

Analysis of Equity-Based Mutual Funds of HDFC and ICICI

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Abstract: The Indian market is over-brimming with more than a thousand mutual fund schemes today, promising better returns than others. A tremendous growth has been seen in the mutual fund industry over the last decade. According to the latest data the assets under management in this industry are more than Rs 6.8 thousand billion. In this paper an attempt has been made to analyze the performance of equity based mutual funds. The overall analysis between HDFC and ICICI mutual funds has found that HDFC is the preferred one.

INTRODUCTION

Mutual funds are investment funds wherein money is pooled from many investors to purchase securities. variety of goals are offered to the investors depending on the funds and its investment charter. Some funds generate income on a regular basis while others preserve investor's money. Some seek to invest in companies that are growing at a rapid pace. The income earned through these investments and the capital appreciations realized are shared by its unit holders in proportion to the number of units owned by them. Thus, mutual funds are the safest investment for the common man as they offer an opportunity to invest in diversified, professionally managed portfolio of securities at a relatively low cost

There are many reasons for the preference of mutual funds by investors. Buying shares directly from the market is one way of investing. But this requires spending time to understand the future business prospects of the company, finding out the performance of the company whose share is being purchased, finding out the track record of the promoters and the dividend, bonus issue history of the company etc. An informed investor needs to do research before investing. However, many investors find it cumbersome and time consuming to dig in so much of information, get access to so much of details before investing in the shares. Investors therefore prefer investing in mutual funds. They invest in a mutual fund scheme which in turn takes the responsibility of investing in stocks and shares after due research and analysis. The investor need not bother with researching hundreds of stocks. It leaves it to the mutual fund and its professional fund management team.

Mutual Funds history in India can be dated back to 1963, when UTI was established, by an act of Parliament. As on 30th April 2012, the total number of mutual fund schemes in India is 1292 (also called Asset under management). In this context it becomes pertinent to study the pattern and behavior of the Mutual fund schemes. The risk-return relationship is perhaps one of the best way to analyze the performance of a mutual fund.

HDFC Mutual Fund

HDFC mutual fund was set up on June 30, 2000 with two sponsors namely Housing Development Finance Corporation Ltd. and Standard Life Insurance Ltd. HDFC mutual fund came into existence on 10 Dec. 1999 and got approval from the SEBI on 3rd July 2000.

Products and Schemes of HDFC mutual fund

- ❖ Equity funds.
- ❖ Balanced funds.
- ❖ Debt funds.
- ❖ Liquid funds.

Prudential ICICI Mutual Fund

The mutual fund of ICICI is a joint venture with Prudential PLC. Of America, one of the largest life insurance companies in the USA. Prudential ICICI mutual fund was set up on 13th of Oct. 1993 with two sponsors.

Products and Schemes of HDFC mutual fund

- ❖ Equity funds.
- ❖ Balanced funds.
- ❖ Debt funds.
- ❖ Liquid funds.
- ❖ Children's gift fund

REVIEW OF LITERATURE

Sathya Swaroop Debashish (2009) measured the performance of the equity based mutual funds in India. 23 Schemes were studied over a period of April 1996 to March 2009 (13 years). The analysis was done on the basis of mean return, beta risk, and coefficient of determination, sharp ratio, Treynor ratio and Jensen alpha. The first analysis has been done on the basis of returns, followed by a comparison between market returns and the return on schemes. It was concluded that UTI mutual fund schemes and Franklin Templeton schemes have performed excellently in public and private sectors respectively. Further, on the basis of the parameters like Sharpe ratio, Deutsche, Franklin Templeton, Prudential ICICI (in private sector) and SBI and UTI (in public sector) mutual funds schemes have out-performed the market portfolio with positive values. However, the overall analysis finds Franklin Templeton and UTI being the best performers, and Birla Sun Life, HDFC and LIC mutual funds showing poor below-average performance when measured against the risk-return relationship models and measures.

Amporn Soongswang (2009) studied 138 open ended equity mutual funds managed by 17 asset Management companies in Thailand during the period 2002-2007. When the mutual funds were measured using Treynor ratio, Sharp ratio and Jensen's alpha, showed that performance of Thai open ended mutual funds significantly outperform the market. However, by using the Data Envelopment analysis (DEA) technique, the results suggested that for 3 month time period of investment only, the open ended equity mutual fund significantly outperform the market.

OBJECTIVES OF THE STUDY

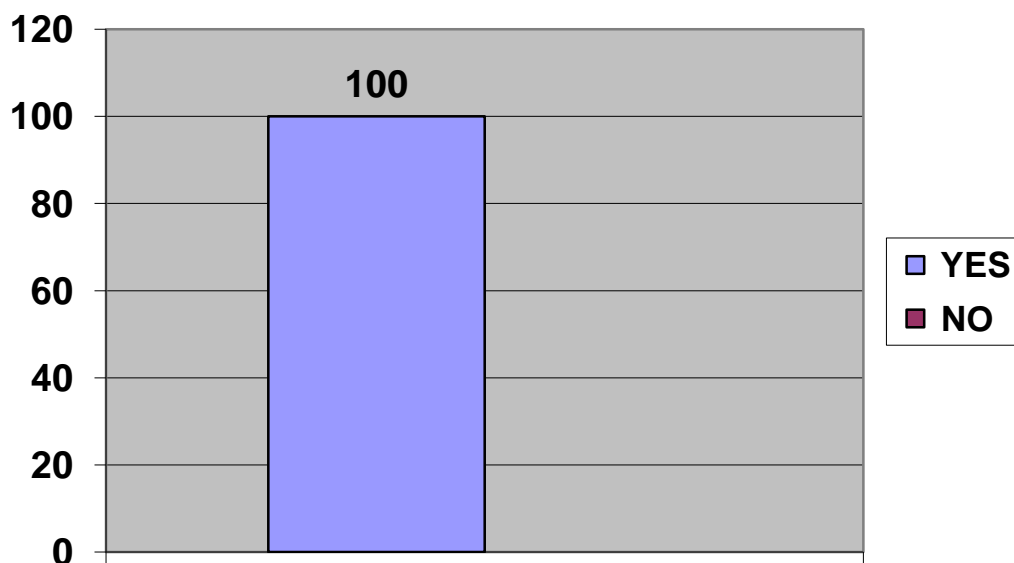
- ❖ To analyze whether HDFC provides better returns or ICICI..
- ❖ To analyze the parameters of mutual fund.
- ❖ To know the behavior of people regarding risk factor involved in mutual fund.

COMPARATIVE ANALYSIS

The main idea of the study is to conduct one sample tests on various variables. And through the use of chi-square tests which include cross tab relationships we induce whether HDFC mutual funds are preferred or ICICI mutual funds by the investors.

1. Do you invest in mutual fund?

.YES	100
NO	0

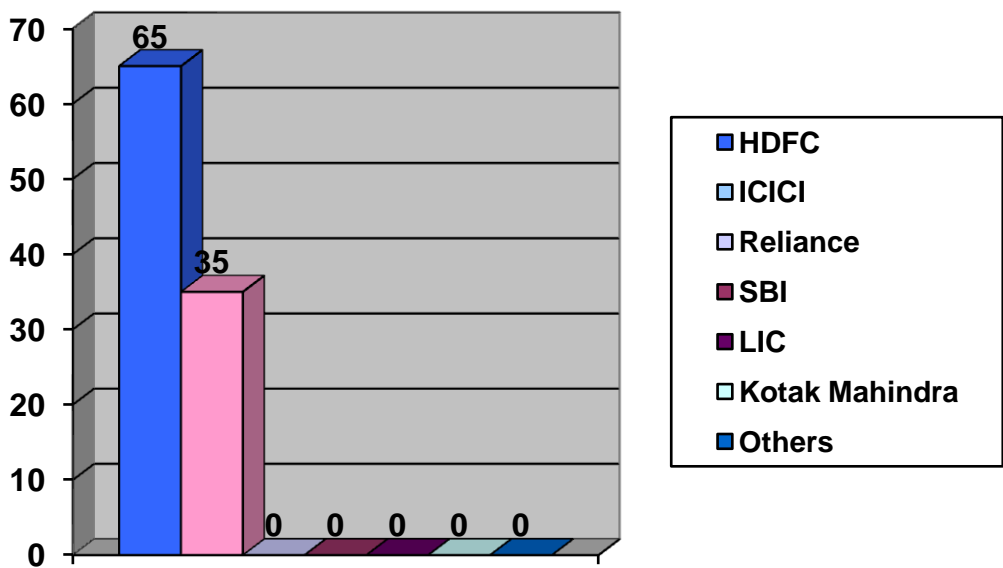


Interpretation:-

All the candidates who were asked to fill the questionnaire invest in mutual fund.

2. In which company have you have invested or are planning to?

HDFC	65
ICICI	35
Reliance	0
SBI	0
LIC	0
Kotak Mahindra	0
Others	0



Interpretation:

Out of 100 candidates up to 65 have invested in mutual funds with HDFC & 35 have invested with ICICI. There are no investors who have invested in mutual funds with any another company.

Variables :

VAR00001

	Observed N	Expected N	Residual
HDFC	65	50	15
ICICI	35	50	-15
Total	100		

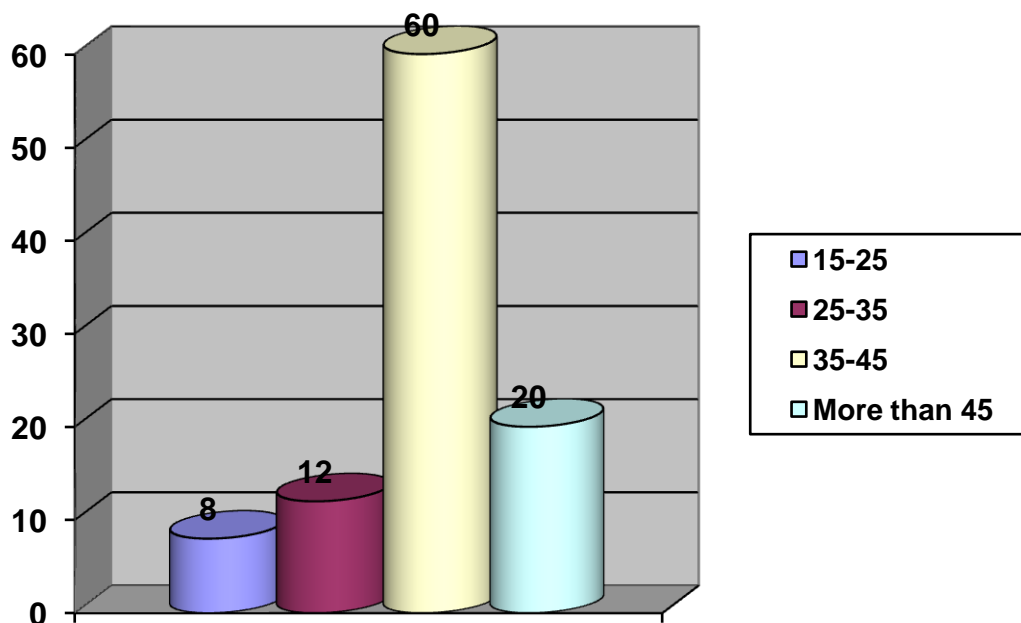
Test Statistics

	VAR00001
Chi-Square	9.000 ^a
Df	1
Asymp. Sig.	0.003

0 cells (0%) have expected frequencies less than 5. The minimum expected cell frequency is 50.0.

3. What is your age?

15-25	8
25-35	12
35-45	60
More than 45	20



Interpretation:

60 investors are in the age group of 35-45. 20 are above 45. 12 are among the age group of 25-35. 8 are among 15-25. This data shows that many investors are middle aged and there are less investors of young age in mutual fund.

CROSSTABS RELATIONSHIP BETWEEN AGE AND INVESTMENT MODE

age * investment mode Cross tabulation

Count

		Investment mode					Total
		equity market	fixed deposits	savings account	insurance	mutual funds	
Age	<18 years	0	0	1	0	2	3
	20-35 years	24	14	22	10	33	103
	35-50 years	25	8	4	7	24	68
	50-60 years	4	3	2	3	7	19
	>60 years	1	0	3	0	3	7
Total		54		32	20	69	200

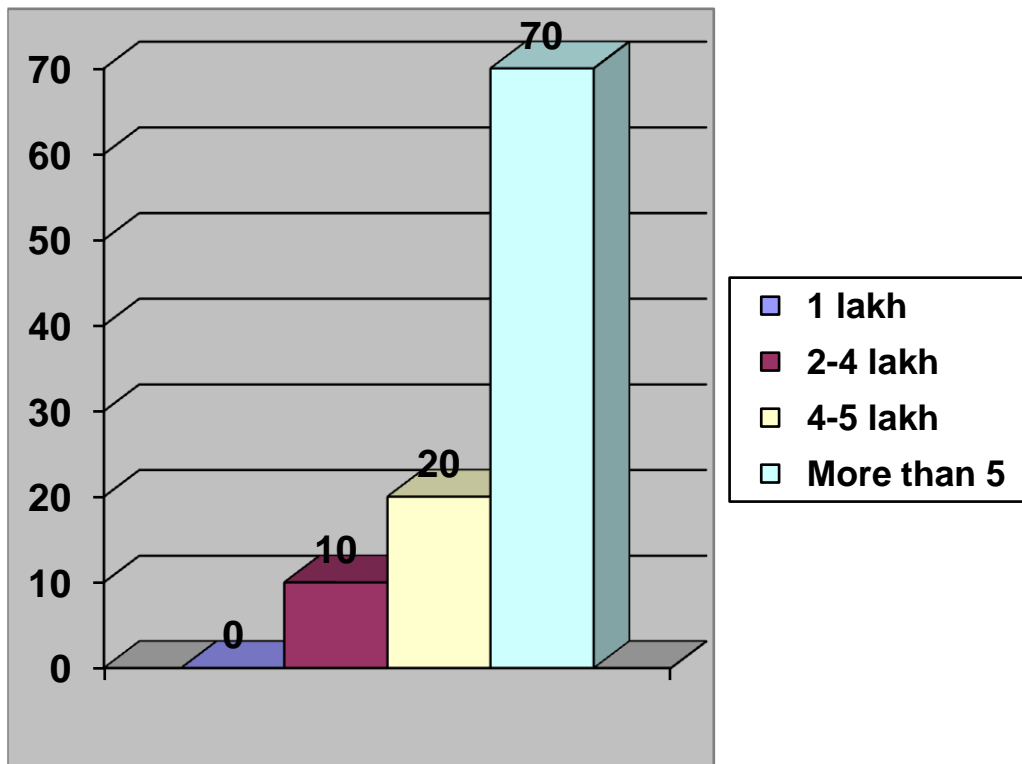
From the above table we can analyze that investors lying in the age group of 20-35 years prefer 'mutual funds' as their major mode of investment.

Test measures(One-Sample Test)

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
VAR00001	36.5	99	0	2.92	2.7613	3.0787

4. What is your annual household income? (in INR)

1 lakh	0
2-4 lakh	10
4-5 lakh	20
More than 5	70



Interpretation:

Up to 70 investors have income more than 5 lakh. 20 have between 4-5 lakh. 10 investors have income between 2-4 lakh & there is no investor who has income up to 1 lakh.

CROSSTABS ANNUAL INCOME AND FACTORS

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
annual income * factors	200	100.00%	0	0.00%	200	100.00%

Annual income * factors Cross tabulation

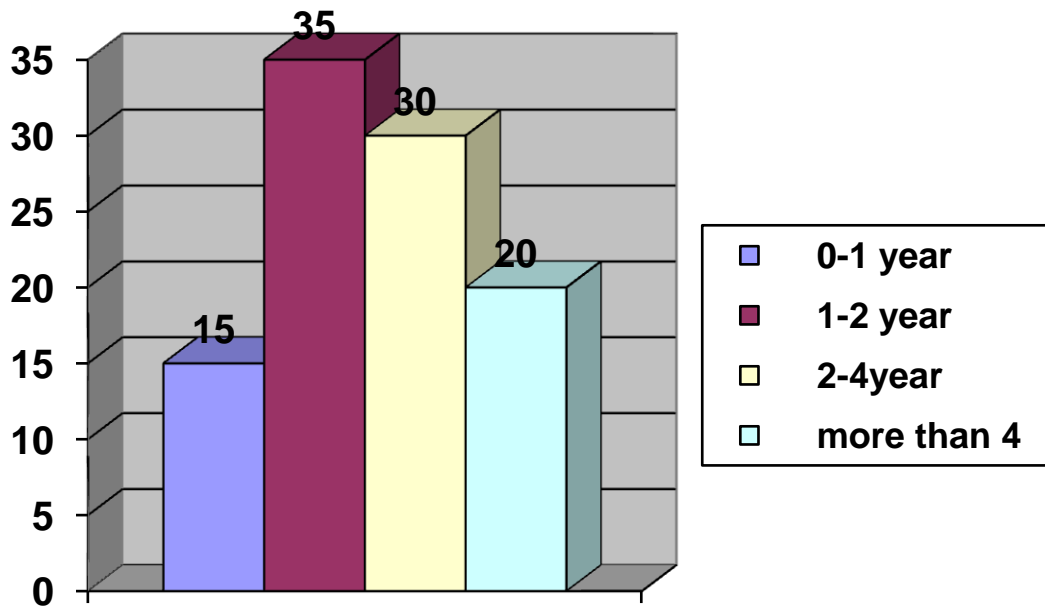
Count

		Factors					Total
		Risk	return on investment	time period	tax benefits	diversification	
annual income	upto1 lakh	3	12	2	1	1	19
	1-2 lakh	0	14	1	3	1	19
	2-3 lakh	7	15	2	6	5	35
	3-4 lakh	14	46	6	8	6	80
	>4 lakh	4	31	3	6	3	47
Total		28	118	14	24	16	200

From the above table we can analyse that all the investors falling in the income bracket below 1 lakh-above 4 lakh consider 'return on investment' as a better factor while investing in a mutual fund.

5. What is the time duration of your investment?

0-1 year	15
1-2 years	35
2-4years	30
more than 4	20



Interpretation:

15 investors have invested for less than one year. 20 investors have invested for 1-2 years. 30 investors have invested for 2-4 years and 35 investors have invested for more than 4 years.

So, we can say that 35 investors have more experience than others.

CROSSTABS RELATIONSHIP BETWEEN AGE AND TIME PERIOD

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
age * time period	200	100.00%	0	0.00%	200	100.00%

age * time period Cross tabulation

Count

		Time period					Total
		<6 months	6months-1 year	1-3 years	3-5 years	>5 years	
Age	<18 years	1	0	1	1	0	3
	20-35 years	3	18	23	54	5	103
	35-50 years	0	7	15	42	4	68
	50-60 years	0	1	6	12	0	19
	>60 years	0	1	1	5	0	7
Total		4	27	46	114	9	200

The third factor considered is time period. For less than 18 years, there is no person who looks in for it.

There are 10 people in the age group 20-35 years who look in for time period as a factor.

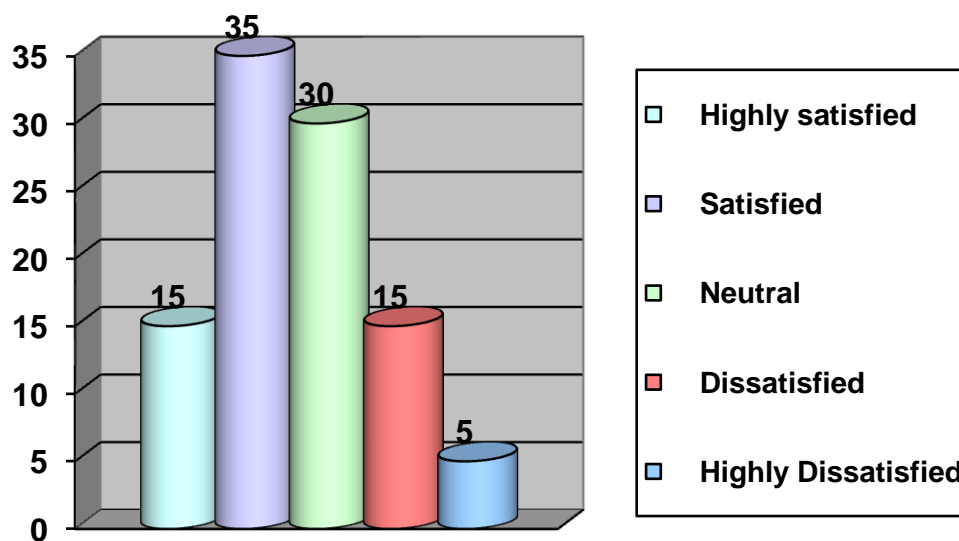
Only three people correspond in the age 35-50 year and one in 50-60 year but no one in greater than 60-year group. Nobody looks in for tax benefit in less than 18 years age group.

There are 9 people in the age group of 20-35 years, 10 in 35-50 years. 4 people consider tax benefit as an important factor in 50-60 year group and only one in greater than 60-year age group.

Now considering the relationship between age & time period a person looks at before investing in a MF scheme there is only one person who would like to invest for less than 6 months and three people in the age group 20-35 years. Whereas there is no case in 35-50, 50-60 and >60 years respectively. Considering this the maximum number is seen in age group 20-30 years with a time period of 3-5 years.

6. Are you satisfied by the service of the company's employees / employeesbehaviour?

Highly satisfied	15
Satisfied	35
Neutral	30
Dissatisfied	15
Highly Dissatisfied	5



Interpretation:

Out of 100 investors 15 are highly satisfied. 35 are satisfied. 30 are neutral towards behaviour of a company's employee. 15 are dissatisfied. 5 are highly dissatisfied. We can say that mostly people are satisfied by employee behaviour.

7. What is your risk profile?

VAR00002

	Observed N	Expected N	Residual
highly satisfied	15	20	-5
Satisfied	35	20	15
Neutral	30	20	10
Dissatisfied	15	20	-5
highly dissatisfied	5	20	-15
Total	100		

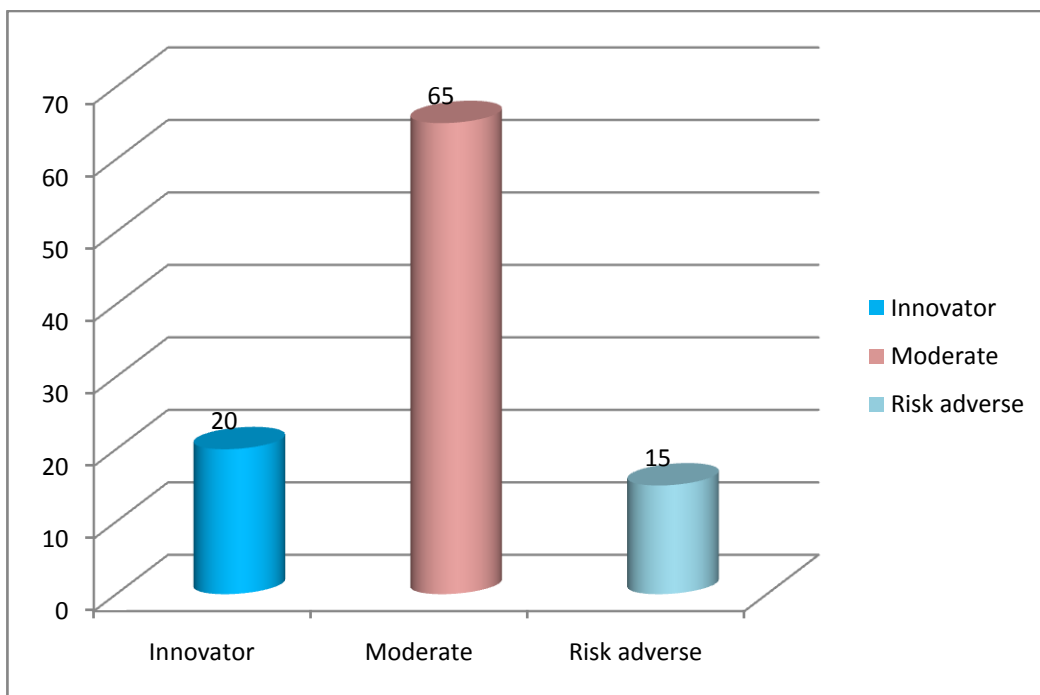
Test Statistics

	VAR00002
Chi-Square	30.000 ^a
Df	4
Asymp. Sig.	0

0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 20.0.

7. What is your risk profile?

Innovator	20
Moderate	65
Risk adverse	15



Interpretation:

20% investors are innovators which means they prefer taking risk for more returns. 15% are moderate towards risk which means that they are indifferent towards risk. 65% are risk adverse means they mainly try to avoid risk.

VAR00002

	Observed N	Expected N	Residual
innovator	20	33.3	-13.3
moderate risk	65	33.3	31.7
adverse	15	33.3	-18.3
Total	100		

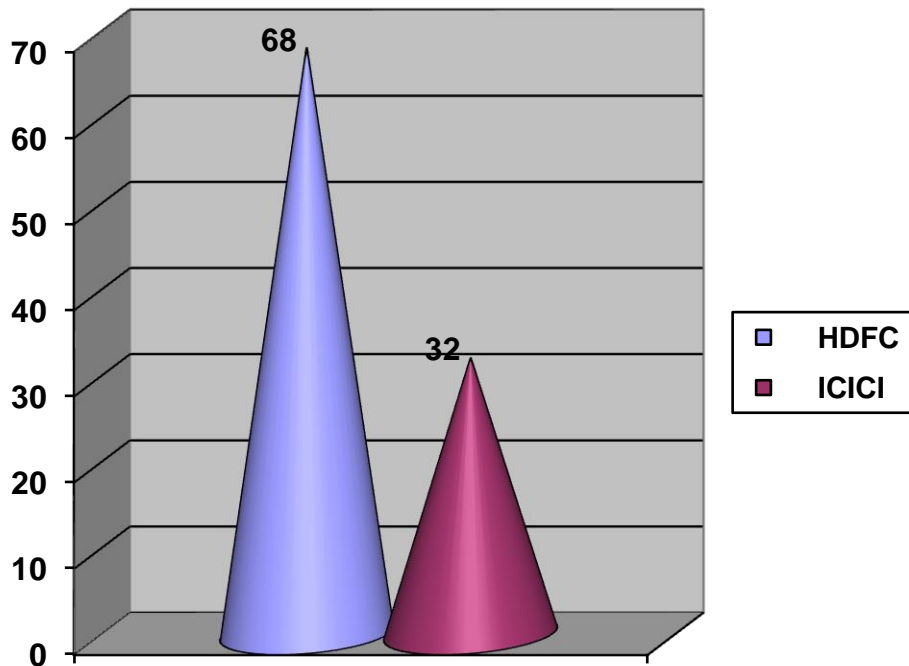
Test Statistics

	VAR00002
Chi-Square	45.500 ^a
Df	2
Asymp. Sig.	0

0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3.

8. Which company provides better returns ICICI or HDFC?

HDFC	68
ICICI	32



Interpretation:

According to collected data 68 investors think that HDFC provides better returns whereas 32 think that ICICI provides better returns.

VAR00001

	Observed N	Expected N	Residual
HDFC	68	50	18
ICICI	32	50	-18
Total	100		

Test Statistics

	VAR00001
Chi-Square	12.960 ^a
Df	1
Asymp. Sig.	0

0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 50.0.

FINDINGS : -

In my research I have found following things:-

- ❖ Investors have more faith in HDFC’s mutual fund.
- ❖ As the age increases investors are much more satisfied and become more risk adverse.
- ❖ Old people and Widows prefer lower risk.
- ❖ Investors are not highly satisfied by company rules & employees behavior.
- ❖ Investors think that HDFC provides better returns than ICICI.

CONCLUSION : -

To conclude we can say that mutual funds are very profitable tool for investment because of their low cost of acquiring fund, tax benefit, and diversification of profits and reduction of risk. Many investors who have invested in mutual funds have invested with HDFC and they think that it provides better returns than ICICI. There is also an effect of age on mutual fund investors like old people & widows want regular returns than capital appreciation. Companies can adopt new techniques to attract more and more investors.

- ❖ To conclude we can say that mutual funds are the best investment vehicle for old and widows as well as for those who want regular returns on their investment.
- ❖ Mutual fund is also better and preferable for those who want their capital appreciation.
- ❖ Both the companies are doing considerable achievements in mutual fund industry but HDFC is the preferred one.
- ❖ There are many competitors involved who affect both companies.

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