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NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESIS (ES)

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

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PERFORMANCE EVALUATION OF INDIAN MUTUAL FUND SCHEMES AND ITS IMPACT ON INVESTMENT DECISION

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ABSTRACT
In India capital market gives a diversity of investment alternatives to the stakeholders to support them to invest in different investment tools and to make positive the profitable return. Along with diverse range financial products, mutual fund ensures the maximum return and minimum risks to the investors. Development of various mutual fund schemes in the Indian capital market has proved to be one of the most catalytic investment avenue in generating significant investment growth. Over the past years, a number of technical and theories for analysis has evolved; these combined with modern technology guides, which serve the purpose of an investor. The giant players in the market, like Foreign Institutional Investors, Mutual Funds, etc. have the expertise skill and access for various analytical tools and make use of them. Most of the small investors are not in position to benefit out from market the way Mutual Funds do. This article focused on investors' investment decision making towards mutual funds by using of Statistical tools and ratio analysis of mutual fund schemes of selected banks. Also the research findings will useful to the Mutual Fund Companies in terms of understand their performance among the mutual fund companies in the market.

KEYWORDS
capital market, stakeholders, mutual fund, foreign institutional investors.

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G11

INTRODUCTION
Mutual Funds is a topic which is of enormous interest not only to researchers all over the world, but also to investors. Mutual funds as a medium-to-long term investment option is preferred as a suitable investment option by investors. However, with several market entrants the question is the choice of mutual fund. The study focuses on this problem of mutual fund selection by investors. Though the investment objectives define investor's preference among fund types (balanced, growth, dividend etc.) the choice of fund based on a sponsor's reputation remains to be probed. Indian mutual fund industry has two distinct types of sponsors, public-sector and private-sector. The Securities and Exchange Board of India (SEBI) regulations 1993, defines a "mutual fund as a fund in the form of a trust by a sponsor, to raise money by the trustees through the sale of units to the public, under one or more schemes, for investing in securities in accordance with these regulations". A mutual fund is a professionally-managed form of collective investments that pools money from many investors and invests it in stocks, bonds, short-term money market instruments, and other securities. In a mutual fund, the fund manager, who is also known as the portfolio manager, trades the fund's underlying securities, realizing capital gains or losses, and collects the dividend or interest income.

The statistics revealed that the world mutual fund industry managed financial assets of $25.59 trillion and the number of mutual funds has also grown to 73343 funds worldwide at the end of March 2012, including 28358 equity funds contribute nearby 38% of total scheme. The Indian mutual fund industry has gained immense experience and continues to reinvent itself gradually, exhibiting steady growth over the last decade. The mutual fund industry in India began with setting up of the Unit Trust of India(UTI) in 1964 by the government of India. In 1987 public sector banks and two insurance companies (LIC and GIC) were allowed to launch mutual fund. Securities Exchange and Board of India (SEBI), regulatory body for Indian capital market, formulated comprehensive regulatory framework for Mutual funds in 1993 and allowed private corporate bodies to launch mutual fund schemes. Opening up the industry door to private sector banks and financial institution in1993 had ushered in a new era in the evolution of Indian mutual fund sector. Foreign asset management companies were also allowed to setup their funds. With the entry, competitive efficiency in the industry showed a tremendous improvement and led to an applicable increase in the number and variety of scheme offered to the investors in terms of risk return preferences, maturity period and tax benefits. Asset under management (AUM) of the industry registered an increase from 47000 crore in March 1993 to a mind boggling nearby Rs. 670000crore in March 2012. As per the report if Association of Mutual Funds of India (AMFI), there were 44 mutual fund houses covering Indian public sector and joint ventures with foreign players as against only 9 public sector mutual funds in 1993. The industry has recorded a compound annual growth rate of 15.43% in asset under management over the period of March 2007 to March 2012, at the same time when stock market and financial institution witnessed the heavy crushed by financial crisis.

REVIEW OF LITERATURE
Sharpe (1966) suggested a measure for the evaluation of portfolio performance. Drawing on results obtained in the field of portfolio analysis. Economist Jack L Treynor suggested a new predictor of mutual fund performance, one that differs from virtually all those used previously by incorporating the volatility of a funds return in a simple yet meaningful manner. Jensen (1967) derived a risk adjusted measure of portfolio performance (Jensen alpha) that estimates how much a manager's forecasting ability contributes to a fund's returns.

Gupta LC (1981) presented a detailed and well-based estimate of "Portfolio" rate of return on equities. This pioneering study in the Indian context has been a major contribution in this field and is regarded as the bench-mark on the rate of return on equities for the specified time. He laid the basis of rate of return concept in performance evaluation.

Sarkar and Mazumdar (1995) evaluated financial performance of five close ended growth funds for the period February 1991 to August 1993. They concluded that the performance was below average terms of alpha values and statistically not significant and fund possessed high risk.

Bers and Madura (2000) examine the performance persistence of 384 domestic closed-end funds in the United States. The sample includes 115 taxable bond funds, 67 equity funds, and 202 municipal bond funds. They employed the regression test to assess the persistence of performance over the periods. They found net asset value based performance persistence and market price based performance persistence for each type of closed-end fund over 12-, 24-, and 36-month holding periods. The results differ slightly between fund groups and over different holding periods.

Sathya Swaroop Debashish (2009) measured the performance of the equity based mutual funds in India. 23 schemes were studied over a period of April 1996 to March 2009 (13 years). The analysis was done on the basis of mean return, beta risk, and coefficient of determination, sharp ratio, Treynor ratio and Jensen alpha. The first analysis has been done on the basis of returns, followed by a comparison between market returns and the return on schemes. It was concluded that UTI mutual fund schemes and Franklin Templeton schemes have performed excellently in public and private sectors respectively. Further, on the basis of the parameters like Sharpe ratio

Selvam et.al (2011) studied the risk and return relationship of Indian mutual fund schemes. The study found out that out of thirty-five sample schemes, eleven showed significant t–values and all other twenty-four sample schemes did not prove significant relationship between the risk and return. According to t-alpha values, majority (thirty-two) of the sample schemes' returns were not significantly different from their market returns and very few number of sample schemes' returns were significantly different from their market returns during the study period.

Dr. B. Nimalathasan, Mr. R. Kumar Ghandhi (2012) studied the financial performance analysis of mutual fund schemes (equity diversified schemes and equity mid-cap schemes) of selected banks. The objective of this research work is to analysis the financial performance of selected mutual fund schemes through the statistical parameters (Standard Deviation, Beta and Alpha) and ratio analysis.

OBJECTIVES OF THE STUDY

1. To study the suitability of investment opportunity of different mutual fund schemes provided by some selected Banks like State Bank of India, Canara Bank, ICICI Bank, HDFC Bank.
2. To evaluate the investment performance of Indian mutual funds with risk adjustment by using Standard Deviation, Beta, Sharpe Ratio, William Sharpe, Treynor and Jensen measure.

SCOPE OF THE STUDY

1. The Schemes were categorized and selected for evaluating their performance and relative risk.
2. The scope of the project is mainly concentrated on the top performing Mutual Fund Companies like State Bank of India, Canara Bank- Public Bank, ICICI Bank, HDFC Bank-Private Bank.

NEED FOR THE STUDY

Investment decision mainly depends upon the investor's attitude towards risk and return of each of the revenues investment. Planning & advisory plays an important role in facilitating an investor in investigating process. For advising an investor for investment, performance evaluation is necessary, hence the study is aimed at "Performance Evaluation of Indian Mutual Fund Schemes and Its Impact on Investment Decision."

RESEARCH METHODOLOGY

Data: The study is based on secondary data. The Secondary data sources include Fact sheets of Mutual funds, articles, newspapers, AMFI reports and websites.
Sample size: The 4 schemes are taken from selected Public banks (SBI & Canara Bank) and Private Bank (HDFC & ICICI) for 1 year. All the data used for analysis is taken from the period June-2015 to the period June-2016.

STATISTICAL TOOLS FOR ANALYSIS

Standard Deviation

Standard Deviation is a statistical tool, which measures the variability of returns from the expected value, or volatility. It is denoted by sigma (σ). It is calculated using the formula mentioned below:
It is used to measure the variation in the individual returns from the average expected returns over a certain period. Standard deviation is used in the concept of risk of a portfolio of investments. Higher standard deviation means greater fluctuation in expected return.
Standard deviation (SD) = Vvar
Where Vvar = Variance

$$\text{Vvar} = \sum p\left(r_i - E(r)^2\right)$$

Beta

Beta measures the systematic risk and shows. How prices of securities respond to the market forces. It is calculated by relating the return on security with return for the market, byconvention, market have beta.0, Mutual Fund is said to be volatile, more volatile or less volatile. If beta is greater than the stock is said to be riskier than market. If beta is less than 1, the indication is that stock is less risky in comparison to market, if beta is zero then risk is the same as that of the market, Negative beta is rare.

$$\beta = \frac{n\sum xy - (\sum x)(\sum y)}{n\sum x^2 - (\sum x)^2}$$

Where n= number of days
X= rolling returns of the NSE index
Y= rolling returns of the schemes

Returns

Returns for the last one-year of different schemes are taken for the comparison analysis.

TOOLS FOR ANALYSIS

Sharpe's Index

Sharpe index measures risk premium of a portfolio, relative to the total amount of risk in the portfolio. Sharpe index summarizes the risk and return of a portfolio in a single measure that categorizes the performance often fiords on the risk-adjusted basis. The larger the Sharpe's index the portfolio over performs the market and vice versa.

$$S = \frac{R_p - R_f}{\sigma_p}$$

Where, S = Sharpe's index
Rp = Portfolio return
Rf = Risk free rate of return
SD = Standard deviation of portfolio

Treynor's Index

Treynor's model is one of the concepts of the characteristics straight line. The characteristics line has drawn between the market return and a specific portfolio without taking into consideration any direct adjustment for risk. It is also known as reward to volatility ratio is defined as:

The formula for Treynor's Index is:

$$T_P = \frac{Risk\ Premium}{Systematic\ Risk\ Index} = \frac{r_P - r_f}{\beta_P}$$

Where, Tp = Treynor's performance index, Rp = Portfolio's actual return during a specified time period, Rf = Risk-free rate of return during the same period, βp = beta coefficient of the portfolio. Whenever Rp>Rf and βp > 0 a larger T value means a better portfolio for all investors regardless of their individual risk preferences. In two cases we may have a negative T value: when Rp<Rf or when βp < 0. If T is negative because Rp<Rf, we judge the portfolio performance as very poor. However, if the negativity of T comes from a negative beta, fund's performance is superb. Finally, when Rp- Rf, and βp are both negative, T will be positive, but in order to qualify the fund's performance as good or bad we should see whether Rp is above or below the security market line pertaining to the analysis period.

Jensen's Performance Index

The absolute risk adjusted return measure was developed by Michael Jensen and commonly known as Jensen measure. It is mentioned as a measure of absolute performance because a definite standard is a set and against that the performance is measured. The standard is based on the manager's predictive ability. Successful prediction of security price would enable the manager to earn higher returns than the ordinary investor expects to earn in a given level of risk. The basic model of Jensen is given below:

Rp = α+β(Rm-Rf)

Rf= riskless rate of interest

β = a measure of systematic risk

Rp = average return of portfolio the intercept

Rm = average market return

Information Ratio

The Information ratio is a measure of the risk-adjusted return of a financial security. The information ratio is often used to gauge the skill of managers of mutual funds, hedge funds, etc. A high ratio means a manager can achieve higher returns more efficiently than one:

IR= Alpha/Standard Deviation

DATA ANALYSIS AND FINDINGS

Finding of the Research work plays the crucial role or part in the research paper. Likewise, in this article also present the research finding based on the secondary data.

COMPARISON AMONG TAX SAVING SCHEMES- BY RATIO ANALYSIS AND STATISTICAL ANALYSIS

These schemes offer tax rebates to the investors under specific provisions of the Income Tax Act, 1961 as the Government offers tax incentives for investment in specified avenues. e.g. Equity Linked Savings Schemes (ELSS). Pension schemes launched by the mutual funds also offer tax benefits. These schemes are growth oriented and invest pre-dominantly in equities. Their growth opportunities and risks associated are like any equity-oriented scheme.

TABLE 1: COMPARISON AMONG TAX SAVING SCHEMES - RATIO ANALYSIS

Bank/Scheme Name	Treynor Ratio	Rank	Sharpe Ratio	Rank	Information Ratio	Rank
Canara Robecoquity TaxSaver	0.153	1	0.033	1	0.0250	1
HDFC Tax Saver	-0.0636	2	-0.0156	2	0.0055	2
ICICI Prudential Tax Plan	-0.1181	4	-0.0278	4	-0.0104	4
SBI Magnum Tax Gain Scheme 93	-0.078	3	-0.020	3	-0.0030	3

Source: Authors calculation by using Secondary Data i.e. Annual Report.

Canara Bank sponsored Canara Robeco Equity Tax Saver has a higher Treynor's ratio and expected to perform well among the other tax saving schemes**.** Canara Bank sponsored Canara Robeco Equity Tax Saver has a higher Sharpe's ratio & expected to perform well among the other tax saving schemes**.** Canara Bank sponsored Canara Robeco Equity Tax Saver has a higher Information ratio & expected to perform well among the other tax saving schemes.

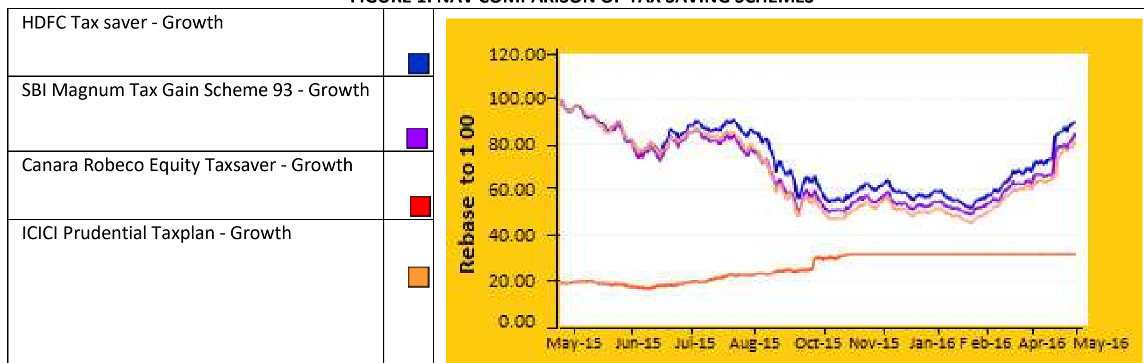
TABLE 2: COMPARISON AMONG TAX SAVING SCHEMES- STATISTICAL ANALYSIS

Fund Name	Variance	Standard deviation	Rank	Jenson Alpha	Rank
Canara Robeco Equity TaxSaver	9.828	3.135	3	0.0780	1
HDFC Tax Saver	7.888	2.809	1	0.0155	2
ICICI Prudential Tax Plan	9.087	3.014	2	-0.0314	4
SBI Magnum Tax Gain Scheme 93	10.03	3.17	4	-0.0090	3

Source: Authors calculation by using Secondary Data i.e. Annual Report.

HDFC offered HDFC Tax Saver scheme has a lower Variance and Standard deviation and is expected to be less risky among the other tax saving schemes. Canara Bank offered Canara Robeco Equity Tax Saver has the positive Alpha value of 0.0780 implies that the fund return has over performed the benchmark index by 0.0780 percent over the last one year.

FIGURE 1: NAV COMPARISON OF TAX SAVING SCHEMES



Source: Authors interpretation by using Microsoft Excel Graphical Representation.

CONCLUSION

Among Open-Ended (Tax Saving Schemes) The Canara Robeco Equity Tax Saver schemes is performing well in a particular scheme in banking sector. Whereas HDFC offered HDFC Tax Saver - Growth scheme has a lower Variance and Standard deviation and that is less risky among taken banking tax saving schemes.

DIRECTIONS FOR FUTURE RESEARCH

There is lot of scope for improvement in the research for evaluating mutual fund performances. Various other multi-criteria decision models could be tested for evaluating mutual fund performances. Testing of fund performances in the long run can be done. Extended sample of public-sector sponsored, private sector Indian sponsored and private-sector foreign sponsored mutual funds can be taken for generating results. Portfolio risk through the measure of value at risk (VaR) can also be tested for differences in mutual fund classes.

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