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"A study on assessment of mutual funds in banking sector"

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Abstract: *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. The income earned through these investments and the capital appreciation realized is shared by its unit holders in proportion to the number of units owned by them. 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.*

Keywords: *Mutual Funds, types of mutual funds, risk borne.*

1. INTRODUCTION:

The Mutual Fund industry in India started with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank of India. "Mutual Fund is an investment tool that pools money from various investors and invest the money in securities, stocks, bonds and many other money market instruments." It is a type of investment vehicle consisting of a portfolio of stocks, bonds and other form of investments. Mutual Funds are basically investment tool that accumulates capital from different investors who share a common financial goal. The investors pool their money in order to earn returns from the money invested over a period. It is one of the easiest and less stressful methods to invest in the market. The funds are managed by the fund manager and professionally manage the funds invested by the investors. It is one of the suitable investment option for a common man who wants to invest his/her money as it offers an opportunity to invest their money in a diversified, professionally managed basket of securities at a relatively low cost.

The earned incomes from these investments are shared by its unit holders. The earned income is shared in a proportion depending on the number of units owned by them. Mutual Funds provide diversification and professional management for a fee. It is managed by experienced and expert professional who have knowledge about stocks, securities and money market instruments. Mutual Funds are dealt by the asset management companies. There are various asset management companies who deals with investments they collect money from various investors who wants to invest their money in shares. The fund manager hen invests money in the money market instruments and the return earned from such investments is then shared to the investors. Investors get units of Mutual Funds depending on the amount of investment made by the investors.

Mutual funds became popular as it provides higher returns relatively lower risk and cost. Mutual funds are playing vital role in mobilizing funds from different segment investors and allocating of investable funds in India and abroad through financial markets. The income earned through these investments and the capital appreciation realized is shared in proportion to the number of units owned by them. It is 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.

Most of the investors trust mutual fund for investing their money. The mutual fund industry has been increasing very fast. The mutual fund in India has different types of fund schemes such as open-ended, close-ended, and money market schemes etc. there are also other various schemes such as tax saving schemes, special schemes that help the investor for risk tolerance, returns expectations and also provides the needs of the financial position.

2. LITERATURE REVIEW:

1) Author: Shivangi Agarwal, Nawazish Misha
Title: "A study of the risk adjusted performance of mutual funds industry in India"

The study found that 90% of the schemes performed better than their benchmark. It indicates that at the time of research, the funds performed in a better way, hence the investors who are interested in consistent returns may choose investment in these schemes.
2) Author: Poonam Devi
Title: "Performance and Analytical study of various mutual funds"
To understand the perception of investors towards mutual funds, to know the expectations of people for the return on mutual funds. Most of the investors like to invest in mutual funds. Most of the people like to invest their money for one or three years to get returns on their investments. People invest in mutual funds to get higher returns and tax benefits.
3) Author: N. Bhagyashree
Title: "A Study on Performance Evaluation of Mutual Funds Schemes in India"
The paper investigates the performance of open-ended, growth- oriented equity schemes for the period from April 2011 to March 2015 of transition economy. Daily closing NAV of different schemes have been used to calculate the returns from the fund schemes. The historical performance of the selected schemes was evaluated on the basis of Sharpe, Treynor, and Jensen's measure whose results will be useful for investors for taking better investment decisions.

3. METHOD:

SOURCE OF DATA

Basically there are two sources of data
The primary data which are collected directly from the organization or the related personnel is considered as primary source of data. The secondary data which is a third party data or collected from someone else other than the related personnel or from any other established source like internet, market researchers etc.the data is gathered from secondary sources as the return of different mutual fund in banking sector and the return of the market cannot be established by ourselves. From the publication, Trade journals, Reports publication of various associations connected with business and industry, banks, stock exchange etc.

TOOLS AND TECHNIQUES

Statistical techniques: Mean return, Standard deviation, Beta, Sharpe’s measure, Treynor’s measure, Jensen’s measure.

PERIOD OF THE STUDY

For the study data collected for three years, from the period January 2020 to July 2022.

NEED FOR THE STUDY

There are various factors affecting the needs of the mutual funds. There had been many changes in the financial market as well as in the investor perception towards the mutual funds. A number of new mutual funds had been introduced in the market. The activities associated with mutual funds have a brief and enduring effect on the savings and financial market and national economic system. The main purpose of conducting this research is to know the performance of the selected mutual fund schemes and their growth over a period of time. To understand different schemes of mutual funds. It helps the mutual fund investor to make correct decision of investing in the right mutual fund scheme.

PROBLEM STATEMENT

The purposes for which the investments are made differ from individual to individual. More number of investors may prefer capital appreciation, a few may opt for a regular income, some may be interested in getting tax concessions and the rest may try to mitigate the risks and the like. The preference of the investor and the investment pattern is also decided accordingly. Though Mutual Fund is an investment vehicle which pools in investors’ money into various schemes involves market risk. The main objective of this research paper is to analyse the pursuance estimation of selected mutual funds schemes using statistical tools.

4. OBJECTIVES OF STUDY

- To analyse the trends in returns of selected mutual funds.
- To estimate the pursuance of selected Public and Private sector funds.
- To examine the pursuance of selected schemes by using performance evaluation model namely Sharpe’s, Treynor’s and Jensen’s measure

5. LIMITATION OF THE STUDY :

- The study is based on secondary data.
- The study is limited to selected mutual fund schemes.
- The study is concentrated only on Indian mutual fund industry.
- The analysis as had been done very few schemes of selected for private and public sector funds.

PERFORMANCE MEASURES OF MUTUAL FUNDS

In order to determine the risk adjusted returns of investing portfolio, several eminent authors have worked since 1960's to develop composite performance indices to evaluate a portfolio by comparing alternative portfolio within a particular risk class. The most important and widely used measures of pursuance of Mutual Funds are:

- The Treynor's Measure
- The Sharpe's Measure
- The Jenson's Measure

THE TREYNOR's MEASURE

It was developed by Jack Treynor'S. Treynor's measure is a ratio of return generated by the fund over and above risk free return (i.e. Government securities, Treasury bills), during the given period of time and systematic risk associated with beta. All risk-averse investors would like to maximize this value. While a high and positive Treynor's index shows a superior risk adjusted pursuance of fund, a low and negative Treynor's index is an indication of unfavorable pursuance.

THE JENSEN's MODEL

Jansen's model proposes another risk adjusted pursuance measure. Michael Jenson developed this measure and is something referred as the differential return method. This measure involves estimation of returns that the fund has generated Vs the return actually out of the fund given at that level of systematic risk. The surplus between the two returns in called Alpha, which measures the pursuance of a fund compared with the actual returns over the period. Required rate of return on fund at a given level of Beta.

THE SHARPE's MEASURE

In this model, pursuance of fund is estimated on the basis of Sharpe ratio, which is ratio of returns generated by the fund over and above risk free return and the total risk associated with it. According to Sharpe it is the total disk of the fund that the investors are concerned about. So, this model evaluates funds on the basis of reward per unit of total risk. While a high and positive Sharpe ratio shows a superior risk adjusted pursuance of a fund, a low and negative Sharpe ratio is an indication of unfavorable pursuance.

BETA

Beta is a measure of relative risk of a security or its sensitivity to the movements in the market. It is a measure of volatility or the systematic risk faced by an asset or portfolio or project. It is calculated by using the covariance between returns of assets and returns of the market portfolio, divided by variance of return on the market portfolio. It shows how the price of a security responds to market factors. Market return is measured by the average return of a large sample of stocks. The beta for the overall market is equal to 1.00 and other betas are viewed in relation to this value. Betas can be positive or negative. Many large brokerage firms, investment companies and financial consultants provide beta for large number of stocks.

STANDARD DEVIATION

SD is a measure of variation or dispersion of set of values. While calculating if the SD is less then it means that the values are close to mean, if the values are high then it can be said that the values are spread out over a wide range. SD is commonly expressed as σ in mathematical equations. In finance a SD is applied to the annual rate of return of an investment to measure the investment volatility i.e., risk.

AVERAGE RETURNS, STANDARD DEVIATION AND BETA

Name Of The Scheme	Average Return	SD	Beta
SBI magnum mid cap fund- regular plan -growth	6.66	14.88	0.94
Canara Robeco small cap fund- regular plan –growth	8.74	15.62	0.98

Baroda BNP Paribas- mid cap fund- regular plan –growth	5.19	13.45	0.88
ICICI Prudential small cap fun- direct plan –growth	7.44	22	1.10
HDFC- mid cap opportunities fund- direct plan- growth.	5.26	14.18	0.93

Table 6

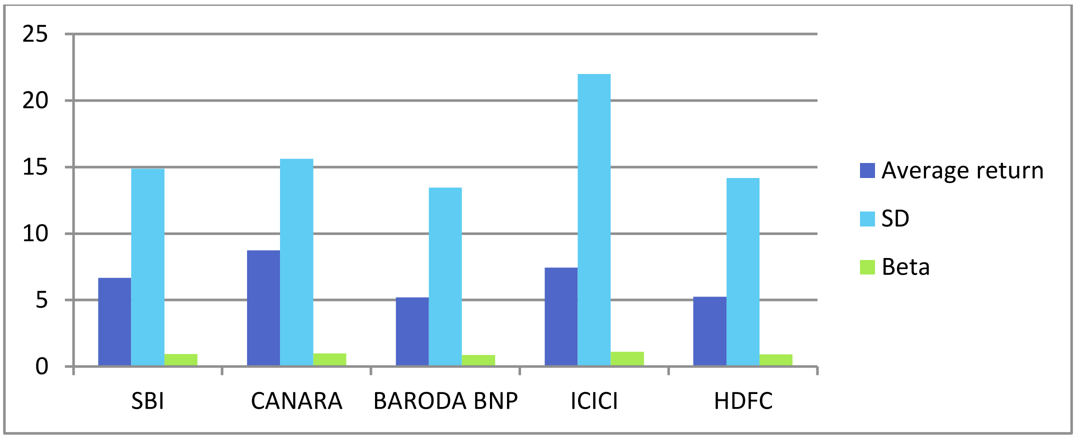

Figure 1

Analysis:

- ICICI Prudential small cap fun- direct plan –growth has highest risk compare to all other funds with SD of 22 and return is 7.44.
- Baroda BNP Paribas- mid cap fund- regular plan –growth has lowest risk with SD of 13.45 and return is 5.19.
- Canara Robeco small cap fund- regular plan –growth provides best return with average returns of 8.74.

Interpretation:
All the small and mid-cap funds are performing better than market based on their returns. Even the ICICI Prudential small cap fun- direct plan –growth has highest risk, its return is lesser than the other funds. The volatility of the fund is more with beta of 1.10. The average rate of return of the fund is 7.44. The returns of the mutual funds are very low compare to their risks.

TREYNOR'S RATIO

Name Of The Scheme	Treynor's ratio	Rank
SBI magnum mid cap fund- regular plan –growth	0.29	2
Canara Robeco small cap fund- regular plan –growth	0.34	1
Baroda BNP Paribas- mid cap fund- regular plan –growth	0.22	3
ICICI Prudential small cap fun- direct plan –growth	0.29	2
HDFC- mid cap opportunities fund- direct plan- growth.	0.21	4

Table 4.7

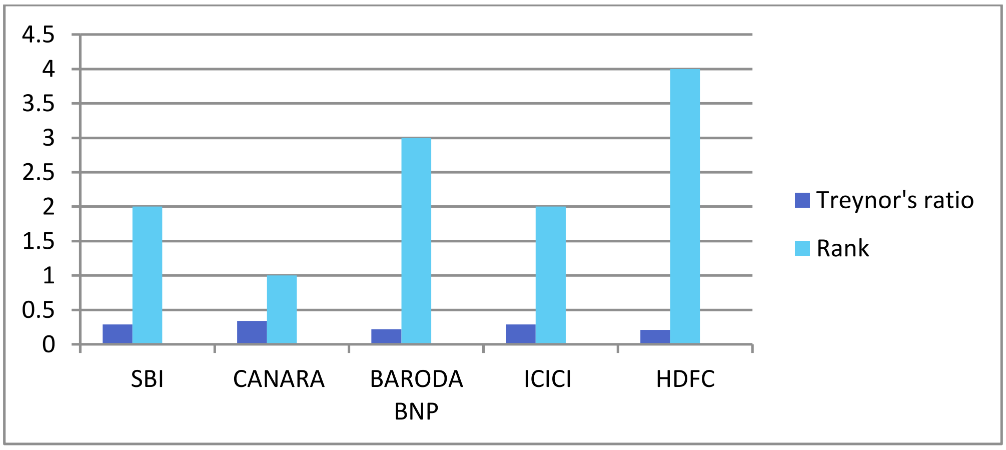

Figure 2

Analysis

Canara Robeco small cap fund- regular plan –growth stands at rank 1st with Treynor's ratio of 0.34 and SBI magnum mid cap fund- regular plan –growth and ICICI Prudential small cap fun- direct plan –growth with Treynor's ratio of 0.29 and stands at 2nd Rank. At last is the HDFC- mid cap opportunities fund- direct plan- growth ranked 4 with Treynor's ratio 0.21.

Interpretation

From the above tabulation, we come to know that Canara Robeco small cap fund- regular plan –growth Fund is ranked 1st with its Treynor's value of 0.34 and is having greater return. There is a direct relationship between rate of return of portfolio and Treynor's measure. Treynor's measure is varying indirectly with beta of the portfolio.

SHARPE RATIO

Name Of The Scheme	Sharpe ratio	Rank
SBI magnum mid cap fund- regular plan –growth	1.12	3
Canara Robeco small cap fund- regular plan –growth	1.42	1
Baroda BNP Paribas- mid cap fund- regular plan –growth	0.96	4
ICICI Prudential small cap fun- direct plan –growth	1.23	2
HDFC- mid cap opportunities fund- direct plan- growth.	0.89	5

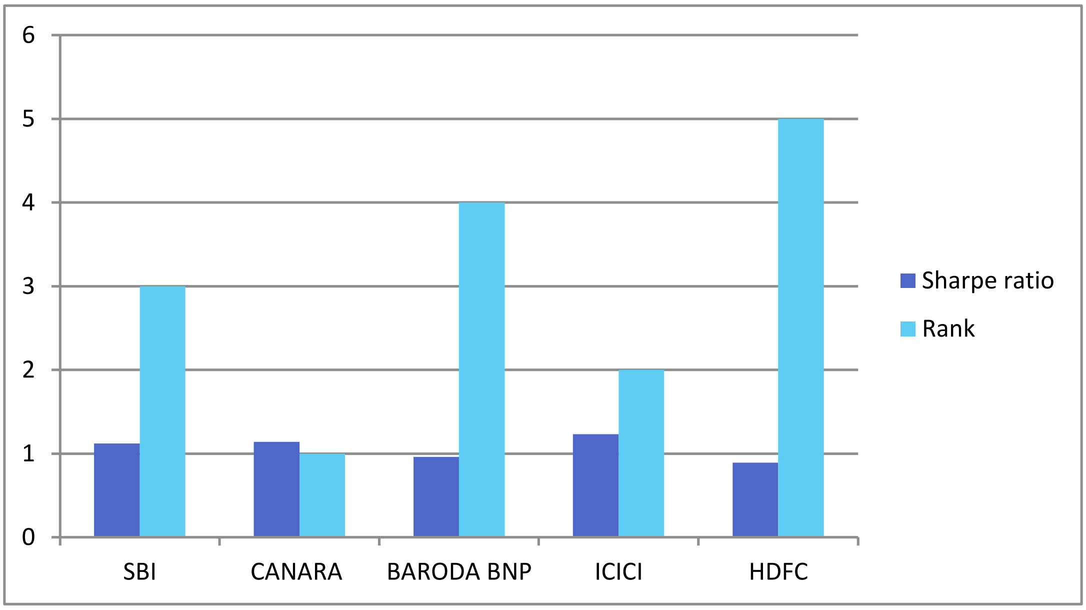

Figure 3

Analysis:

Canara Robeco small cap fund- regular plan –growth stands at rank 1st with Sharpe's ratio of 1.42 and ICICI Prudential small cap fun- direct plan –growth with Sharpe's ratio of 1.23 and stands at 2nd Rank. At last is the HDFC- mid cap opportunities fund- direct plan- growth ranked 5 with Sharpe's ratio 0.89.

Interpretation

From the above tabulation, we come to know that there is direct relationship between return portfolio and the Sharpe's measure. If the return of portfolio is more, then consequently its Sharpe's index will be more. HDFC Mid Cap Opportunities Fund- direct plan- Growth is having least Sharpe's value of 0.89. The returns of Canara Robeco small cap fund- regular plan –growth is greater than that of ICICI Prudential small cap fun- direct plan which is having higher Sharpe's measure. This is because of larger Standard deviation in this plan.

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JENSEN'S RATIO

Name Of The Scheme	Jensen's ratio	Rank
SBI magnum mid cap fund- regular plan –growth	12.73	1
Canara Robeco small cap fund- regular plan –growth	11.63	2
Baroda BNP Paribas- mid cap fund- regular plan –growth	0.96	5
ICICI Prudential small cap fun- direct plan –growth	7.51	3
HDFC- mid cap opportunities fund- direct plan- growth.	2.41	4

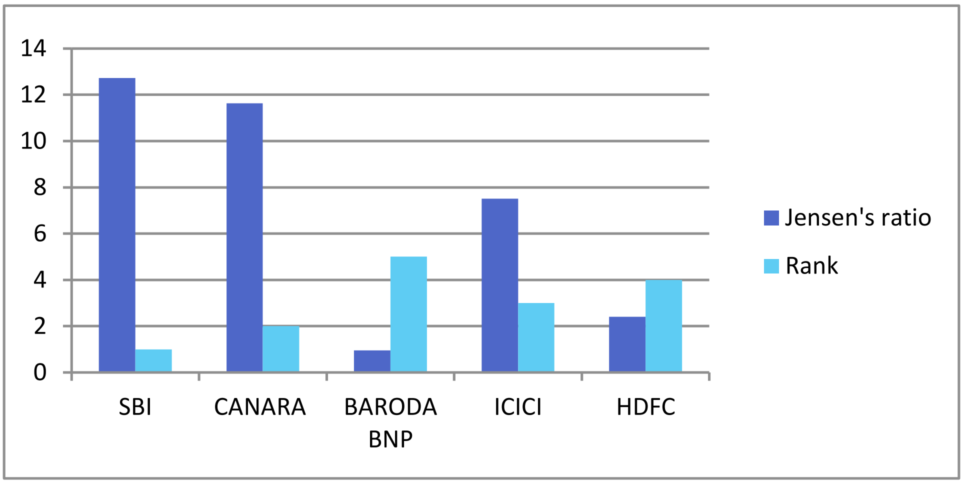

Figure 4

Analysis
SBI magnum mid cap fund- regular plan –growth stands at rank 1st with Jensen's ratio of 12.73 and Canara Robeco small cap fund- regular plan –growth with Jensen's ratio of 11.63andstands at 2nd Rank. At last is the Baroda BNP Paribas- mid cap fund- regular plan –growth ranked 5thwithJensen's ratio 0.96.

Interpretation
The above tabulation indicates that SBI magnum mid cap fund- regular plan –growth ranked 1st with its Jensen's value of 12.73 which indicates the better performance of the fund and Baroda BNP Paribas- mid cap fund- regular plan –growth ranked 5th with its Jensen's value of 0.96 which indicates bad performance compare other schemes.

6. FINDINGS :

- The results, Terms of rate of return measure and risk adjusted performance measures of Sharpe and Treynor's the sample mutual fund schemes in Indian outperformed the market during the sample period i.e. January 2020 to July 2022.
- Analysis of Variance, Standard Deviation, Covariance, Beta, Sharpe Ratio, Treynor; Ratio, Jensen's Ratio.
- SBI magnum mid cap fund- regular plan –growth: SD= 14.88 Beta = 0.94 Sharpe Ratio = 1.12Treynor's Ratio = 0.29 Jensen's Ratio=12.73
- Canara Robeco small cap fund- regular plan –growth: SD= 15.62 Beta = 0.98 Sharpe Ratio =1.12 Treynor's Ratio = 0.34 Jensen's Ratio= 11.63
- Baroda BNP Paribas- mid cap fund- regular plan –growth: SD= 13.45Beta= 0.88 Sharpe Ratio = 0.96Treynor's Ratio = 0.22 Jensen's Ratio= 0.96
- ICICI Prudential small cap fun- direct plan –growth: SD=22 Beta= 1.10 Sharpe Ratio= 1.23 Treynor's Ratio= 0.29 Jensen's Ratio= 7.51
- HDFC- mid cap opportunities fund- direct plan- growth: SD= 14.18 Beta= 0.93 Sharpe Ratio = 0.89Treynor's Ratio= 0.21 Jensen's Ratio= 2.41

- Canara Robeco small cap fund- regular plan –growth is performing less risky and with more returns and is suitable for the investors to invest for a longer period of time
- Baroda BNP Paribas- mid cap fund- regular plan –growth is ranked least so it means it has more risk and less returns.
- Mutual Funds as one of the method of investment for the people to invest their money and to earn more returns. The mutual fund sectors are increasing day by day through introduction of new schemes in the market.

7. SUGGESION :

- Investor must invest in mid and small cap funds because it has less risk and return compared to the large cap Funds.
- Canara Robeco small cap fund- regular plan –growth is a better scheme for investment as its risk is low and returns are high.
- People have to give more interest in investing rather depositing the money in the banks.
- Other mutual funds should have to improve so that they can also get profits.
- People have to first analyze the particular mutual fund compare it with other funds and invest in it for good returns.
- The trend is changing now, people are getting more aware and the knowledge regarding the mutual fund investment is also increasing among the people day to day.
- This study is done only for the subject purpose. The market returns may be differing according to the market risk.

8. CONCLUSION :

As we all know the present scenario the mutual funds are creating the awareness among the people about the investment. There is increase in standard of living of people and they are aware of the mutual funds but still some people do not trust the method of investment into the mutual funds. A good investment can make the people save their money as well earn profits out of it. Investors while investing in the mutual funds should to be cautious, because Mutual funds are emerged to diversify the risk while maximizing returns. With minimum level of risk but are not possible to avoid entire risk. Investors are suggested to be aware of the risk where returns from stock markets are subjected to market risk.
For taking a decision to invest in mutual funds, the evaluation plays a greater role. The rankings given to the mutual funds attract the investment by the investors to the respective funds. For the purpose of ranking the pursuance of various mutual funds the methods such as Sharpe's, Treynor's and Jensen's measure were applied to the various funds different schemes.

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