International Journal of Scientific Research and Engineering Development-– Volume 7 Issue 3, May-June 2024
Available at www.ijsred.com

RESEARCH ARTICLE OPEN ACCESS

COMPARATIVE ANALYSIS BETWEEN HYBRID FUNDS, EQUITY AND DEBT FUNDS

Dr. Santhosh M
Associate Professor, RV Institute of Management, Bangalore- 560041
E-mail: santhoshm.rvim@rvei.edu.in Mobile: 9739945333

Abstract:

Several major considerations emerge from the analysis of Hybrid, Equity, and Debt Mutual Funds. The results show that there are considerable disparities in the returns and hazards of Hybrid, Equity, and Debt Mutual Funds. Equity funds produce higher returns but are riskier, while debt funds provide lower returns but are less volatile. Hybrid funds strike a happy medium between the two. Debt and equity fund returns, as well as debt and hybrid fund returns, show a minor positive correlation. The returns of equity and hybrid funds are highly connected. The past values of one fund's returns do not anticipate the returns of another, implying independence. The highest return is provided by the SBI pure equities fund, but it also has the highest expense ratio. Other funds with different returns and expenses are included as well.

Funds should be chosen by investors depending on their financial objectives and risk tolerance. Because of their regular returns, debt funds are appropriate for low-risk investors. Hybrid funds provide a medium ground, making them a viable option for investors seeking both returns and stability. Hybrid funds offer a balanced investing option, combining the advantages of equities and bonds. Equity funds are riskier, but they can produce better long-term returns. Debt funds are less volatile, appropriate for low-risk investors, and pay out monthly dividends. Diversification across asset classes can reduce overall risk. Mutual funds provide diversity as well as expert fund management, making investing decisions easier for investors.

Overall, this analysis provides significant insights for both investors and AMCs, assisting them in making informed mutual fund decisions.

Introduction:

The mutual fund sector is a financial services industry that pools investor money and invests it in various assets such as stocks, bonds, and money market instruments. Mutual funds are managed by experienced investment managers who seek to maximize returns while minimizing risk for clients.

The mutual fund industry is a global one, with over $100 trillion in assets under management (AUM) worldwide. With over $30 trillion in AUM, the United States has the world's largest mutual fund market. India, China, and Japan are other big mutual fund markets.

The mutual fund business is critical to the financial system. It allows investors to invest in a diverse range of assets with relatively little investment. Mutual funds also aid in the mobilization of cash for enterprises and governments.

The mutual fund industry in India is one of the world's fastest-growing, with AUM increasing from 7.66 trillion in August 2013 to 46.63 trillion in August 2023, a more than sixfold increase in a decade. The Indian mutual fund industry is regulated by the Securities and Exchange Board of India (SEBI). In India, there are now 45 asset management companies (AMCs). Over 80% of the industry's AUM is held by the top ten AMCs.

The Indian mutual fund sector provides investors with a wide range of schemes, including equity schemes, debt schemes, hybrid schemes, and solution-oriented schemes. Debt funds invest in bonds and

 ©IJSRED:All Rights are Reserved

money market instruments, whilst equity funds invest in equities. Hybrid funds invest in a mix of equities and bonds. Solution-oriented plans are intended to help people achieve specific financial objectives, such as retirement planning or child education.

The Indian mutual fund business has expanded quickly in recent years as a result of a variety of causes, including:

- Increasing investor financial literacy
- Increasing earnings and disposable savings
- Growing understanding of the advantages of mutual fund investment
- Initiatives by the government to promote mutual fund investment

The mutual fund sector in India is likely to expand in the next years, owing to increased investor participation and the introduction of new and innovative products.

Impact of the mutual fund industry on the economy

The mutual fund industry contributes significantly to the economy by mobilizing funds for businesses and governments. Mutual funds invest in a wide range of assets, such as equities, bonds, and money market instruments. This investment contributes to the financing of corporate expansion and government infrastructure projects.

Mutual funds also enable investors to save for long-term financial goals. Investing in mutual funds allows investors to accumulate wealth over time and fulfill financial objectives such as retirement planning or child education.

The mutual fund sector also contributes to financial inclusion. Mutual funds enable investors to invest in a diverse portfolio of assets with a minimal initial investment. This opens up mutual funds to a broader group of investors, including small retail investors.

The study is about the comparative analysis of the return and risk of Equity, Hybrid, and Debt funds. The purpose of this study is to know whether there is a difference in returns and the risks that are involved in the Equity, Hybrid, and Debt fund.

Hybrid Fund

A hybrid fund is a type of mutual fund that invests in both stocks and bonds. They are also referred to as asset allocation funds. Investors can use hybrid funds to manage the risk and return of their investment portfolio.

The amount of stocks and bonds in a hybrid fund might vary based on the investment objective of the fund. Some hybrid funds are more conservative, with a higher bond allocation. Other hybrid funds are more aggressive, having a higher stock allocation.

Hybrid funds may be a smart choice for investors seeking a more diverse investment portfolio. Hybrid funds can also be a viable option for investors seeking a more balanced risk-return profile.

Equity Funds

Equity funds are mutual funds that invest primarily in stocks. Stocks are ownership shares in a corporation. When you invest in an equity fund, you are essentially purchasing a minor stake in several different companies.

 ©IJSRED:All Rights are Reserved

Equity funds have the potential to provide large returns to investors, but they also carry a bigger risk of loss than other forms of mutual funds, such as debt funds. This is because the stock market may be volatile, with stock prices fluctuating dramatically.

However, equity funds have traditionally outperformed other types of investments over the long term. As a result, equity funds are frequently advised for investors with a lengthy investment horizon, such as those saving for retirement.

Debt Funds

Debt funds are mutual funds that invest in debt securities such as government bonds, corporate bonds, and money market instruments. Debt instruments are simply loans made by investors to governments or corporations. In exchange, the debt instrument's issuer commits to pay the investor a predetermined rate of interest over a set period.

Debt funds have a smaller risk of loss than equity funds, but also a lower potential return. This is because debt instruments are often regarded as less risky than stocks.

REVIEW OF LITERATURE:

1. (Agrawal & Patidar, 2020)The study focuses on experimentally assessing fund manager performance and examining data at the fund-manager and fund-investor levels. According to the survey, the performance of the MF sector in India is influenced by people's saving and investing behaviours, as well as the faith and loyalty of the fund manager and rewards.
2. (Kamala Devi &Athma, 2020)According to the analysis, the majority of Schemes outperformed their Benchmark Returns. In terms of Risk Adjusted Performance, the ICIC Pru FMCG Fund outperformed in all three performance measures, namely Sharpe Ratio, Treynor Ratio, and Jenson's Alpha, generating superior returns against Systematic Risk and Total Risk.
3. (Durgesh Sureshbhai et al., 2012)According to this research, all-equity schemes provide a superior return, although the return is lower when compared to the benchmark return, except small cap and multi cap funds. ABSL provides a greater return in all debt plans that demand a medium to long term duration fund. The net asset value of the HDFC asset management fund is higher. ABSL fund management has the most assets under management. The investor who considers the return without risk and can invest in debt schemes for a variety of durations or periods of time.
4. (Kumar &Adhikary, et al., 2015) According to the analysis, private sector tax saving mutual fund schemes outperformed their market returns, while public sector tax saving mutual fund schemes underperformed. In the private sector, HDFC Tax Saver has a larger return than the market return and is more variable in terms of risk than the market return.
5. (Vikas Choudry& Preethi Seghal, 2014)The purpose of this research paper is to examine the performance of growth-oriented equity diversified schemes in terms of return and risk.
6. (Sajid, et al., 2020)This study offers an analytical perspective on mutual fund plans. Benchmarks and statistical tools were used to evaluate various sorts of mutual fund schemes. This report will need the reader to conduct an analytical examination of several mutual schemes conducted by the State Bank of India in the current factors in the company's investment strategy and investment policy.

 ©IJSRED:All Rights are Reserved

7. (Bhagyasree&Kishori, 2016)This article examines the success of open-ended, growth-oriented equity plans in the transition economy from April 2011 to March 2015. According to the analysis, 14 of the 30 mutual fund schemes beat the benchmark return. The results also revealed that some of the plans underperformed; these schemes were struggling with diversification. The Sharpe ratio was positive for all schemes in the sample, indicating that funds were giving returns greater than the risk-free rate. Jensen measure results revealed that 19 out of 30 schemes had positive alpha, indicating superior performance of the schemes.
8. (Sharma, 2020)The current research is based on five debt mutual funds launched by various private sector organizations. The study discovers that three mutual funds performed well and two funds did not perform well during the study period, and that three mutual fund schemes performed well in the high volatile market, with the exception of Axis corporate debt and HSBC fund.
9. (Prajapati & Mahesh, 2012)The performance of Indian mutual funds is evaluated in this study using the relative performance index, risk-return analysis, Treynor's ratio, Sharp's ratio, Sharp's measure, Jensen's measure, and Fama's measure. The information used is daily closing NAVs. The findings of performance indicators indicate that the majority of mutual funds provided positive returns from 2007 to 2011.
10. (Sarita Bahl et al., 2012) The current study looks at the performance of 29 open-ended, growth-oriented equity schemes from April 2005 to March 2011. The analysis found that 14 of the 29 sample mutual fund schemes (48.28 percent) surpassed the benchmark return. The data also revealed that some of the schemes underperformed, indicating that these schemes were struggling with diversification. The Sharpe ratio was positive for all schemes in the sample, indicating that funds were giving returns greater than the risk-free rate. Jensen measure results revealed that 19 out of 29 (65.52 percent) schemes had positive alpha, indicating higher performance of the schemes.

OBJECTIVES OF THE STUDY:

1. To analyse the performance of the hybrid mutual funds over equity and debt funds
2. To study the risk component among the selected mutual fund schemes.
3. To study the performance of the selected schemes of top five AMC.

RESEARCH METHODOLOGY:

The current study compares the return of hybrid funds with that of pure equity and pure debt funds. Returns of five top AMCs of India based on assets managed are considered. This study will provide some insight into the performance comparison of selected mutual fund schemes, which will help them make sound investment decisions and allocate their resources to the best mutual fund scheme. It is entirely dependent on secondary data. Therefore, the research design is descriptive. This article uses the returns of selected AMC. The data was analyzed using Standard deviation and T-test for equality of means.The study employs the return analysis methodology. It refers to an examination of the return and risks of Equity, hybrid, and debt schemes of the top 5 AMC over a given period.

The study aims to analyse the performance of Hybrid, Debt, and Equity fund returns of the top 5 AMCs chosen based on their assets managed. Selected funds comprise of different schemes out of which 5 schemes have been chosen. The study considered only SEBI-registeredAMCs in India. Returns Up to 10

 ©IJSRED:All Rights are Reserved

years are collected and analyzed for performance evaluation. The following are the different AMCs that have been selected for the study:

1. SBI Mutual Fund
2. ICICI Prudential Mutual Fund
3. HDFC Mutual Fund
4. Nippon India Mutual Fund
5. Kotak Mahindra Mutual Fund

DATA ANALYSIS:

The study relies on secondary data. The data, as well as the conclusion, results, and suggestions for a possible remedy, will be assessed using tables, graphs, and statistics. The acquired data is represented in graphs and charts, and analysis will be drawn as needed.

The data was analyzed using

Sharpe ratio: The Sharpe ratio is a financial metric that measures the performance of an investment by adjusting for its risk.

Sharpe ratio = (Rp - Rf) / σp

Jensen's Alpha: Jensen's alpha is a risk-adjusted performance measure that compares the actual return of a portfolio to its expected return, given its beta and the market return.

Jensen's alpha = Rp - (Rf + beta * (Rm - Rf))

Expense Ratio: The expense ratio is a measure of how much of a fund's assets are used to cover its operating expenses.

Expense ratio = total fund expenses / average net assets under management (AUM)

Descriptive statistics: Descriptive statistics are a set of statistical methods used to describe and summarize a set of data calculated using EViews.

Correlation: Correlation is a statistical measure of the relationship between two variables, which was calculated using EViews.

T-test: A t-test is a statistical test that is used to compare the means of two groups. It was calculated using Excel

Casualty Test: A casualty test is a statistical test used to determine whether there is a causal relationship between two variables. It was calculated using EViews.

Results and Discussions

1.From T-test analysis we found that there is a significant difference between the returns of hybrid, Equity, and Debt Mutual Funds. We also found that there is a difference in the risk of Hybrid, Equity, and Debt Mutual Funds.

 ©IJSRED:All Rights are Reserved

2.The statistics provide information that Equity funds have the highest average returns but also the highest risk, whilst debt funds provide lower returns but are less volatile. Hybrid Funds fall somewhere in the middle in terms of both returns and risk. Furthermore, the data for all three types of funds appears to deviate significantly from a normal distribution, according to the Jarque-Bera test.

3.The correlation values reveal how the results of the various types of investment funds are related. Debt and equity fund return have a slight positive association. Debt fund returns and hybrid fund returns have a slight positive association as well. The returns of equity funds and hybrid funds are strongly correlated. This means that the returns of one type of fund rise, and the returns of the other types tend to rise as well.

4.Granger causality is a statistical test that determines if one time series predicts another. We found that the past values of one fund's returns in each pair do not significantly forecast or "Granger cause" the returns of the other fund.

5.According to Sharpe's Ratio, Jensen's Alpha, Treynor's Ratio, and Expense Ratio, the SBI pure equity fund has the highest return with the highest expense ratio, followed by the hybrid and debt funds. The Kotak Hybrid fund outperforms the Equity and Debt funds in terms of return while having a higher expense ratio. The Nippon India Equity fund has the highest return with the highest expense ratio, followed by the Hybrid and Debt funds. The HDFC Equity fund has the highest return with the highest expenditure ratio, followed by the Hybrid and Debt funds. The ICICI Prudential Hybrid fund outperforms the Equity and Debt fund in terms of return while having a higher expense ratio.

CONCLUSION

To conclude hybrid equity and debt funds provide investors with a well-balanced investment alternative that incorporates the advantages of both stocks and bonds. Hybrid mutual funds provide clients with a well-balanced investment alternative that combines the advantages of equities and bonds. They can provide investors with larger returns than debt funds while simultaneously providing more stability than equity funds. It is crucial to recognize, however, that hybrid funds are not without risk. They are vulnerable to market changes, and investors may lose money. It is also critical to select the appropriate hybrid fund for investing objectives and risk tolerance.

Equity markets can be unpredictable in the short term, but they have traditionally risen in the long run. Investors who have been in the market for at least five years are better able to tolerate market volatility and perhaps create larger profits.

Equity mutual funds are riskier than debt mutual funds, but they can also produce bigger returns. Investors with a moderate to high-risk tolerance are more willing to accept short-term losses in exchange for the possibility of larger long-term gains. Equity mutual funds are an excellent strategy to build wealth over time. Investors can acquire exposure to the growth of the underlying companies by investing in a stock portfolio.

Debt mutual funds are less volatile than equities mutual funds, making them a desirable investment alternative for those with a one- to three-year investment horizon. Debt mutual funds are less hazardous than equities mutual funds in general, making them an excellent investment alternative for investors with low-risk tolerance. It can provide monthly income in the form of interest payments to investors

For investors seeking a reasonable degree of risk and return, hybrid, equity, and debt funds can be a smart investment option.

 ©IJSRED:All Rights are Reserved

It is crucial to remember that all investments involve some level of risk However, you can lower your overall risk by diversifying your portfolio across several asset classes and industries.

Overall, mutual funds enable investors to diversify their portfolios and acquire exposure to several asset classes and industries without having to select individual stocks. Fund managers make judgments on where and when to invest the fund's money, and they continuously analyze the fund's performance.

REFERENCES

- Shreekant G, Rai R, Bhardwaj G (2019) Comparing performance of equity, balanced and debt mutual funds – Empirical evidences from India International Journal of Innovative Technology and Exploring Engineering Volume-8 Issue-9, July 2019
- Agrawal D, Patidar D (2009)"A Comparative Study of Equity Based Mutual Fund of Reliance and Hdfc" Prabandhan&Taqniki, Vol. 3, Pp. 145-154, October 2009
- Kamala Devi L, Athma (2020) Performance of Equity Mutual Funds in India: An Analysis of Select Asset Management Companies, Pinternational Journal of Management (2020) 11(12)
- Dr. Sarita Bahl; Meenakshi Rania (2017) Study on Comparison of Mutual Fund Schemes - International Journal of Marketing, Financial Services & Management Research Vol.1 Issue 7, 2012,
- Kumar M, Adhikary (2015) Comparative Analysis of Performance of Tax Saving Mutual Funds: A Case Study of Selected Asset Management Companies - A International Journal of Multidisciplinary Approach and Studies Volume 02, No.1, Jan - Feb 2015
- Dr Vikas Choudhary, and Preeti Sehgal Chawla (2014) Performance Evaluation of Mutual Funds: A Study of Selected Diversified Equity Mutual Funds in India - International Conference on Business, Law and Corporate Social Responsibility Oct (2014)
- Sajid R & Dubey (2023), A Comparative Study of Mutual Fund Schemes Based on Equity and Debt Fund of State Bank of India - Aayushi International Interdisciplinary Research Journal Vol-X Issue- I January 2023
- Bhagyasree N, Kishori M (2016) A Study on Performance Evaluation of Mutual Funds Schemes in India Bhagyasree N, Kishori M –International Journal for Innovative Research in Science & Technology Volume 2 Issue 11 April 2016
- Komal B. Sharma (2020) Performance Analysis of Mutual Fund: A Comparative Study of The Selected Debt Mutual Fund Scheme in India- A Global Journal of Interdisciplinary Studies VOLUME - III ISSUE II MAY – 2020
- Prajapati K Mahesh K (2012) Comparative Study on Performance Evaluation of Mutual Fund Schemes of Indian Companies - Journal of Arts, Science & Commerce Vol–III, Issue3(3), July 2012 [47]
- Sarita Bahl D, Rani M, Scholar R (2012) A Comparative Analysis of Mutual Fund Schemes in India- International Journal of Marketing, Financial Services & Management Research Vol.1 Issue 7, July 2012, ISSN 2277 3622
- Wachasundar S, Ontakay R (2020) Performance of Indian Hybrid Mutual Fund During the Time of Global Financial Crisis - UGC Care Journal Vol-40-Issue-37-March-2020
- Srivastava M (2015) Synopsis on An Analysis of Risk Measurement Techniques of Selected Mutual Fund Schemes in India for The Registration of Doctor of Philosophy in Management
- Balavenu R (2021) Comparative Empirical Study of Sbi Mutual Fund Vis A Vis Its Selected Competitors Turkish Online Journal of Qualitative Inquiry (TOJQI) Volume 12, Issue 8 July, 2021: 6486 – 6501

- Choudhary, Nigam (2020) Performance Analysis of Indian Mutual Fund Schemes - A Comparative Study - International Journal for Research in Applied Science & Engineering Technology Volume 8 Issue IX Sep 2020
- Pandey S (2019) Performance Evaluation of Hybrid Mutual Fund Schemes in India -University Grants Commission, New Delhi Recognized Journal No. 41311 Volume VII Issue III: March 2019
- Chaudhari N (2020) Performance Evaluation of Selected Hybrid Mutual Funds in India- A Global Journal of Interdisciplinary Studies Volume - Iii Issue Iii June – August 2020
- Sharma Komal B., Dr. Prashant Joshi (2021) A Comparative Study on Performance Evaluation of Selected Debt, Equity and Hybrid Mutual Fund Schemes in India- A Global Journal of Social Sciences Volume - Iv Issue II April – June 2021
- Kamala Devi L, (2020) Sengupta Strong Form Market Efficiency: Empirical Evidence from Performance Appraisal of Mutual Funds- Journal of Critical Reviews Vol 7, Issue 15, 2020
- Srinivas B, Khan E, Abdul L (2020) Impact of Covid-19 on the Performance of Mutual Funds-A Comprehensive Analysis on the basis of Fund Category and Asset under Management - International Journal of Management Volume 11, Issue 8, August 2020, pp. 325-335