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## Analysis of selected large cap open ended equity schemes of mutual funds India

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### Abstract

In India capital market provide various investment avenues to the investors, to help them to invest in various industries and to ensure the profitable return. Mutual fund ensures the minimum risks and maximum return to the investors among various financial products. Growth and developments of various mutual funds products in the Indian capital market has proved to be one of the most catalytic instruments in generating momentous investment growth in the capital market. Considering this, close monitoring and evaluation of mutual funds has become essential.

Therefore, selecting profitable mutual funds for investment is a very important issue.

This study, basically, deals with the equity mutual funds that are offered for investment by the various fund houses in India, This study mainly focused on the performance of selected equity large and mid cap mutual fund schemes in terms of risk - return relationship. The main objectives of this research work are to analysis financial performance of selected mutual fund schemes through the statistical parameters such as (alpha, beta, standard deviation, sharpe ratio).

**Keyword:** Mutual funds, Large cap, Statistical measures, Equity, Sensex & Nifty

### 1. Introduction

A mutual fund is a financial intermediary that pools the savings of investors for collective investment in a diversified portfolio of securities. Fund investors share all of its returns after deducting expenses a fund is known as "mutual". The Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 defines a mutual fund as a 'a fund established in the form of a trust to raise money through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market instruments'. According to the above definition, a mutual fund in India can raise resources through sale of units to the public. It can be set up in the form of a Trust under the Indian Trust Act.

### Objectives of the Study

1. To examine the funds sensitivity to the market fluctuation in the terms of Standard Deviation and Sharpe.
2. To assess the performance of mutual funds with regard to the model suggested by Beta and Alpha.

### Significance of the Study

Evaluating performance of mutual funds is important both for portfolio managers as well as investors. It enables an investor to access as to how much return has been generated by the portfolio manager and what risk level has been assumed in generating such returns. An investor can also appraise the comparative performance of different fund managers. Similarly fund managers would also be able to know their performance over time and also vis-a-vis that of other competitors in the industry. This evaluation provides a mechanism for identifying strengths and weaknesses of fund managers in the investment process, which helps them to take corrective actions.

### Data

This study examines 10 open-ended schemes being launched by various Mutual Fund companies. These schemes have been selected on the basis of regular data availability. The data collected is on from secondary source and the figures are dated on 16<sup>th</sup> January, 2015.

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### Limitations of the Study

For the purpose of performance evaluation, the schemes have been selected which are in operation. The schemes relate to various companies of mutual fund. The selective open ended equity/growth schemes have been considered for this purpose. The performance evaluation of all the schemes operated by selected mutual funds was not possible because of non-availability of sufficient data. Table depicts the list of

sample scheme selected for study. Different scheme launched in different inception dates for the purpose of performance evaluation and the parameters like Standard Deviation, Sharpe, Beta and Alpha has been calculated separately for all the schemes. Hence considering these points this paper is an attempt to study the performance evaluation of selected open ended growth schemes in terms of risk and return relationship.

**Table 1:** Top five funds since five years

Name Of The Open Ended Equity Growth Scheme	Sd	Sharpe	Beta	Alpha
ICICI Prudential Focused Bluechip Equity Fund- Regular Plan	14.30	1.19	0.92	4.28
L & T Equity Fund	15.28	1.15	0.96	4.21
UTI Equity Fund	14.61	1.30	0.93	6.12
UTI Opportunities Fund	14.21	1.11	0.89	3.45
L & T India Large Cap Fund	14.40	1.12	0.91	3.50

Source: www.valueresearchonline.com

**Table 2:** Bottom five funds since five years

Name of the open ended equity growth scheme	Sd	Sharpe	Beta	Alpha
HSBC Dynamic Fund	12.53	0.66	0.80	-2.79
Sundaram Select Focus Fund- Regular Plan	15.95	0.76	1.01	-1.99
Goldman Sachs CNX Nifty Shariah BeES Fund	11.93	0.86	0.62	1.62
JM Equity Fund	17.97	0.92	1.15	0.58
BOI AXA Equity Fund- Regular Plan	14.45	1.06	0.92	2.58

Source: www.valueresearchonline.com

### Performance Appraisal

When Alpha is above 1 then the fund has outperformed compared to the benchmark while if it is below 1 then it has underperformed. As per the Table 1 the top five funds have positive Alpha which means their performance has outperformed the benchmark while the bottom five funds in the Table 2 have near to 1 and are in negative which shows they are underperformed in comparison to the benchmark. UTI Equity Fund has the highest Alpha 6.12 and HSBC Dynamic Fund has the lowest Alpha -2.79.

Beta measures volatility of a fund in comparison to the market as a whole that is when Beta of a particular fund is less than 1 then the fund is less volatile and when it is more than 1 than the fund is more volatile as compared to the market. The market benchmark of Sensex and Nifty has a Beta of 1. We can see in the Table 1 that the funds have Beta less than 1 while in the Table 2 Sundaram Select Focus Fund- Regular Plan and JM Equity Fund have Beta more than 1.

When a Standard Deviation is higher it shows that there is more potentiality for volatility of the fund's performance. JM Equity Fund has the maximum volatility as its SD is 17.97 while Goldman Sachs CNX Nifty Shariah BeES Fund has the least 11.93. Hence a higher SD number indicates that the net asset value (NAV) of the mutual fund is more volatile and, it is riskier than a fund with a lower SD.

Sharpe ratio explains an investor that the return generated are due to good investment decisions or the returns are by the risk taken. It can be said that the greater the fund's Sharpe ratio the risk is adjusted in a better way. The ratio helps an investor to know whether it is a safe to invest in this fund by taking the quantum of risk. The Table 1 shows that the risk is adjusted in the better way in all the funds and amongst them UTI Equity Fund is leading with 1.30 while HSBC Dynamic Fund is at the last with 0.66.

### Conclusion

We can conclude that by analyzing Standard Deviation, Sharpe, Beta and Alpha certain funds are best while certain are worst. Each measurement has its own interpretation by which we can judge in which fund to invest. The funds of Table 1 ICICI Prudential Focused Bluechip Equity Fund, L & T Equity Fund, UTI Equity Fund, UTI Opportunities Fund and L & T India Large Cap Fund are the best funds to invest. This will be a profitable decision of the investors considering the comparison of the fund with the benchmark, its volatility and risk adjustment. The fund in the Table have underperformed considering their benchmark, their risk is not managed in a proper way hence the investment in such funds may prove financially worse.

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