RESEARCH REVIEW JOURNALS
Volume-04
Issue-06
June-2019

ISSN: 2455-3085 (Online)
RESEARCH REVIEW International Journal of Multidisciplinary
www.rrjournals.com[UGC Listed Journal]

Mutual Fund Performance Analysis: A Comparative Study on Equity Large Cap and Mid Cap Schemes

[*1]Joseph K Siby & [2]Thomas, Meera

[1]*Associate Professor, MBA Dept; St. Berchmans College, Changanacherry, Kottayam Dist. Kerala (India)*
[2]*Research Scholar , MBA Dept; St. Berchmans College, Changanacherry, Kottayam Dist. Kerala (India)*

ARTICLE DETAILS

Article History
Published Online: 10 June 2019

Keywords
Mutual Fund, Large and Mid Cap , Return, Risk , Alpha ,Beta ,Sharpe Ratio, Treynor Ratio.

[*]Corresponding Author
Email: sibyjoseph_k[at]yahoo.co.in

ABSTRACT

The remarkable growth in Indian mutual fund industry in the recent years can largely be endorsed to reasons such as product innovations, investors' education, multiple distribution channel, inclusive regulatory policy etc. The impetus behind mutual fund investment is the diversification and the return in the form of capital appreciation along with interest or dividend. Mutual funds would be one of the major instruments of wealth creation and wealth saving in the years to come, giving positive results. Evaluating the historical performance of mutual funds is important both for investors as well as portfolio managers. It facilitates the investor to know how much return it has generated at a given risk level. In addition the investor can also compare the performance of different fund managers. The research paper examines the performance of various large cap and mid cap mutual funds in order to guide prospective investor who is interested in investing in Mutual Funds.

1. Introduction

The Indian mutual fund industry is one of the fastest growing sectors in Indian financial market due to its well regulated environment along with the quantity and quality of product and services. It has also become a widespread and effective media of investment for investors to participate in a tranquil, cost effective and well diversified manner. Mutual fund thus plays a vital role in an individual's investment strategy and has become the most preferred means for long-term investment. The kith and kin between risk and return determine the performance of mutual funds. As the risk is proportionate with the return, providing maximum return on investments with in the acceptable risk helps to segregate the performers from the stragglers. The consistency in the performance of mutual funds is a major factor that attracts the investors. It also helps the small investors to participate in the stock market indirectly with a small amount of investment by effectively spreading and reducing risk. The research paper attempts to analyse comparative performance of selected large cap and mid cap mutual funds to gain the combine benefits of low risk, steady returns, high liquidity and capital appreciation through diversification and expert management to the investors.

2. Objectives of the Study

The objectives of the study are:

- Identify the performance of selected equity large cap funds and mid cap funds.
- To study the risk and return of selected funds.
- To rank the selected funds on the basis of performance measurement tools

3. Literature Review

Deepak Agrawal (2007) "provides an overview of mutual fund activity in emerging markets; their size, asset allocation and also the pricing mechanism with empirical studies on its valuation. It also analyzed the data at both the fund-manager and fund-investor levels. The study revealed that the performance affected saving and investment habits of the people, confidence and loyalty of the fund manager and rewards affect the performance of the MF industry in India". Bansal and Kumar (2012) attempted to study" the performance of selected mutual funds schemes based on risk-return relationship models and also compared the return on equity shares of different sectors of Indian economy. The overall analysis found that UTI schemes being best performers and others showing below average performance". Dhanda, Batra and Anjum, (2012) attempted to study "the performance evaluation of selected open ended schemes in terms of risk and return relationship and revealed that only three schemes have performed better". Bansal, Garg and Saini, (2012) "examined the performance of selected mutual fund schemes that the risk profile of the aggregate mutual fund universe can be accurately compared by a simple market index that offers comparative monthly liquidity, returns, systematic & unsystematic risk". Mamta and Ojha, Satish Chandra, (2012) aims to evaluate the performance of Indian equity diversified mutual funds. They also analyze the relationship between risk and return of these funds, based on total risk and systematic risk. "The analysis was achieved, by assessing various financial tests like Average Return, Sharpe Ratio, Treynor Ratio, Standard Deviation, Beta and Coefficient of Determination (R2). The analysis reviled that, majority of funds selected for study have outperformed under Sharpe Ratio as well as Treynor Ratio".

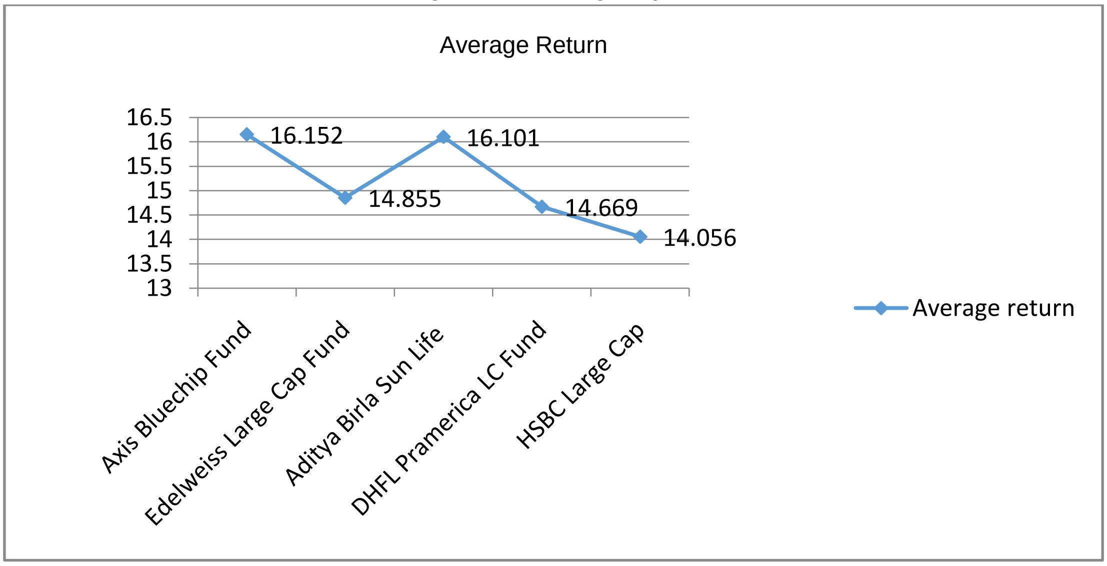
4. Research Methodology

A total of ten mutual funds were selected; five from large cap and the rest five from mid-cap equity funds. The funds were selected based on the CRISIL rankings for the month of September 2018. Net Asset Value of each mutual fund was collected from AMFI for a period of 5 years i.e. from January 2014 to December 2018 aiming at analyzing the performance of selected Large Cap and Mid Cap Mutual Funds schemes. The selected NAV Values were then compared with the benchmark index. The benchmark index for the equity large cap funds was Nifty 50 TRI and for equity mid cap funds was Nifty Midcap 100 TRI. Following tools were used for the analysis: Average Return, Standard Deviation, Beta, Risk Free Rate of Return and the Performance measurement tools (Sharpe and Treynor Measure)

5. Analysis and Results

In this section an attempt was made to measure the performance of selected mutual funds. In addition, volatility of funds to market return, beta, alpha values and standard deviation were calculated. For the purpose of performance measurement, the models developed by Sharpe and Treynor were used.

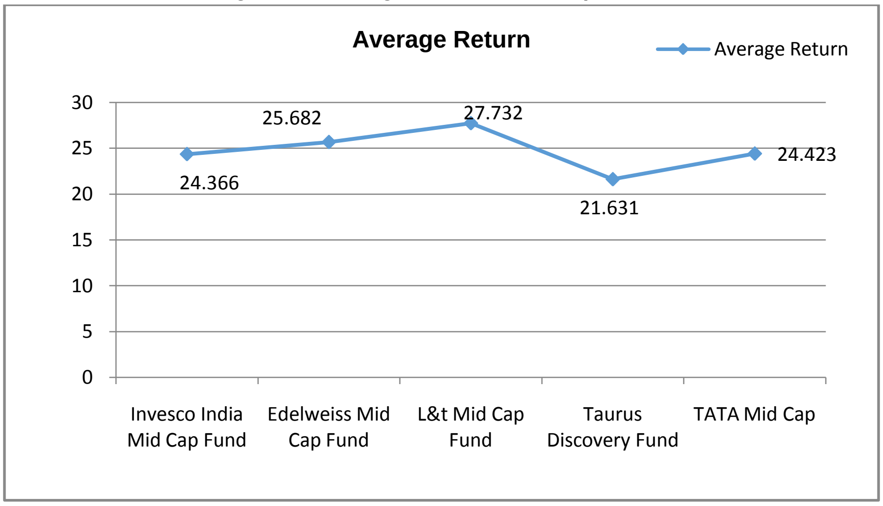
Figure 5.1
Average Return of Large Cap Funds



Source: Primary Data

The average return of Axis Blue Chip Fund is the highest i.e., 16.152 percent as compared to other Large Cap Funds and all the selected funds have outperformed the market return during the period of 2014-2018.

Figure 5.2 Average Return of Mid Cap Funds



Source: Primary Data

The return of L&T Mid Cap Fund shows that it generated the highest average return of 27.732 percent during the five years from 2014-2018 as compared to other Mid Cap Funds followed by Edelweiss Mid Cap Fund with 25.682 percent average return .

Table 5.1 Risk-Return of Large Cap Funds

Name of the Fund	Risk	Return
Axis Bluechip Fund	21.566	16.152
Edelweiss Large Cap Fund	19.041	14.855
Aditya Birla Sun Life Frontline Equity Fund	20.393	16.101

DHFL Pramerica Large Cap Fund	20.252	14.669
HSBC Large Cap Equity Fund	17.392	14.056

Source: Primary Data

Comparing the risk and return of selected Large Cap Funds it is found that Axis Blue chip fund have the highest risk i.e., 21.566 and also the highest return i.e.,16.152. HSBC Equity Fund had the lowest risk and return i.e., 17.392 and 14.056 respectively.

Table 5.2 Risk-Return of Mid Cap Funds

Name of the Fund	Risk	Return
Invesco India Mid Cap Fund	34.866	24.366
Edelweiss Mid Cap Fund	40.172	25.682
L&T Mid Cap Fund	37.419	27.732
Taurus Discovery (Midcap)Fund	29.095	21.631
TATA Mid Cap Growth Fund	38.557	24.423

Source: Primary Data

Comparing the risk and return of Mid Cap Funds it was found that Edelweiss Mid Cap Fund had the highest risk i.e., 40.172 percent and L&T Mid Cap Fund shows the highest return of 27.732 percent.

Table 5.3 Performance Analysis - Large Cap Funds

Name of the Fund	Beta	Alpha	Standard Deviation
Axis Bluechip Fund	1.281	-1.796	21.566
Edelweiss Large Cap Fund	1.136	-0.956	19.041
Aditya Birla Sun Life Frontline Equity Fund	1.176	-0.278	20.393
DHFL Pramerica Large Cap Fund	1.157	-1.545	20.252
HSBC Large Cap Equity Fund	1.017	-0.800	17.392

Source: Primary Data

All the funds are having beta more than one during the years, which shows they are risky compared to their benchmark index during this period. Axis Bluechip Fund turns out to be the most aggressive fund with a beta of 1.281 and HSBC Large Cap Equity Fund turns out to be the least aggressive among the selected funds with a beta of 1.017. None of the funds had positive alpha.

Table 5.4 Performance Analysis -Mid Cap Funds

Name of the Fund	Beta	Alpha	Standard Deviation
Invesco India Mid Cap Fund	1.098	-0.965	34.866
Edelweiss Mid Cap Fund	1.300	-1.603	40.172
L&T Mid Cap Fund	1.215	2.233	37.419
Taurus Discovery (Midcap)Fund	0.949	1.713	29.095
TATA Mid Cap Growth Fund	1.236	-1.520	38.557

Source: Primary Data

Out of the five funds Edelweiss Midcap fund turns out to be the most aggressive with a beta of 1.3 and Taurus Discovery (Midcap) Fund is the least aggressive with a beta of 0.949. All the funds except L&T Midcap Fund and Taurus Discovery (Midcap) Fund have a negative Alpha.

Table 5.5 Performance Analysis based on Sharp Ratio and Ranking - Large Cap

Fund Name	Sharpe Ratio	Rank
Axis Bluechip Fund	0.745	4
Edelweiss Large Cap Fund	0.776	3
Aditya Birla Sun Life Frontline Equity Fund	0.786	2
DHFL Pramerica Large Cap Fund	0.720	5
HSBC Large Cap Equity Fund	0.804	1

Source: Primary Data

Table 5.6 Performance Analysis based on Sharp Ratio Analysis and Ranking - Mid Cap Funds

Fund Name	Sharpe Ratio	Rank
Invesco India Mid Cap Fund	0.696	3
Edelweiss Mid Cap Fund	0.637	4
L&T Mid Cap Fund	0.739	2
Taurus Discovery (Midcap)Fund	0.741	1
TATA Mid Cap Growth Fund	0.631	5

Source: Primary Data

HSBC Large cap Equity Fund has the highest Sharpe Ratio and Taurus Discovery (Midcap) Fund has the highest Sharpe Ratio among the Mid Cap Funds and is expected to perform well in respective category.

Table 5.7 Performance Analysis and Ranking - Large Cap Funds-Treynor Ratio

Fund Name	Treynor Ratio	Rank
Axis Bluechip Fund	12.552	5
Edelweiss Large Cap Fund	13.100	2
Aditya Birla Sun Life Frontline Equity Fund	16.041	1
DHFL Pramerica Large Cap Fund	12.613	3
HSBC Large Cap Equity Fund	13.189	4

Source: Primary Data

Table 5.8 Performance Analysis and Ranking-Mid Cap Funds-Treynor Ratio

Fund Name	Treynor Ratio	Rank
Invesco India Mid Cap Fund	22.110	3
Edelweiss Mid Cap Fund	19.699	4
L&T Mid Cap Fund	22.766	1
Taurus Discovery (Midcap)Fund	22.718	2
TATA Mid Cap Growth Fund	19.699	4

Source: Primary Data

Aditya Birla Sun Life Frontline Equity fund have the highest Treynor Ratio among the large cap funds and L&T Mid Cap Fund with a Treynor Ratio of 22.766 is the highest among other Mid Cap Funds.

6. Discussion

The average return of Axis Blue Chip Fund is the highest i.e., 16.152 among large cap funds. The return of L&T Mid Cap Fund generated the highest average return of 27.732 percent during the five years from 2014-2018 as compared to other selected Mid Cap Funds which was followed by Edelweiss Mid Cap Fund with 25.682 percent average return. All the selected Mid Cap Funds have outperformed the market index return for the period of 2014-2018. While comparing the average return of both Large Cap and Mid Cap Funds, the L&T Midcap Fund has greater average return. Axis Blue Chip Fund is generating more returns at a risk of 21.566 among the Large Cap Funds. Whereas HSBC Large Equity Fund have the lowest risk of 17.392 percent and lowest return rate of 14.056. When compared with other funds in the Mid Cap Funds, L&T Mid cap Fund had a return of 27.732 percent and bears a risk of 37.419. Edelweiss Midcap Fund shows an average return of 25.682 and bears a risk of 40.172 per cent. On comparison it was found that during the period, the riskiest fund was Edelweiss Midcap Fund with a standard deviation of 40.172 percent and the least risky fund was HSBC Large Cap Fund with a standard deviation of 17.392 per cent. Taurus Discovery Mid Cap fund has lower volatility when compared to other selected mutual funds and will be preferred by the investors. Among the large cap funds, Axis Blue chip fund is the most volatile fund and Edelweiss Mid Cap Fund among the Mid Cap Funds. HSBC Large Cap Equity Fund has the highest Sharpe Ratio of 0.804 and is expected to perform well among other funds ;TATA Mid Cap Growth Fund have the least Sharpe Ratio (0.631) compared to others. On ranking the Large Cap funds on the basis of Sharpe Ratio, HSBC Large Cap Equity Fund with a high Sharpe Ratio possess the first rank. Aditya Birla Sun Life Frontline Equity Fund is ranked 2nd followed by Edelweiss Large Cap Fund. Among selected Mid Cap Funds, L&T Mid Cap Fund has a higher Treynor's Ratio and is expected to perform well among other mutual funds. Considering the Large Cap Funds, Aditya Birla Sun Life Frontline Equity Fund is ranked first in terms of performance followed by Edelweiss Large Cap Fund and DHFL Pramerica Large Cap Fund based on Treynor's ratio. On comparison of the selected large cap funds and mid cap funds it was found that the Taurus Discovery fund have the lowest beta value of 0.949 and is the least volatile fund.

7. Conclusion

The historical performance of the selected schemes Large Cap Funds and Mid Cap Funds were evaluated on the basis of Sharpe and Treynor measure in order to help investors for taking better investment decision in future. Analysis states that investors who look for high risk and high returns may opt for Axis Blue Chip Fund among the Large Cap Funds. Based on the average return factor, it would be recommended to invest in Mid Cap Funds rather than Large Cap Funds as all of the Mid Cap Funds have yielded a larger average return than the Large Cap Fund and has outperformed the market during the period of the study. The scheme with the highest return over the period of study was L&T Mid Cap Fund with an average return of 27.732 and DHFL Pramerica Large Cap Fund with the lowest return of 14.699. Considering the Sharpe's Ratio, HSBC Large Cap Equity Fund is the best performing fund in Large Cap and Aditya Birla Sun Life Frontline Equity Fund would be recommended considering Treynor's ratio.

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