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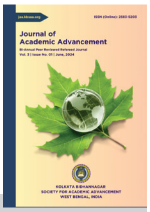

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An Analysis of the Mutual Fund Performance in India's Banking Industry

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ABSTRACT

A mutual fund is a sort of investment mechanism that pools investor capital to make investments in stocks, bonds, gold, government securities, and other assets. Most investors look for various ways to diversify their portfolio while purchasing mutual funds. Spreading your investments across several economic sectors is a common strategy for investment diversification. One can use different mutual funds to invest in one or more particular economic sectors. Banking funds, which mainly concentrate on stocks, align their investment strategy with the operational and performance aspects of banks. Those who want to participate in the financial success of the banking industry should therefore consider them as a viable option. Investors with a high tolerance for risk who want above-average returns in expanding banking markets find them appealing. The return on the SBI Banking and Financial Services Fund over the last three months has been 6.17%. In terms of managed assets, the ICICI Prudential Banking and Financial Services Fund, which is the largest scheme in the category, generated a return of 2.75%. Nippon India Banking and Financial Services Fund, the category's oldest plan, returned 1.67% over the given period. The authors have endeavored to evaluate the efficacy of fund managers in managing sector funds by considering risk-return parameters. f well-informed and confident investors seek high returns at high risk, they will invest in these sectors according to the diversification policy of spreading unsystematic risk.

Keywords: *Investment vehicle, Diversification, Above-average return, Banking Funds*

1. BACKGROUND OF THE STUDY

Mutual funds are used by individual investors to mobilise and invest their savings in the capital market, which are dynamic financial entities vital to an economy. This establishes a connection between capital markets and savings. When investing in mutual funds, the majority of investors search for different approaches to diversify their portfolio. A popular approach to investment diversification is to invest across different economic sectors. One can make investments in one or more specific economic sectors by using various mutual funds. Sectoral banking mutual funds are a wise option for investors looking to invest in the banking sector. Banking funds, with a focus primarily on stocks, match their investment approach to the performance and operations of banks. Because of this, they are a popular option for those wishing to benefit financially from the banking industry's prosperity.

Funds in the banking sector frequently exhibit resilience and stability, reflecting the strong character of the banking sector. These funds, especially in times of market turbulence, can serve as a dependable anchor in your investment portfolio. Funds in the banking industry are ideally positioned to benefit from economic expansion. Demand for banking and financial services typically rises with economic expansion, which could boost industry profitability and, in turn, the profitability of mutual funds that are invested in it. financial services among others Including mutual funds in investment portfolio helps to diversify it. In order to spread risk and improve the overall stability of the investment portfolio, these funds often invest in a range of financial instruments within the industry. Interest rate changes frequently have an impact on the performance of banking stocks. Rising interest rates can help mutual funds in the banking sector, which could result in higher returns for investors. A lot of mutual funds in the banking industry have a history of paying out dividends. Income-oriented investors who are looking for both the possibility of capital appreciation and a consistent income stream may find this to be especially appealing. Compared to other mutual fund categories, sectoral banking funds have a higher concentration risk by nature because they are sector-specific. They are attractive to risk-tolerant investors hoping for returns that are higher than average in booming banking markets. These funds allow investors to take advantage of the potential of banking stocks for long-term gains, making them perfect for those who have an aggressive approach to investing. Extensive investment horizons are necessary to reduce related risks.

2. LITERATURE REVIEW

Sharma & Kumar (2013) and Makkar & Singh (2013) carried out A comparative analysis of the performance of Indian commercial banks taking into account factors such as capital adequacy, asset quality, management efficiency, earning quality, and liquidity. Sunder (2014) looked at the banking sector's fund growth from 2009 to 2013. The study came to the conclusion that during the recession, banking sector funds outperformed other sector funds. The banking sector saw a 24% increase in funds in 2009, with technology seeing an 18% growth. During the recession, the best-managed banking sector funds returned 52.43%, while the worst-managed funds only managed a meagre 13.75%. In comparison to other sector funds, the author came to the conclusion that the banking sector offers good returns with moderate risk. Nair (2014) investigated mutual funds as a tool for managing total assets, bringing dispersed savings into India's infrastructure development, and stabilising the country's economy. The analysis came to the conclusion that from 1973 to 2013, the amount of resources raised by Unit Trust of India, bank-sponsored financial institutions, and private mutual funds climbed from 0.31 billion rupees to 825,24 billion. Over the previous ten years, the asset under management for mutual funds has increased from 1079.46 billion rupees to 7014.43 billion rupees. Further research revealed that mutual funds were an effective instrument and financing product for gathering dispersed investor capital and allocating it towards enhancing the country's infrastructure and, consequently, its economic growth. Agarwal, Tandon, and Raychaudhuri (2015) used statistical tools and performance measurement ratios to examine the performance of sixteen mutual fund schemes across four different sectors (FMCG, technology, pharma & health, and banking & finance) over the course of a year, from November 2013 to November 2014. Sector-specific mutual fund schemes had lower volatility than the benchmark index. The study found that investors who were risk averse favoured sectoral mutual funds. The healthcare and pharmaceutical industries offered the best returns for the lowest amount of risk, according to the researcher's inter-sector analysis. Bhakar, Banerjee, and Bhatnagar (2015) used statistical tools and performance measurement ratios to analyse the performance of Sectoral Mutual Fund Schemes of Indian companies over a five-year period (April 2008–March 2013). The analysis came to the conclusion that all of the sectoral funds that were chosen outperformed the Sensex in terms of return and had a positive return. The sectors of healthcare, banking, finance, and technology were not as protected as the infrastructure, FMCG, energy, and power sectors. According to Sharpe and Treynor's Index, the study also showed that funds in the FMCG & Healthcare, Energy & Power sectors provided higher returns. Sirisha, Nalla and Kalyan (2022) studied the sample schemes, SBI Magnum Multiplier plus Scheme was the best performing scheme across all three portfolio performance models. The ability of fund managers to choose quality stocks ensured positive returns for each of the sample schemes. In the case of the SBI Magnum Multiplier Plus scheme, the variance explained by the market was substantial. For every scheme that was the subject of the study, scheme performance was significantly positively impacted by market performance. Venkatachalam make investments in a range of stocks from the banking and financial services industry, including SBI, ICICI Bank, HDFC, and HDFC Bank. The last six months have seen a number of encouraging developments that could help the banking and financial services industry in the years to come. The outlook for the banking industry is favourable. There are numerous encouraging signs to support this. Some of these indicators will materialise with the formation of the new government.

3. OBJECTIVES OF THE STUDY

After identifying the research gap from review of past literature, the following objectives has been set to conduct the study:

- ☑ To throw light on Indian Banking sector with special emphasis on Banking Sector Mutual Funds.
- ☑ To identify how the fund managers have performed with reference to risk-return parameters in managing the Banking Sector Mutual funds.

4. METHODOLOGY

Data Source: The present study is empirical as well as exploratory in nature. The literature currently available on this specific issue, which includes books, journal articles, research studies, and websites, serves as the basis for the exploratory portion of the study. However, the study's empirical portion is grounded in empirical data, such as various risk-returns parameters.

Research Methodology: For the purposes of the study, ICICI Prudential Banking & Financial Services Fund and Nippon India Banking & Financial Services Fund have been taken into account. As the benchmark index, NSE Financial Services TRI has been selected. Consideration has been given to the month-end Net Asset Values (NAVs) under the "Growth" option. Based on the Public Provident Fund rate for the October–December 2022 quarter, the annualised risk-free rate (Rf) is 7.1%. The study period is of ten years starting from 01/01/2014 and ending on 31/12/2023. The study's time frame is from January 2014 to December 2023. The study period has been divided into time frames of one year, three years, five year, seven year and five years to examine the consistency in performance.

TABLE 1: GUIDELINES FOR FUNDS SELECTION

Total number of mutual funds offered by ELSS as of April 18, 2024	50
Less: Number of funds excluded based on the selected parameters [period of operation more than ten years and AUM more than INR 5,300 Crore]	48
No. of fund chosen	02

Source: Computed by researchers Performance Analysis of Selected Funds

TABLE 2: SMALL CAP MUTUAL FUND SCHEME

Sl No.	Name of the Small Cap Mutual Fund Scheme	Name of the AMC	Inception Date	AUM (Crore)	Investment of the Funds		
					Equity (%)	Debt (%)	Cash (%)
1	ICICI Prudential Banking & Financial Services Fund (ICICIPBFSF)	ICICI Prudential Mutual Fund	01.01.2013	₹7,490	94.76	00.00	05.24
2	Nippon India Banking & Financial Services Fund (NIBFSF)	Nippon India Banking & Financial Services Fund	01.01.2013	₹5,307	97.75	00.00	02.25

Source: www.morningstar.in

All the select schemes are equity in nature. Most of the funds of the portfolio are invested in equity instrument.

TABLE 3: COMPOUNDED ANNUAL GROWTH RATE

FUND	1Y	3Y	5Y	7Y	10Y
ICICIPBFSF	18.85777	18.65716	12.97701	15.40151	18.19569
NIBFSF	25.11365	25.78705	14.84974	16.38121	17.65646
BENCHMARK	13.20385	12.21156	13.14908	16.43327	16.32221

Source: Computed by Researcher(s)

It is evident from the table that for 1-year, 3-year and 10-year time frame both the select funds have outperformed the benchmark. For 5-year period Nippon India Banking and Financial Services Fund outperformed the benchmark. On the other hand, for 7-year time frame both the funds have underperformed the benchmark.

TABLE 4: STANDARD DEVIATION OF FUND'S RETURNS

FUND	1Y	3Y	5Y	7Y	10Y
ICICIPBFSF	10.84345	16.56084	26.90254	24.76994	24.15178
NIBFSF	12.28972	18.01239	28.78309	26.10265	25.06979
BENCHMARK	12.39964	16.26787	25.25971	22.89286	22.12799

Source: Computed by Researcher(s)

A glance through the risk associated with different funds revealed that except 1-year time frame all the select funds are riskier than the benchmark for entire period.

TABLE 5: SHARPE RATIO

FUND	1Y	3Y	5Y	7Y	10Y
ICICIPBFSF	1.08432	0.69786	0.21846	0.33514	0.45942
NIBFSF	1.46575	1.03746	0.26925	0.35557	0.42108
BENCHMARK	0.49226	0.31421	0.23948	0.40769	0.41677

Source: Computed by Researcher(s)

Regarding risk-adjusted returns as determined by the Sharpe Ratio both the funds are outperformed the benchmark in 1-year, 3-year and 10-year time frame. With reference to 5-year time period only Nippon India Banking & Financial Services Fund has outperformed the benchmark and for 7-year time frame both the funds have outperformed the benchmark.

TABLE 6: TREYNOR VALUE

FUND	1Y	3Y	5Y	7Y	10Y
ICICIPBFSF	14.44509	12.46370	5.72685	8.03365	10.72503
NIBFSF	6.10385	5.11156	6.04908	9.33327	9.22221
BENCHMARK	6.10385	5.11156	6.04908	9.33327	9.22221

Source: Computed by Researcher(s)

As indicated by the Treynor Ratio, risk-adjusted returns of all the select funds are outperformed for 1-year, 3-year, 5-year and 10-year period. Conversely, for the 7-year time frame both the funds are underperformed the specified benchmark.

TABLE 7: ALPHA VALUE

FUND	1Y	3Y	5Y	7Y	10Y
ICICIPBFSF	0.60147	0.55210	0.00745	-0.07363	0.13222
NIBFSF	0.95766	1.00556	0.11733	-0.03221	0.05851

Source: Computed by Researcher(s)

It appeared from the table that for 1-year, 3-year and 5-year period Nippon India Banking & Financial Services Fund and for 10-year ICICI Prudential Banking & Financial Services Fund is the best performing fund in terms of superior performance of the fund manager for picking quality stock. With reference to 7-year time frame both the funds have the negative alpha value indicating poor stock picking ability of the fund manager.

TABLE 8: BETA VALUE

FUND	1Y	3Y	5Y	7Y	10Y
ICICIPBFSF	0.81396	0.92727	1.02622	1.03334	1.03456
NIBFSF	0.89744	0.98383	1.08562	1.07518	1.07301

Source: Computed by Researcher(s)

It is observed from the above table that all the chosen funds have been defensive in nature for 1-year and 3-year time frame while for the 5-year, 7-year and 10-year time period they are aggressive in nature.

TABLE 9: RSQ VALUE

FUND	1Y	3Y	5Y	7Y	10Y
ICICIPBFSF	0.86635	0.82967	0.92844	0.91209	0.89846
NIBFSF	0.81987	0.78951	0.90768	0.88919	0.89700

Source: Computed by Researcher(s)

The average RSQ value of most of the funds are excellent for the entire period. ICICI Prudential Banking & Financial Services Fund is the best fund for the whole time frame followed by Nippon India Banking & Financial Services Fund in terms of degree of diversification.

5. MAJOR FINDINGS OF THE STUDY

- ☑ For 1-year, 3-year and 10-year time frame both the select funds have outperformed the benchmark. Conversely, for the 7-year time period both the funds have underperformed the benchmark.
- ☑ In terms of risk associated with different funds revealed that except Throughout a one-year period, all of the chosen funds have higher risk than the benchmark.
- ☑ Regarding risk-adjusted returns as determined by the Sharpe Ratio both the Funds perform better than the benchmark in 1-year, 3-year and 10-year time frame. With reference to 5-year time period only NIBFS fund has outperformed the benchmark and for 7-year time frame both the funds have underperformed the benchmark.
- ☑ Regarding risk-adjusted returns as determined by the Treynor Ratio all the select funds are outperformed the benchmark except 7-year period.
- ☑ For 1-year, 3-year and 5-year NIBFS fund is the best performing fund and for 10-year ICICIPBFS is the best performing fund in terms of superior performance of the fund manager for picking quality stock.
- ☑ 6. All the chosen funds have been defensive in nature in nature for 1-year and 3-year time frame while for the 5-year, 7-year and 10-year time period they are aggressive in nature.
- ☑ The average RSQ value of most of the funds are excellent for the entire period.

6. LIMITATIONS OF THE STUDY

a) Although the fund has been in operation for more years than the stated duration, the study period consists of one, three, five, seven, and ten year time frames ending in December 2023.

b) The performance of the selected Banking & Financial Services Fund has been analysed by the study using a few conventional metrics. There are numerous additional metrics available to assess mutual fund performance.

c) The Indian Mutual Fund Industry offers a variety of plans. Out of which only two schemes — the NIBFSF and the ICICIPBFSF have been examined in this research.

d) There have been changes in fund managers during the study period. The impact of a change in fund managers on the risk-adjusted performance of the funds has not been taken into account.

CONCLUSION

In terms of return generation, all the select funds outperformed the specified benchmark and NIBFSF is the best-performing fund in the long run. In most cases, select funds are riskier than the specified benchmark. The majority of the time, select funds outperform, and based on the Sharpe and Traynor ratio, ICICIPBFSF is the top fund in terms of risk-adjusted return. Except for the seven-year period, funds have a positive alpha value indicating the superiority of the performance of the fund manager in picking quality stock. During the one-year and three-year time frame, select funds are defensive on the other hand, for the five-year, seven-year and ten-year they are aggressive. In terms of the degree of diversification, for the entire time frame, NIBFSF is the best-performing fund. Finally, it is observed that ICICIPBFSF performs far better than NIBFSF. ■

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