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Recital Assessment of Selected Balanced Funds of Various Companies in India

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Abstract: *India's first mutual fund was establishment in 1963, namely, Unit Trust of India (UTI), at the initiative of the Government of India and Reserve Bank of India. Indian Mutual Fund Industry has full-fledged fabulous over the last two decade after the entry of public sector banks, insurance companies, private and foreign dramatis personae into the industry. The manuscript highlights to evaluate which selected balanced fund scheme performs better to yield high rate of return. Mutual Fund companies are financial intermediaries providing financial services to small investors through mobilization of funds, when the investors invest in a mutual fund they are buying shares or units of the mutual fund and become a shareholder of the fund. Average Assets Under Management (AAUM) of Indian Mutual Fund Industry for the month of September 2017 stood at ₹ 21.45 lakh crore. Assets Under Management (AUM) as on September 30, 2017 stood at ₹20.40 lakh crore. The target of this paper is to evaluate the selected funds assessment on the basis of various performance ratios.*

Keywords: *Average Assets under Management (AAUM), Funds, India, Mutual Funds (MF), Performance, Recital*

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I. Introduction

Mutual funds play especially imperative role in Indian economy, the mutual funds companies pool the savings of small investors and invest those collected huge amount of funds in different sectors of the economy. They are performing like intermediary between small investor and the Indian capital market. In recent years many mutual fund companies are established, though the competition is increased among the companies. To encounter the competition the different companies are introducing different types of mutual fund schemes with attractive returns and low risk. So it is an advantage to the investors. Mutual funds are considered as one of the best available investments compared to others as they are very cost efficient and also easy to invest in, thus by pooling money together in a mutual fund, investors can purchase stocks or bonds with much lower trading costs than if they tried to do it on their own. But the biggest advantage to mutual funds is diversification, by minimizing risk & maximizing returns. A mutual fund that buys a combination of common stock, preferred stock, bonds, and short-term bonds, to provide both income and capital appreciation while avoiding excessive risk. The purpose of balanced funds is to provide investors with a single mutual fund that combines both growth and income objectives, by investing in both stocks and bonds. Such diversified holdings ensure that these funds will manage downturns in the stock market without too much of a loss; the flip side, of course, is that balanced funds will usually increase less than an all-stock fund during a bull market. The Quarterly Average Assets under Management (QAAUM) also registered a QoQ growth of 8% in the last quarter of FY2017. The growth can be attributed to strong retail participation and overall market gains. FY2017 turned out to be a very good year for the mutual fund industry with investors pouring in Rs. 3.4 lakh crore across categories. The net inflows in Liquid, Income and Equity (including Equity Linked Savings Schemes or ELSS) categories have been to the tune of Rs. 1.2 lakh crore, Rs. 0.96 lakh crore, and Rs. 0.70 lakh crore, respectively. The Assets Under Management (AUM) of the Indian mutual fund (MF) industry witnessed an exceptional growth of 42% in FY2017. According to Association of Mutual Funds in India (AMFI) data, AUM grew from Rs. 12.3 lakh crore in March 2016 to Rs. 17.5 lakh crore in March 2017.

II. Review Of Literature

Jain (1982) evaluated performance of unit trust of India (UTI) during 1964-65 to 1979-80, including the profitability aspects of unit scheme 1964, unit scheme 1971 and unit scheme 1976. He concluded that its real rate of return have been low indicating overall poor, performance of UTI Schemes. There has been so significant increase in the profitability over the years.

Friend, Blume and Crockett (1970) compared the performance of 86 funds with random portfolios. The study concluded that mutual funds performed badly in terms of total risk. Funds with higher turnover outperformed the market. The size of the fund did not have any impact on their performance.

Roger E. Potler (1970) found empirical evidence suggesting the same basic factors motivating professional and non- professional investors. The factors were a desire for income from dividends, rapid growth and quick profits through and purposeful investment as a protective outlet for savings.

Garg (2011) examined the performance of top ten mutual funds that was selected on the basis of previous years return. The study analyzed the performance on the basis of return, standard deviation, beta as well as Treynor, Jensen and Sharpe indexes. The study also used Carhart‟s four-factor model for analyzing the performance of mutual funds.

The results revealed that Reliance Regular Saving Scheme Fund (RRSSF) had achieved the highest final score and Canara Robeco Infra fund had achieved the lowest final score in the one-year category.

Alekhya P (2012) has undertaken the study to evaluate the comparative performance of public and private sector mutual fund schemes. The paper focused on the performance of mutual fund equity scheme for past 3 years from 2009 to 2011. Funds were ranked according to Sharpes, Treynors and Jensons performance measure.

NEED FOR THE STUDY

- The present study helps to study in detail about balanced mutual funds.
- The present study is helpful to evaluate performance of selected balanced funds with respect to its risk and returns for the purpose of construct an optimum portfolio.
- The study scope is limited to selected mutual funds in the mutual fund industry.
- The study will also be helpful to predict the performance of the selected balanced funds in the future.

OBJECTIVES OF THE STUDY

- To evaluate the selected balanced fund scheme which performs better to yield high rate of return.
- To compare and contrast the performance of the each balanced fund scheme with their benchmark and index.
- To investigate the financial performance of the mutual funds with the tools of return, standard deviation and beta.
- To evaluate the selected funds assessment on the basis of various performance ratios (Sharpe’s and Treynor)

DATA BASE

This study is based on primary as well as secondary data. The primary data collected from the executives who are working in SBI Mutual Funds. The Secondary Data collected from Newspapers, Books, Journals; Fact sheets of Mutual funds, websites of AMFI, SEBI, value research online, and money control etc., Sharpe, Treynor, measures were used for analysis.

III. Data Analysis And Interpretation

1. SBI MAGNUM BALANCED FUNDS

Table 1: Calculation of Rate of Return

Opening Date	NAV Opening Price	NAV Closing Price	Rate of return	R
2010-2011	49.33	50.51	$\frac{50.51-49.33}{49.33}\times 100$	2.60
2011-2012	51.01	47.14	$\frac{47.14-51.01}{51.01}\times 100$	-7.59
2012-2013	47.63	54.53	$\frac{54.33-47.63}{47.63}\times 100$	14.49
2013-2014	54.66	66.11	$\frac{66.11-54.66}{54.66}\times 100$	20.95
2014-2015	66.17	94.96	$\frac{94.96-66.17}{66.17}\times 100$	43.51 $\sum$ **R**=73.96

$$\textbf{Rate of Return} = \frac{\textbf{Closing price} - \textbf{Opening price}}{\textbf{Opening price}} \times 100$$

Average Rate of Return per year for 5 years is $\bar{R} = \frac{\sum R}{n} = \frac{73.96}{5} = 14.79$

Table 2: Calculation of Standard Deviation

Year	Fund Returns (R)	Average Return($\bar{R}$)	(R-$\bar{R}$)	(R-$\bar{R}$)^2
2010 – 2011	2.60	14.79	-12.19	148.60
2011-2012	-7.59	14.79	-22.38	500.86
2012-2013	14.49	14.79	-0.30	0.09
2013-2014	20.95	14.79	6.16	37.95
2014-2015	43.51	14.79	28.72	824.84

$\sum R = 73.96$ **$\sum(R - \bar{R})^2 = 1512.34$**

$$\bar{R} = \frac{\sum R}{n} = \frac{73.96}{5} = 14.79$$

$$\text{STANDARD DEVIATION} = \sqrt{\frac{\sum(R-\bar{R})^2}{N}} = \sqrt{\frac{1,512.34}{5}}$$

$$= \sqrt{302.47} = 17.39$$

Interpretation: - 5years Average Return of SBI Magnum Balanced fund is 14.39 and Standard Deviation for 5 years is 17.39.

Table 3: Beta calculation for SBI Magnum Balanced Fund

Year	Market Returns (x)	Fund Returns (y)	x^2	Xy
2009 -2010	10.77	2.60	115.99	28.00
2010-2011	-10.58	-7.59	111.94	-80.30
2011-2012	8.06	14.49	64.96	116.76
2012-2013	18.50	20.95	342.25	387.58
2013-2014	24.50	43.51	600.25	1066.00

$\sum X = 51.26$ $\sum Y = \mathbf{73.96}$ $\sum X^2 = \mathbf{1235.39}$ $\sum XY = \mathbf{1518.04}$

Beta (β) $= \frac{n\sum xy - \sum x \sum y}{n\sum x^2 - (\sum x)^2} = \frac{5(1518.04) - (51.26)(73.96)}{5(1235.39) - (51.26)^2}$

$= \frac{3799.01}{3549.36} = 1.07$

Interpretation: - The Beta of SBI Balanced Fund is greater than the Bench Mark i.e., 1.06> 1.

Risk Adjustment Return

$$\text{Risk Adjustment return} = \frac{\text{Return of return}}{Standard\ \ diviation} = \frac{R}{\sigma} = \frac{73.96}{17.39} = 4.25$$

Interpretation: - For each unit of risk SBI Magnum Balanced fund earned 4.25 risk premiums.

Calculation of Sharpe Ratio:-

Sharpe Ratio $= \frac{\overline{R_p} - R_f}{\sigma_p}$

Standard Deviation = $\boldsymbol{\sigma_p = 17.39}$

Fund Average Return = $\boldsymbol{\overline{R_p} = 14.79}$

Risk Free Rate of Investment $\boldsymbol{R_f = 8}$

Sharpe Ratio $= \frac{14.79 - 8.00}{17.39}$

$= \frac{6.79}{17.39} = 0.46$

Calculation of Treyn or Ratio: - Treynor Ratio$= \frac{\overline{R_p} - R_f}{\beta_p}$

Fund Beta Value ($\boldsymbol{\beta_p}$) **= 1.07**

Fund Average Return ($\boldsymbol{\overline{R_p}}$) **= 14.79**

Risk Free Rate of Investment ($\boldsymbol{R_f}$) **= 8**

Treynor Ratio $= \frac{14.79 - 8.00}{1.07}$

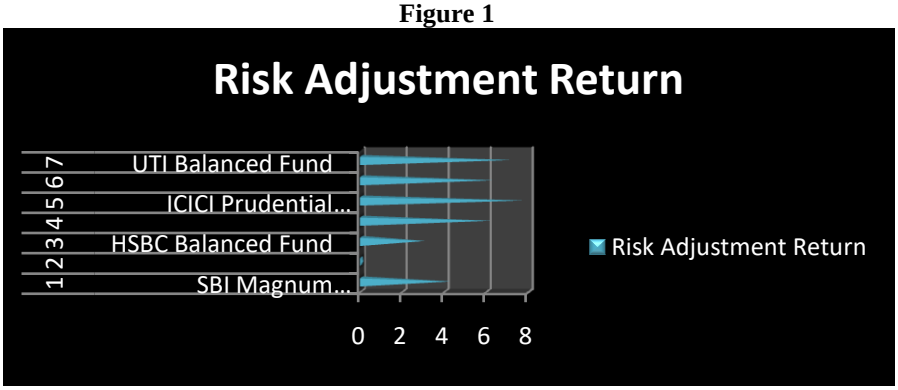
$= \frac{6.79}{1.07} = 6.35$

Interpretation: - The Sharpe ratio and Treynor ratio of SBI Magnum Balanced fund is 0.39 and 6.35.

Table 4: Performance of Standard Deviation for Various Companies in India

S.NO	COMPANY NAME	STANDARD DEVIATION
1.	SBI magnum Balanced Fund	17.39
2.	L&T Balanced Fund	36.52
3.	HSBC Balanced Fund	92.09
4.	HDFC Balanced Fund	14.76
5.	ICICI Prudential Balanced Fund	11.69
6.	TATA Balanced fund	22.91
7.	UTI Balanced fund	9.94

Figure 1

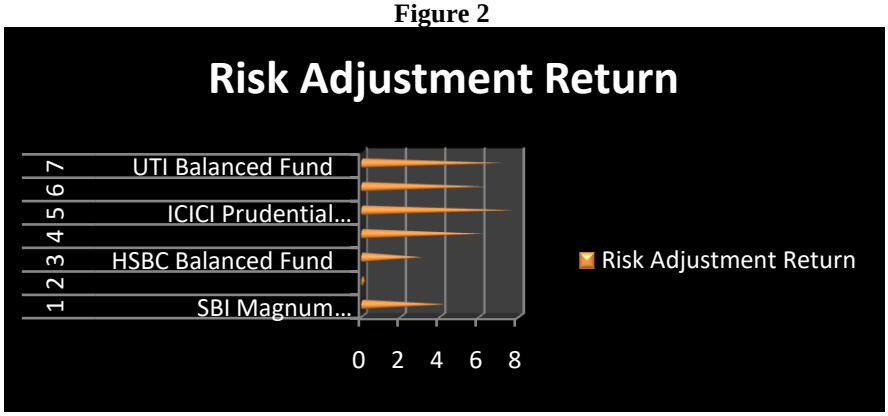


Interpretation: HSBC Balanced Fund holds highest risk (Standard Deviation 92.09) among all the funds, followed by HDFC Equity fund 14.76 and ICICI Prudential balanced fund 11.69.

Table 5: Performance of Beta value for Various Companies in India

S.NO	COMPANY NAME	BETA
1.	SBI Magnum Balanced fund	1.07
2.	L&T Balanced Fund	1.34
3.	HSBC Balanced Fund	1.18
4.	HDFC Balanced Fund	0.97
5.	ICICI Prudential Balanced Fund	0.86
6.	TATA Balanced Fund	1.19
7.	UTI Balanced Fund	0.80

Figure 2



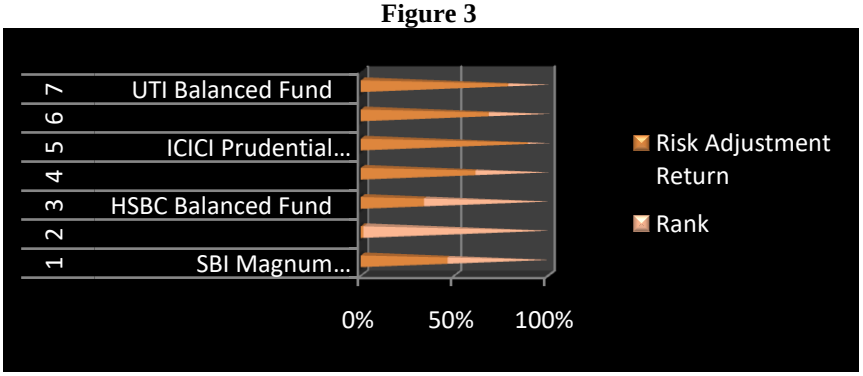
Interpretation: L&T Balanced Fund holds beta value of 1.34 which is greater than the benchmark beta, UTI Balanced fund beta value is 0.80 which is less than the benchmark beta.

Table 6: Ranking funds as per Average Rate of Return of 5 years

S.No	Company Name	Average Rate of Return	Rank
1	SBI Magnum Balanced Fund	14.79	5
2	L&T Balanced Fund	0.75	7
3	HSBC Balanced Fund	55.62	1
4	HDFC Balanced Fund	18.23	3

5	ICICI Prudential Balanced Fund	18.00	4
6	TATA Balanced Fund	28.87	2
7	UTI Balanced Fund	14.18	6

Figure 3

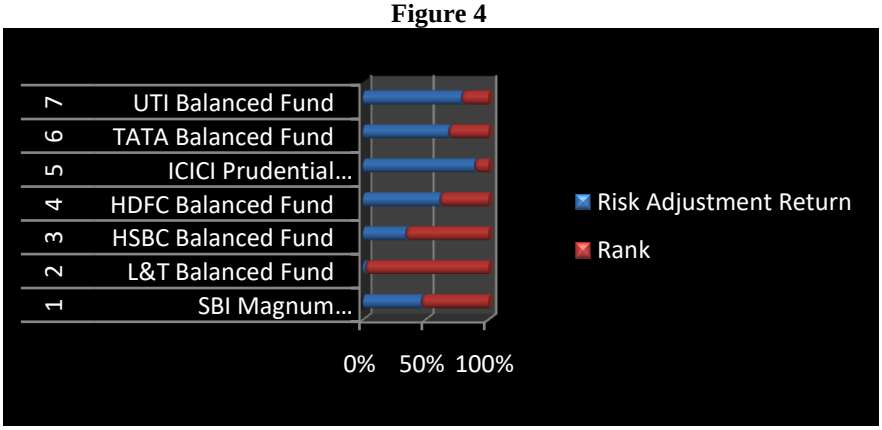


Interpretation: HSBC Balanced fund earned highest average rate of return among all the funds for 5 years, followed by HDFC Balanced fund and ICICI Balanced fund in second and third ranks.

Table 7 : Performance of Risk Adjustment Return for Various Companies

S.NO	Company Name	Risk Adjustment Return	Rank
1	SBI Magnum Balanced Fund	4.25	5
2	L&T Balanced Fund	0.10	7
3	HSBC Balanced Fund	3.02	6
4	HDFC Balanced Fund	6.18	4
5	ICICI Prudential Balanced Fund	7.70	1
6	TATA Balanced Fund	6.30	3
7	UTI Balanced Fund	7.13	2

Figure 4

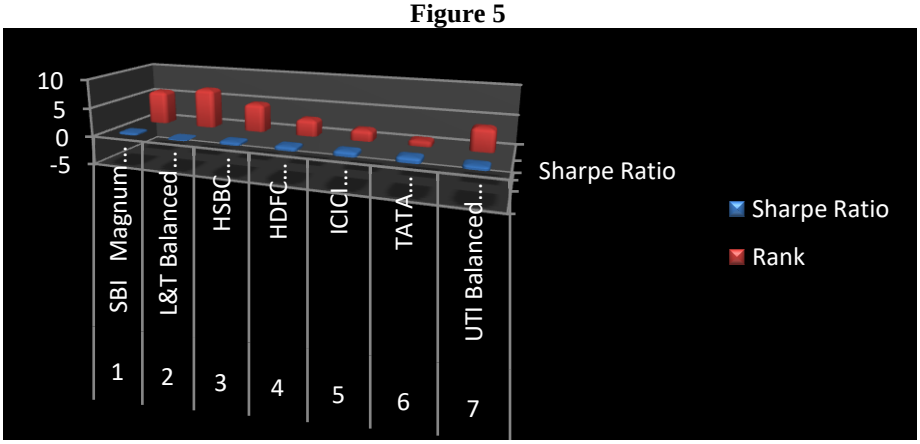


Interpretation: ICICI Prudential Balanced Growth fund earned highest risk premium for each unit of risk (7.70:1), followed by L&T Balanced fund earned least risk premium with ratio of (0.10:1).

Table 8: Sharpe's Performance Measure Rank for various Companies

S. No	Company	Sharpe Ratio	Rank
1	SBI Magnum Balanced Fund	0.39	6
2	L&T Balanced fund	-0.20	7
3	HSBC Balanced Fund	0.52	5
4	HDFC Balanced fund	0.69	3
5	ICICI Prudential Balanced Fund	0.86	2
6	TATA Balanced Fund	0.91	1
7	UTI Balanced Fund	0.62	4

Figure 5

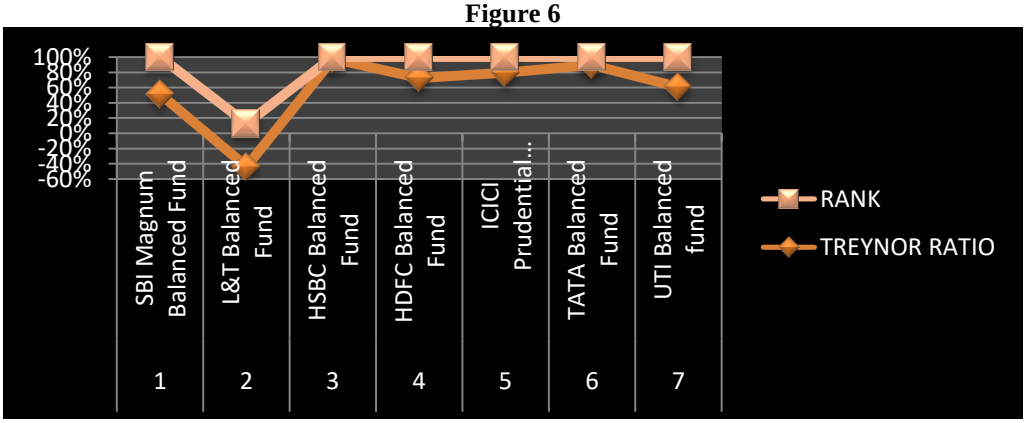


Interpretation : TATA Balanced Growth Fund awarded first rank as per Sharpe's performance measure ratio is (0.91:1) , followed by ICICI Balanced fund and HDFC Balanced fund in second and third rank, L&T Balanced fund ranked last position with ratio of (-0.20:1).

Table 9: Treynor Performance Measure for Various Companies in India

S.NO	COMPANY NAME	TREYNOR RATIO	RANK
1	SBI Magnum Balanced Fund	6.35	6
2	L&T Balanced Fund	-5.41	7
3	HSBC Balanced Fund	40.36	1
4	HDFC Balanced Fund	10.55	4
5	ICICI Prudential Balanced Fund	11.63	3
6	TATA Balanced Fund	17.54	2
7	UTI Balanced fund	7.73	5

Figure 6



Interpretation: HSBC Balanced fund awarded first rank as per Treynor's performance measure ratio is (40.36:1), followed by TATA Balanced fund and ICICI Balanced fund in second and third rank, L&T Balanced fund ranked last position with ratio of (-5.41:1).

IV. Findings

- HSBC Equity Fund earned highest average rate of return among all the funds for 5 years and the next is Tata Balanced Fund giving the next highest average rate of return.
- From the above data it is found that the HSBC Equity Fund has the highest standard deviation i.e., 92.09 and the L&T Balanced Fund stands second having the next highest S.D i.e., 36.52.
- From the above data it is found L&T Balanced Fund got the highest beta i.e., 1.34 and Tata Balanced Fund has a low beta value standing 2nd highest beta value i.e, 1.18 which means the fund is volatile to market.
- ICICI Prudential Balanced Growth Fund got highest risk premium for each unit of risk i.e., 7.70.
- The higher the Treynor's Ratio value, the better the fund is performing. HSBC Equity Fund awarded first rank by calculating treynor performance measure and TATA Balanced Fund is the next ranking fund.
- The higher the Sharpe Ratio value, the better the fund is performing. TATA Balanced Growth Fund that is 0.91 awarded as first rank and SBI Magnum balanced Fund stands 6th place by calculating sharpe ratio.

V. Conclusion

A mutual fund is the trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested by the fund manager in different types of securities. These could range from shares to debenture to money market instruments, depending upon the scheme's stated objective. Investors while investing in mutual fund have to verify documents related to investment, because risk plays significance role while investing, returns are subject to market risk. Balanced funds are invested more into equities because it is the only investment option provides greater rate of return in long-run, prospective investors are suggested to avoid speculation. Mutual Fund is professionally managed trust that pools the money of various investors and further invests them into different securities like shares, bonds and short term securities like certificate of deposit, commercial paper etc. and commodities like precious metals.

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