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PERFORMANCE ANALYSIS OF SELECTED MUTUAL FUNDS IN INDIAN CONTEXT: A COMPARATIVE STUDY OF SMALL, MID AND LARGE CAP FUNDS

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ABSTRACT

The Indian mutual fund industry has emerged as a significant vehicle for retail and institutional investment, offering a range of fund options categorized by market capitalization – namely, small-cap, mid-cap, and large-cap funds. This study undertakes a comprehensive performance analysis of selected mutual funds from each of these categories to evaluate their risk-adjusted returns, consistency, and alignment with broader market movements. The primary objective is to offer a comparative assessment that can aid investors in making informed portfolio decisions based on their risk appetite and investment goals.

The analysis employs key performance indicators such as the Sharpe Ratio, Treynor Ratio, and Jensen's Alpha to measure the efficiency of each fund in generating returns relative to the risk undertaken. Findings indicate that small-cap funds, while exhibiting higher volatility, tend to offer greater potential for excess returns but require higher risk tolerance. Mid-cap funds present a balanced profile, offering moderate risk and satisfactory returns, often appealing to investors seeking growth with controlled risk exposure. Large-cap funds, characterized by lower volatility and stable returns, are found to be more suitable for conservative investors seeking capital preservation and steady growth. It concludes that investors should align their fund choices not only with market trends but also with personal financial objectives and risk-taking capacity.

KEYWORDS: *Small-Cap Funds, Mid-Cap Funds, Large-Cap Funds, Risk-Adjusted Returns, Sharpe Ratio, Treynor Ratio, Jensen's Alpha, Fund Volatility, Fund Performance Comparison.*

1. INTRODUCTION

A mutual fund is a collective investment vehicle that collects & pools money from a number of investors and invests the same in equities, bonds, government securities, money market instruments. The money collected in mutual fund scheme is invested by professional fund managers in stocks and bonds etc. in line with a scheme's investment objective. Mutual funds offer an excellent avenue for retail investors to participate and benefit from the uptrends in capital markets. While investing in mutual funds can be beneficial, selecting the right fund can be challenging. Hence, investors should do proper due diligence of the fund and take into consideration the risk-return trade-off and time horizon or consult a professional investment adviser. Further, in order to reap maximum benefit from mutual fund investments, it is important for investors to diversify across different categories of funds such as equity, debt and gold. Among the various categories of mutual funds, small-cap, mid-cap, and large-cap funds are particularly notable as they cater to different investment strategies based on market capitalization.

Large-cap funds invest in well-established companies with stable earnings and lower volatility, making them suitable for risk-averse investors seeking consistent returns. Mid-cap funds, positioned between large-cap and small-cap segments, typically offer a balance between risk and return, attracting investors with moderate risk tolerance. Small-cap funds, on the other hand, invest in emerging or less-established companies and are known for their high growth potential but also come with greater volatility and market risk. This study aims to conduct a comparative performance analysis of selected mutual funds across these three categories within the Indian context.

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2. REVIEW OF LITERATURE

i) Agarwal, A., & Garg, S. (2016), evaluates the performance of equity mutual funds in India, using key performance indicators such as the Sharpe ratio, Treynor ratio, and Jensen's alpha. The study finds that while equity funds often outperform debt funds, they come with a higher degree of risk, especially during market downturns.

ii) Awasthi, A., & Verma, R. (2014), evaluates mutual funds in India by examining their risk- return profiles using metrics like the Sharpe ratio and Jensen's alpha. It reveals that equity mutual funds tend to offer higher returns but with greater volatility, while debt funds offer more stability with lower returns. Hybrid funds are found to offer a balance of both, making them suitable for moderate risk investors.

iii) Bhardwaj, V., & Mehta, A. (2015), investigates the risk-return profile of mutual funds in India, focusing on both equity and debt funds. It finds that equity funds, while offering higher returns, are significantly more volatile than debt funds, which tend to be more stable but offer lower returns.

iv) Kumar, R., & Singh, N. (2018), compares the performance of actively managed mutual funds with passively managed funds in India. The research finds that, in general, passive funds tend to outperform active funds over the long term, primarily due to lower expense ratios and reduced management fees. The study also discusses the factors that contribute to active fund managers' ability to outperform benchmarks, such as market timing and stock selection.

v) Reddy, P., & Rao, M. (2015), focuses on the use of Jensen's Alpha, a risk-adjusted performance measure, to evaluate the performance of Indian mutual funds. The authors find that Jensen's Alpha is an effective tool for distinguishing between funds that outperform and those that underperform the market. The study reveals that while some actively managed funds in India generate positive alphas, many fail to consistently outperform their benchmarks.

vi) Verma, K., & Jain, S. (2017), evaluates the performance of large-cap mutual funds in India by comparing them with market benchmarks such as the Nifty 50 index and the BSE Sensex. The study finds that large-cap funds generally provide stable returns with lower volatility compared to mid-cap or small-cap funds. The authors argue that large-cap funds are suitable for conservative investors who seek steady, long-term growth.

3. OBJECTIVES OF THE STUDY

- To compare the performance of selective mutual funds in Small Cap, Mid Cap, and Large Cap regular plans in India for a period of five years (2020-2024).
- To evaluate the performance of selected schemes using risk-adjusted performance measures namely Sharpe, Treynor and Jensen's ratios.
- To provide insights and recommendations for investors in making informed decisions in mutual funds in the Indian market.

4. RESEARCH METHODOLOGY

Research Design: The study is descriptive and analytical in nature and it is concerned with the analysis of Financial Performance of selected Mutual Fund Schemes.

Sources of Data: To satisfy the study's objectives, (i.e.,) to gain an overview of the current performance trends of the Indian mutual fund industry, data for analysis has been collected from secondary sources, which are obtained from various sources, such as books, journals, including the records maintained on the websites of the National Stock Exchange, Bombay Stock Exchange, Securities Exchange Board of India, Association of Mutual Funds in India, fund websites, Scheme Information Documents, factsheets and others.

Sampling: To investigate the performance of mutual funds in India, 15 schemes have been selected as sample in total. The objective of the study is to analyze the 5 small-cap, 5 mid-cap, and 5 large-cap mutual fund schemes based on their risk-adjusted returns.

Period of the study: For the purpose of the present study, performances of 15 sample Mutual Fund Schemes over a period of 5 years from 2020 to 2024 have been proposed to be analyzed.

Tools used for analysis: The fund performance is evaluated with the help of the simple statistical tools like the Arithmetic Mean, Standard Deviation, Correlation and with the financial tools like Sharpe Ratio, Treynor Ratio, and Jensen Ratio.

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5. ANALYSIS AND INTERPRETATION

I. RATIOS OF SMALL-CAP FUNDS

NAME OF THE SCHEME	SHARPE RATIO	TREYNOR RATIO	JENSEN RATIO
NIPPON INDIA SMALL CAP FUND	1.435	1.616	0.003
HDFC SMALL CAP FUND	0.784	0.824	0.389
FRANKLIN INDIA SMALLER COMPANIES FUND	-8.465	-1.126	-0.456
EDELWEISS SMALL CAP FUND	0.907	1.459	0.271
KOTAK SMALL CAP FUND	0.478	0.641	0.077

The analysis of the selected small-cap mutual funds based on Sharpe Ratio, Treynor Ratio, and Jensen's Alpha provides a comprehensive view of their risk-adjusted performance. The Nippon India Small Cap Fund demonstrates the highest Sharpe (1.435) and Treynor Ratio (1.616), indicating excellent compensation for both total and market-specific risks. However, its Jensen Ratio (0.003) suggests returns are nearly in line with market expectations. The HDFC Small Cap Fund offers a balanced profile, with moderately strong risk-adjusted returns and the highest Jensen Ratio (0.389), showing meaningful outperformance. Edelweiss Small Cap Fund also performs well across all metrics, particularly in market risk-adjusted returns (Treynor Ratio: 1.459). The Kotak Small Cap Fund reflects average performance, with lower ratios indicating limited efficiency in return generation. In contrast, the Franklin India Smaller Companies Fund shows significantly negative values for all three indicators, highlighting poor performance, possibly due to weak stock selection or adverse market timing. Overall, Nippon, HDFC, and Edelweiss are the top performers.

II. RATIOS OF MID-CAP FUNDS

NAME OF THE SCHEME	SHARPE RATIO	TREYNOR RATIO	JENSEN RATIO
NIPPON INDIA GROWTH FUND	0.617	0.971	0.041
HDFC MID CAP OPPORTUNITIES FUND	1.032	1.51	0.193
FRANKLIN INDIA PRIMA FUND	1.342	2.353	0.905
EDELWEISS MID CAP FUND	1.242	1.621	0.112
KOTAK EMERGING EQUITY FUND	1.334	2.666	0.362

The performance evaluation of selected mid-cap mutual funds based on Sharpe Ratio, Treynor Ratio, and Jensen's Alpha indicates strong risk-adjusted returns for most schemes. Kotak Emerging Equity Fund shows the highest Treynor Ratio (2.666), suggesting superior efficiency in generating returns relative to market risk, along with a strong Sharpe Ratio (1.334) and a healthy Jensen Ratio (0.362). Franklin India Prima Fund stands out with the highest Sharpe (1.342) and Jensen Ratio (0.905), reflecting excellent risk-adjusted returns and significant outperformance over expected market returns. Edelweiss Mid Cap Fund and HDFC Mid Cap Opportunities Fund also display solid performance across all metrics, indicating effective fund management and consistent returns. In contrast, Nippon India Growth Fund underperforms in comparison, with the lowest ratios across all three measures, especially the minimal Jensen Ratio (0.041), suggesting limited alpha generation. Overall, Franklin, Kotak, and Edelweiss emerge as top performers among the analyzed mid-cap funds.

III. RATIOS OF LARGE-CAP FUNDS

NAME OF THE SCHEME	SHARPE RATIO	TREYNOR RATIO	JENSEN RATIO
NIPPON INDIA LARGE CAP FUND	0.797	0.798	0.09
HDFC TOP 100 FUND	0.929	3.99	0.271
FRANKLIN INDIA BLUECHIP FUND	0.804	0.687	0.134
EDELWEISS LARGE CAP FUND	0.123	0.083	0.06
KOTAK BLUECHIP FUND	0.521	1.064	0.443

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The performance analysis of selected large-cap mutual funds using Sharpe Ratio, Treynor Ratio, and Jensen's Alpha highlights varied levels of risk-adjusted returns. HDFC Top 100 Fund leads with the highest Treynor Ratio (3.99) and a strong Sharpe Ratio (0.929), indicating exceptional compensation for both total and market-specific risks. Its Jensen Ratio (0.271) also reflects solid outperformance relative to expected returns. Kotak Bluechip Fund stands out with the highest Jensen Ratio (0.443), suggesting effective active management, despite a modest Sharpe (0.521). Franklin India Bluechip Fund and Nippon India Large Cap Fund show moderate performance with relatively balanced Sharpe and Treynor Ratios, reflecting decent risk-adjusted returns but limited alpha generation. In contrast, Edelweiss Large Cap Fund records the lowest values across all metrics, especially a very low Sharpe Ratio (0.123), pointing to underperformance and inefficient risk management. Overall, HDFC and Kotak emerge as the most effective large-cap fund performers in this group.

6. FINDINGS

I. SMALL-CAP FUNDS

1. Nippon India Small Cap Fund shows the highest Sharpe (1.435) and Treynor Ratio (1.616), indicating excellent risk-adjusted performance, though its Jensen Ratio (0.003) implies returns are just in line with market expectations.
2. HDFC Small Cap Fund provides a balanced profile with solid Sharpe and Treynor Ratios, and the highest Jensen Ratio (0.389), reflecting strong outperformance over market expectations.
3. Edelweiss Small Cap Fund performs consistently across all metrics, particularly with a strong Treynor Ratio (1.459), showing good returns relative to market risk.
4. Kotak Small Cap Fund delivers moderate performance, with lower values across all three ratios, indicating less efficiency in converting risk into returns.
5. Franklin India Smaller Companies Fund underperforms significantly, with negative values in all three ratios, suggesting poor fund management and risk-return balance.

II. MID-CAP FUNDS

1. Kotak Emerging Equity Fund has the highest Treynor Ratio (2.666) and a strong Sharpe (1.334) and Jensen Ratio (0.362), indicating efficient performance relative to market risk.
2. Franklin India Prima Fund leads with the highest Sharpe Ratio (1.342) and Jensen Ratio (0.905), showing excellent risk-adjusted returns and strong outperformance.
3. Edelweiss Mid Cap Fund and HDFC Mid Cap Opportunities Fund demonstrate solid, consistent performance across all metrics, reflecting good fund management.
4. Nippon India Growth Fund shows the lowest values for Sharpe, Treynor, and Jensen Ratios, indicating weak performance and minimal excess return over the market.
5. Overall, Franklin, Kotak, and Edelweiss are identified as the top-performing mid-cap funds based on risk-adjusted measures.

III. LARGE-CAP FUNDS

1. HDFC Top 100 Fund leads in performance with the highest Treynor Ratio (3.99) and a strong Sharpe Ratio (0.929), indicating excellent risk-adjusted and market risk-specific returns.
2. Kotak Bluechip Fund records the highest Jensen Ratio (0.443), reflecting strong active management and outperformance despite a lower Sharpe Ratio.
3. Franklin India Bluechip Fund and Nippon India Large Cap Fund show moderate performance, offering decent risk-adjusted returns but limited excess returns over market expectations.
4. Edelweiss Large Cap Fund underperforms significantly, with the lowest values across all three metrics, indicating weak return potential and poor risk efficiency.
5. HDFC and Kotak are identified as the most efficient large-cap funds, delivering the best combination of returns and risk management.

7. SUGGESTIONS

1. Adopt a Diversified Investment Strategy

Investors should consider building a diversified portfolio that includes a mix of small, mid, and large-cap funds. This approach helps reduce overall portfolio risk while allowing participation in different market segments.

2. Choose Funds According to Risk Appetite and Investment Horizon

- Small-cap funds are suitable for aggressive investors who can withstand higher volatility and have a long-term investment horizon.
- Mid-cap funds offer a balance between risk and return and are ideal for moderately risk-tolerant investors.
- Large-cap funds are better suited for conservative investors seeking stability and steady returns.
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3. Evaluate Risk-Adjusted Performance

Investors should focus on metrics such as the Sharpe Ratio, Treynor Ratio, and Jensen's Alpha to assess how effectively a fund is generating returns relative to the risk taken, rather than relying solely on raw return figures.

4. Conduct Periodic Reviews

Mutual fund performance can change over time due to market fluctuations and management strategy shifts. Regularly reviewing fund performance and making necessary adjustments is essential to stay aligned with investment goals.

5. Consider Fund Manager Track Record

The expertise and experience of the fund manager play a crucial role in fund performance. Investors should take into account the fund manager's track record and management style when selecting a scheme.

6. Stay Updated on Market Trends

Since market dynamics influence fund performance, staying informed about economic conditions, policy changes, and sectoral developments can help investors make timely and informed decisions.

8. CONCLUSION

The findings clearly demonstrate that each category of mutual funds offers distinct characteristics. Small-cap funds generally displayed higher volatility, as seen through their elevated standard deviation values. However, this higher risk also brought the potential for higher returns, making them suitable for aggressive investors with a long-term horizon. Mid-cap funds stood out as a balanced category, showing strong performance in terms of risk-adjusted returns, particularly through higher Sharpe and Treynor Ratios in funds like Franklin India Prima Fund and Kotak Emerging Equity Fund. These funds strike a favorable balance between risk and return and can be suitable for moderately risk-tolerant investors. Large-cap funds, on the other hand, demonstrated the most stability, with lower standard deviation and consistent, though relatively modest, returns. Funds such as HDFC Top 100 and Kotak Bluechip Fund showed impressive performance in terms of Treynor and Jensen Ratios, indicating strong risk management and steady alpha generation, ideal for conservative investors seeking predictable outcomes. Overall, the study concludes that no single fund category universally outperforms the others. Each has its own strengths and is suitable for different investor profiles based on their risk appetite and financial goals. Therefore, careful evaluation and diversification across fund types is essential for optimal portfolio performance in the dynamic Indian mutual fund market.

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