



COMPARATIVE ANALYSIS OF EQUITY AND DEBT FUNDS

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Abstract: In India mutual fund industry is growing at a rapid speed after liberalization of policy of the government. As the mutual funds industry is offering a wide array of schemes with different structures and objectives, the risk and returns vary. There is a wide scope to evaluate the performance of mutual funds in various dimensions like risk-return, risk adjusted return and return from alternative investments. Mutual Fund is one of the most preferred investment alternatives for the small investors as it offers an opportunity to invest in a diversified and professionally managed portfolio at a relatively low cost. In recent times, the emerging trend in the mutual fund industry is the aggressive expansion of the foreign owned mutual fund companies and the decline of the companies floated by nationalized banks and small private sector players.

Keywords: Equity Funds, Debt Funds, Blue chip Fund, UTI tax savings, Templeton Fund.

Introduction

Equity funds are funds which are suggested to long term investors. The equity funds have high risk and high returns as they are aggressive than the debt funds whereas the debt funds are suggested to moderate and conservative investors. The tracking of returns of funds over a period helps to forecast the future returns. Though the past performance may or may not be the same, but still the past performances is one of the influencing factors for inviting new investors and retain the investments of the current investors. As the equity and debt funds are the growth and income schemes which are usually chosen by the investors, annualized returns of selected funds are compared and appraised. The information related to the risk and return analysis of equity and debt for over ten year period is considered for comparison. The average returns and standard deviation for three year period (2009-12), five years

(2007-12) and ten years (2002-12) are calculated. The random sample comprises of 10 equity and 10 debts funds sponsored by same AMCs. The following reveal the risk return profile of 10 selected AMCs offerings of equity and debt funds.

Analysis of equity funds for the period 2002-2012

Table 1 depicts the performance of selected equity funds. It is observed from that the top three performers delivered returns in the range of 6.72 to 6.21 for a three year period (2009-12). This indicates that all the three funds have performed equally with only minimal differences in return offerings. 'ICICI prudential dynamic fund' has offered the highest average three year return of 6.72 per cent followed by 'HDFC equity delivered 6.56 whereas Franklin India Blue chip fund posted 6.21 per cent'. The medium performers were BSL frontline equity fund with average return of 4.85 percent, DSPBR delivered

4.35 percent and SBI Index fund posted 3.48 percent. The poor performers were 'Sundaram select focus reg', Reliance vision and HSBC growth funds. 'Sundaram select focus reg' offered -0.13 percent, Reliance vision recorded a return of 2.37 percent followed by HSBC growth funds with 2.59 percent. It is evident from the analysis that only Sundaram fund has registered negative returns whereas all others have shown minimum positive returns.

It is indicated from the 5 year (2007-12) data presented in the table 1 that the SBI INDEX funds stood in the first place offering the highest return of 30.68 percent, HDFC equity posted 21.53 percent and in the third place it is BSL frontline equity fund which has delivered an average return of 19.79 percent. The medium performance is witnessed by Franklin, Reliance and ICICI funds. Their average returns were in the range of 15.32 to 17.07 percent. The poor performers were HSBC, UTI and DSPBR funds. The lowest return 12.97 percent was offered by HSBC fund, 15.22 and 15.32 percent were offered by UTI and DSPBR funds respectively. Amongst the ten funds selected in the sample the top three funds have offered significantly high returns whereas the last could offer only half of the return per cent offered when compared to the top three performers.

The ten years data reveals the average returns of the funds from the year 2002-12. 'Reliance vision fund' stood in the first place with 40.25 percent surpassing the HDFC equity fund which has posted 36.89 percent average return. This is followed by 'HSBC equity growth' with 35.60 percent average return. The medium performers were ICICI, Franklin and BSL funds. All these funds have offered nearly 32 percent. The poor performers were 'DSPBR' with 24.40 percent and 'UTI tax savings' with 25.25 percent

returns. It is observed from the data analysis that the minimum average annualized return offered for the ten year period is 25.25 percent whereas the maximum return shown is 40.25 percent. From this it is evident that even after passing the recessionary periods some funds could deliver considerably high returns.

Analysis of Standard deviation of selected equity funds from the year 2002-2012

'HDFC equity' has shown the highest standard deviation 29.44 followed by 'Reliance vision' with 26.90. It is observed from the table 2 'SBI magnum index fund' has witnessed standard deviation of 24.33. These funds have shown high risk but at the same time they have offered high returns when three years average return is considered. The low risk performers were 'DSPBR, Sundaram select focus fund' followed by 'Franklin India bluechip funds'. 'Sundaram fund' has shown low risk and low return but 'DSPBR' has shown the lowest standard deviation with moderate returns. This shows that the Sundaram fund was managed conservatively.

When the five years standard deviation is observed it is found that 'HDFC equity' has recorded the highest figures followed by 'Birla sun life' and 'Reliance vision fund'. The maximum standard deviation was recorded due to high negative returns in the year 2008 and also in the year 2011. The average return of ten years shows that 'SBI fund' has registered the lowest standard deviation followed by 'DSPBR fund'.

When 10 years standard deviation is observed it is found that 'Reliance vision' has the highest followed by 'HDFC' and 'Sundaramfunds'. The lowest standard deviation was recorded by 'SBI magnum

index' and 'DSPBR fund'. 'SBI fund' has shown low risk for the periods five and ten years where the standard deviation for it was high for the three year period. Hence, it is inferred that the fund has recorded high risk delivering moderate returns only.

Debt funds are usually chosen by investors who are conservative or moderate risk takers. The reasons for selecting this type of funds by the conservative investors are because of their increased liquidity than the investments in fixed deposits, tax benefits, greater returns than the bank deposits, and are flexible in withdrawing partial amounts and also accumulating the investments through the systematic investment plan. The table 3 presents the annual returns of the selected debt funds from the year 2002-2012.

When the debts funds are tracked it is notable it is that debt funds offerings change along with the interest rate and the inflationary condition. Table 3 reveals the appraisal of debt funds from the year 2002-2012. In the year 2002 'BSL Gilt plus fund' has posted the highest of 19.74 per cent when compared to other funds as observed from the sample while the lowest return of 7.66 per cent for the same year was delivered by 'DSP liquidity Reg'. In the year 2003 'Templeton' has recorded the highest return per cent of 42.18 per cent amongst other funds whereas 'DSP' was again noticed to return the lowest amongst all the funds. From the year 2004 to 2007 'Templeton' was returning the highest and stood in the first place in terms of annualized returns. This indicates 'Templeton fund' has performed well by increasing its returns with considerable growth over the years. It is noticed from the table 3 that in the year 2008 'Reliance fund' stood in the first place amongst its peer group and 'Templeton' in the last place delivering negative returns. The years 2009

and 2010 has once again witnessed Templeton offering the highest return followed by 'ICICI' and 'DSPBR' funds. 'UTI' dethroned the best performer Templeton for the year 2011. The analysis reveals that it is 'Templeton' again which has occupied its first place by returning the highest return in the year 2012. This shows that the performance of 'Templeton funds' was good which could even recover from the negative returns and offer considerable returns in the successive years.

Another notable aspect of the performances in the debt constellation is the achievement of 'UTI Bond G' fund which has the highest annualised return of 7.47 per cent for the period 2009-2012 (three year) followed by 'DSPBR Liquidity Reg fund' which has delivered 6.76 per cent return which beat the rest to emerge as the best performing AMCs in the debt category. 'HSBC', 'BSL' and 'HDFC' debt funds could also return the same per cent as the 'DSPBR' fund with insignificant difference. The poor performers in the debt category for the ten year period were 'SBI', 'Templeton and Reliance funds'.

It is observed that Reliance, 'HSBC, UTI and HDFC' funds provided the highest return amongst the selected funds in the sample. The average return for five years recorded the highest of 7.68 per cent by Reliance, followed by 7.59 per cent by 'HSBC', 7.23 per cent by 'HDFC' and 7.19 per cent by 'UTI debt funds'.

The ten years performance of the funds reveals the average long term return provided by the debt funds. The highest average per cent of 11.33 per cent was offered by 'Templeton' which has surpassed 'DSPBR' which only offer the second highest return of 6.10 per cent. It is evident from the above table that there is a significant difference in the returns

when compared to Templeton fund. The lowest return 0.66 per cent was offered by 'SBI', whereas BSL with 2.17 per cent and 'Reliance funds' have offered 4.23 per cent.

The highest standard deviation 6.72 of the three year period is recorded by 'Templeton pension fund' which is significantly higher than the other debt funds followed by 'BSL pension fund' with 3.67 as presented in the table 4. The risk and return of 'Templeton fund' was high and hence can be noted that this particular fund is posting returns as per the risk tolerated. 'SBI long term' and 'HDFC income scheme' have shown the average least standard deviation. Though the risk was low, these funds have shown growth in returns year by year. These kinds of funds can be suggested to conservative investors who are interested to invest in low risk and moderate returns. The Standard deviation of 5 years reveals that 'Templeton' has the highest volatility which indicates high risk and is followed by 'SBI and BSL debt funds'. The lowest standard deviation is recorded 'DSPBR' and 'ICICI funds'. The returns were moderate when compared to their low risk. The table 4 shows the 3 year standard deviation of debt funds was not too high when compared to five years standard deviation. The highest standard deviation is recorded by 'Templeton' followed by 'BSL' and 'SBI funds'. Great difference in risk is found between the highest standard deviation value and the immediate followers who are in the second and third position in term of standard deviation. The returns were also high for the highest volatile fund. However, the company has managed to offer considerable returns than that of other funds compensating the risk bared by the investor.

Conclusion

The analysis drawn from the above equity and debt mutual funds reveals that top three equity funds performers for the three year period were ICICI, HDFC and Franklin funds and the highest standard deviation for the same period is recorded by HDFC, Reliance and SBI Magnum index funds. It is inferred from the data analysis that 'Reliance' had posted low return with low risk whereas 'SBI' has delivered high risk and moderate return and only 'HDFC fund' had offered high return but with high risk.

The top three equity performers for five year period were 'SBI, HDFC and BSL frontline equity funds'. 'SBI' has shown the least standard deviation whereas 'HDFC and BSL fund' have witnessed high standard deviation. The data reveals that 'HDFC and BSL Funds' are funds which had shown high risk and high returns.

The top equity three performers for the ten year period were 'Reliance, HDFC and HSBC equity funds'. The closer look at their standard deviations indicates that all three funds had high volatility. From the data analysis it can be understood that 'Reliance fund' occupied the first place returning high average returns per cent managing the high risk exposure. 'HDFC fund' could also manage high risk and offer considerable returns next to 'Reliance funds'. 'BSL and ICICI equity fund' also posted returns as per their risk exposure.

The debt funds analysis reveals that, 'UTI, DSP and HSBC funds' have offered high returns while the high risk funds were 'Templeton, BSL and UTI funds' for the three year period. The five year period data reveals that the top performers were 'Reliance, HSBC and HDFC funds' whereas the high risky

funds are 'Templeton, BSL and SBI funds'. The ten years performance reveals that 'Templeton, DSPBR and ICICI funds' returned the highest amongst all the funds. The high standard deviation recorded for the period was 'Templeton, BSL and SBI funds'. It can be understood from the above information that 'Templeton fund' is a high risk fund offering high returns and DSPBR fund also could generate risk adjusted returns whereas 'ICICI fund' has generated high returns with low risk.

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Table 1: Performance of selected equity funds from the year 2002-2012(returns)

S.No	Name of the company	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	3 yrs avg	5 yrs avg	10 yrs avg
		Return (%)													
1	BSLFrontline Equity	-	90.8	21.46	41.77	47.7	62.26	-48.5	90.45	18.7	-22.93	18.78	4.85	19.79	32.05
2	UTI Equity Tax Savings	18.45	85.09	29.48	46.72	18.56	50.92	-54.67	72.88	17.57	-23.37	16.11	3.44	13.24	25.25
3	Sundaram Select Focus Reg	-	108.24	23.86	45.04	49.24	79.2	-52.44	65.52	12.53	-23.67	10.75	-0.13	15.32	31.83
4	Reliance vision	74.58	155.16	19.81	53.47	45.8	56.62	-51.92	82.13	15.26	-28.55	20.41	2.37	15.66	40.25
5	ICICI Prudential Dynamic	-	98.47	15.7	58.51	58.31	40.78	-44.79	79.93	21.26	-20.32	19.23	6.72	16.02	32.71
6	HDFC Equity	24.2	126.3	27.53	62.7	35.86	53.61	-49.68	105.57	29.22	-26.72	17.18	6.56	21.53	36.89
7	Franklin India Bluechip	23.92	120.59	24.62	41.2	45.52	47.41	-48.14	84.49	22.96	-18.25	13.93	6.21	17.07	32.57
8	DSPBR Balanced	13.1	78.61	21.48	31.16	32.7	51.26	-37.97	64.98	15.66	-16.95	14.35	4.35	15.22	24.40
9	HSBC Equity growth		160.25	38.73	41.97	37.25	59.53	-48.05	58.55	18	-22.68	12.44	2.59	12.97	35.60
10	SBI Magnum index		74.07	10.07	33.82	42.05	49.46	49.46	74.74	17.99	-24.61	17.05	3.48	30.68	34.41

Source: valueresearchonline.com

Table 2: Standard deviation of the selected equity funds from the year 2002-2012

S.No	Name of the company	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Stddev 3 yrs	stddev 5 yrs	stddev 10 yrs
		Returns(%)													
1	BSL Frontline Equity	-	90.8	21.46	41.77	47.7	62.26	-48.5	90.45	18.7	-22.93	18.78	24.06	52.73	44.84
2	UTI Equity Tax Savings	18.45	85.09	29.48	46.72	18.56	50.92	-54.67	72.88	17.57	-23.37	16.11	23.23	48.09	39.96
3	Sundaram Select Focus Reg	-	108.24	23.86	45.04	49.24	79.2	-52.44	65.52	12.53	-23.67	10.75	20.41	44.28	48.02
4	Reliance vision	74.58	155.16	19.81	53.47	45.8	56.62	-51.92	82.13	15.26	-28.55	20.41	26.90	51.54	55.92
5	ICICI Prudential Dynamic	-	98.47	15.7	58.51	58.31	40.78	-44.79	79.93	21.26	-20.32	19.23	23.44	47.48	43.92
6	HDFC Equity	24.2	126.3	27.53	62.7	35.86	53.61	-49.68	105.57	29.22	-26.72	17.18	29.44	59.86	50.89
7	Franklin India Bluechip	23.92	120.59	24.62	41.2	45.52	47.41	-48.14	84.49	22.96	-18.25	13.93	21.66	49.76	45.37
8	DSPBR Balanced	13.1	78.61	21.48	31.16	32.7	51.26	-37.97	64.98	15.66	-16.95	14.35	18.46	38.99	33.67
9	HSBC Equity growth		160.25	38.73	41.97	37.25	59.53	-48.05	58.55	18	-22.68	12.44	22.06	40.81	55.71
10	SBI Magnum index		74.07	10.07	33.82	42.05	49.46	49.46	74.74	17.99	-24.61	17.05	24.33	37.51	30.47

Source: valueresearchonline.com

Table 3: Performance of selected Debt funds from the year 2002-2012(returns)

S.No	Name of the company	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	3 yrs avg	5 yrs avg	10 yrs avg
		Return (%)													
1	BSL Gilt Plus PF-G	19.74	12.22	-1.96	5.57	5.27	6.72	20.27	-10.47	2.51	9.81	6.84	6.39	5.79	2.17
2	UTI Bond – G	14.49	6.26	1.2	9.1	4.92	8.33	18.58	-5.01	5.24	11.17	5.99	7.47	7.19	4.35
3	Sundaram Bond saver - G	17.6	7.73	-0.82	3.07	3.83	6.68	11.11	0.41	4.16	6.66	6.76	5.86	5.82	4.50
4	Reliance Income-G	15.91	7.88	2.08	5.5	5.94	9.27	21.49	-0.65	4.21	6.5	6.85	5.85	7.68	4.23
5	ICICI Pru Long-term Reg-G	-	8.15	7.65	9.12	6.38	8.49	10	6.56	3.51	8.19	6.01	5.90	6.85	6.07
6	HDFC Income -G	16.71	8.9	-0.01	3.87	2.79	7.89	16.06	1.85	5.59	6.29	6.34	6.07	7.23	5.02
7	Templeton India Pension	12.96	42.18	12.6	16.46	18.84	25.98	-23.99	28.52	9.49	-2.16	9.47	5.60	4.27	11.33
8	DSPBR Liquidity Reg	7.16	5.27	4.68	5.46	6.61	6.68	8.47	4.1	5.25	8.72	6.31	6.76	6.57	6.10
9	HSBC Income Investment - G	-	9.42	0.29	4.5	5.23	8.09	18.47	-0.08	4.74	8.86	5.96	6.52	7.59	4.87
10	SBI Magnum Gilt Long-term-G	18.68	9.08	-1.76	4.61	4.43	6.96	18.56	-13.61	4.68	5.77	5.81	5.42	4.24	0.66

Source:valueresearchonline.com

Table 4: Standard deviation of debt funds for the period 2002 to 2012

S.No	Name of the company	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	stddev 3 yrs	stddev 5 yrs	stddev 10 yrs
		Return (%)													
1	BSL Gilt Plus PF-G	19.74	12.22	-1.96	5.57	5.27	6.72	20.27	-10.47	2.51	9.81	6.84	3.67	11.20	8.86
2	UTI Bond - G	14.49	6.26	1.2	9.1	4.92	8.33	18.58	-5.01	5.24	11.17	5.99	3.23	8.66	6.32
3	Sundaram Bond saver - G	17.6	7.73	-0.82	3.07	3.83	6.68	11.11	0.41	4.16	6.66	6.76	1.47	3.92	5.09
4	Reliance Income-G	15.91	7.88	2.08	5.5	5.94	9.27	21.49	-0.65	4.21	6.5	6.85	1.43	8.28	6.19
5	ICICI Pru Long-term Reg-G	-	8.15	7.65	9.12	6.38	8.49	10	6.56	3.51	8.19	6.01	2.34	2.43	1.85
6	HDFC Income -G	16.71	8.9	-0.01	3.87	2.79	7.89	16.06	1.85	5.59	6.29	6.34	0.42	5.27	5.36
7	Templeton India Pension	12.96	42.18	12.6	16.46	18.84	25.98	-23.99	28.52	9.49	-2.16	9.47	6.72	19.25	17.10
8	DSPBR Liquidity Reg	7.16	5.27	4.68	5.46	6.61	6.68	8.47	4.1	5.25	8.72	6.31	1.78	2.01	1.48
9	HSBC Income Investment - G	-	9.42	0.29	4.5	5.23	8.09	18.47	-0.08	4.74	8.86	5.96	2.12	6.88	5.28
10	SBI Magnum Gilt Long-term-G	18.68	9.08	-1.76	4.61	4.43	6.96	18.56	-13.61	4.68	5.77	5.81	0.64	11.50	8.83

Source: Valueresearchonline.com