VOL- X | ISSUE- I | JANUARY | 2023 | PEER REVIEW e-JOURNAL | IMPACT FACTOR 7.367 | ISSN 2349-638x

A Comparative Study of Mutual Fund Schemes Based on Equity and Debt Fund of State Bank of India

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Abstract

In order to understand the mechanism of mutual fund, its types and its benefits a comparative study of different schemes based on equity and debt oriented is done so that different aspects of investment strategies can be understood in order to minimize the risk factor and maximize the returns. It will help to understand and analysis different aspects and terminology related to mutual funds, market conditions, strategies which are planned in our day to day life.

In this study the main focus is maintained over Equity and Debt based mutual fund schemes although there are many other schemes also. An investor always lives in dilemma in the adoption between equity and debt oriented mutual fund schemes. This study provides an analytical view about mutual fund schemes. Different types of mutual fund schemes have evaluated on benchmarks and different statistical tools.

This report will make reader to do an analytical study of different mutual schemes running by the State Bank of India in the present factors in its investment strategy and in investment policy of the company

Keywords: *Mechanism, Equity, Debt, Strategy, Benchmarks.*

1. Introduction

Mutual Fund is a trust that pools the savings of investors who share a common financial goal. This pool of money is invested in accordance with a stated objective. The joint ownership of the fund is thus "Mutual" i.e. the fund belongs to all investors. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities.

Thus a mutual fund is the most suitable investment for the common man because it offers an opportunity to invest in diversified, professionally managed basket of securities at a relatively low cost. It is an investment tool that allows small investors access to a well diversified portfolio of equities, bonds and other securities. Units are issued and can be redeemed as needed. The fund's Net Asset Value (NAV) is determined each day.

Investment in securities is spread across a wide cross section of industries and sector and thus the risk is reduced. Diversification reduces the risk because all stocks may not move in the same direction in the same proportion at the same time. Investors of mutual fund are known as unit holders.

2. Concept of Mutual Fund

May investors with common financial objectives pool their money.

↓

Investors, on a proportionate basis, get mutual fund units for the sum contribution to the pool.

↓

Money collected from investors is invested into shares, debentures, and other securities by the fund managers.

↓

The fund manager relies gains or losses and collects dividends or interest income.

↓

Any capital gains or losses from such investments are passed on to the investors in proportion of the number of units held by them.

Advantages:-

- Portfolio diversification
- Liquidity
- Reduction of Risk
- Flexibility and Convenience
- Choice of scheme

Disadvantages:-

- No control over cost in hand of an investor
- Managing a portfolio fund
- Difficulty in selection a suitable fund scheme

3. History of Indian Mutual Funds

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the government of India and RBI. Though, the growth was slow but it accelerated from the year 1987 when non- UTI players entered the industry. From 1964 to 1987 period was growth of UTI. In 1987 public sector entered in funds. A new era in the mutual fund industry began in 1963 with the permission granted for the entry of private sector funds. Since 1996, the mutual fund industry scaled newer heighted in terms of mobilization of funds and number of players. A comprehensive set of regulate for all mutual funds operating in India was introduced with SEBI (Mutual Fund) regulation, 1996. During this phase, both SEBI and Association of Mutual Funds of India (AMFI) launched investor awareness program aimed at educating the investors about investing through mutual fund 1999-2004 large and uniform industry have entered in this industry. From 2004 onwards this industry achieved growth impressively.

4.Review of Literature

Modigliani and Modigliani developed a measure that is closely related to the sharp ratio. It operates on the concept that a scheme portfolio can be levered or delivered to reflect a standard that is identical with the market. Ajay Khorana, Henry Servaes and Peter Tufano study the mutual fund industry in 56 countries and examined where this financial innovation has flourished. The fund industry is larger in countries with stronger rules, laws and regulation specifically where mutual fund investors rights are better protected. Deepak Agarwal in his paper provides on overview of mutual fund activity in India. The 26 study revealed that the performance of the mutual fund industry in India is affected by saving and investment habits of the people on one hand and on the other hand the confidence and loyalty of the fund managers . Gupta and Manak evaluate the performance of selected mutual funds by classifying them into various sub groups in terms of their broad investment objectives for the period 1962-71. It show that return per unit of risk funds having higher volatility exhibited superior performance than the others.

5. Objectives of Srudy

1. To evaluate the growth of mutual funds.
2. To identify systematic risk.
3. To examine the return from mutual fund schemes.
4. To find out Indian awareness towards the various monthly plan schemes available in the market.
5. To evaluate the overall performance of the mutual fund schemes.

6. Research Methodology

For comparison of various schemes of mutual fund of SBI, secondary data is used. The study is an attempt to find out if there is any significant difference in the performance of Equity and Debt mutual fund. The sample data were selected from SBI Focused Equity Fund , SBI Blue chip Fund , SBI Flexi cape Fund, SBI Banking and Financial Service fund, SBI Magnum Gilt Fund PF Plan(G), SBI Short Term Debt Fund Retail, SBI Magnum Gilt Fund PF Plan Fixed Period 3 Year and SBI Liquid Fund (G). The time period taken for the study was for 2019 to year 2021, i.e. 3 years.

For analyzing of data some of the statistical tools have used like average, standard deviation, variances, correlation-r benchmark, Beta along with performance measures Sharpe ratio, Treynor's Index and Jenson's Alpha. Average measure used to know the average return of the schemes, standard deviation show the deviation of schemes on the basis of mean, variances measures used to know the stability. The Sharpe ratio analyses systematic risk by the help of standard deviation , Jenson's Alpha indicate fund return have exceeded the index return and Treynor's Index used to analysis volatility in the market using Beta calculation.

VOL- X ISSUE- I JANUARY 2023 PEER REVIEW e-JOURNAL IMPACT FACTOR 7.367 ISSN 2349-638x

Hypothesis:-

H0 = There is no significance difference in the performance of equity orientated fund and debt orientated fund.

H1= There is a significance difference in the performance of equity orientated fund and debt orientated fund.

7. Analysis and Results

Schemes under taken for the analysis:-

Equity Orientated Mutual Fund Schemes.

1. SBI Focused Equity Fund.
2. SBI Blue Chip Fund.
3. SBI Flexi Cape Fund.
4. SBI Banking and Financial Service Fund.

Debt Orientated Mutual Fund Schemes

1. SBI Magnum Gilt Fund PF Plan (G)
2. SBI Short Term Debt Fund Retail.
3. SBI Magnum Gilt Fund PF Plan Fixed Period 3 Year
4. SBI Liquid Fund (G)

Performance evaluation of different mutual funds schemes under equity oriented and debt oriented schemes.

Equity oriented fund vs debt oriented fund schemes.

1)I Focused equity fund & SBI Magnum Gilt fund PF Plan(G)

The scheme objective of the former one is to emerging business fund would be to participate in the growth potential reseed by various companies that one considered emergent and have export oriented opportunities or are globally competitive. The fund may also evaluate emerging business with growth potential and domestic focus. And the later one objective to provide the investors with return generated through investment in government securities issued by the central or state government.

Last 3 years return of SBI Focused equity fund with benchmark S & P BSE 500 TRI

Table No.01

Year	2019- 2020	2020- 21	2021 22
Annual Return	-18 %	58%	21%
S & % BSE 5oo TRI	-22 %	80%	20%

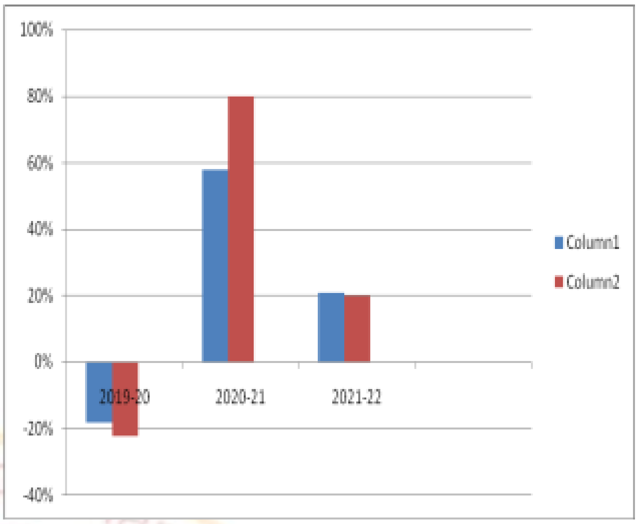

Figure No.1

Column 1 Annual Return of SBI focused equity fund.

Column 2 S&P BSE 500 TRI

Last 3 years return of SBI Magnum Gilt Fund Plan(G) with benchmark S & P BSE 500 TRI

Table No. 02

Year	2019- 2020	2020- 21	2021 22
Annual Return	15 %	07%	03%
S & P BSE 500 TRI	13 %	06%	04%

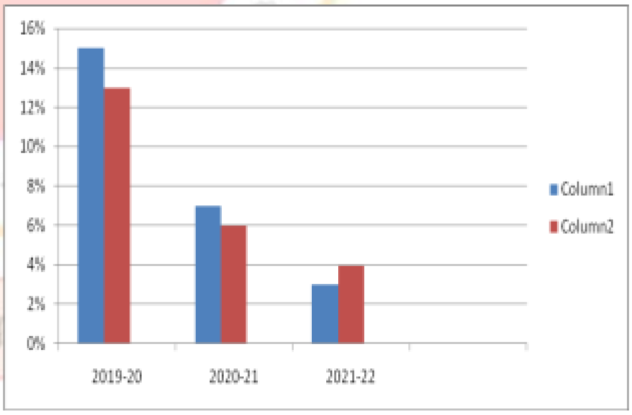

Figure No.02

Column 1: Annual Return of SBI Magnum Gilt Fund Plan (G).

Column 2: S & P BSE 5oo TRI

Basis	SBI focused equity fund	SBI magnum gilt fund Pf Plan(g)
Return average	20.33%	8.33%
correlation	0.99	0.98
beta	0.77	0.01

Shapre ratio	0.70	0.21
Treynors ratio	0.16	0.72
Jension alpha	1.96	0.61
R-square	0.98	0.96
Standard deviation	18.08	3.45

On the basis of average return we can say that SBI focused equity fund scheme provide more return as compare to SBI magnum gilt fund PF plan in last 3 years. Correlation value also indicates that SBI focused equity fund is more correlated with benchmark as compared to SBI magnum gilt fund PF plan. If we go towards to beta ratio we can say lower the beta value indicate higher chance of similar results on the basis of we can say that SBI magnum gilt fund PF Plan is better than SBI focused equity fund. share ratio indicate the risk adjusted return because this ratio value is more in focused equity fund as compared to magnum gilt fund plan it can be said that former one has more risk adjusted return. Treynors ratio also works on same condition as Sharpe ratio. Alpha indicates how fund generated additional return compared to a benchmark. Higher alpha show better additional return so equity focused scheme better than magnum gilt fund plan. R- Square of focused equity fund is also more as compared to magnum gilt fund but on the basis of standard deviation we can say magnum gilt fund is better the equity focused fund. On the basis of overall performance on different basis we can say that SBI focused equity fund is better option to invest as compared to SBI magnum gilt fund plan.

2) SBI Blue-chip fund vs. SBI short term debt fund retail.

SBI blue chip fund objective is to provide investors with opportunities for long term growth in capital through an active management of investors in a diversified basket of equity stocks of the companies whose market capitalization is at least equal to or more than the least market capitalization stock of S & P BSE 100 index. While SBI short term debt fund retails objective is to provide investors with an opportunity to generate regular income through investment in a portfolio comparing of debt instruments which are retail not below investment grade by a credit rating agency and money market instruments.

Last 3 years return of SBI blue-chip fund with the benchmark S&P BSE 500 TRI.

TableNo.03

Year	2019-20	2020-21	2021-22
Annual Return	-21%	70%	18%
S&P BSE 500 TRI	-23%	70%	20%

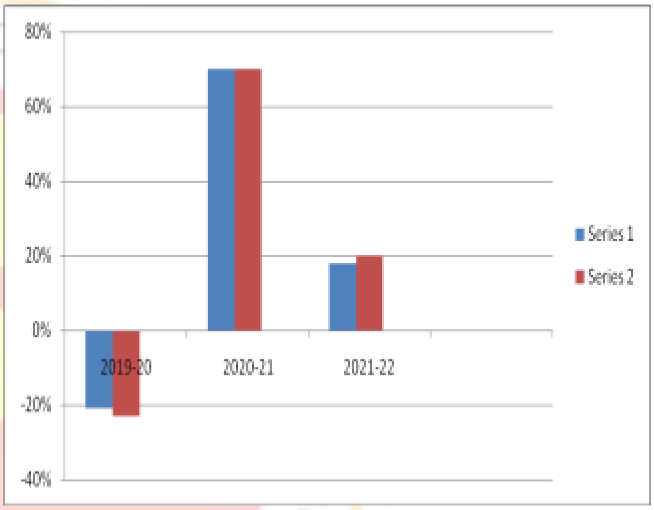

Figure No. 03

Column 1: Annual Return of SBI Blue- Chip Fund

Column 2: S&P BSE 500 TRI

Last 3 years return of SBI short term debt fund retail with benchmark Crisil short duration fund all index.

Table No.04

Year	2019-20	2020-21	2021-22
Annual Return	09%	07%	04%
Crisil short duration fund all index	10%	06%	05%

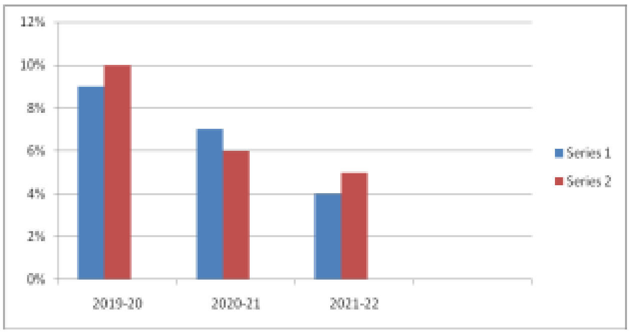

Figure No.04

Column 1: Annual Return of SBI Short Term Debt Fund Retail
Column 2: Crisil short duration fund all index

Basis	SBI blue chip fund	SBI short term debt fund retail
Average return	-22.33%	6.67%
Correlation	0.99	0.9
R-square	0.98	0.81
Beta	0.90	0.98
Sharpe ratio	0.58	0.39
Treynors ratio	0.13	0.01
Jension alpha	-1.92	-0.24
Standard deviation	20.06	1.84

If we observe last 3 years returns of both the scheme we can say easily that SBI blue chip fund average return is more than SBI short term debt fund retail scheme. Analysis of correlation and R-square also indicate that former one is more co related with its benchmark. So SBI blue chip fund is more trustworthy than the other one. Lower beta indicates the higher chance of similar result so on this basis again blue chip is more profitable than short term debt fund retail. More share ratio indicate the more risk adjustment return so blue chip fund scheme should be choose over short term debt fund retail. Treynor ratio also works on same condition as Sharpe ratio. If we move towards alpha ratio we can say that in this case short term debt fund retail scheme is better than blue chip fund because higher ratio indicates higher additional return and in the last on the basis of standard deviation we can say that short term debt fund retail scheme is more stable than blue chip fund. From the overall performance we can say that SBI blue chip fund scheme is better option of investment than short term debt fund.

3) **SBI flexi cape fund vs. SBI magnum gilt fund PF fixed Period 3 years (G)**

SBI flexi cape fund is suitable for those investors who are looking to invest money for at least 3 to 4 years and looking for high returns. At the same time investors should also be ready for the possibility of moderate losses in their investments. On the other hand SBI magnum gilt fund PF fixed Period 3 years (G) is suitable for those investors who want to invest money for longer duration but their first and only priority is safety of their investment.

Last 3 years returns of SBI flexi cape fund with the benchmark of S&P BSE 500 TRI.

Table No. 05

Years	2019-20	2020-21	2021-22
Annual Returns	-21%	72%	20%
S&P BSE 500 TRI	-23%	79%	20%

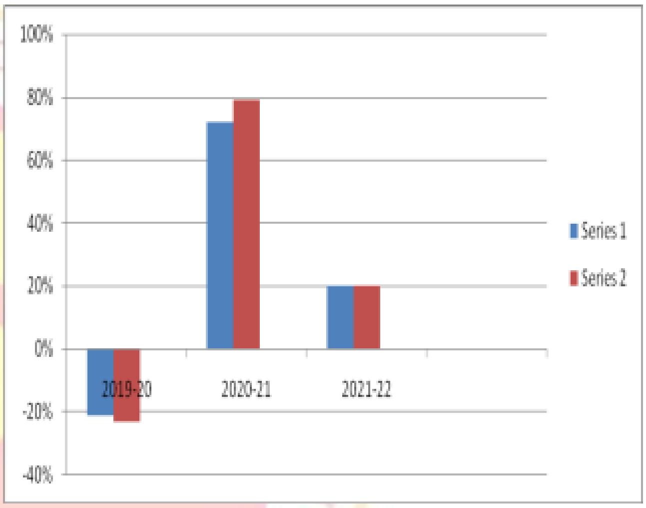

Figure No. 05
Column 1: Annual Return of SBI Flexi Cap Fund
Column 2: S&P BSE 500 TRI

Last 3 years returns of SBI magnum gilt fund PF Plan fixed Period 3 years (G) with the benchmark Nifty

Table No. 06

Years	2019-20	2020-21	2021-22
Annual returns	19.13%	9.28%	2.96%
Nifty all duration index fund	18%	09%	03%

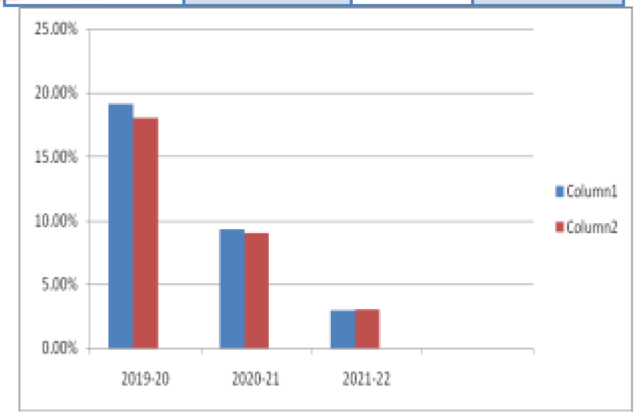

Figure No. 06

Column 1: Annual Return of SBI magnum gilt fund PF Plan fixed Period 3 years (G)
Column 2: Nifty all duration index fund

Basis	SBI Flexi Cape Fund	SBI Magnum Gilt Fund PF Plan fixed Period 3 years
Average Returns	18.4%	10.46%
Correlation	1	1
R-square	1	1
Beta	0.9	0.01
Sharpe ratio	0.58	0.21
Treynors ratio	0.13	0.72
Jension Alpha	-1.92	0.61
Standard ratio	20.60	3.45

On the basis of average return we can say that flexi cape fund has more return as compared to magnum gilt fund PF plan fixed period 3 years. Correlation of both the schemes is equal and R-square is also same so both the schemes are equally co-related with their respective benchmarks. Beta of magnum fund scheme is less than flexi cape fund so it can be said that magnum fund scheme will provide same return in forthcoming years. While if we compare Sharpe ratio, flexi cape fund have more ratio compare to magnum fund therefore former one has more able to risk adjusted return compare to later one. While additional return can be achieved on magnum fund scheme because it has more value than flexi cape. In the last if we analysis standard deviation of both the schemes we can say that stability of magnum fund is more than flexi cape fund. From the overall performance we can say that magnum gilt fund PF Plan fixed Period is better option than Flexi Cape fund.

4) **SBI banking and financial services fund (G) vs. SBI Liquid fund (G)**

The investment objective of the banking and financial services fund is to generate long term capital appreciation to unit holders from a portfolio that is invested predominantly in equity and equity related securities of companies engaged in banking and financial services. However, there can be no assurance that the investment objective of the scheme will be realized. On the other hand SBI Liquid fund scheme objective to provide attractive returns to the unit holders either through periodic dividends or through capital appreciation through an actively managed portfolio of debt and money market instruments. Income may be generated through receipt of coupon payments, the amortization of dividends or purchase and sale of securities in the underlying portfolio.

Last 3 years returns of SBI Banking and Financial services fund with benchmark Nifty Financial Services Index TRI.

Table No. 07

Year	2019-20	2020-21	2021-22
Annual Return	-22%	70%	3%
Nifty Financial Services Index TRI	-21%	68%	10%

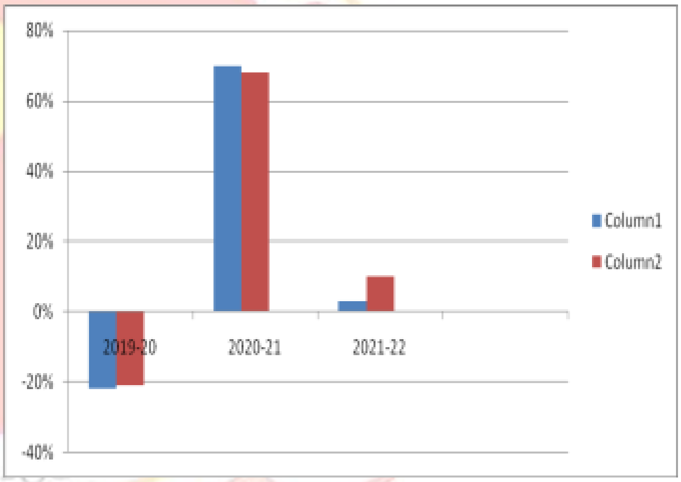

Figure No. 07

Column 1 : Annual Return of SBI Banking and Financial Serviced Fund.
Column 2 : Nifty Financial Services Index TRI

Last 3 years returns of SBI Liquid fund with benchmark Nifty Liquid Index B-I

Table No. 08

Year	2019-20	2020-21	2021-22
Annual Return	6%	2.5%	3%
Nifty Liquid Index B-I	6%	3%	3.5%

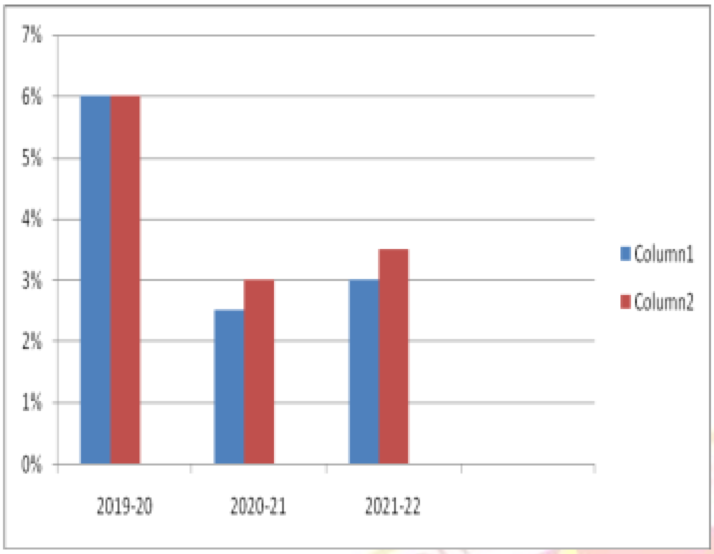

Figure No. 08

Column 1 : Annual Return of SBI Liquid Fund.
Column 2 : Nifty Liquid Index B-I

Basis	SBI Banking and Financial Services Fund (G)	SBI Liquid Fund (G)
Average Return	0.17%	3.83%
Correlation	0.1	0.99
R-Square	0.1	0.98
Beta	0.9	0.86
Sharpe Ratio	0.48	0.26
Treynor Ratio	0.15	-26.62
Jension Ratio	0.64	-1.28
Standard Deviation	27.44	0.07

On the basis of average return it can be said that SBI banking and financial services fund is more profitable than SBI liquid fund (G) scheme. Correlation and R-square indicate the relationship with benchmark, so higher correlation and R-square value show high or more relationship with benchmark. SBI liquid fund scheme beta is less than banking and financial fund scheme beta value so liquid fund will provide consistence return in the consequences year. High Sharpe ratio indicates the high return in risky situation so in that case SBI banking and financial service scheme is better than later one. Same rule will be applicable on Treynor ratio. Alpha indicates how fund generated additional return compared to a benchmark. So the higher alpha is better than lower one. But in the last if we measure standard deviation we can see value of standard deviation of liquid fund is less than banking and financial services fund which means liquid fund is more stable than other one.

8. Research Implication and Conclusion

On the basis of this research it can be said that there is a significance difference in the performance of the Equity and Debt oriented mutual fund schemes of State Bank of India. This difference shows that the Null Hypothesis (H0) should be rejected and the Alternative Hypothesis (H1) should be accepted. After applying different tools of statistics and security analysis, we can say that in most of the parameters equity oriented fund scheme are better than debt oriented fund schemes. Although, the risk factor always high in equity funds but if we compare return, beta and other different ratios the result of comparison will be fall into the favor of equity oriented mutual fund schemes.

9.Limitations of the study

1. Study is done of only intra –company schemes.
2. Study includes past 3 years data only.
3. Study is related with the context of Indian market.
4. Associated with the study of four schemes of each Equity and Debt oriented mutual funds.
5. It is limited to only with finding risk and return analysis.

10.Conflict of Interest

The author certifies that they have no affiliation with or involvement in any organization or entity with any financial interest or non-financial interest in the subject matter or materials discussed in this manuscript.

11.Funding Acknowledgement

The author received no financial support for the research authorship and/or for the publication of this article.

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