

Performance Analysis of the Selected Large Cap Mutual Funds

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Abstract

Mutual funds are financial instruments that combine the capital of many participants to purchase a variety of securities, including stocks, bonds, and other assets. These funds are managed by qualified money managers who distribute assets while seeking to bring in profits or income for investors. A mutual fund's portfolio is constructed and maintained in accordance with the investment objectives stated in the prospectus. Via mutual funds, small investors can have access to professionally managed portfolios of assets and proportionately participate in the fund's gains or losses. This article also discusses the various types of mutual funds, including small-, mid-, and large-cap funds, and it emphasizes large-cap mutual funds which are rated five by Morningstar. The importance of researching mutual funds is highlighted in the study's last section, along with its goals, which include examining the performance of particular large-cap mutual fund schemes in terms of risk, return, beta, Sharpe ratio, standard deviation, and Treynor.

Keywords

Mutual fund, Large cap, Portfolio, Investment, Performance, Risk management, Investment goals

Introduction

Mutual fund

In order to invest in securities such as stocks, bonds, money market instruments, and other assets, mutual funds aggregate the funds from shareholders. Professional money managers run mutual funds, allocating the assets and attempting to generate capital gains or income for the fund's investors. The portfolio of a mutual fund is set up and kept up to date in accordance with the specified investment goals in the prospectus. Small or individual investors have access to professionally managed portfolios of stocks, bonds, and other securities through mutual funds. As a result, each shareholder shares proportionately in the fund's profits or losses. The success of mutual funds, which invest in a huge variety of assets, is often measured as the change in the fund's total market capitalization, which is calculated by aggregating the performance of the underlying investments. (Dr. J. Murthy, (2022). Performance evaluation of mutual fund: a study on selected equity mutual funds in India)

Types of mutual funds

Small cap - Open-ended equity mutual funds that specialize on small size equities at least 65% of the time are known as small cap mutual funds. Companies with a market value below the 250th place are considered small cap stocks. They are newcomers to the market and tiny businesses. Small-cap funds have a high degree of risk and are quite volatile. The share prices of small size firms typically see an instant impact from any market volatility, no matter how little. But, if the business develops, these funds also have a very high return potential for investors.

Mid cap - Open-ended equity mutual funds that invest at least 65% of their assets in mid sized firm equities are known as mid cap mutual funds. Companies that fall between 101st and 250th in terms of market capitalization are considered to be mid size stocks. Mid cap firms have a solid history and the ability to develop into large cap firms. There is, nevertheless, a risk for failure. Mutual funds for midcap companies aim to balance risk and return. These funds may offer greater growth potential than big cap funds due to the nature of investing in growth stage firms. They are less risky than small cap funds even if they are quite sensitive to market fluctuations.

Large cap - The term "large cap mutual funds" refers to open-ended equity mutual funds that generally invest at least 80% of their assets in corporations with a market value of more than a thousand crore. These businesses often dominate their particular industrial sectors, which suggests that they have a strong history of generating money in the past. Also, they have a strong market position since they are recognized for their rapid

development and huge earnings. If investors have a limited tolerance for risk, they can profit from the consistent returns of these products. (<https://www.franklintempletonindia.com/investor-education/new-to-mutual-funds/article/beginners-guide-chapter10/types-of-mutual-fund-in-india>)

Facts

Below are the large cap mutual funds which are rated 5 stars according to Morningstar website.

1) ICICI Prudential Bluechip Fund Direct Plan Growth

This mutual fund scheme is useful for the investor who want to invest in large cap stocks. This is scheme was started in may 2008 and has been giving stable returns to its investors ever since. The benchmark for this fund is the Nifty 100 TRI and Nifty 50 TRI.

2) Canara Robeco Bluechip Equity Fund Direct Plan Growth

This mutual fund scheme mostly invests in large cap funds. The scheme was introduced in Jan 2013. The benchmark for the scheme is S&P BSE 100 TRI.

3) Baroda BNP Paribas Large Cap Fund Direct Plan Growth option

The Scheme's investment goal is to provide long-term capital growth through an actively managed, diversified portfolio of equities and equity-related securities. The Plan will invest in a variety of businesses, favoring those with big and medium market capitalizations. The scheme was introduced in Jan 2013 and its benchmark is Nifty 100TRI.

4) Edelweiss Large Cap Fund Direct Plan Growth option

The investment goal is to target long-term capital growth through a portfolio that is primarily comprised of equities and equity-related securities of India's 100 biggest companies by market capitalization listed on the stock exchange. The scheme was introduced in Jan 2013 and its benchmark if Nifty 100.

5) IDBI India Top 100 Equity Fund Direct Growth

By investing primarily in equity and equity-related instruments of large cap firms, the investment goal of the scheme is to offer investors opportunities for long-term capital gain. The achievement of the investment goal set forth in the Plan, however, cannot be guaranteed. The scheme was launched in Jan 2013 and its benchmark is Nifty 100.

6) JM Large Cap Fund (Direct) – Growth

Investors seeking large profits who want to hold their investments for at least three to four years. These investors should also be prepared for the risk of experiencing modest losses on their assets at the same time. Its benchmark is S&P BSE 100 TRI.

7) Mahindra Manulife Large Cap Fund Direct Growth

Investors who are looking to invest money for at least 3-4 years and looking for high returns. At the same time, these investors should also be ready for possibility of moderate losses in their investments. Its benchmark is Nifty 100 TRI. (<https://www.morningstar.in/funds.aspx>)

Significance of the study

Mutual funds provide convenience, diversification, ease of investment, spoilt for choice, and also provides professional management. Mutual funds provide access to a larger range of investments or diversity than an individual investor could afford. There are cost savings associated with collective investment. Asset growth is aided by regular contributions from the investor. Funds are more liquid since their volatility is often lower. The investor receives expert assistance for managing their investments.

Objectives

- To study the performance of selected large-cap mutual funds schemes in terms of, Return, Risk, Standard deviation, beta, Sharpe ratio, Treynor ratio.
- To compare the performance of the selected large cap mutual fund with each other.

Review of literature

- 1) Performance evaluation of mutual fund: a study on selected equity mutual funds in India was written Dr. J. Murthy, Dr. M.S.R. Anjaneyulu in 2022. In this study, relative performance analysis is used to evaluate the performance of Indian mutual funds. The returns from the fund schemes were computed using the daily closing NAV of various schemes. Risk and return analysis, Standard Deviation, Sharpe, Treynor, and ANOVA are used to evaluate mutual fund performance.
- 2) Performance analysis of mutual funds: a study on selected large cap mutual funds in india was written by Margi Choks in 2021. The purpose of this article was to analyse the performance of a few large cap Indian mutual funds. 15 big cap mutual funds have been chosen for the study's purposes.
- 3) A study on performance evaluation of mutual funds in India was written by Krishna Samaddar in 2018. The article mainly focuses on comparing the selected mutual funds to the Nifty 50, using different performance metrics like sharp measure, treynor measure, and Jensen alpha.

4) Performance evaluation of selected equity mutual fund schemes in India was written by Aisharya Ghosh, Subhamoy Das in 2018. The study gives us information on performance evaluation using beta, Sharpe, Treynor for the select mutual funds.

5) Performance and evaluation of portfolio of mutual funds was written by Agha Amad Nabi in 2018. The Sharpe ratio was used to gauge the risk-adjusted performance of mutual funds, and both stock and money market funds had positive Sharpe ratios, demonstrating the capacity of fund managers to diversify their investments to lower risk.

Research gap

Based on literature survey, it is identified that there are multiple studies conducted in the past on Performance analysis of large cap mutual funds, however there are very few researches conducted on comparison of large cap mutual funds.

Research design

The means of data collecting is secondary data. Data for the study was gathered via websites like www.moneycontrol.com.

Tools

- 1) Beta
- 2) Standard deviation
- 3) Treynor ratio
- 4) Sharpe ratio

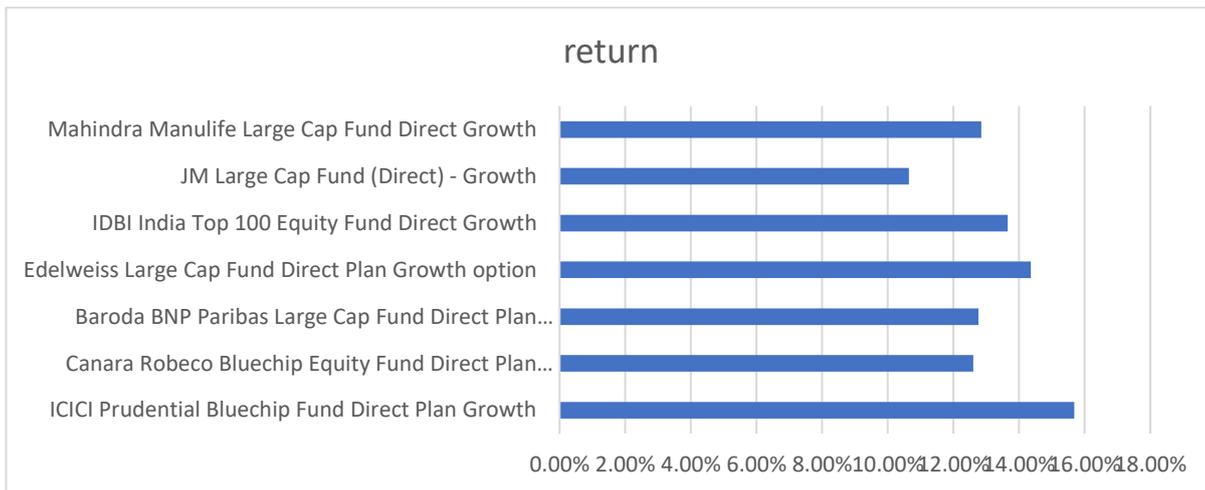
Data Analysis

Ranking according to the returns of the large cap mutual funds.

Sl. No.	scheme	return	Rank	Standard deviation	beta
1	ICICI Prudential Bluechip Fund Direct Plan Growth	15.68%	1	20.86	0.94
2	Canara Robeco Bluechip Equity Fund Direct Plan Growth	12.60%	6	19.9	0.9

3	Baroda BNP Paribas Large Cap Fund Direct Plan Growth option	12.76%	5	19.3	0.88
4	Edelweiss Large Cap Fund Direct Plan Growth option	14.36%	2	20.01	0.91
5	IDBI India Top 100 Equity Fund Direct Growth	13.65%	3	21.06	0.96
6	JM Large Cap Fund (Direct) - Growth	10.64%	7	14.57	0.58
7	Mahindra Manulife Large Cap Fund Direct Growth	12.85%	4	20.57	0.93

(source - moneycontrol)



Interpretation

As we can see that according to the ranks ICICI Prudential Bluechip Fund Direct Plan Growth is providing the highest returns and JM Large Cap Fund (Direct) – Growth the lowest.

When it comes to the standard deviation it should be compared to other mutual funds in the same category. Lower the standard deviation its better as it is less risky when compared to the higher standard deviation. Here JM Large Cap Fund (Direct) – Growth has the lowest risk but it also provides lesser returns when compared to IDBI India Top 100 Equity Fund Direct Growth which has the highest standard deviation but its ranked in 3rd place in returns.

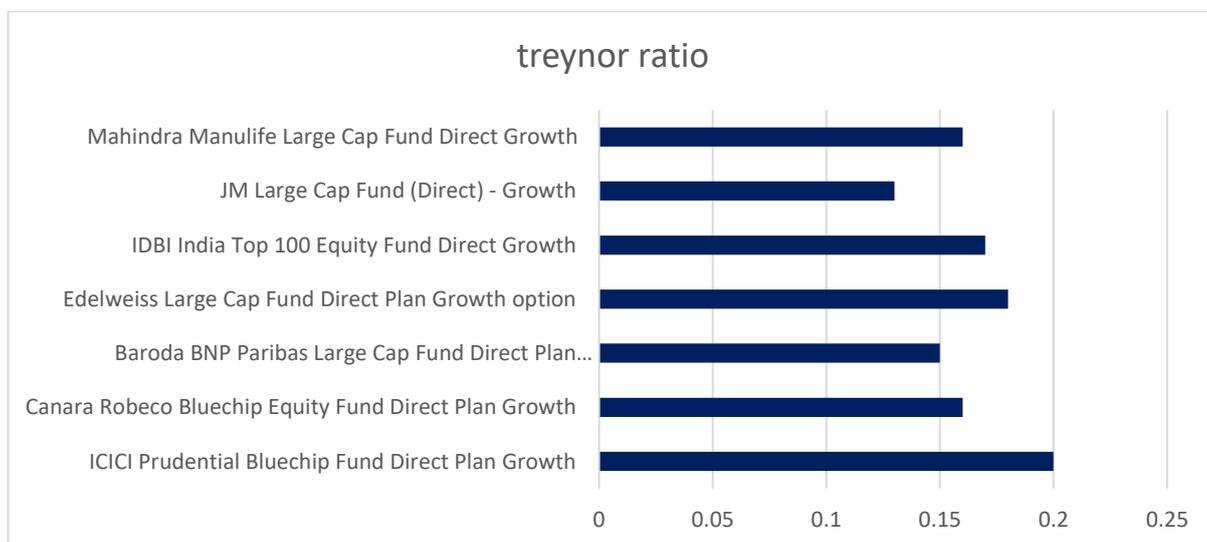
Beta represents the risk to reward with regards to the funds benchmark. If the beta is higher than 1 its is providing more returns when compared to its benchmark, visa a versa, but also there is high volatility and risk with higher beta. Here IDBI India Top 100 Equity Fund Direct Growth has the highest beta but its not above

1 so it is giving less returns when compared to its benchmark. JM Large Cap Fund (Direct) – Growth has the lowest beta which means it has less risk and volatility but also has less rewards or returns.

Ranking according to the Treynor’s ratio.

Sl. No.	scheme	treynor ratio	rank
1	ICICI Prudential Bluechip Fund Direct Plan Growth	0.2	1
2	Canara Robeco Bluechip Equity Fund Direct Plan Growth	0.16	5
3	Baroda BNP Paribas Large Cap Fund Direct Plan Growth option	0.15	6
4	Edelweiss Large Cap Fund Direct Plan Growth option	0.18	2
5	IDBI India Top 100 Equity Fund Direct Growth	0.17	3
6	JM Large Cap Fund (Direct) - Growth	0.13	7
7	Mahindra Manulife Large Cap Fund Direct Growth	0.16	4

(source – moneycontrol)



Interpretation

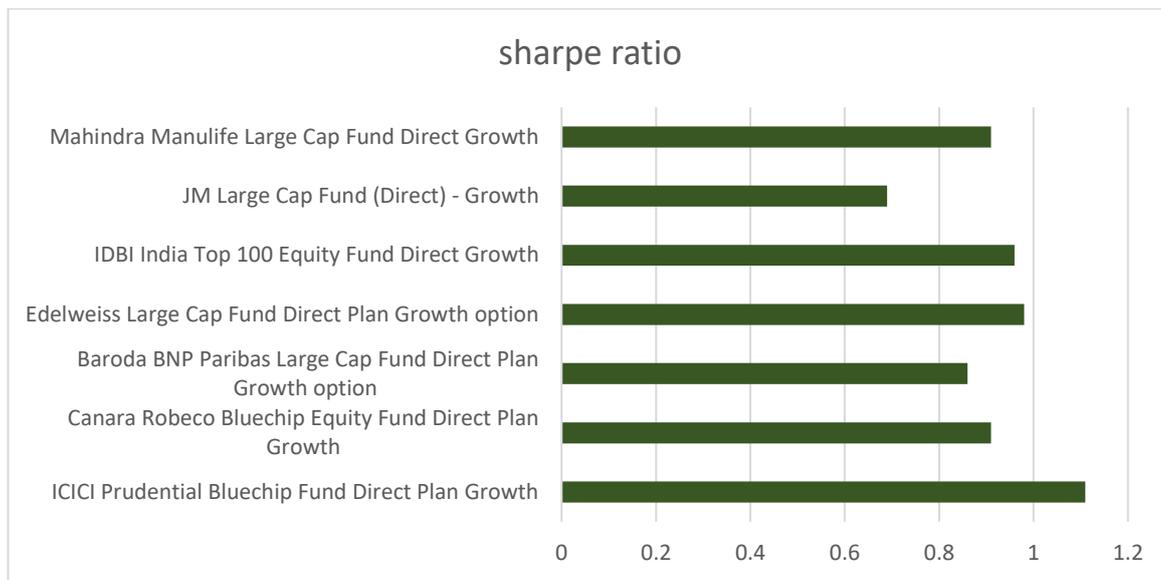
Investors can account for systematic risk by adjusting the returns on a portfolio using the Treynor ratio, a risk/return metric. A portfolio is a more suited investment if the Treynor ratio is greater.

Here ICICI Prudential Bluechip Fund Direct Plan Growth is ranked 1st which means it is better adjusted to systematic risk and the lowest is ranked 7th i.e., JM Large Cap Fund (Direct) – Growth.

Ranking according to the Sharpe Ratio

Sl. No.	scheme	sharpe ratio	Rank
1	ICICI Prudential Bluechip Fund Direct Plan Growth	1.11	1
2	Canara Robeco Bluechip Equity Fund Direct Plan Growth	0.91	5
3	Baroda BNP Paribas Large Cap Fund Direct Plan Growth option	0.86	6
4	Edelweiss Large Cap Fund Direct Plan Growth option	0.98	2
5	IDBI India Top 100 Equity Fund Direct Growth	0.96	3
6	JM Large Cap Fund (Direct) - Growth	0.69	7
7	Mahindra Manulife Large Cap Fund Direct Growth	0.91	4

(source – moneycontrol)



In general, a Sharpe ratio of 1 to 2 is seen as favorable. Any result greater than 3 is outstanding, and a ratio between 2 and 3 is extremely good. In the selected mutual funds the highest and more than 1 ratio is ICICI Prudential Bluechip Fund Direct Plan Growth and the lowest is JM Large Cap Fund (Direct) – Growth.

Findings

- 1) We can see that ICICI Prudential Bluechip Fund Direct Plan Growth has shown good ranking in almost all the tools used in this study.
- 2) JM Large Cap Fund (Direct) – Growth has underperformed and was ranked the lowest in almost all the tool used.
- 3) When it comes to returns Edelweiss Large Cap Fund Direct Plan Growth option is ranked 2nd with only a slight difference between the 1st and 2nd rank, but its volatility is less when compared to rank 1.
- 4) when it comes to sharpe and treynors ration ICICI Prudential Bluechip Fund Direct Plan Growth is ranked 1st in both of them and Edelweiss Large Cap Fund Direct Plan Growth option is ranked 2nd in both the ratios.
- 5) The top 2 mutual funds in the selected list of mutual funds are ICICI Prudential Bluechip Fund Direct Plan Growth and Edelweiss Large Cap Fund Direct Plan Growth option.

Conclusion

Mutual funds are highly useful instrument to generate wealth and income in the future prospectives. The study's goal is to evaluate the performance of a few chosen Equity funds with the use of Standard deviation, Beta, Treynors ratio and Sharpe ratio. There are 7 mutual funds selected for the analysis of the mutual fund. By contrasting the Treynors and Sharpe ratio tables, we can observe that the ranking of funds changes depending on the metric used. For instance, the JM Large Cap Fund moves from seventh place based on the Sharpe ratio to sixth place based on the Treynor ratio while the ICICI Prudential Bluechip Fund maintains the top spot in both rankings.

For investors wishing to assess mutual funds, the rankings produced by both ratios are important resources in terms of relevance. A high Treynor ratio shows that a fund has produced notable returns per unit of systematic risk, whereas a high Sharpe ratio shows that a fund has produced notable returns per unit of overall returns that are higher than the risk-free rate.

Future of mutual funds in India

With a high Treynor Ratio and Sharpe Ratio, which show that the fund has produced superior returns for the risks incurred, ICICI Prudential Bluechip Fund Direct Plan Growth has consistently maintained its position at the top.

With a high Treynor Ratio and Sharpe Ratio, which show that they are good performers in the large-cap sector, Edelweiss Large Cap Fund Direct Plan Growth Option and IDBI India Top 100 Equity Fund Direct Growth have likewise consistently done well.

The Sharpe Ratio and Treynor Ratio of Canara Robeco Bluechip Equity Fund Direct Plan Growth, Baroda BNP Paribas Large Cap Fund Direct Plan Growth option, JM Large Cap Fund (Direct) - Growth, and Mahindra Manulife Large Cap Fund Direct Growth, although not as high as the top performers, have all performed well.

Overall, the outlook for large-cap mutual funds is positive, and these funds are probably going to keep providing market-beating returns in the future. Before to investing in any mutual fund, investors should carefully consider the risks and potential benefits because previous performance does not guarantee future outcomes.

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Tools

1)
$$\text{Beta} = (\text{Fund return} - \text{Risk free rate}) \div (\text{Benchmark return} - \text{Risk free rate})$$

2)
$$\text{Standard deviation} = \sqrt{(\sum (x_i - \bar{x})^2) / (n-1)}$$

x_i is the i th point in the data set

\bar{x} is the mean value of the data set

N is the total number of data points in the set

3)
$$\text{Treynor ratio} = (R_p - R_f) / \beta_p$$

R_p – risk associated with the portfolio

R_f – risk free rate

β_p – beta of the portfolio

4) Sharpe ratio = $(R_p - R_f) / \text{Standard deviation}$

R_p is the expected return

R_f is the risk-free rate