

A Comparative Study of Selected Small Cap Mutual Fund Performance in India: A risk return analysis

Mr. Ananda Bhimrao Vibhute

M.Com. NET, SET, PGDAS

E-Mail- anandavibhute1987@gmail.com

Shri Venkatesh Mahavidyalaya, Ichalkaranji

Abstract

This study looks at the performance and risk characteristics of Indian Small cap mutual fund schemes in terms of market capitalization groups. The study assesses risk measures such as Standard Deviation, Beta, Sharpe, Jensen's Alpha, and Treynor's Ratio in addition to analysing the annual returns throughout a variety of investment periods (1 year, 2 years, 3 years, 5 years, and 10 years). The conclusions provide insights into the growth potential and risk profiles of mutual fund schemes by shedding light on their past performance. Using the findings, investors can make knowledgeable choices depending on their investing objectives and risk tolerance. To comprehend the risk-return trade-off and choose appropriate mutual fund schemes, the research intends to help investors, financial advisors, and fund managers within each market capitalization category.

Keywords: Mutual funds, Small Cap funds, Performance analysis, Risk assessment, Investment returns, Risk ratios (Standard Deviation, Beta, Sharpe, Jensen's Alpha, and Treynor's Ratio).

Introduction

Mutual funds have metamorphosed into gaining popularity as investment avenues for individuals/protentional investors looking for participation in the Indian stock market financial market). Mutual funds offer diversification and management by professionals, which is making mutual funds an attractive choice for investors seeking to attain their financial goals. In the mutual fund industry, various categories based on the stock market capitalization of the substantial stocks are there: Small Cap funds, Mid Cap funds, and Large Cap funds. The systematic investment plan (SIP) of mutual funds has evolved as an ideal method of investment in mutual funds that allows investors for making regular assistance over time and potential gain of rupee-cost averaging. Small-cap mutual funds are equity funds that invest in small-cap stocks. Small-cap companies are companies with a market capitalization that is less than a certain amount, usually under \$1 billion or ₹100 crores. The small-cap companies are less financially stable than larger companies, have more growth potential, have higher price volatility, which have higher risk and have greater but more volatile expected returns.

Review of Literature

Numerous studies have been found focused on the overall performance evaluation of mutual funds, nevertheless a paucity of research particularly on the performance evaluation of mutual funds through SIPs. The present study consists of previous literature that highlights the need for a tailored perspective and optional measures to evaluate the performance evaluation of SIP effectively. Moreover, research in this area is crucial to fill the research gap and assist in a comprehensive understanding of performance evaluation through SIPs in mutual funds.

Objectives of The Study

The study mainly focuses on the following objectives:

1. To compare the performance of Small Cap mutual funds.
2. To find risk and consistency in Small Cap mutual funds
3. To provide insights and recommendations for investors in making informed decisions through SIPs in mutual funds in the Indian market.

To satisfy the above objective present study is based on analyse of the 5 small-cap based on their SIP (Systematic Investment Plan) return, considering their NAVs (Net Asset Values).

Research Methodology

Data Collection: The present study is based on secondary data.

Sampling method

The present study employed purposive sampling to select mutual fund schemes.

Sample Size: The top five small-cap funds are selected based conveniently. The mutual fund schemes are selected based on Convenience sampling that includes funds that outperformed their benchmark returns since initiation. Funds that exceed the benchmark limit are only considered. The present study is based on Axis Small cap Fund, SBI Small cap Fund, ICICI pru small cap fund, Kotak Small Cap fund, Sundaram Small Cap Fund selected fund schemes for analysis.

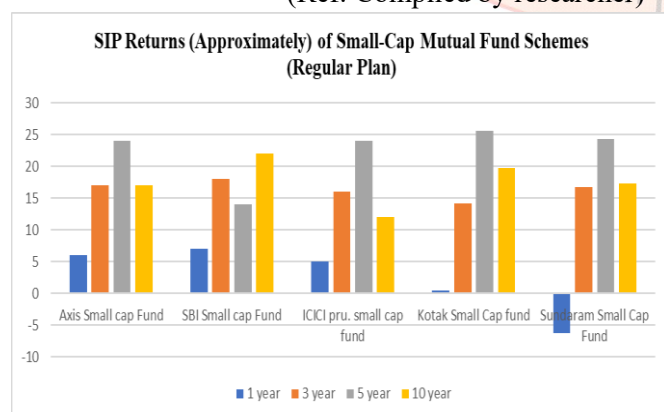
Analysis and Findings

TABLE No. 1

SIP Returns (Approximately) of Small-Cap Mutual Fund Schemes (Regular Plan)

Fund Name	1 year	3 year	5 year	10 year	AUM (Cr.)
Axis Small cap Fund	6	17	24	17	23139
SBI Small cap Fund	7	18	14	22	33,496
ICICI prud. small cap fund	5	16	24	12	8,258
Kotak Small Cap fund	0.46	14.25	25.62	19.8	17,777.85
Sundaram Small Cap Fund	- 6.25	16.78	24.32	17.29	3,401.44

(Ref: Complied by researcher)



(Ref: Complied by researcher)

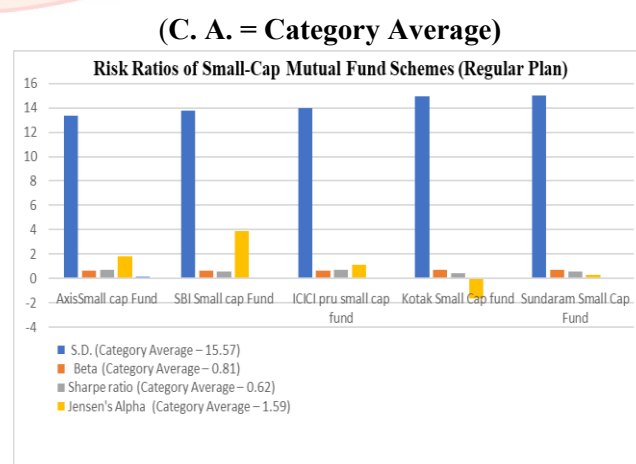
The above figure no. 1 shows SIP returns of Small- Cap Mutual Fund Scheme of this company's funds from 1 year to 10 year. The data revealed that for short term investment SBI small cap fund returned highest rate on investment that is 7, and Sundaram Finance Small Cap Fund falls in negative in return on investment (22%) for short term. Therefore, for long term investment (10 years) SBI again on top to return on investment and ICICI prud. Small Cap shows lower rate of return on investment (12%) comparatively.

TABLE No. 2

Risk Ratios of Small-Cap Mutual Fund Schemes (Regular Plan)

Fund Name	S.D. (C. A. 15.57)	Beta (C. A. 0.81)	Sharp e ratio (C. A. 0.62)	Jensen' s Alpha (C. A. 1.59)	Treynor' s Ratio C. A. 0.12
Axis Small cap Fund	13.36	0.65	0.74	1.81	0.14
SBI Small cap Fund	13.78	0.66	0.58	3.88	0.1
ICICI pru small cap fund	13.99	0.66	0.68	1.14	0.12
Kotak Small Cap fund	14.94	0.71	0.43	-1.62	0.08
Sundaram Small Cap Fund	15.01	0.74	0.59	0.33	0.11

(Ref: Complied by researcher)



Conclusion:

- 1) Standard deviation measures the dispersion or volatility of a fund's returns from its average or expected return. Axis small cap fund shows lower S.D. than any other fund so we can interpret it that there is lower volatility in funds return.
- 2) Beta measures the volatility of a mutual fund in relation to the overall market by comparing the fund's returns to the returns of a market index (e.g., S&P 500).

A beta of 1 indicates that the fund's returns are expected to move in line with the market, while a beta greater than 1 suggests higher volatility and vice versa.

Sundaram Small Cap Fund's beta is near to 1 than any other fund mentioned in the above fund so we can interpret it that Sundaram Small Cap funds returns are expected to move in line with the market

- 3) The Sharpe ratio measures the risk-adjusted return of an investment, indicating how much return a fund generates per unit of risk. A higher Sharpe ratio indicates better risk-adjusted performance.

Axis Small cap Fund have more sharpe ratio which indicates better risk-adjusted performance.

- 4) Jensen's Alpha measures a portfolio's performance, adjusted for the risk it takes, by comparing its actual returns to the returns expected based on market risk.

Positive Alpha: Indicates that the portfolio earned more than expected for the level of risk taken, suggesting good performance. All funds except Kotak Small Cap fund Indicates that the portfolio earned more than expected for the level of risk taken.

Negative Alpha: Indicates that the portfolio earned less than expected for the level of risk taken, suggesting underperformance. Kotak Small Cap fund portfolio earned less than expected for the level of risk taken.

- 5) A higher Treynor ratio suggests better risk-adjusted returns, meaning the fund has generated more returns for each unit of risk taken. Axis Small cap Fund shows better risk-adjusted returns

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