

A Comparative Study of Selected Equity Schemes with Special Reference to Birla Sun Life Mutual Funds

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ABSTRACT

The analysis is also compared with the calculations based on the beta, standard deviation, Sharpe ratio, Treynors ratio, Jensen ratio. These are the risk adjusted measures and views the performance from the angle of risk and returns. Sharpe Ratio measures the risk premium per unit of total risk. Treynor Ratio measures premium per unit of market risk and alpha shows the performance of funds. The beta of the scheme should be lower and standard deviation of the scheme should be lower and the Sharpe ratio of the scheme should be higher. The fund manager accordingly manage the funds by allocating major portfolio to those sectors which defend and sustain over economic trend.

1. INTRODUCTION

Mutual funds are financial intermediaries, which collect the savings of investors and invest them in a large and well-diversified portfolio of securities such as money market instruments, corporate and government bonds and equity shares of joint stock companies. A mutual fund is a pool of commingled funds invested by different investors, who has no contact with each other. Mutual funds are conceived as institutions for providing small investors with avenues of investments in the capital market. Since small investors generally do not have adequate time, knowledge, experience and resources for directly accessing the capital market, they have to rely on an intermediary, which undertakes informed investment decisions and provides consequential benefits of professional expertise. The advantages for the investors are reduction in risk, expert professional management, diversified portfolios, and liquidity of investment and tax benefits. By pooling their assets through mutual funds, investors achieve economies of scale. The interests of the investors are protected by the SEBI, which acts as a watchdog. Mutual funds are governed by the SEBI (Mutual Funds) Regulations, 1993. The flow chart below briefly describes the working of a mutual fund.

RECENT TRENDS IN MUTUAL FUND INDUSTRY

The most important trend in the mutual fund industry is the aggressive expansion of the foreign owned mutual fund companies and the decline of the companies floated by nationalized banks and smaller private sector players. Many nationalized banks got into the mutual fund business in the early nineties and got off to a good start due to the stock market boom prevailing then. These banks did not really understand the mutual fund business and they just viewed it as another kind of banking activity. Few hired specialized staff and generally chose to transfer staff from the parent organizations. The performance of most of the schemes floated by these funds was not good. Some schemes had offered guaranteed returns and their parent organizations had to bail

out these AMC's by paying large amounts of money as the difference between the guaranteed and actual returns. The service levels were also very bad.

Most of these AMC's have not been able to retain staff, float new schemes etc. and it is doubtful whether, barring a few exceptions, they have serious plans of continuing the activity in a major way. The experience of some of the AMC's floated by private sector Indian companies was also very similar. They quickly realized that the AMC business is a business, which makes money in the long term and requires deep-pocketed support in the intermediate years.

2. OBJECTIVES OF THE STUDY

- To study and analyze the performance of Equity Mutual Fund in the market.
- To examine the performance of selected schemes on the basis of risk and return.
- To evaluate the comparison of selected large cap equity schemes of selected AMC's.=

RESEARCH METHODOLOGY

Research is defined as a process of creating new and unique knowledge specific to an applied field of study. It takes the form of systematic investigation into phenomena of concern to the field of study using a range of quantitative and qualitative approaches, the results of which add to, confirm, or reject what is already known.

RESEARCH DESIGN

“A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.”

COLLECTION OF DATA

PRIMARY DATA

The primary data are those which are collected for a specific purpose directly from the field of enquiry and for the first time and thus happen to be original in nature.

SECONDARY DATA

The secondary data, on the other hand are which have been passed through the statistical process. These data's are already existing information and nothing new is found.

The researcher has to only analyze the present data for the study. Therefore the data collected for this study is also only secondary data that are available from the fact sheets and Websites of the companies. It has been collected from various books, studies, and the annual reports of various institutions like BIRLA SUNLIFE, HDFC ,UTI ,SBI, FRANKLIN TEMPELTON, DSPBR, RELIANCE and ICICI MUTUAL FUNDS etc.,

3. NEED OF THE STUDY

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. Mutual funds are one of the best investments ever created because they are very cost efficient and very easy to invest in. The present study is carried out to find out the returns

of the funds thereby studying the performance of the equity schemes in the market. The investor invests the funds based on the returns, net asset value and also the trend prevailing in the market. Hence it becomes necessary to study the above to facilitate the BIRLA SUNLIFE in the Mutual fund Sector. Since the market being high volatile there is a need to study the performance and comparative statement of various equity funds performing in the market.

4. LIMITATIONS OF THE STUDY

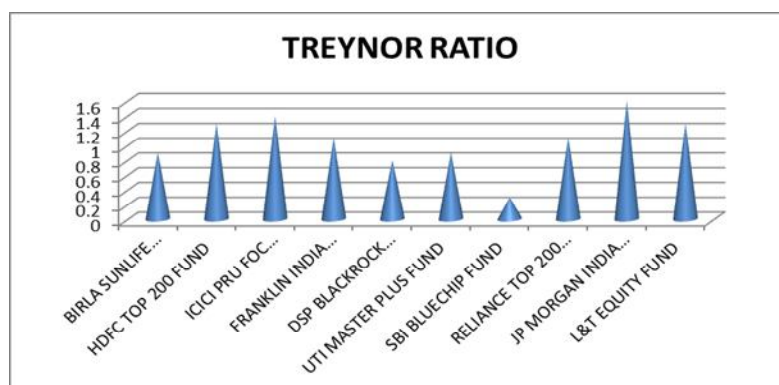
The Not single work is an exception to the limitations every work has got its limitations. The data collection here in this project is strictly confined to the secondary sources. No primary data was associated with the project. Collecting historical data is very difficult. Selection of the schemes for the study is also a very difficult task because of the wide variety of schemes.

CALCULATION OF TREYNOR RATIO FOR THE YEAR 2010

SCHEMES	TREYNOR RATIO	RANK
Birla Sunlife Frontline Equity Fund	0.9	7
Hdfc Top 200 Fund	1.3	3
Icici Pru Foc Bluechip Fund	1.4	2
Franklin India Bluechip Fund	1.1	4
Dsp Blackrock Equity Fund	0.8	9
Uti Master Plus Fund	0.9	7
Sbi Bluechip Fund	0.3	10
Reliance Top 200 Fund	1.1	4
Jp Morgan India Equity Fund	1.6	1
L&T Equity Fund	1.3	3

$$\text{Treynor Ratio} = (R_p - R_f) / \beta_p$$

CALCULATION OF TREYNOR RATIO FOR THE YEAR 2009



$$\text{Treynor Ratio} = (R_p - R_f) / \beta_p$$

INFERENCE

Treynor ratio is a risk-adjusted measure of return based on systematic risk. It is similar to the Sharpe ratio with the difference being that it used beta as the measurement of volatility. Treynor Ratio evaluates the performance with respect to the systematic risk. Just like the rule for

interpreting the Sharpe ratio, the higher the number the better. Like the Sharpe ratio, the Treynor Ratio (sometimes called reward-to-variability-ratio) also relates excess return to risk; but systematic risk instead of total risk is used. The higher the ratio better is the performance under analysis. A ranking of portfolios based on the Treynor Ratio is only useful if the portfolios under consideration are sub-portfolios of a broader, fully diversified portfolio. If this is not the case, portfolios with identical systematic risk, but different total risk, will be rated the same. But the portfolio with a higher total risk is less diversified and therefore has a higher unsystematic risk which is not priced in the market.

From the above chart and table it is clear that BIRLA SUN LIFE MUTUAL FUND has given a normal performance. In 2012 and 2009 it has performed well, but in 2011 and in 2010 the performance was not good. It gave returns but the returns were not no good.

$$\text{Jensen} = \alpha + r_f + \beta(r_m - r_f)$$

INFERENCE

The treynor and sharp indexes provide measures for ranking the relative performances of various portfolios, on a risk-adjusted basis. Jensen attempts to construct a measure of absolute performance on a risk-adjusted basis, (i.e.) a definite standard against which performance of various funds can be measured. This standard is based on measuring the “portfolio managers predictive ability (i.e.) his ability to earn returns through successful prediction of security prices which are higher than those which we could expect given the level of riskiness of his portfolio. Here a positive value represents average superior extra return accruing to that particular portfolio. Zero indicates neutral performance, and a negative value indicates inferior performance.

From the above chart it is clear that BIRLA SUN LIFE FRONTLINE EQUITY FUND has a normal performance in 2009, in the year 2010 and 2011 it has good performance but in 2012 it again came down. This shows that the fund is volatile in the market.

5. FINDINGS

Strategy of scheme selection though there are lot of schemes available in the fund house the schemes are selected under same objective and equity allocation to same category. The schemes have been selected according to the crisil rating. Capitalization Asset allocation. The entire selected scheme have allocated majority of corpus to large cap stock and some schemes also have allocation to mid-cap Portfolio. Portfolio of the selected schemes are designed by respective fund manager and their management style. The portfolio has diversified allocation to all sectors and the sectors will be selected acc., to objective of schemes and economic trend. The fund manager has the whole discretion towards the percentage of allocation to respective sectors. The stocks of the sectors will be picked by the fund manager acc., to their intelligence and research. The efficiency of scheme performance fully depend on the efficiency of the fund manager's management style.

6. CONCLUSION

Mutual funds are one of the best investments ever created because they are very cost efficient and very easy to invest in. This comparative study tells how does each fund has performed in the market and what are all the changes to be made in order to give a better performance. All the selected scheme have allocated majority of corpus to large cap stock and some schemes also

have allocation to mid-cap. Various external causes affect the fund performance; it is suggestable for the investors to choose the right scheme according to their risk appetite tolerance and objective of the scheme. And it is always suggested to invest in equity schemes for longer tenure.

7. TOOLS USED FOR ANALYSIS AND INTERPRETATION

RETURN

Returns are basically the percent change of the market value of scrip over time. Return on a typical investment consists of two components. The basic component is the periodic cash receipts (or income) on the investment, either in the form of interest or dividends. The second component is the change in the price of the asset – commonly called the capital gain or loss. This element of return is the difference between the purchase price and the price at which the asset can be or is sold; therefore, it can be a gain or a loss.

The return has been calculated as under:

$$\text{Return: } R = (P_t - P_{t-1}) / P_{t-1}$$

Where, R is the difference between prices for two consecutive days divided by the price of the preceding day

$$\text{Market Return: } R_{mt} = (M.\text{Ind}_t - M.\text{Ind}_{t-1}) / M.\text{Ind}_{t-1}$$

Where, R_{mt} is the difference between markets indices of two consecutive days divided by market index for the preceding day.

RISK

Risk is neither good nor bad; rather it is viewed in some context. The difference between the required rate of return on mutual fund investments and the risk free is the risk premium. There are many sources that determine the appropriate risk premium, including market risk, business risk, liquidity risk, financial risk, credit risk for bonds and political and currency risks for international assets.

MEASURING RISK

To quantify the relationship between risk and return precisely, the following tools have been used.

It is used to measure the variation in individual returns from the average expected return over a certain period. Standard deviation is used in the concept of risk of scrip. Higher standard deviation means a greater fluctuation in expected return. The standard deviation for the monthly returns are calculated and annualized by multiplying with square root of twelve.

$$\sigma = \sqrt{(X - \bar{X})^2 / N}$$

Where, x is the returns, $\bar{x}$ is the average of x , and N is the total number of the observation or sample size. The standard deviation essentially reports scrip's volatility, which indicates the tendency of the returns to rise or fall drastically in a short period of time. A security that is volatile is also considered higher risk because its performance may change quickly in either direction at any moment. The standard deviation of scrip measures this risk by measuring the degree to which the scrip fluctuates in relation to its mean return, the average return of scrip over a period of time.

Beta: Measure of Systematic Risk

$$\beta_j = [(X - \bar{X})(Y - \bar{Y}) / (n - 1)] / \sqrt{(X - \bar{X})^2 / N} \text{ where}$$

β_j . β of security,

x is the returns

xbar is the average of x

N is the total number of the observation or sample size.

Y is the benchmark returns of the scheme

The expected return on the share of a company depends on its beta. If β value is high the expected return will also be high.

- The estimate of beta would depend on the period of analysis (say 1yr, 3yr or 5 yrs) and the frequency of returns (Eg. daily, weekly or monthly) the analysis should be careful in using reasonable period and time interval.

Importance of β

The diversifiable risk is of no importance as it has been eliminated. What is important to such an investor is the non-diversifiable risk arising from market wide movements of security prices. This is the most important conclusion of MPT. The real risk ness of the security is its non-diversifiable risk.

A Beta tells not just how volatile a stock has been, but how volatile it has been relative to the market. An extremely useful characteristic of Beta statistics is that they are so stable through time that is relatively unimportant whether they are calculated from daily, weekly, or monthly data, or whether the historical base in the calculation is one, two, or even five years in length. The modern portfolio theory asserts that the risk premium of any security is directly proportionate to the risk as measured by the beta.

8. REFERENCES

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