



MUTUAL FUNDS IN CURRENT SCENARIO: AN ANALYTICAL STUDY OF BALANCED FUNDS

DR. YOGESH KUMAR MEHTA*; DR. G.S. RATHORE**

*Associate Professor, College of Law and Legal Studies,
Teerthanker Mahaveer University, Moradabad.

**Associate Professor and Ex Dean, Faculty of Commerce,
Udai Pratap Autonomous College, Varanasi.

ABSTRACT

The present study encompasses the appraisal of mutual fund schemes and considers only those whose performance has been rated by credit rating agency. Household savings play an important role in domestic capital formation. Only a small part of the household savings in India is channelised to the capital market. Under sector allocation, MF companies preferred banking, finance, current assets, OGPR, pharmaceuticals and housing. It is observed that funds concentrated their portfolio in FMCG and Infrastructural areas.

The top three sectors in which the majority of funds were allocated are ICICI bank, RIL, Oil, Housing, Indian Railways, Finance Corporation Ltd., and Bharti Airtel. Study clearly shows that all MFs have set a pattern for allocation in banking and financial sector.

HDFC Prudence Fund-Growth has largest fund size (Rs. 1,787.25 crore) and also recorded highest returns (15.97%) from date of inception. The SBI Magnum Balance Fund-Growth outperformed with (17.56%) returns, over a period of five years and its fund size is Rs. 290.12 crore. During the last three years, DSP Black Rock Balance Fund-Growth recorded maximum returns (7.39%) among all.

It may be noted that under the balanced fund, fund size is not so important but the cost does matter. It is observed that with the moderate dividend yield, and comparatively high market capitalisation (Rs. 66,137.89 crore), Kotak Balance-Growth has: highest P/E ratio-20.48; dividend yield-1.31%; and P/B ratio-4.75; 40.01% under top five holdings; outperformed over the long period.

INTRODUCTION

The MF industry is a growing and profitable industry. The market has been expanding though the competition in the industry has been fierce. Mutual funds are financial intermediaries, which bring a wide range of securities within the reach of the most modest of investors. Some significant characteristics of mutual funds, which are universal in nature irrespective of the type of funds, are mobilisation of funds, expert management, diversification of risks and sharing returns with investors. Mutual fund investment is the best option for every investor. Only a small part of the household savings in India is channelised to the capital market. An efficient portfolio management with full information would be helpful for the investor to take wise decision under complex market situations.

The gross mobilisation of resources by all mutual funds during 2006-07 stood at Rs. 1938493 crores compared to Rs. 1098149 crores during the previous year showing an increase of 76.5%. The net mobilisation of resources by all mutual funds reached to Rs. 93985 crores in 2006-07, which was highest ever in a single year.

The large mobilization of resources increased the assets under management by all mutual funds to Rs. 326292 crores as on March 2007 from the previous year's Rs. 231862 crores. The mutual funds have traditionally been the active participant in the debt segment of Indian stock market. The heightened activities of mutual funds in the equity segment in 2005-06 did not continue at the same pace in 2006-07. During 2006-07, the combined investment in debt and equity was Rs. 61606 crores compared to Rs. 51103 crores in 2005-06, indicating a rise of 20.6%. Bulk of this investment was in the debt segment; their total inflow in to the debt segment was Rs. 52543 crores as against Rs. 36801 crores in 2005-06.

RESEARCH METHODOLOGY

With the entry of private sector mutual funds, a new scene has been developed in the mutual fund industry. Here an attempt is made to analyse the facts of total resources mobilisation and overall performance of the sector funds.

OBJECTIVE OF STUDY

The prime objective of the research is to appraise the operation of mutual funds in India, in the light of the role they were expected to play, as a significant constituent of the India Financial System. The following are the specific objectives of this study:

1. To analyse the operations of mutual funds under review.
2. To examine the investment pattern of mutual funds with a view to judging the effectiveness of their portfolio management.
3. To study the returns disbursed by mutual funds to their investors, and also to check risk adjusted performance of funds.
4. To study the returns disbursed by mutual funds with respective benchmark index.

SCOPE OF STUDY

The mutual funds were assigned to play the economic development for the country as a new financial instrument. The mutual funds industry has registered a healthy growth in the past few years. The study would help potential investors as well as academicians for further detailed study.

PERIOD OF STUDY

The period of study is covered from the year 2001-02 to 2007-08, i.e. seven years to present the best and latest position.

SOURCE OF INFORMATION

The study is mainly based on secondary sources of information collected from various sources and websites.

TOOL, TECHNIQUES AND MODELS USED

The tools and techniques used in the present study, to get meaningful quantitative results, are average, percentage weight-age, correlation and performance measures. A new model Sortino is also used to measure the performance of portfolio. This model measures the downside risk. The other three models used are Fama, Treynor and Sharpe.

PLAN OF STUDY

The analysis is based on available relevant information, which is arranged in the tabular form. The major emphasis is given on trend that how they are performing.

SIGNIFICANCE OF STUDY

The present study will be of immense help to the corporate executives, professionals and academicians especially for the Government to create competitive environment for true investors. The present research work is supposed to be useful especially to present and potential investors in India and abroad. It will also help the society at large, government, academicians, and managers of asset management companies as well as the regulatory authorities.

LIMITATIONS OF STUDY

Every effort is made to make this research study reliable, objective and dependable. Despite these efforts, however, the study may suffer from some limitations. Considerable reliance is based on secondary source of information. In spite of these limitations a sincere effort is made to make study as far as possible, analytical, objective and reliable.

1. PERFORMANCE OF BALANCED FUNDS

It is evident from Table 1 that HDFC Prudence Fund-Growth has largest fund size (Rs. 1,787.25 crore) and also recorded highest returns (15.97%) from date of inception. The SBI

Magnum Balance Fund-Growth outperformed with (17.56%) returns, over a period of five years and its fund size is Rs. 290.12 crore. During the last three years, DSP Black Rock Balance Fund-Growth recorded maximum returns (7.39%) among all (Table 5). It may be noted that under the balanced fund, fund size is not so important but the cost does matter. All such funds have a minimum investment amount of Rs. 5,000 except SBI in which case it is Rs.1,000.

TABLE 1: PERFORMANCE OF BALANCED FUNDS

Mutual fund scheme	Inception date	Returns since inception (%)	Fund size(crore)	Expense ratio	Portfolio Turnover ratio
SBI Mag Balance Fund-Gr	Oct 31, 1995	13.73	290.12	2.50	49
Kotak Balance-Gr	Nov 23, 1999	13.71	55.45	2.50	102.97
HDFC Prudence funds-Gr	Jan 31, 1994	15.97	1787.25	1.87	66.37
Can Robeco Balance-Gr	Feb 01, 1993	7.50	98.21	2.44	76.00
DSP Blackrock Bal. Fund-Gr	May 14,1999	13.80	423.07	2.09	4.28

Source: mutualfundsofindia.com

As far as expense is concerned, it was found that HDFC charged lowest entry load of 1.87%, while for other funds it was 2.25%. The exit loads varied except in case of Kotak Balanced-Growth and Can Robeco-Growth in which case it was zero. The portfolio turnover ratio of Kotak Balance-Growth is maximum (102.97), while for DSP Black Rock Balance Fund-Growth it is minimum (4.28). Thus, it may be concluded that investors should select long term investment plan for at least five years for better returns.

2. INVESTMENT PATTERN OF BALANCED MUTUAL FUNDS

Investment pattern of top five open-ended MF schemes under different categories are presented in Table 2. It shows that under asset allocation: the maximum allocation (72.11%) was made by HDFC Prudence Fund-Growth in equity; DSP Black Rock Balance-Growth allocated maximum (38.36%) in debt; SBI Magnum BF Growth allocated maximum (28.24%) in cash and equivalent. Under sector allocation, MF companies preferred banking, finance, current assets, OGPR, pharmaceuticals and housing. It is observed that funds concentrated their portfolio in FMCG and Infrastructural areas. The top three sectors in which the majority of funds were allocated are ICICI bank, RIL, Oil, Housing, Indian Railways, Finance Corporation Ltd., and

Bharti Airtel. It is clear from the table that all MFs have set a pattern for allocation in banking and financial sector.

TABLE 2: INVESTMENT PATTERN OF BALANCED FUND

Mutual Funds	Stocks (% of net asset)	Sector allocation (%)	Top 3 Sectors (%)	Assets allocation (%)			
				Equity	Debt	Cash	Total
SBI Magnum Balanced Fund – Growth	IDBI Home Finance 9.36, Current Assets 9.32, Axis Bk 7.17, RIL 4.98, BHEL 4.3, Bharati Air 3.17	Banks 15.64, Currents Assets 12.70, Finance 14.43, Oil 7.87, MF 6.04, Housing 5.22, Elect. & Equip 5.68,	Banks 15.64, Currents Assets 12.70, Finance 14.43,	70.04	1.72	28.24	100
Kotak Balance –Growth	Kotak 10.29, IRFCL 8.86 IBk 8.35, RIL 5.10, KM Bk Ltd. 3.53, DCBk 3.40	Finance 24.23, Banks 14.66, Oil & Gas 10.02, Cement 5.41, Comp.swedu 5.40,	Finance 24.23, Banks 14.66, Oil & Gas 10.02,	63.82	25.04	11.14	100
DSP Back Rock Balanced Growth	IDBI 13.69, HDFC Ltd. 13.69, LIC H 6.19, HLL Div. 4.16, HDFC Bk 2.87	Banks 22.92, Current Assets 4.60, Pharma 7.67, Comp.swedu 5.19, Div.5.73, Finance 21.34, Oil 10.62,	Banks 22.92, Finance 21.34, Oil 10.62	57.04	38.36	4.60	100
HDFC Prudence Fund Growth	IBk 4.64, Oils 3.27, RIFCL 3.62, HDFC Ltd. 3.59, Comp. swedu. 3.23	Banks 20.69, Finance 16.53, Pharama 8.82, Oil & Gas 5.90, Comp.swedu. 5.59, Auto 4.12, Consumer 4.0, H&C 3.61, F&D 4.63, Entr. 3.89, Engg. & Ind. Mch 4.74	Banks 20.69, Finance 16.53, Pharama 8.82,	72.11	25.44	2.45	100
Cana	RIL Oil 6.63	Banks 20.91, Oil & Gas	Banks	68.45	18.09	13.46	100

Robeco Balance Growth	ICICI 4.78, H & C 5.04, Tata Steel 4.67, Bharati Air 3.97, Pharma 3.1	13.38, Housing 10.99, Pharama 8.32, Telecom 6.87, Steel 5.55, Comp. swedu 6.73,	20.91, Oil & Gas 13.38, Housing 10.99				
-----------------------------	--	--	--	--	--	--	--

Source: mutualfundsfindia.com

3. COMPARISON OF PORTFOLIO COMPOSITION OF SECTOR MUTUAL FUNDS

The comparison of portfolio composition of top five open-ended mutual fund schemes of different categories is presented in Table 3. The market price of the share is however, based mainly on how the market assesses its earning power. The higher return on equity increases P/B ratio. Therefore, P/B ratio is more significant for assessing the returns from stocks.

It may be noted from Table 5 that SBI Magnum Balance Fund-Growth recorded maximum returns (17.56%) among all over a five years time frame. The fund has following attributes (Table 3): P/B ratio-3.59; P/E ratio-18.01; dividend yield 1.39%; and largest market capitalisation of Rs. 66,333.75 crore in 50 different stocks with 35.13% under top five holdings. It is observed that with the moderate dividend yield, and comparatively high market capitalisation (Rs. 66,137.89 crore), Kotak Balance-Growth has: highest P/E ratio-20.48; dividend yield-1.31%; and P/B ratio-4.75; 40.01% under top five holdings; outperformed over the long period.

TABLE 3: COMPOSITION OF BALANCED FUNDS

Mutual Fund Scheme	PE Ratio	PB Ratio	Dividend Yield (%)	Stock Number	Top Five Holdings
SBI Magnum Balanced Fund – Growth	18.01	3.59	1.39	50	35.13
Kotak Balance – Growth	20.48	4.75	1.31	58	40.01
DSP Back Rock Balanced Growth	19.33	5.83	1.66	75	42.41
HDFC Prudence Fund Growth	19.90	3.96	1.48	77	19.78
Cana Robeco Balance Growth	19.44	3.69	1.18	50	26.79

Source: mutualfundsofindia.com

4. RISK ADJUSTED PERFORMANCE OF MUTUAL FUNDS

The risk adjusted performance of top five open-ended mutual funds of different categories subject to the market risks are given in Table 4. Generally, specific risk factor is associated with the close-ended schemes. The performance of a mutual fund is measured in terms of returns with portfolio risk by considering Sharpe, Treynor, Fama, Sortino and Beta including standard deviation and correlation. It may be noted that tables contain the values of above parameters calculated for recent data i.e. Dec, 2008 and accordingly the performance of funds during last one year is discussed.

TABLE 4: RISK ADJUSTED PERFORMANCE OF BALANCED FUNDS

Mutual Funds Scheme	Standard Deviation	Beta	Co-relation	Mean	Fama Eugen	Treynor	Sharpe	Sortino
SBI Magnum Balanced Fund – Growth	4.16	1.07	1.10	-0.92	-0.01	-0.96	-0.25	-0.42
Kotak Balance – Growth	3.82	0.97	0.99	-0.82	0.01	-0.95	-0.24	-0.39
DSP Black Rock Balanced Growth	3.64	0.90	0.93	-0.68	0.10	-0.87	-0.22	-0.34
HDFC Prudence Fund Growth	3.77	0.93	0.95	-0.89	-0.07	-1.07	-0.26	-0.43
Canara Robeco Balance Growth	4.32	1.11	1.14	-0.90	0.05	-0.91	-0.23	-0.39

Source: mutualfundsofindia.com

Table 4 presents risk measures of the top five open ended balanced funds. Risk adjusted analysis shows that DSP Black Rock B-Gr scheme has highest values of Treynor (-0.87) and Sharpe (-0.22) which reflect that fund is well diversified with less risk. Besides these Sd (3.64) also reduced the total risk at minimum level. Also, in terms of returns this fund stands first with -38.08% (Table 5). Thus, it may be concluded that DSP Black Rock Bal.-Gr has efficiently managed its fund operation.

5. COMPARISON OF MUTUAL FUND'S NAV AND RETURNS WITH AVERAGE PERFORMANCE OF SIMILAR CATEGORY FUNDS

The comparison of net asset value and return of top five sector funds of different category are presented in Table 5, as these are two important parameters for performance check. It may be pointed out that NAV and returns are affected by the dividends paid by mutual funds from time to time. It may further be noted that mutual fund companies have not been disbursing it on a regular basis. The performances of mutual funds are also compared with the average performance of similar category funds, which is shown through graphical presentation (Fig.1). For this purpose, recent data (Dec 5, 2008) is presented.

Table 5 shows that as far as NAV is concerned, HDFC Prudence Fund-Growth not only tops the fund list with Rs. 87.96 but also has above average NAV value. The average NAV of balanced funds was Rs. 39.17. The performance of funds in terms of percentage returns varies with the duration considered, which is shown in the table.

TABLE 5: NAV AND RETURNS OF BALANCED FUNDS

Rank	Scheme	Returns (%)						NAV(Rs)
		1-Month	3-Months	6-Months	1-Year	3-Years	5-Years	
1	DSP Black Rock Balance Fund-Gr	-5.75	-24.88	-27.95	-38.08	7.39	15.93	34.42
2	Can Robeco Balance-Gr	-5.42	-24.07	-27.08	-42.22	4.22	15.61	30.67
3	Kotak Balance Fund-Gr	-5.73	-24.95	-28.78	-42.25	4.72	16.49	15.56
4	HDFC Prudence Fund-Gr	-7.42	-28.56	-30.48	-44.03	1.96	15.63	87.96
5	SBI Magnum Balanced Fund-Gr	-8.73	-28.53	-31.90	-46.51	1.30	17.56	27.23
Av. Performance of Similar Category Funds		-6.61	-26.20	-29.24	-42.62	3.92	-	39.17

Source: mutualfundsofindia.com, Note: Return calculated for less than 1-Year are absolute returns and returns calculated for more than 1-Year are compounded annualised.

6. COMPARISON OF DIVIDEND DISBURSED BY MUTUAL FUNDS

Table 6 presents a comparative study of top five sector funds of different category regarding dividend distribution. The data included herein is generally for last five years. The duration is variable because dividends have not been distributed on a regular basis.

Table 6 shows that among balanced funds, Kotak Balance-Growth recently paid highest dividend of 40% on March 25, 2008 and has been paying it consistently since 2005. The DSP Black Rock Balanced Fund-Growth paid highest 60% during 2007. Generally, the record of public sector funds, SBI Magnum BF-Growth and Can Robeco Balance-Growth is poor in paying dividends. SBI Magnum BF-Growth gave 1:10 bonus without dividend in Nov, 1997, and gave 1:2 bonus along with 30% dividends in May, 2000.

TABLE 6: DIVIDEND DISBURSED BY BALANCED FUNDS

Mutual Funds Scheme					
SBI Balanced Growth	Magnum Fund –	Kotak Balance –Growth	DSP Back Rock Balanced Growth	HDFC Prudence Fund Growth	Can Robeco Balance Growth
Dividend rate (%)	Dividend rate (%)	Dividend rate (%)	Dividend rate (%)	Dividend rate (%)	Dividend rate (%)
NA(28.03.2008) N/A		40(25.03.2008)	60.0(21.09.2007)	12(25.09.1998)	9.00(26.03.2002)
20(30.01.2004) N/A		20(25.09.2007)	40.0(22.08.2006)	19(01.01.1995)	6.25(31.10.2001)
14(27.10.2003) N/A		10(27.09.2006)	25.0(15.12.2004)	-	6.00(16.10.2001)
30(18.03.2000) 1:2(B/R)		35(27.03.2006)	11.5(07.10.2003)	-	6.25(3.09.2000)
00(20.11.1997) 1:10(B/R)		10(12.12.2005)	14.0(17.05.2000)	-	6.25(24.03.2000)

Source: mutualfundsofindia.com

7. COMPARISON OF MUTUAL FUND'S RETURNS WITH BENCHMARK INDEX AND AVERAGE RETURNS

The comparison of top five open-ended mutual fund's returns with benchmark index and average returns is presented in Table 7. The performance of mutual funds of different categories considering last five years is discussed below. The above comparison is also shown through graphical presentation in Fig.1.

The comparative study of Table 7 shows that DSP Black Rock Balanced Fund-Growth has done well in the past three years, giving maximum return i.e. 7.39% which is almost double of the average performance (3.92%) of similar category funds. But, it under performed with the benchmark index Crisil Balanced Fund Index of 8.76% like other funds, over long term for three years.

TABLE 7: BALANCED FUNDS-BENCHMARK COMPARISON

Rank	Scheme	1-Month	3-Months	6-Months	1-Year	3-Years	5-Years
1	DSP Black Rock Balance Fund-Gr	-5.75	-24.88	-27.95	-38.08	7.39	15.93
2	Can Robeco Balance-Gr	-5.42	-24.07	-27.08	-42.22	4.22	15.61
3	Kotak Balance Fund-Gr	-5.73	-24.95	-28.78	-42.25	4.72	16.49
4	HDFC Prudence Fund-Gr	-7.42	-28.56	-30.48	-44.03	1.96	15.63
5	SBI Magnum Balanced Fund-Gr	-8.73	-28.53	-31.90	-46.51	1.30	17.56
Av. Performance of Similar Category Funds		-6.61	-26.20	-29.24	-42.62	3.92	-
CRISIL Balanced Fund Index		-14.28	-09.56	-17.27	-21.64	8.76	-

Note: Return calculated for less than 1-Year are absolute returns and returns calculated for more than 1-Year are compounded annualised.

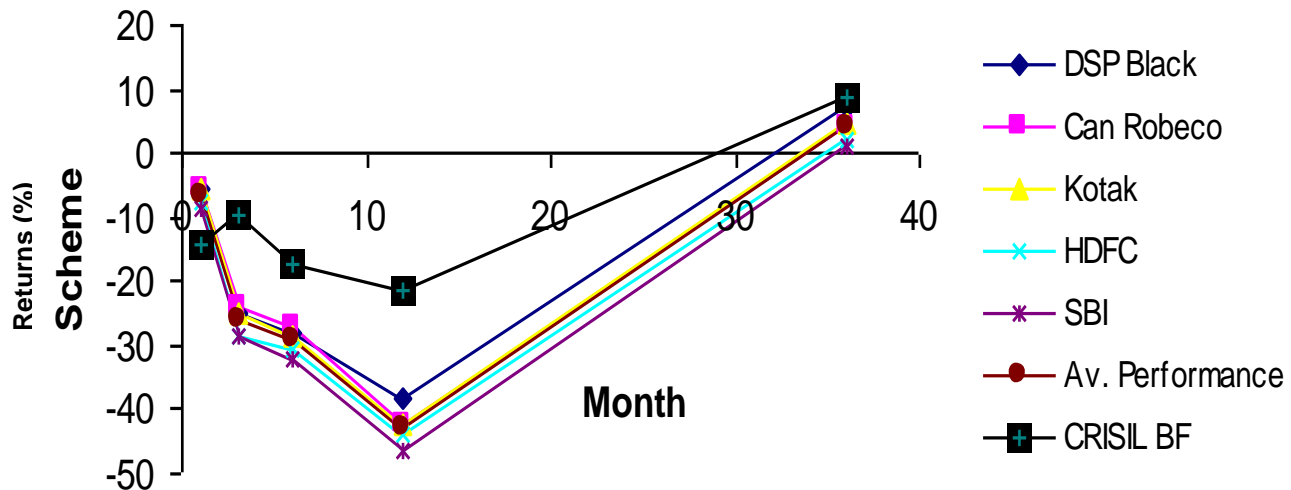


FIG. 5.5: MONTH WISE BALANCED FUNDS

CONCLUSION

Therefore, we come to this conclusion that DSP Black Rock Balanced Fund-Growth has performed very well during the past three years, giving maximum return i.e. 7.39% which is almost double of the average performance (3.92%) of similar category funds. But, it under performed with the benchmark index Crisil Balanced Fund Index of 8.76% like other funds, over long term for three years. It is seen that generally, the record of public sector funds, SBI Magnum BF-Growth and Can Robeco Balance-Growth has been poor in paying dividends. The top three sectors in which the majority of funds were allocated are ICICI bank, RIL, Oil, Housing, Indian Railways, Finance Corporation Ltd., and Bharti Airtel. It may also be concluded that all MFs have set a pattern for allocation in banking and financial sector.

REFERENCES

1. Bhole, L.M., (1997) "Financial Institutions and Markets", Tata McGraw-Hill Publishing Company.
2. Chandra, Prasanna (2006) "Investment Analysis and Portfolio Management", 2nd Edition, Tata Publishing Company Limited, New Delhi.
3. Fisher, Donald E, Jordan, Ronald.J.,(1995)"Security Analysis and Portfolio Management", Prentice Hall India, New Delhi.
4. Gurusamy, S., (2005) "Merchant Banking and Financial Services", Thomson- Vijay Nicole Imprints Private Limited, Chennai.
5. Gangadhar, V. and G.Rameshbabu, (2006) "Investment Management", Anmol Publication Pvt. Ltd., New Delhi.

6. Khatri, D.K., (2006) "Investment Management and Security Analysis-Text and Cases", Macmillan India Ltd., Delhi.
7. Machiraju, H.R., (2006) "Indian Financial System", Second Ed., Vikas Publishing House Pvt. Ltd., New Delhi.
8. Mehta, Yogesh K. and Rathore, G.S., (2007) "Emerging Trends of Mutual Funds in India in Current Environment: An Analytical Approach towards Public Sector and Private Sector Mutual Funds", Indian Journal of Public Enterprises, 23(43), pp. 86-97.
9. Pandian, P., (2006) "Security Analysis and Portfolio Management", Vikas Publishing House Pvt. Ltd., New Delhi.
10. SOMS, (1991) "Security Analysis and Portfolio Management, Member Course Committee", IGNO University, New Delhi.
11. Sadhak, H., (1997) "Mutual Funds in India Marketing Strategies and Investment Practices", Second Ed., Response Books, New Delhi.
12. SOMS, (1996) "Research Methodology for Management Decisions", IGNO University, New Delhi.
13. Varshney, P.N., (1992) "Money Market Mutual Funds", Banking Finance, January.
14. www.rbi.org.in
15. www.amfiindia.com
16. www.bseindia.com
17. www.nseindia.com
18. www.sebi.gov.in
19. www.mutualfundsindia.com
20. www.valueresearchonline.com