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COMPARATIVE ANALYSIS OF EQUITY MUTUAL FUNDS IN INDIA (ON SELECTED EQUITY FUNDS)

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ABSTRACT: Saving and Investing is the more important in this fiercely competitive World. It's important to save money, but more important than that is to invest these savings into something which gives a decent return. Investment depends on person to person. While somebody wants security, others might give more weightage to returns alone. Somebody else might want to plan for his child's education while somebody might be saving for the proverbial rainy day or even life after retirement. With objectives defying any range, it is obvious that the products required will vary as well. Indian capital market provides various type of investment scheme like- Different type of Insurance, Bonds, Investment in shares, Debentures, Warrants and Mutual funds. Indian Mutual Funds industry offers a plethora of schemes and serves broadly all types of investors. The range of products includes equity funds, diversified fund, sector fund, Index fund, tax saving fund, debt, liquid, gilt and balanced funds, hedge fund. There are also funds meant exclusively for young and old, small and large investors. Among various financial product mutual funds make sure the minimum risk and maximum return to the investors. Investors of all categories could choose to invest on their own in multiple options but opt for Mutual Funds for the sole reason that all benefits come in a package. The Mutual Fund industry is having its hands full to cater to various needs of the investors by coming up with new plans, schemes and options with respect to rate of returns, dividend frequency and liquidity. Mutual funds are mostly depends on Indian equity market. That's why it is very important issue to choosing profitable mutual funds. This study deals with the selected mutual funds that are offered for investment by the various fund houses in India. This study focused on the analysis of selected mutual funds schemes in terms of risk-return relationship. Objective of this research is analyze the comparison of selected mutual funds scheme with the help of statistical parameters such as(beta, alpha, standard deviation, Sharp ratio, Treynor Ratio).

Keywords: Mutual funds industries, Equity funds & Statistical tools

I. INTRODUCTION

Understanding Mutual funds is easy as it's such a simple concepts: a mutual fund is a company that pools the money of many investors-its share holder—to invest in a verity of different securities, In other words A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. Those securities are professionally managed on behalf of the shareholders and each investor holds a pro rata share of the portfolio – entitled to any profits when the securities are sold, but subject to any losses in value as well. In a mutual funds a lead manager, who is also known as the portfolio manager trades the fund's underlying securities and realizing capital gains or losses. 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. Anybody with an inventible surplus of as little as a few thousand rupees can invest in Mutual Funds.
The flow chart below describe the working of a mutual funds

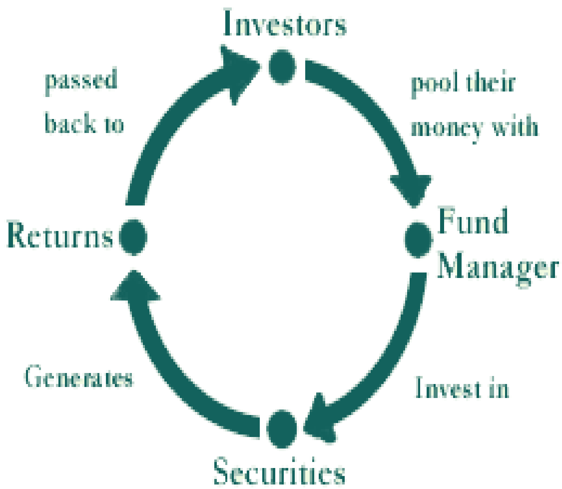

Fig: 1

A mutual fund is the ideal investment vehicle for today's complex and modern financial scenario. Markets for equity shares, bonds and other fixed income instruments, real estate, derivatives and other assets have become mature and information driven. Price changes in these assets are driven by global events occurring in faraway places. A typical individual is unlikely to have the knowledge, skills, inclination and time to keep track of events, understand their implications and act speedily. An individual also finds it difficult to keep track of ownership of his assets, investments, brokerage dues and bank transactions etc. A mutual fund is the answer to all these situations. A draft offer document is to be prepared at the time of launching the fund. Typically, it pre specifies the investment objectives of the fund, the risk associated, the costs involved in the process and the broad rules for entry into and exit from the fund and other areas of operation. In India, as in most countries, these sponsors need approval from a regulator, SEBI (Securities exchange Board of India) in our case. SEBI looks at track records of the sponsor and its financial strength in granting approval to the fund for commencing operations. A sponsor then hires an asset management company to invest the funds according to the investment objective. An Asset management company (AMC) is a highly regulated organization that pools money from investors and invest the same in a portfolio. They charge a small management fee, which is normally 1.5 percent of the total fund managed. The value of a share of the mutual fund, known as the net asset value per share (NAV). NAV or net asset value of the fund is the cumulative market value of the assets of the fund net of its liabilities. NAV per units is divided by the number of units outstanding. Buying and selling into funds is done on the basis of NAV related price. The Mutual Fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank of India.

EQUITY FUND

Funds that is invest in equity shares are called equity fund. They carry the principal objective of capital appreciation of the investment over the medium to long term. The returns in such funds are volatile since they are directly linked to the stock markets. They are best suited for investor who are seeking capital appreciation. Equity fund are cheaper- they're a way to avoid the often higher transaction cost and lower liquidity associated with trading individual stock. The performance of the Mutual funds are influenced by the performance of the stock market as well as the economy as a whole. Equity fund are influenced to a large extent by the stock market.

II. LITERATURE REVIEW

A number of studies have done on the financial performance of mutual funds.

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

Debasish (2009) studied the performance of selected schemes of mutual funds based on risk and return models and measures. The study covered the period from April 1996 to March 2005 (nine years). The study revealed that Franklin Templeton and UTI were the best performers and Birla Sun life, HDFC and LIC mutual funds showed poor performance.

Ali, Naseem and Rehman (2010) in their study examined the performance of 10 mutual funds in which 5 were conventional and 5 were Islamic for the period from 2006 to 2008 by using Sharpe and Treynor measures.

Garg (2011) examined the performance of top ten mutual funds that was selected on the basis of previous years return. The study analyzed the performance on the basis of return, standard deviation, beta as well as Treynor, Jensen and Sharpe indexes.

Sharpe, William F (1966) developed a composite measure of return and risk. He studied and evaluated 34 open-end mutual funds for the period 1944-63. The findings determined that good performance was associated with low expense ratio instead of the investment size.

Treynor and Mazuy (1966) studied and evaluated the performance of 57 fund managers on the basis of their abilities in identifying right market timings. The research showed that, investors were reliant on fluctuations in the market. Improvement in the return was due to the fund managers' ability to identify opportunity in under-priced stocks.

Fama (1972) developed methods to find out the observed return due to the ability of the fund manager to invest in the right stocks at a given level of risk from that of predictions of price movements in the market.

Rao, D.N.& Rao, S.B, (2010) carried out a study, on the investment patterns of the five investor groups in eight different fund categories; studied the portfolios of the investor groups and identified the dominant investor groups as per investment size and folios.

III. OBJECTIVE OF THE PAPER

- To study the working of mutual fund industries in India and merits and demerits of mutual funds.
- To analyze the performance of the top mutual funds in India
- To examine the performance of selected scheme on the basis of risk and return.
- To compare the performance of selected schemes with benchmark index to see whether the scheme is outperforming and underperforming the benchmark.
- To identified equity market return with fund return.

IV. DATA COLLECTION

This study is based on secondary data which is collected from various source like published annual reports, journal books, magazines, newspaper and other published and online material.

V. RESEARCH METHODOLOGY

Monthly NAV of different schemes have been used in this study for the period of three years i.e., Feb2013 to Feb2016(3years). 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 website of www.mutualfundindia.com and www.amfiindia.com for the period of Feb 2013 to Feb 2016. Data for monthly closing price for the benchmark index (BSE-Sensex) were collected from web site of Bombay Stock Exchange (www.bseindia.com).

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

Rpt = NAVt – NAVt-1/ NAVt-1

Where, Rpt is return on fund scheme,

NAVt is the Net Asset value of the scheme at the end of 't',

NAVt-1 is Net Asset value of the scheme at the end of the month 't-1'.

The average return of the market portfolio is computed as follows: = Where,

Rp is the average return of the mutual fund schemes. Similarly, the monthly returns for the market index were calculated by using the following formula:

Rmt = Market Indext – Market Indext-1/ Market Indext-1

Where, Rmt return of the market index,

Market Indext is the Market value of the index at the end of 't',

Market index of t-1 is the market value of the scheme at the end of the month 't-1'. The average return of the market index is computed as follows: =

Rm=1 ∑ Rmn

RISK: Standard deviation is a measure of risk. The standard deviation of mutual fund schemes has been calculated as under:

Formula	$\sigma_A = \sqrt{12} \times \sqrt{\frac{1}{n-1}\sum_{i=1}^{n}(R_i - \bar{R})^2}$
Where	σ_A = annual standard deviation n = number of months R_i = return of investment in month *i* $\bar{R}$ = average monthly return of investment

VI. RISK MEASURMENT

Return alone should not be considered as the basis of measurement of the performance of a mutual fund scheme, it should also include the risk taken by the fund manager because different funds will have different levels of risk attached to them. Systematic risk, on the other hand, is measured in terms of Beta, which represents fluctuations in the NAV of the fund vis-à-vis market. The more responsive the NAV of a mutual fund is to the changes in the market; higher will be its beta. Beta is calculated by relating the returns on a mutual fund with the returns in the market. A Beta of 1 means the fund moves with the market. A Beta of less than 1 means the fund is less volatile than the market. Beta portfolios give greater returns in rising markets and are riskier in falling market. Treynor measure and Jenson model use systematic risk based on the premise that the unsystematic risk is diversifiable. These models are suitable for large investors like institutional investors with high risk taking capacities as they do not face paucity of funds and can invest in a number of options to reduce some risks. For them, a portfolio can be spread across a number of stocks and sectors. However, Sharpe measure and Fama model that consider the entire risk associated with fund are suitable for small investors, as the ordinary investor lacks the necessary skill and resources to diversify.

All risk and return are depends on NAV because NAV will higher then return will be more.

VII. FINDINGS

The table below shows the observations in the form of risk and return profile of the funds under consideration:

NAV calculate on Equity Fund			
Observation	**Return from 2015 to 2016**	**Return from 2014 to 2015**	**Return from 2013 to 2014**
Franklin India Prime Pluse	-9.75	17.16	13.71
Sbi Blue Chip G	-9.03	15.97	13.42
Birla Sl Frontline Equity G	-8.22	2.55	1.4
Icici Pru Focued blue chip Equity G	1.48	16.33	-
Reliance Pharma Fund	3.37	27.06	20.95

When it comes to quantitative information, the investor is forced to look at past performance, though it is no indicator of the performance to come. Hence, it becomes very important for the investor to look at past performances of various mutual funds across different parameters in taking an informed decision.

- Above table explain the comparative NAV for the selected mutual funds schemes from the year of 2013 to 2016 & total return of selected scheme
- In this study some selected scheme are used which are Frankline India Prime Pluse, SBI blue chip, Birla SL Frontline Equity, ICICI Pru Focued Blue chip, Reliance Pharma.
- All Mutual funds scheme have top blue chip sector which are depends on Index. Its all schemes working according to Index volatility.
- With the help of table investor can find the return of selected scheme. Calculation of NAV is useful for Investor for scheme selection.

It is clear that all the funds have well performed during the study periods and Nifty and Sensex has impacted the performance of all the selected schemes. All the funds give better result in the high volatility market.

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