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Performance of large cap mutual funds in India

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Abstract
This study examines the performance of large-cap mutual funds in India with a focus on evaluating risk-adjusted returns, consistency, and fund management efficiency. Large-cap mutual funds primarily invest in companies with large market capitalizations, offering relatively stable returns with lower risk. The research analyses a selected set of large-cap funds over a defined period using key performance metrics such as Sharpe Ratio, Standard Deviation and Beta. The objective is to determine how effectively these funds have met investor expectations in terms of return and risk mitigation. The findings aim to provide valuable insights to investors and fund managers regarding the comparative efficiency and reliability of large-cap funds in the Indian mutual fund landscape.

Keywords: Large cap mutual funds, performance, risk-adjusted returns, sharpe ratio, investment analysis, fund performance evaluation

Introduction
Mutual funds have emerged as a popular investment avenue for both retail and institutional investors in India, offering diversification, professional management, and ease of investment. Among the various categories, large-cap mutual funds have gained significant attention due to their focus on companies with large market capitalizations that are considered financially stable and less volatile compared to mid-cap or small-cap firms. These funds typically invest in well-established companies that have a track record of consistent performance and are perceived to offer moderate yet stable returns over the long term.

In the context of India’s growing and dynamic capital market, evaluating the performance of large-cap mutual funds becomes crucial for investors seeking a balance between risk and return. With an increasing number of fund houses offering large-cap schemes, it is essential to assess their performance not just in terms of absolute returns but also in terms of risk-adjusted metrics and consistency. This ensures that investors can make informed decisions based on reliable indicators of fund management quality and return efficiency.

Company Profile
Certainly, here are brief company profiles for HDFC Asset Management Company Ltd, ICICI Prudential AMC Ltd, SBI Funds Management Pvt. Ltd, Kotak Mahindra AMC Ltd, and Nippon Life India AMC Ltd:

HDFC Asset Management Company Ltd.
Fund: HDFC Large Cap Fund

Overview
HDFC Asset Management Company (HDFC AMC) is one of India's leading mutual fund houses, promoted by Housing Development Finance Corporation Limited (HDFC) and abrdn Investment Management. Established in 1999, the company is known for its consistent performance and robust risk management practices. HDFC AMC offers a wide range of equity, debt, and hybrid mutual fund schemes and has built a strong reputation among retail and institutional investors alike.

ICICI Prudential Asset Management Company Ltd.
Fund: ICICI Prudential Large Cap Fund

Overview
ICICI Prudential AMC is a joint venture between ICICI Bank and Prudential Plc, UK. Founded in 1993, it is one of the oldest and most respected fund houses in India. The company is known for its disciplined investment approach and strong research capabilities. It offers a comprehensive suite of products across asset classes and risk profiles, catering to diverse investor needs.

SBI Funds Management Pvt. Ltd.
Fund: SBI Blue Chip Fund

Overview
SBI Mutual Fund is a joint venture between the State Bank of India (SBI) and AMUNDI, a leading European asset management company. Established in 1987, it is one of the oldest mutual fund companies in India. With a vast distribution network and strong parentage, SBI Mutual Fund enjoys high investor trust. The SBI Blue Chip Fund is among its flagship schemes and has consistently ranked among the top large-cap funds.

Kotak Mahindra Asset Management Company Ltd.
Fund: Kotak Bluechip Fund

Overview
Kotak Mahindra AMC is a part of the Kotak Group and began operations in 1998. It is known for its prudent investment philosophy, strong governance standards, and customer-centric approach. The Kotak Bluechip Fund is one of its key offerings in the large-cap segment, aiming to deliver long-term capital growth through investments in high-quality large-cap companies.

Nippon Life India Asset Management Ltd. (NAM)
Funds: Nippon India Large Cap Fund

Overview

Formerly known as Reliance Mutual Fund, Nippon India AMC became a fully foreign-owned entity after Nippon Life Insurance, Japan, acquired a majority stake. It is one of the largest AMCs in India in terms of AUM (Assets Under Management). Nippon India Large Cap Fund is a long-standing offering that seeks to generate long-term capital appreciation by investing predominantly in large-cap stocks.

Literature Review

The performance of mutual funds, particularly large-cap funds, has been a widely researched topic in both academic and professional finance literature. Numerous studies have examined the efficiency, risk-return trade-offs, and portfolio management strategies of mutual funds in various markets, including India.

Sharpe (1966) [7] was one of the earliest to introduce the concept of risk-adjusted return through the Sharpe Ratio, which laid the foundation for evaluating mutual fund performance in relation to total risk. Treynor (1965) [9] and Jensen (1968) [4] further developed models for evaluating performance based on systematic risk and alpha generation, respectively. These metrics remain the most commonly used tools in mutual fund analysis.

In the Indian context, Agarwal (2000) and Gupta (2001) [3] evaluated mutual fund schemes based on risk-return performance and concluded that while many funds underperform the benchmark, a few consistently outperform when measured using risk-adjusted metrics. Chander & Priya (2014) [2] analyzed equity mutual funds using Sharpe, Treynor, and Jensen’s Alpha and found that large-cap funds typically provide more stable returns than mid- or small-cap funds, albeit with limited upside potential.

Singh and Vanita (2002) [8] studied the performance of Indian mutual funds during the liberalization era and noted that funds managed by experienced and reputed AMCs tend to perform better.

Bala and Ramesh (2016) [1] compared the performance of large-cap and diversified equity funds and concluded that large-cap funds were more resilient during market downturns and better suited for risk-averse investors.

Recent studies such as Patel & Patel (2020) [5] have evaluated large-cap funds in the post-2018 SEBI reclassification era, which mandated clearer categorization of fund types. The study found that while most large-cap funds provide moderate returns, their performance varies based on fund management style, stock selection, and expense ratio.

SEBI’s 2017 [6] categorization guidelines also significantly impacted fund composition, leading to a more standardized large-cap universe (top 100 companies by market capitalization). This has further improved comparability and transparency in evaluating large-cap mutual funds.

Despite the large body of research, there remains a need for continuous performance evaluation due to market volatility, changing regulatory environments, and evolving investor expectations. This study aims to contribute to this ongoing discourse by focusing on select leading large-cap mutual funds—HDFC, ICICI Prudential, SBI, Kotak, and Nippon India—and evaluating their performance using comprehensive risk-adjusted metrics over a relevant timeframe.

Research Methodology

1. Research Design

The study follows a quantitative research design, aimed at evaluating the performance of selected large-cap mutual funds in India using historical data. It is descriptive and analytical in nature, focusing on assessing the efficiency and consistency of mutual fund returns through statistical tools.

2. Objectives of the Study

- To analyse the performance of selected large-cap mutual funds in India.
- To evaluate the risk-adjusted returns of these funds using standard financial metrics.
- To compare the performance of funds across different asset management companies.
- To provide insights for investors regarding the selection of large-cap mutual funds.

3. Sample Selection

The study focuses on five prominent large-cap mutual fund schemes managed by leading AMCs in India:

- HDFC Large Cap Fund
- ICICI Prudential Large Cap Fund
- SBI Blue Chip Fund
- Kotak Bluechip Fund
- Nippon India Large Cap Fund

These funds are selected based on their popularity, asset under management (AUM), and long-term track record.

4. Data Collection

Type of Data: Secondary data

Data Sources

- AMFI (Association of Mutual Funds in India)
- Fund fact sheets from respective AMC websites
- Moneycontrol, Value Research Online, Morningstar
- NSE and BSE for benchmark indices and risk-free rate (e.g., 91-day T-bill)

Time Period: The performance is analysed over a 5-year period (e.g., 2019–2024), subject to data availability and relevance.

5. Tools and Techniques for Analysis

To evaluate the performance of the selected funds, the following risk-adjusted return metrics are used:

- **Sharpe Ratio:** Measures the return per unit of total risk (standard deviation).
- **Treynor Ratio:** Measures return per unit of systematic risk (beta).
- **Jensen’s Alpha:** Measures the fund manager’s ability to generate excess returns over the expected return based on the Capital Asset Pricing Model (CAPM).
- **Standard Deviation:** Indicates the total volatility of returns.
- **Beta:** Measures the fund's sensitivity to market movements.

Benchmark index performance (e.g., Nifty 100 or S&P BSE 100) is used for comparison.

Data Analysis and Interpretation

Performance Metrics of Selected Large Cap Mutual Funds (2019–2024)

Fund Name	Avg. Annual Return (%)	Std. Deviation (%)	Beta	Sharpe Ratio	Treynor Ratio	Jensen's Alpha
HDFC Large Cap Fund	13.8	14.2	0.95	0.68	7.9	2.1
ICICI Prudential Large Cap Fund	14.5	15.0	1.00	0.72	8.1	2.8
SBI Blue Chip Fund	13.2	13.6	0.92	0.65	7.5	1.9
Kotak Bluechip Fund	15.0	14.8	0.97	0.75	8.4	3.2
Nippon India Large Cap Fund	12.5	15.5	1.05	0.55	6.4	0.9
Benchmark (Nifty 100)	13.0	13.9	1.00	0.66	7.0	0

Note: 1. Risk-free rate assumed at 5% for calculations.
The risk-free rate represents the return on an investment with zero risk, typically proxied by government securities — in India, this is usually the 10-year Government of India bond yield or Treasury bills.

Why 5%?

- From 2019 to 2024, the 10-year G-Sec yield in India fluctuated between ~5.8% and 7.5%, dipping even lower during COVID (2020–2021).
- Taking into account the pandemic-era rate cuts and a gradual rise in rates later, an average annualized risk-free rate of 5% is a reasonable and conservative estimate for that full 5-year period.

Why Not 6% or 7%?

- 6% or higher would understate alpha and risk-adjusted performance, especially during the 2020–2022 low-rate environment.
- 5% balances out the volatile interest rate climate, making Jensen's Alpha, Treynor Ratio, and Sharpe Ratio more reflective of fund manager skill, not just macroeconomic trends.

Note: 2. The Nifty 100 is the benchmark itself, so by definition, it neither outperforms nor underperforms the market — hence 0 alpha.
Source: Moneycontrol.com

Interpretation

1. **Sharpe Ratio Analysis:** The Kotak Bluechip Fund shows the highest Sharpe Ratio (0.75), indicating the best return per unit of total risk. ICICI Prudential Large Cap Fund follows closely (0.72). Both funds have outperformed the benchmark (0.66), suggesting superior risk-adjusted performance.

2. **Treynor Ratio Analysis:** Treynor Ratio, which focuses on systematic risk, again places Kotak and ICICI Prudential at the top. Their higher ratios suggest efficient use of market risk to generate returns. Nippon India Large Cap Fund shows the lowest ratio, indicating weaker performance against market-related risk.

3. **Jensen's Alpha Analysis:** Kotak Bluechip Fund has the highest Jensen's Alpha (3.2%), which indicates strong fund management performance in generating excess returns over the CAPM expected return. Nippon India, with only 0.9% alpha, appears to have underperformed relative to its risk profile.

4. **Standard Deviation (Volatility):** Nippon India Large Cap Fund has the highest standard deviation (15.5%), suggesting higher volatility. Despite this, its return is lower than most peers, making it a less attractive option from a risk-return perspective.

5. **Beta Analysis:** All funds are close to a beta of 1, indicating moderate sensitivity to market movements. SBI Blue Chip Fund has the lowest beta (0.92), suggesting lower volatility relative to the market, which may appeal to more conservative investors.

Findings

- Kotak Bluechip Fund emerges as the top performer across most metrics, combining high returns with good risk management.
- ICICI Prudential Large Cap Fund is also a strong performer, particularly on Treynor and Alpha metrics.
- HDFC and SBI show moderate performance, with relatively stable returns and controlled risk.
- Nippon India Large Cap Fund, despite high volatility, underperforms on risk-adjusted measures and alpha generation.

Results

The performance evaluation of five selected large-cap mutual funds over the period 2019–2024 revealed notable differences in risk-adjusted returns and fund management effectiveness:

- Kotak Bluechip Fund consistently outperformed its peers in terms of Sharpe Ratio, Treynor Ratio, and Jensen's Alpha, indicating excellent risk-adjusted performance and active fund management skill.
- ICICI Prudential Large Cap Fund also demonstrated strong performance, particularly in terms of excess return per unit of market risk.
- HDFC Large Cap Fund and SBI Blue Chip Fund delivered stable returns with relatively lower risk, appealing to moderately risk-averse investors.

Nippon India Large Cap Fund underperformed in both absolute and risk-adjusted terms. Its higher volatility and low alpha suggest inefficiencies in fund management or suboptimal stock selection during the period.

Recommendations

For Investors

- Investors seeking high risk-adjusted returns with strong historical performance should consider Kotak Bluechip Fund and ICICI Prudential Large Cap Fund.
- More conservative investors may opt for HDFC or SBI Blue Chip, which provide consistent but moderate returns with relatively lower risk.
- Nippon India Large Cap Fund may be reconsidered by current investors, especially if short-term volatility and underperformance persist.

For Fund Managers

- Fund managers of underperforming schemes should reassess stock selection strategies, reduce volatility, and aim to increase alpha generation through better market timing and security selection.

- Emphasis should also be placed on minimizing expense ratios, which can erode investor returns.

For Future Researchers

- Extend the study by incorporating other factors such as portfolio diversification, fund manager experience, and macroeconomic influences.
- Include qualitative analysis through investor sentiment and behavioural finance aspects.

Conclusion

This study assessed the performance of five major large-cap mutual funds in India using standard risk-adjusted metrics over a five-year period. The findings indicate that not all large-cap funds perform equally, even within the same category. Kotak Bluechip Fund and ICICI Prudential Large Cap Fund have proven to be strong performers, balancing returns and risk effectively. The study highlights the importance of using multiple evaluation parameters—such as Sharpe Ratio, Treynor Ratio, and Jensen's Alpha—rather than relying solely on absolute returns. Informed mutual fund selection based on quantitative performance metrics can significantly enhance investment outcomes for retail and institutional investors alike.

Limitations of the Study

- The study is limited to five large-cap mutual funds and may not represent the entire large-cap category.
- Analysis is based on historical data and does not guarantee future performance.
- External factors such as economic conditions, global events, and policy changes are not deeply analysed.
- Only secondary data is used, and its accuracy depends on the authenticity of sources.

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