

Performance Evaluation and Comparison of SBI and UTI Mutual Funds- with Special Reference to SBI Magnum Blue Chip Fund and UTI Top 100 Fund



Finance

KEYWORDS : Mutual fund, Performance, Net Asset Value, Sharpe's Model, Returns, Equity, Debt

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ABSTRACT

With the increase in the literacy rate and globalization in India, the disposable income of an individual has increased, which has made a significant impact on the savings habits of the individual. People today want to earn on their savings either in the form of return or appreciation in the value which has given way to many investment avenues to emerge in India. And today one of the most preferred investment avenues for an investor is mutual funds. Mutual fund industry has seen a lot of changes in past few years with multinational companies coming into the country, bringing in their professional expertise in managing funds world-wide. Now investors have a wide range of schemes to choose from depending on their individual profiles. The mutual fund companies today are performing with lower risks and higher profitability within a short span of time by diversifying the pooled funds. The study on "Performance Evaluation and Comparison of SBI and UTI Mutual Funds- with special reference to SBI Magnum Blue Chip Fund and UTI Top 100 Fund" is based on the analysis of secondary data available in the market by using different financial tools and techniques like Sharpe's Model. The data analysis is done as on 31st Jan, 2014.

INTRODUCTION

There are a lot of investment avenues available today in the financial market for an investor with an investable surplus. The recent trends in the Stock Market have shown that an average retail investor always lost with periodic bearish trends so people began opting for portfolio managers with expertise in stock markets who would invest on their behalf. Thus we had wealth management services provided by many institutions. However they proved too costly for a small investor. These investors have found a good shelter with the mutual funds. The Indian mutual funds industry is witnessing a rapid growth as a result of infrastructural development, increase in personal financial assets, and rise in foreign participation. With the growing risk appetite, rising income, and increasing awareness, mutual funds in India are becoming a preferred investment option compared to other investment vehicles like Fixed Deposits (FDs) and postal savings that are considered safe but give comparatively low returns.

The financial system comprises of financial institutions, instruments and markets that provide an effective payment and credit system that facilitate the channeling of funds from savers to the investors of the economy. Indian Mutual Funds have emerged as strong source of fund inflows to the financial system. Mutual Funds have opened new vistas to investors and brought in the much needed liquidity to the system.

Mutual Funds are dynamic financial institutions, which play a crucial role in an economy by mobilizing surplus savings from the households and investing in the capital markets. Therefore, the activities of Mutual Funds have both short and long term impact on the savings and capital market and national economy.

Mutual Funds provide an opportunity to the households to diversify their surplus savings to build a portfolio as per their risk appetite, goals, time horizon through diversification in the equity and debt markets. They work on the principle of "Never put all the eggs in the same basket".

OBJECTIVES OF THE STUDY

The specific objectives of the study are as follows:

- To analyze the trends in returns of selected mutual funds.
- To evaluate the performance of two premier equity mutual fund schemes from SBI and UTI.
- To compare from investors point of view which is more preferred investment avenue.

PERIOD OF ANALYSIS

The data analysis for the SBI Magnum Blue Chip Fund and UTI Top 100 Fund is as on 31st Jan, 2014.

EVOLUTION OF MUTUAL FUNDS IN INDIA

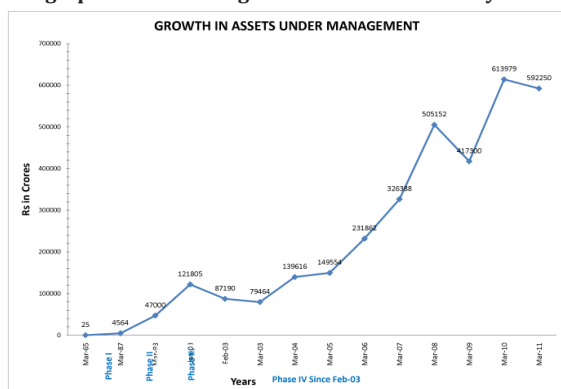
The mutual fund industry in India dates back to 1963 with the formation of Unit Trust of India (UTI) by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Rs. 6,700 crores of assets under management. 1987 marked the entry of non-UTI, public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). At the end of 1993, the mutual fund industry had assets under management of Rs. 47,004 crores.

With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996.

In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs. 29,835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes. The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations.

The second is the UTI Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs. 76,000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.

The graph indicates the growth of assets over the years



Note:

Erstwhile UTI was bifurcated into UTI Mutual Fund and the Specified Undertaking of the Unit Trust of India effective from February 2003. The Assets under management of the Specified Undertaking of the Unit Trust of India has therefore been excluded from the total assets of the industry as a whole from February 2003 onwards.

MUTUAL FUND COMPANIES IN INDIA

Axis MF, Bharti AXA MF, Birla Sun Life MF, BNP Paribas MF, CanaraRobeco MF, Deutsche MF, DSP BlackRock MF, Edelweiss MF, Franklin Templeton MF, Goldman Sachs MF, HDFC MF, HSBC MF, ICICI Prudential MF, IDBI MF, IDFC MF, IIFL MF, Indiabulls MF, ING MF, JM Financial MF, JPMorgan MF, Kotak Mahindra MF, L&T MF, LIC MF, Mirae Asset MF, Morgan Stanley MF, MotilalOswal MF, Peerless MF, PineBridge MF, PPFAS MF, Pramerica MF, Principal MF, Quantum MF, Reliance MF, Religare Invesco MF, SBI MF, Sundaram MF, Tata MF, Taurus MF and UTI MF.

SBI MUTUAL FUND

SBI Mutual Fund is India's largest bank sponsored mutual fund and has an enviable track record in judicious investments and consistent wealth creation. The fund traces its lineage to SBI - India's largest banking enterprise. The institution has grown immensely since its inception and today it is India's largest bank, patronised by over 80% of the top corporate houses of the country. SBI Mutual Fund is a joint venture between the State Bank of India and SociétéGénérale Asset Management, one of the world's leading fund management companies that manages over US\$ 500 Billion worldwide. In twenty years of operation, the fund has launched 38 schemes and successfully redeemed fifteen of them. In the process it has rewarded its investors handsomely with consistent returns. A total of over 5.8 million investors have reposed their faith in the wealth generation expertise of the Mutual Fund. Schemes of the Mutual fund have consistently outperformed benchmark indices and have emerged as the preferred investment for millions of investors and HNI's. Today, the fund manages over Rs. 42,100 crores of assets and has a diverse profile of investors actively parking their investments across 38 active schemes.

SBI MAGNUM BLUE CHIP FUND

The SBI Magnum Blue Chip Fund was inception on 23rd Dec, 2005. The Scheme provides investors with opportunities for long-term growth in capital through an active management of investments in a diversified basket of equity stocks of companies whose market capitalization is atleast equal to or more than the least market capitalised stock of BSE 100 Index. It's an Open -ended Equity Scheme. The face value per unit is Rs. 10/-. The minimum investment required for this scheme is Rs. 5000/-

UTI TOP 100 FUND

UTI Top 100 Fund was inception on 20th May, 2009. The fund aims to provide long term capital appreciation/dividend distribution by investing predominantly in equity and equity related instruments of top 100 stocks by market capitalisation. It's an

open ended fund. The fund size as on 31st Jan, 2014 is 534.39 crores. Minimum investment required for this fund is Rs. 5000/-

FINANCIAL TOOLS AND TECHNIQUES USED FOR PERFORMANCE EVALUATION

The Sharpe's Measure/ Ratio

The Sharpe ratio, named after William Forsyth Sharpe, is a measure of the excess return (or risk premium) per unit of risk in an investment asset or a trading strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken, the higher the Sharpe ratio the better. A negative Sharpe ratio indicates that a risk-less asset would perform better than the security being analyzed.

Sharpe Ratio = (Expected portfolio return - Risk free rate) / Portfolio standard deviation

The Sortino's Measure/ Ratio

It is modification of the Sharpe ratio that differentiates harmful volatility from general volatility by taking into account the standard deviation of negative asset returns, called downside deviation. A large Sortino ratio indicates there is a low probability of a large loss. It is calculated as

Sortino's Ratio= (Expected Return- Risk free rate of return)/ Standard Deviation of Negative Asset Returns

Standard Deviation

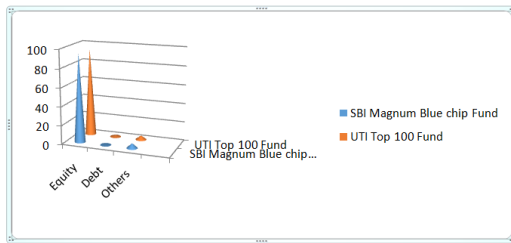
Standard deviation is applied to the annual rate of return of an investment to measure the investment's volatility. Standard deviation is also known as historical volatility and is used by investors as a gauge for the amount of expected volatility.

Performance Evaluation and Comparison of SBI Magnum Blue Chip Fund and UTI Top 100 Funds

	SBI Magnum Bluechip Fund - Growth	UTI Top 100 Fund - Growth
Portfolio Date	31/01/2014	31/01/2014
Category Name	Equity	Equity
Assets Allocation:		
Equity	94.43%	94.04%
Debt	0.39%	1.59%
Others	5.18%	4.37%
Market Cap:		
Top 5 Holding	26.98%	33.09%
Top 3 Sectors		
Software and consultancy	17.26%	22.23%
Banks	15.93%	14.97%
Pharmaceuticals& Biotechnology	11.47%	10.55%
Total	44.66%	47.75%
Portfolio PE (Times)	23.71%	22.53%
Expense Ratio (as on 31/01/2014)	2.34%	2.4%
Performance:		
3 Months Return	2.74%	2.25%
6 Months Return	18.18%	13.97%
1 Year Return	5.34%	4.93%
3 Years Return	8.27%	5.74%
5 Years Return	20.31%	17.03%
SIP Analysis		
Value of Rs 5000 per month for 3	180000	180000
Return	6.07%	3.85%
Risk Measure		
Sharpe	-0.03%	-0.04%
Sortino	-0.06%	-0.07%
Standard Deviation	2.30%	2.12%

Comparison of Asset Allocation

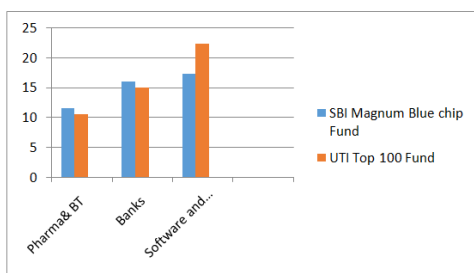
Comparison of Asset Allocation



SBI Magnum Blue chip fund and UTI Top 100 Fund have their major assets allocated in the equity. In both the funds asset allocation is least in the debt. So we can say that they are equity based funds.

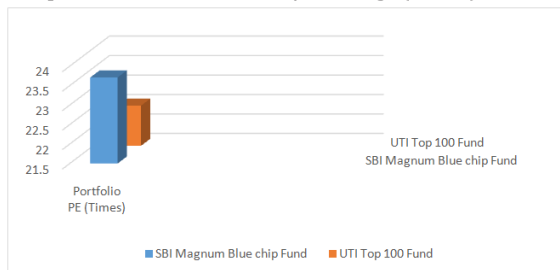
Comparison of Sector Wise Investment Diversification

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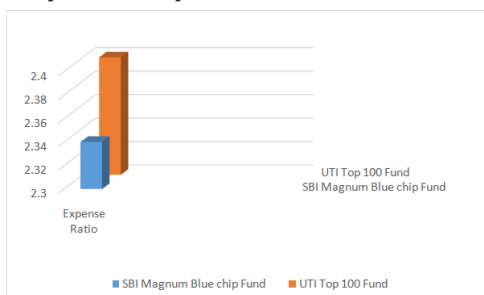
SBI Magnum Blue chip fund has diversified its investment consistently in the Pharmaceuticals & Biotechnology, Banks and Software & Consultancy sectors whereas UTI Top 100 Fund has more investment in Software & Consultancy sectors compared to other two sectors.

Comparison of Portfolio Price/ Earnings (Times)



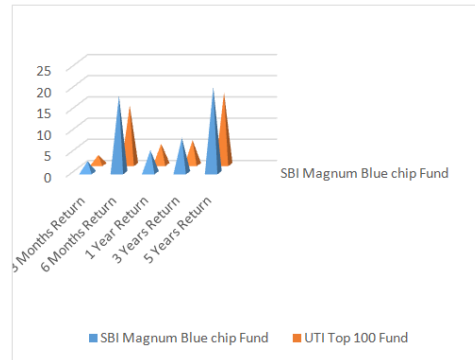
SBI Magnum Blue chip fund has more Portfolio Price / Earnings than UTI Top 100 Fund which means investors are more optimistic in terms of returns or value appreciation from SBI Magnum Blue Chip.

Comparison of Expenses Ratio



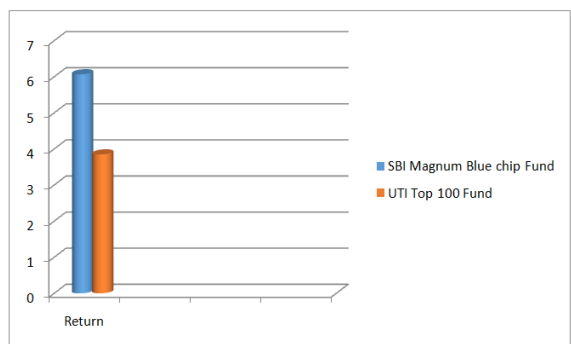
UTI Top 100 Fund has incurred more expenses in getting its assets allocated across different assets and sectors which translate to lower returns for investors than SBI Magnum Blue chip fund.

Comparison of Performance for different Time Periods with respect to Returns



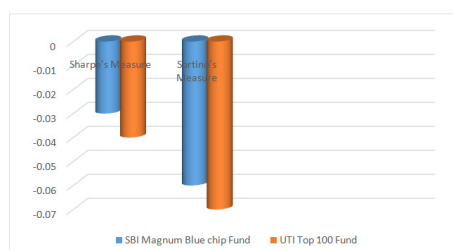
The performance of SBI Magnum Blue chip fund has consistently been more / high when compared to UTI Top 100 Fund for all the different time period considered for the study.

Comparison of Overall Returns



The performance of SBI Magnum Blue chip fund with respect to overall returns is high when compared to UTI Top 100 Fund.

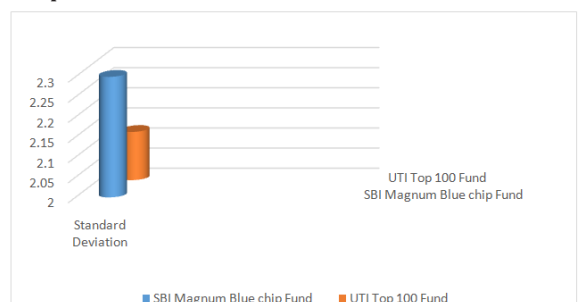
Comparison of Risk Measure



The Sharpe's Measure for SBI Magnum Blue chip fund tells us that it has taken slightly higher risk than UTI Top 100 Fund to generate returns and value appreciation for investors.

The Sortino's Measure for SBI Magnum Blue chip fund tells us that the volatility is less than UTI Top 100 Fund.

Comparison of Standard Deviation



The expected volatility in the coming future is for SBI Magnum Blue chip fund compared to UTI Top 100 Fund.

CONCLUSION

With the above detailed analysis, it is evident that the SBI Magnum Blue Chip fund has performed better by taking higher risk to generate high return by managing volatility effectively compared to UTI Top 100 Fund. And also the operating costs are very low which has reflected in the form of better returns to investors.

REFERENCE

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