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A STUDY ON PORTFOLIO ANALYSIS OF MUTUAL FUNDS WITH SPECIAL REFERENCE AT INDIAN INFO LINE

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ABSTRACT:

The basic approach of any kind of investor is to handle and minimize the risk and increase theirprofits. It is common fact that to manage the risk is not to have all eggs in a basket in monetarymarkets and this saying is familiar as diversification. The diversifications need a decision regarding which basket to have which eggs and how many eggs should have in the basket. Thelack of

financial expertise in the context of mutual funds for making investments in markets has introduced mutual funds with the state of mind of financial experts. The experts of financial markets have only an advantage since the fact that it is always a win-win situation for those who don't know about investment and decreasing the risk via effectively managing funds by bigger portfolios and sufficient amount of money.

As the mutual fund industry expanded with some pace in the first decade of this century and due to this reason the performance evaluation of this industry become a critical and hot topic. The study aims to measure the performance of the mutual fund industry from 2017 to 2022.

A total of 233 mutual funds are operating in the mutual industry out of 233 mutual funds, a total of 45 mutual funds were selected for the study; 23 mutual funds were from equity while only 22 mutual funds were selected from the money market. Sharpe ratio was used to measurethe risk-adjusted performance of mutual funds and the Sharpe ratio in both equity funds and money market funds are positive, thus indicating that funds managers can diversify investmentto decrease the risk.

KEYWORDS: MUTUAL FUNDS, IIFL, PORTFOLIO, EVALUATION ANDPERFORMANCE

INTRODUCTION

A Mutual Fund is a trust that pools the savings of several investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures, and other securities. The income earned through these investments and the capital appreciations realized is shared by its unit holders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, - professionally managed basket of securities at a relatively low cost.

The project idea is to project mutual funds as a better avenue for investment. A mutual fund is a productive package for a lay investor with limited finances. A mutual fund is a very old practice in the U.S., and it has made a recent entry into India. Common man in India still finds 'Bank' as a safe door for investment. This shows that mutual funds have not gained a strong foothold in his life.

The project creates an awareness that the mutual fund is worthy investment practice. The various schemes of mutual funds provide the investor with a wide range of investment options according to his risk-bearing capacities and interest. Besides, they also give a handy return to the investor. A MUTUAL FUND is a professionally managed firm of collective investments that collects money from many investors and puts it in stocks, bonds, short-term money market instruments, and /or other

securities. The mutual fund now represents the most appropriate investment opportunity for most investors. As the financial market becomes more sophisticated and complex, the investor needs a financial intermediary which provides the required knowledge, and professional expertise for successful investment.

The fund manager, also known as the portfolio manager trades the fund's underlying securities, realizing capital gains or losses, the investment proceeds are then passed along to the individual investors. Anybody, no matter what their age or income should and can invest in mutual funds.

Mutual funds are an easy and inexpensive way for an individual to capture the money that is to be made from stocks and bonds, without buying them directly.

Investing in mutual funds is the perfect way to save money for the short-term and long-term future, such as for, retirement, a car, a home,a vacation and more.

REVIEW OF LITERATURE

Gerasimos Georglou Rompotis (2005) compared ETFs and Index Funds' performance during the period from 4/3/2001 to 11/20/2002, using a set of 16 ETFs and Index Funds that impair track the same indices. He estimated their average return and mean risk level, finding that they substantially produce quite similar results. He regressed ETFs and index funds' return on the return of the underlying indices. The study pointed out that ETFs and Index Funds don't achieve any excess return than their benchmarks. He computed ETFs and index funds' average tracking error, confirming their analogous tracking ability. Finally, he presented ETFs and index funds as major sources of costs and, regressing average return on expense ratio, and observed a significant positive relation between ETFs with their expense ratio. This relation is very shortly verified in index funds.

Jill Leyland Economic Advisers (2005) to World Gold Council said that the unlimited potential of gold ETF is of high interest for those countries that have not yet introduced such products. He further pointed out that, in addition to insurance funds, other agencies such as public funds, sovereign wealth funds, and investment in gold ETFs also raise the demand for gold.

Gold ETF Index Fund is a kind of gold-based asset. It tracks the gold price and each share represents one-tenth of an ounce of gold. With transaction convenience, storage security, transaction costs, low liquidity, transparency of transactions, and many other investment advantages, gold ETF has become widely accepted.

Nedeljkovic (2005) described that Gold ETFs, compared to some other structured products, are very simple structures. He further, described that there is no credit risk and investment in Gold ETFs is inaccessible and simple. Gold ETFs are listed on a stock exchange, quoted in local currency, with no minimum investment. The other considerable characteristics of Gold ETFs are their cost effectiveness, security, and high liquidity.

Levin and Wright (2006) state that gold is prominent for its inverse relationship with the US dollar. During the drop in the currency rate of the US dollar recently, the gold price had shown a robust upward shift in the price. The currency factor contributes to investor decision-making framework in the adoption of gold investment The inflationary hedging ability of gold and currency rate volatility is the key independent variable in this research and it is widely studied by many professors.

Milonas and Rompotis (2006) conducted a study on the performance and the trading characteristics of ETFs. Gastineau (2001) described the origin, main types, and benefits of ETFs. Carty confers several characteristics of ETFs like flexibility, convenience, risk diversification, tax efficiency, and cost advantages. Gold ETF Index Fund is a kind of gold-based asset. It tracks the gold price and each share represents one-tenth of an ounce of gold. With transaction convenience, storage security, transaction costs, low liquidity, transparency of transactions, and many other investment advantages, gold ETF has become widely accepted.

Levin & Wright (2006) stated that gold ETF is widely accepted and investors can sell the gold whenever they need the liquidity of the fund.

Milonas and Rompotis (2006) conducted a study on the performance and the trading characteristics of ETFs.

William A.Birdthistle (2007) studied the Exchange Traded Funds. He studied that Exchange-traded fund, a unit that provides the diversification of a mutual fund but trades on an exchange like a stock. Using a novel pricing mechanism that harnesses the utility of arbitrage, ETFs provide investors with accuracy, efficiency, tax advantages, and a range of investment choices, while insulating investors from the structural problems with mutual funds. This article argues that the mutual fund industry and its recent spate of dramatic scandals contributed to the growth of ETFs and concludes that mutual funds offer vivid warnings of the conflicts of interest that may come to afflict the ETF industry as it continues to grow.

Jennifer Chaung (2008) studied ETFs replacing Mutual Funds. The answer is, that Flows to an Open-Ended Mutual Fund (OEF) can significantly hamper its subsequent performance due to flow-induced trading costs. An Exchange-Traded Fund (ETF)is designed not to have this cost and hence is advertised as the more efficient index vehicle. He found that the overall transaction costs incurred for any given trading needs are identical. What differs, is the allocation and the reporting of those transaction costs - they are equally shared by all investors in an OEF and reduce the reported OEF performance, whereas, they are incurred only by those ETF investors with liquidity needs and do not affect the reported ETF performance. Thus, the OEF structure can be viewed as providing partial insurance against individual liquidity needs and is beneficial for risk-averse investors. The research empirically confirmed that the growth of ETFs is more concentrated in selected indexes.

Rompotis (2009) was the first to compare the performance of active ETFs with passive ETFs.Therefore we will give a brief review of the most significant papers in the field of performance evaluation of ETFs and some major analyses on ETFs. The existing literature can be divided into several distinctive subjects. Some studies compare active and passive management and they, except Rompotis, focus primarily on mutual funds. Some studies investigate index mutual funds and (passive) ETFs. Furthermore, some research focuses on the characteristics of ETFs or analyses their performance with their corresponding benchmark or the market index.

World Gold Council (2009), the investor is keeping demand for gold as a haven, and the demand is continuously supported by the active investor who seeking effective portfolio diversifiers in the financial crisis. It is the globalization and liberalization of the financial market which increases the correlation of the investment instrument.

RESULTS AND DISCUSSION

1. The Mutual Fund Industry in India:

   At present, there are 44 AMC's (Asset Management Companies) in India recording AUM of Rs.30 trillion by November 2020 whereas in 2010 the total AUM of the mutual fund industry recorded about Rs.6.65 trillion. This shows that the industry has expanded 4 and a half times in just 10 years.

   The AUM of Mutual Fund industry in 2015 was Rs. 12.75 trillion growing about 2 and a halftimes in the period of 5 years.

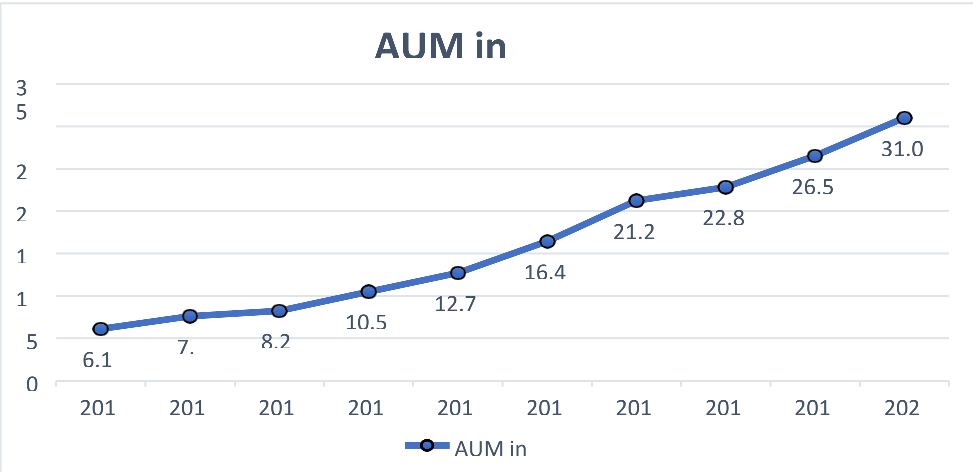
2. Table 4.1: Table showing the growth of AUM in MF industry in different years

Year	AUM in crores
Dec-2011	Rs. 6,11,402
Dec-2012	Rs. 7,59,995
Dec-2013	Rs. 8,25,465

Dec-2014	Rs. 10,51,343
Dec-2015	Rs. 12,74,835
Dec-2016	Rs. 16,46,337
Dec-2017	Rs. 21,26,665
Dec-2018	Rs. 22,85,912
Dec-2019	Rs. 26,54,075
Dec-2020	Rs. 31,02,476

Source: https://www.amfiindia.com/research-information/aum-data

3. Figure: 4.1 - Graphical Representation of AUM over past 10 years:



In, Mutual Fund Industry there are 10 main Fund houses which have 80% of total inflows in total industry. They are:

4. Table 4.2: Table showing AUM of Top 10 Fund houses:

S.No.	Name of Fund House	AUM (in Crore) ason 2018
1	HDFC Mutual Fund	Rs. 3,42,525
2	ICICI Prudential Mutual Fund	Rs. 3,21,281
3	SBI Mutual Fund	Rs. 2,84,124

4	Aditya Birla Sun Life MutualFund	Rs. 2,46,696
5	Reliance Mutual Fund	Rs. 2,34,293
6	UTI Mutual Fund	Rs. 1,59,694
7	Kotak Mahindra Mutual Fund	Rs. 1,50,271
8	Franklin Templeton Mutual Fund	Rs. 1,19,933
9	Axis Mutual Fund	Rs. 89,768
10	DSP Mutual Fund	Rs. 78,363

Source: www.paisabazar.com

5. Trends of Balanced Funds in India:

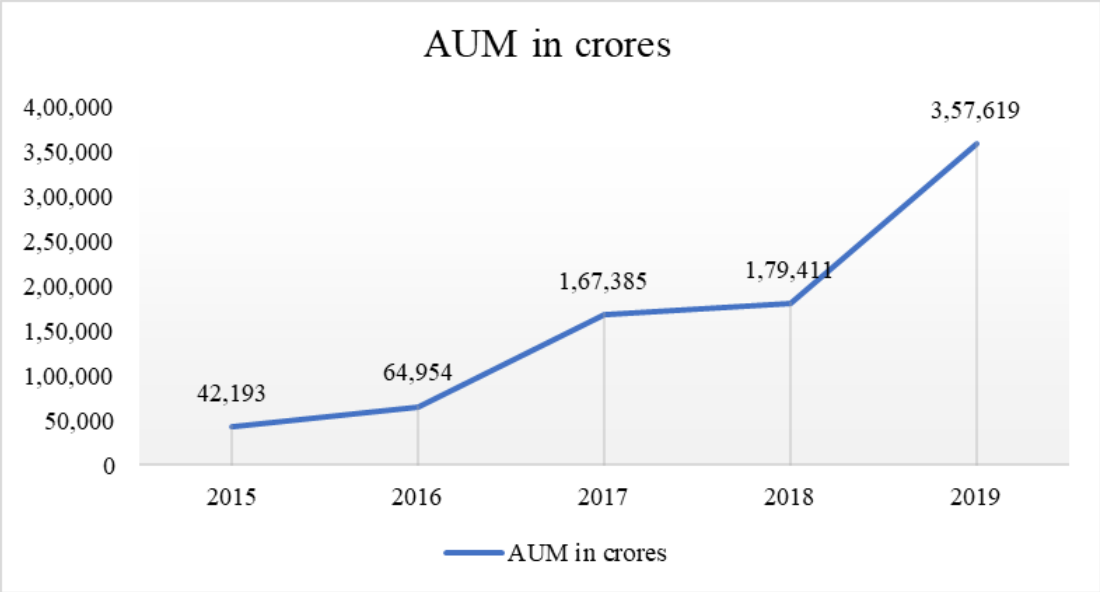
Balanced mutual funds AUM have shown a tremendous increase of 7-fold times in just 5 years of time span. There are about 185 Balanced funds in India as on 2020 from differentfund houses.

6. Table 4.3: Table showing of AUM of Balanced MF's in different years:

Year ending	AUM in crores
2015	Rs. 42,193
2016	Rs. 64,954
2017	Rs. 1,67,385
2018	Rs. 1,79,411
2019	Rs. 3,57,619

Source: https://www.amfiindia.com/research-information/aum-data

7. Figure: 4.2 - Graphical Representation of AUM of Balanced Funds over past 5 years:



Balanced Funds to be studied further in this study are:

1) ICICI Prudential Equity & Debt Fund
2) SBI Equity Hybrid Fund
3) L&T Hybrid Equity Fund
4) DSP Equity & Bond Fund
5) Aditya Birla Sun Life Equity Hybrid 95 Fund

8. Table 4.4: Table showing AUM in crores of the above mutual funds:

S.No.	NAME OF THE FUNDS	AUM IN CRORES
1	ICICI Prudential Equity & Debt Fund	Rs. 16688
2	SBI Equity Hybrid Fund	Rs. 35655
3	L&T Hybrid Equity Fund	Rs. 5721
4	DSP Equity & Bond Fund	Rs. 6194
5	Aditya Birla Sun Life Equity Hybrid 95 Fund	Rs. 8008

Table 4.5: Table showing Portfolios Of the above-mentioned Balanced funds:

S.No.	NAME OF THE FUNDS	EQUITY	DEBT	OTHERS
1	ICICI Prudential Equity & Debt Fund	76.89%	17.93%	5.18%
2	SBI Equity Hybrid Fund	73.66%	18.77%	7.57%
3	L&T Hybrid Equity Fund	75.11%	22.58%	2.31%
4	DSP Equity & Bond Fund	76.97%	22.47%	0.56%
5	Aditya Birla Sun Life Equity Hybrid 95 Fund	79.38%	14.15%	6.47%

CONCLUSION:

- A mutual fund brings together a group of people and invests their money in stocks, bonds, and other securities. The advantages of mutuals are professional management, diversification, economies of scale, simplicity, and liquidity. The disadvantages of mutual are high costs, over-diversification, possible tax consequences, and the inability of management to guarantee a superior return. There are many, many types of mutual funds. You can classify funds based on asset class, investing strategy, region, etc. Mutual funds have lots of costs. Costs can be broken down into ongoing fees (represented by the expense ratio) and transaction fees (loads). The biggest problems with mutual funds are their costs and fees. Mutual funds are easy to buy and sell. You can either buy them directly from the fund company or through a third party.

Mutual fund ads can be very deceiving.

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