# An Analysis of the Expansion of Mutual Funds in India

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| | ***Abstract***<br><br>Mutual funds have become increasingly popular as a financial investment option. This industry is swiftly growing within the Indian financial market, offering a diverse range of schemes tailored to accommodate the risk-return preferences of various investor categories. Mutual funds enable small and medium-sized investors to engage in today's intricate financial landscape by purchasing units of the fund.<br>A mutual fund operates as a trust, overseen by professional managers, which pools and channels the savings of numerous investors who share a common financial objective. It invests in various assets such as shares, debt securities, money-market securities, or a combination thereof. These investors, referred to as unit holders, contribute to the funds and hold a proportionate share/unit of the portfolio based on their investment and the net fund value. Profits and losses from these investments, along with capital appreciation, are distributed among unit holders in accordance with their respective ownership of units, after deducting applicable expenses, loads, and taxes. |
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## INTRODUCTION

### Recent Trends in Mutual Funds in India
In recent years, the Indian mutual fund industry has seen significant growth, spurred by changes in government and heightened public expectations, which boosted the capital market. Over the past five years, the Assets Under Management (AUM) surged from ₹67,093,099 lakhs in FY 2012 to ₹182,958,449 lakhs in FY 2019, representing a compound annual growth rate (CAGR) of 22.21%. Notably, there was a remarkable 35.17% growth in AUM during FY 2017. According to data from the Association of Mutual Funds in India (AMFI), AUM escalated from ₹13.53 lakh crore in March 2016 to ₹18.29 lakh crore in March 2019.

### Market Share of Asset Management Companies
The market share of Asset Management Companies (AMCs) in India depicts a relatively low AUM penetration of approximately 6% of GDP (Paul, 2014). Despite the limited penetration, the market is heavily concentrated. Although 44 AMCs operate in the sector, the AUM is predominantly controlled by five major fund houses, namely ICICI, HDFC, Reliance, Birla Sun Life, and SBI Mutual Fund, collectively holding around 57% of the total AUM.

| Rank | Fund Houses | AUM( in Lakh) | Percentage (%) |
|------|-------------|---------------|----------------|
| 1 | ICICI Prudential Mutual Fund | 24296130.61 | 13.28 |
| 2 | HDFCMutualFund | 23717761.00 | 12.96 |
| 3 | Reliance Mutual Fund | 21089063.82 | 11.53 |
| 4 | Birla Sun Life Mutual Fund | 19504900.94 | 10.66 |
| 5 | SBI Mutual Fund | 15702527.68 | 8.58 |
| | Others | 78647965.78 | 42.99 |
| | Total | 182958349.83 | 100 |

Source AMFI –as on 31st March 2019

## LITERATURE REVIEW

Scholars have extensively examined investors' behavior and the performance of mutual fund schemes, contributing significantly to the understanding of financial markets. This literature review aims to provide clarity on investors' behavior and mutual fund performance by synthesizing existing research. By analyzing studies from secondary sources, this review identifies gaps in current research and establishes theoretical connections.

Overview of Existing Research:

Deepak Agrawal (2011) conducted a study on the Indian Mutual Fund Industry, highlighting structural changes in both primary and secondary markets since 1992. He emphasized the impact of saving and investment habits, as well as fund managers' confidence and loyalty, on mutual fund performance in India.

Prajapati and Patel (2012) evaluated the performance of Indian mutual funds from 2007 to 2011, using various performance measures such as risk-return analysis and Sharpe ratio. Their findings suggested that most mutual funds yielded positive returns during the specified period, with some outperforming benchmark markets due to effective stock selection and diversification strategies.

Bansal and Yash (2014) conducted a comparative study on the performance of large-cap equity and debt mutual fund schemes. Their analysis revealed variations in performance across different schemes, with UTI Opportunities Fund emerging as the top performer among equity schemes. However, certain debt schemes, like UTI Short Term Income Fund, exhibited suboptimal performance.

Renu Gosh (2014) compared the performance of mutual funds sponsored by public, private, and foreign companies. Her study indicated that mutual funds sponsored by foreign companies generally outperformed those sponsored by public and private companies, suggesting potential benefits of international expertise and resources.

Busse, Goyal, and Wahal (2014) examined the performance of active retail mutual funds and institutional products investing in global equity markets. Their findings indicated limited evidence of consistent outperformance (alpha) among these funds, attributing any observed superiority to chance rather than skill.

Bhutada et al. (2015) conducted a comparative analysis of mutual fund schemes offered by Kotak and HDFC mutual funds. Their study revealed differences in performance across different categories, with Kotak excelling in large-cap equity schemes and HDFC performing better in mid-cap equity schemes.

Bhagyasree and Kishori (2016) investigated the performance of growth-oriented equity schemes in a transition economy from 2011 to 2015. Their analysis indicated mixed results, with some schemes outperforming benchmarks while others faced challenges related to diversification. Positive Sharpe and Jensen measures suggested that most schemes provided returns higher than the risk-free rate.

In conclusion, existing research on investors' behavior and mutual fund performance in India provides valuable insights into market dynamics and investment strategies. Studies have identified factors influencing mutual fund performance, such as fund manager expertise, market timing, and international influences. However, gaps exist in understanding the persistence of fund performance and the impact of regulatory changes on market dynamics. Future research should focus on addressing these gaps to enhance our understanding of financial markets and improve investment decision-making.

## OBJECTIVE OF THE STUDY
1.To analyse the performance of the selected mutual fund equity schemes on risk and return basis.

## HYPOTHESEIS OF THE STUDY
$H_{01}$: There is no significant difference in the average returns of Large Cap Mutual Fund Schemes in India.

**PROFILE OF THE SELECTED MUTUAL FUNDS**
In this study for the purpose of performance evaluation of equity schemes, top five mutual fund companies have been selected on the basis of performance related to their market share in Indian mutual fund industries. Name of the fund houses are as follows:

1. ICICI Prudential Mutual Fund
2. HDFC Mutual Fund
3. Reliance Mutual Fund
4. Birla Sun Life Mutual Fund
5. SBI Mutual Fund

Schemes from the above selected mutual funds are taken for study and performance analysis. The performance of selected mutual funds has been analyzed on the basis of risk -return relationship using standard performance evaluation measures. The researcher has attempted to analyze the performance of the selected 15schemes of the top five selected mutual funds companies during the period April 2009 to March 2019. Sample schemes selected are from the category Large Cap funds(with Growth option) one each from each category of top five funds house. Schemes category is as under:

**Large Cap Funds:** Funds which invest a larger proportion of their corpus in companies with large market capitalization are called large cap funds. Large Cap schemes one each from selected top five funds houses are as follows:

1. ICICI Prudential Top100
2. HDFC Top200
3. Reliance Top200
4. Birla Sun Life Top100
5. SBI Magnum Blue Chip

Research GapBased on the literature review conducted, it becomes evident that existing research predominantly utilizes statistical or quantitative tools to assess the performance of mutual fund schemes. However, these studies typically focus on a limited scope, such as analyzing one or two methods to compare funds from a single company or contrasting performance between public and private sector fund houses. Furthermore, some research endeavors concentrate solely on specific segments of funds, highlighting their advantages and disadvantages without exploring broader comparisons.

A notable gap in the current body of research lies in the absence of comprehensive comparisons across similar types of open-ended growth schemes in various categories, such as Large Cap, Mid & Small Cap, and Diversified/Multi Cap funds. This gap underscores the need for a study that systematically examines and compares selected schemes from the top five mutual fund houses across these diverse categories, employing a range of statistical and ratio analysis techniques.

To address this gap, the proposed research aims to:
Conduct a thorough analysis of open-ended growth schemes offered by the top five mutual fund houses in India.
Compare the performance of these schemes across different categories, including Large Cap, Mid & Small Cap, and Diversified/Multi Cap funds.
Utilize a variety of statistical and ratio analysis methods to assess the performance and characteristics of the selected schemes.
Identify key factors contributing to the performance variations among the schemes, such as fund manager expertise, investment strategies, and market conditions.
Provide insights into the relative strengths and weaknesses of the selected schemes within each category, enabling investors to make informed decisions.
By undertaking this research, we aim to contribute valuable insights into the performance and dynamics of mutual fund schemes across diverse categories. This comparative analysis will not only fill existing research gaps but also offer practical guidance to investors and asset management companies in evaluating and optimizing their investment portfolios. Moreover, the use of robust statistical and ratio analysis methods will enhance the rigor and reliability of our findings, ensuring their relevance and applicability in real-world investment contexts.

**Performance Evaluation of the Selected Mutual Fund Schemes Performance Analysis of Large Cap funds**

The results of return, risk, beta and coefficient of determination of selected Large Cap schemes with benchmark index (S&P BSE 100) return for all the five schemes for 10 years shows competency to make out a strong case for investment.

**SUMMARY OF RISK, RETURN, BETA AND R SQUARE (APRIL 2009 TO MARCH 2017)**

| S.No. | Schemes | Scheme Return | Scheme Risk | Beta | R Square |
|---|---|---|---|---|---|
| 1 | ICICITop100 | 1.1320 | 6.0334 | 0.817 | 0.948 |
| 2 | HDFCTop200 | 1.3147 | 6.8783 | 0.934 | 0.953 |
| 3 | RelianceTop200 | 1.1298 | 6.7826 | 0.910 | 0.955 |
| 4 | BirlaTop100 | 1.1764 | 6.1505 | 0.838 | 0.960 |
| 5 | SBI Blue Chip | 1.1105 | 6.5704 | 0.894 | 0.958 |

The analysis of the selected mutual fund schemes reveals interesting insights into their performance and risk characteristics. Here are the key findings:

**Return Performance:** HDFC Top 200 exhibited the highest return of 1.3147, indicating strong performance, while SBI Blue Chip recorded the lowest return of 1.1105. This disparity in returns highlights the importance of fund selection in achieving optimal investment outcomes.

**Standard Deviation (Risk):** Standard deviation is a measure of the dispersion of returns and serves as an indicator of risk. It is observed that all five schemes exhibit relatively high levels of risk. HDFC Top 200 has the highest standard deviation of 6.8783, indicating greater variability in returns, while ICICI Top 100 is the least risky with a standard deviation of 6.0334.

**Beta (β):** Beta measures the sensitivity of a fund's returns to changes in the benchmark index. A beta greater than 1 indicates higher volatility compared to the market, while a beta less than 1 suggests lower volatility. HDFC Top 200, with a beta of 0.934, is the most volatile among the selected schemes, whereas ICICI Top 100, with a beta of 0.817, is relatively more stable and less risky.

**Coefficient of Determination ($R^2$):** The coefficient of determination, or $R^2$, measures the proportion of the variance in the fund's returns that can be explained by movements in the benchmark index. Higher $R^2$ values indicate stronger correlations between fund returns and market index movements, suggesting effective diversification strategies. Birla Top 100 has the highest $R^2$ value of 0.960, followed closely by SBI Blue Chip (0.958), Reliance (0.955), HDFC (0.953), and ICICI (0.948). These high $R^2$ values indicate that these schemes have performed well in terms of diversification, effectively managing risk by spreading investments across different assets.

Overall, the analysis underscores the importance of considering both return potential and risk when evaluating mutual fund schemes. While schemes like HDFC Top 200 may offer attractive returns, they also come with higher levels of risk. On the other hand, schemes with lower risk, such as ICICI Top 100, may provide more stability but potentially lower returns. Investors should carefully assess their risk tolerance and investment objectives to select the most suitable mutual fund schemes for their portfolios.

**RANKING OF LARGE CAP SCHEMES ON THE BASIS OF SHARPE, TREYNOR AND ALPHA MEASURE FOR 10 YEARS (APRIL 2009 TO MARCH 2019)**

| S.No. | Schemes | Sharpe Measure | Ranks | Treynor Measure | Ranks | Jenson Alpha | Ranks |
|---|---|---|---|---|---|---|---|
| 1 | ICICITop100 | 0.0791 | 3 | 0.5836 | 3 | 0.2220 | 4 |
| 2 | HDFCTop200 | 0.0959 | 1 | 0.7060 | 1 | 0.3682 | 1 |
| 3 | RelianceTop200 | 0.0700 | 4 | 0.5217 | 4 | 0.2508 | 3 |
| 4 | BirlaTop100 | 0.0848 | 2 | 0.6220 | 2 | 0.2599 | 2 |
| 5 | SBIBlueChip | 0.0693 | 5 | 0.5091 | 5 | 0.1764 | 5 |

- Sharpe ratio depicts scheme excess returns earned above risk-free return to per unit of standard deviation. It is revealed from the above table that highest positive value of Sharpe measure was found in HDFC Top 200 (0.0959) and the lowest sharpe value was found in SBI Blue Chip (0.0693).
- In the context of Treynor measure which depicts the funds excess return above risk free rate per unit market risk, HDFC Top 200 (0.7060) is the top performer of the schemes Whereas SBI Blue Chip(0.5091)showed least Treynor value among the selected Large Cap schemes.
- Higher the alpha value represents that fund return has over performed the benchmark index. Higher alpha was found with HDFC Top 200 (0.3682) and SBI Blue Chip remains at last with least alpha value (0.1764).

It is clear from the findings, all the five schemes for ten years shows competency to make out a strong case for investment. The maximum return was from SBI Blue Chip (1.5667) and minimum return was from HDFC Top 200 (1.2881). It is observed that the maximum deviation of fund returns is shown by HDFC Top 200 (5.1528) followed by Reliance Top 200 (4.5064), whereas SBI Blue Chip (3.804) was the least risky scheme with lower SD.

In the context of beta, it is observed that the Reliance Top 200 (1.004) and HDFC Top 200 (1.168) large cap schemes of mutual fund have registered beta more than one. In the other three schemes ICICITop 100 (0.896), Birla Top 100 (0.990) and SBI Blue Chip (0.856) have beta value less than one indicated low risk in these schemes. The highest R Square value was found in Birla Top 100 (0.961) followed by HDFC Top 200 (0.936), SBI Blue Chip (0.922), ICICI Top 100 (0.908), and Reliance Top 200 (0.904) which indicated that all these schemes have performed well diversification.

Hypothesis $H_{01}$found rejected, as for 10 years it is observed that the mean of highest R Square value was found in Birla Top 100 indicated a difference in among other schemes. Hence, in this context the null hypothesis stands rejected.

This study concludes that mutual funds rank highly as preferred investment vehicles among respondents. For individuals with middle-income levels, investing in mutual funds offers the potential for higher returns and provides a satisfactory principal amount upon maturity. Intermediaries emphasize the safety of mutual funds, citing minimal risk and optimized returns as key benefits for investors. However, it is crucial for investors to gain a thorough understanding of mutual fund investments, the companies operating in the industry, and the expertise of mutual fund professionals, as they may be susceptible to misleading advertisements and offers from various financial institutions.

A significant portion of investors opt to switch funds to capitalize on changing market conditions. Nevertheless, 64% of investors prefer to invest in existing mutual funds, citing past performance analysis and concerns over the potential risks and expenses associated with newly launched funds or schemes. Mutual fund companies should provide comprehensive support to investors, including advisory services, opportunities for investor participation in portfolio design, and full disclosure of relevant information.

Mutual fund companies should offer proper consultancy to help investors understand the terms and conditions of different mutual fund schemes. Fund designs should prioritize meeting investor needs, and mutual fund information should be presented in a user-friendly format. Additionally, mutual fund companies should develop effective systems to educate investors on analyzing investment risks.

From a governmental and regulatory perspective, there is a need for more legislation to safeguard investor funds from exploitation. Providing tax rebates on mutual fund investments, establishing effective grievance systems, promoting investor education rights, and exercising greater control over asset management companies are essential measures to ensure investor protection and market integrity.

## CONCLUSIONS:

This study offers several recommendations aimed at enhancing awareness about mutual fund investments and schemes, thereby empowering investors to make informed decisions. These suggestions emphasize the role of intermediaries, government initiatives, and investment companies in educating and supporting investors:

**Educational Initiatives:** Many investors lack sufficient knowledge about mutual fund operations. Hence, it is essential to provide them with basic understanding and guidance on how mutual funds function. Investors should be encouraged to define their investment objectives and learn how to diversify risk within their portfolios effectively.

**Women's Participation:** Government and mutual fund organizations should take proactive measures to encourage women investors. This can be achieved through targeted educational programs and by offering additional benefits to women across all types of investments. Empowering women to invest can contribute to broader financial inclusion and economic empowerment.

**Focused Investment Solutions:** Asset Management Companies (AMCs) should develop specialized investment solutions tailored to specific investor groups. By offering focused investment options, AMCs can better address the risk appetite and return expectations of different investor segments, thereby delivering value-added returns that outperform inflation rates.

**Investor Support and Advisory Services:** Both government authorities and investment companies should prioritize investor support and awareness initiatives. This includes providing advisory services, enabling investor participation in portfolio design and management, and ensuring complete disclosure of relevant information to investors. By enhancing investor education and access to information, trust in the mutual fund industry can be strengthened.

**Consultancy and Grievance Resolution:** Investors should receive personalized consultancy services to understand their unique needs and the intricacies of different mutual fund schemes. Information should be communicated in a clear and investor-friendly manner, and effective grievance resolution mechanisms should be in place to address any concerns promptly. Additionally, investors should be educated about their rights and given greater control over asset management companies to foster transparency and accountability.

By implementing these recommendations, more investors can be encouraged to participate in mutual fund investments, ultimately contributing to the overall development of the economy. Increased investor participation not only diversifies sources of capital but also promotes financial stability and growth.

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