PERFORMANCE EVALUATION OF TOP 10 MUTUAL FUNDS IN INDIA

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ABSTRACT

Mutual Fund is professionally managed trust that pools the money of various investors and further invests them into different securities like shares, bonds and short term securities like certificate of deposit, commercial paper etc. and commodities like precious metals. 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. Indian Mutual Fund Industry has grown tremendous over the last two decade after the entry of public sector banks, insurance companies, private and foreign players into the industry. The study evaluates the performance of Top 10 mutual funds as per Crisil September, 2014 ranking and also compares it with the benchmark index i.e. S&P CNX Nifty. Various absolute and relative performance measures like sharp measure, treynor measure and Jensen Alpha is being used to compare the performance. The study finds that overall all the schemes provide higher and better average return than the market. Franklin India Opportunities Fund is the best performer with higher average return, lower risk which is good for investors who wants to reap higher returns at a lower risk.

***Keywords**: Mutual funds, Performance Evaluation, Sharpe ratio, Treynor ratio*
***JEL Classification:** G11*

Introduction:

Mutual Fund is professionally managed trust that pools the money of various investors and further invests them into different securities like shares, bonds and short term securities like certificate of deposit, commercial paper etc. and commodities like precious metals. Mutual funds investors have common financial goal and their money is invested into different classes of assets according to the fund investment objective. Mutual fund enables investor to manage their funds without paying high fees for it. It enables investors to make complicated investment decisions easily. Mutual fund is a trust having sponsor, trustees and AMC (Asset Management Company).Mutual Fund is managed by AMC approved by SEBI by making investment into different types of schemes.

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.Prior to the year 1993 the major control was with the public sector banks and the insurance companies. In India Mutual funds have played a very crucial role in the growth of the financial market and have existed more than a century. The history of the growth of mutual funds in India can be classified into four different phases. The first phase is from 1964-1987 in which UTI was established in the year 1963 under the act of the parliament by RBI (Reserve Bank of India) and governed under the Regulatory and administrative control of the Reserve Bank of India. In 1978 IDBI (the Industrial Development Bank of India) took the control in place of RBI. By the end of 1988 UTI has Rs. 6700 crores of AUM. The second phase has its mark from 1987-1993 where public sector banks and LIC (Life Insurance Corporation of India) entered into the mutual funds industry. The first non UTI mutual fund was SBI mutual fund established in June 1987 followed by PNB mutual fund, Indian Bank mutual fund, Bank of India, Bank of Baroda. LIC established its first mutual fund in 1989 whereas GIC established it in the year 1990.By the end of 1993, AUM with the mutual fund is Rs.47004 crores.

The third phase which is from 1993-2003 allowed the entry of the private sector in the mutual fund industry where it gave wider choice of fund families to the Indian investors. Also in the year 1993 all the mutual funds except UTI were to be registered and governed .In 1993 more stringent rules and regulations were introduced. There was a tremendous growth of the mutual funds industry during this phase with the entry of foreign mutual funds. There were 33 mutual funds with total assets Rs.1,21,805 crores by the end of January 1993.

The fourth phase started in February 2003 in which UTI was divided into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs. 29,835 crores by the end of January 2003, representing mainly, the assets of US 64 scheme, assured return and certain other schemes and the other is Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under mutual fund regulations with assets under management more than Rs.76000 crores .Currently mutual funds industry has entered into the phase of growth because of various mergers taking place among the different private players.

Mutual fund industry offer various advantages to the investors specially to the small and the retail investor as it mobilises the hard earned money of the investors and deploy them in a diversified portfolio. Mutual Funds provide the benefits of diversification across different sectors and companies. Mutual Funds are generally very liquid investments unless they have pre-specified lock in period.

Mutual funds enable investors to invest a small amount into a variety of instruments. It enables the investors to manage their fund effectively and efficiently with the help of an expert and by reducing the portfolio risk by diversification. In India Mutual Funds are regulated and governed by SEBI (Securities and Exchange Board of India), which protects the interest of investors. All the funds are registered with SEBI through which complete transparency is enforced. Mutual funds provide investors with standard information about their investments along with the disclosure regarding specific investments and the quantity made by the scheme. Mutual funds update investors regularly regarding the market and investment schemes through factsheets, offer documents and annual reports etc.

Indian Mutual funds industry has reached a mark of almost 10 trillion INR as on May 2014 because of the collaboration of all the industry stakeholders, AUM and the regulators of the mutual funds industry.AUM of the assets management industry has grown from 470 billion INR in 1993 to 1396 billion INR in 2004 and to 8252 billion INR in 2014.

There are different types of mutual Funds schemes represented in Table 1 as follows:

	Mutual Fund Scheme	**Definition**
Based on Maturity Period	Open Ended Fund	It is available for subscription throughout the year and can be redeemed on a continuous basis.
	Close Ended Fund	It has a definite maturity period for 3-6 years
	Interval Fund	Combines the feature of both open ended and close ended mutual funds.
Based on Investment Objective	Equity/Growth Fund	Invests into long term growth funds
	Debt/income Fund	Invests in short term liquid funds.
	Balanced Fund	Invests in both equities and fixed income instruments.
	Money Market/Liquid Fund	Invests in short term instruments like T-bills, Certificate of Deposits and Commercial Paper for a period of less than 91 days.
	Gilt Fund	Invests exclusively in Government securities.
Other Schemes	Tax Saving(Equity Linked Savings Schemes) Funds	Growth oriented schemes invests mainly in equities and provide tax rebate to the investors under income tax provisions, 1961.
	Index Funds	Invests in specific indices like BSE Sensex, S&P CNX Nifty
	Sector specific Fund	Invests in specific sector or industries like FMCG, IT, Pharma, automobile etc.

The objective of the current paper is to examine and compare the performance of Top 10 mutual Funds in India based on Crisil (Credit Rating Information Research services of India Ltd) ranking for the period 1st August 2014 to 9th November 2014 and also to compare the performance of these mutual fund with the market.

1. Review of Literature:

There are numerous study conducted on the mutual funds over the years.

Panigrahi (1996) examines the reasons and the extent of the prosperous growth of mutual funds over the years. The study indicated shift in the focus from individual to institutional investor and the economic reforms and liberalization has given boom to the industry. Rise in financial and capital market reforms and multiplying interest of middle class families in mutual funds is also one of the reasons for the growth of mutual funds industry.

Babu (2005) in his study examined that over the last two decade there has been a drastic change sectoral pattern and sources of growth. The growth pattern of mutual fund is negative due to reduction in sectoral linkages which need to be strengthen more for accelerating growth to foster employment and output.

Somashekar (2009) in his study empirically examines the role of SEBI in governance of mutual funds in India by comparing the performance of SEBI governed funds with that of being governed by UTI. The study finds that the mutual fund governance attributes to the superior performance of the industry.

Dunna(2012) examined various challenges and opportunities for the mutual fund industry since its inception and found that various financial and economic reforms has given wave of opportunities to the industry.

D' Silva, D' Silva and Bhuptani (2012) in their study analyses the performance of mutual funds as compare to the other financial instruments and finds that mutual funds are better and much safer for the small investors and also yield more return on the portfolio investment. The study finds that there is major need to educate the investor so as to channelize their savings and income in mutual funds.

Kale and Panchapagesan (2012) examines the reasons for the poor penetration of mutual funds industry and point out that lack of weak regulatory environment and governance is the foremost reason for the poor performance is the reason for the poor growth and performance of mutual funds.

Prajapati and Patel(2012) in their study evaluated the performance of various diversified equity mutual funds in India from the period 2007 to 2011 and found that overall mutual funds has given positive returns and the best performer are HDFC and Reliance mutual fund.

Annapoorna and Gupta (2013) in their study examined the performance of mutual fund schemes ranked 1 by CRISIL and compare these returns with SBI domestic term deposit rates and found that the most of the mutual fund schemes have failed to provide SBI domestic term deposit.

Pala and Chandnib 2014) in their study examined the performance of the few income and debt mutual fund scheme on the basis of their daily NAVs. from the period Oct 2007 to Oct 2012.The study finds that the best scheme were HDFC Mid Cap Opportunity, Birla Sun Life MNC Fund and Quantum Long-Term Equity.

Methodology:

The Paper evaluates the performance of top 10 equity diversified mutual funds in India as per Crisil September 2014 ranking namely Birla Sun Life Top 100 Fund, BNP Paribas Equity Fund, SBI Blue Chip Fund, UTI Equity Fund, Birla Sun Life Frontline Equity Fund, BOI AXA Equity Fund, Canara Robeco Large Cap+ Fund, Franklin India Opportunities Fund, Kotak Opportunities, L&T Equity Fund. S&P CNX Nifty which is a portfolio of stocks of leading and nationally owned companies and has been used as a proxy for market.

The daily closing data of NAVs of the top 10 equity diversified mutual funds are collected from Association of Mutual Funds in India website from the period 1st August 2014 to 9th November 2014.The data of the closing share prices of S&P CNX Nifty are collected from NSE India website. Total return is calculated as the average of the simple percentage returns which is calculated as $(P_t – P_{t-1})/P_{t-1}$.Annual Average of Implicit Yield on 91 days T-bills rate is used as a proxy for risk free rate which is collected from RBI (Reserve Bank of India website) Descriptive statistics, and risk adjusted measure are used to compare the performance of the Top 10 Mutual funds.

a. **Sharpe ratio:** It is also known as sharpe index, reward to variability ratio, shapre measure. It measures the performance of an investment by adjusting the risk (standard deviation). It is calculated as follows:

$$\text{Sharpe ratio} = (AR_P - R_F)/\sigma_P \qquad (1)$$

AR_P = Average Return on Portfolio
R_F = Risk Free Rate
σ_P = Standard deviation of Portfolio

b. **Treynor ratio:** It is also known as treynor measure or reward to volatility ratio. It measures the performance of an investment by adjusting it for systematic risk. Beta is used as as a measure of volatility. It is calculated as follows:

$$\text{Treynor ratio} = (AR_P - R_F)/\beta_P \qquad (2)$$

AR_P =Average Return on Portfolio
R_F =Risk Free Rate
β_P =Portfolio Beta

c. **Jensen Measure:** This ratio is also known as Jensen alpha. Jensen measure is risk adjusted measure that represents average return on a portfolio that is predicted over and above the Capital Assets Pricing Model (CAPM) which is indicated by portfolio Alpha .It is calculated as follows:

$$\text{Jensen ratio} = AR_P – (R_F + \beta_P(AR_m - R_F)) \qquad (3)$$

AR_P=Average Return on Portfolio
R_F=Risk Free Rate
β_P =Portfolio Beta
AR_m=Average return on Market

A positive alpha indicates good performance whereas negative alpha indicates poor performance.

Empirical Results:

Table 2 shows the descriptive statistics like return, risk, coefficient of variation and beta of Top 10 equity diversified mutual funds in India for the period 1st August 2014 to 9th November 2014.It also indicate the average portfolio return and risk in comparison to the benchmark i.e. S&P CNX Nifty. The result of Table 2 shows that all the mutual fund schemes under study are providing higher returns as compare to the market though standard deviation is little higher than the market in all the schemes. SBI Blue chip is having lower standard deviation after market index. Since coefficient of variation is lowest in case of Franklin India Opportunities Fund, which is good for the investors who wants to reap higher return at a lower risk. Beta is lowest in L & T Equity Fund indicating less volatility as compare to market and other mutual fund schemes.

The results of relative measures of return are represented in Table 3.Sharpe measure, Treynor measure and Jensen alpha are higher in case of all the mutual funds schemes as compare to the market. Among the Top 10 mutual fund Franklin India Opportunities Fund is the best for the investors giving higher returns. Jensen alpha is also higher of Franklin India Opportunities Fund indicating that it gives higher abnormal return.

Table: 2 Return, Risk of Mutual Funds

Schemes	Average (%)	Standard deviation (%)	Coeff of variation	Beta
Birla Sun Life Top 100 Fund	0.195	0.848	4.362	1.001
BNP Paribas Equity Fund	0.195	0.830	4.253	0.949
SBI Blue Chip Fund	0.209	0.803	3.849	0.943
UTI Equity Fund	0.223	0.828	3.706	0.978
Birla Sun Life Frontline Equity Fund	0.186	0.840	4.519	1.008
BOI AXA Equity Fund	0.206	0.832	4.049	0.995
Canara Robeco Large Cap+ Fund	0.186	0.918	4.937	1.112
Franklin India Opportunities Fund	0.278	0.896	3.224	1.012
Kotak Opportunities	0.257	0.876	3.403	1.007
L&T Equity Fund	0.214	0.819	3.836	0.942
S&P CNX Nifty	0.16	0.791	4.954	0.983

Table 3: Sharp Ratios, Treynor Ratio, Jensen Alpha

Schemes	Sharpe Ratio	Treynor Ratio	Jensen Alpha
Birla Sun Life Top 100 Fund	0.202	0.171	0.035
BNP Paribas Equity Fund	0.207	0.181	0.042
SBI Blue Chip Fund	0.231	0.196	0.057
UTI Equity Fund	0.241	0.204	0.067
Birla Sun Life Frontline Equity Fund	0.193	0.161	0.025
BOI AXA Equity Fund	0.219	0.183	0.046
Canara Robeco Large Cap+ Fund	0.177	0.146	0.011
Franklin India Opportunities Fund	0.284	0.251	0.116
Kotak Opportunities	0.267	0.232	0.096
L&T Equity Fund	0.232	0.202	0.062
S&P CNX Nifty	0.172	0.139	0.002

Conclusions:

In India Mutual fund industry has grown tremendously in the last two decade. Prior to the year 1993 the major control was with the public sector banks and the insurance companies. But entry of the public sector banks, insurance companies and the private players has given boom to the industry. Currently Indian Mutual funds industry has reached a mark of almost 10 trillion INR as on May 2014 because of the collaboration of all the industry stakeholders, AUM and the regulators of the Mutual Funds Industry. AUM of the assets management industry has grown from 470 billion INR in 1993 to 1396 billion INR in 2004 and to 8252 billion INR in 2014.The present paper analyses the performance of top 10 mutual funds schemes namely Birla Sun Life Top 100 Fund, BNP Paribas Equity Fund, SBI Blue Chip Fund, UTI Equity Fund, Birla Sun Life Frontline Equity Fund, BOI AXA Equity Fund, Canara Robeco Large Cap+ Fund, Franklin India Opportunities Fund, Kotak Opportunities, L&T Equity Fund as per the crisil ranking for a period of 3 months from 1 August 2014 to 9th November 2014.The performance of the mutual funds is further compared with that of the benchmark indices i.e. S&P CNX Nifty. The findings of the study indicates that all the mutual funds scheme are providing 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 is the best having lower coefficient of variation and higher sharp ratio, Treynor ratio and Jensen alpha. Currently if any investors want to reap higher return at a lower risk then Franklin India Opportunities fund is the best.

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