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Performance Evaluation of Unit Trust of India (UTI) Mutual Fund

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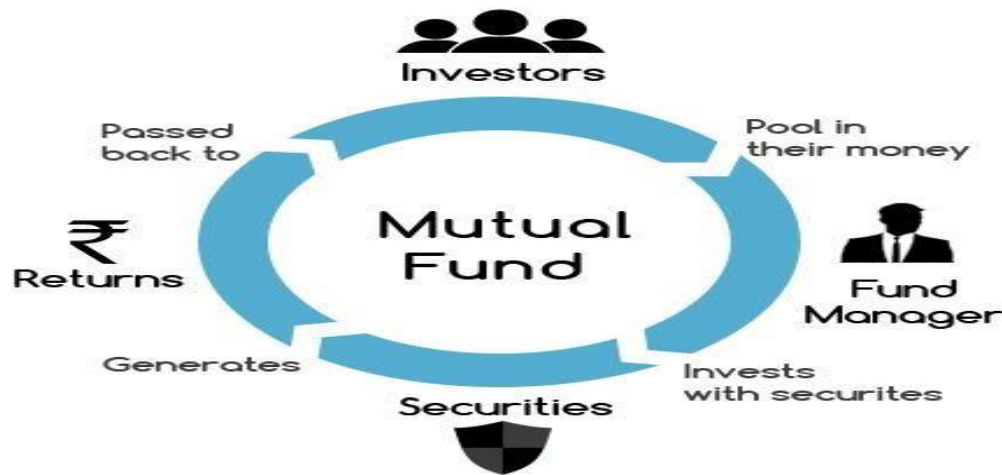
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Abstract: *A mutual fund is a financial intermediary that pools the investors' savings for collective investment in a diversified portfolio of securities. A fund is mutual as all of its returns, minus its expenses, are shared by its investors. The mutual fund concept was introduced in India with the setting up of UTI in 1963. The Unit Trust of India (UTI) was the first mutual fund set up under the UTI Act 1963. The study's objective is to evaluate the performance of selected equity schemes of UTI mutual fund. To achieve the objective of this research work, Secondary Data have been analyzed with the help of CAGR, Sharpe Ratio, Treynor Ratio, and Annualized Standard Deviations (ASD). The study's result indicates that the midcap fund has provided the highest returns in terms of CAGR, followed by significant and midcap funds, large-cap, and multi-cap funds. Therefore, on the ground Returns, it is suggested that investor should invest their money in the midcap fund scheme. Further, it has been observed that all four schemes taken in this research work are less volatile than Benchmarks indices.*

Keywords: *UTI, CAGR, Sharpe Ratio, Treynor Ratio, ASD.*

I. INTRODUCTION

A mutual fund is a financial intermediary that pools the investors' savings for collective investment in a diversified portfolio of securities. A fund is mutual as all of its returns, minus its expenses, are shared by its investors. Anybody with an investible surplus of as little as a few hundred rupees can invest in mutual funds. These investors buy units of a particular mutual fund scheme with a defined investment objective and strategy. The fund manager invests the money thus collected in different types of securities. Depending upon the scheme's stated goals, these could range from shares to debentures to money market instruments. The income earned through these investments and the capital appreciation realized by the scheme are shared by its unit 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.

Diagrammatically presentation of the concept of mutual fund

Source: <https://www.fincash.com/l/mutual-funds-india>

The mutual fund concept was introduced in India with the setting up of UTI in 1963. The Unit Trust of India (UTI) was the first mutual fund set up under the UTI Act 1963. At that time, it was the only entity offered in mutual funds in India, so it enjoyed a monopoly. It was set up by the Reserve Bank of India and controlled under the regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over entire control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964 (US-1964), the first open-ended scheme and the most popular scheme which attracted the largest number of investors in any single investment scheme over the years. UTI's investible funds, at market value, grew from INR 49 crore in 1965 to INR 6700 crore by the end of 1988. Its investor base had also grown to about two million investors. It launched innovative schemes during this phase.

II. REVIEW OF LITERATURE

Sharpe (1964), in his paper, described the theory of market equilibrium under conditions of risk. The article provided useful insight into the relationship between the price of an asset and the various components of its overall risk. The paper also described the model of individual investors' behavior under conditions of risk. The model of investor behavior considers the investor as the chooser of that investment opportunity out of a set of investment opportunities that can maximize his utility. First, the author has assumed a common pure rate of interest at which all investors can borrow or lend funds on equal terms. Secondly, the author assumes the homogeneity of investors' expectations. The researcher shows a consistent relationship between expected returns and systematic risk.

Jensen (1967), in their study, tried to estimate the predictive ability of 115 mutual fund managers, i.e., their ability to earn higher returns than one could expect given the level of risk for each of the portfolios. The period from 1945 to 1964 was taken for the analysis of performance. The researcher derives a risk-adjusted portfolio performance measure now named 'Jensen's Alpha.' The indicator estimates how much a manager's forecasting ability contributes to the fund's returns. This measure was based on the theory of the 'Pricing of Capital Assets' given by Shape (1964), Linter (1965), and Treynor (n.d.). The researcher concluded that these 115 mutual funds' on average' could not predict the securities prices well enough to outperform a buy-the-market-and-hold policy. There is also very little evidence that any individual fund could do significantly better than one can expect from mere random chances. These conclusions held even when they measured the fund's returns gross of management expenses.

Grinblatt and Titman (1989), in their paper elaborate on the requirement to study the ability of mutual fund managers to earn abnormal returns. The transaction costs were excluded while calculating the gross returns of various mutual funds. The

study shows that superior performance may, in fact, exist, but higher transaction costs reduce the earnings, and the investor could not get the benefits of superior performance. It was also revealed that survivorship bias was relatively small, and transaction costs were inversely related to the fund's size. The abnormal performance of the funds, based on gross returns, was inversely associated with the fund's size. Still, since transaction costs are inversely related to the fund's size, the actual net returns are unrelated to the Net-Assets Values of the funds.

Grinblatt and Titman (1992), in their paper, show the relationship between the past and current performances of mutual funds. A positive relation was found between these, and it was concluded that a fund's past performance provides valuable information for investors.

French (2003) recognized the work of Treynor toward the development of CAPM theory. Although credit for the development of the CAPM theory is almost given to Sharpe, Linter, and Mossin. Treynor was the first ever who develop the theory of CAPM. But unfortunately, his work was never published and remains a manuscript privately circulated by him to his colleagues.

Bodla (2012) evaluated fund managers' overall performance regarding stock selection and market timing ability. They selected a sample of 27 equity mutual funds in India. The study covered a period from January 2002 to June 2010. The data used for the analysis are weekly returns for each fund, calculated from the daily Net Asset Value (NAV). The data was collected from various websites of Blue chip India, the Association of Indian Mutual Funds, and individual Mutual Funds web site. The nifty index was used as a benchmark by the researcher. The weekly yields on 91-Day Treasury Bills (T-Bills) were used as the risk-free rate of return. Various techniques such as Jensen Alpha and Fama, Sharpe Ratio, and Henriksson Model were used for analysis. The results related to selectivity skill showed a positive ability among the portfolio managers based on the Fama criterion and the Jensen criterion. But on the other hand, a large number of the mutual fund managers of equity funds need to be more successful in the market timing of investment decisions. Therefore, there is a strong need to improve the performance of fund managers as regards market timing ability.

Ayaluru (2016) studied the performance of the top ten mutual fund schemes of Reliance Mutual Fund. BSE-Sensex and Nifty-50 were taken as benchmark indices. Return on a 91day T-Bill was taken as a risk-free return. It was found that all the schemes are beating their benchmark returns. The author suggested the Tax Saver ELS Scheme for risk averters, Reliance Small Cap Funds for medium risk takers, and Reliance Banking Funds for high-risk takers to invest. The study analyzed the fund's performance from August 2009 to July 2014.

III. OBJECTIVES OF THE STUDY

The study's objective is to evaluate the performance of selected equity schemes of UTI mutual fund.

IV. RESEARCH METHODOLOGY

Research Design

The present study is analytical in nature, as the researcher has made an attempt to evaluate the performance of UTI mutual fund.

Sample Schemes of UTI

S.No.	Name of Equity Scheme
1	Multi Cap Fund
2	Large Cap Fund
3	Large and Mid-Cap Fund
4	Mid-Cap Fund

Sources of Data

Secondary data will be collected to achieve the objective of the present study. The researcher will use Daily Net Asset Value (NAV) to analyze the performance of sample mutual funds. Daily NAV will be collected by the researcher from various sources, i.e., the Mutual Funds database software of CMIE, the Association of Mutual Funds in India (AMFI), and the websites of the concerned mutual fund company. The researcher will also collect data from related books, journals, magazines, newspapers, and websites. The study will cover the period of one decade from 2012 to 2021.

Tools and Techniques;

To achieve the objective of this research work, Secondary Data have been analyzed with the help of CAGR, Sharpe Ratio, Treynor Ratio, and Annualized Standard Deviations (ASD)

Analysis and Interpretations**Table: 1 Comparison of Mutual Fund Schemes with their Benchmarks CAGR**

Sr. No.	Name of Scheme	CAGR (Mutual Fund)	CAGR (Benchmark)	Outperformed/ Underperformed	Difference	Rank
1	Multi Cap Fund	10.15	12.17	Underperformed	-2.02	4
2	Large Cap Fund	11.75	9.92	Outperformed	1.83	2
3	Large and Mid-Cap Fund	13.64	14.66	Underperformed	-1.02	3
4	Mid-Cap Fund	20.41	16.84	Outperformed	3.57	1

Source: Researchers calculation

CAGRs have been obtained for mutual fund schemes and their benchmarks to examine the performance of selected mutual fund schemes. The results of CAGRs given in Table: 1 explicate that Multi Cap Fund schemes run by UTI underperformed (during the study period taken in this research work [CAGR mutual fund (10.15%) < CAGR Benchmark (12.17%)]. When an analysis has been made to study the Large Cap Fund Scheme of UTI, the schemes outperformance has been observed compared to its benchmark returns. Actually, this scheme performs 1.83% higher than the benchmark returns. Further, Large and Mid-Cap scheme and Mid-Cap Fund Schemes have also been analyzed, and obtained results have been compared with their benchmark indices. The results depict that Large and Mid-Cap Fund scheme underperformed by -1.02 % with benchmark return, whereas Mid-Cap Fund outperformed by

3.57%.

Besides this, ranks have also been provided for the various schemes based on their performance. The first rank has been given to scheme Mid-Cap Fund followed by Large-Cap Fund (2nd), Large and Mid-Cap Fund (3rd), and Multi-Cap Fund (4th).

Table: 2 Comparison of Volatility of Mutual Fund Schemes and their Benchmark Indices

Sr. No.	Name of Scheme	ASD (MF)	ASD (Benchmark)	Volatility of Mutual Fund as compared to Benchmark	Rank on the basis of MF volatility
1	Multi Cap Fund	13.63	13.66	Less Volatile	4
2	Large Cap Fund	15.81	17.29	Less Volatile	3
3	Large and Mid-Cap Fund	16.32	16.91	Less Volatile	2
4	Mid-Cap Fund	17.07	17.77	Less Volatile	1

Source: Researchers Calculation

The volatility of various fund schemes has been measured with the help of Standard Deviation, and the results are shown in Table 2. It has been observed that all four schemes taken in this research work are less volatile than Benchmarks indices. Besides this, all the schemes are also assigned Ranks based on their volatility. On the grounds of Ranking, Mid-Cap Fund (Rank 1st) is more volatile, followed by Large and Mid-Cap Fund (Rank 2nd), Large Cap Fund (Rank 3rd), and Multi Cap Fund (Rank 4th).

Table: 3 Comparison of Mutual funds Scheme on the basis of Sharpe & Treynor Ratio

Sr. No.	Name of Scheme	Sharpe Ratio	Rank	Treynor Ratio	Rank
1	Multi Cap Fund	0.23	4	0.03	4
2	Large Cap Fund	0.32	3	0.06	3
3	Large and Mid-Cap Fund	0.44	2	0.07	2
4	Mid-Cap Fund	0.81	1	0.15	1

Source: Researchers Calculation

Table 3 shows that the Sharpe ratio was highest for the Mid-Cap fund. It means that mid-cap fund performs better than other selected funds. Large and Mid-Cap fund is in second position, followed by Large Cap Fund and Multi Cap Fund, which is in fourth position. The results for the Treynor ratios are also the same. Mid Cap funds show the highest T.R ratio, followed by Large and Mid-Cap fund, Large Cap Fund, and Multi Cap Fund, which is stood in fourth position. Based on table 3, we suggest that Mid-Cap funds are better in terms of giving return with respect to systematic risk.

V. CONCLUSION AND FINDINGS

The present research work entitled Performance Evaluation of Unit Trust of India Mutual Fund has been carried out to gain knowledge about the performance of various equity schemes run by UTI Mutual Fund. In this line performance of the selected scheme has been evaluated with the help of returns like CAGR, Sharpe Ratio, Treynor Ratio, and ASD.

The study's result indicates that the midcap fund has provided the highest returns in terms of CAGR, followed by significant and midcap funds, large-cap, and multi-cap funds. Therefore, on the ground Returns, it is suggested that investor should invest their money in the midcap fund scheme. Further, it has been observed that all four schemes taken in this research work are less volatile than Benchmarks indices.

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