A Study on the Performance of Selected small cap mutual funds

Mr Dhanush B[1], Prof. Nishanth Arul Dominic [2]
[1]Student,[2]Assistant Professor,
[1] Department of Commerce,
[1]Loyola College, Chennai, Tamil Nadu, India

Abstract- A mutual funds is a systematic investment tool, investors can choose from a variety of mutual fund schemes to profit over the long run. This study presents a performance analysis of selected small-cap mutual funds by evaluating their risk-adjusted returns and comparing them to relevant benchmarks. Small Cap Funds can provide investors significantly high returns because they invest largely in relatively smaller companies. Yet, these funds are also prone to high levels of volatility because fluctuating market conditions have a significant impact on how well Small Cap firms perform. Therefore, it is advised that investors allocate a relatively small amount of their portfolio to small cap equity funds in order to minimise the possible effects of this volatility. This study's focus is on small-cap mutual funds in India and their performance evaluation. A sample of eight funds from each of the selected Indian mutual funds is used to analyse their performance during a five-year period, from 2018 to 2022. Both performance assessment and data analysis make use of statistical techniques including Beta, Standard deviation, Sharpe, Sortino, and Jenson Alpha. We come to the conclusion that among other financial products, mutual funds provide investors with the lowest risk and highest return

IndexTerms - Small-cap mutual funds, Performance evaluation, Sharpe Ratio, Sortino Ratio, Jenson Alpha, Risk and Return.

INTRODUCTION

A mutual fund is a type of trust that collects money from a number of individuals who have similar financial goals. The funds are subsequently invested in securities such as equities, bonds, cash market instruments, and others. Each investor has units, which represent a share of the fund's holdings. By determining a scheme's net asset cost, the earnings or profits from this collective funding are distributed proportionately among the traders after subtracting positive expenses. Small-cap companies are those with a market valuation of less than Rs. 5000 crores; these companies are incredibly tiny in length and have significant growth potential, giving character traders an advantage over institutional investors. This is because institutional investors prefer to purchase large-cap shares due to their balance, whereas investors seeking competitive returns will invest in price range and medium-cap companies, which have a market cap of Rs. 5000 crores and less than Rs. 20,000 crores. Small-cap and large-cap companies are determined by multiplying market capital by the number of shares in the company. Mutual funds utilize the money from investors to invest in bonds, equities, or other types of investments, thereby reducing the investors' transaction costs. Although past performance does not guarantee future performance, investors need not focus on the historical performance of mutual funds. Investors who are unfamiliar with the financial market can get information from mutual funds. Typically, the fund management decides how to invest the money and is compensated with such fees from the fund's assets. They are becoming increasingly well-liked in several nations. (Wachasunder, 2018)

STATEMENT OF PROBLEM

Investments in funds are risky, Because they entail economic issues whose future is unpredictable, Risk naturally relates to the hazy future. The investors can explain a potential future event and the expected range of fund returns in the future since they are aware of what has happened to a fund's returns in the past. The further along this range, the riskier the outlook for the fund. Therefore, additional information is needed to assist investors and their advisors in assessing risks and scrutinising Mutual Fund performance across diverse schemes. Investors are ultimately responsible for comprehending or expressing opinions on potential future events regarding the performance and risks associated with the major markets, as well as the likelihood that different sectors will perform well or poorly. The majority of this information is common to many funds and can be distributed to investors most effectively by third parties, such as those involved in managing money planners and information providers with computer files. Yet, the majority of investors are not fully informed about the dangers and effectiveness of such schemes. Hence, it is important to learn how the companies are informing investors about their investments, whether that information is sufficient to tell investors about the outcomes of mutual funds, and whether investors are responding favourably to it.

LITERATURE SURVEY

1. In his study on the efficacy of mutual funds, Mr. Sunil M (2018) asserts that the consistency in the functioning of mutual funds has attracted a significant number of investors. Additionally, he notes that the mutual fund industry in India has witnessed remarkable growth in the last decade.

2. Dr. A Kishore Kumar (2017) performed research on a mutual fund analysis. This study looks at how Indian mutual funds have performed as well as how their activities are related. He examined the mutual fund's performance using the portfolio allocation over the previous five years and net asset values. He suggests that medium- to long-term security is the greatest option for investors looking to make a mutual fund investment.
3. In 2016, Dr. R Karrupasamy conducted research on the analysis of mutual fund performance, aimed at aiding investors in selecting a superior investment strategy from the available options. The study's primary objective was to assess the performance of different fund groups using the techniques of Jensen, Sharpe, and Treynor, and to evaluate the effectiveness of private sector growth structures by comparing their returns to benchmarks.

4. N.K. Pandya and Rashmi Sharma (2015) conducted study on mutual fund investing. The NAV computation, mutual fund composition, investment comparisons, and other investment options are taken into account. The research also examines the haughtiness of investors towards mutual funds.
5. M S In 2013, Ms. Shalini Goyal conducted a effectiveness of mutual funds. This study held more to learn about Indian mutual funds. This research also explains how and where to invest in mutual funds, how they serve to spread out risk, and why it is risky to make direct stock market investments.
6. A 2014 study by Dr. Rajeev Jain and Dhimen Jani examined the roles played by different mutual funds in IFS (Indian Financial System). This study was conducted to determine the relationship between the growth of India's gross domestic product and the assets under management collected by mutual fund organisations.
7. A performance analysis of the growth programme was done in 2013 by Dr. Sanjay Singla and Anuradha Garg. 25 growth mutual funds' performances have been reviewed in this study. They employed the following methods to conduct this analysis: Beta, Treynor's method, Sharpe's method, and (a) Here, the output accessible from this arrangement is used to determine the rank, and comparisons are also done between the output strained from different architectures.
8. In his research published in 2006, Rao D.N. analyzed the financial performance of several large open-ended equity mutual fund plans during the period between 1 April 2005 and 31 March 2006. The aim was to test the hypothesis that there were significant performance differences between two dominant investment styles. The study categorized 419 open-ended equity investment major plans into six different investment strategies and discovered that growth plans had yielded higher returns than dividend plans, albeit at a higher risk.
9. Deepak Agarwal and Deepak Patidar In their 2009 study, thoroughly examined information to the fund manager and fund-investor levels while conducting rigorous testing based on fund manager performance. The study found that people's saving and investing behaviours and, on the flip side, the trust and loyalty of the fund management and incentives have an impact on how well the MF market performs in India.
10. Mehta Sushilkumar (2010) conducted a thorough analysis of the outcomes of the mutual fund big plans of SBI and UTI and discovered that State bank of india big plans outperformed UTI in the 2007–2008 period.

NEED OF STUDY

The Institutions that manage mutual funds contribute significantly to economic growth. In many developed nations, a reliable mutual fund is essential for economic expansion. By comparing the performances of different mutual funds, it is possible to comprehend in depth the elements that enable one particular mutual fund to generate a higher return than others. Also, by analysing performance, investors can get knowledge of market trends and provide various recommendations to investors regarding their investment in various funds. Furthermore, by examining the performance of several small-cap mutual funds, we can determine which markets offer the most potential for gains and returns. Subsequently, investors can assess the numerous risks connected to the investing in a certain mutual fund. As a result, investors may make an informed choice by researching the outcomes of various mutual funds in India, learning about their current costs, risks, and returns.

OBJECTIVES OF THE STUDY

1. To compare the results of a few small-cap equity mutual fund schemes with their respective benchmarks.
2. To study the risk and return measures associated with a specific mutual fund.
3. To ascertain whether mutual funds can provide rewards for volatility and variability.
4. To comprehend the relationship between sector investments and mutual fund performance.

RESEARCH METHODOLOGY

1) Research design: A descriptive research design was used for this study.The collecting of data is a secondary source of information.
2) Money control.com and etmoney.com were used as a method of gathering secondary data.
3) This study's initial goal is to assess the performance of 8 small-cap mutual fund schemes using data from the last five years, namely 2018, 2019, 2020, 2021, and 2022.

Tools and techniques:

I. The Sharpe ratio, Sortino ratio, alpha beta, and standard deviation have all been used in the analysis.

HYPOTHESIS OF THE STUDY

H1: There is a difference between the benchmarks return and collective fund returns.
H2: The higher the risk, the higher the potential return.
H3: The fund manager allocate the sector and the returns generated differ for each collective fund.

LIMITATIONS OF THE STUDY

There are More number of small cap funds and a sizable number of small cap funds which provides by different financial institutions and nonfinancial businesses. All of the funds cannot be compared. When investing in any mutual fund, investors should always do their own research and take a variety of factors into account. This is because previous performance is not necessarily a reliable predictor of future results and because different funds can have different levels of risk and volatility. Investors request to do their own research and invest at their own risk.

RESULTS AND DISCUSSIONS

TABLE 1: NAVS OF SMALL CAP FUNDS

Fund Name	2018	2019	2020	2021	2022
CANARA ROBECO SMALL CAP FUND	NA	9.69	13.98	24.3	26.4
AXIS SMALL CAP FUND	28.45	34.38	42.83	68.83	71.66
NIPPON INDIA SMALL CAP FUND	42.1	41.43	54	94.97	102.12
KOTAK SMALL CAP FUND	74.76	79.633	108.41	188.06	184.82
TATA SMALL CAP FUND	10.29	10.73	13.5	23.44	25.85
ADITYA SMALL CAP FUND	36.66	32.82	39.79	60.84	57.5
ICICI SMALL CAP FUND	24.31	27.07	33.78	55.11	39.06
HDFC SMALL CAP FUND	45.37	41.52	50.4	82.91	88.65

(Source: etmoney.com)

The table 1 shows the annual returns of various small-cap mutual funds in India from 2018 to 2022. Most funds generated positive returns in all the years except for Aditya Small Cap Fund. Kotak Small Cap Fund and Nippon India Small Cap Fund have been the best performers, generating high returns in 2022. Axis Small Cap Fund has been consistently good, while Canara Robeco Small Cap Fund and ICICI Small Cap Fund had mixed results. HDFC Small Cap Fund and Tata Small Cap Fund were consistent performers, while Aditya Small Cap Fund generated positive returns in most years, except for 2018 and 2019.

TABLE 2: RETURNS OF SMALL CAP MUTUAL FUNDS

Fund Name	2022	2021	2020	2019	2018	Average
CANARA ROBECO SMALL CAP FUND	9%	71%	44%	-3%	-	30%
AXIS SMALL CAP FUND	4%	59%	25%	20%	-8%	20%
NIPPON INDIA SMALL CAP FUND	8%	73%	29%	-2%	-16%	18%
KOTAK SMALL CAP FUND	-2%	70%	36%	6%	-16%	19%
TATA SMALL CAP FUND	10%	71%	25%	4%	3%	23%
ADITYA SMALL CAP FUND	-5%	49%	20%	-11%	-22%	6%
ICICI SMALL CAP FUND	7%	60%	24%	11%	-22%	16%
HDFC SMALL CAP FUND	6%	64%	21%	-9%	-7%	15%

(Source: moneycontrol.com)

The table 2 shows the annual returns of small-cap mutual funds from 2018 to 2022. The Canara Robeco Small Cap Fund had the best outcomes with an average return of 30% and the Aditya Small Cap Fund had the worst outcomes with an average return of 6%. The other funds had varying degrees of performance, but all delivered positive returns in most years. Investors should conduct their own research before investing in any mutual fund because past performance does not guarantee future success.

TABLE 3: RATIOS USED FOR ANALYSIS SMALL CAP MUTUAL FUNDS
[Ratio calculated on daily returns for last three years]

FUND NAME	SD	SHARPE	BETA	SORTINO	ALPHA
CANARA ROBECO SMALL CAP FUND	25.23	1.16	0.81	1.26	11.87
AXIS SMALL CAP FUND	23.53	0.89	0.76	0.86	4.71
NIPPON INDIA SMALL CAP FUND	27.72	1.02	0.91	1.09	8.54
KOTAK SMALL CAP FUND	26.95	0.94	0.88	0.98	6.4
TATA SMALL CAP FUND	24.89	1.05	0.8	1.11	8.87
ADITYA SMALL CAP FUND	28.29	0.62	0.93	0.65	-2.64
ICICI SMALL CAP FUND	27.67	0.86	0.89	0.96	4.68
HDFC SMALL CAP FUND	28.19	0.86	0.93	0.96	4.23

(Source: moneycontrol.com)

The table 3 shows risk and performance metrics for different small-cap mutual funds in India. The Aditya Small Cap Fund has been the most volatile, while the Axis Small Cap Fund has been the least volatile. The Canara Robeco Small Cap Fund has generated the highest risk-adjusted return and outperformed the benchmark by a significant margin, while the Aditya Small Cap Fund has performed poorly in generating returns relative to downside volatility and significantly underperformed the benchmark. Compared to the benchmark index, all of the funds are less volatile. These measures should be taken into account by investors when evaluating the risk-adjusted performance of the funds.

TABLE 4: ALLOCATION OF SECTOR OF SMALL CAP MUTUAL FUNDS

Fund Name	TOP 3 SECTORS (%AGE INVESTED)		
CANARA ROBECO SMALL CAP FUND	Services (19.43%)	Financial (17.76%)	Capital Goods (13.1%)
AXIS SMALL CAP FUND	Chemicals (12.84%)	Healthcare (10.3%)	Financial (9.85%)
NIPPON INDIA SMALL CAP FUND	Capital Goods (14.43%)	Financial (12.72%)	Chemicals (10.51%)
KOTAK SMALL CAP FUND	Materials (14.65%)	Consumer Discretionary (12.73%)	Metals & Mining (11.42%)
TATA SMALL CAP FUND	Services (15.76%)	Financial (12.82%)	Capital Goods (11.97%)
ADITYA SMALL CAP FUND	Financial (13.94%)	Capital Goods (13.18%)	Services (12.77%)
ICICI SMALL CAP FUND	Financial (13.94%)	Capital Goods (13.18%)	Services (12.77%)
HDFC SMALL CAP FUND	Services (21.88%)	Healthcare (13.67%)	Capital Goods (10.77%)

(Source: etmoney.com)

The table 4 indicates how the funds are segregated into various sectors to increase the wealth of the investors, this table shows top 3 sectors of these funds. We can able to find that every funds has commonly invested in services, finance and capital goods sectors. The Canara Robeco Small Cap Fund has invested the highest percentage of its portfolio in the Services sector, followed by Financial and Capital Goods. The HDFC Small Cap Fund has invested the highest percentage of its portfolio in the Services sector, followed by Healthcare and Capital Goods.

RESULTS AND FINDINGS

1. Most small-cap mutual funds generated positive returns in most years from 2018 to 2022, with Kotak Small Cap Fund and Nippon India Small Cap Fund being the best performers in 2022.
2. The Canara Robeco Small Cap Fund had the best overall performance with an average return of 30%, while the Aditya Small Cap Fund had the worst performance with an average return of 6%.
3. The Aditya Small Cap Fund was the most volatile among the funds, while the Axis Small Cap Fund was the least volatile. The Canara Robeco Small Cap Fund had the highest risk-adjusted return and outperformed the benchmark by a significant margin.
4. All the funds had some level of exposure to the services, finance, and capital goods sectors, although the allocation varied across the funds. The performance of these sectors has a significant impact on the volatility of the funds' net asset value (NAV).
5. Investors should conduct their own research and consider various metrics, including past performance, risk-adjusted returns, and sector allocation, before investing in any mutual fund. Future performance cannot be predicted by past performance, and the volatility and risk profiles of various funds may vary.

CONCLUSION

Based on the information provided, it appears that small-cap mutual funds in India have generated positive returns over the past few years, with some funds performing better than others. The Canara Robeco Small Cap Fund seems to have had the best overall performance, with a high average return and risk-adjusted return, while the Aditya Small Cap Fund had the worst performance and was the most volatile among the funds. It is also worth noting that sector allocation can have a substantial effect on performance and volatility of these funds, with exposure to services, finance, and capital goods sectors being common among all the funds.

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