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Performance Evaluation of Banking Sector Fund in India

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ABSTRACT

Abstract: sector funds are those funds that they invest in the specific sector of an economy of a country such as banking, pharmaceutical, FMCG, natural resources, real estate, technology etc. sector funds are more volatile and less diversification opportunities as compare to other equity diversify funds. Banking sector fund are those funds that they confirm their portfolio in the banking and financial sector companies. This sector is the major sector of any economy and effects on the trade and commercial system of any country. Present study base on the performance of banking sector funds in India in terms of returns, SD, Beta, Sharpe ratio, Treynor ratio and Jenson Alpha. Present study also con concentrate on that these funds are able to beat or outperform their benchmark or underperform the benchmark.

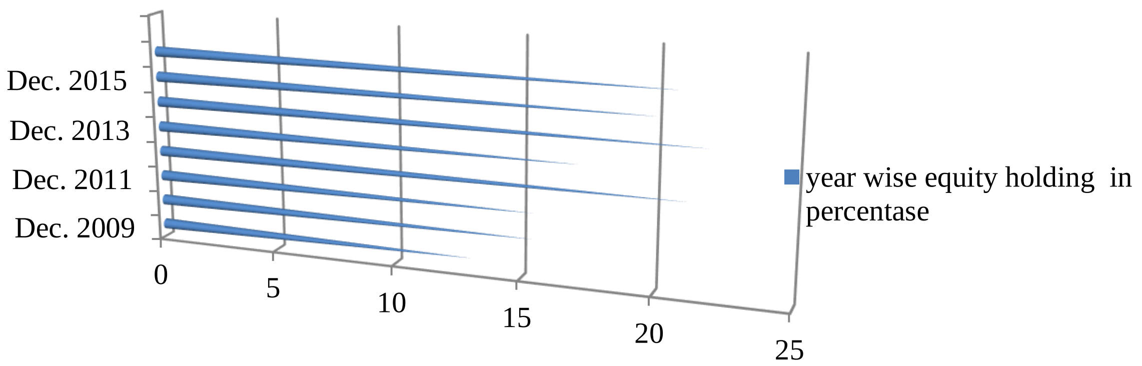
Keywords: banking sector fund, perform evaluation, risk and return.

INTRODUCTION:

Banking sector plays a vital role in the growth and development of an economy. Contribution of this sector, its importance in trade, commerce and industry estimated very easy. In Indian economy this sector plays an integrated part to the process of economic reforms and growth.

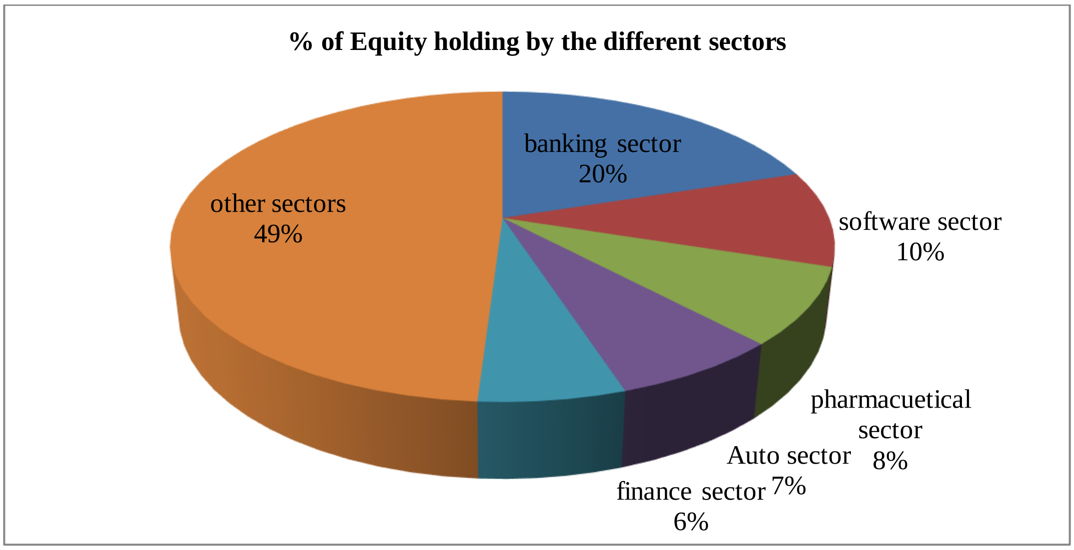
The first banking sector fund was launched by the Reliance Mutual Fund House, in May 2003 with Reliance Banking Sector fund followed by UTI banking sector fund in August 2005 and other mutual fund houses on 2008 and afterwards

Separate data related to sectoral fund are available since 2009 the total assets under management ₹ 1,96893.49 crore in 2009. There are 38 sector funds classified by AMFI. AUM was increasing and decreasing very speedily. CAGR of the sectoral mutual fund show that the compound annual growth rate is highest in 2014 and lowest in 2011 and it is also fluctuating very fast. Cash flow volatility in sector fund is very high. Percentage Year wise percentage contribution of equity holding by banking sectoral funds.



Source : data compiled from SEBI

Contribution of Top Sectoral funds in Total equity hold by sectoral mutual funds:



Source: compiled from SEBI monthly report, December, 2015

REVIEW OF LITERATURE:

Khorana & Nelling (1997) evaluated the performance of 147 sector funds with 983 other domestic funds on the time period 1976-1992. Sector funds performed better than the sector Indexes less well than diversified indexes. The study found that there was positive relationship between performance and size of the fund. They revealed highly unique and low systematic risk. The comparison with equity funds was confusing. If benchmark is the S& P 500, sector funds underperformed equity fund but the result changed if the benchmark is a sector index. They conclude that there was no significant selectivity performance and claim that sector funds do not provided market-timing opportunities to the level that they have narrow investment objectives.

O. Neal (2000) Examined about the return of 31 fidelity sector funds over ten years. The result indicated that industry momentum was present in the best performing sector funds and most of high performing sector funds outperform the market portfolio. The author argued that it was rational to assume that the sector fund manager performed better than the general mutual fund manager.

Kaushik (2010) examined the performance of sector funds & concluded that sector fund have positive market timing during recession & opposite market timing during extension when S&P 500 benchmark had used. This market timing changed when sector specific benchmark had used. Overall sector funds exhibit negative market timing ability across both the phases of business cycle. When more appropriate industry specific benchmark had used only utility sector has demonstrated significant timing ability over all the phases of business cycle.

Bandhopadhya (2012) studied about the banking sector fund its participation in economy and growth prospect. The author concluded that the banking sector was the important instrument of any economy and many times this sector has faced changes that resulted in the market gush. The best banking sector fund has provided more than fifty percent returns, while less managed a modest 13.75%, during the recession time period in 2008-09. Nifty has gone 52 percent and bank Nifty lost 61 percent, however, when the market rallied from March, 2009 to June, 2010, bank Nifty was able to earn 129 percent compare to the 75 percent by the nifty. At the end of December the banking sector investment was stood at Rs.43659 crore, which was 21.15 percent of the sector total equity AUM of Rs. 2.06 lakh crore.

Roy & Gray (2012) studied about the sector fund and stated that banking sector was the single sector to record the double digit returns and software sector was the second most preferred sector with 7.98 percent exposure, followed by pharmaceuticals 7.59% consumer non durables with 7.51 percent. The authors argue that at the current levels, the mutual fund industry has the highest exposure to banking sector since at least August 2009 both in terms of percentage as well as in absolute terms.

Vijaylakshmi (2014) the study examined the growth of banking sector fund in the time period 2009-2013.The author showed that banking sector funds performed better than the other sector funds during the recession. In 2009 banking sector funds growth 24% followed by technology funds 18% Growth. Best manage banking sector funds provide 52.43% return while worst managed a modest 13.75% during recession. The author concluded that banking sector provided good returns with moderate risk compare to other sector funds.

Sharma Arti (2015) the author analysed the performance of some selected sector specific funds and tried to find out the correlation between the sector fund portfolio return and benchmark portfolio returns. The result indicated that Reliance pharmaceutical sector fund has the strongest correlation between the returns of portfolio and benchmark portfolio returns followed by ICICI Prudential FMCG fund. ICICI Banking and financial services fund, SBI FMCG, SBI fund and UTI pharmaceutical and healthcare funds have the good correlation with the portfolio returns of benchmark. UTI transportation and logistics fund is the most risky sector funds in the top ten sector funds.

RESEARCH METHODOLOGY:

The study is an empirical nature and based on secondary data. The source of data annual reports of various mutual fund schemes NAV, other information related to schemes. The relevant literature will be collect from the books, journals, and websites.

Sample Size:
To analyze the performance of banking sector fund schemes five best assets managing companies who deals in banking sector mutual funds are taking into the account are as following:

1	Kotak PSU Bank ETF
2	Reliance ETF Bank BEBS Fund
3	UTI Banking sector fund
4	Baroda Pioneer Banking and Financial services fund
5	ICICI Prudential Banking and Financial services

There are five companies and their banking schemes are taken for evaluating the performance of mutual fund. Data is collect of eight years, from January 2009 to December 2017.

Sampling Tools:
In this section we explained the attributes taken for analyzing the mutual funds performance; these are risk, return and different models.

Returns: For Returns we are looking at the NAV of the mutual fund on daily bases.
Return= NAVt-NAVTt-1/NAVt-1*100 daily growth of mutual fund in percentage at time t.
Average =∑Ri/N
i=1,2,3. N
For market proxy or benchmark we are taking BSE sector benchmark, (BSE Bankex) we define Rmi daily growth rate of market.
Rmi=Ii-Ii-1/Ii-1*100
Mean growth rate of market index
∑Rmi/N
i=1,2,...Standard deviation =√(R-R/N)2 measurement of total risk we are taking standard deviation.SD and variance are equally acceptable to measure the total risk of an assets
β =cov (Ri,Rm)/ σm* σ m
Sharpe Ratio = (Rm-Rf)/σ of banking scheme
Treynor's Ratio = (Rm-Rf)/β
Jensen's Alpha= Ri-Rmi
Performance evaluation of banking sector fund
The performance of individual banking sector returns shows in table-1 Annualised 3years returns for short term, 5years returns for medium term and 10 years returns for long term returns. Banking benchmark 3 years returns are 34.21 percent and average banking sector return are 38.95. ICICI Banking and Financial services fund provide 43.14percent returns to the investors. Five banking sector funds beat their benchmark and average returns of banking sector fund.

Table 1: Return Performance of Banking Sector Funds

Sr. No	Scheme Name	3 yr return %	5yr return %	10 yr return %	Since Launch %
1	Kotak PSU Bank ETF	39.81	11.93	-	11.89
2	Reliance ETF Bank BEBS Fund	39.67	-	-	27.24
3	UTI Banking sector fund	42.06	13.64	15.03	16.26
4	Baroda Pioneer Banking and Financial services fund	30.54	9.04	11.62	14.44
5	**ICICI Prudential Banking and Financial services**	**43.14**	**18.22**	**21.35**	**21.4**
	Average	**38.95**	**13.51**	**14.84**	**18.05**
	Bankex (sectoral benchmark)	**34.21**	**12.19**	**16.87**	**-**
	CNX NIFTY INDEX	**28.27**	**8.67**	**12.24**	**14.13**

Source: compiled from AMFI, advisorkhoj.com, moneycontrol.com. % returns are annualised

Medium term returns of benchmark are 12.19percent and average returns are 13.51 percent. Top three mutual funds performed over benchmark and provide excess returns than benchmark and average returns. It is observed that more than half banking mutual funds outperform the CNX Nifty index in 3years, 5years and ten years returns.

Table 2: Banking and Financial Services Sector Funds-Risk Analysis

SR.	Scheme name	S.D	Sharpe Ratio	Beta	Alpha	Treynor Ratio
1	UTI Banking Sector Fund	11.86	1.31	.84	3.59	7.85
2	ICICI Prudential Banking and Financial Services Fund	17.61	0.77	0.078	1.6	169.87
3	Baroda Pioneer Banking and Financial Services Fund	11.88	1.14	0.88	-3.13	13.97
4	Kotak PSU Bank ETF	25.1	0.014	1.2	-11.63	25.1
5	Reliance Banking Fund	24.79	1.3	1.04	3.37	17.79
	Average	15.39	.93	1.96		
6	BSE Bankex	18.73				

Source: (SD of funds calculated on the bases of annual return by NAV of a scheme, Sharpe ratio calculated as since inception for the scheme and from 2009 in case of sector benchmark. Data collected from the website of BSE, NSE, AMFI and moneycontrol.com and advisorkhoj.com)

UTI banking sector fund, ICICI prudential banking and financial services fund and Reliance banking sector fund provide good returns than their benchmark. Risk-adjusted returns(shows sharpe ratio) UTI banking fund, Broda Pioneer Banking and Financial Services Fund and Reliance banking funds give the attractive returns.UTI SD is lowest than the other funds. Kotak banking fund shows the highest SD among the banking sector funds.

CONCLUSION:

Banking sector fund plays very crucial role in sector fund in India. It contribution in amount invested in sector funds is 13percent to 21 percent during the time period 2009 to 2017. This is most preferred as well as best returns provided sector. This sector provides good returns in short term. UTI banking sector fund, ICICI banking fund and Reliance banking fund have positive value of Alpha. These funds outperform the benchmark.

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