

PERFORMANCE OF EQUITY MUTUAL FUNDS DURING AND BEFORE COVID-19 PANDEMIC IN INDIA : A STUDY OF LARGE CAP FUNDS

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Abstract

Most of the mutual fund manager caught unawares by the sudden market crash that followed after COVID-19 hit Indian shores. But despite the setback may equity funds gave very attractive return returns between January 2020 and March 31, 2021. After falling 31 percent between Jan 2020 and March 2020, the S&P BSE Sensex as well as Nifty 50 started to rally. No one expected a raging bull market. But between April and December 2020, the S&P BSE Sensex rose 70 percent. Mutual fund managers who were agile, watchful and read the markets correctly during crisis times came on top. The above background made the researcher to write the current research paper which was aimed to analyse return performance of Large cap equity mutual funds. Therefore, a sample of 29 large cap schemes was taken and the return was worked out and analysed for two years- 2019-20 (before covid) and 2020-21 (during covid). Independent sample t-test was applied to draw inference whether the sample schemes could beat the benchmark indices performance. The study indicated that the Blue chip mutual funds outperformed the market in 2020-21 as against the year 2019-20 when the mutual fund schemes beat the market indices.

Key words: Mutual funds, Large cap funds, Return performance, Benchmark, AUM

INTRODUCTION

A mutual fund is a professionally-managed form of collective investments. Mutual funds pool money from many investors and invests it in various types of securities like stocks, bonds, short-term money market instruments etc. In other words, the mutual funds are

investment companies that collect funds from individual investors and invest those funds in a potentially wide range of securities or other assets. Weston J. Fred and Brigham, Eugene F. (1985) define mutual funds as “Corporations which accept dollars from savers and then use these dollars to buy stocks, long term bonds, and short term debt instruments issued by business or government units, these corporations' pool funds and thus reduce risk by diversification”. There are several questions before the investor when making investment in mutual funds. More important among them is- How to select a mutual fund scheme? One may offer answer of this question that the fund choice is based on its performance. Beside others, risk and return are the two most important parameters for fund performance. Therefore, the investor would like to find information about these parameters before investing.

However, the coronavirus pandemic resulting in lockdowns in March 2020 raised income uncertainty for the investors. Because of the uncertainty, many investors opted to pause their Systematic Investment Plans (SIPs). This was evident from the decrease in SIP inflows post March 2020. From a high of Rs 8,641 crore the contribution decreased for 11 consecutive months, before it could breach the previous highs," FYERS' Kavalireddi said.(Quoted at economictimes.indiatimes.com; Apr 15, 2021). Overall, The Mutual fund industry saw its collections through SIPs dropping by 4 per cent to Rs 96,000 crore in the 2020-21 fiscal, lower than Rs 1,00,084 crore garnered in 2019-20, as per the Association of Mutual Funds in India (AMFI). The fall in collections may be attributed to the market correction in March-April of 2020 in tandem with the pan-India lockdown as many retail investors reacted by stopping their SIPs and choosing instead to wait and watch. Also, the market rally in October-November 2020 led a lot of investors to book profits. The March 2021 SIP contribution of Rs 9,182 crore is robust. While a few of the economic indicators like GST collections, auto and housing sales look positive, IIP and inflation data along with intermittent lockdowns can affect the economic progress in the ongoing fiscal. This is under above background the present study titled, "Performance of Equity Mutual Funds during and before Covid-19 Pandemic in India : A Study of Large Cap Mutual Funds", has been done. The paper is divided in five sections namely introduction, review of literature, research methodology, data analysis and interpretation and conclusion.

Review of Literature

The mutual fund industry added more than 81 lakh investor accounts in 2020-21 as compared to 72.89 lakh investor accounts in 2019-20, according to data from the Association of Mutual Funds in India. This increase may be attributed to rise in investor awareness and surge in digitisation. Kaustubh Belapurkar, Director Manager Research, Morningstar India said, "The awareness about investing in mutual funds has been on the rise over the last many years with the investor awareness programmes, ground work done by mutual funds, financial advisors and distributors in educating and shepherding investors through their investing journey" (25 April, 2021, www.livemint.com). Belapurkar also said, "There is potential for mutual fund industry to reach out to wider investor base despite of the growth in last few years". The market conditions will be playing an important role in the growth of the industry as investors will try to chip in more during volatile market conditions. Also as things get settle down after current Covid crisis, personal finance and savings of many investors will get back on track again, this will also help the industry, he added.

Gautam Kalia, Head - Investment Solutions, Sharekhan by BNP Paribas, said the industry is reaping the benefits of greater retail investor understanding and participation. As more people understand and realise the power of long term wealth creation through mutual funds, this business shall only continue to grow. Mr. Kalia added that while there certainly are risks that can impede this growth (regulatory changes, downturn in market, escalation in the pandemic, etc) in the short term (25 April, 2021, www.livemint.com).

The paper of Gaurav Ajmera et.al (2021) aims to study empirically the impact of COVID -19 on diverse aspects of different schemes of mutual funds. The paper is divided empirically drives the impact of COVID-19 on various schemes of mutual funds by applying econometric dummy variable regressions. The study concluded that COVID-19 has largely impacted the large-cap schemes rather than mid and small-cap schemes.

The Axis Mutual Fund study which used 2004-20 data for equity and hybrid funds found "investor flows are not stable but tend to follow market performance. As a result, realized returns are much worse than they would have achieved by using either simple 'buy' and 'hold' or systematic investment strategies. As we have seen repeatedly over multiple market cycles, sharp falls in market have a large effect on investor flows, and the same

was seen in year 2020 as well, especially for equity funds," the report said. From being strongly positive, investor flows into equity turned negative in the second half of 2020 as the impact of the market correction played out. There was also a significant drop in systematic investment plans (SIP) as many investors didn't renew them or cancelled ongoing SIPs (4 April, 2021: www.livemint.com).

Dhirendra Kumar (2021) suggests a fund for investment which actually falls less than its benchmark in a falling market and rises little more in a rising market. This means that here is a fund which does little better in a falling market and does a little better in a rising market, overall it will do exceptionally well.

Kayezad E Adajania (May 27, 2021) indicates that 'Canara Robeco Bluechip', a large-cap scheme gave 23 percent returns between January 2020 and March 31, 2021. The scheme was the best performing *large-cap fund* over this period. After falling 31 percent between Jan 2020 and March 2020, the *S&P BSE Sensex* started to rally. No one expected a raging bull market. But between April and December 2020, the S&P BSE Sensex rose 70 percent. Mutual fund managers who were agile, watchful and read the markets correctly during crisis times came on top.

Bodla and Sunita (2008) indicated that total resources raised by mutual fund industry in India rose to Rs.92957.4 crore in 1999-2000 as compared to Rs. 11406 crore in 1997-98. In a period of two years, the funds mobilized crossed the boundary of three lakhs crore when they amounted to Rs. 314706.2 crore in 2002-03. The gross funds raised by MFs rose to rupees 5.90, 8.39 and 10.98 lakh crore during 2003-04, 2004-05 and 2005-06 respectively.

Research Methodology

In this article we have determined return performance of both *direct* as well as *regular* mutual fund plans. Hence, let's first understand the difference between these two types of plans. *Direct plans* are bought from the AMC and no intermediary is involved. One can invest in direct plans online by going to AMC website or by visiting the AMC or the registrar's office in your city. Since mutual fund distributors are not involved in direct plan investments, the asset management company does not have to incur distribution expenses (distributor's commissions). On the other, the 'regular plans' are bought through

mutual fund distributors. MF distributor provides services like advising investors on which mutual scheme to invest in, submitting investor's Know Your Client (KYC) documents to the Registrars and Transfer Agents (RTAs) or AMCs, etc. For these services, the distributors receive commissions from the AMC as long as you remain invested in the regular mutual fund plans. As a result the TERs (Total Expense Ratios) of regular plans are higher than those of direct plans.

This study was aimed (a) to make an overview of growth in Assets Under Management of equity mutual funds in India and (b) to compare return performance of the large-cap funds with Benchmark returns. The sample under investigation included 29 large cap equity mutual funds (please see Appendix A). The schemes under study were launched more than five years back and are the top performing. NAV data of these schemes was collected for two years i.e. 2019-20 and 2020-21 from moneycontrol.com and the return of the selected schemes was determined for these years. The data on benchmark indices of these selected funds was taken and returns were calculated for the corresponding period.

The following hypothesis was tested using independent sample t-test:

H_1 : There is no significant difference between the return offered by the Large cap equity schemes and Benchmark indices return.

Data Analysis and Interpretation

To begin with, some facts about growth of India's Mutual Fund Industry in India during current pandemic are presented. Assets Under Management (AUM) of the Indian MF Industry has grown from ₹ 7.31 trillion as on May 31, 2011 to ₹ 33.06 trillion as on May 31, 2021 more than 4½ fold increase in a span of 10 years. The Industry's AUM had crossed the milestones of ₹ 10 Trillion and ₹ 20 trillion for the first time in May 2014 and August 2017, respectively. The AUM size crossed ₹ 30 trillion (₹ 30 Lakh Crore) for the first time in November 2020. The mutual fund industry has crossed a milestone of 10 crore folios during the month of May 2021(www.amfindia.com/indian-mutual). Assets under management with the mutual fund industry jumped a whopping 41 per cent in fiscal 2021 to Rs 31.43 lakh crore, despite a minor 1 per cent decline in March. The 1 per cent decline in assets on monthly basis in March, 2021 was because of net outflows from open-ended debt funds. Equity funds benefitted from continued inflows through systematic

investment plans, getting net flows of Rs 96,080 crore in fiscal 2021 compared to Rs 1 lakh crore of inflows in the previous fiscal. Open-ended debt funds record highest on-year net outflows of Rs 52,528 crore in March, 2021 the worst seen since the Rs 1.95 lakh crore bleeding in March 2020.

The results of analysis regarding return performance of the selected mutual fund schemes are provided in Tables 1 through 6.

It is evident from table 1 that the large cap direct and regular schemes, on an average, provided 62.78 per cent and 64.50 per cent return respectively during the year 2020-21. In contrast, in 2019-20, the direct schemes and regular schemes suffered loss of -21.65 per cent and -20.87 respectively. The sharp decline in return during 2019-20 was caused by outbreak of Covid 19 pandemic in March 2020 which led to lockdown which spread a fear and uncertainty for the investors. Due to this, the crisis emerged in the market and almost every stock indices nosedived. For instance, the Nifty 50 stock index touched 7,511 on March 24, 2020. However, since then, the index has seen a one-way recovery because of various stimulus measures taken by the government of India and hopes of a quicker-than-expected turnaround. Sustained inflows by foreign investors too aided the rally as stated in the report of Bloomberg (5 Feb. 2021: Taken from: <https://www.bloombergquint.com/markets/nifty-at-15000-doubles-from-march-low-in-charts>). Since March-low, the index scaled 10,000 and 11,000 in June and July 2020, respectively. A gush of foreign inflows in November took Nifty 50 past 12,000, helping it erase all the losses made in 2020. On Feb. 1, 2021, the Nifty 50 posted its best budget-day gain since 1997 to close above 14,000. The next 1,000 points were gained in just four sessions.

The analysis across fund scheme indicates that Franklin India Bluechip Fund provided the highest return (76.99%) during 2020-21 followed by SBI Blue Chip (74%) and Kotak Blue chip fund (71.05%). The Benchmark return for most of the schemes worked out above 70 per cent. The mean return of various benchmarks was found quite higher (72.32%) than the mean return of both direct as well as regular large cap equity funds. But, the two categories of large cap equity funds outperformed the benchmark in 2019-20 (table 2).

Independent sample t-test was applied to examine the validity of the null hypothesis that there is no difference between the return of large cap schemes and the benchmark. It is interesting to note that the p value remain below 0.01 in each case under reference and therefore the null hypothesis is rejected. Thus, we can infer from the analysis that the benchmark outperformed the large cap equity schemes during 2020-21, but the vice-versa is found true during 2019-20 as the mutual fund schemes outpaced the markets. The above result confirms that the mutual funds are less risky than the market as their beta is lower than market beta.

Table 1 Return Performance of Large Cap Equity Mutual Funds						
Scheme Name	2020-21 Regular	2020-21 Direct	2020-21 Benchmark	2019-20 Regular	2019-20 Direct	2019-20 Benchmark
Aditya Birla Sun Life Frontline Equity Fund	70.18	71.37	72.54	-27.20	-26.74	-24.85
Axis Bluechip Fund	48.88	50.71	72.54	-8.09	-6.97	-24.85
Baroda Large Cap	58.73	60.02	71.18	-19.42	-18.91	-24.76
BNP Paribas Large Cap Fund	55.43	57.25	72.54	-13.53	-12.58	-24.85
Canara Robeco Bluechip Equity Fund	63.61	66.22	73.48	-13.04	-11.95	-25.38
DSP Top 100 Equity Fund	63.70	64.97	73.48	-24.88	-24.33	-25.38
Edehweiss Large Cap Fund	64.90	67.65	72.54	-21.52	-20.42	-24.85
Franklin India Bluechip Fund	76.99	78.27	71.18	-28.33	-27.77	-24.76
HDFC Top 100 Fund	66.56	67.53	71.18	-31.20	-30.83	-24.76
HSBC Large Cap Equity Fund	64.73	66.29	72.54	-21.13	-20.39	-24.85
ICICI Prudential Bluechip Fund	68.70	69.83	71.18	-24.65	-24.21	-24.76
IDBI India Top 100 Equity	61.98	63.74	71.18	-17.95	-16.88	-24.76
IDFC Large Cap Fund	61.13	63.03	73.48	-20.97	-20.24	-25.38
Indiabulls Bluechip	53.80	56.21	72.54	-23.50	-22.45	-24.85
Invesco India Largecap Fund	59.80	61.84	72.54	-23.17	-22.11	-24.85
JM Large Cap Fund	37.83	39.35	69.82	-9.43	-8.56	-22.69
Kotak Bluechip Fund	71.05	73.05	72.54	-21.47	-20.61	-24.85
LIC MF Large Cap Fund	50.05	51.82	71.18	-13.81	-13.02	-24.76
L&T India Large Cap Fund	62.13	63.60	73.48	-21.83	-21.18	-25.38
Mahindra Manulife Large Cap Pragati Yojana	65.18	68.15	72.54	-21.91	-20.31	-24.85
Mirae Asset Large Cap Fund	68.68	70.53	71.18	-24.10	-23.26	-24.76
Navi Large Cap Equity Fund	66.93	70.20	72.54	-25.36	-24.25	-24.85
Nippon India Large Cap Fund	67.68	69.08	73.48	-31.83	-31.25	-25.38
PGIM India Large Cap Fund	61.82	64.27	72.54	-21.94	-20.95	-24.85

SBI Bluechip Fund	74.08	75.39	73.48	-24.11	-23.54	-25.38
Tata Large Cap Fund	66.82	68.16	69.82	-25.03	-24.37	-22.69
Taurus Largecap Equity Fund	55.06	55.20	73.48	-23.55	-23.34	-25.38
Union Largecap Fund	65.13	66.11	73.48	-23.07	-22.55	-25.38
UTI Mastershare Fund	69.01	70.66	73.48	-21.81	-21.22	-25.38
Average Return of Large cap MFs	62.78	64.50	72.32	-21.65	-20.87	-24.84

Table-2 Descriptive Statistics: Large Cap. Equity MF

	N	Minimum	Maximum	Mean	Std. Deviation
2020-21 Regular	29	37.83	76.99	62.7783	8.14250
2020-21 Direct	29	39.35	78.27	64.5000	8.15361
2020-21 Benchmark	29	69.82	73.48	72.3159	1.10582
2019-20 Regular	29	-31.83	-8.09	-21.6493	5.64637
2019-20 Direct	29	-31.25	-6.97	-20.8686	5.78628
2019-20 Benchmark	29	-25.38	-22.69	-24.8438	0.65233

Table-3 Independent Samples Test 2020-21 Regular Large Cap. Equity MF vs Benchmark

	Levene's Test for Equality of Variances		t-test for Equality of Means					95% Confidence Interval of the Difference	
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Equal variances assumed	25.290	0.000	-6.250	56	0.000	-9.53759	1.52590	12.59434	-6.48083
Equal variances not assumed			-6.250	29.033	0.000	-9.53759	1.52590	12.65826	-6.41691

Table-4 Independent Samples Test 2020-21 Direct Large Cap. Equity MF vs Benchmark

	Levene's Test for Equality of Variances		t-test for Equality of Means					95% Confidence Interval of the Difference	
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Equal variances assumed	25.505	0.000	-5.115	56	0.000	-7.81586	1.52795	10.87671	-4.75501
Equal variances not assumed			-5.115	29.030	0.000	-7.81586	1.52795	10.94073	-4.69100

Table-5 Independent Samples Test 2019-20 Regular Large Cap. Equity MF vs Benchmark									
	Levene's Test for Equality of Variances		t-test for Equality of Means					95% Confidence Interval of the Difference	
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Equal variances assumed	24.509	0.000	3.027	56	0.004	3.19448	1.05548	1.08010	5.30886
Equal variances not assumed			3.027	28.747	0.005	3.19448	1.05548	1.03496	5.35401

Table-6 Independent Samples Test 2019-20 Direct Large Cap. Equity MF vs Benchmark Index									
	Levene's Test for Equality of Variances		t-test for Equality of Means					95% Confidence Interval of the Difference	
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Equal variances assumed	25.309	0.000	3.676	56	0.001	3.97517	1.08129	1.80908	6.14126
Equal variances not assumed			3.676	28.712	0.001	3.97517	1.08129	1.76272	6.18763

Conclusion

The analysis of return performance of large cap equity funds has revealed that direct and regular schemes, on an average, provided 62.78 per cent and 64.50 per cent return respectively during the year 2020-21. But in 2019-20, the direct schemes and regular schemes suffered loss of -21.65 per cent and -20.87 respectively. The negative returns during 2019-20 may be attributed to outbreak of Covid 19 pandemic in March 2020 which led to spread a fear and uncertainty for the investors. Due to this, almost every stock indices nosedived. Though, the Corona Virus is still staying and affecting economic activities severely, the timely and satisfactory measures taken by RBI and both Centre and state governments to control the ill effects of the pandemic are making the economic scenario and investor sentiments improving. Further, the success of the vaccination drive,

better economic scenario and higher incomes can be the factors that will have an impact on mutual funds flows. While a few of the economic indicators like GST collections, auto and housing sales look positive, IIP and inflation data along with intermittent lockdowns can affect the economic progress and resultantly the performance of mutual funds in the ongoing fiscal.

The results of the study are going to be very useful for investors in decision making. They can take a clue from the past performance of various schemes and can choose right type of mutual fund. The study leaves a great scope for further researchers to conduct a more comprehensive study taking all size wise categories of schemes like small cap, mid cap, balanced schemes and so on.

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Appendix-A

Appendix- A Lage cap schemes under study				
Scheme Name	Benchmark	NAV Date	NAV Regular	NAV Direct
Aditya Birla Sun Life Frontline Equity Fund	NIFTY 50 Total Return Index	2021-03-31	280.89	301.57
Axis Bluechip Fund	NIFTY 50 Total Return Index	2021-03-31	38.71	42.65
Baroda Large Cap	NIFTY 100 Total Return Index	2021-03-31	18.54	19.65
BNP Paribas Large Cap Fund	NIFTY 50 Total Return Index	2021-03-31	117.72	128.98
Canara Robeco Bluechip Equity Fund	S&P BSE 100 Total Return Index	2021-03-31	35.16	38.38
DSP Top 100 Equity Fund	S&P BSE 100 Total Return Index	2021-03-31	253.21	267.33
Edelweiss Large Cap Fund	NIFTY 50 Total Return Index	2021-03-31	45.94	49.39

Franklin India Bluechip Fund	NIFTY 100 Total Return Index	2021-03-31	596.51	638.15
HDFC Top 100 Fund	NIFTY 100 Total Return Index	2021-03-31	574.26	605.49
HSBC Large Cap Equity Fund	NIFTY 50 Total Return Index	2021-03-31	272.06	290.24
ICICI Prudential Bluechip Fund	NIFTY 100 Total Return Index	2021-03-31	53.63	57.42
IDBI India Top 100 Equity	NIFTY 100 Total Return Index	2021-03-31	31.70	34.68
IDFC Large Cap Fund	S&P BSE 100 Total Return Index	2021-03-31	41.41	45.16
Indiabulls Bluechip	NIFTY 50 Total Return Index	2021-03-31	24.90	28.18
Invesco India Largecap Fund	NIFTY 50 Total Return Index	2021-03-31	35.30	39.86
JM Large Cap Fund	S&P BSE Sensex Total Return Index	2021-03-31	82.84	90.49
Kotak Bluechip Fund	NIFTY 50 Total Return Index	2021-03-31	314.18	343.05
LIC MF Large Cap Fund	NIFTY 100 Total Return Index	2021-03-31	33.79	36.49
L&T India Large Cap Fund	S&P BSE 100 Total Return Index	2021-03-31	34.29	36.49
Mahindra Manulife Large Cap Pragati Yojana	NIFTY 50 Total Return Index	2021-03-31	13.02	13.54
Mirae Asset Large Cap Fund	NIFTY 100 Total Return Index	2021-03-31	65.51	70.69
Navl Large Cap Equity Fund	NIFTY 50 Total Return Index	2021-03-31	28.51	31.97
Nippon India Large Cap Fund	S&P BSE 100 Total Return Index	2021-03-31	40.52	43.58
PGIM India Large Cap Fund	NIFTY 50 Total Return Index	2021-03-31	211.39	235.04