

Tenacity in Performance of Small and Mid-cap Mutual Funds in Indian Scenario- In support to Investors Decision



T Kusuma, Venu Gopal Rao Chowdary

Abstract: Mutual funds play a crucial role in financial sector for small-scale and large-scale investors. Within the Indian scenario, there is a need to define criteria to guide the investors in selection between small-caps and mid-caps mutual funds. Although small-caps provide there is always a question of higher market risks compared to mid-caps. So, the work emphasizes on analysis performances of Small caps in comparison with mid-caps that would certainly support decision-making. In the present work a comprehensive assessment of existing mutual funds that involves small and mid-cap with respect to Indian scenario is presented and their performance in the market for the past ten years is analyzed. The study analyses the fund's performance by considering parameters like market risk, momentum, expenses, size and value. The persistence and decision-making of the investor are discussed with respect to the small and mid-cap funds. In this regard, we have considered the best and worst-performing small and mid-cap funds according to their returns in a overall span of more than 3 years. A comparative analysis between the decision making parameters that are performing and underperforming during this period are considered. In this study, small-caps funds like HDFC small-cap fund, Kotak, DSP small Cap fund and Franklin India Small MF and in parallel, mid-cap funds including Kota Emerging equity, DSP Midcap and Axis Midcap and Franklin India are considered

Keywords : Small-cap, Mid-cap, Performance, Risk, Indian Markets

I. INTRODUCTION

The Performance of Mutual is crucial parameter in the field of finance and research as it is very much required for both the investors and the managers that considered to for important of wealth enhancement. When it comes to investments, mutual funds made its prominence in the society has the better chance of increasing the wealth. But the past performance issues are always important to asses the future trends, but they is always a question that whether same trend it follows in the future.

Manuscript received on April 02, 2020.

Revised Manuscript received on April 15, 2020.

Manuscript published on May 30, 2020.

* Correspondence Author

T Kusuma*, department of Commerce, Sree Vidyaniethan Engineering College, Tirupati, India. Email:kusumareddy87@gmail.com

Dr Venu Gopal Chowdary, Bangaluru school of management, GITAM universityBengaluru Camous, Bengaluru, India. Email: drchowdary959@gmail.com.

© The Authors. Published by Blue Eyes Intelligence Engineering and Sciences Publication (BEIESP). This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>)

And the reason for this are still persisting with a) managers remuneration and reputation are defending upon this performance of the funds. b) to promote the fund and its trading depends upon the performance of it in longer durations c) investors always tend to mould themselves to invest in the funds that has historic performance record; d) finally in terms of academic perspective, the assessment of the performance is important in determining the efficient market hypothesis (EMH) (Bollen & Bussee, 2004).

As of these reason's there is always extensive coverage by the media, that would support the managers as they are "stars" and "superstars". Since the performance always alters the capital investments by the human in an effective way. So the managers tend to poses higher education standards to calibrate the performances and is highlighted in the literature (Mincer, 1973) & (Topel, 1991). They are very few reported literature findings that discuss about the managers educations and performance of the funds. Typically these managers either posses the MBA or CFA, along with the experience as investors as well. Few them researchers has endorsed these relationship of the education, characteristics of the manager versus fund performance (Chevalier and Ellison, 1997; Golec, 1996; Costa et al., 2006). As much of the literature we have gathered and to best of our knowledge, there no much extensive survey regarding the performance of the funds in emerging markets like India. As it so dynamic, and tend to change rapidly the performance estimation might tend to deviate from the original that was predicted. Few people like Roy and Deb (2004) have endorsed the persistence of the mutual funds in Indian scenario and in 2008 researchers have studied on the equity funds with the Indian aspect, where the sample is small (Deb Banerjee, Chakrabarty, 2008). In most of the regional and international survey's have reported that India is top destination for the investments. Attractive survey report by EY in 2015 reported India has top 3 destination for the investments and according to ICRA has endorsed this even further might improve due to the political and other reforms in terms of demonetisation and interest rates decline by RBI.

II. MUTUAL FUNDS & ASSOCIATED PERFORMANCE FACTORS WITH REGARDS TO SMALL & MEDIUM-CAP FUNDS

Fund that are collectively organised by many investors and that in return invests back on the security that secure enough like bonds, stocks and money market instruments and other investments.



So we can say that a fund or terminally referred as the mutual fund is made up of money, pooled from different sources/investors and these are mobilised again as investments in stocks. But in between effectively to organise, they would be a manager who organises the fund.

Chen Joseph, et.al., (2003) has published the performance and it's quantification that regards to the mutual fund industry. The suggests made from this paper was that, money invested in small and medium scale funds are effectively observing the returns when compared with large funds and sole reason for this all about liquidity of the money. And later this study was enhanced further to understand the risk associated with the mutual funds that and they offer minimum persistence means it says has the risk associated with them but as well investments tend to flow with the incoming returns that particular observes. And has it was mentioned in the earlier sections that managers education and skill levels, and the there is work that explains the level of managers regards their skill levels and fund size and performance issues (Rao.D.N, Rao S.B., 2009). So they has been further studies continued on the basis of the their levels like small, medium and large funds. But in overall they was no proven relation between the fund size and investors with the country.

Fund Size : It regards to the total committed capital that was promised by the investors in Mutual fund. But it was majorly in most of works denotes that size of the funding has nothing to do with the performance of the fund. And it was always has an ration with the returns and risk associated with it. It was further justified in small and medium cap funds and might have larger caps which involves higher returns and larger fund size (Deb, S. G., 2019)..

A.Returns

Return : The amount that was received at the end of the fiscal financial year which is expressed in terms of percentage with respect to the amount invested in referred as the rate of return. This is even regarded as the fixed income and security that fund provide to the investors(Keswani, M. S. S. , 2011). In the literature, where instability factors of the MF are considered, the rate of returns standards as priority. And it varies with the market on daily basis and this doesn't have any relation between the flow of funds and returns but where managers tend to show. This reveals the managers lack of skill.

B.Risk

Risk is the common factor in the business and investments, and in this context that refers to loss of monetary loss. In some regards it merely only on the returns, means earning and in other context it might involve the principle amount as well. And in case of Mutual funds, it has be known and the duty of the manager to disclose the risk associated with the fund to the investors before the investments. And in this context with MF, risk follows up with returns, higher the risk more returns and the fund manager has breakthrough advantage of minimising the risk with his quality of time on the fund.

C.Performance of the Funds

Overall performance of the mutual funds depends upon different scenarios and parameters. It alters with the developed nation/markets to developing nations/markets. And also depends upon the returns, risk and category of the funds. In overall larger funds and medium fund performance

are extensively studied in the literature and they have discussed the benefits that supports to both of them which investors would have benefitted to a certain extent. But the small cap funds are least interested in the context of India as they are invested back on the small first and SSI(Panwar, S., & Madhumathi, R., 2006).. But in recent past the India is performing good with the growth of SSI and Indian economy in terms of productivity, employment and exports.

— In small caps funds have the set back of involvement of SSI companies and are subject more to market vulnerabilities, tend pose more risk (Subrahmanya, M. H. B. , 2005).

— And other factor is that as fund share are small and number of shares/per investment are limited which controls the overall returns of the investors are factors that causing the to hold back to the small funds (Bauer, R. , 2005).

But the positive fact is that, the main advantage with the small cap funds is that, they tend to more liquidity when they are trading more, that involves the process buying and selling in this regard which will incorporate more fund flow That would benefit the investors and the Managers as well.

III. METHODOLOGY

To conduct the performance test for performance base for the mutual funds we have selected 4 small and mid caps funds which are considered performing average good in the market as AMFI India. In this we have selected HFDC small cap, Kotak Small cap, DSP small Cap, Franklin Small Cap in small cap category and Mid cap category funds related to Axis, Franklin, DSP and Kotak are considered for the duration of January 2010-2015The survey is conducted. In the survey months yield of Nav values are collected for analysing the data shown in Table.1

Table I: Funds Selected

Fund (Small Cap)	Name	Fund (Mid-cap)	Name
HDFC small cap		Axis Mid Cap	
Kotak Small Cap		Franklin mid cap	
DSP small Cap		DSP Mid cap	
Franklin Cap	Small	Kotak emerging Mid cap	

IV. SOURCE OF THE DATA

The secondary data was collected from different sources like few articles, and Mutual funds websites like AMFI, NSE and SEBI. Samples of larger content where studied over a long interval for analysis, the samples been used were continuous and they hold about 4 schemes of mutual funds which were handled actively for a time interval of about 15 years ranging from 2010 to 2014 in order to carry out our study.



Different ranges of mutual funds were considered based on its physical nature, characteristics and expense ratio to analyse the persistence behaviour and one historic performed data was also endorsed.

The expectation is that the mutual funds been developed were managed through the concern manager and they tend to provide better services by putting effort in handling larger mutual fund values also the facts are considered like the fees been paid are generate through the asset value through management terms and policy. It is also considered that large funds in relation to huge corpus can attract talent in the area of the fund systems. The validation of this event is considered as an interesting topic in the Indian industry scenario. To analyse it, tracking of existing persistence based on the active handled mutual funds were carried out based on different sectors of fund size assessed through the AUM system protocol. It is predicted that the funds which was introduced in the market have withstood the competitors in the industry tend to survive and last long through their success phenomenon. They tend to attract the managers which involves with the fund and enable them to charge higher fess in this regard. Analysis was also carried out for tracking the equity based funds based on the different age partitions occurring with the collected sample and also tested through the year interval based on the inception during the analysis of the funds. Their exist the persistence to the equity funds expense ratio.

Table- II: Funds Selected & Analysis

Scheme Name	Mean diff of NAV returns	Standard Deviation	Beta
HDFC small cap	0.23	1.412	1.2
Kotak small cap	0.265	1.5	0.9
DSP small Cap	0.2	1.9	1.9
Franklin Small	0.22	1.54	0.8
Axis Mid cap	0.22	1.02	1.7
Franklin Mid cap	4.4	25	2.2
DSP Mid cap	0.26	1.66	1.1
Kotak mid cap	0.1855	1.1	2.1

To analyse the probability, the analysis for different fund ratio were repeated based on the sample value based on the sample value attained within the gathered data and this analysis were carried out to find out the differential pattern value of the both small and Mid cap funds NAV returns on monthly basis. Based on the persistence attributed through the performance. It is considered funds based on similar style and orientation tend to perform the same way maintaining the persistence until a particular period. Like if the stocks are performing well it is evident that even the funds been performing at the same period do well. To analyse the similarity, the persistence of the samples based on the styling and orientation were measured. The commonly criticized parameter in the mutual funds survey is regarding the limitation involved in carrying

out the analysis of persistence and the possibility of biasing to be occurred in the method been adopted. Hence robustness analysis is been carried out to ensure the persistence of the methodologies based on four consecutive robustness analysis.

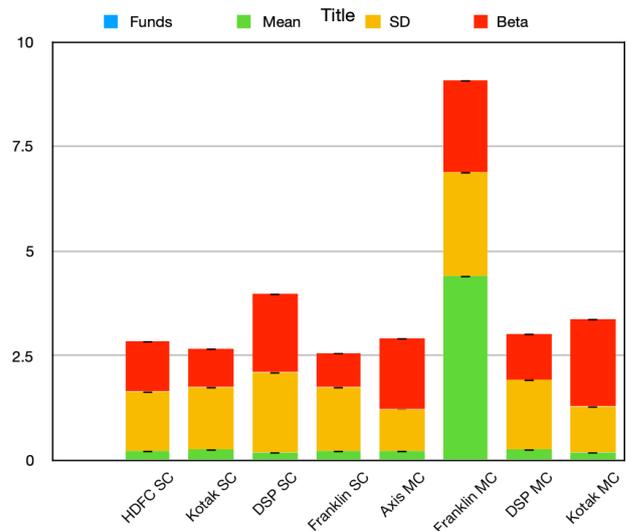


Figure 1: Performance Analysis using NAV values considered on Monthly basis.

V. CONCLUSION

It was identified that, in small caps funds have the set back of involvement of SSI companies and are subject more to market vulnerabilities, tend pose more risk but the fact was very minimally accepted because they tend to show positive result and consistently performing. Where as in case of Mid-cap funds though few are showing historic data of returns but they are tend have little minimal returns than small caps. But risk associated was minimal (Switzer, L. N., & Huang, Y. , 2007). In overall, we can say during the period of 2010-2015, the small caps in the context of India expressed a better to little better performance that Mid cap funds if exception of historic Funds return schemes are vomited. And the might be the milestone factor that tends the way of thinking about Mutual funds in aspects of Small caps since than India Stock like BSE and NSE are trading high in last couple of years with agenda of Make India Program where more start-up ventures are encouraged. So the future might of Small caps where the mid caps retain their position for sustainable return policies.

ACKNOWLEDGMENT

This work is supported by the GITAM University, Bangalore, to develop my academic and research knowledge by permitting me to do research work in the field of Mutual Funds.

REFERENCES

1. Deb, S. G. (2019). Science Direct Persistence in performance of actively managed equity mutual funds : New Indian evidence, 145–156. <https://doi.org/10.1016/j.iimb.2019.03.014>
2. Carhart, M. M. (1997). On Persistence in Mutual Fund Performance, LII(1).
3. Keswani, m. s. s. (2011). effect of fund size on the performance of balanced mutual funds an empirical study in indian context, 1(4).

4. Subrahmanya, M. H. B. (2005). Small-scale industries in India in the globalisation era : performance and prospects, 2(1), 122–139.
5. Bauer, R. (2005). International evidence on ethical mutual fund performance and investment style, 29, 1751–1767. <https://doi.org/10.1016/j.jbankfin.2004.06.035>
6. Switzer, L. N., & Huang, Y. (2007). How does human capital affect the performance of small and mid-cap mutual funds?
7. Roy, B., & Deb, S. S. (2004). Conditional alpha and performance persistence for Indian mutual funds: empirical evidence. *ICFAI Journal of applied finance*, 30-48.
8. Bollen, N., & Busse, J. (2001). On the timing ability of mutual fund managers. *Journal of Finance* 56 (3), 1075–1094.
9. Rao, D. N. and Rao, S. B., —Does Fund Size Affect the Performance of Balanced Mutual Fund Mutual Funds? An Empirical Study in the Indian Context. Available at SSRN: <http://ssrn.com/abstract=1420522>.
10. Prajapati, K. P., & Patel, M. K. (2012). Comparative study on performance evaluation of mutual fund schemes of Indian companies. *Researchers World*, 3(3), 47.
11. Panwar, S., & Madhumathi, R. (2006). Characteristics and performance evaluation of selected mutual funds in India. In *Indian Institute of Capital Markets 9th Capital Markets Conference Paper*

AUTHORS PROFILE



Dr. Venu Gopal Rao Chowdary received M.com degree in Accounts from Andhra University of Vishakapatnam, M.B.A degree in Finance from IGNO University and Ph.D. in the area of Finance from ANU, Guntur, India under the guidance of former V.C. of ANU Prof. K.V.Rao. He has 12 years of experience in the fields of Accounts, Finance & FOREX. He has morethan 8years of teaching experience in various reputed colleges. He is currently working as Assistant Professor in the Department of GITAM School of Business, GITAM University, Bengaluru. His research interest includes Accounts, Finance & FOREX. He has published 30 research papers in various National and International level Journals and Conferences and one book with ISBN and one International Book Chapter and received National awards also.



T Kusuma received B.Com. degree from SVU Tirupathi, MBA degree in Finance from JNTU Ananthapuramu. Currently working as a Assistant Professor in Sree Vidyanikethan Engineering College, Tirupati and as a research scholar in School of Management, GITAM University, Bengaluru. Her research interest includes Mutual funds and Financial Planning and Forecasting .