Vol. 7. No. 4. 2020.

Contents available at:

www.crdeepjournal.org

International Journal of Social Sciences Arts & Humanities (ISSN: 2321-4147)(CIF: 3.625)

Full Length Research Paper

An Analysis of Risk and Returns of Equity Mutual Funds in India

Aditi Pandey

Assistant Professor, CMP Degree College, Prayagraj, India.

ARTICLE INFORMATION

Corresponding Author:
Aditi Pandey

Article history:
Received: 05-10-2020
Revised: 15-10-2020
Accepted: 18-10-2020
Published:19-10-2020

Key words:
Mutual Funds, Returns, Risk, Financial Savings, Growth

ABSTRACT

Ragner Nurkse was the first economist who understood the characteristic feature of poor underdeveloped economies when he declares 'you are poor because you are poor'. His vicious circle of poverty of low income equilibrium can be broken by increased investment only. The basic question is how to increase investment? The answer is simple as well as difficult either save more or attracts foreign capital. Both of them are not easy especially in a large underdeveloped economy like India. There are various theories balanced growth, unbalanced growth suggesting different ways and strategies which have been implemented by various countries attaining different level of success. In this research paper the role of Mutual funds to channelize the savings in the economy is discussed by the researcher. The study is based on analysis of 10 top rated mutual fund company's investment in different equity schemes. All data is based on secondary data taken from morning Star report. The standard deviation, beta and sharpe ratio are analysed to evaluate the performance of the different schemes of different mutual fund companies. It is found that large cap companies are providing positive returns in different years where as mid cap and small cap companies are comparatively providing fluctuating returns. In case of Risk also Standard deviations in Large cap funds are lower than Mid Cap and Small Cap it means higher the deviation higher the risks. So, it can be concluded that Large Cap funds are comparatively safer than Mid Cap and Small Cap funds.

Introduction

Every economy is composed of various sectors such as agriculture, forestry, mining industry, manufacturing, construction etc. One sector which allows these sectors to function properly is financial sector. It comprises of various kind of institutions that provides financial services such as credit, insurance and banking facilities to all sectors above mentioned. It is generally believed that the growth of any sector in modern economy is conditioned by financial sector.

Financial sector includes various institutions such as Banks, Investment Companies, Discount Houses, Insurance Companies, Exchange Dealers, Indigenous bankers, Credit societies, Micro Finance institutions and so on. These institutions interact with real sector in various markets (money, foreign exchange, capital, derivatives, insurance) and provide required impetus to economic growth. In modern economy the growth of real sector is very much dependent on financial sector and vice versa is true. In ancient period the role of finance was very limited. In the earlier part of history people generally held their savings in the form of goods, estate and precious metals. With two great transformation 1) Paper Currency 2) Development of commercial banks (who started creating near money substitutes for liquidity like Bonds, time deposits) Individuals began to put their saving in banks. As the financial institutions evolved and different types of financial institutions were developed different individuals having different traits, income, age pyramid, occupation, started opting for different financial institutions for parking their savings. Risk averse individuals preferred banks and post offices for their savings. Risk loving persons opted for capital market and risk neutral persons opted for both. With the growth of mutual fund industry which combined the advantage of security and higher returns many individuals started transferring their savings in mutual fund industry. With time there has been great diversification in mutual fund industry itself to attract people of different ages and occupations.

In India like many other programmes Mutual funds were introduced by government instead by private sector, banks or any other financial institutions. It was very similar to the cooperative movement of 1904 in which cooperative credit societies and banks were created by the government rather than stakeholders. This may be because of lack of trust of individuals on private stake holders because a large number of banks, insurance companies owned by private stakeholders failed in succession leading to great financial instability in pre and post independence period which was also a cause of nationalisation of banks and insurance company besides social responsibility as claimed and announced by Government of India banks were nationalised in 1969 only to make them socially responsible. Priority sector lending was forced upon banks to help poor and weaker section. Similarly all private insurance companies except Life Insurance were nationalised

under one head known as General Insurance Company. In LIC also government had the largest stake. With the objective of mobilizing savings of lower and middle income group the first mutual fund named as Unit Trust of India was setup by UTI Act 1963 in public sector. UTI launched its first unit scheme US 64 in 1964. The fund managers of UTI were very conservative and opted safe options due to which returns were only marginally higher in comparison to bank fixed deposits. Slowly many public sector mutual fund companies and then private and foreign asset management companies entered in the field of mutual funds. Common investor in the beginning did not have confidence in them for various reasons such as lack of transparency (Entry Exit Loads), style of Investment (mostly in Equities and debentures),risk involvement etc. With the entry of SEBI as a regulator investors showed greater faith in mutual funds but with various attractive government schemes like National saving scheme certificate, Kissan Vikas Patra, Tax etc. more money flow towards Government and high FD rates kept commercial bank as the main stay for depositors.

In the early 21st century i.e. after 2004 the mutual fund industry had consolidated itself and provided an attractive option for investors. Investment options in debt funds, money market mutual funds, and balanced funds on specialized sectoral funds, open ended schemes with zero lock in period and more specifically the reduction in long term capital gains tax made mutual funds available to common persons. The Systematic Investment Plan worked wonder for organised sector workers. The technological advancement which helped investors to have greater information with transparency such as getting every information (Entry load, Exit load to the portfolios) ,regular updates of NAV and current value of the investment. All details at customers mobile or laptop etc. have attracted the attention of younger generation who uses modern technology to transfer their savings from traditional places such as bonds, NBFCs, and post offices to mutual funds. Today Mutual Funds have become a very important source of financial savings. It can be seen from the following graph about the growth of mutual funds.

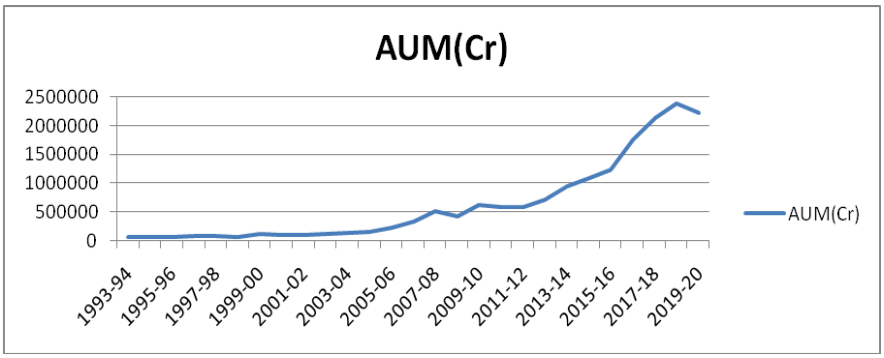
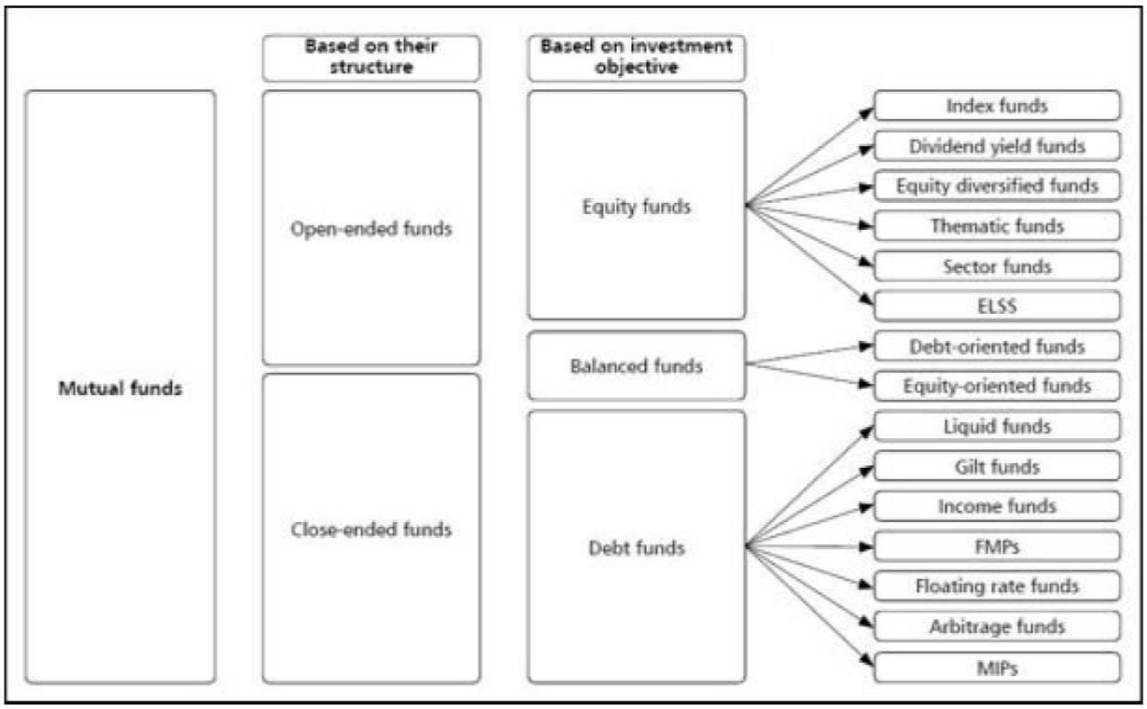


Fig 1: Total AUM of Mutual Fund Industry. *Source: AMFI Report, 2020.*

Mutual funds are classified on various grounds. The following table describes various classifications although it is not complete classification because of various hybrid schemes that are being created by mutual fund manager.

Types of Mutual Funds in India



Source: Indian Mutual Funds Handbook, 2019

Review of Literature

Chaudhary Roy, Dutta Uma, **Bagchi Amaresh, (1988) , Domestic Savings in India, Trends and Issues, ISBN 0-7069-5397-5.** This book is the outcome of a seminar organized by NIPFP in November 1988. Domestic saving ratio was constant during 1980s that was the major concern, thus studies were conducted to identify factors responsible for this constancy. The conclusions are drawn by the authors are following; (1) By conducting the cross sectional studies (survey results of the National Council of Applied Economic Research) result supports the normal income hypothesis. There is lag in income to consumption response. Time trend analysis confirms the positive relation between the savings and income growth. (2) Primary sectors propensity to save is lower than that of other sectors propensity to save. (3) Intersectoral terms of trade shifts in favour of agriculture have adverse effect on saving rate. Authors analyse the various methods of saving estimates in this book. Here trends of savings are explained by comparing the new series of national accounts with old series.

Kale Jayant, Panchapagesan Venkatesh, **(2012) Indian mutual fund industry: Opportunities and challenges, IIMB Management Review 24, 245e258 .** This article presents an overview of the mutual fund industry in India and the reasons for its poor penetration which includes lack of objective research. It benchmarks the industry globally, and raises key issues regarding the ownership and performance of mutual funds, the sensitivity of fund flows to performance, and the importance of regulation to its growth, all of which have been largely under researched in India. It then captures the views of leading practitioners on these and other issues, including the challenges posed by poor financial literacy, the equity culture in the country, and the weakly supportive regulatory environment.

Maqbool Adeel, Khalid S.M., (2012) "AN EMPIRICAL STUDY ON INDIAN MUTUAL FUNDS AND THEIR PERFORMANCE EVALUATION PRIOR TO RECESSION." ISSN 2277 –1816 . The main objective of the study is to judge and evaluate the performance and growth pattern of selected mutual fund schemes in public and private sector. For conducting the analysis, trusted and preferred Tax fund- Growth option Mutual Fund schemes over period of 1 year (2007-2008) are taken. After having analyzed it was found that Deutsche was the best performing fund giving the highest annualized return of 37%. Other funds like ABN AMRO, Canara and DB, Cholamandalam being laggards in respect of returns as they had a high Beta making them quite sensitive and hence reducing their annualized returns.

Qamruzzaman Md., (2014), Comparative Study on Performance Evaluation of Mutual Fund Schemes in Bangladesh: An Analysis of Monthly Returns." Journal of Business Studies Quarterly, Volume 5, ISSN 2152-1034. In the given research paper researcher attempts to measure the growth oriented Mutual Fund are earning higher returns than market Portfolio, to find out those mutual fund schemes offering the advantages of diversification. And to analyze the excess return per unit of risk evidenced by mutual fund of public sector and private sector.For analyzing the study growth schemes in Bangladesh for the period January '12 to June '13 is taken.32 mutual funds are used for the study out of 42 currently traded in the market. This study concluded that, over the research period selected mutual funds shows positive monthly return and upward trend in comparison to market return. Different risk return measures shows similar performance indication with exception of few mutual funds scheme due to market return in inconsistent with return from mutual funds i.e., negative market return.

Bilal Ahmad Pandow and Khurshid Ahmad Butt (2017), 'Risk and Return Analysis of Mutual Fund Industry in India', Journal of Banking and Financial Dynamics,Vol. 1, No. 1 54-65. Given Study shows the growth of mutual fund industry in India and recognize the challenges before the industry. Research Paper also demonstrates the risk and return of selected mutual funds in India. To evaluate the risk and performance different models are used such as Excess returns, risk adjusted returns etc. Research Paper concludes that performance of fund manager is the most important factor that determines the growth of mutual funds.

Malviya Mayank, Khanna Prateek, (2020) ***PERFORMANCE OF MUTUAL FUND INDUSTRY IN INDIA,*** **IJCIRAS | ISSN 2581-5334.** In the given research paper researchers analyse the past performances of various mutual funds. For this purpose historical NAVs of Large cap, mid cap and small cap funds are taken. Further, to evaluate risk and return different tools like Annualised returns, Standard deviation, Beta and Sharpe ratio are used. By applying statistical tools conclusions are drawn that large cap funds are performed well in short run and small cap funds are good for long term investment.

Research Problem

The main research problem before the researcher was as to how investors choose a particular scheme or schemes of investments. Now a days one regularly see the statement 'Mutual Fund Sahi Hai' in print and electronic media. Does this mean that all mutual funds schemes are identical? Do they always provide higher returns in comparision to other alternatives of financial investment? Are all mutual fund companies investment methods same? i.e. should any individual investment in only mutual fund? These are some of the questions which arise from the advertisement 'Mutual Fund Sahi Hai'. The researcher wants to analyse as to how and why different mutual funds schemes do not suit all investors all the time.

The objective of the study is to analyse the performance of different mutual fund companies and instruments. The present paper aims to analyse the performance of only selected equity mutual fund schemes. The main objectives of the paper which are as follows

1) To study and analyse the returns of different equity funds that is large cap, MidCap and SmallCap over different period of short-term (one-year) mid term (three-year) and long term (five years) and above.

2) To examine the relationship of annualised returns of different mutual fund companies and compare them with benchmark safe returns of Government securities of similar terms.

3) To analyse the level of risk in equity investment of different equity funds through various risk measures beta, standard deviation and sharpe ratio.

4) To analyse the risk of the mutual fund companies.

Methodology

The study is empirical based on analysis of 10 top rated mutual fund company's investment in different equity schemes. All

data is based on secondary data taken from morning Star report of Bombay stock exchange. The standard deviation, beta and sharpe ratio are analysed to evaluate the performance of the different schemes of different mutual fund companies. The table discussing the returns has been taken from the values of BSE for different period. The benchmarks for the comparison are based on the value of government securities for different terms for the same period. In this paper equity funds are taken on the basis of market capitalisation. As per market capitalisation the equity funds are classified and defined as follows.

Large Cap Fund
In India company is having a market capitalisation (number of shares x value of shares) of over US$20 billion are called large cap companies. SEBI norms has declared that the top 100 companies that large market capitalisation would be addressed as 'large cap'

Mid-Cap funds
Mutual fund companies who primarily invest in companies which are not very large not relatively small (Which are outside top 100 companies) whose market capitalisation is above US$2 billion but less than US$10 billion called as Mid Cap funds. As per now definition 150 companies are included in this group.

Small Cap Fund
Small cap investment is defined as investment in the equity and equity related instruments in companies which are outside top 250 registered companies on the basis of market capitalisation.

In this research paper sample of 5 top rated schemes each from different types of fund are selected.

Table 1: List of Companies in Large Cap, Mid Cap and Small Cap.

Large Cap	Mid Cap	Small Cap
Mirae Asset Mutual Fund	DSP Midcap Fund-Reg(G)	Aditya Birla Small Cap Fund(G)
Axis Bluechip Fund-Reg(G)	Kotak Emerging Equity Fund	SBI Small Cap Fund-Reg(G)
Canara Rob Bluechip Equity Fund-Reg(G)	Invesco India Midcap Fund(G)	Nippon India Small Cap Fund(G)
IDFC Large Cap Fund-Reg(G)	Tata Mid Cap Growth Fund(G)	HDFC Small Cap Fund-Reg(G)
HDFC Top 100 Fund(G)	Nippon India Growth Fund(G)	DSP Small Cap Fund-Reg(G)
Invesco India Largecap Fund(G)	HDFC Mid-Cap Opportunities Fund(G)	Franklin India Smaller Cos Fund(G)
ICICI Bluechip fund	Franklin India Prima Fund(G)	Kotak Small Cap Fund(G)
SBI Bluechip Fund	L&T Midcap Fund-Reg(G)	ICICI Pru Smallcap Fund(G)
DSP Top 100 Eq Fund Growth	Axis Midcap Fund-Reg(G)	Sundaram Small Cap Fund(G)
Nippon India Large Cap	Sundaram Mid Cap Fund(G)	Quant Small Cap Fund(G)

The definitions of Beta, standard deviation are same as used in mainframe statistics. Sharpe ratio is defined as follows

Sharpe ratio: It is used to measure performance of a stock, bonds as adjusted by the associated risk. Sharpe ratio serves as an indicator of wealth whether a return of an asset is due to high risk or wise investment. Sharp ratio is measured as follows

$$\textbf{Sharpe Ratio} = \frac{R_P - R_F}{\delta_P}$$

R_P = Return on Portfolio/Stock (observed/estimated)

R_F = Return on a Risk Free Investment (i.e. bank deposits, assured government bonds/ securities, coupon rate)

δ_P = Standard deviation of Portfolios excess (+ -) returns.

Beta: Beta is the measurement of volatility in market in comparison to a benchmark that is if company's stock returns increases /decreases at the same rate as market is. But if a particular stock group of the stock moves faster or slower than market for a period the stock is supposed to be volatile. Beta is calculated by using regression. The formula for calculating beta is equal variance of the return of asset with the return of the benchmark divided by variance of the return of the benchmark over a certain period.

$$\textbf{Beta} = \frac{\textbf{Variance}}{\textbf{Covariance}}$$

where:
Covariance=Measure of a stock's return relativeto that of the market
Variance=Measure of how the market moves relativeto its mea n

Standard Deviation: Statistical term for the method of measuring data dispersion in regard to the mean value of the dataset. This would be used and this is to test the hypothesis whether mutual funds are risk-free as is generally announced by mutual fund advocates.

Findings/Results

Table 2: Return and Risks of Large Cap Funds Companies.

	Returns (%)			SD		Sharpe Ratio		Beta	
Large Cap Eq Funds	**1Y**	**3Y**	**5Y**	**3Y**	**5Y**	**3Y**	**5Y**	**3Y**	**5Y**
Mirae Asset Mutual Fund	8.51	6.85	10	20.99	18.5	0.12	0.33	0.99	1
Axis Bluechip Fund-	8.26	11.41	10.83	16.68	15.4	0.25	0.33	0.74	0.79

Reg(G)									
Canara Rob Bluechip Equity Fund-Reg(G)	15.65	8.83	9	18.33	16.8	0.2	0.29	0.86	0.89
IDFC Large Cap Fund-Reg(G)	9.6	4.7	7.23	19.84	17.2	0.03	0.24	0.93	0.92
HDFC Top 100 Fund(G)	-2.74	1.83	5.46	21.72	19.9	-0.09	0.14	1	1.05
Invesco India Large cap Fund(G)	8.24	6.5	8.36	20.79	17.9	0.09	0.23	0.97	0.96
ICICI Bluechip fund	5.26	4.38	7.28	19.89	17.4	-0.02	0.18	0.93	0.94
SBI Bluechip Fund	5.59	3.24	6.29	20.8	18.0	-0.02	0.19	0.97	0.96
DSP Top 100 Eq Fund Growth	4.06	1.69	4.68	23.75	20.8	-0.11	0.06	1.1	1.1
Nippon India Large Cap	0.28	2.16	5.07	23.1	20.2	-0.07	0.08	1.06	1.06

Source: Morning star Report, BSE India, 2020.

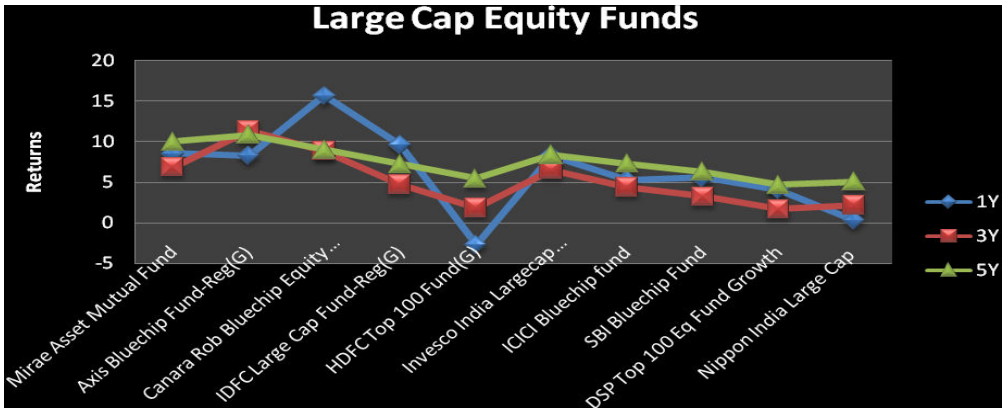


Fig 2: Returns of Large Cap Equity Funds ; *Source: Morning star Report, BSE India, 2020.*

A cursory look at the table suggests that all large cap equity funds companies have been posting positive returns in all the three periods. The returns differ between -2.74% (HDFC top 10) to 15.65% (Canara Robeco blue-chip fund) for 1 year period. As 2019 had been quite volatile for three years the returns differ between 1.69 (DSP top hundred) to 11.4 (axis blue-chip). Again due to various policy changes like Notebandi, GST, Repo rate etc. but for a full five-year period the returns of most large companies are positive. Although they vary between 5% to 10% which makes a huge difference. Axis blue-chip fund has been doing the best throughout this period while Nippon large Cap Fund, HDFC top 10 and DSP top 100 equity fund have been giving returns which are almost equal to benchmark returns of government securities. Although large cap companies are very stable and less volatile as can be seen as through standard deviations, sharpe ratio and beta.

If one looks at the different companies the 3 year standard deviation ranges between 16.68 to 23.75. For a 5 year period it declines to between 15.42 to 20.81. Lower the deviation higher the stability so if one wishes more stability the investment should has been done in Axis blue-chip regular growth which has lowest deviations for both the 3 year period and 5 year period. It also has highest returns in both three-year and five-year period. While DSP top 100 equity fund has performed the worst in terms of deviations. Moreover its returns are also quite low. So, investors must choose a company balancing deviation with returns. In fact sharpe ratio does provide a comparison of returns on the basis of deviation i.e. the risk adjusted returns which can be clearly seen in the same table. The sharpe ratio for Axis blue-chip fund is 0.25 for 3year and 0.3 for 5 year which suggests that for both the periods the risk adjusted return is highest for Axis blue-chip regular growth fund. As against this the risk adjusted return for all other equity funds is much lower. Thus investors look at the sharpe ratio and before investment they can be assured of a better overall performance of mutual funds. Beta measures risk in relation with the benchmark i.e. how much a particular company's return deviate from the market. If the return deviate less it means the deviation from the market is less. A high beta by definition analyses the volatility and a systematic risk. That means the stock prices are more sensitive to news and information and move faster than stock. As against this low beta suggest that sensitive witty to economic policy is lower in these cases. So all individual before investment must decide their priorities. If they wish invite list risk they must opt for companies having beta less than one.

Table 3: Returns and Risk of Mid Cap Fund Companies

	Returns(%)			**SD**		**SharpeRatio**		**Beta**	
MidCap Eq Fund	**1Y**	**3Y**	**5Y**	**3Y**	**5Y**	**3Y**	**5Y**	**3Y**	**5Y**
DSP Midcap Fund-Reg(G)	20.38	6.24	9.71	22.3	20.7	0.07	0.28	0.87	0.9

Kotak Emerging Equity Fund	15.13	4.23	8.58	24.3	21.3	0	0.23	0.95	0.95
Invesco India Midcap Fund(G)	19.84	7.02	8.32	22.5	19.9	0.1	0.22	0.89	0.88
Tata Mid Cap Growth Fund(G)	13.94	4.03	6.32	24.5	22.1	0.03	0.18	0.95	0.97
Nippon India Growth Fund(G)	14.06	4.03	6.87	24.6	21.6	0.03	0.2	0.96	0.96
HDFC Mid-Cap Opportunities Fund(G)	12.48	1.67	6.93	24.8	21.7	-0.08	0.17	0.98	0.97
Franklin India Prima Fund(G)	5.62	1.22	6.59	22.7	19.8	-0.08	0.19	0.89	0.88
L&T Midcap Fund-Reg(G)	15.36	-0.42	3.85	23.3	21.3	-0.15	0.2	0.92	0.93
Axis Midcap Fund-Reg(G)	13.8	0.91	7.97	19.0	17.7	0.3	0.26	0.73	0.76
Sundaram Mid Cap Fund(G)	4.15	-2.73	3.79	24.6	22.1	-0.26	0.04	0.95	0.97

Source: Morning star Report, BSE India, 2020

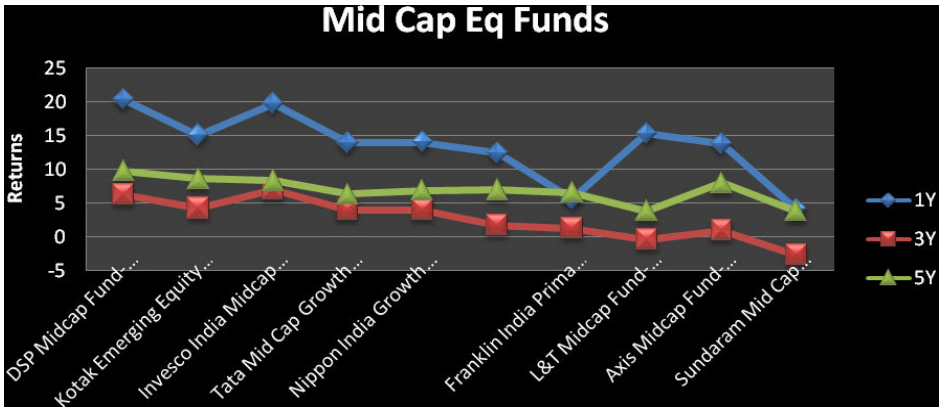


Fig 3: Returns of Mid Cap Funds *; Source: Morning star Report, BSE India, 2020.*

Morning star Report, BSE India, 2020.

A cursory look of table shows that returns in Mid Cap greater on both sides of the scale positive as well as negative. DSP Mid Cap Fund and Invesco India Mid-Cap Fund provided very high returns in 2019 (approx 20%). Sundaram Mid Cap and Franklin provided nearly 5% returns for the period 2019 while all other companies in the sample have shown double-digit return. If one compares one easily find out the reason of returns by these companies because between 2017, 2018, 2019 (3 years) the returns have been very low, even lower than benchmark return of government securities and FDs of banks. Returns range between -0.42 to a maximum of 7% by Invesco India. All other countries have been providing return of nearly 4%. This confirms the period of 2017, 2018, 2019 have been highly volatile and many individuals have transferred their funds from equity to hybrid and balanced units. As already stated in chapter 1 for a 5 year period the returns are positive of all the companies and are higher than risk free returns of bank FDs except for the two companies Sundaram and L&T.

The standard deviation, beta, sharpe ratio provided in the table clearly demonstrate that companies are more volatile in comparison to large cap. For example standard deviations are between 19% to 25% for 3 year period and 17% to 23% for five year period. The sharpe ratio of each company which provides the risk adjusted return are much lower. Although in the case of beta all the companies for all the three year and five year period have a beta less than one. Suggesting by that almost all top rated Mid Cap companies taking in the sample have enjoy greater public confidence which is strange but depends upon certain other variables and as the period for short to mid term the credibility is generally quite good of all Mid Cap companies.

Table 4: Return and Risk of Small Cap Fund Companies

Small Cap Eq Fund	**Returns(%)**			**SD**		**Sharpe Ratio**		**Beta**	
	1Y	**3Y**	**5Y**	**3Y**	**5Y**	**3Y**	**5Y**	**3Y**	**5Y**
Aditya Birla Small Cap Fund(G)	1.7	-7.03	3.11	28.8	25.42	-0.3	0.07	0.97	0.97
SBI Small Cap Fund-Reg(G)	21.13	8.51	12.41	26.43	22.97	0.17	0.38	0.87	0.86
Nippon India Small Cap Fund(G)	18.52	2.88	9.5	28.41	25.23	0	0.29	0.97	0.98

HDFC Small Cap Fund-Reg(G)	1.82	1.12	7.16	27.17	23.69	-0.07	0.19	0.91	0.9
DSP Small Cap Fund-Reg(G)	21.43	0.38	6.51	28.26	24.72	-0.09	0.16	0.96	0.95
Franklin India Smaller Cos Fund(G)	-1.28	-5.03	3.22	25.68	22.15	-0.32	0.01	0.86	0.84
Kotak Small Cap Fund(G)	20.97	2.78	7.16	27.23	23.63	-0.02	0.18	0.92	0.9
ICICI Pru Smallcap Fund(G)	9.85	-0.53	4.5	28.84	24.17	-0.08	0.08	0.95	0.9
Sundaram Small Cap Fund(G)	9.58	-6.4	0.96	30.68	27.62	-0.26	0.02	1.04	1.06
Quant Small Cap Fund(G)	54.6	4.08	5.77	28.74	22.18	0.04	0.06	0.79	0.61

Source: Morning star Report, BSE India, 2020.

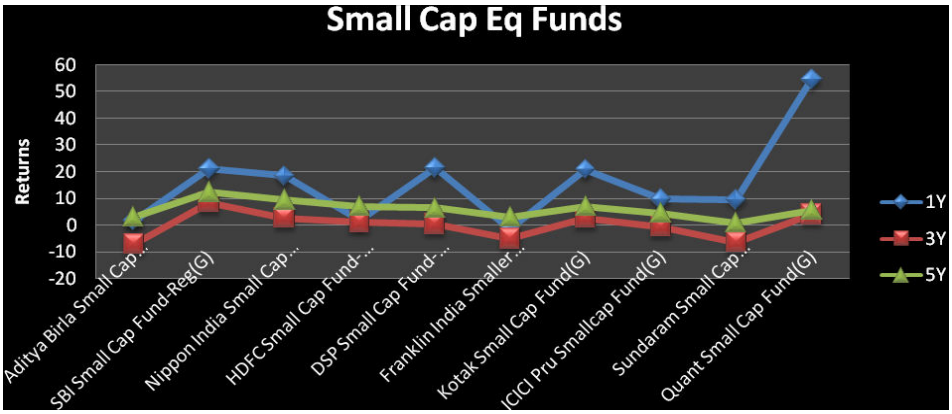


Fig 4: Returns of Small Cap Funds ; *Source: Morning star Report, BSE India, 2020.*

A cursory look at the table demonstrates that returns in the small cap funds have been very volatile in 1 year and 3 year period. While taking a small cap fund, SBI small and DSP small cap fund provided a return of more than 20% in one year, Franklin India posted a negative return, HDFC small cap, Aditya Birla are provided returns of around 2% While Quant small cap Funds provided a return of 55%, outperforming on other companies by a huge margin. But if one looks at three year period Aditya Birla, Franklin, Sundaram all have posted negative returns. The best in business the SBI small cap also gain a return of 8.5% which is significantly higher than benchmark return. But all other top rated companies provided returns much below than benchmark returns. Even the small cap company which provided returns of 64% in one year did provide only 4% return in three year. Thus small cap companies did not provide very good returns except SBI even in five-year period although returns are positive.

Small cap funds are closer to investment in share market. The advantage of the small cap fund schemes is diversification. But as the investment is done in all companies which have a small capitalisation the risk is quite high. Although the above table does not give a representative result as the date is taken of the period of COVID-19 i.e. April 2020. In fact when the Indian economy began to a slowdown in 2017 the first impact was on a small cap funds. The retail investors' faith in these funds is very low. Investment in small cap may give high returns (up to 50%) in one year. On the other hand even small uncertainty affects them adversely. During 2008 small cap suffered a loss of around 57% in seven months in net assets. Small cap investment is made for short-term gains and only financial experts or investors who have enough time to look after their investment shall enter this field.

Mutual fund Returns Comparison with other Investment Instruments

In case of financial sector the growth of mutual fund has been quite high. Between 2013-2018 AUM of Mutual Fund in India registered a compound annual growth rate (CAGR) of 25% as against a CAGR of 11% in bank deposits of commercial banks. It is true that deposits in provident fund, pension schemes have risen but their growth has been lowered in comparison to banks and Mutual funds. The most important economic reason behind this could be change in returns of different sectors during this period. A comparison of returns of all financial and real assets is done below for the period 2013 to 2018.

Table 5: Returns in various investment instruments

Year	Bank Deposit 1-3	Bank Deposit 3-5 Y	Post Offices Monthly	NSC	Post office RD	PPF	Equity Fund	ELSS	Debt Fund	Income Fund
2013-14	9.25	9.10	8.40	8.50	8.30	8.00	21.1	24	5.6	3.3
2014-15	8.75	8.75	8.40	8.50	8.40	8.00	41.8	42	12.5	14.8
2015-16	7.50	7.50	8.40	8.50	8.40	8.00	-6.7	-7.7	7.1	5.5
2016-17	7.00	6.90	7.80	8.10	7.40	7.60	25.4	24.3	10.2	11.0
2017-18	6.75	6.50	7.60	7.90	7.20	7.60	10.6	10.9	6.0	4.2

2018-19	6.10	6.40	7.60	7.50	7.00	7.66	14.3	15.8	7.2	7.8

Source: CRISIL Report

The table 4 presented above does not consider insurance as insurance is not an investment instruments. Insurance is basically a risk mitigating instrument. One can make following conclusions from the above table (a) returns of banks, post offices, national saving certificate and provident fund have been declining over the period 2013-19-20. In most cases the decline is more than 30% in Post Office and Bank FDs and around 20% in case of long term ensured schemes like PPF and NSC. (b) The returns in different schemes of Mutual fund are very varied and highly volatile. For examples in equity funds the rates vary between 41.8 to -6.7%. The variations are greater in ELSS than in Debt funds/ Income funds/ Liquid funds and so on. (c) The investment in banks and post office are providing zero or negative return if one considers inflation i.e. they are hardly able to beat inflation. (d) Mutual funds cannot be risk free, for example, in the year 2015-16 most mutual fund posted negative returns despite a strong fundamentals. This can happen due to variety of reasons which cannot be quantified.

Conclusion

From the above tables and graphs it can be seen that total assets of the mutual fund companies increased from around Rs. 6 lakh crore (6 trillion Rs.) to around Rs. 23 lakh crore (23 trillion Rs.) at a compound average annual growth rate of 27% per annum. Total assets of mutual fund as a percentage of GDP rose from 3% to 11.8% during the same period. Total number of companies increased from 31 to 44 during this period. The total number of investment folio reached to nearly 7 crore by 2019-20 from 2 crore in 2011-12. As per Association of mutual fund industry in India AMFI the financial year 2016-17 has been a golden year as the asset under management of mutual fund industry reach at 17.9 lakh crore from 12.6 lakh crore by March 2016, an impressive growth of around 41.7%. This growth as all encompassing i.e. each kind of mutual fund (equity, debt, balance, fund of funds ,index fund) rose rapidly.

The greatest advantage according to advocates of mutual fund industry is that it can mitigate risk by diversification. The process of diversification is basically the principle on which the banking/financial institutions function. They receive a large number of funds from investors and use this for different purposes e.g. the banks distributes them in various sectors and institutions earn interest and pay back to depositors. Some interest earning might be lost by bank due to default of certain loaners. But as bank gives to large number most of them pay back. Risk is mitigated because of large number of persons are given loan while default risk is low. That is why most of the commercial banks have been performing for years without any loss of confidence of investors. Mutual funds mitigate their risk largely by diversification. They do not invest in a particular sector, instrument, industry. Mutual fund as per their objective and goals invest in variety of institutions/instruments. For example, if they choose to invest in large cap stocks they will not invest the whole corpus in one company rather they would distribute the corpus in to many industries so that even if one company may not give good result the investor still gains because many companies are doing well. Similarly they may invest in different instruments like equity, debt, debentures, and money market funds simultaneously. They may also invest in various sectors like auto, real estate, power, banking, FMCG etc. So at any given point of time when a particular sector such as auto and and other not doing well other sectors will compensate. Mutual funds may/do change their strategy of investment with changing economic scenario if share market is not doing well they invest in government securities. Due to this diversification the chances of default by mutual fund institutions are almost negligible. The returns may not be as high as in stock markets. The confidence of investors all over the globe as well as in India has increased in investment of Mutual funds.

The most important reason to mutual fund industry is that if it wants to succeed in attracting more and more people away from other kind of with financial savings in to mutual fund is to opt for greater number of people to directly connect with people through personal interaction or group meeting to nudge the people towards mutual fund industry for higher returns with less risk in comparison to any other kind of financial savings. Even the physical savings have not been very rewarding (gold silver). Even land holders or real estate for last many years has become very risky. In India at present 80%of all court disputes are related to land and real estate. Mutual fund provides one single answer to liquidity high returns and safety.

An important finding is that although mutual funds have now diversified in terms of option such closed ended/ open ended, dated/undated ,equity based/ security based, debt/ growth. Moreover the liquidity has increased as well as transparency but still there penetration in rural, semi rural, small towns or blocks is very limited. The functions are also less diversified i.e. you can take loan on your mutual funds but cash and credit facility, overdraft facility etc. are not available.

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