

A COMPARATIVE ANALYSIS OF RETURNS OF MUTUAL FUND SCHEMES RANKED 1 BY CRISIL

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Abstract:

Mutual fund industry has experienced a drastic growth in the past two decades. Increase in the number of schemes with increased mobilization of funds in the past few years notes the importance of Indian mutual funds industry. To fulfill the expectations of millions of retail investors, the mutual funds are required to function as successful institutional investors. Proper assessment of various fund performance and their comparison with other funds helps retail investors for making investment decisions.

The main aim of this paper is to evaluate the performance of mutual fund schemes ranked 1 by CRISIL and compare these returns with SBI domestic term deposit rates. Considering the interest of retail investors simple statistical techniques like averages and rate of returns are used.

The results obtained from the study clearly depicts that, in most of the cases the mutual fund schemes have failed even to provide the return of SBI domestic term deposits.

KEYWORDS:

Performance, Mutual Funds, CRISIL, Credit Rating Agency

INTRODUCTION

BACKGROUND OF THE STUDY

Mutual fund is a trust that acts as an investment vehicle, pools the savings of numerous investors to invest in various financial instruments like stocks, bonds, debentures, etc enabling investors to achieve their financial goals. SEBI (Mutual Funds) Regulation 1993, defines Mutual Fund as "Mutual Fund means a fund established in the form of a trust by a sponsor to raise money by the trustee through the sale of units to the public under one or more schemes for investing in securities in accordance with these regulations". Mutual funds are the new financial instruments of savings and investments. The active involvement of mutual funds in economic development can be witnessed from dominant presence of mutual funds in financial markets across the globe.

Investors of Mutual Funds need not worry much about the return as mutual funds are managed professionally by well trained and experienced Managers. The investments in mutual funds are well diversified and so the investors generally do not run the risk of keeping all the eggs in one basket. The other advantages of investment in mutual fund are portfolio diversification, low risk, low transaction cost, liquidity, and choice of schemes, transparency and safety.

Mutual funds are now tailor made to suit the specific needs of the investors. Mutual fund industry has already entered into the world of exciting innovations where Asset Management Companies (AMCs) are coming up with new financial products.

Proper assessment of various funds performance and their comparison with other funds helps

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retail investors for making investment decisions.

CRISIL Mutual Fund Ranking: A Prelude

CRISIL is one among the leading rating agencies in India. CRISIL is a full-service rating agency. CRISIL rating serves lenders, investors, issuers, market intermediaries and regulators by improving availability of information and providing benchmarks. CRISIL Rating is used by investors and lenders to supplement their internal evaluation process and to benchmark credit quality across investment options.

In India, CRISIL has developed a methodology based on global best practices for ranking mutual funds. In the past decade the mutual fund ranking has gained high acceptance among investors, intermediaries, and asset management companies.

Only open ended schemes are considered for ranking and the basic criteria for including mutual fund scheme in the ranking universe are three-year NAV history (one-year for liquid, ultra short-term debt, short term income and index funds, and five years for consistent performers), assets under management in excess of cut-off limits and complete portfolio disclosure. The performance criteria covers risk adjusted returns along with portfolio characteristics like industry concentration, company concentration, liquidity, etc. to make the analysis forward looking.

The present study was confined to examine and evaluate the return fetched by mutual fund schemes ranked 1 by CRISIL for the period of 5 years.

REVIEW OF LITERATURE

Ippolito R. A. (1992) concluded that the investors prefer mutual funds which have a record of positive return in the past [3].

Sapar & Narayan(2003) evaluates the performance of 269 open ended schemes of mutual funds in a bear market using relative performance index, risk-return analysis, Treynor's ratio, Sharp's ratio, Sharp's measure, Jensen's measure, and Fama's. The results obtained advocate that most of the mutual fund schemes in the sample outperformed the investor's expectations by giving excess return over expected return based on premium for systematic risk and total risk[5].

Sathya Swaroop Debasish (2009) studied the performance of 23 schemes offered by six private sector mutual funds and three public sector of mutual funds based on risk-return relationship models and measures it over the time period of 13 years (April 1996 to March 2009). The analysis has been made on the basis of mean return, beta risk, co-efficient of determination, Sharpe ratio, Treynor ratio and Jensen Alpha. The overall analysis concludes Franklin Templeton and UTI being the best performers and Birla SunLife, HDFC and LIC mutual funds showing below-average performance when measured against the risk-return relationship models [5].

Dhume and Ramesh (2011) conducted a study to analyze the performance of the sector funds. The sectors considered were Banking, FMCG, Infrastructure, Pharma and Technology. The study used different approaches of performance measures. Findings of study revealed that all the sector funds have outperformed the market except infrastructure funds [7].

Deepak Agarwal (2011), Mutual fund contributes to globalization of financial markets and is one among the main sources for capital formation in emerging economies. He analyzed the pricing mechanism of Indian Mutual Fund Industry, data at both the fund-manager and fund-investor levels. There has been incredible growth in the mutual fund industry in India, attracting large investments from domestic and foreign investors. Tremendous increase in number of AMCs providing ample of opportunity to the investors in the form of safety, hedging, arbitrage, limited risk with better returns than any other long-term securities has resulted in attracting more investors towards mutual fund investments [1].

R. Anitha, et. al., (2011), in their study evaluated the performance of public-sector and private-sector mutual funds for the period from 2005 to 2007. Selected funds were analyzed using Statistical tools like Mean, Standard Deviation and Co-efficient of Variation. The performance of all funds has shown volatility during the period of study making it difficult to earmark one particular fund which could outperform the other consistently [2].

Kalpesh P Prajapati and Mahesh K Patel (2012) evaluated the performance of Indian mutual funds using relative performance index, risk-return analysis, Treynor's ratio, Sharp's ratio, Sharp's measure, Jensen's measure, and Fama's measure. The data used is daily closing NAVs from 1st January 2007 to 31st December, 2011 and concluded that most of the mutual funds have given positive return during the period of study [6].

Shivani Inder and Shikha Vohra (2012), the paper evaluates the long run performance of the selected index fund schemes and make comparative analysis of the performance of these funds on the basis of the risk-return for the period of 6 years (January, 2005 to December, 2011). The results indicate that index

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funds are just the follower of market. They try to capture market sentiments, good as well as bad, and thus perform as the market performs [9].

P Alekhya (2012), undertaken the study to evaluate the comparative performance of public and private sector mutual fund schemes. The paper focused on the performance of Mutual fund equity scheme for past 3 years from 2009 to 2011. Funds were ranked according to Sharpes, Treynors and Jensons performance measure [4].

Gaps Identified

In the above literature very few studies have made an attempt to make a comparative analysis of Mutual fund return with bank domestic term deposit rates.

In India retail investor hardly understands the performance measure tools like Sharpes, Treynors and Jensons models. Still very few studies have made an attempt to calculate the return on mutual funds which can be easily understandable by a retail investor.

OBJECTIVES

To analyze the returns of mutual fund schemes ranked 1 by CRISIL.

To compare the average returns of selected Mutual fund schemes with SBI domestic term deposit rates.

To have a comparative analysis of various categories of selected Mutual fund schemes.

RESEARCH METHODOLOGY

Source of Data

The data for this study is mainly collected from Secondary Sources like Books, Journals, Magazines, and various websites like www.nseindia.com, www.amfiindia.com, www.mutualfundsindia.com, www.sebi.gov.in and www.moneycontrol.com.

Statistical Tools

The simple statistical techniques like averages and rate of returns are used. Considering the interest of the retail investors the study has been made simple and average rate of return of mutual fund schemes ranked 1 by CRISIL has been calculated and compared with SBI domestic term deposit rates.

Limitations of the study

Mutual fund schemes ranked 1 by CRISIL are considered for the period of 2008-2013. Hence, the findings of the study may not be generalized upon the other mutual fund schemes and for the same schemes for different periods.

The performance of a scheme can be evaluated on various parameters, but to make the study simple and understandable by a retail investor only average return of the schemes has been calculated.

Income tax aspects are not considered in this study.

Data Analysis

Table 1 – Returns of Equity Mutual Fund schemes Ranked 1 by CRISIL

Mutual Fund Scheme	Category	Asset (Ru.Cr.) Mar 13 - NAV	NAV	Returns (%) – as on July 16, 2013						
				1 month	3 month	6 month	1 yr	2 yr *	3 yr *	5 yr *
BNP Paribas Equity Fund (G)	LC	121.03	40.09	3.1	6.1	-1.7	16.1	8.4	7.6	9.8
Quantum Long-Term Equity (G)	LC	161.4	24.43	0.9	0.5	-6	11.1	5	5.4	15.9
UTI India Lifestyle Fund (G)	LC	350.46	14.04	1.2	5.1	-0.7	14.5	6	8.1	13.6
UTI Opportunities Fund (G)	LC	1,846.15	31.88	2.5	5	-1	13	7.3	8.7	16.6
Birla Sun Life MNC Fund (G)	SMC	375.83	265.19	2.4	10.7	1.6	16.2	9.4	9.9	21
SEI Emerging Bond (G)	SMC	1,214.96	53.81	-1.4	-0.2	-11.8	12.1	9.4	12.1	16.7
SEI Magellan Global Fund (G)	SMC	918.23	66.49	1.3	4.1	-3.6	17.4	5.6	6.5	13.2
Birla SL India GeoNext (G)	DE	126.14	32.42	2	7.9	2.1	26.8	10.9	12.2	17.1
Mirae (I) Opportunities-EP (G)	DE	290.23	18.07	1.5	2.9	-5.8	12.6	3.7	5.4	16.8
Reliance Equity Opqur - EP (G)	DE	4,956.08	39.99	-1.5	-3.4	-10.5	6.5	3.5	4.9	16.8
Dats Ethical Fund (G)	DE	104.77	75.82	3.5	7.4	0.9	20.2	6.3	6.4	12.3
UTI MNC Fund (G)	DE	251.27	75.78	1.3	9.4	3.2	14.8	8.9	11.1	19.4
DSP-RR India TIGER - EP (G)	DI	1,413.22	39.39	-2.8	-2.9	-18.6	-0.4	-5.8	-6.4	3.6
Axis Long Term Equity Fund (G)	BLSS	477.54	15.32	2.9	7.8	3.6	19.6	9	9.6	NA
BNP paribas Tax advantage plan (G)	BLSS	118.64	16.54	2.5	5.7	-4.5	13.9	7.2	6.2	9.8
Kotak Nifty ETF	INDEX	48.16	605.41	2	3.6	-2.4	13.8	3.6	3.8	NA
Average				1.3	4.4	-3.3	14.3	6.2	7.0	14.5

Source – www.moneycontrol.com

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* Returns over 1 year are annualized

LC – Large Cap, SMC– Small and Medium Cap, DE – Diversified Equity, TI – Thematic Infrastructure, ELSS - Equity Linked Saving Schemes.

Table No.(1) demonstrates the average returns on Equity mutual fund schemes ranked 1 by CRISIL. The average return for 1 month, 3 month, 6 month, and 1 year are 1.3%, 4.4%, -3.3%, and 14.3% respectively. Further the annualized return for the period of 2 year, 3 year and 5 year are 6.2%, 7.0% and 14.5% respectively.

Table 2 – Returns of Debt Mutual Fund schemes Ranked 1 by CRISIL

Mutual Fund Scheme	Category	Asset (Rs. Cr.) Mar		Returns (%) - as on July 16, 2013						
		13-NAV	NAV	1 month	3 months	6 months	1 yr	2 yr*	3 yr*	5 yr*
IDFC Dynamic Bond - Reg Plan (G)	DLT	2,517.14	14.29	-2.3	0.4	3	10.9	11.2	9.7	NA
SEI Dynamic Bond Fund (G)	DLT	5,238.04	14.97	-3.2	0.5	2.6	10.1	11	10.2	7.2
SEI Magnum Income Fund (G)	DLT	2,962.60	29.59	-3.1	0.6	2.7	10.6	10.8	9.2	7.7
Hikr SL Short Term Fund (G)	DST	2,994.48	44.08	-0.9	0.7	3.2	8.5	9.3	8.4	8.3
HDFC Short Term Opportunities (G)	DST	1,599.68	12.87	-1.1	0.5	2.9	7.9	8.8	8.6	NA
HSBC Income Fund - STIP (G)	DST	729.88	19.79	-1.4	0.3	2.4	7.2	8	7.7	7.2
Reliance Income Credit Opp (G)	DST	487.03	1,358.39	0.5	1.9	4.1	9	9.7	9	NA
Sundaram Flexi Inc - STIP-IP (G)	DST	317.98	18.87	-0.4	1	3.5	8.3	9.1	8.5	8.1
ICICI Pru Flexi Income (G)	USTD	7,398.92	224.02	0.3	1.7	4	8.7	9.2	8.8	7.9
JP Morgan Treasury - SIP (G)	USTD	1,747.72	15.66	-0.1	1.4	3.6	8.4	9.1	8.7	NA
Reliance Money Mgr - IP (G)	USTD	5,816.17	1,639.73	0.3	1.7	4	8.7	9.2	8.8	7.9
IDFC G-Sec Investment - RPB (G)	GLT	126.1	13.98	-1.6	1.8	4.4	12.9	12.7	10.5	NA
Average				-1.1	1.0	3.4	9.3	9.8	9.0	7.8

Source – www.moneycontrol.com

* Returns over 1 year are annualized

DLT- Debt long term, DST- Debt short term, USTD- Ultra short term debt, GLT- Gilt long term

Table No.(2) demonstrates the average returns on Debt mutual fund schemes ranked 1 by CRISIL. The average return for 1 month, 3 month, 6 month and 1 year are -1.1%, 1.0%, 3.4%, and 9.3% respectively. Further the annualized return for the period of 2 year, 3 year and 5 year are 9.8%, 9.0% and 7.8% respectively.

Table 3 – Returns of Hybrid Mutual Fund schemes Ranked 1 by CRISIL

Mutual Fund Scheme	Category	Assets (Rs. Cr.)		Returns (%) - as on July 16, 2013						
		NAV	NAV	1 month	3 months	6 months	1 yr	2 yr*	3 yr*	5 yr*
ICICI Pru Balanced Fund (G)	B	446.68	55.84	0.4	3	-2.6	15.5	7.4	9.1	11.8
Kotak Monthly Income Plan (G)	MA	58.41	18.25	-3.2	-0.7	-0.8	7.6	7.1	6.3	6.2
SEI Magnum MIP (G)	MC	241.29	23.99	-2.8	-0.1	NA	9.6	8.3	7	6.5
Average				-1.9	0.7	-1.7	10.9	7.6	7.5	8.2

Source – www.moneycontrol.com

* Returns over 1 year are annualized

B – Balanced, MA – MIP Aggressive, MC – MIP Conservative

Table No.(3) demonstrates the average returns on Hybrid mutual fund schemes ranked 1 by CRISIL. The average return for 1 month, 3 month, 6 month and 1 year are -1.9%, 0.7%, -1.7%, and 10.9% respectively. Further the annualized returns for the period of 2 year, 3 year and 5 year are 7.6%, 7.5% and 8.2% respectively.

Table 4 – Return of Money Market Mutual Fund schemes Ranked 1 by CRISIL

Mutual Fund Scheme	Category	Assets (Rs. Cr.)		Returns (%) - as on July 16, 2013						
		NAV	NAV	1 month	3 months	6 months	1 yr	2 yr	3 yr*	5 yr*
Axis Liquid Fund - Reg. (G)	L	2,670.45	1,329.28	0.4	1.8	4	8.6	9.2	8.7	NA
Banque Pioneer Liquid - Plan A (G)	L	2,592.37	1,374.72	0.4	1.8	4	8.6	9.3	8.7	NA
ICICI Pru Liquid Plan - Regular (G)	L	11,478.09	177.51	0.5	1.9	4.1	8.7	9.3	8.7	7.7
LC NOB/RA Liquid Fund (G)	L	1,268.27	2,174.95	0.4	1.8	3.9	8.4	8.8	8.3	7.6
Average				0.4	1.8	4.0	8.6	9.2	8.6	7.7

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Source – www.moneycontrol.com
 * Returns over 1 year are annualized

L–Liquid.

Table No.(4) demonstrates the average returns on Money Market mutual fund schemes ranked 1 by CRISIL. The average return for 1 month, 3 month, 6 month and 1 year are 0.4%, 1.8%, 4.0% and 8.6% respectively. Further the annualized return for the period of 2 year, 3 year and 5 year are 9.2%, 8.6% and 7.5% respectively.

Table 5 – Comparative analysis of average return of Selected Mutual Fund schemes with SBI domestic term deposit rates.

Investment	Average Returns (%) - as on July 16, 2013						
	1 month	3 month	6 month	1 yr	2 yr*	3 yr*	5 yr*
Equity Mutual Fund Schemes	1.3	4.4	-3.3	14.3	6.2	7.0	14.5
Debt Mutual Fund Schemes	-1.1	1.0	3.4	9.3	9.8	9.0	7.8
Hybrid Mutual Fund Schemes	-1.9	0.7	-1.7	10.9	7.6	7.5	8.2
Money Market Mutual Fund	0.4	1.8	4.0	8.6	9.2	8.6	7.7
SBI Fixed Deposits Rate	0.5	1.6	3.3	8.8	8.8	8.8	8.8

Returns over 1 year are annualized

Table No. (5) Shows the comparative analysis of average return of selected mutual fund schemes with SBI domestic term deposit rates. The above table corroborates that the mean return on equity mutual fund schemes for 1 month, 3 month, 1 year and 5 year exceeds the return of SBI domestic term deposits and other schemes. Further, the mean return on debt mutual fund schemes for 2 year and 3 year exceeds the return of SBI domestic term deposits and other schemes. Further the money market mutual fund schemes have consistently provided positive returns.

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FINDINGS OF THE STUDY

The present study reflects that, in most of the cases mean return on equity mutual fund schemes is more than the mean return on other mutual fund schemes and SBI domestic term deposit rates. Further equity mutual fund schemes have shown a remarkable return for the period of 1 year and 5 year.

Hybrid mutual fund schemes provide both income and capital appreciation while avoiding excessive risk. The mean return on hybrid mutual fund schemes has shown volatility during the study period, and served the purpose of hybrid funds only during the period of 6 months, 1 year and 5 year.

The mean return on debt mutual fund schemes were less than the SBI domestic term deposit rates for the period of less than 1 year and more than the SBI domestic term deposit rates for the period of more than 1 year. Further the mean return on money market mutual fund schemes were consistently positive and were very close to SBI domestic term deposit rates.

CONCLUSION

This paper was an attempt to evaluate the performance of mutual fund schemes ranked 1 by CRISIL and compare the mean returns with the SBI domestic term deposit rates. The performance of all the schemes seemed volatile during the study period, as such it was quite difficult to earmark one particular scheme that out performed consistently well during the period of study.

The mutual fund schemes ranked 1 by CRISIL were considered for the study. The results obtained from the study clearly depicts that, in most of the cases the mutual fund schemes have failed even to provide the return of SBI domestic term deposits. It can also be concluded that equity mutual fund schemes have the potential to provide greater returns in long term. The investments in mutual funds is subject to market risk and the investment decision should be taken carefully, as there is no guarantee of return and the past performance may or may not be occurred in future.

SCOPE FOR FURTHER RESEARCH

There is an ample of opportunity for upgrading the research for the appraisal of mutual fund

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performances. The study is limited to Ranked 1 mutual fund schemes of CRISIL. In the same way the performance of all types of mutual fund schemes of different ranking could be possible. Various performance evaluation models can also be applied for the evaluation of mutual fund performances.

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