



राष्ट्रहिताय संस्कृतम्

Journal of Fundamental & Comparative Research

This is to certify that the article entitled

PERFORMANCE EVALUATION OF SELECTED MUTUAL FUNDS WITH RESPECT TO UTI & ICICI

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Published in

Shodhsamhita : Journal of Fundamental & Comparative Research

Vol. VII, No. 9(II) : 2021

ISSN: 2277-7067

UGC Care Approved, Peer Reviewed and Referred Journal

Kavikulaguru Kalidas Sanskrit University, Ramtek



ज्ञान-विज्ञान विमुक्तये
UGC

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PERFORMANCE EVALUATION OF SELECTED MUTUAL FUNDS WITH RESPECT TO UTI & ICICI.

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Abstract:

India is emerging as the next big investment destination, riding on a high savings and investment rate, as compared to other world economies. The biggest advantage of mutual funds is they provide diversification, by reducing risk and maximizing returns. Mutual Funds are excellent for long-term wealth creation. One of the vital components of financial system is financial institutions which can serve the dual purpose- generating savings from the public and providing funds for investment purpose. As per the financial rule of “Do not put all the eggs in one basket” investor’s portfolio must be diversified to reduce the risks. The mutual fund industry is one such financial institution which raises funds through the sale of the small units to public and provides funds for investment among various sectors. From various mutual funds operated in India, two mutual fund organisations has been identified based on convenient sampling. The Schemes were categorized and selected for evaluating their performance and relative risk. The scope of the study is mainly concentrated on the top performing schemes of the UTI and ICICI PRUDENTIAL Mutual funds. Hence the study attempts to evaluate the performance of UTI and ICICI PRUDENTIAL mutual funds to assess the perceptions of the investors on a comparative basis.

Keyword: Investment, Mutual Fund, Risk and return ,UTI ,ICICI.

INTRODUCTION

MUTUAL FUNDS:

India is emerging as the next big investment destination, riding on a high savings and investment rate, as compared to other world economies. In today’s volatile market environment, mutual funds are looked upon as a transparent and low cost investment vehicle, which attracts a fair share of investor attention leading to growth of the industry.

The advent of Mutual Funds changed the way the world invested their money. The start of Mutual Funds gave an opportunity to the common man to hope of high returns from their investments when compared to other traditional sources of investment.

NEED FOR MUTUAL FUNDS:

Many investors in the stock market lack the necessary time and knowledge to properly manage their securities portfolios. Mutual funds are designed to solve this problem. Mutual funds are established and managed by security experts. Hence, Individual investors have developed keen interest in the capital market, attaining higher returns and capital gains along with fiscal concessions. They achieve important advantages from mutual funds such as expert professional management, reduction in risk, diversified portfolios, liquidity of investment, tax benefits and economies of scale. The interests of the investors are protected by SEBI.

Mutual funds in India provide linkage among various financial institutions operating in the money and capital markets with which the household and corporate sectors are closely linked. They mobilise personal savings and enable small and medium investors to reap benefits of their investments. The corporate sector benefits by investing these investments for its production and growth. Therefore, mutual funds have been playing a crucial role in India’s economic growth by mobilising and allocating savings and investments.

MUTUAL FUND SCHEMES:

Many investors diversify their portfolio by including a mix of mutual funds. Mutual funds are generally placed into one of the three primary categories: equity, debt, and hybrid (balanced) schemes.

EQUITY SCHEMES:

Stock funds, also called equity funds (investing in publicly traded as opposed to privately-owned companies), are the most volatile of the three, with their value sometimes rising and falling sharply over a short period. These funds invest a maximum part of their corpus into equities holdings. The structure of the fund may vary different for different schemes and the fund manager's outlook on different stocks.

DEBT SCHEMES:

A debt fund is a mutual fund scheme that invests in fixed income instruments, such as Corporate and Government Bonds, corporate debt securities, and money market instruments etc. that offer capital appreciation. Debt funds are also referred to as Income Funds or Bond Funds. The objective of these Funds is to invest in debt papers. Government authorities, private companies, banks and financial institutions are some of the major issuers of debt papers. By investing in debt instruments, these funds ensure low risk and provide stable income to the investors.

HYBRID SCHEMES:

This type of fund invests in both equity and bonds. This not only gives the fund the appeal of decreased risk but generally they give relatively decent returns for beginning investors. Hybrid funds take on the risks of the funds that are compiled within the portfolio of the fund. If there is a higher mix of bonds than equity in the fund than there will be a more bond specific risk in the fund, and vice versa. These schemes aim to provide investors with the best of both the worlds. Equity part provides growth and the debt part provides stability in returns.

RISK IN MUTUAL FUNDS:

Risk arises in mutual funds owing to the reason that mutual funds invest in a variety of financial instruments such as equities, debt, corporate bonds, government securities and many more. The price of these instruments keeps fluctuating owing to a lot of factors which may result in losses. Hence, it is essential to identify the risk profile and invest in the most appropriate fund.

WAYS TO MEASURE MUTUAL FUND RISK & RETURN:

There are five main indicators of investment risk that apply to the analysis of stocks, bonds, and mutual fund portfolios. They are alpha, beta, r-squared, standard deviation and the Sharpe ratio. These statistical measures are historical predictors of investment risk/volatility and they are all major components of Modern Portfolio Theory (MPT).

MPT is a standard financial and academic methodology used to assess the performance of equity, fixed-income, and mutual fund investments by comparing them to market benchmarks.

RETURNS:

Mutual Funds are one of the best investment plans that offer higher returns and offers diversification. The investment in assets are divided between debt and equities. Higher risk with better opportunity for returns is the feature of funds that are more into equities. These assets perform better than other asset classes.

SCOPE OF THE STUDY:

As per the financial rule of "Do not put all the eggs in one basket" investor's portfolio must be diversified to reduce the risks. From various mutual funds operated in India, two mutual fund organisations has been identified based on convenient sampling. The Schemes were categorized and selected for evaluating their performance and relative risk. The scope of the study is mainly concentrated on the top performing schemes of the UTI and ICICI PRUDENTIAL Mutual funds. The rationale for selecting the study period of 5 years is from 2015-2019 pertains to two main reasons: Firstly, during this period, both the selected UTI and ICICI PRUDENTIAL Mutual funds witnessed high volatility and was of great interest of study, as such selected to find out whether the

funds have been able to surpass the market performance even under down-market conditions. The research is based on different investment schemes which is beneficial to individual investors as well as the corporate sectors.

STATEMENT OF THE PROBLEM:

In the current economic scenario interest rates are falling and fluctuation in the share market has put investors in confusion. As a result, investors find it difficult to take decision on investment. This is primarily because investments are risky in nature and investors have to consider various factors before investing in investment avenues. Mutual funds are considered as the most suitable investment avenue for a common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. Hence the study attempts to evaluate the performance of UTI and ICICI PRUDENTIAL mutual funds to assess the perceptions of the investors on a comparative basis.

OBJECTIVES OF THE STUDY:

- To evaluate the past performance of selected Equity, Debt and Balanced mutual fund schemes of UTI and ICICI PRUDENTIAL Mutual funds.
- To compute the risk return analysis of the sample funds selected for a period of 5 years. (Sample funds selected are, the average performing funds of UTI and ICICI Prudential Mutual Funds that are ranked by CRISIL).

RESEARCH METHODOLOGY:

DATA COLLECTION:

The report is based on Secondary data. All the data required for this analytical study has been obtained mainly from secondary sources. The secondary data pertaining to Equity, Debt and Balanced funds has been collected through various sources like selected mutual funds' records and balance sheets based on which the project has been carried on. In addition, a number of journals, reports, were also used to formulate the theoretical model for the study.

And some information were also drawn from factsheets and different websites such as www.amfiindia.com, www.utimf.com, www.icicipruamc.com, www.crisil.com

TOOLS USED:

For analysing the mutual funds, statistical measures such Alpha, Beta, Standard deviation are used. With respect to it other performance measures such as Sharpe's ratio and Treynor's ratio were also taken into account to analyse the risk and return of selected schemes of both UTI and ICICI PRUDENTIAL mutual funds.

LIMITATIONS OF THE STUDY:

- Time constraint is the major limitation for conducting the research.
- There are several funds and huge number of schemes offered by various Mutual fund institutions, and thus it is not possible to compare all the funds.
- Analysis done is limited to the availability of data.
- The results cannot be generalised.

RISK AND RETURN OF UTI & ICICI BANKING AND FINANCIAL SERVICES FUND TABLE 1.1 SHOWING RISK AND RETURN OF UTI & ICICI BANKING AND FINANCIAL SERVICES FUND

Year	Standard deviation		Sharpe's Ratio		Beta		Treynor's Ratio		Alpha	
	UTI	ICICI	UTI	ICICI	UTI	ICICI	UTI	ICICI	UTI	ICICI

2015-2016	16.83	20.65	-1	-0.94	0.9	0.88	-	-22.97	-0.41	0.37
2016-2017	12.83	16.21	2.1	3.04	1	0.92	35.49	35.49	9.76	25.93
2017-2018	16.51	13.92	0.4	0.25	0.9	0.99	6.1	6.1	-2.89	-5.81
2018-2019	20.8	17.64	0.2	0.45	1	1	3.66	3.66	11.61	-7.73
2019-2020	33.97	32.28	-1.4	-1.39	1	0.93	-49.1	-49.1	16.97	-15.30
Mean	20.19	20.14	0.1	0.28	0.9	0.94	-5.36	-5.36	-4.42	-0.51

TABLE 1.2 SHOWING RISK AND RETURN OF UTI & ICICI MONEY MARKET FUND

Year	Standard deviation		Sharpe's Ratio		Beta		Treynor's Ratio		Alpha	
	UTI	ICICI	UTI	ICICI	UTI	ICICI	UTI	ICICI	UTI	ICICI
2015-2016	1.519	0.18	0.16	0.61	0.26	0.73	0.91	0.15	0.19	0.13
2016-2017	0.852	0.15	0.05	-40.31	0.001	0.74	31.36	-0.01	0.04	0.11
2017-2018	1.171	0.15	0.43	2.7	0.4	0.87	1.26	0.47	0.24	-0.04
2018-2019	5.566	0.32	0.28	4.25	0.91	0.05	1.71	29.89	0.29	1.32
2019-2020	103.485	1.43	0.01	0.42	1.96	3.4	0.28	0.18	-0.45	1.16
Mean	22.52	0.45	0.19	-6.47	0.71	1.16	7.1	6.14	0.06	0.54

TABLE 1.3 SHOWING RISK AND RETURN OF UTI & ICICI REGULAR SAVINGS FUND

Year	Standard deviation		Sharpe's Ratio		Beta		Treynor's Ratio		Alpha	
	UTI	ICICI	UTI	ICICI	UTI	ICICI	UTI	ICICI	UTI	ICICI
2015-2016	4.44	5.56	-1	-1.05	0.93	1.02	-4.69	-5.77	-0.81	-5.61
2016-2017	3.65	3.97	0.2	2.11	0.98	0.45	5.25	18.75	-0.11	6.5
2017-2018	3.06	3.88	0.5	0.37	0.96	0.37	1.55	3.83	0.27	4.02
2018-2019	3.49	2.9	0.4	0.28	0.93	0.24	-1.41	3.43	-2.88	0.9
2019-2020	8.68	5.56	-1.9	-0.85	1	0.3	-16.21	-15.62	-9.7	-6.97
Mean	4.66	4.37	-0.5	0.17	0.96	0.48	-3.1	0.92	-2.65	-0.23

FINDINGS:

STANDARD DEVIATION:

Higher the standard deviation higher the risk.

UTI: Under UTI RSF (4.66) is having low risk when compared to other schemes like UTI B&F (20.19) and UTI MMF (22.52).

ICICI: Under ICICI, ICICI MMF (0.45) is having low risk when compared to other schemes like ICICI RSF (4.37) and ICICI B&F (20.14). As per Standard deviation, the best equity scheme comparatively is ICICI Banking and Financial Services Scheme (20.14), the best debt scheme is ICICI Prudential Money Market Fund (0.45), and the well-performed balanced fund is ICICI Prudential Regular Savings Fund (4.37).

SHARPE'S RATIO:• UTI: According to sharpe's ratio UTI MMF (0.19) is high when compared to other schemes like UTI B&F (0.05) and UTI RSF (-0.50). ICICI: According to sharpe's ratio ICICI regular saving fund (0.17) is high when compared to the other schemes like ICICI prudential fund B&F (0.28) and ICICI MMF (-6.47). As per Sharpe's ratio, the best performed equity scheme comparatively is ICICI Prudential Banking and Financial Services Fund (0.28), best debt scheme is UTI Money Market Fund (0.19), best balanced scheme is ICICI Prudential Regular Savings fund (0.17).

BETA:• UTI: According to beta calculation, UTI RSF (0.96) as the highest risk when compared to other schemes like UTI B&F (0.94) and UTI MMF (0.71). ICICI: According to beta calculation, ICICI MMF (1.16) as the highest risk when compared to other schemes like ICICI B&F (0.94) and ICICI RSF (0.48). As per beta calculation, under equity scheme, both UTI Banking and Financial Services scheme (0.94) and ICICI Prudential Banking and Financial Services scheme (0.94) has equal amount of risk; under debt schemes, UTI Money Market fund (0.71) is the best compared to ICICI Prudential MMF; under balanced schemes, ICICI Prudential Regular Savings fund (4.37) is the best has there is minimum risk in it compared to UTI RSF.

TREYNOR'S RATIO:• UTI: According to treynor's ratio, UTI MMF (7.10) is yielding high return when compared to other fund UTI RSF (-3.10) and UTI B&F (-5.36) ICICI: According to treynor's ratio, ICICI MMF (6.14) if yielding high return when compare to other funds like ICICI RSF (0.92) and ICICI B&F (-1.14). As per Treynor's ratio, ICICI Prudential Banking and Financial Services fund (-1.14) as performed moderately under equity schemes as compared to UTI Banking and Financial Services Fund, UTI Money Market Fund has performed well under Debt schemes compared to ICICI Prudential MMF, ICICI Prudential Regular Savings fund (0.92) has performed well in comparison to UTI Regular Savings fund.

ALPHA:• UTI: According to alpha, UTI MMF (0.06) has higher returns compared to other schemes like UTI B&F (-4.42) and UTI RSF (-2.65). ICICI: Under ICICI, ICICI MMF (0.54) has performed well compared to other schemes like ICICI B&F (-0.51) and ICICI RSF (-0.23). As per alpha, under equity schemes ICICI Prudential Banking and Financial Services scheme (-0.51) has performed moderately in comparison with UTI Banking and Financial Services fund (-4.42); under debt schemes ICICI Prudential Money Market Fund has performed better (0.54) compared to UTI MMF; under balanced schemes, ICICI Prudential Regular Savings fund (-0.23) is moderately good compared to UTI RSF.

SUGGESTIONS

The following are some of the suggestions based on the study:

1. Risk takers can go for UTI schemes as the risk and return are the highest.
2. Moderate takers can go for ICICI schemes as the risk and return are decent.
3. Comparing the two schemes, UTI schemes are recommended as the risk is low and the return is greater than ICICI schemes.

CONCLUSIONS

This study helps the investigator in understanding the different categories of mutual fund, the nature of the market, and the best performing mutual fund from a selected pool of mutual fund. This enabled the researcher in suggesting the retail investor the best mutual fund company to invest his or her money. The study is very relevant in today's financial market context and will form basis for the performance evaluation of the mutual funds in future also.

The performance of mutual fund are measured by different performance evaluation technique like Standard Deviation, Sharpe's Ratio, Treynor's ratio, Beta and Alpha and outcome from an evaluation will let the investor to invest into the right categories of mutual fund.

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