

Steps To Grow Your Wealth Steadily By Investing In Monthly Income Plan Of Mutual Funds

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Abstract:-

The Primary Objective Of This Study Is To Identify The Top Performing Monthly Income Plan Among The Selected List Of Mip Mutual Funds Available In India. In Mutual Funds, Mips Are One Such Category Which Invests Majorly In Debt Oriented Funds And Very Less Or Little Exposure Towards Equity Funds. Making Investment Under Mips Is Considered As Lessrisky With Higher Potential Returns. Monthly Income Plans Are Launched With The Intent Of Providing Monthly Income To Its Investors On Regular Basis. The Investors Choose The Periodicity Of The Payments - Generally Like Monthly, Quarterly, Half Yearly And Annually. A Growth Option Is Also Available For The Investors. In Growth Option, The Investors Will Not Be Receiving The Dividends In Monthly Income But For The Purpose Of Increasing Their Gains In The Form Of Capital Appreciation. In This Study, We Are Going To Evaluate The Performance Of The Selected Mips Under Hybrid Mutual Funds Category. The Risk Ratios Of These Funds Like Sharpe Ratio, Beta And Standard Deviations Have Also Been Analyzed. This Study Concludes With The Identification Of Top Performing Mip Under Hybrid Mutual Funds Including Their Volatility And Returns Yielded Per Each Unit Of Risk.

Keywords: *Mip, Monthly Income Plan, Best Performing Mip, Sharpe Ratio, Return, Risk*

Introduction:

Mutual Funds Are One Such Financial Instrument Which Invest Cash On Behalf Of Its Investors Either An Individual Or A Company. The Specified Objectives Of The Investors Are Satisfied By The Fund Manager By Making Investment Decisions Using The Investor's Pooled Money. Diversification Is One Of The Key Benefits Offered By Mutual Funds To Its Retail Investors. Because, The Risk-Return Trade Off Is Improved By Means Of Diversification. Since The Different Investors Funds Are Pooled Into A Common Resource, The Benefits Of Mutual Fund Investments Are Realized At A Relatively Smaller Cost.

In Mutual Funds, We Have Different Categories Like Equity, Debt, Hybrid, Solution Oriented And Other Categories. Monthly Income Plan Is One Of The Types Of Hybrid Mutual Funds Scheme.

Hybrid Mutual Funds

The Primary Objective Of Hybrid Mutual Funds Is To Make Wealth Appreciation In The Long Term And To Generate Consistent Income For The Short Term. These Are Achieved By Maintaining A Balanced Portfolio With The Diversification Between Debt And Equity Instruments. This Combination Yields Higher Returns When Compared To A Regular Debt Funds But The Risk Is Low Against Equity Funds.

The Equity Component That Exists In The Portfolio Accounts For Earning Higher Returns. At The Same Time, The Heavier Presence Of debt Instruments Makes The Comfort Of Cushion Against The Fluctuating Market Situations. This Makes The Fund To Yield A Consistent Monthly Income In The Form Of Dividends. Based On The Asset Allocation We Can Classify Hybrid Funds Into:

- a) **Equity Oriented Hybrid Funds:** Here, The Fund Manager Allocates More Than 65% Of Funds Asset In Equity Sector And The Remaining Funds Into Debt And Other Money Market

Instruments. Equity Component Of The Funds Equates To The Equity Shares Of Different Industries Like Finance, Auto, It, Etc.

- b) **Debt Oriented Balanced Funds:** Here, The Fund Manager Allocates More Than 65% Of Funds Asset In Debt Instruments And Remaining Will Be Invested Into Equity Sector And Cash Equivalents. A Debt Instrument Includes The Investment Into Government Bonds, Bills, Debts, Etc.
- c) **Monthly Income Plan:** A Hybrid Funds That Invests Majorly Into Debt Instruments Are Classified As Monthly Income Plan. These Funds Will Have Little Exposure Like 15% -20% Into Equity Sector. This Minimal Exposure To Equity Component Makes More Stable Income For Mip Than Compared To Debt Oriented Hybrid Funds. Regular Income Has Been Generated By Investors In The Form Of Dividends Which Can Be Transferred To Investors On A Regular Basis Monthly, Quarterly Or Annually.
- d) **Arbitrage Funds:** Here, The Fund Manager Maximizes The Returns By Finding The Arbitrage Opportunities That Exists In The Market. Arbitrage Opportunities Are Not Spotted Easily Unlike Other Opportunities. When There Is No Opportunity For Arbitrage Then The Managers Invests These Funds To Debt And Cash Equivalent Components.

Literature Review:

Gauri Prabhu And Dr N.M. Vechalekar Of Aissms Institute Of Management, Pune (Dec 2007) Made An Attempt To Identify Different Factors That Contributes Towards The Investors Perception Of Investment In Mutual Funds. The Study Concludes By Stating That Investors Were Aware About Various Mutual Funds Are That Available In The Market. Also It States That The Investors Fall Within The Age Group Of 19-55 Years Of Age And Their Monthly Income Ranging Within 30k-70kinr And Above.

Ashok Khurana of Guru Nanak Khalsa College, Haryana (Dec 2010) Conducted A Study On "Performance And Risk Analysis Of Monthly Income Plans (Mip) Of Selected Mutual Funds" To Identify The Top Performing Mip Among The Selected Funds. Then Their Growth Performance Has Been Measured And Compared Against Their Benchmark Performance. The Study Concludes With A Message That Conveys Most Of The Mip Has Performed Well In The Long Term. All The Selected Schemes Have Been Outperforming The Benchmark Index Performance.

Shilpi Pal And Prof. Arti Chandani Of Symbiosis Institute Of Management Studies, Symbiosis International, University, Pune (2014) Used Statistical Measures To Evaluate The Performance Of Selected Income Or Debt Mutual Fund Schemes In India. The Study Observed That Hdfc Midcap Opportunities Funds Is The Best Mutual Fund Among The Selected Funds Which Are Identified For The Study.

Statement Of The Problem

Based On The Literature Review It Is Clearly Evident That Only Few Researchers Have Evaluated The Performance Of The Mip Of Mutual Funds In India. We Need More Research On This Area To Uncover The Best Performing Monthly Income Plan Of Mutual Funds To Guide Potential Investors. This Study Helps In Identifying The Best Performing Monthly Income Plan Hybrid Mutual Funds. Monthly Income Plans Are Best Suited For Investors Who Wish To Earn Regular Income By Incurring Less Risk Toward Their Invested Capital. The Risks Associated With Each Of The Selected Mips Have Been Evaluated To Measure The Volatility Of Funds.

Objectives Of The Study

- 1) To Find Out The Best Performing Monthly Income Plan Of Mutual Funds Under Hybrid Category
- 2) To Analyze The Standard Deviation, Beta And Sharpe Ratio Of The Funds To Determine The Volatility And Risk Associated With Each Of The Selected Funds

Scope Of This Study:-

- 1) Study Is Based Only On The Past Performance Of These Funds
- 2) Performance Is Measured Based On The Sd, Sharpe Ratio And Beta.
- 3) Fund Performance Is Compared Against Its Category Performance To Measure Increase/Decrease In Percentages
- 4) All The Data Is Only Based On Secondary Sources

Sampling Information:-

The Required Data For This Research Study Has Been Collected From Jan 2014 Till Dec 2019 (5 Years).

Best Performing Monthly Income Plan Growth Funds Under Hybrid Mutual Funds Category (Whose Net Assets Size Is Greater Than 1000 Crores):

- 1) Hdfc Hybrid Debt Reg.
- 2) Uti Regular Savings Reg.
- 3) Aditya Birla Sun Life Regular Savings Reg.
- 4) Icici Prudential Regular Savings Reg.
- 5) Sbi Debt Hybrid Reg.

Complete Study Has Been Conducted By Utilizing The Secondary Sources Of Data Available Freely In The Market. The Different Source Of Data Includes Journals, Books, Magazines, Internet, Online Forums, Research Agencies Like Amfi, Money Control, Valueresearchonline, Etc.

Research Methodology:-

Monthly Income Plan Is One Type Of Mutual Funds Which Invests Majorly Into Debt Instruments With Little Exposure To Equity Securities. The Main Objective Of Mip Is To Generate Monthly Returns For Its Investors. Income Might Be In The Form Of Dividends Or Interest Payments That Are Scheduled As Per Investors Need. As The Major Part Of Investment Is With Debt Instruments, Risks Of These Funds Are Very Minimal When Compared To Other Mutual Funds Category. Though The Name Suggests As Monthly Income Plan, These Funds Do Not Guarantee Steady Income On Monthly Basis. When The Market Is Bullish Then Investors Can Earn A Steady Income By Investing In These Types Of Funds. During Bear Markets, They Could See Some Downturn And The Returns Will Not Be Steady Because Of The Equity Exposure Of These Funds.

Performance Of Different Monthly Income Plan Available In The Market Has Been Analyzed By Selecting Five Top Funds In The Conservative Hybrid Mutual Funds Category. Data Has Been Collected During The Period Of Jan 2014 Till Dec 2019. Based Out Of This Study, We Are Going To Identify The Best Performing Mip Growth Fund Which Can Generate Good Capital Gains In The Long Term With Minimal Risk Involved. The Risk Ratios Of These Funds Were Also Analyzed To Study The Volatility That These Funds Carry Per Each Unit.

Financial And Statistical Tools Used For Performance Measurement:-

1) Beta:

The Volatility Of Any Investment Can Be Measured By Comparing The Price Movements Against The Market Index. For Indian Stocks, Beta Can Be Measured Against Nifty 50 Or Nifty Auto Or Bank Nifty, Etc. Similarly Mutual Funds Can Be Measured Against Its Benchmark Index Fixed By The Fund Houses. Each Mutual Fund That Falls Into Specific Category Will Be Measured Against The Specific Benchmark Fixed By Its Fund House During The Start Of The New Fund Offer (Nfo). We Have Blended

Indices, Specifically Prepared For Comparing The Hybrid Funds That Are Available Under Mutual Funds Category.

Beta Can Be Calculated Using:

$$\text{Beta} = \frac{\text{Covariance}}{\text{Variance}}$$

Here,

Covariance = Funds Return Relative To The Market

Variance = How The Market Moves Relative To The Mean

2) *Sharpe Ratio:*

The Difference Between Investment Return And Risk Free Return Is Known As Sharpe Ratio. The Margin Of Returns Provided By Our Invested Amount Relative To Its Risk Involved Is Measured By Using Sharpe Ratio. Sharpe Ratio Can Be Calculated By Taking The Return Of Our Investment, Subtracting The Risk Free Return And Dividing The Outcome By Investments Sd. Risk Free Return Is Nothing But Our Return Calculated On A No Risk Investment (E.G., Government Bonds Or T-Bills). Formula For Calculating Sharpe Ratio Is:

$$\text{Sharpe Ratio} = \frac{R_p - R_f}{\sigma_p}$$

Here,

R_p = Investment Return

R_f = Risk Free Return

Σ_p = Sd Of Investment Return

3) *Standard Deviation (Sd):*

Standard Deviation Is The Measure Of Volatility Of Market Or Stocks Or Mutual Funds. In Simple Terms, We Can Define Sd As The Average Value By Which Any Individual Data Deviates From Its Mean Value. This Is One Of The Important Components In Determining The Investment Risk. When We Envision Heavy Swings In The Price Movements Then The Sd Will Be Higher. When The Price Doesn't Make Any Wild Moves Then The Volatility Is Lesser And Hence Sd Is Low.

In Mutual Funds, Sd Can Be Used To Measure The Investment Return And Compares It Against The Average Value Of The Fund Over The Particular Period. When The Individual Returns Deviate Much From The Fund's Average Return Then The Sd Is Considered As High. Making Investment Into These Types Of Funds Is Seemed To Be Riskier. It Is Advisable To Invest In Funds Where Sd Is Lesser.

Below Formula Is Used To Calculate Sd,

$$\text{Standard Deviation} = \sqrt{\frac{\sum_{i=1}^n (x_i - \bar{x})^2}{n - 1}}$$

Here,
 X_i = Value Of The i^{th} Point
 \bar{X} = Mean Value
 N = Number Of Data

4) Net Asset Value (Nav):

Net Asset Value Of Mutual Funds Is Calculated By Subtracting The Total Value Of Liabilities From The Total Value Of Assets. Nav Represents The Per Unit Value Of The Fund On Any Particular Period. Nav Is The Price At Which We Can Trade (Buying Or Redeeming) The Mutual Funds In The Secondary Market. Formula For Calculating Nav Is:

$$\text{NAV} = (\text{Assets} - \text{Liabilities}) / \text{Total number of outstanding shares}$$

Analysis Of Sampled Data:-

In This Study, We Are Going To Analyze The Performance Of The Selected Monthly Income Plans Of Hybrid Mutual Funds. Data Analysis Can Be Classified Into Sub Sections As:

- Analysis Of Data Has Been Carried Out Based On The Fund Returns During The Past – 3 Months, 6 Months, 1 Year, 3 Years And 5 Years.
- Returns Of The Selected Mips Have Been Compared Against The Category Returns For The Specified Period.
- Beta, Sharpe Ratio And Standard Deviation Of The Selected Funds Have Been Analyzed To Study The Volatility Of Each Of These Funds.

Inferences Based On The Sampled Data:-

- Analysis Results Of Selected Mip Funds Under Hybrid Mutual Funds

The Results Indicate That The Icici Prudential Regular Savings Regular Plan Is The Highly Profitable Scheme Among The Selected Mips Showing Greater Returns When Compared To Its Category Returns.

Table 1: Performance Of Selected Mip Scheme Of Hybrid Mutual Funds

S. No	Fund Name	NAV	Net Assets (Cr.)	3M Returns	6M Returns	1 yr Returns	3 yr Returns	5 yr Returns
1	HDFC Hybrid Debt Reg	47.49	2907	2.74	1.98	6.75	6.22	7.00
	% Change from Category Returns			15%	-35%	2%	-8%	-1%
2	UTI Regular Savings Reg	41.61	2137	1.69	2.54	3.18	6.52	7.03
	% Change from Category Returns			-29%	-16%	-52%	-4%	-1%
3	Aditya Birla Sun Life Regular Savings Fund Reg	40.43	1850	1.61	2.10	5.96	6.57	7.56
	% Change from Category Returns			-32%	-31%	-10%	-3%	7%
4	ICICI Pru Regular Savings Reg	45.40	1696	3.40	4.98	9.84	9.57	9.16
	% Change from Category Returns			43%	64%	49%	41%	29%
5	SBI Debt Hybrid Reg	41.33	1076	1.75	3.08	8.50	5.66	7.51
	% Change from Category Returns			-26%	2%	29%	-17%	6%
	Category Returns			2.38	3.03	6.61	6.79	7.09

- Analysis Results Of The Risk Ratios Of Selected Mip Funds Under Hybrid Mutual Funds

The Result Indicates That The Icici Prudential Regular Savings Regular Plan Is The Highly Profitable Scheme Among The Selected Mips Showing Higher Sharpe Ratio When Compared To Other Funds.

Table 2: Risk Ratios Of Selected Mip Scheme Of Hybrid Mutual Funds

Fund Name	Beta	Sharpe Ratio	SD
HDFC Hybrid Debt Reg	1.02	-0.14	5.26
UTI Regular Savings Reg	0.77	-0.07	4.33
Aditya Birla Sun Life Regular Savings Fund Reg	1.06	-0.12	5.48
ICICI Pru Regular Savings Reg	0.70	0.72	3.40
SBI Debt Hybrid Reg	0.76	-0.26	4.23

The Performance Parameters Of ICI Prudential Regular Savings Fund Has Been Discussed Below.

Returns:

Table 3: Performance Of ICI Prudential Regular Savings Scheme

Fund Name	1 yr Returns %	3 yr Returns %	5 yr Returns %
ICICI Pru Regular Savings Reg	9.84	9.57	9.16

This States That The Return From This Fund Is Positive And It Is Higher In Last 5 Years. The Returns Provided By This Scheme Are Around 9.84% In Last 1 Year, 9.57% In Last 3 Years And About 9.16% In Last 5 Years.

Beta:

Table 4: Beta Of ICI Prudential Regular Savings Scheme

Fund Name	Beta
ICICI Pru Regular Savings Reg	0.70

This Clearly Explains That The Fund Is Less Volatile Than Its Benchmark Because Beta Of This Fund Is Lesser Than 1. So The Chances Of Fluctuations During Volatile Market Conditions Are Less.

Risk Ratios:

Table 5: Risk Ratios Of ICI Prudential Regular Savings Scheme

Fund Name	Sharpe Ratio	SD
ICICI Pru Regular Savings Reg	0.72	3.40

Sharpe Ratio Indicates That This Fund Is Giving A Higher Return Of 0.72 Per Unit Of Risk. This Is Really Good As It Is Positive And Closer To 1.

Standard Deviation Of 3.4 Confirms That The Risk Associated With This Fund Is Very Less When Compared To Other Funds Selected For This Study.

Conclusion:

Based On Our Research Between Different MIP Available Under Hybrid Mutual Fund Category, Following Conclusions Were Made. We Found That The ICI Prudential Regular Savings Fund And SBI Debt Hybrid Regular Schemes Become The Best Mutual Funds Under MIP While Considering Their 1year And 5 Years Returns. But When We Consider The Sharpe Ratios, SBI Debt Hybrid Fund With Negative Value Moves To The Second Position As ICI Prudential Regular Savings Plan Displays Positive Sharpe Ratio. Also, The Standard Deviation Of ICI Prudential Regular Savings Plan Has Lesser Risk Associated With It (3.40) Which Is Lesser As Compared To SBI Debt Hybrid Funds. Thus

We Infer That Icici Prudential Regular Savings Fund Is The Best Monthly Income Plan Available Under Hybrid Mutual Fund Category. Investing In This Fund Makes Investor To Grow Their Wealth Steadily By Earning Regular Dividends And/Or Capital Appreciation.

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