

A COMPARITIVE STUDY ON THE PERFORMANCE OF MUTUAL FUNDS SBI MUTUAL FUNDS V/S OTHERS

¹Dr. Rajesh Manikraoji Naik, ²M R Senapathy

¹MCom Mphil, PhD, Research Guide RTM Nagpur University

²Msc, MBA, Mphil CAIIB, Associate professor, Siva Sivani Institute of Management. (India)

ABSTRACT

As of December 2008, mutual funds were a \$9.6 trillion industry. Simply, mutual funds are professionally managed funds that collect money from people to invest in a range of securities including stocks, bonds, money markets, and other investments. If the fund is actively managed, then the fund manager makes trades on a regular basis. But there are many mutual funds that are called index funds that mirror the performance of various indexes like the Standard & Poor's 500 and do not need to make a lot of trades, and thus a fund manager.

Mutual fund has become the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at relatively low cost. It is a tool that allow small investor access to well diversified portfolio of equities, bonds and other securities and each shareholder participates in the gain or loss of fund. Investments in each security are spread across wide cross section of industries and sectors that risk is diversified & reduced.

Post liberalization many private players started mutual fund companies some of them being Reliance mutual fund, ICICI mutual fund, HDFC mutual fund, LIC mutual fund, kotak mutual fund, SBI Mutual fund etc. The performance of these funds have varied depending on the investment policies of the AMC and the effectiveness of the fund manager. Mutual fund companies must try to understand that not only the High net worth individuals and institutional/non- institutional investors, but also the investors who are potential ones and are important market segment. Companies would have to shape products suitable for the investors and market them effectively by increasing the awareness of investors.

I GENESIS OF MUTUAL FUND

Mutual fund emerged in the UK and US as investment management institutions in the early twentieth century during the 1920's. The concept of mutual fund was experimented in the US from the 1920's and institutional business was becoming popular in the late 1940's. In the UK during 1920's the accepting houses emerged as a major force in the business of investment management activities. Investment management has its genesis in the deployment of the

large fortunes made by some of the Victorian merchant bankers. But the only in 1950 the accepting houses rapidly built up on their existing skill and knowledge to deal with increasing capital. The investment trust was superseded by the Unit Trust as small savers means of access to professional management.

The mutual fund industry in India started in 1963 with the formation of unit trust of India, at the initiative of the government of India and reserve bank. The history of mutual funds in India can be broadly divided into three distinct phases.

First phase:1964-1987- (Unit trust of India (UTI) , Second phase: 1987-1993 (entry of public sector funds): , Third phase: 1993-2003(entry of private sector funds) .As at the end of October 31 2003, there were 31 funds which manage assets of Rs 126726 crores under 386 schemes.

II OBJECTIVES OF STUDY/ SCOPE OF STUDY

To assess performance of selected mutual funds.

To compare and evaluate their performance.

To understand the various schemes of prominent mutual funds in India and their schemes like equity, income , balance as well as the return associated with those schemes.

III LITERATURE REVIEW

Literature on mutual fund performance is enormous. A few research studies that have influenced the preparation drawing on results obtained in the field of portfolio analysis, economist jack tenor has suggested a new predictor of mutual fund performance one that differs from virtually all those used previously by incorporating the volatility of a fund's return. Michael . C. Jensen derived a risk- adjusted measure of portfolio performance (Jensen' alpha) that estimates how much a manager's forecasting ability contributes to fund's returns. Stat man (2000) the e SDAR of fund portfolio is the excess return of the portfolio over the return of the benchmark index where the portfolio is leveraged to have the benchmark index's standard deviation. S. Narayan rao evaluated performance of Indian mutual funds in a bear market through relative performance index. Risk returns analysis, trenyor's ratio, Sharpe's ratio, Sharpe's measure, Jensen measure and Fama's measure.

IV THE PARAMETERS WHICH HELP IN EVALUATION OF MUTUAL FUND BY BANK

- Performance analysis
- AUM/Fund house analysis
- Sales and service
- Recommendation list

4.1 Performance analysis of mutual fund in India

Among various financial products, mutual fund ensures the minimum risks and maximum return to the investors, its having own policies, term condition that are different from other products, so the market volatilization will not make more effect in return.

4.2 AUM/Fund house analysis

Asset Management Company: a firm that invest the pooled funds of retail investors in securities

It is constituted as a company under the Indian companies act with Minimum net worth of Rs 10 crores and minimum contribution by the sponsor is 40% of share capital of AMC

At least 50% of directors of AMC to be independent and accountable to the trustees.

Limit of 5% of aggregate purchase and sales securities under its entire scheme per broker per quarter and all security transaction with a sponsor and his associates to be disclosed.

4.3 Sales and service

Investors can purchase and sell mutual funds units through various types of intermediaries- individual agent, distribution companies, national/regional brokers, banks, post office ,or from the asset management companies including the unit trust of India.

The advice encompasses analyzing an investor financial goals depending upon the segment of investor and then using information to recommend an asset allocation specific investment that are with investor needs.

4.4 Recommendation

It is a list which is prepared by bank by evaluating performance and this performance is evaluated by the head of fund house. These let you build a well balanced portfolio that will help you reach your most important financial goals. It mainly focuses on criteria that have real predictive value, low expenses, a strong record for putting share holder interest first, a consistent investment strategy and experienced managers. Recommend list of mutual funds and exchange traded fund help the investor better than most.

V FACTOR INFLUENCING MUTUAL FUND SCHEME FROM BANKER PERSPECTIVE

5.1 Product quality

- Funds/ schemes performance , Funds reputation, Funds expenses ratio, Funds portfolio investment, Funds withdrawal facility, Funds product with tax benefits and Funds/ schemes entry and exit load

5.2 Fund sponsor qualities

- Reputation of fund house sponsoring firm, wide range of schemes with different investment objective, Sponsor brand name and Investor services

VI FACTORS TO BE CONSIDERED BEFORE INVESTMENT IN MUTUAL FUND FROM CUSTOMER PERSPECTIVE

1. Market risk At times the prices or yields of all the securities in a particular market rise or fall due to broad outside influences. When this happens, the stock prices of both an outstanding highly profitable company and a fledgling corporation may be affected. This changes in price is due to market risk.
2. Inflation risk Sometimes referred to as “loss of purchasing power.” Whenever inflation sprints forward faster than the earnings on your investment, you run the risk that you’ll actually be able to buy less, not more. Inflation risk also occurs when prices rise faster than your returns.
3. Credit risk In short, how stable is the company or entity to which you lend your money when you invest. How certain are you that it will be able to pay the interest you are promised, or repay your principal when the investment matures
4. Interest rate risk Changing interest rates affect both equities and bonds in many ways. Investors are reminded that “predicting” which way rates will go is rarely successful. A diversified portfolio can help in offsetting these changes.
5. Exchange risk A number of companies generate revenues in foreign currencies and may have investments or expenses also denominated in foreign currencies. Changes in exchange rates may, therefore have a positive or negative impact on companies which in turn would have an effect on the investment of the fund.
6. Changes in government policy especially in regard to the tax benefits may impact the business prospects of the companies leading to an impact on the investments made by the fund.

VII TOOLS AND METHODS FOR RISK MEASUREMENT IN MUTUAL FUND ARE

1. Beta
2. Alpha
3. Standard deviation
4. Sharpe ratio
1. 5.expense ratio
5. R squared

Table 1: Performance of open ended equity of all gainer of 1 year:

Fund name	1 year return (%)	Std deviation	Sharp ratio	Beta	Alpha	R-Square	Expenses ratio
SBI Magnum Equity	15.30	17.18	0.24	0.80	3.25	0.95	2.24
Franklin India Blue chip	12.00	16.09	0.30	0.78	4.23	0.90	1.81
ICICI Pru Focused Blue Chip Equity Retail	11.85	17.39	0.39	0.84	6.12	0.97	1.83
DSPBR Top 100 Equity	14.34	23.24	0.82	0.40	2.77	45.65	1.45
HDFC top 200	13.19	18.81	0.22	0.90	3.45	0.95	1.77

INTERPRETATION:

The above table 1 gives detail about the performance of open ended equity large cap funds with respect to mutual funds .The performance of fund is seen through the I year return, standard deviation, Sharpe ratio, beta, alpha, r-squared and expense ratio. The performance of 1 year for SBI magnum equity is 15.30, Franklin india blue chip is 12.00, ICICI prudential focused blue chip is 11.85, DSPBR top 100 equity is 14.34, HDFC top 200 is 13.19.

The standard deviation 17.18, 16.09, 17.39, 23.24, 18.81. The sharpe ratio is given as 0.24, 0.30, 0.39, 0.82, 0.22. The beta is given as 0.80, 0.78, 0.84, 0.40, 0.90. The alpha is given as 3.25, 4.23, 6.12, 2.77, 3.45. The r squared is given as 0.95, 0.90, 0.97, 45.65, 0.95. The expense ratio is given as 2.24, 1.81, 1.83, 1.45, 1.77.

The above table is compared with the table 2 which is showing the performance of open ended equity of large cap funds with respect to their respective benchmark portfolio.

Table 2: Benchmark portfolio values:

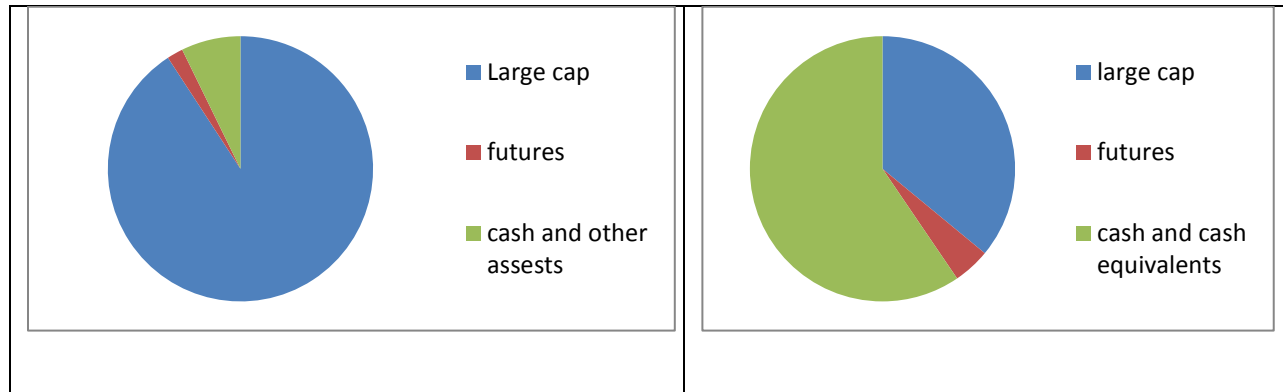
Fund name	Benchmark	1 year return in %	Standard deviation	Sharpe ratio	Beta
SBI magnum equity fund	S & P CNX NIFTY	-7.84	31.03	-0.5100	0.84

Franklin India blue chip	SENSEX	-7.95	29.64	-0.5384	0.78
ICICI prudential focused blue chip	S & P CNX NIFTY	-7.82	31.08	-0.5092	0.84
DSPBR top 100	BSE 100	-7.93	29.75	-0.5378	0.40
HDFC top 200	BSE 200	-7.99	29.75	-0.5357	0.90

The above table values give all detail about the performance of fund with their respective benchmark index. In this table mainly Sharpe ratio of benchmark portfolio is compared with the mutual Sharpe ratio which is given in the mutual fund values of table 1. in the comparison it is seen that the Sharpe index of the mutual fund have out performed compared to bench mark portfolio index.

Table 4: Comparison of large cap mutual fund scheme with the SBI mutual fund

SBI mutual fund verses DSP black rock top 100 equity fund	
GROWTH:	
SBI magnum equity fund – growth 43.2500 as on 8 –aug-2012	DSP balck rock top 100 equity fund – regular plan – growth - 98.0350 as on 8 aug 2012
PERFORMANCE OF 1 YEAR:	
15.30	14.34
RISK AND VOLATILITY:	
Standard deviation: 17.18%	Standard deviation: 23.24%
Sharpe: 0.21	Sharpe: 0.82
Beta: 0.79	Beta: 0.40
ASSET ALLOCATION IN PERCENTAGE:	
Large cap: 90.80%	Large cap: 84.64%
Other current assets:	Other current assets:
Futures:1.97%	Futures : 10.60%
Cash and other assets: 7.24%	Cash and cash equivalent: 5.19%



INVESTMENT DETAILS:	
Fund type: pvt. Sector – joint venture	Fund type: bank sponsored
Launch date: 13-may-1996	Launch date: 7-feb-1992

Table 5: SBI mutual fund verses Franklin Templeton mutual fund

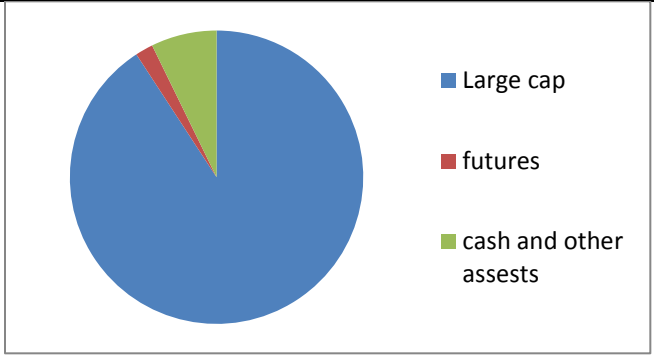
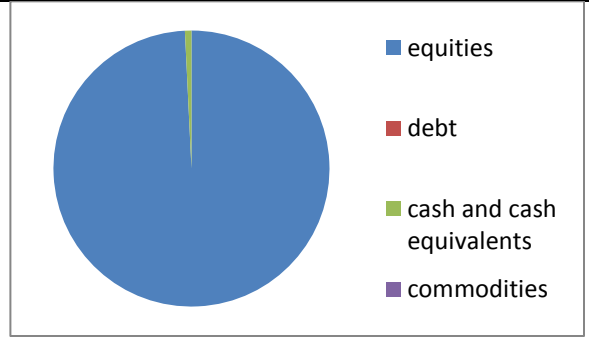
GROWTH:	
SBI magnum equity fund – growth 43.2500 as on 8 –aug-2012	Franklin India blue-chip fund – growth 212.5326 as on 8 – aug – 2012
PERFORMANCE OF 1 YEAR:	
15.30	12.00
RISK AND VOLATILITY:	
Standard deviation: 17.18	Standard deviation: 16.09
Sharpe: 0.21	Sharpe: 0.20
Beta: 0.79	Beta: 0.76
Fund size Rs 507.62 crore	Fund size: Rs 4875.75
ASSET ALLOCATION IN PERCENTAGE:	
Large cap: 90.80%	Large cap: 88.80%
Other current assets:	Other current assets:
Futures: 1.97%	Futures:1.00%
Cash and other assets : 7.24%	Cash and other assets: 10.20%
Launch date: 6-oct-1995	Launch date: 7-feb-1992

Table 6: SBI mutual fund verses ICICI prudential mutual fund

GROWTH:	
SBI magnum equity fund – growth 42.9200 as on 9 –aug-2012	ICICI prudential focused blue-chip – growth 16.3200 as on 9 – Aug – 2012
PERFORMANCE OF 1 YEAR:	
15.30	11.85
RISK AND VOLATILITY:	
Standard deviation: 17.18%	Standard deviation: 17.39
Sharpe: 0.21	Sharpe: 0.39
Beta: 0.79	Beta: 0.84
Benchmark: s and p cnx nifty	Benchmark: S & P CNX Nifty
ASSET ALLOCATION IN PERCENTAGE:	
Large caps: 90.80%	Large caps: 92.38%
Other current assets:	Other current assets
Cash and cash equivalents: 7.24%	Cash and cash equivalents: 7.62%
Derivatives futures: 1.97%	Derivative futures: 0.00%
<p>Legend: Large cap, futures, cash and other assests</p>	<p>Legend: large caps, futures, cash and cash equvivalents</p>
INVESTMENT DETAILS:	
Fund type: pvt. Sector – foreign	Fund type: bank sponsored
Launch date: 6-oct-1995	Launch date: 7-feb-1992

Table 7: SBI mutual fund verses HDFC mutual fund

GROWTH:	
SBI magnum equity fund – growth 43.2500 as on 8 –aug-2012	HDFC top 100 fund – growth 198.515 as on 8 – aug – 2012
PERFORMANCE OF 1 YEAR:	

4.5279	3.00
RISK AND VOLATILITY:	
Standard deviation: 17.18%	Standard deviation: 18.81
Sharpe: 0.21	Sharpe: 0.22
Beta: 0.79	Beta: 0.90
Bench mark:	Benchmark: BSE 200
ASSET ALLOCATION IN PERCENTAGE:	
Large cap:90.80	Large cap: 99.24%
Other current assets:	Other current assets:
Cash and cash equivalents: 7.24%	Cash and cash equivalents: 0.76%
Derivatives futures: 1.97%	Derivatives futures: 0.00%
	
INVESTMENT DETAILS:	
Fund type: pvt. Sector – joint venture (Indian)	Fund type: bank sponsored
Launch date: 22-june-1993	Launch date: 7-feb-1992

VIII FINDINGS

- The fund with highest standard deviation is ICICI prudential and lowest standard deviation fund is Franklin India blue chip.
- The Sharpe ratio of the fund having highest ratio is ICICI prudential and lowest Sharpe ratio fund is DSPBR top 100.
- The fund with highest beta is HDFC top 200 and fund with lowest beta is Franklin India blue chip.
- The fund with highest alpha is ICICI prudential and fund with lowest alpha is SBI magnum equity.
- The fund with highest R-squared is ICICI prudential.
- The fund with highest expense ratio is Franklin India Blue chip and with lowest ratio is DSPBR top 100.
- The Sharpe ratio of all the funds is outperformed the market.

- The Sharp ratio of both the funds, ICICI Prudential is greater than the SBI fund thus i.e. Risk Adjusted return for every one rupee invested is 0.39, where in for the SBI fund is 0.21.
- The sharp ratio, of SBI fund has the higher sharp ratio than the Franklin Templeton investments, i.e. sharp ratio gives the risk adjusted return and if you see the ratio is higher in SBI fund
- The SBI fund has good performance return over a year when compared to the DSPBR fund
- From the above analysis, both HDFC fund and SBI fund are both good funds to invest and there is only marginal difference between them so to invest in these two fund if given a choice, an investor can choose based upon his likings and faith on the brand image of the fund house, as per the statistical comparison if you compare the Sharp ratio these both funds are closely related i.e. 0.21 for SBI fund and 0.22 HDFC fund.
- ICICI Prudential focused Blue chip fund is better option than the SBI fund. When we compare the Sharp ratio of both the funds, ICICI Prudential is greater than the SBI fund. Thus Risk Adjusted return for every one rupee invested is 0.39, where in for the SBI fund is 0.21.
- From the above tables we can observe that two funds are closely competitive to each other but if you go by the sharp ratio, the SBI fund has the higher sharp ratio than the Franklin Templeton investments, i.e. sharp ratio gives the risk adjusted return and if you see the ratio is higher in SBI fund thus investors can invest in this fund
- In the comparison of two funds i.e. SBI magnum equity fund with DSPBR top 100 equity funds. It has been observed that the on one side the SBI fund has good performance return over a year when compared to the DSPBR fund. When risk and volatility is coming into picture it is seen that with respect to investor point of view that they prefer fund which has low standard deviation, high shape ratio and beta less than 1 consider to be more volatile and beta value ranging in the 0.75-0.79 then it is considered to be good volatility measure.
- In case of DSPBR fund the Sharpe ratio is high when compared to SBI fund. So DSPBR is a better option for investment.

IX CONCLUSION

This study is an attempt to understand the “Performance of the Equity Funds with respect to SBI”. Mutual fund Companies must try not only to concentrate on the High net worth individuals and institutional/non- institutional investors, but also pitch their products to a range the investors who. The Companies would have to shape products suitable for the investors and market them effectively by increasing the awareness of investors. SBI Mutual Funds (Sectoral) are performing very Good as compared to other mutual funds

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