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A COMPREHENSIVE ANALYSIS OF SECTORAL MUTUAL FUNDS: EVALUATING RISK-ADJUSTED RETURNS AND PERFORMANCE METRICS WITH REFERENCE TO INDIA INFOLINE

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ABSTRACT

Everyone has their own unique set of investment objectives. Even if some people value stability above all else, others may place a higher value on returns as a whole. While some people may be saving for retirement or the traditional "rainy day," others may be thinking about how to pay for their children's college tuition. The goods needed will obviously differ when aims defy any range.

The Indian sectorial funds market caters to a wide range of investors with its extensive plan selection. Equity, debt, liquid, gilt, and balanced funds are all part of the product portfolio. Another option is to look for a fund that caters specifically to a certain age group, size, or kind of investment. Furthermore, investors will not lose their hard-earned money due to fraud since a legally binding framework has sufficient teeth to protect investors' interests. Overall, their advantages transcend investor categories, making them appealing to a wide range of people.

No matter what kind of investor you are, you have alternatives when it comes to investing. However, if you want all the advantages of a package, Sectorial Funds are the way to go. The sectorial fund industry is working hard to meet the demands of investors by developing innovative strategies and solutions that address their concerns about liquidity, dividend frequency, and rate of return.

Sectorial Funds are becoming more competitive, thus it was thought it was important to learn how investors feel about them, what their risk tolerance is like, and which schemes, plans, and solutions they like so that we can serve them better.

1. INTRODUCTION

SECTORAL FUNDS

Sectoral funds, which were a hit with mutual fund investors during the last Bull Run, are back in vogue and are being marketed as sector exchange traded funds or sector ETFs this year.

Several asset management companies are in the process of launching ETFs with sectors such as power & infrastructure, automobile, services, FMCG, metals and pharma as the underlying theme\

Those marketing these funds are hoping to raise a fair amount of funds through these schemes. Regular sectoral mutual funds have generated decent returns on their portfolios with banking funds, as a category, having generated 58% returns in one year. Pharma, FMCG and technology categories of sectoral mutual funds have yielded 50%, 46% and 36%, respectively, over a one-year period. On a wider scale, flexi-cap equity funds have returned 31% over the past one year.

“Sectoral ETFs deliver benefits in line with the performance of the un-derlying sector. It gives investors a cost-effective means to participate in sectors he or she is bullish on,” said Lakshmi Iyer, head, fixed income & products, Kotak Mutual Fund, which has plans to launch metals and some market cap-based ETFs in the coming months.
According to Ms Iyer, sectoral ETFs provide investors an easy way to transact on the exchange and avail themselves of the benefits of knowing the near real-time prices of their fund investments.

Benchmark Mutual Fund has sought Sebi approvals to launch six ETFs with IT, FMCG, services, energy, pharma and realty as the base themes. The ETFs will be marked against CNX IT, CNX FMCG, CNX Services Sector , CNX Energy, CNX Pharma and CNX Realty indices. The minimum investment for these schemes is Rs 10,000 and in mul-tiples of Re 1 thereafter. Apart from Benchmark, UTI, Edelweiss MF, Reliance Mutual and Religare Mutual have plans to launch sector ETFs in the near term.

According to senior officials at Benchmark, sectoral ETFs allow cost-effective portfolio diversification at one shot thereby reducing scrip-specific risk. It allows foreign portfolio investors and institutional investors to have wide sectoral exposure.

Being listed on the exchanges — and in dematerialised format, ETFs can be traded without much of a hassle. Unlike sector-based mutual funds, there are no exit charges or loads on ETFs.

“ETFs are going to get larger in times to come. We’re also open to the idea of sector ETFs and we’re working on plans along the same lines,” said Jaideep Bhattacharya, CMO, UTI Asset Management.

According to Mr Bhattacharya, the coming months will see fund houses launching ETFs with specific regions or markets as the underlying theme.

While the industry is more or less gung-ho about launching sector ETFs, voices of dissent are being heard from wealth managers and in-vestment advisors.

“ETFs follow a passive investment strategy. There are several diversified equity funds that can generate better returns than ETFs. Only ac-tive fund management can add value to investor portfolios,” said a Mumbai-based wealth manager on condition of anonymity. According to investment experts, exposure to a few sectors could in-crease risk on overall fund portfolios. Investors in sector-based funds and ETFs could suffer losses when outlook turns bleak or negative.

Mutual fund is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer document.

Investments in securities are spread across a wide cross-section of industries and sectors and thus the risk is reduced. Diversification reduces the risk because all stocks may not move in the same direction in the same proportion at the same time. Mutual fund issues units to the investors in accordance with quantum of money invested by them. Investors of mutual funds are known as unit holders.

The profits or losses are shared by the investors in proportion to their investments. The mutual funds normally come out with a number of schemes with different investment objectives which are launched from time to time. A mutual fund is required to be registered with Securities and Exchange Board of India (SEBI) which regulates securities markets before it can collect funds from the public.

A mutual fund is set up in the form of a trust, which has sponsor, trustees, asset Management Company (AMC) and custodian. The trust is established by a sponsor or more than one sponsor who is like promoter of a company. The trustees of the mutual fund hold its property for the benefit of the unit holders. Asset Management Company (AMC) approved by SEBI manages the funds by making investments in various types of securities. Custodian, who is registered with SEBI, holds the securities of various schemes of the fund in its custody. The trustees are vested with the general power of superintendence and direction over AMC. They monitor the performance and compliance of SEBI Regulations by the mutual fund.

NEED OF THE STUDY

1. Mutual funds are dynamic financial intuitions which play crucial role in an economy by mobilizing savings and investing them in the capital market.
2. The activities of Mutual funds have both short and long term impact on the savings in the capital market and the national economy.
3. Mutual funds, trust, assist the process of financial deepening & intermediation.
4. To banking at the same time they also compete with banks and other financial intuitions.
5. India is one of the few countries to day maintain a study growth rate is domestic savings.

SCOPE OF THE STUDY:

The study is limited to the analysis made on two major types of schemes offered by four banks. Each scheme is calculated in term of their risk and return using different performance measurement theories. The reasons for such performance in immediately analyzed in the commentary. Column charts are used to reflect the portfolio risk and return.

OBJECTIVES

MAIN OBJECTIVE:

- A study on **comparative analysis of mutual funds** in , **India Infoline Ltd**, are effecting on the financial performance of the company.

ANCILLARY OBJECTIVES:

- To know the different mutual fund schemes in **India Infoline Ltd** mutual Fund.
- To know the concept of Mutual funds.

- To know how the **India Infoline Ltd** are participating in the stock market.
- To know how the **India Infoline Ltd** are effecting on the overall performance of the **India Infoline Ltd** Company.

2. METHODOLOGY

Meaning of research: The method and technique that are used for conducting the research. Research methodology is a systemic way of solving research problem this methodology includes all the stages of research such as research process, research design, sampling design, data collection, data analysis, data interpretation and data presentation.

Research Process: **-** This is the process of conducting entire research in such away to solve the research problem. It includes identification of problem conducting the research and interpretation of the data and reporting.

To test the Different Mutual fund Schemes and its effect on the Business with reference to the IIFL Mutual Funds.

Research design: **-** It indicates a design of research problem and research process

1. Information collected from the Questionnaire to the **India Infoline Ltd** Mutual Fund Hyderabad branch.
2. I collect all the Financial Statements from the **India Infoline Ltd** Mutual fund websites.

Data collection:-The objective of the present study can be accomplished by conducting a systematic research to know the effect of **India Infoline Ltd** Mutual Fund Schemes on the Business.

1. Primary data The information presented in the report is primary data, i.e. the data Collected from the “**India Infoline Ltd**” through the Questionnaire.

2. Secondary data

Secondary data is taken from

- Website
- **India Infoline Ltd** Journals
- Security Analysis (sem-4)
- Brocuhers

Tools for data analysis:- To analyse the information (or) data collected form Branch Manager and various financial Statements the following tools are used:

1. Percentages
2. Averages
3. Range
4. Graphs
5. Bar Chart

3. LIMITATIONS

- Mostly the data is related to the secondary data.
- To collect the primary data from the company is difficult task and it is a confidential matter to the company.
- The product is restricted to only mutual funds.
- The data is only limited to financial performance of the mutual funds.
- The collected primary data is only from the one branch head of Hyderabad.

- The comparison for the financial performance of the company is taken.

Sector Mutual Funds

Sectoral funds are those mutual funds which invest in a particular sector or industry of the market, e.g. infrastructure, banking, pharma, information technology etc. Sector funds are riskier than equity diversified funds since they invest in shares belonging to a particular sector which gives them fewer diversification opportunities.

A sector fund is a mutual fund or exchange-traded fund that concentrates its investments in a single sector of the market. A sector is a slice of the market that is focused on the same line of business. For example, Bank of America is in the financial services sector, while Wal-Mart is in the consumer services sector.

Three Common Characteristics of Sector Funds

There are three characteristics that are common among sector funds:

1. Focused on stocks within a certain business or industry
2. Concentrated number of holdings
3. More volatile than the overall stock market

How Many Sectors Are There for Sector Funds?

It depends who you ask. There are several organizations which have formally divided the market into various sectors and subsets of sectors. In other words, Wal-Mart is in the consumer services sector, but it can be further categorized as a discount store. Bank of America and Allstate are both in the financial services sector, but upon further categorizing, Bank of America is in the banking sector while Allstate is in the insurance sector. You can invest in most of these sectors through a mutual fund or exchange-traded fund.

4. FINDINGS

SHARPE'S: As per Sharpe performance measure, a high Sharpe ratio is preferable as it indicates a superior risk adjusted performance of a fund. From the above **HDFC GOLD Fund –Growth** and **Axis banking Debt fund-Growth** show a better risk-adjusted performance out of top4 AMC'S.

TREYNOR's: As per TREYNOR'S ratio the Treynor's reward to volatility **-** having high positive index is favorable. Therefore, as per this ratio also **Axis banking Debt fund-Growth** is preferable.

5. SUGGESTIONS TO INVESTORS:

Investing Checklist

- Financial goals & Time frame

(Are you investing for retirement? A child's education? Or for current income?)

Risk Taking Capacity

Identify funds that fall into your Buy List

Obtain and read the offer

Documents match your objectives

- In terms of equity share and bond weightings, downside risk
- protection, tax benefits offered, dividend payout policy, sector focus
- Performance of various funds with similar objectives for at least 3-5 years
- Think hard about investing in sector funds For relatively aggressive investors
- Close touch with developments in sector, review portfolio regularly – Look for `load' costs
- Management fees, annual expenses of the fund and sales loads
- Look for size and credentials
- Asset size less than Rs. 25 Crores

- Diversify, but not too much
- Invest regularly, choose the S-I-P
- MF- an integral part of your savings and wealth building plans.

6. CONCLUSIONS

- EQUITY FUNDS-Axis Banking Debt Fund-Growth is doing very well, according to the study's research.
- You will make money if you put your money with HDFC-Growth.
- The Axis Bank Debt Fund-Growth is doing well, according to the overall performance.
- It is necessary to inform potential investors about mutual fund investments.
- The industry's management and investors should be open and honest about their goals.
- The number of mutual funds has increased by 100% as a result of the influx of international AMCS into the Indian markets.
- Rural regions may also be accessed via mutual funds.

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