

A Study on the Performance of Mutual Funds of Indian Amcs

Dr.P.Srinivas Reddy

Assistant Professor Department of Commerce, Nizam College, Osmania University

ABSTRACT: A mutual fund is a pool of capital managed by an Asset Management Company (AMC), which gathers funds from individual and institutional investors. These funds are then invested across various securities, including stocks, bonds, real estate, and other capital assets, as well as in other mutual funds. Asset Management Companies typically offer various categories of equity mutual funds, each with its own risk profile. When evaluating mutual funds, performance metrics like trailing return and rolling return are commonly used. However, long-term investors must also consider other factors—such as assets under management (AUM), expense ratios, the number of stocks in the portfolio, and the experience of the fund managers when selecting a mutual fund.

This study aims to explore the relationship between the performance of selected equity mutual funds and the key factors that investors consider when choosing a fund. The research employs t-statistics to identify any significant correlations.

The findings indicate that there is no substantial relationship between the trailing return of any type of equity mutual fund and the factors chosen by investors. However, the number of stocks in the portfolio and the experience of the management team slightly influence the rolling return of large-cap equity mutual funds. Additionally, assets under management have a minor impact on the rolling return of mid-cap mutual funds.

Keywords: asset management companies, mutual funds, trailing return, rolling return, assets under management, expense ratio

I. INTRODUCTION

India has seen a huge boom in the asset management industry in recent years with a growth of 1400 percent over the last 15 years, and it is only going to pick up its space to expansion with impetus from the growth of other investment funds. The asset management industry has hit a record of \$126trillion in total assets in the year 2022. The asset management industry has observed a remarkable achievement in the market of profitability, revenue growth; however, the industry is facing certain challenges from various angles. For the last decade, asset management industry has substantial growth in net assets and has provided higher margins, growing capital requirement, and high historical growth. It is observed that globally the ten largest listed asset management companies (AMCs) account for 90% of total assets.

Considering today's economic scenario and the dynamic economic conditions, people believe in transparency when it comes to their investment decisions. They are investing in different kinds of Mutual funds (MFs), which happens to be managed by AMCs. All the AMCs are in turn regulated by SEBI who keeps a close watch of their objections and workings. Thus, people find AMCs more reliable and trustworthy, with SEBI acting as their watchdog. After change in regulations of SEBI, customers are more attracted towards AMCs for investing their funds as these companies are bound to work in the interest of the investors complying the guidelines laid down by SEBI. The RBI also plays an essential role in regulating AMCs. People nowadays are very concerned about managing their funds and taking right investment decisions, but have very little knowledge about the functioning of stock markets. This is when; they need a financial expert or say AMC to do their task. On this backdrop, we will make an analysis on the performance of some of the top most MFs of AMCs.

II. LITERATURE REVIEW

The literature review plays a crucial role in any research as it helps identify research gaps and establish clear research objectives. Over the past few decades, numerous studies have been conducted on Mutual Funds (MFs) from various perspectives, both in India and globally. Below is a concise summary of existing literature on earnings management:

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A Mutual Fund (MF) is an investment company that actively manages funds by pooling money from both institutions and individuals. These pooled funds are then invested in a portfolio of securities, with the investment manager working towards achieving the fund's objectives, as highlighted by Samsul (2015).

Other terms commonly used to describe this process include investment management, portfolio management, and money management. The individual responsible for managing an investment portfolio is known as an asset manager, investment manager, portfolio manager, or money manager, as per Sim (2020).

According to Irene Roda (2018), asset management companies (AMCs) play a significant role in bank restructuring by collecting funds from both individual and institutional investors. They also manage impaired assets during financial crises, disposing of them based on factors such as asset size, asset type, and banking system structure.

Kozhevnikov (2019) stated that asset management companies within MFs are responsible for monitoring investments and operations. When an investor invests in an AMC, they essentially purchase a portfolio of assets offered by that company. It is then the investor's decision to assess whether the investment is beneficial.

Mathur (2020) emphasized that a structured asset management system provides detailed data on the effects of investing at different levels. It also shows the impact of allocating resources, such as finance, equipment, and materials, among various activities. This system helps investors understand the short-term and long-term impacts of their investment choices, along with resource limitations and performance measures.

Nandy (2019) noted that AMCs play an important role in providing investors with up-to-date information about their MF holdings. These companies are responsible for delivering regular updates on repurchases, sales, portfolio details, returns, and more, thereby safeguarding investors' interests and ensuring accountability.

Wachasunder (2018) conducted a study on the performance of small-cap equity MFs in India over a five-year period, focusing on the top 10 small-cap funds. Using metrics such as Standard Deviation, Beta, Alpha, R-Squared, and Sharpe Ratio, the research concluded that all the small-cap MFs showed strong performance.

Thakur (2019) analyzed the comparative performance of retirement-focused MF schemes over a five-year period, using measures like CAGR, Average Return, Sharpe Ratio, Treynor Ratio, and Jensen's Alpha.

Sanjana et al. (2020) conducted research on the performance of large-cap, mid-cap, and small-cap MFs available in India, employing statistical tools like Sharpe Ratio, Treynor Ratio, and Jensen's Alpha to analyze their performance.

From the reviewed literature, it is clear that while extensive research has been conducted on MFs worldwide, including in India, there is a noticeable gap in studies focused on the performance of equity MFs offered by Indian AMCs. This research gap provides an opportunity for further exploration in this area.

III. OBJECTIVES OF THE STUDY

As mentioned earlier, there exists a substantial body of literature exploring various aspects of Mutual Funds (MFs). This study, however, aims to focus specifically on the following objectives:

- To provide an overview of Equity Mutual Funds (MFs).
- To analyze the performance of the top "Equity Large-cap, Mid-cap, and Small-cap MFs."
- To examine the relationship between different types of returns of MFs (such as trailing return and rolling return) and various parameters associated with MFs (including Assets Under Management, expense ratio, management experience, and the number of stocks in the portfolio)

IV. RESEARCH METHODOLOGY

Nature of study	The study is analytical and descriptive in nature.
Datasource	<ul style="list-style-type: none"> The data has been collected only from the secondary sources. The secondary data has been obtained from the website of Asset management Companies and other URLs like Advisor khoj, Moneycontrol.com, Value Research etc.
Study Period	The study period is for 5 years only.
Number of companies	It is based on the rank of first quartile from the list of Trailing returns of selected "MFs" viz. "Large Cap", "Mid Cap" and "Small Cap".
Methods of presentation and analysis	<ul style="list-style-type: none"> The data has been presented in tabular form. Correlation Coefficient has been used to identify the relationship between different kinds of returns (trailing and rolling returns) with other independent variables like assets under management, expense ratio, experience of management, number of stocks.

V. OVERVIEW OF MFS

Concept of MFS:

A Mutual Fund (MF) is an investment scheme managed by a professional organization, typically an asset management company (AMC). This company gathers funds from a group of individual investors and institutions to invest in a variety of assets, including stocks, bonds, and other securities such as gold. Essentially, an MF acts as a financial vehicle that pools money from multiple investors to invest in securities like stocks, bonds, money market instruments, and other assets.

Professional money managers are tasked with overseeing the fund, allocating its assets, and striving to generate capital gains or income for the fund's investors. The portfolio of an MF is structured and managed to align with the investment objectives outlined in the fund's prospectus. MFs provide small or individual investors access to professionally managed portfolios composed of equities, bonds, and other securities. As a result, each shareholder participates proportionally in the fund's gains or losses.

Since MFs invest in a wide range of securities, their performance is typically measured by the change in the total market capitalization of the fund, which reflects the aggregated performance of the underlying investments. Based on the composition of the portfolio, MFs can be categorized into two main types: **Pure Equity MFs** and **non-equity MFs** (such as Debt MFs, Bond MFs, Liquid MFs, etc.).

Types of Equity MFS

Equity mutual funds (MFs) can be categorized in several ways, but one common method of classification is based on the market capitalization of the companies the fund manager invests in. These categories are as follows:

- **Large-Cap Mutual Funds:**
Large-cap MFs primarily invest in companies with a significant market capitalization. According to SEBI, these companies are among the top 100 based on market size. Large-cap funds tend to offer more stability and are generally considered safer investments with steady returns, especially over the long term. These funds often focus on generating regular dividends and compounding wealth. The relatively lower risk associated with large-cap stocks makes them a preferred option for conservative investors. (Source: [Groww](https://groww.in/p/equity-funds/large-cap-mutual-funds))
- **Mid-Cap Mutual Funds:**
Mid-cap MFs invest in companies with a market capitalization ranked between 101 and 250. These funds can offer higher potential returns than large-cap funds due to the growth potential of mid-sized companies. SEBI mandates that mid-cap funds invest at least 65% of their total assets in equities. While mid-cap MFs come with greater risk compared to large-cap funds, they are less volatile than small-cap funds, making them a middle ground for investors seeking a balance between risk and reward.
- **Small-Cap Mutual Funds:**
Small-cap MFs focus on companies ranked beyond the top 250 in terms of market capitalization. These funds are known for their high potential to generate substantial returns over the long run, though they are also subject to significant market fluctuations. According to SEBI, small-cap funds must allocate at least 65% of their investments

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to small-cap stocks. Due to their volatility, small-cap funds can be riskier, but they also provide the opportunity for higher returns in the long term.

Measuring the Returns of Equity Mutual Funds:

The performance of MFs can be evaluated in various ways. In this analysis, we focus on two key measures: trailing return and rolling return.

Trailing Return:

Trailing return, also known as point-to-point return, measures the performance of an MF over a specific period, such as one year or five years. It is calculated by annualizing the difference between the current NAV (Net Asset Value) and the NAV from a specific point in the past. A longer time frame, such as five years or more, provides a clearer picture of the fund's performance, as market volatility tends to smooth out over time.

Rolling Return:

Rolling return calculates the average annualized return over different periods, such as daily, weekly, monthly, or yearly. By considering multiple points in time, rolling returns help assess the consistency of a fund's performance, accounting for both positive and negative market trends. A fund with more significant negative returns during certain periods may be considered more volatile compared to one with less downside.

➤ Key Factors Affecting Equity MFs Performance:

Several factors influence the performance of equity MFs. In this analysis, we focus on four primary factors:

Assets under Management (AUM):

AUM refers to the total market value of all the investments managed by an asset management company (AMC) on behalf of investors. As securities' values change, AUM fluctuates daily, reflecting the inflow and outflow of money and the fund's price performance. A larger AUM indicates that investors prefer a particular fund over others.

Expense Ratio:

The expense ratio encompasses the management fees and operational costs associated with an MF. Since these expenses are borne by the investors, they directly impact the net returns. A higher expense ratio means lower returns for the investor, so it's crucial to consider when selecting a fund. The expense ratio is calculated by dividing the total expenses by the total AUM.

Management Experience:

The experience of the fund managers plays a significant role in the fund's performance. More experienced managers are generally better at managing assets and making effective investment decisions, which can result in better returns for the investors.

Number of Stocks in the Portfolio:

The number of stocks in an MF's portfolio depends on the category of the fund. A more concentrated portfolio may offer higher returns but also carries higher risk. Conversely, a portfolio with more stocks can provide better diversification and reduce risk over time.

By understanding these categories, measurement methods, and factors influencing performance, investors can make informed decisions when selecting equity mutual funds for their portfolios.

VI. PRESENTATION OF DATA AND ANALYSIS

The study has been made on three categories of equity MFs viz. large cap, Mid-cap and small cap MFs. To identify the relationship between different kinds of returns and the different parameters associated with MFs t-statistic has been used.

Analysis of Large Cap MFs

SL. no	Name of the fund	AUM (Crore)	Expense ratio	Continuity of Manager	No. of stocks	5years't railing return	Rolling return
1	Canara Robero Blue chip	8,832.26	0.42	July,2016	46	14.24	-16.25
2	Axis Blue chip	36,890.65	0.55	Nov., 2016	37	12.54	-12.84
3	Edelweiss Large cap	391.65	0.93	May,2017	66	12.35	-24.11
4	Sundaram Large cap	3,172.19	0.55	May,2022	50	12.17	-28.34
5	Kotak Blue chip	5,427.09	0.69	Jan,2014	58	12.03	-25.37
6	IDBI India	643.41	1.25	Aug,2021	56	11.77	-21.42

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7	ICICI Prudential Blue-chip	35,929.4	1.07	Jan,2021	71	11.68	-28.43
8	UTI Master Share	11038.9	0.98	Sep.,2022	50	11.48	-26.13

Values of Large Cap MFs

	AUM	Expense Ratio	Number of stocks	Experience of management
Trailing Return	0.0266	-0.1945	-0.1802	1.7614
Rolling Return	0.54832	1.18	2.9191	4.139

Acceptance of hypothesis

Return	AUM	Expense Ratio	Number of stocks	Experience of management
Trailing Return	Null accepted	Null accepted	Null accepted	Null accepted
Rolling Return	Null accepted	Null accepted	Alternative accepted	Alternative accepted

Interpretation:

- The critical value of the t-distribution at a 5% significance level for 8 degrees of freedom is 2.306.
- It was found that there is no significant relationship between the trailing return of large-cap mutual funds (MF) and factors such as assets under management, expense ratio, number of stocks, and the experience of management, as the null hypothesis was not rejected.
- However, when analyzing the relationship between rolling returns and both the number of stocks and the experience of management, the calculated values exceeded the tabulated value. This indicates that the alternative hypothesis is supported, suggesting a significant relationship between these variables. Analysis of Mid Cap Mfs Data of Mid Cap MF

SL. no	Name of the fund	AUM (Crore)	Expense ratio	Continuity of Manager	No. of stocks	5years't railing return	Rolling return
1	Quant Midcap	1272.71	0.63	May2020	33	21.5	-26.77
2	PGIM India midcap Opportunities	7576.62	0.39	April2018	47	18.1	-22.18
3	Axis Midcap	19741.37	0.54	Nov 2016	67	15.8	-11.18
4	Kotak Emerging Equity Scheme	23223.54	0.49	Jan2013	71	14.35	-25.74
5	Motilal Oswal Midcap Fund	3657.17	0.87	Mar 2018	29	14.21	-26.82
6	Invesco India Midcap	2694.35	0.72	Mar 2018	60	14.02	-21.00
7	Edelweiss Midcap	2477.71	0.48	Oct2021	59	13.41	-24.80
8	Nippon India Growth Fund	13860.86	1.0	Jan2023	89	13.37	-27.65

Values of Mid Cap MFs

Return	AUM	Expense Ratio	Number of stocks	Experience of management
Trailing Return	0.6520	0.0878	1.6161	0.1062
Rolling Return	2.3475	1.0954	0.406	0.8575

Acceptance of hypothesis

Return	AUM	Expense Ratio	Number of stocks	Experience of management
Trailing Return	Null accepted	Null accepted	Null accepted	Null accepted

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Rolling Return	Alternative accepted	Null accepted	Null accepted	Null accepted
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Interpretation:

- ✓ - The critical value at the 5% significance level for 8 degrees of freedom is 2.306.
- ✓ - It was observed that there is no significant relationship between the trailing return of large-cap mutual funds (MF) and factors such as assets under management, expense ratio, number of stocks, and the experience of management, as the null hypothesis was accepted.
- ✓ - However, when examining the relationship between rolling returns and assets under management, the calculated value exceeded the tabulated value. This supports the alternative hypothesis, indicating that there is a significant relationship between these two variables.

Data of Small Cap MF

SL. no	Name of the fund	AUM (Crore)	Expense ratio	Continuity of Manager	No. of stocks	5years't railing return	Rolling return
1	Quant Small Cap	2580.22	0.62	May2020	65	24.82	-41.58
2	Axis Small Cap	11358.11	0.51	Oct2016	80	18.65	-14.62
3	Kotak Small Cap	8498.23	0.59	Jan2013	74	16.07	-28.11
4	Nippon India Small Cap	23765.05	0.86	Jan2017	161	15.66	-33.65
5	SBI Small Cap	15335.11	0.72	Nov 2013	52	14.28	-22.90
6	ICICI Prudential Small Cap	4591.47	0.81	Nov 2018	56	13.94	-30.34
7	HDFC Small Cap	14688.97	0.82	June2014	68	12.99	-42.20
8	Union Small Cap	725.54	1.29	Oct2016	55	12.38	-24.89

Values of the Small Cap MFs

Return	AUM	Expense Ratio	Number of stocks	Experience of management
Trailing Return	0.5223	1.8362	0.1632	1.6115
Rolling Return	0.0559	0.1968	0.3173	0.6194

Acceptance of hypothesis

Return	AUM	Expense Ratio	Number of stocks	Experience of management
Trailing Return	Null accepted	Null accepted	Null accepted	Null accepted
Rolling Return	Null accepted	Null accepted	Null accepted	Null accepted

Interpretation:

- ❖ The critical value at the 5% significance level for 8 degrees of freedom is 2.306.
- ❖ It was observed that there is no significant relationship between the trailing return of small-cap mutual funds (MF) and factors such as assets under management, expense ratio, number of stocks, and experience of management, as the null hypothesis was accepted.
- ❖ - Additionally, when analyzing the relationship between rolling returns and assets under management, expense ratio, number of stocks, and experience of management, it was found that the data supports the null hypothesis, indicating no significant relationship between these variables.

VII. FINDINGS AND CONCLUSION

A. Relating to performance of MFs:

1. In case of large cap MF:

- ❖ Canara Robeco Blue-chip Fund delivers the highest trailing return, even though Axis Blue-chip Fund manages the largest assets.
- ❖ Additionally, Axis Blue-chip Fund leads in assets under management due to its strong rolling return (indicating the lowest fluctuation in returns over a year), which outperforms other funds. This performance is also influenced by its second-lowest expense ratio, experienced management team, and the involvement of fewer stocks.

2. In case of Mid-cap MF:

- The Quant Midcap Fund has delivered the highest trailing return, despite having relatively lower assets under management compared to other funds.
- On the other hand, Axis Midcap and Kotak Emerging Equity Scheme hold the largest assets in the Midcap category. However, these funds have not fully capitalized on their size, as their returns do not surpass those of other funds in the same category.

3. In case of Small-cap MF category:

- ❖ The Quant Small Cap Fund offers the highest trailing return, despite having significantly lower assets under management compared to other funds.
- ❖ In the small-cap category, the Axis Small Cap Fund has the lowest rolling return. Nevertheless, it holds a larger share of assets under management relative to its peers. This can be attributed to factors such as its relatively low expense ratio, the experience of its management team, and the broad diversification across multiple stocks.

B. Relating to the relationship between performance of MFs and other parameters:

1. In case of large cap MF:

- Over the past five years, the trailing return of large-cap mutual funds has not been significantly impacted by the factors considered in our study, which investors typically use when selecting funds.
- However, the rolling return of large-cap funds has been somewhat influenced by factors like the number of stocks in the portfolio and the experience of the management team.
- Therefore, it can be concluded that since large-cap funds primarily invest in established large-cap companies, their returns are less affected by external factors. Instead, the returns are largely driven by the performance of the individual stocks selected for the portfolio.

2. In case of Mid-cap MF:

- ❖ The five-year trailing return of mid-cap mutual funds (MFs) appears to be largely unaffected by the other factors considered in our study, which investors typically use when selecting funds.
- ❖ However, the rolling return of mid-cap MFs shows a slight influence from assets under management (AUM).
- ❖ Therefore, it can be concluded that although mid-cap MFs primarily invest in mid-cap companies, their returns are mainly determined by the performance of the individual stocks selected, rather than being influenced by the other factors.

3. In case of Small-cap MF category:

- ❖ The five-year trailing return and the rolling return of small-cap mutual funds (MFs) are not significantly influenced by the other factors (considered in our study) that investors typically use when selecting funds.
- ❖ Therefore, it can be concluded that, even though small-cap MFs primarily invest in small-cap companies, their returns are not controlled by these other factors. Instead, the returns are largely determined by the long-term performance of the selected stocks.

VIII. LIMITATIONS OF THE STUDY

The study has the following limitations:

- ❖ This research focuses solely on the performance of active funds, and the performance of passive funds has not been included.
- ❖ Only the returns of direct mutual funds (MFs) have been considered in the study, while the returns of regular MFs are not part of this analysis.
- ❖ The study is restricted to equity MFs, with debt and hybrid MFs excluded from the research.
- ❖ Since the study relies exclusively on secondary data, it does not take into account investors' perceptions regarding the factors they consider when selecting MFs.

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