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A Study of Midcap Funds existing since last 15 Years in Mutual Fund Industry

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Abstract:
Mutual funds are a mass collective vehicle which caters to large number of investor categories helping them to invest as per their goals. The main objective of this research paper to help investors choose between various midcap schemes for better decision making. This study has considered seven Equity Midcap Schemes existing in mutual funds industry since last fifteen years as this tenure has seen many bull and bear phases helping an unbiased comparison. The cumulative score of performance ranking of schemes is considered as dependent variable. The study uses the parameters like comparison of performance over last fifteen Years vis-à-vis category average, Comparison with respect to two indices of midcap (Nifty Midcap free float midcap 100 index and BSE Midcap Index), Comparison on basis of AUM and Portfolio Turnover ratio. The ranking method is applied in the comparisons. The result of the study indicates that the funds should hold good on all the parameters to be yield a higher overall score. It has also been observed that though AUM of scheme is important but investor must consider analysis of outperformance of indices as well as category average and portfolio turnover ratio for better decision making. The study revealed that Franklin India Prima Fund has yielded maximum cumulative rank and Escorts Growth Fund has turned out to have gathered lowest overall ranking.
Keywords: *Midcap Funds, performance, Portfolio turnover, PE Ratio, BSE Midcap, NSE Nifty Midcap Free Float 100 index.*

I. INTRODUCTION

A mutual fund is a collection of pool of money invested by individuals for portfolio managers to invest in different securities (like stocks and debt). As it is collective, every investor gains and loses in equal quantity and the costing of the mutual fund schemes are shared in the total expense ratio called as TER. And, because the funds are diversified across stocks, fixed income and various securities, they usually bear lesser risk than individual shares or debt security. Mutual fund scheme units are bought at the scheme's current NAV. This value is determined by dividing the entire value of all the securities in the scheme by the number of outstanding units of the scheme under consideration. There are numerous benefits offered by mutual fund viz Professional Money Management where portfolio managers are responsible for implementing a consistent strategy of investment that reflects the goals of the scheme. Fund managers monitor fundamental & economic trends & scrutinize the securities in order to calculate well informed investment decisions. On second step comes diversification, which is one of the crucial ways to reduce risk. Mutual funds gives investors with an opportunity to distribute across various assets depending on their individual investment needs. Thirdly, Liquidity is important where Investors are able to sell their mutual fund units on any transaction day and receive the current market value on their investments within a short window of time period (normally one- to three days). we have various categorization in Mutual funds which are Small Capitalization, Mid and large Capitalization. The Midcap funds are relatively under followed in equity markets as compared with large and giant cap funds. This provides the investors with a big opportunity to look for fast growth in their monies using these

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schemes. But unlike large cap diversified equity funds, it invests in carefully chosen mid-sized firm that have the potential to

offer more growth potential than the large A group companies. At the same time this will mean that it carries greater risk and volatility, the higher growth potential makes it complement diversified funds in a portfolio.

II. LITERATURE REVIEW

Dr. Ravi Akula and Dr. M Anuradha Reddy (2017) in their study "An overview of mutual funds in India" have described the growth trends of AUM of mutual funds industry from 2013 to 2017 where the industry has grown 2.5 folds in the said period. The author credits the reasons of growth to the various factors like small NAV of schemes, returns generated in equities, funds being open ended like bank schemes. Also the author writes about the professional management skills of mutual fund managers like lower total expenses, flexibility, liquidity, diversification, transparency and favorable actions by the regulators. The authors also suggest the industry can grow by adding various distribution channels like banks and direct. Also the researcher has emphasized the importance of investor education and need of innovative products and inclusion of technology in the industry.

Anu Sahi, Anurag Pahuja and Balram Dogra (2013) examines the principle of Value at risk (VaR) in the article "Value at risk methodology for measuring performance of mutual funds". The authors states the importance of downward volatility or losses instead of upward volatility. Author has considered 20 schemes for evaluation purpose with respect to Normal VaR, modified VaR. It has also been tested that there are few schemes which have given the sustained returns while a few of them are laggards. One more observation suggests that Kotak Arbitrage Fund is an odd man out of the 20 schemes as arbitrage fund cannot be compared with any equity scheme as the former gives returns w.r.t. Crisil Liquid index.

Rais Ahmad and Abuzar Nomami (2015) in their article "Comparative Analysis of Risk, Return and Diversification of Mutual Fund" examines 5 large cap mutual funds on various technical parameters like Beta, alpha, standard deviation, R-Squared along with performance indicator like 1 month to 5 years returns of selected schemes. The author deduces that there are different schemes are one of the schemes of ICICI Pru MF has preformed well along in short as well as long term. Another scheme Franklin India Bluechip fund is the least risky with lower beta and Standard deviation. The researcher also states the need to analyze one's risk profile and inclusion of 3-5 large cap schemes in portfolio.

Gauri Prabhu and N M Vechalekar (2015) in their research paper "Perception of Indian Investor towards investment in mutual funds with special reference to MIP funds" try to infer the investor behaviour along with the awareness level of investor and choice of funds keeping the monthly income plan (MIP) with respect to the factors like Age of investor, their occupation, Monthly family income and investor awareness about mutual funds. The article also focuses on various traits of investment products like liquidity, returns, risk level, good will of the company and choice of schemes in mutual fund. The author concludes that mostly the investors have knowledge of mutual funds and invest in MIP for consistency of retuns.

K Alamelu and Dr. G Indhumathi (2017) in their study "Investors Perception Towards Mutual Funds In Madurai District,Tamil Nadu" examines the preference of the investor taking into consideration their age, gender, occupation, education, monthly income and savings as the demographic details. The author also looks into the investment options preferred by the investor ranging from bank and postal deposits to equity and mutual funds. The study also considers the behaviour aspect of investors on basis of the sponsors of mutual funds viz. Bank sponsored, Indian and joint venture mutual funds. The author concludes that the demogrphics have a direct impact on the preference.

Sumana B K and B Shivraj (2017) in their study "Market Timing and stock Selection Abilities of Indian Equity Mutual Fund Manager" infers that the portfolio managers seek private information which is non-public and material for stock selection and information available in public domain. The study

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includes a mix of large cap, mid cap and small cap funds totaling to 50 funds. Using Terynor and Mazuy model (TM) & Henriksson and Merton model author suggests that the largely the portfolio managers focuses on stock selection rather than timing the markets.

Saranya K and Parthiban Thangavel (2018) in their research paper "Performance Evaluation of India Equity Mutual Fund Schemes." uses the secondary data of 5 funds vis-à-vis to various parameters like returns generated with respect to Sensex, comparison of funds on basis of standard deviation, evaluating the schemes on basis of beta of the fund, the same funds are analyzed on alpha, sharpe, treynor and jenson's ratio. The author concludes that investors should consider safety, liquidity and taxation aspect of the scheme.

S Rohitraj and D H Rao (2015) in their research article "Performance Evaluation of Open Ended Large Cap Equity Mutual Fund and Mid and small Cap Equity mutual Fund Growth Scheme with Special Reference to SBI Mutual Fund and HDFC Mutual Fund". The paper analyzes SBI emerging businesses fund and HDFC top 200 fund from 2009 to 2014. The paper studies the 2 funds on basis of return and risk for 5 years. The study also analyzes the funds on various stand alone parameters like sharpe, jenson, treynor's ratio with alpha, beta and returns compared to nifty index. The study concludes that both the funds are doing well on some or the other parameters.

Manoj kumar Dash (2018) in his research paper "Performance of Selected Mutual Funds In India" has selected 6 equity schemes and have tested the schemes on various parameters like Return of schemes, Standard Deviation, Beta, Sharpe's ratio, Treynor's ratio, Jensen's Ratio. The author has averages the benchmark and compares and ranks the schemes from 1 to 6. The cumulative total of the schemes is used to take final conclusion. It is also seen that ICICI growth fund takes the first place and LIC growth fund take the last place.

Abuzar Nomani and Rais Ahmad (2014) in their research paper "Performance Evaluation of Mutual Funds in comparison to Category average and Benchmark" analyses 5 different funds in each of the 3 categories viz. Large Cap, Small & midcap and Diversified equity schemes. In part 1 of the research the author has compared the schemes returns with category average and bench mark returns and in 2nd part the funds are compared with the risk parameters like Standard Deviation, Sharpe, sortino ratios, beta, alpha and r-squared. The author concludes that large cap funds and mid cap funds have their returns in line with the respecive benchmarks and the category average whereas the returns of the smallcap funds have an element of volatility and few funds have outperformed the benchmarks.

III. NEED FOR THE STUDY

There are many midcap funds in industry were not pure midcaps their entire existence span. The main issue with the midcap and small cap space is that it is eclipsed with the issues of short span that it is impossible to use them for a consistent analysis. Even in the benchmark space, National stock exchange and Bombay stock exchange have made changes to how nifty and sensex are respectively computed. Midcaps are called the returns generator of the Indian equity space. While there are large number of midcap mutual funds in this segment but neither all are consistent nor have they seen the major bull and bear segment in market. The midcap funds present themselves with a constant allocation in this space and for this study we have considered 7 Equity Midcap funds which have completed 15 years in industry out of the universe of 95 midcap category on basis of various parameters. 15 years is a long period where a fund passes through many bear and bull phases. They are the funds irrespective of they are holding a star rating (as per Value Research). For the analysis we have used funds mentioned in appendix 1 mentioned with their inception date. We have used secondary data for the study and ranking method is used. In Tables 1 to 5 the various parameters are used to analyze the data.

IV. RESEARCH DESIGN

The study involves 7 Equity Midcap funds which have completed 15 years in industry out of the universe of 95 midcap category on basis of various parameters.

V. SAMPLING

The Sampling involves 7 Schemes which have completed 15 years as on Nov 2017 with Regular plan and growth option from various fund houses. The direct plan and dividend option has been kept out from the study.

Appendix - 1

Midcap Schemes	VR Rating	Launch Date
Aditya Birla Sun Life Mid Cap Fund	* * *	3-Oct-02
Escorts Growth Fund	Unrated	21-Mar-01
Franklin India Prima Fund	* * * *	1-Dec-93
Reliance Growth Fund	*	8-Oct-95
Sundaram Select Midcap Fund - Regular Plan	* * *	30-Jul-02
Tata Midcap Growth Fund - Regular Plan	* * *	1-Jul-94
Taurus Discovery Fund - Regular Plan	* *	5-Sep-94

VI. RESEARCH DESIGN

A. *Research variables*

Independent variables: Returns of the schemes, Rank of returns vis-à-vis to category average, Rank of returns vis-à-vis to benchmark, AUM of the schemes and Portfolio turnover ratio (PTR) of the schemes.

Dependent Variable: Cumulative score of performance ranking of schemes.

B. *Research Objectives*

1. To understand the relation between the long term performance of select equity funds with basic parameters like AUM and category average.
2. Examine and gain insight about the interdependence of technical the technical factor like PTR and benchmark.

C. *Research techniques and tools*

In the stated variables and data of the midcap schemes which have completed 15 years in industry as on Nov 2017. For the funds which have not completed full 15 years on the mentioned time have been dropped in order to avoid statistical inaccuracies in analysis. Association of independent variables with dependent variables and the extent of influence independent variables exert over the dependent variable(s) were examined by using Mean test and ranking method to assess the data and compare the performance.

VII. EMPIRICAL RESULTS

1. *Performance of Schemes vis-à-vis to the category average*

The mean performance of the dependent variables i.e. returns of the schemes have been depicted for a period of 15 years along with the values arranged in descending order with highest value on top and giving the rank to the values below:

Table – 1
15 Years Performance of Schemes vis-à-vis to the category average

Schemes	Return (%)	Rank	Points
Sundaram Select Midcap Fund	30.19	1	7
Reliance Growth Fund	28	2	6
Franklin India Prima Fund	26.8	3	5
Aditya Birla Sun Life Mid Cap Fund	25.83	4	4
Tata Midcap Growth Fund	23.56	5	3
Escorts Growth Fund	19.73	6	2
Taurus Discovery Fund	17.66	7	1
Category Average	**24.54**	-	-

The said Table 1 clearly indicates 4 funds namely Sundaram Select Midcap, Reliance Growth Fund, Franklin India Prima Fund and Aditya Birla Midcap Fund have performed above the category average of 24.54% and rest 3 funds have been underperforming. Ranking method has been used to arrange in descending order and points have been awarded to the schemes with highest rank for further analysis.

2. *Performance vis-a-vis to either of the Benchmarks*

Benchmark is used to show the superlative performance being achieved by a scheme, company or the industry by large . This information can then be used to pin point gaps in a company's processes in order to achieve a competitive edge. There are 2 benchmark indices used to compare the performance of the mid cap schemes The NIFTY Midcap 100

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Index tracks the movement of the midcap piece of the market. The NIFTY Midcap 100 Index mirrors the 100 tradable equity scrips listed on the National Stock Exchange (NSE) and a Bombay stock exchange midcap index tracks the midcap equity in its index sensex.

Table – 2
10 Years Performance of Schemes vis-a-vis to either of the Benchmarks

Schemes	Returns (%)	Rank	Points
Sundaram Select Midcap Fund –RP	14.9	1	7
Franklin India Prima Fund	13.48	2	6
Aditya Birla Sun Life Mid Cap Fund	12.30	3	5
Tata Midcap Growth Fund – RP	12.17	4	4
Reliance Growth Fund	10.65	5	3
Escorts Growth Fund	7.19	6	2
Taurus Discovery Fund – RP	4.95	7	1
Nifty Free Float Midcap 100 Index	**9.55**	**-**	**-**
BSE Midcap Index	**7.06**	**-**	**-**

Since the performances of many investments are put against a benchmark index, outperformance refers to a higher return of a particular scheme than a particular benchmark over a period of time. In Table 2 we can observe that the performance of benchmark indices NSE Midcap and BSE Midcap are respectively 9.55% and 7.06% in a period of 10 years. The funds are arranged in decreasing order of performance and ranked accordingly. Further we can observe that Taurus Discovery Fund has neither outperformed either of the benchmarks. The fund has been allocated lowest points.

3. Asset Under Management of Schemes

In an approach of risk mitigation, size of Asset under Management (AUM) plays an important role as Less AUM in any scheme can prove very risky as we don't know who the investors are and what quantum of investments they have in fund. Redemption of any HNI or corporate investor out of any mutual fund scheme may majorly dent its overall performance and rest of the investors in a fund will have to bear the impact. In schemes with huge Asset Under Management this negative impact gets diffused. This framework is different for fixed income schemes and equity funds. Depending on average ticket size, asset size in equity should be in hundreds of crores and in debt it should be thousands of crores. So the selected scheme assets should also have a considerable AUM. More assets in a fund will also help in reducing the Total Expense Ratio (TER) of the scheme.

Table – 3
Asset Size of Schemes (threshold Asset size 500 Crs)

Schemes	AUM	Rank	Points
Reliance Growth Fund	7103	1	7
Franklin India Prima Fund	6298	2	6
Sundaram Select Midcap Fund –RP	5994	3	5
Aditya Birla Sun Life Mid Cap Fund	2435	4	4
Tata Midcap Growth Fund – RP	700	5	3
Taurus Discovery Fund – RP	49	6	2
Escorts Growth Fund	5	7	1

The AUM criteria for an equity scheme is considered as Rs 500 Crs and Taurus Discovery and Escorts Growth fund has not been able to garner the said AUM in 15 years of its existence and hence should not be considered for investment as it may adversely impact the performance and liquidity in future. The same can be observed from Table-1 and Table-2 that the performance is neither beating the category average nor any of the benchmarks which again supports the arguments.

4. Portfolio Turnover Ratio

The turnover ratio of a scheme basically tells us about the percentage of holdings the portfolio manager changes in a particular year. For e.g., if a fund has a portfolio turnover ratio of 50% in some year, this means that the fund manager has changed 50% holdings of the fund in that particular year. The turnover ratio can be used to analyse the stock picking strategy that the fund manager follows. If the turnover is low, then it means that the fund manager follows the buy and hold strategy, and if the turnover is high, it means the stock picking and selling is more frequent.

Table – 4
Portfolio Turnover Ratio of the schemes

Schemes	Portfolio Turnover Ratio	Rank	Points

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Franklin India Prima Fund	23%	1	7
Tata Midcap Growth Fund – RP	44%	2	6
Sundaram Select Midcap Fund –RP	46%	3	5
Aditya Birla Sun Life Mid Cap Fund	82%	4	4
Reliance Growth Fund	138%	5	3
Taurus Discovery Fund – RP	225%	6	2
Escorts Growth Fund	-	7	1

As we can observe from the table the funds from Franklin, Tata, Sundaram and Aditya Birla have the portfolio turnover ratio below 100% and Reliance and Taurus in turn is 138% and 225% respectively. Since there is huge PTR it raises the chances of high expense being there in fund and impact the consistency of the performance.

VIII. Findings

In the research work of comparative study on the midcap schemes in the market which has completed 15 years in Mutual fund industry, from the data analysis and interpretation researcher we have calculated the cumulative score of performance ranking of schemes by calculating the weighted total for each schemes observed from Table-1, 2, 3 and 4 and then allocating the final ranking.

Table – 5
Cumulative score of performance ranking of schemes

Schemes	Total Points	Rank
Franklin India Prima Fund	24	1
Sundaram Select Midcap Fund –RP	24	1
Reliance Growth Fund	19	2
Aditya Birla Sun Life Mid Cap Fund	17	3
Tata Midcap Growth Fund – RP	16	4
Taurus Discovery Fund – RP	6	5
Escorts Growth Fund	5	6

The observations are as follows:

1.) **Performance of Schemes vis-à-vis to the category average:** The analysis from Table 1 has been done for 15 Years span and the mean returns of all the schemes for respective tenure has been calculated and it is found that 3 schemes namely Aditya Birla Sunlife Midcap Fund, Frankin India Prima Fund and Sundaram Select Midcap has consistently outperformed in 4 out of 5 comparison periods

2.) **Performance of Schemes via-a-vis to the either of the Benchmarks:** In reference to Table 2, the schemes belong to Midcap segment and have been benchmarked against Nifty Free Float Midcap 100 index and BSE Midcap Index. The comparison was done if the schemes have outperformed the benchmark over tenure the researched finds that Sundaram Select Midcap Fund and Franklin India Prima Fund has consistently beaten the benchmark followed by Aditya Birla Sunlife Midcap fund. Whereas Taurus Discovery and Escorts Growth Fund grossly under performed and could not beat benchmark in few cases.

3.) **Asset Size of Schemes, threshold Asset size 500 Crs:** A small asset size can be a big handicap for future performance of a fund. Higher Asset Under Management also means better buffer to the investors in case of sizable redemptions or market faces a fall. We have considered asset size of 500 Crs in Table 3 in which Taurus Discovery and Escort Growth does not qualify.

4.) **Portfolio Turnover Ratio of the Schemes:** Portfolio turnover is a measure of how frequent basis the assets within a scheme are sold and bought by the portfolio managers. Unless the superior and better asset selection exhibits benefits that compensate the added transaction costs it causes, a low volume active trading may generate superior fund returns. In the analysis of Table 4 Franklin India Prima Fund, Tata Midcap and Sundaram Select Midcap are under a reasonable PT ratio whereas other schemes have a very high ratio which can pull performance down.

IX. Recommendations

Apropos the data analysis of the schemes of Midcap funds in 15 Years following are the suggestions of practical significance:
Although AUM is the secondary while comparing the performance of the schemes but experts suggests that the returns may impact in situation of huge redemptions or cashflows.
Investors Should in general avoid the schemes of high portfolio turnover ratio which increases the costs of the funds.

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X. Future Research Directions

a.) The Study considers only the 7 funds which has completed 15 years of track records out of the universe of 95 midcap funds in the industry.
b.) There are midcap schemes launched in the interim period which may or may not be outperforming on various parameters which is not into the analysis.
c.) The Sampling is done for 15 years while the industry is approx. more than 25 years old which consists of many funds of various objectives.

Conclusions

The study has analyzed the performance of midcap schemes. While looking at various parameters like AUM, PT ratio, Outperformance against benchmark and category mean etc researcher concluded following:

a.) The first position is shared by 2 schemes viz. Franklin India Prima fund and Sundaram Select Midcap fund due to the funds performing well in either of the parameters mentioned.
b.) The data suggests that Franklin India Prima Fund, Sundaram Select Midcap and Aditya Birla Sunlife Midcap fund have qualifies in almost all the merits and have generated handsome and consistent returns to the investors and looks promising for a preferred investment option.
c.) Reliance Growth Fund has outperformed but there has been huge variation and hence the consistency in ranking suggests higher volatility coupled with high churning of portfolio hence should be taken with caution.
d.) The rest of the 2 schemes viz. Escorts Growth Fund and Taurus Discovery Fund has consistently underperformed over a period of time and have failed to attract the investor resulting on criteria of low AUM in scheme. Hence should be avoided for investment.

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