

# “A COMPARATIVE ANALYSIS OF BLUE-CHIP MUTUAL FUNDS BASED ON SHARPE RATIOS”

<sup>1</sup>Jyesta Bhoopal, <sup>2</sup>Ms. Shireesha, <sup>3</sup>Dr. T. Vara Lakshmi

<sup>1</sup>Student, <sup>2</sup>Assistant Professor, <sup>3</sup>Associate Professor & HOD

Department of MBA

Institute of Aeronautical Engineering, Dundigal, Hyderabad.

**Abstract:** Mutual funds have become popular in the investments domain as they are believed to yield higher returns at lesser market risk. But, today there are various such mutual fund operating entities and choosing the right option is no small deal. Blue chip funds are funds containing the holdings of enterprises that have a market capitalization of about 1 billion. By considering various blue-chip mutual funds, we attempt to compare their performances on the basis of Sharpe ratios, standard deviation and beta value. The data considered will be from a secondary source. The study attempts to walk the path of comparing and understanding a mutual fund's performances in multiple dimensions. Profiles of the funds considered their portfolios, market capitalization and growth prospects will be analyzed in this study.

**Key words:** Mutual funds, blue chip funds, Sharpe measure, investment decisions.

## 1. Introduction

Individual stocks are risky for an investor because of lack of knowledge over their performances and current conditions. Stocks are to be professionally managed to avoid risk and to maximize the return on investment. In the question of Mutual Funds, they are professionally managed and the money they invest has a span across various individual stocks that are part of the Mutual Fund Portfolio. This reduces the risk for the investors and offers an easy option to earn better profits at minimum risk. It allows a group of investors to collectively invest in the portfolios and become benefitted individually in accordance with division of shares they hold. Mutual Funds involve the pooling up of the funds of the investors to diversify to various portfolios for enhanced profits.

## Research Objectives

- To analyse the returns of various Blue Chip Funds on the basis of component stocks and category wise holdings.
- To analyse the risk factor involved in the investment by taking their sharp ratios and Beta Values into consideration.

- To evaluate the various blue chip funds in terms of their risk adjusted returns, volatility factor and average rate of return.
- To analyse the best blue chip funds to invest in.

### **Need of the study**

There are many studies over various mutual funds that are periodically published. But, the current study is related to the blue chip mutual funds which are thought to be very stable and reliable as they constitute of holdings related to very large companies. This study is an investor centric study and has its ultimate goal set to discover the real performer among a list of blue-chip funds considered. The process of evaluation itself is a walk through various Industry standard evaluation techniques which makes the journey of research learning and revealing experience at the same time. The study contributes to create a knowledge base to the investors who wish to invest in blue-chip funds in the country.

### **Scope of the study**

The study spans across various Blue-chip Funds that are operating in the country. The study considered Industry standard evaluation measures and ratios such as Sharpe ratios, standard deviation and beta value to gauge the performance of mutual funds considered. Though it compares and evaluates various blue-chip funds, the journey demonstrates the way in which a mutual fund has to be evaluated and analyzed.

### **Research Methodology**

All the evaluation is done on the basis of tertiary data. The data has been sourced from reliable stocks related websites. The ratios have been calculated and ranked for the purpose of concluding on various research objectives and their corresponding questions.

## **2. Literature Review**

According to Dr. Sandeep Bansal, Deepak Garg and Sanjeev K Saini, have studied Impact of Sharpe Ratio & Treynor's Ratio on Selected Mutual Fund Schemes. This paper examines the performance of selected mutual fund schemes, that the risk profile of the aggregate mutual fund universe can be accurately compared by a simple market index that offers comparative monthly liquidity, returns, systematic & unsystematic risk and complete fund analysis by using the special reference of Sharpe ratio and Treynor's ratio.

According to Dr. K. Veeraiah and Dr. A. Kishore Kumar, conducted a research on Comparative Performance Analysis of Select Indian Mutual Fund Schemes. This study analyzes the performance of Indian owned mutual funds and compares their performance. The performance of these funds was analyzed using a five year NAVs and portfolio allocation. Findings of the study reveals that, mutual funds out perform naïve investment. Mutual funds as a medium-to-long term investment option are preferred as a suitable investment option by investors.

According to Dr. Yogesh Kumar Mehta, has studied Emerging Scenario of Mutual Funds in India: An Analytical Study of Tax Funds. The present study is based on selected equity funds of public sector and private sector mutual fund. Corporate and Institutions who form only 1.16% of the total number of investors accounts

in the MFs industry, contribute a sizeable amount of Rs. 2,87,108.01 crore which is 56.55% of the total net assets in the MF industry. It is also found that MFs did not prefer debt segment.

According to Dr Surender Kumar Gupta and Dr. Sandeep Bansal, have done a Comparative Study on Debt Scheme of Mutual Fund of Reliance and Birla Sunlife. This study provides an overview of the performance of debt scheme of mutual fund of Reliance, and Birla Sunlife with the help of Sharpe Index after calculating Net Asset Values and Standard Deviation. This study reveals that returns on Debt Schemes are close to Benchmark return (Crisil Composite Debt Fund Index: 4.34%) and Risk Free Return: 6% (average adjusted for last five year).

According to Prof. V. Vanaja and Dr. R. Karrupasamy, have done a Study on the Performance of select Private Sector Balanced Category Mutual Fund Schemes in India. This study of performance evaluation would help the investors to choose the best schemes available and will also help the AUM's in better portfolio construction and can rectify the problems of underperforming schemes. The objective of the study is to evaluate the performance of select Private sector balanced schemes on the basis of returns and comparison with their bench marks and also to appraise the performance of different category of funds using risk adjusted measures as suggested by Sharpe, Treynor and Jensen.

### 3. Data Analysis and Interpretations

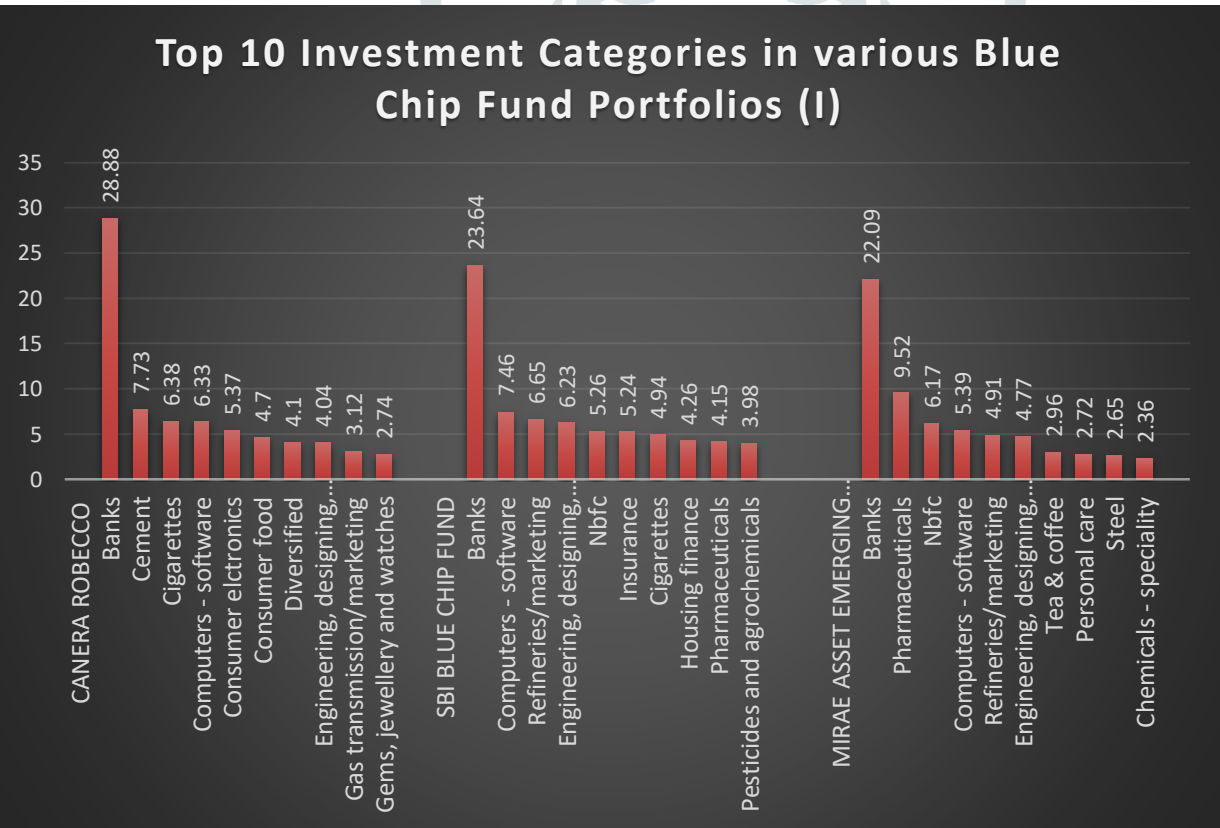
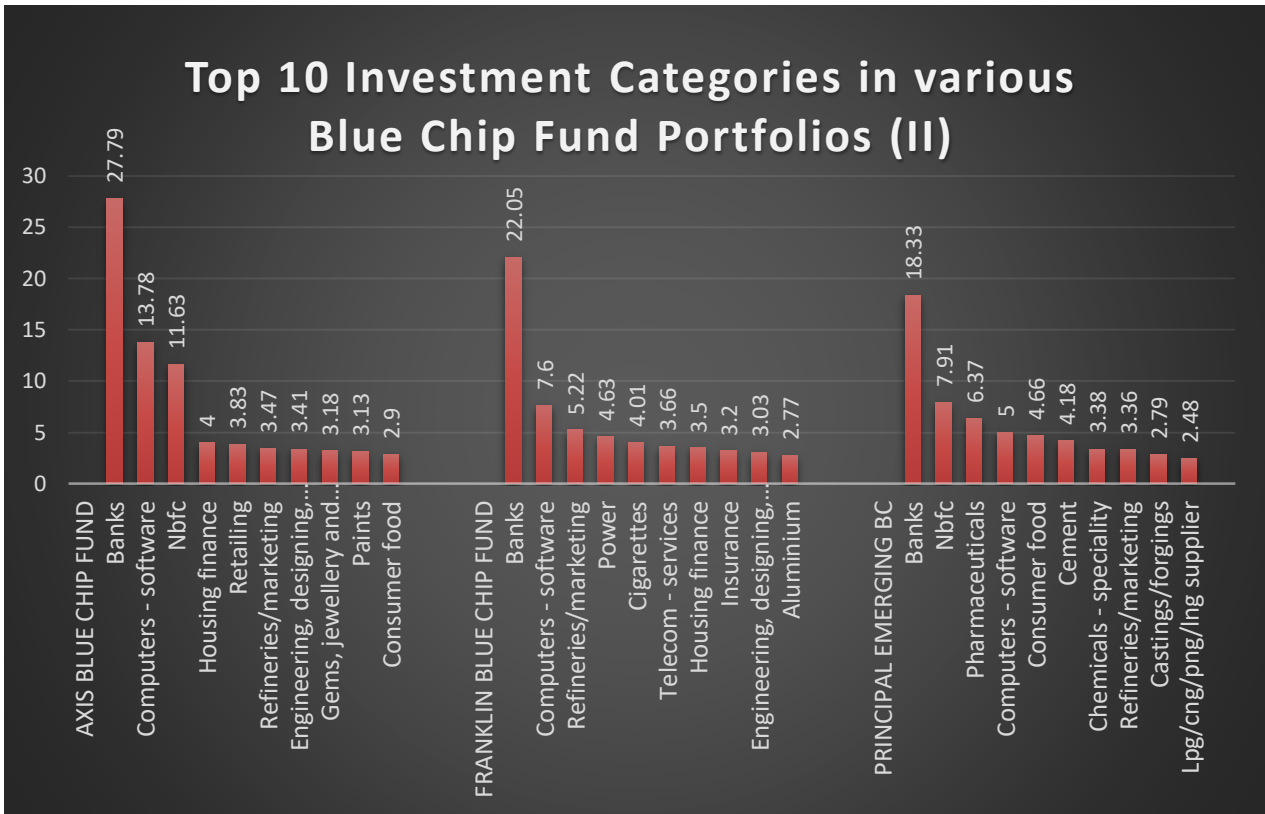
S.No	Mutual Fund Scheme	Sharpe Ratios	Sharpe Ratios Category	Rank Position
1	SBI Blue Chip Fund - Growth	0.44	0.46	6
2	Mirae Asset Emerging Blue-chip Fund	0.90	0.47	1
3	ICICI Prudential Blue-chip Fund	0.72	0.46	2
4	Axis Blue Chip Fund Regular	0.72	0.46	2
5	Franklin India Blue-chip Fund	0.36	0.46	5
6	Principal Emerging Blue-chip Fund	0.6	0.47	3
7	India bulls Blue-chip Fund	0.59	0.46	4
8	ICICI Prudential Blue-chip Fund	0.72	0.46	2
9	Canara Robeco Blue-chip Equity Fund	0.63	0.46	3

This indicates that out of all the funds evaluated, SBI Blue chip mutual fund has the lowest sharpe ratio signifying that the amount of risk taken could be the highest when compared to others. At the same time, Mirae Asset Emerging Blue-chip has the highest Sharpe Ratio signifying the lowest risk in the scenario.

**Ranking on the basis of Standard Deviation and Beta Value**

S.no	Mutual Fund Scheme	1- Beta Value	Rank	Standard Deviation Difference	Rank
1	SBI Blue Chip Fund - Growth	0.06	3	-1.06	5
2	Mirae Asset Emerging Blue chip Fund - Dividend	0.24	9	-1.95	2
3	ICICI Prudential Blue chip Fund - Direct Plan - Growth	0.15	6	0.14	8
4	Axis Blue chip Fund Direct Plan- Dividend	0.11	5	-0.95	6
5	Franklin India Blue chip Fund - Growth	0.08	4	-0.48	7
6	Principal Emerging Blue chip Fund - Growth	0.19	8	-2.93	1
7	India bulls Blue chip Fund - Existing Plan - Growth	0.01	1	-1.72	3
8	ICICI Prudential Blue chip Fund - Direct Plan - Growth	0.15	6	0.14	8
9	Canara Robeco Blue chip Equity Fund - Regular Plan - Growth	0.05	2	-1.13	4

From the above data, it is very evident that though there is a positional difference when we rank various Blue chip funds on the basis of standard deviation and beta value, the meanings they depict in terms of volatility are subtly different signifying the way in which the funds are performing.



#### 4. Findings

- Like any investment option, even mutual funds present a range of intricacies to understand, evaluate and make perfect investment decisions. But, mutual funds are definitely better than many other investment options with higher promising returns and better cover against risk.

- In any case, the long term performance of the fund could become the single most important factor while a lay man makes investment decisions.

## 5. Suggestions

Investors need to be informed about the various methodologies, scales and ratios that are utilized to gauge the performance of a mutual fund. Resources to learn such details are limited and confusing to a lay man. Hence, a pre-investment programmed from the side of the Government to keep the investors informed about how to understand the performance of a mutual fund may be necessary to ensure that right decisions of investment are taken.

## 6. Conclusion

Blue chip funds are comprised of stocks related to very large scale enterprises. But, just by that, the performance of the Blue Chip Mutual Funds cannot be considered as superior than other investment opportunities. There are a few Blue chip funds which perform lesser than the market average and result in very minor returns to the investors. There are a variety of factors that influence the performance of a mutual fund and all the factors are too considered while taking a decision about which mutual fund has to be selected for investment.

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