence and they promote investment practice among the investors At present there are 44 Asset Management Companies (AMCs) contain the mutual fund industry. In this context, close monitoring and performance evaluation of mutual funds has become more essential. This Mutual fund industry has witnessed magnificent growth in past few years. This study is aimed at evaluating performance of mutual funds and also to inspecting the role of asset management companies in reference to public and private sector. The main objective of this study work is to study financial performance of selected mutual fund schemes through the statistical parameters such as (beta, standard deviation, coefficient of determination, Sharpe ratio). The findings of this study will helpful to investors for their investment decisions in future.

Keywords: *Asset Management Company*, *Financial performance, Mutual fund industry*

1. Introduction

The SEBI regulations, 1993 defines a mutual fund is a fund in the form of a trust by a sponsor, to raise money by the trustees through the sale of units to the public, under one or more schemes, for investing in securities in accordance with regulations. A mutual fund is a professionally-managed firm of collective investments that pools money from many investors and invests it in stocks, bonds, short-term money market instruments, and/or other securities. In a mutual fund, the fund manager , who is also well known as the portfolio manager, trades the fund's underlying securities, realizing capital gains or losses, and collects the dividend or interest income. The returns are passed along to the investors. The price of a share of the mutual fund, known as the net asset value (NAV), which is calculated on daily base, based on the total value of the mutual fund divided by the number of outstanding shares currently issued.

In last few years Mutual Fund industry has emerged as a tool for ensuring one‘s financial interests. Mutual Funds have not only contributed to the Indian economy but have also helped to the retail investors to accumulate wealth. This paper is intended to examine the performance evaluation of mutual funds in financial inclusiveness with a statistical support of progress made by mutual fund industry during 2002-2012.As Investors are becoming more information oriented and well aware about their investment options so they are enjoying the securing benefits of investment in mutual funds. Due to increase in household savings and improvement in deployment of investment through various markets, the scope for mutual fund industry has increased tremendously. In this perspective, it becomes significant to study the performance of the selected mutual funds.

2. Literature Review

Lot of research has been done on Evaluating performance of mutual funds in foreign as well as in India.

Sharpe (1964 & 1966) has measured that expected return on an efficient portfolio and their associated risks (unsystematic risk) are linearly related with market conditions. **Trey nor (1965)** considered that measuring a portfolio's return relative to its systematic risk is more suitable. In his attempt he had rated the performance of mutual funds on a characteristics line graphically. The more systematic risk or volatility a fund possesses the more risky a fund become. By incorporating variety of concepts; he developed single line index, called Treynor index. **Smith and Tito (1969)** conducted a study into 38 funds for 1958-67 and published results relating to performance of mutual funds. **Subha and Bharathi (2007)** study was carried out for open end mutual fund schemes of sample of 51 schemes chosen by convenient sampling method. NAV's were taken for a period of one year from 1st October 2004 to 30th September, 2005. Out of the 51 funds as many as 18 schemes earned higher returns than the market return. The remaining 33 funds generated lower returns than the market return. **Dubravo Mihaljek (2008)** focused on particular the implications of policy responses. He has identified two important issues: i) under estimation of the build-up in credit risk arising from rapid credit growth, ii) Risk of a sharp slowdown or reversal in bank-intermediated capital flows.

3. Objectives

This study focuses on the performance evaluation of selected equity mutual fund schemes of various mutual funds functioning in the India. The specific objectives of the study are as follows:

1. To understand security market return with fund return.
2. To study the performance of a selected equity mutual funds in India.
3. To evaluate the performance of mutual funds with special reference to Sharpe model and Treynor's model.

4. Scope of the Study

The present study comprises of 6 selected equity mutual fund schemes launched by different private sector mutual fund house. The time period of this research is 2 years, starting from 1st Jan 2010 to Dec 2012. The NAV of the selected equity scheme have been compared for three years with an annual return. Then these selected equity schemes have been evaluate with the bench mark return to assess the performance of these selected equity schemes.

5. Data Collection

The present study is based on secondary data which is collected from various sources like published annual reports of asset management companies, online bulletins, journals books, magazines, brochures, newspapers and other published and online material

6. Research Methodology

This study made an attempt to analyze the performance of the selected equity mutual fund schemes with the market return during the period of the study. In order to achieve the objectives an analysis has been made to compare these selected equity schemes with the market on the basis of risk and return. Different statistical and financial tools are used to evaluate the performance of these selected mutual fund schemes under this study.

7. Findings

The findings of the study have been presented in the form of table below:

Table1 1: Comparisons of Mutual fund return with its Benchmark return

Name of selected Mutual funds	fund Return	Benchmark Return	fund Return	Benchmark Return
	2010-2011	2010-2011	2011-2012	2011-2012
ICICI Prudential Dynamic Plan (Growth)	13.8	9.32	-7.1	-11.45
Principal Dividend Yield Fund (Growth)	9.1	6.42	-8	-12.92
Tata Equity Opportunities Fund - Plan B (Growth)	3.8	10.76	-6.3	-13.05
Quantum Long-Term Equity Fund (Growth)	15.2	9.21	-6	-12.46
BNP Paribas Dividend Yield Fund (Growth)	12.4	9.21	-4.7	-12.46
Franklin India Blue Chip	-18.25	9.21	26.79	-12.46

Inference:

Table (1) shows about the comparative return for the selected mutual funds schemes. At the end of the year 2010 over all selected mutual funds have shown good return and their benchmark has also given good return. Quantum Long term equity fund shows the highest return over selected mutual funds while Franklin India Blue Chip given negative returns

Table 2: Performance analysis based on statistics

Name of selected Mutual funds	Std. Deviation	Beta	R. Square
ICICI Prudential Dynamic Plan (Growth)	19.54	1.3	0.69
Principal Dividend Yield Fund (Growth)	20.12	1.47	0.87
Tata Equity Opportunities Fund - Plan B (Growth)	20.72	1.19	0.84
Quantum Long-Term Equity Fund (Growth)	19.34	1.16	0.65
BNP Paribas Dividend Yield Fund (Growth)	19.45	0.9	0.43
Franklin India Blue Chip	16.03	0.81	0.97

Inference:

Table (2) this table reveals about the statistical parameters used to analyze the performance of the selected mutual fund scheme. For Franklin India blue chip fund (growth) the beta value of fund is 0.81 which means that the fund is less volatile to bench mark indices and it has performed well by providing an better return to the investors while it has standard deviation of fund 16.03 which shows that the funds risk factor is below average and overall the fund has performed well, R- Squared value of the fund is 0.97 hence the fund has good correlation between funds return with its benchmark return .ICICI Prudential Dynamic Plan's beta value is 1.3 and standard deviation is 19.54 which means the fund has high risk factor but also provides good returns to the investors. R-Squared value of a fund is 0.69 therefore it has good correlation with its benchmark return.

Table 3: Performance analysis based on Sharpe Ratio

Name of selected Mutual funds	Sharpe Ratio	Ranking
ICICI Prudential Dynamic Plan (Growth)	**0.10**	**4**
Principal Dividend Yield Fund (Growth)	**-0.03**	**5**
Tata Equity Opportunities Fund - Plan B (Growth)	**-0.11**	**6**
Quantum Long-Term Equity Fund (Growth)	**0.20**	**1**
BNP Paribas Dividend Yield Fund (Growth)	**0.14**	**3**
Franklin India Blue Chip	**0.19**	**2**

Inference:

According to Sharpe, it is the total risk of the fund that investors are more concerned about. So, the model evaluates funds on the basis of reward per unit of total risk. While high and positive ratios show a superior risk adjusted performance of a fund, a low and negative ratio is an indication of unfavourable performance. Performance of a fund is evaluated on the basis of Sharpe ratio, which is the ratio of returns generated by the fund over the risk free rate of return and the total risk related with it. As per Sharpe ratio Quantum long term equity fund has highest Sharpe ratio 0.20,and Tata Equity opportunities has the lowest Sharpe ratio -0.11 which means fund has provided very low return compare to market return. While BNP Paribas Dividend Yield fund and Franklin India Blue chip fund has respectively 0.14 & 0.19 Sharpe ratio, which is quite good as compared to ICICI Prudential Dynamic Plan(0.10) and Principal Dividend Yield fund(-0.03).

Table 4: Performance analysis based Treynor Ratio

Name of selected Mutual funds	Treynor	Ranking
ICICI Prudential Dynamic Plan (Growth)	**1.562**	**3**
Principal Dividend Yield Fund (Growth)	**0.374**	**4**
Tata Equity Opportunities Fund - Plan B (Growth)	**-1.959**	**6**
Quantum Long-Term Equity Fund (Growth)	**3.284**	**1**
BNP Paribas Dividend Yield Fund (Growth)	**2.789**	**2**
Franklin India Blue Chip	**0.13**	**5**

Inference:

This index is a ratio of return generated by the fund over and above the risk free rate of return during a given time phases and The systematic risk related with it is measured by Beta. This is called return to volatility ratio. According to above table Quantum long term Equity fund has 3.284 treynor ratio which is the highest ratio among all other mutual funds. BNP Paribas Dividend yield fund has 2.789 which is second highest. Tata Equity Opportunities fund shown the lowest -1.959 treynor ratio as compared to other selected equity mutual funds.ICICI Prudential Dynamic Plan, Principal Dividend Yield fund and Franklin India Blue chip fund has above than average trenyor ratio respectively 1.562, 0.374 &0.13.From this index it is more clear that in volatile market only few funds have less return, while rest of the mutual funds have performed well as compared to their benchmark return.

Table 5: Comparative Analyses of Bench Mark Return

Name of selected Mutual funds	Benchmark	Bench Mark Return
ICICI Prudential Dynamic Plan (Growth)	S&P CNX NIFTY	3.38
Principal Dividend Yield Fund (Growth)	S&P CNX 500	1.9
Tata Equity Opportunities Fund - Plan B (Growth)	BSE 200	3.7
Quantum Long-Term Equity Fund (Growth)	BSE SENSEX	2.43
BNP Paribas Dividend Yield Fund (Growth)	BSE SENSEX	2.43
Franklin India Blue Chip	BSE SENSEX	2.43

Inference:

Above table show the funds benchmark return for the time period. It is very much clear that in high volatile market mutual funds have performed in coordination with their respective benchmarks.3 out of these 6 mutual funds have BSE sensex as their benchmark which have given good return (2.43). Tata Equity Opportunities Fund - Plan B's benchmark is S&P CNX NIFTY ,which has provided 3.7% return that is highest among all these selected mutual funds. ICICI Prudential Dynamic Plan (Growth)'s benchmark S&P CNX NIFTY has 3.38% return which is second highest. Principal Dividend Yield fund has S&P CNX 500 as a benchmark which has given 1.9% return; again it's lowest in all of selected equity mutual funds in India.

Conclusions

From above mentioned performance analysis of the six selected equity funds, it's understandable that all the funds have performed well during the study period. The fall in the CNX NIFTY during the year 2011 has impacted the performance of all the selected funds. In the eventual analysis it may be concluded that most of the funds have performed well in the highly volatile market except only one mutual fund. Therefore it is fundamental for investors and prospective investors to consider these parameters like Sharpe ratio & treynor ration along with beta and standard deviation have given specific performance evaluations from various dimension instead of just considering NAV and total Return in direct to make certain steady performance of mutual funds in India.

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