A Study on Performance Evaluation of Selected Debt Mutual Funds in India

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INTRODUCTION:
Mutual funds have played an important role in the financial market in recent decades and it is pertinent to study the performance of mutual funds as it becomes attractive to investors. The investment performance of mutual funds has been extensively examined for the development of capital market. The mutual funds normally come out with a number of schemes with different investment objectives which are launched from time to time. Investors of mutual funds are known as “unit holders”. The profits or losses are shared by the investors in proportion to their investments. A mutual fund is required to be registered with Securities and Exchange Board of India (SEBI) which regulates security markets before it can collect funds from the public. Debt schemes are also known as income schemes. Their objective is to provide regular and steady income to investors. Investment is generally made in fixed income securities like bonds and debentures. Such schemes distribute periodically the income earned by them. Capital appreciation in such schemes may be limited.
The portfolio management of these schemes does not want to make the investment in venturesome securities and for this reason these schemes are known as defensive schemes and are less sensitive to the market forces. These schemes are less risky as compared to the equity schemes. Debt funds are funds that invest in “debt instruments”, which include government securities, corporate bonds and money market instruments. These are called debt instruments because the issuers have borrowed money from the lender (investors) by issuing these securities. These “debts”, mainly known as “bonds”, are income generating properties i.e. investors receive regular interest payments on them. Specifically, debt could be an effective disciplining device in the hands of shareholders which can be used strategically to curb managerial actions that run counter to the objective of shareholder-value maximization.
The effectiveness of debt as a disciplining device or as a mechanism for expropriation is considered to depend on the institutional context within which corporations are embedded such as the presence of well-developed capital markets and banking systems, effective bankruptcy laws, activist takeover markets, and transparent auditing, accounting and disclosure norms. The need for systematic and robust evidence on the precise governing role of debt in emerging economies like India is underscored by the fact that country-level experiences show that the quality of debt governance has important system-wide ramifications, and that prior knowledge of the underlying dynamics and timely institutional reforms are important to guard against systemic crisis. Investors who want regular returns with less risk prefer to invest in these funds. These are ideal for retired people and others with a need for capital stability and regular income and who need some income to supplement their earnings.

DEFINITION OF ‘DEBT FUNDS’:
Definition: Debt funds are mutual funds that invest in fixed income securities like bonds and treasury bills. Gilt fund, monthly income plans (MIPs), short term plans (SIPs), liquid funds, and fixed maturity plans (FMPs) are some of the investment options in debt funds. Apart from these categories, debt funds include various funds investing in short term, medium term and long term bonds.

Description: Debt funds are preferred by individuals who are not willing to invest in a highly volatile equity market. A debt fund provides a steady but low income relative to equity. It is comparatively less volatile.

WHAT ARE DEBT MUTUAL FUNDS?
There are different types of Mutual Funds that invest in various securities, depending on their investment strategy.
Debt Mutual Funds mainly invest in a mix of debt or fixed income securities such as Treasury Bills, Government Securities, Corporate Bonds, Money Market instruments and other debt securities of different time horizons. Generally, debt securities have a fixed maturity date & pay a fixed rate of interest. The returns of a debt mutual fund comprises of:

- Interest income
- Capital appreciation / depreciation in the value of the security due to changes in market dynamics

Debt securities are also assigned a 'credit rating', which helps assess the ability of the issuer of the securities / bonds to pay back their debt, over a certain period of time. These ratings are issued by independent rating organisations such as CARE, CRISIL, FITCH, Brickwork and ICRA. Ratings are one amongst various criteria used by Fund houses to evaluate the credit worthiness of issuers of fixed income securities.

There is a wide range of fixed income or Debt Mutual Funds available to suit the needs of different investors, based on their:

- Investment horizon
- Ability to bear risk

DIFFERENT TYPES OF DEBT MUTUAL FUNDS

There are broadly seven types of debt mutual funds in India.

**GILT FUNDS:**

Gilt funds invest in Government securities with varying maturities. Average maturities of government bonds in the portfolio of long term gilt funds are in the range of 15 to 30 years. The fund manager in long term gilt funds actively manage their portfolio and take duration calls with outlook on the interest rate. The returns of these funds are highly sensitive to interest rates movements. The NAVs of gilt funds can be extremely volatile. The primary objective of Gilt Funds is capital appreciation. Investors with moderate to high risk tolerance level, looking for capital appreciation, can invest in Gilt Funds.

**INCOME FUNDS:**

Income funds invest in a variety of fixed income securities such as bonds, debentures and government securities, across different maturity profiles. For example, they can invest in 2 to 3 year corporate non convertible debenture and at the same time invest in a 20 year Government bond. Their investment strategy is a mix of both hold to maturity (accrual income) and duration calls. This enables them to earn good returns in different interest rate scenarios. However, the average maturities of securities in the portfolio of income funds are in the range of 7 to 20 years. Therefore, these funds are also highly sensitive to interest rate movements. However, the interest rate sensitivity of income funds is less than gilt funds. Investors with moderate to high risk tolerance level, looking for both income and capital appreciation in different interest rate scenarios, can invest in income funds.

**SHORT TERM DEBT FUNDS:**

Short term bond funds invest in Commercial Papers (CP), Certificate of Deposits (CD) and short maturity bonds. The average maturities of the securities in the portfolio of short term bond funds are in the range of 2 – 3 years. The fund managers employ a predominantly accrual (hold to maturity) strategy for these funds. Short term debt funds are suitable for investors with low risk tolerance, looking for stable income.

**CREDIT OPPORTUNITIES FUNDS:**

Credit opportunities fund are similar to short term debt funds. The fund managers look in a few percentage points of additional yield by investing in slightly lower rated corporate bonds. Despite the slightly lower credit rating of the bonds in the credit opportunities fund portfolio, on an average, majority of the bonds in the fund portfolios are rated AAA and AA. The average maturities of the bonds in the portfolio of credit opportunities funds are in the range of 2 – 3 years. The fund managers hold the bonds to maturity and so there is very little interest rate risk. Credit Opportunities funds are suitable for investors with low risk tolerance, looking for slightly higher income than short term debt funds.

**FIXED MATURITY PLANS:**

Fixed Maturity Plans (FMPs) are close ended schemes. In other words investors can subscribe to this scheme only during the offer period. The tenure of the scheme is fixed. FMPs invest in fixed income securities of maturities matching with the tenure of the scheme. This is done to reduce or prevent re-investment risk. Since the bonds in the
FMP portfolio are held till maturity, the returns of FMPs are very stable. FMPs are suitable for investors with low risk tolerance, looking for stable returns and tax advantage over an investment period of 3 years or more. They can provide better post tax returns than bank fixed deposits and are attractive investment options when yields are high.

LIQUID FUNDS:
Liquid fund are money market mutual funds and invest primarily in money market instruments like treasury bills, certificate of deposits and commercial papers and term deposits, with the objective of providing investors an opportunity to earn returns, without compromising on the liquidity of the investment. Typically they invest in money market securities that have a residual maturity of less than or equal to 91 days. Liquid funds give higher returns than savings bank. Unlike savings bank interest, no tax is deducted at source for liquid fund returns. There is no exit load. Withdrawals from liquid funds are processed within 24 hours on business days. Liquid funds are suitable for investors who have substantial amount of cash lying idle in their savings bank account.

MONTHLY INCOME PLANS:
Monthly income plans are debt oriented hybrid mutual funds. These funds invest 75 – 80% of their portfolio in fixed income securities and the 20 – 25% in equities. The equity portion of the portfolio of Monthly Income Plans provides a kicker to the generally stable returns generated by the debt portion of the portfolio. Monthly income plans can generate higher returns from pure debt funds. However, the risk is also slightly higher in monthly income plans compared to most of the other debt fund categories.

KEY DIFFERENCES BETWEEN DEBT AND EQUITY:
The difference between debt and equity capital, are represented in detail, in the following points:
• Debt is the company’s liability which needs to be paid off after a specific period. Money raised by the company by issuing shares to the general public, which can be kept for a long period is known as Equity.
• Debt is the borrowed fund while Equity is owned fund.
• Debt reflects money owed by the company towards another person or entity. Conversely, Equity reflects the capital owned by the company.
• Debt can be kept for a limited period and should be repaid back after the expiry of that term. On the other hand, Equity can be kept for a long period.
• Debt holders are the creditors whereas equity holders are the owners of the company.
• Debt carries low risk as compared to Equity.
• Debt can be in the form of term loans, debentures, and bonds, but Equity can be in the form of shares and stock.
• Return on debt is known as interest which is a charge against profit. In contrast to the return on equity is called as a dividend which is an appropriation of profit.
• Return on debt is fixed and regular, but it is just opposite in the case of return on equity.
• Debt can be secured or unsecured, whereas equity is always unsecured.

NEED OF THE STUDY
Mutual Fund industry is a rapidly growing sector in Indian Financial Market. Mutual fund investment is quite popular among small and household investors, who mobilize their savings for investment in the capital market. India has a majority of middle class families who want to yield the maximum returns on their investment by taking the less risk. In banks and post offices investment is safe but due to lower interest rates it is less attractive while in mutual funds through professional and sound fund management, it reduces the risk and yield the high rate of return on the investment. The need of present study of mutual funds cater to reduce the past research gap and also to update the performance of mutual funds in the current scenario. In this study, an attempt has been made to evaluate the performance of open-ended debt schemes of public sector, private sector, banks and other financial institutions.

OBJECTIVES OF THE STUDY
To evaluate the performance of the mutual funds, the following are the main objectives of the present study:
• To know about types of debt mutual funds in detail.
• To know, which schemes gives highest return within one-year.
• To examine the risk and return component among these mutual funds.
• To evaluate and compare the performance of debt mutual fund schemes of selected companies.
RESEARCH METHODOLOGY
Secondary data is taken as a basis of analysis in this research. Top five asset management companies is selected as per AUM as on April 11, 2017. Five different types debt mutual funds from selected AMC is selected randomly. Daily data about the closing Net Asset Value of the selected schemes has collected from the websites www.indiainfoline.com and www.nseindia.moneycontrol.com. The most popular and widely tracked NSENSEX is used as a proxy for the market. The reference period for the data is taken from March 2012 to March 2017.

DATA COLLECTION
The present study is based on secondary data which is collected from various sources like published annual reports of the sponsoring agencies, online bulletins, journals, books, magazines, brochures, newspapers and other published and online material. In this paper the performance evaluation of Indian mutual funds is carried out through relative performance index, risk-return analysis. The data used is daily closing NAVs. The source of data is website www.indiainfoline.com and www.nseindia.moneycontrol.com.

POINTS TO BE KEPT IN MIND WHILE INVESTING IN DEBT MUTUAL FUNDS:
I have judiciously followed the below points to select the best Debt mutual funds:
• Funds are shortlisted based on the past performances (Returns).
• Selection among the top rated 5 to 6 AMCs with a proven track record in Debt Funds segment.
• Age of the funds.
• Quantum of AUM (Assets Under Management)
• Exit Load.
• Risk – Reward profile.
• Various Risk / volatility related Ratios.
• Based on the data available on CRISIL, Morningstar, Moneycontrol&Valueresearchonline portals.
• The current investment portfolios of the funds.
• The credit quality, interest rate sensitivity, modified duration & average maturity of the Funds’ portfolios have been given due importance.
• I have tried to identify top performing Debt mutual funds based on the Fund Categories like Liquid Debt Funds, Short-Term Debt Funds, Dynamic Bond Funds, Gilt Funds; Monthly Income Plans etc.

<table>
<thead>
<tr>
<th>Fund name</th>
<th>CRISIL rank</th>
<th>AUM (in Rs Cr)</th>
<th>NAV 1 mths</th>
<th>NAV 3 mths</th>
<th>NAV 6 mths</th>
<th>NAV 1 yr</th>
<th>NAV 3 yrs</th>
<th>NAV 5 yrs</th>
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<tbody>
<tr>
<td>ICICIPru Income(G)</td>
<td>1</td>
<td>2,113.08</td>
<td>52.00</td>
<td>2.1</td>
<td>-1.0</td>
<td>2.9</td>
<td>10.7</td>
<td>12.0</td>
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<tr>
<td>ICICIPru Long Term Plan (G)</td>
<td>1</td>
<td>802.65</td>
<td>20.32</td>
<td>2.2</td>
<td>-0.5</td>
<td>2.9</td>
<td>11.9</td>
<td>12.9</td>
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<tr>
<td>UTI Dynamic Bond Fund(G)</td>
<td>1</td>
<td>991.16</td>
<td>19.13</td>
<td>1.4</td>
<td>0.2</td>
<td>4.5</td>
<td>13.1</td>
<td>11.5</td>
</tr>
<tr>
<td>Reliance Dynamic Bond(G)</td>
<td>2</td>
<td>2733.65</td>
<td>22.28</td>
<td>3.5</td>
<td>-1.1</td>
<td>3.8</td>
<td>11.9</td>
<td>8.4</td>
</tr>
<tr>
<td>IDFC Dynamic Bond Reg Plan(G)</td>
<td>2</td>
<td>2593.21</td>
<td>20.08</td>
<td>3.9</td>
<td>3.8</td>
<td>3.8</td>
<td>11.9</td>
<td>8.9</td>
</tr>
</tbody>
</table>

Source: moneycontrol.com

TOP AND BEST DEBT MUTUAL FUNDS IN INDIA FOR 2017:
Below are some of the best performing and highly rated category-wise debt mutual funds:
DATA ANALYSIS:
(A) LONG TERM DEBT:

Table A represents the performance of selected long term debt scheme’s return for a period of 2012 to 2017 considering their first and second rank CRISILRANK. The last column shows the schemes-wise return for five years in which ICICIPru Long Term Plan (G) gives highest return of 11.7% in the year 2017. It is followed by ICICIPru Income (G), UTI Long Term Plan (G), Reliance Dynamic Bond(G) and IDFC Dynamic Bond Reg Plan(G) with 9.1, 10.7, 11.0, 12.9.
9.5 and 10.0 return respectively. In all five years duration ICICI Pru Long Term Plan (G) performed well compared to others schemes.

(B) SHORT TERM DEBT:

Table B represents the performance of selected Short term debt scheme’s return for a period of 2012 to 2017 considering their first and second rank CRISIL RANK. The last column shows the schemes-wise return for five years in which considering First rank ICICI Pru banking and PSU Debt(G) gives highest return of 9.5% in the year 2017 and if we consider second rank Birla SL Short Term Fund (G) gives highest return of 9.6% which is high than first ranked scheme. It is followed by IDFCSSF-MTPRReg (G), L&T Short Term Income(G) and HDFC Medium Term Opp (G) with 9.5%, 9.3% and 9.5% return respectively. In all five years duration ICICI Pru banking and PSU Debt(G) performed well compared to others schemes.

(C) ULTRA SHORT TERM DEBT:

Table C represents the performance of selected Ultra Short term debt scheme’s return for a period of 2012 to 2017 considering their first and second rank CRISIL RANK. The last column shows the schemes-wise return for five years in which Birla SL FRF-LTPReg(G) gives highest return of 9.3% in the year 2017. It is followed by India bulls Ultra STI(G), Invesco India Credit Opp. (G), Sundaram Flexi INC-STEP_Retail (G) and ICICI Pru Flexi Income(G) with 9.0%, 8.9%, 7.5% and 9.2% return respectively. In all five years duration Birla SL FRF-LTPReg(G) performed well compared to others schemes.
(D) CREDIT OPPORTUNITIES FUNDS:

<table>
<thead>
<tr>
<th>Fund name</th>
<th>CRISIL rank</th>
<th>AUM (in Rs Cr)</th>
<th>NAV 1 mths</th>
<th>NAV 3 mths</th>
<th>NAV 6 mths</th>
<th>NAV 1 Yr</th>
<th>NAV 3 yrs</th>
<th>NAV 5 yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance Corporate Bond Funds(G)</td>
<td>1</td>
<td>2358.64</td>
<td>13.18</td>
<td>1.5</td>
<td>1.4</td>
<td>3.4</td>
<td>10.5</td>
<td>---</td>
</tr>
<tr>
<td>UTI Income Opp. Fund</td>
<td>1</td>
<td>1570.24</td>
<td>14.88</td>
<td>0.9</td>
<td>1.5</td>
<td>3.8</td>
<td>9.7</td>
<td>10.0</td>
</tr>
<tr>
<td>ICICI Prudential Corporate Bond</td>
<td>2</td>
<td>4493.99</td>
<td>25.39</td>
<td>1.1</td>
<td>1.1</td>
<td>3.1</td>
<td>9.2</td>
<td>10.0</td>
</tr>
<tr>
<td>KotakMed. Term Reg (G)</td>
<td>2</td>
<td>2640.08</td>
<td>13.57</td>
<td>1.3</td>
<td>1.0</td>
<td>3.1</td>
<td>9.9</td>
<td>10.4</td>
</tr>
<tr>
<td>Franklin(I) Low Duration (G)</td>
<td>2</td>
<td>1697.30</td>
<td>18.51</td>
<td>0.8</td>
<td>2.0</td>
<td>4.3</td>
<td>9.9</td>
<td>9.8</td>
</tr>
</tbody>
</table>

Source: moneycontrol.com

Table D represents the performance of selected Credit Opportunities Funds scheme's return for a period of 2012 to 2017 considering their first and second rank CRISIL RANK. The last column shows the schemes-wise return for five years in which Franklin (I) Low Duration (G) having second ranking gives highest return of 9.8% in the year 2017. It is followed by ICICI Prudential Corporate Bond with 9.2% return respectively. If we consider the data of 1st year Reliance Corporate Bond Funds (G) gives highest return of 10.5%. In all five years duration Franklin (I) Low Duration (G) performed well compared to others schemes.

(E) GILT LONG TERM:

Table E represents the performance of selected Gilt Long Term scheme’s return for a period of 2012 to 2017 considering their first and second rank CRISIL RANK. The last column shows the schemes-wise return for five years in which considering first rank SBI Magnum Gilt-LTP (G) gives highest return of 11.6% in the year 2017 and considering second rank L&T Gilt Fund (G) gives highest return of 12.1% which is more than first ranking scheme. It is followed by Reliance Gilt Sec. RP (G), ICICI Prudential Inv Plan PF (G) and UTI Gilt Advantage-LTP (G) with 10.8%, 10.1% and 10.8% return respectively. In all five years duration L&T Gilt Fund (G) performed well compared to others schemes.

CONCLUSION:

The Mutual funds are one of the best investment source available for Indian small investors to make an investment, if thoroughly assessed it may give big returns with little savings. The above performance ratios are very much helpful for the evaluator to assess the fund’s performance. As the Mutual Fund investment is subject to market conditions, therefore for the risk averse investors there are so many other investment alternatives available apart from the mutual funds to avoid risk. From the above study we can conclude that due to various advantages of debt mutual funds people are gaining interest to invest in debt mutual funds as it figuring out regular income to the investors with a minimum risk. As well as from the aforementioned data it is evident that portfolios are immensely diversified and gaining huge outcome in capital market. Thus, from this study we can observe that the rational investors are more interested in...
debt funds rather than to invest in any otherschemes available in India. The rise in stock prices encouraged investors to book profits and shift money to debt schemes because the latter will generate healthy returns when interest rates often, fund managers said. Clearly, investors are not convinced the stock market will continue to rise, with key indices touching a new high this year.

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4) https://www.valueresearchonline.com
5) https://myinvestmentideas.com
6) http://www.indiainfoline.com

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