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A Study on Small, Mid, and Large-Cap Mutual Fund Schemes of HDFC and SBI Investment Management Firms.

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ABSTRACT

This study aims to conduct a comprehensive comparative analysis of equity mutual fund schemes offered by HDFC Fund Management Corporation and SBI Fund Management Corporation, specifically focusing on small, mid, and large-cap categories. As the Collective investment scheme landscape in India continues to evolve, investors face challenges in navigating the diverse options available, particularly in understanding the performance metrics that influence their investment decisions. This research addresses the existing gap in comparative data by evaluating the historical performance of selected equity funds over a five-year period (2019-2023). Utilizing secondary data from reputable financial platforms, the study employs various statistical tools, including Sharpe ratio, beta, and standard deviation, to assess risk and return profiles. The findings aim to provide valuable insights for investors, enabling them to make informed choices aligned with their financial goals and risk tolerance. Ultimately, this study contributes to the broader understanding of mutual fund performance in India, highlighting the effectiveness of different equity schemes in delivering returns while managing risk.

Keywords: Small-cap, Mid-cap, Large-cap, Managed funds, Beta, Sharpe ratio, Standard deviation, alpha, Variance, Mutual Funds.

Introduction

The growing popularity of collective investment schemes reflects investors' desire to enhance their wealth while minimizing risk. These include small cap, mid-cap, and large cap equity mutual funds, each tailored to different risk appetites and return expectations. Small cap funds invest in companies with lower market capitalizations, offering higher growth potential but also greater risk. Mid-cap funds seek a balance of growth and stability, while large-cap funds focus on established companies for more stable returns.

This study aims to compare small cap, mid-cap, and large cap funds from HDFC Fund Management Corporation and SBI Fund Management Corporation, two key players in India’s asset management market. It will evaluate performance based on average returns over five years and essential risk metrics, including standard deviation, alpha, beta, and Sharpe ratio.

The analysis will help investors make informed choices by assessing the risk-return profiles of these funds, comparing them against benchmarks and competitors. Ultimately, it aims to identify which funds offer superior risk-adjusted returns and best align with various investor profiles and financial goals.

Review of Literature

Komal B S (2020), the study analyzes the five joint venture investments carried out by private sector entities in India from Jan- 2017 to Dec- 2019. Well, the other two are not good. The study indicates that investors should take into account parameters such as beta, alpha and standard deviation prior participating in investment fund. **Isha Roy Choudhary, Prof. Paheli Nigam, and Prof. Ahmed Sayed (2020)** in their study have analyzed the debt mutual funds’ performance of four different companies. The investigation has been completed centered on the risk-to-expansion relationship that involves the tool usage like Sharpe ratio, return to growth, average growth, and total return. The research inferred that the funds of ICICI Prudential outperformed other funds and delivered higher returns while risking relatively less.

Anuja Magdum, CA, and Girish A. Samant (2019) their study involved the analysis of 21 equity-based asset management fund plans from public and not public segment companies. The conclusions of the research paper indicated that private sector companies outperformed public sector companies, offering higher rewards with moderate risk. **Satheesh Kumar Rangasamy, Dr. Vetrivel T and Athika M (2016)**. The research assessed and compared diverse kinds of investment funds such as mutual funds, investment funds, investment funds and equity funds using different models, simple averages, rankings and simple comparisons. The conclusions of this analysis are intended to help investors through delivering a basis for comparing returns and risks and enabling them to make investment decisions. **R. Kumar Gandhi (2016).** In this study, the performance of investment vehicle funds offered by certain banks were gauged using diverse pointers such as standard deviation, beta coefficient, Treynor ratio and Sharpe ratio. The outcomes of the analysis show that Equity Tax Savings Scheme of Canara Robeco is quite effective.

The examination of preceding research specifies that numerous studies have focused on mutual funds. Certain studies have concentrated on comparing particular mutual fund schemes from chosen companies, others have looked at every plan offered by a certain investment fund house. Furthermore, certain research has examined the effectiveness of fund management firms in the nonpublic and public segments. Nevertheless, there is a conspicuous absence of studies focusing directly on the performance of small, mid, and large cap equity funds. This research seeks to close this void by assessing the effectiveness of small, mid, and large cap equity plans offered by SBI and HDFC mutual fund firms. Moreover, it aims to identify which plans produce higher profits in comparison to comparable options from a different company.

Statement of the Problem

Mutual fund investment landscape in India has expanded significantly, featuring an extensive diversity of plans designed to meet different risk appetites and investment objectives. Among these, equity investment fund plans categorized as lower market cap (small cap), moderate market cap (mid cap) and higher market cap (large cap) are particularly noteworthy because of their probable for capital growth. Though, there is lack of clear and comparative data that can assist investors in making well informed decisions. The current analysis wishes to report this issue by performing a comparative examination of equity investment fund plans offered by HDFC and SBI investment management firms, focusing specifically on the lower market cap (small cap), moderate market cap (mid cap) and higher market cap (large cap) categories. The purpose of this study is to offer an extensive assessment of these assets in order to assist investors in making decisions.

Objectives of the Study

- To evaluate the amount of risk attached to HFMC and SFMC companies' small, mid, and large-cap equity investment fund plans.
- To contrast different performance indicators for the chosen equities mutual fund schemes, such as beta, standard deviation, and Sharpe ratio.

Research Methodology

This study uses secondary data. Pre-existing data were collected through websites, platforms, and various journals. Statistical tools such as Standard deviation, beta, Sharpe ratio, and alpha have been used assess the risks and **correlation test** was employed to evaluate the research hypothesis.

Sampling

Sample Size: For this study two fund management corporations are chosen:

Sampling Technique: The study uses a purposive sampling method, selecting two asset management companies, HDFC and SBI investment management firms, from a population of 44 AMCs.

Hypothesis

H0: States that the variance and risks of small, mid and high cap funds provided by HDFC fund management corporation and SBI fund management corporation does not correlate.

H1: A clear correlation exists between the risk factor and standard deviation applied in HDFC and SBI small, mid, and large cap funds.

Data Analysis and Interpretation

Table showing five-year average returns and risk ratios of small, mid and large cap schemes of selected Analysis

		SBI AMC	HDFC AMC
Small cap Fund	5-year Average Return	25.52%	26.24%
	Alpha	7.03	-1.74
	Beta	0.55	1.02
	Standard Deviation	15.76	27.09
	Sharpe ratio	1.15	0.7
Mid cap Fund	5-year Average Return	25.15%	24.58%
	Alpha	1.01	3.21
	Beta	0.97	0.81
	Standard Deviation	20.01	16.72
	Sharpe ratio	0.89	1.03
Large cap Fund	5-year Average Return	17.07%	17.23%
	Alpha	0.58	0.42
	Beta	1.05	1.08
	Standard Deviation	7.81	10.57
	Sharpe ratio	1.24	0.93

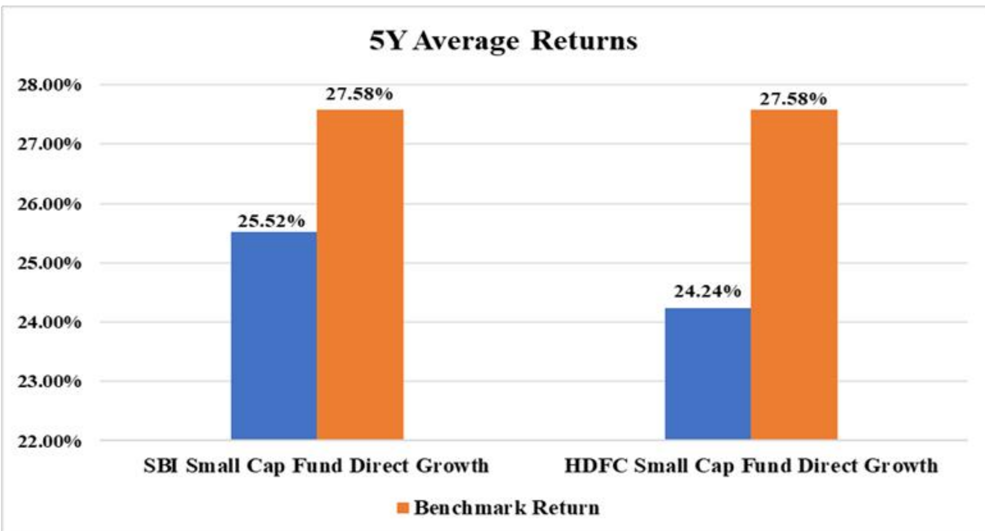
The above table is showing the five-year average returns and risk ratios of small, mid and large cap schemes of HDFC and SBI Investment management firms for the period of five years (2019- 2023).

The five-year average returns of SBI and HDFC's small-cap fund is 25.52% and 26.24% respectively. The alpha of SBI and HDFC small cap fund is 7.03 and -1.74, Beta is 0.55 and 1.02, Standard deviation is 15.76 and 27.09 and Sharpe ratio is 1.15 and 0.7 respectively.

The five average returns of SBI and HDFC's Midcap fund is 25.15% and 24.58% respectively. The alpha of SBI and HDFC small cap fund is 1.01 and 3.21, Beta is 0.97 and 0.81, Standard deviation is 20.01 and 16.72 and Sharpe ratio is 0.89 and 1.03 respectively.

The five-year average returns of SBI and HDFC's Large-cap fund is 17.07% and 17.23% respectively. Alpha of SBI of small cap fund is 0.58 whereas HDFC is 0.42. Beta of SBI is 1.05, and HDFC is 1.08. Standard deviation of SBI is 7.81 percent and HDFC is 10.57. Sharpe ratio of SBI is 1.24 and of HDFC is 0.93.

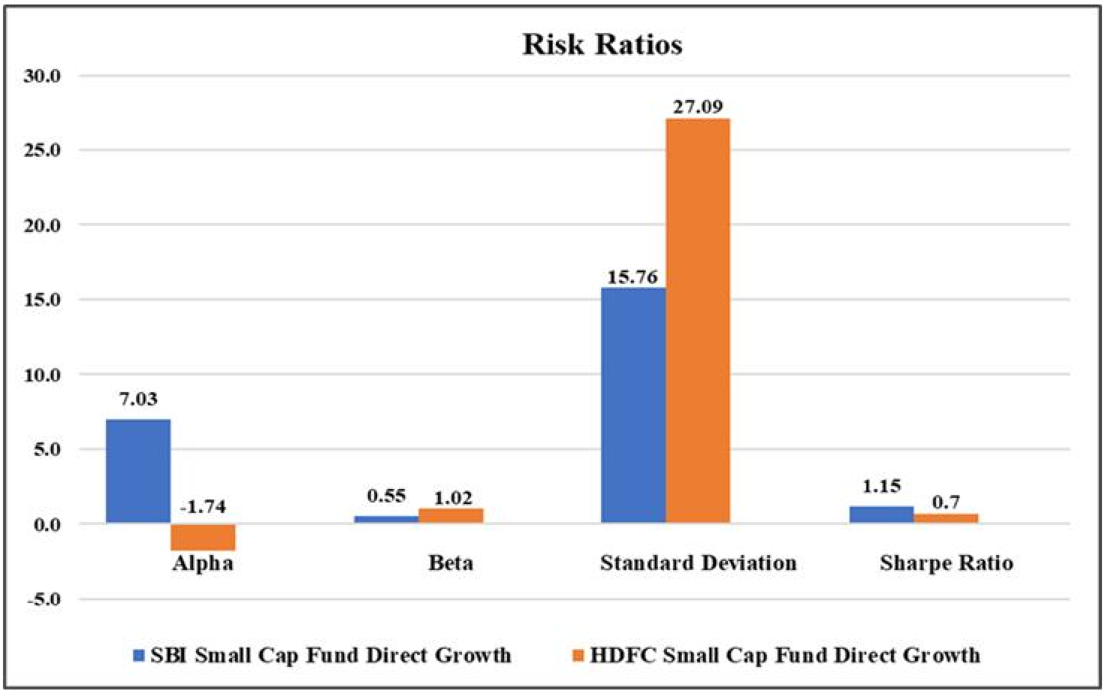
1.1 Graph showing the average five year returns of small-cap fund of selected



Interpretation

The 5-year average returns of SBI small cap fund have underperformed its benchmark (Nifty Small cap 250) returns by 2.06%. Similarly, HDFC small cap fund have also underperformed its benchmark's return by 1.34%. While both the funds have underperformed the benchmark return, HDFC small cap fund has generated slightly better returns over the 5-year period.

1.2 Graph Showing Risk ratios of small-cap fund of selected AMC's

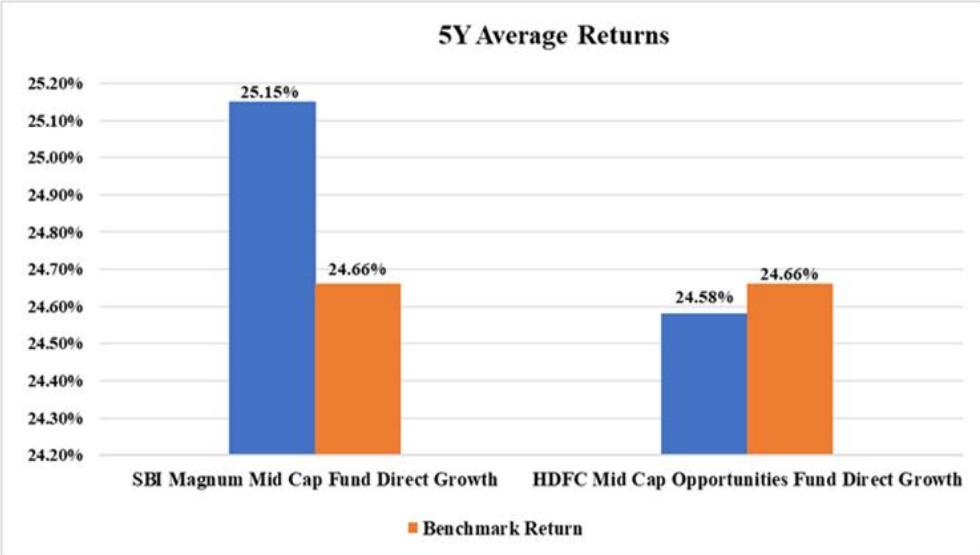


Interpretation

- Alpha of SBI and HDFC small cap fund are 7.03 and -1.74 respectively. This depicts that SBI small cap has produced excess return in comparison with HDFC small cap fund on a risk-adjusted basis.
- Beta of SBI and HDFC small cap fund are 0.55 and 1.02. This indicates that SBI small cap is less sensitive/volatile towards market movement than HDFC small cap fund. The standard deviations of the SBI and HDFC small-cap funds are 15.76 and 27.09 respectively. From this, it can be derived that the return volatility of the SBI small cap fund is lesser compared with HDFC small cap fund.
- Sharpe's ratio for SBI and HDFC small cap fund is 1.15 and 0.70, respectively. This suggests that SBI small cap has incurred better risk-adjusted returns for every unit of risk taken than HDFC small cap fund.

Therefore, it may be concluded that SBI small cap fund seems to be a better option when the investors look for relatively good risks versus returnable profile, while HDFC small cap fund offers huge returns with a risk profile of higher order and lower performance in terms of risk adjustment.

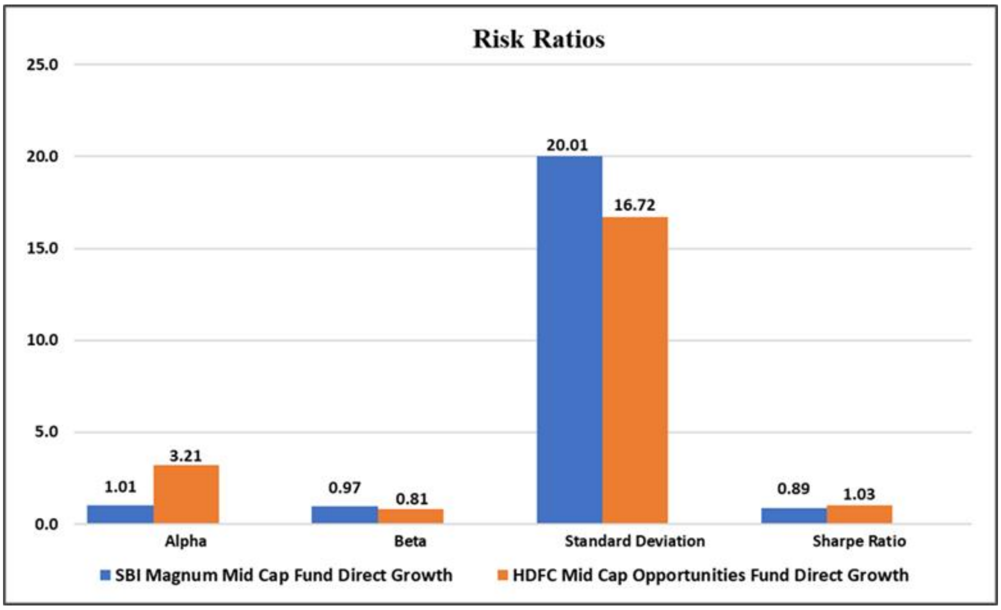
1.3 Graph showing the average five year returns of Mid-cap fund of selected



Interpretation

The 5-year average returns of SBI mid cap have outperformed its benchmark (Nifty Midcap 150) returns by 0.49% indicating that the fund has added value over its benchmark through effective stock selection, active management and other strategic decisions. On the other side, HDFC mid cap has slightly underperformed the benchmark return by 0.08%. In a nutshell, even though the difference is not huge SBI magnum mid cap fund has delivered better returns compared to benchmark returns as well as HDFC midcap opportunities fund.

1.4 Graph Showing Risk ratios of Mid-cap fund of selected AMC's



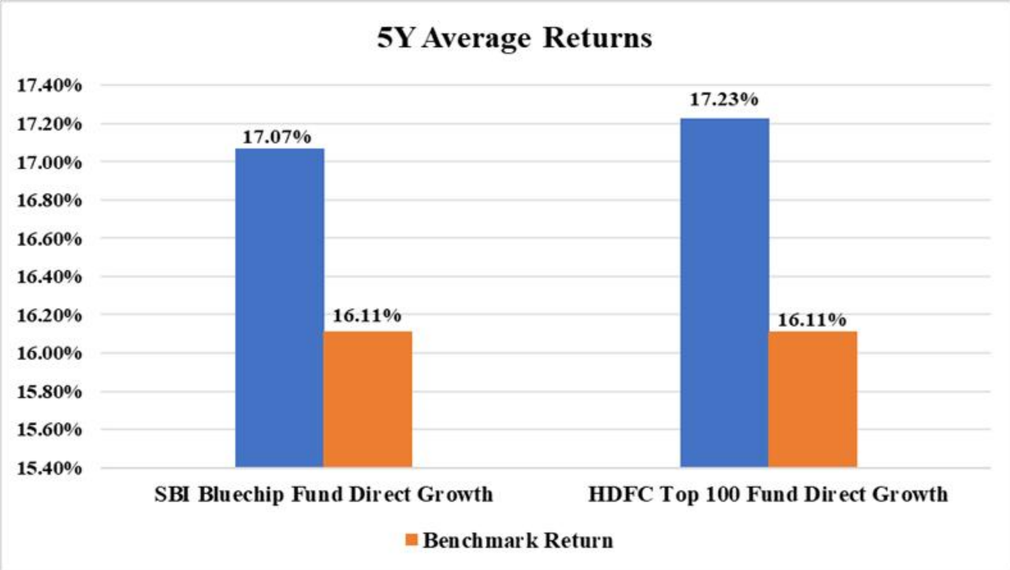
Interpretation

- Alpha of SBI and HDFC mid cap fund are 1.01 and 3.21 respectively. This shows that HDFC midcap fund has generated excess return than its benchmark on a risk adjusted basis compared to SBI midcap fund.
- Beta of SBI and HDFC midcap fund are 0.97 and 0.81 respectively. This indicates HDFC midcap fund is less sensitive towards market movements and hence less risker compared SBI midcap fund.
- Standard deviation of SBI and HDFC midcap fund are 20.01 and 16.72. This suggests that HDFC midcap fund has lower volatility and its returns are more stable compared to SBI midcap fund.

- Sharpe ratio of SBI and HDFC midcap fund are 0.89 and 1.03 respectively. This indicates that HDFC midcap fund generates more returns for every unit of risk taken than SBI midcap fund.

Overall, HDFC Midcap opportunities fund appears to be a best option for investors seeking stability and risk adjusted returns. However, SBI Magnum midcap fund offers a slightly higher returns but comes with higher risk and lower risk adjusted performance compared to HDFC midcap opportunities fund.

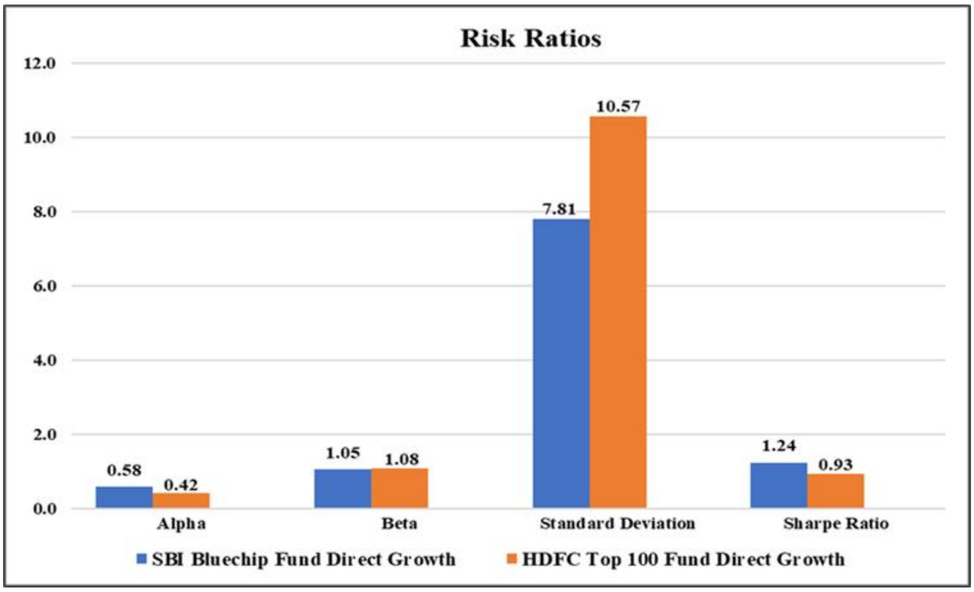
1.5 Graph showing the average five year returns of Large-cap fund of selected



Interpretation

A comparison of the 5-year average returns shows that the SBI and HDFC large cap fund have offered relatively better returns over the benchmark returns. In fact, while the former had managed to outperform the returns from the benchmark by 0.96%, the HDFC large cap fund forms the edge between the two funds related to creating returns in that period with 1.12%.

1.6 Graph Showing Risk ratios of Large-cap fund of selected AMC's



Interpretation

- Alpha of SBI and HDFC large cap fund are 0.58 and 0.42 respectively. This shows that SBI large cap has provided an excess return over its benchmark on a risk-adjusted basis compared to HDFC large cap fund.

- The Beta of large-cap funds of SBI and HDFC is 1.05 and 1.08. This suggests that both these funds are volatile compared to the benchmark, but the HDFC large cap fund is more volatile to market movements in comparison to SBI large cap fund.
- Standard deviation of SBI and HDFC large cap fund is at 7.81 and 10.57. This means HDFC large-cap has greater variability of returns compared to SBI large-cap fund.
- Sharpe ratio of SBI and HDFC large cap fund is 1.24 and 0.93 respectively. This indicates that, comparatively for each unit of risk taken, more returns have been generated by SBI large cap compared to HDFC.

Therefore, it can be concluded that an investor who requires stable returns and well risk-adjusted returns can opt for SBI Bluechip fund. However, the investor desirous of good returns and risk- taking capacity may go with HDFC Top 100 fund.

Hypothesis Test

Hypothesis

H0: States that the variance and risks of small, mid and high cap funds provided by HDFC fund Management Corporation and SBI fund management corporation does not correlate.

H1: A clear correlation exists between the risk factor and standard deviation applied in HDFC and SBI small, mid, and large cap funds.

Correlations

		Risk	Return
Risk	Pearson Correlation	1	.856*
	Sig. (2-tailed)		.030
	N	6	6
Return	Pearson Correlation	.856*	1
	Sig. (2-tailed)	.030	
	N	6	6

Analysis:

The above table is showing the Pearson correlation coefficient 0.856, P-value (Sig.2-tailed) – 0.030 and sample size (N) 6.

Interpretation:

The Pearson coefficient which is 0.856 indicates that there is a substantial positive relationship between risk and returns of small cap, Midcap and Large cap funds of SBI and HDFC mutual funds. This implies that returns typically rise in line with risk.

The p-value (0.030) is below 0.05, hence null hypothesis (H0) is rejected and Alternative hypothesis (H1) is accepted which states that there is a significant relationship between the risk and returns of small cap, midcap and large cap mutual fund schemes of SBI and HDFC mutual fund.

Findings:

- SBI and HDFC's small-cap funds have 5-year average returns of 25.52% and 26.24%, respectively. While HDFC offers higher returns, it comes with greater risk (standard deviation: 27.09, beta: 1.02). SBI, though delivering lower returns, has better risk-adjusted performance with a lower standard deviation (15.76), beta (0.55), alpha (7.03), and a higher Sharpe ratio (1.15).
- SBI's Mid Cap Fund has a 5-year average return of 25.15%, slightly higher than HDFC's Mid Cap Fund at 24.58%. However, HDFC outperforms in risk-adjusted performance, with a lower standard deviation (16.72 vs. 20.01), lower beta (0.81 vs. 0.97), higher Sharpe ratio (1.03), and alpha (3.21).
- HDFC Top 100 Fund (large cap) provided higher 5-year average returns (17.23%) than SBI Bluechip Fund (17.07%), exceeding the benchmark by 1.12% and 0.96%, respectively. However, HDFC's higher returns come with greater risk (standard deviation 10.57, beta 1.08). In contrast, SBI's fund has a lower risk (standard deviation 7.81, beta 1.05) and is better risk-adjusted, with an alpha of 0.58 and a Sharpe ratio of 1.24.

Recommendations

- In small-cap fund category, investors seeking better risk-adjusted returns may prefer the SBI Small Cap Fund, as it carries lower risk than the HDFC Small Cap Fund. However, those willing to take on more risk for higher returns can opt for HDFC Small Cap Fund.
- In Mid-cap fund category, HDFC Midcap Opportunities Fund offers better risk-adjusted performance with less return variability compared to SBI Magnum Midcap Fund. Investors seeking stability and better risk-adjusted returns can prefer HDFC, while those willing to take on more risk for higher returns can choose SBI.
- In the large-cap category, HDFC Top 100 Fund has slightly higher returns than SBI Bluechip Fund, but with more risk and return variability. Investors may prefer SBI Bluechip for its lower risk and more consistent returns over HDFC's large-cap fund.

Conclusion

The examination of SBI fund management corporation and HDFC fund management corporation's equity schemes across small, mid, and big-cap categories are revealed certain patterns in returns, risk levels and risk adjusted performance which aids investors to make informed decisions. HDFC Small Cap Fund offers higher returns but with greater risk, while SBI Small Cap Fund provides better risk-adjusted results, appealing to cautious investors. In the mid-cap category, SBI delivers stronger returns, whereas HDFC excels in risk-adjusted performance. Both HDFC and SBI large- cap funds surpass their benchmarks, but SBI shows superior risk-adjusted performance.

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