INTERNATIONAL JOURNAL OF RESEARCH CULTURE SOCIETY ISSN: 2456-6683 Volume - 4, Issue - 3, Mar – 2020
Monthly, Peer-Reviewed, Refereed, Indexed Journal Scientific Journal Impact Factor: 5.245
Received on : 10/03/2020 Accepted on : 21/03/2020 Publication Date: 31/03/2020

Performance Evaluation of Indian Index Funds

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Abstract: *The recognition of the index funds as associate degree investment possibility has magnified manifolds ever since they were introduced. This is often primarily owing to the merits that the capitalist enjoys through passive sort of funds management. This includes the low price concerned in managing such funds and therefore the important tax savings. Most of the researchers have compared the performance of the actively managed funds therewith of index funds. but the index funds people and for that reason alternative elements of the planet are totally different from that of India. In contrast to alternative countries in India the benchmark indices comprise of terribly less range of securities and so are unable to represent the complete economy. Thus in Indian context comparison of performance of actively managed funds with index funds isn't logical. thus this paper attempts makes associate degree attempt/tries} to create an intra-class performance analysis of some Indian index funds and how they reacted to Global Pandemic(COVID 19) during 2020 based on the plots*

Key Words:*Index funds; Passive fund management;Benchmark indices;Investment option; Performance analysis*

1. INTRODUCTION:

The common investors in India like better to invest within the capital market through an investment trust instead of direct investments. This has given impetus to the expansion of the investment trust trade. The first reason behind such a behavior is that the risk avoiding nature of the capitalist let alone the shortage of sound information of the intricacies with that the capital market operates. So that they believe that the fund manager along with his experience would be the simplest person to handle their hard-earned cash. A investment trust could be a style of money vehicle created from a pool of cash collected from several investors to speculate in securities like stocks, bonds, securities industry instruments, and alternative assets. Mutual funds are operated by skilled cash managers, World Health Organization portion the fund's assets and commit to manufacture capital gains or financial gain for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives declared in its prospectus.

Mutual funds offer little or individual investors access to professionally managed portfolios of equities, bonds, and alternative securities. every shareowner, therefore, participates proportionately within the gains or losses of the fund. Mutual funds invest during a immense range of securities, and performance is typically tracked because the amendment within the total market cap of the fund—derived by the aggregating performance of the underlying investments.The conception of investment trust 1st came from a Dutch businessperson Ling within the year 1774. In 1822, that concept was additional developed. In Republic of India this idea was introduced in 1963. From associate degree historical purpose of read, Mutual Funds are around four hundred years, however they're a comparatively new investment development to novice investors. Mutual Funds ar a conglomeration of stocks, bonds, securities and even land, place along by a wise Fund Manager World Health Organization hand-picks winners for a winning combination. (Athma & Mamatha, 2013). Fund Managers use totally different investment designs in consonance with the investment objectives of the involved theme. Some funds are actively managed whereas others aren't. The passively managed funds are normally termed because the mutual fund. the recognition of the index funds as associate degree investment possibility has magnified manifolds ever since they were introduced. This is often primarily owing to the deserves that the capitalist enjoys through passive sort of funds management. This includes the low price concerned in managing such funds and therefore the important tax savings (Fortin & physicist, 2002).

Index Funds replicate the portfolio of a selected index like the bovine spongiform encephalitis Sensitive index, S&P NSE fifty index (Nifty), etc. These schemes invest within the securities within the same proportion comprising associate degree index (www.utimf.com/). In theory NAVs of such schemes would rise or fall in accordance with the increase or fall within the index, although not specifically by a similar proportion because of some factors called "tracking error" in technical terms. There are varied reasons for incidence of such trailing errors that eventually became the yardstick for mensuration the performance of such index funds (Frino & Gallagher, 2001) Some of the factors that cause trailing error in index funds are enumerated here. one in all the prime reasons being, that the benchmark index is maintained a lot of sort of a paper portfolio than reality (Perold, 1988). Any amendment within the composition of the benchmark index needs it slow for the fund manager of the mutual fund to duplicate the new composition. This additionally entails some shopping for and mercantilism on the a part of the mutual fund that raises its price wherever on the opposite hand returns from the benchmark index are assumed to be received while not acquisition any price.

second the manner the benchmark index is calculated additionally features a concerning the likelihood and quantum of the trailing error. Third, if the mutual fund doesn't specifically mirror its benchmark there'll be some trailing error. Some stocks could also be liquid enough to be enclosed within the benchmark index, however nearly liquid enough to be bought by the mutual fund and if enclosed have an effect on the stock's worth (Keim, 1999). Another notable purpose is that the treatment of dividend within the benchmark index. Warren Buffett and Benjamin Graham have suggested index funds in concert of the simplest investment tools for tiny investors World Health Organization don't have the capability to pick their own quality stocks or Mutual funds. This is often specifically what quality management firms of index funds are victimisation as their justification to sell such funds in Republic of India for long. But this logic holds smart for a market like America wherever the index funds ar true indicators of the market at giant thanks to the very fact that they track indices containing five hundred to 5000 stocks (www.safalniveshak.com/). that's most likely the foremost important reason for the analysis gap during this space specifically in Indian context.

In India, we've simply 2 necessary indices accessible – the thirty stock BSE-Sensex and therefore the fifty stock NSE-Nifty. Such a tiny low variety of corporations square measure anyways not indicative of the broader Indian market. what's a lot of regarding is, the means the Sensex (or the Nifty) square measure created makes them simply a shabby assortment of massive companies/expensive stocks. In such a state of affairs, performance analysis of the index funds becomes important, that too intra-class comparison (www.safalniveshak.com/). These traits of the Indian index funds create them acceptable for the novice capitalist World Health Organization is content with simply moderate come back on top of the standard mounted deposits in any bank or the retired investors World Health Organization cannot afford to require risk concerned in actively managed funds. in step with Jaya Prakash, Head, Products, Franklin Templeton Investments, India, index funds square measure ideal for investors preferring to require solely market risk and not a fund manager risk (www.businesstoday.in). Whether or not actively managed funds have a grip over the passively managed index funds stay a debatable issue and that we feel that this varies from economy to economy.

1.1. LITERATURE REVIEW:

Athma and Mamatha (2013) studied the expansion and progress of ETFs (Exchange listed Funds) and Index funds in Asian nation ranging from 1998. Narend (2014) through empirical observation studied the performance of some index funds and ETFs supported following error, active returns and Jensen's alfa. Similar works also are reportable from different components of the globe. Philips et al(2014) compared the performance of the actively managed funds vis-à-vis the index funds and located that index funds displayed a bigger likelihood of outperforming the actively managed funds although index funds usually underperform their benchmarks. These findings support the conclusions drawn by Benke & Ferri (2013)earlier. Different notable works which require a mention are- Rhompotis (2005) scrutiny ETFs with index funds, OH et al (2005) proposing a model to optimize investments in index funds. Elton et al (2004) evaluated the performance of some mutual funds. following error of some S&P five hundred index funds was reportable by Frino & Gallagher (2001). the primary arrange to quantify the distinction in portfolio performance between the 2 ways was created by Larry Martin (1993). several authors in succession have worked on similar lines and a lot of or less confirmed a similar findings that generally low expense index funds exceed the high expensed actively managed Mutual funds. but within the Indian state of affairs a comparison between the index funds and actively managed funds isn't guaranteed. this is often as a result of in Asian nation the same old benchmarks specifically Sensex and cracking contains solely thirty and fifty stocks severally and is therefore not representative of the complete market. within the US and abroad the benchmark indices comprise a far larger variety of stocks and thence alright represent the market as a full. AN exceedingly|in a very} country like Asian nation an intra-class comparison of index funds looks a lot of excusable in our opinion. Keeping this analysis gap in mind this study has been obsessed to judge the performance of seven designated index funds and undertake a comparison among them.

2. METHOD:

2.1. Objective:

This Research paper attempts to evaluate some of the index funds from the Indian Mutual fund industry.

2.2. Hypothesis:

Passively managed Mutual funds reap returns equal to that of the benchmark index and also do deviate from the benchmark index with respect to returns.

2.3. Scope:

The study covers a period of five years starting from April 2015 to December 2020. Such short-duration study is warranted as the economic scenario in a fast developing economy like India it is prone to changes. The paper takes into account the performance of few index funds in India whose benchmark index is the Nifty index of the NSE (National Stock Exchange). The names of index funds (and their symbols) under study are mentioned in Table 1.

Table 1. List of Index Funds Under Study

S.No.	Name of the Index fund	Symbol
1.	SBI Nifty Index Fund Regular G	0P00005URO.BO
2.	HDFC Index Nifty 50	0P00005WMV.BO
3.	Tata Index Fund-Plan A (Nifty)	0P00005WHZ.BO
4.	UTI Nifty Index Fund Regular P	0P00005WL6.BO

3. DISCUSSION:

Here we consider 4 index funds i.e SBI Nifty Index Fund Regular G, HDFC Index Nifty 50, Tata Index Fund-Plan A (Nifty), UTI Nifty Index Fund Regular P. These funds invest in all the stocks comprising the Nifty 50 Index in the same proportion as their weightage in the index.

3.1. ANALYSIS:

We plot all the four Index funds which are mentioned in the above Table 1 in the same graph we plot the benchmark index is the Nifty index of the NSE (National Stock Exchange) and compare all the seven graphs from 2015 to 2020 and try and find the deviation of the other index funds from the benchmark index i.e Nifty index of NSE(National Stock Exchange).

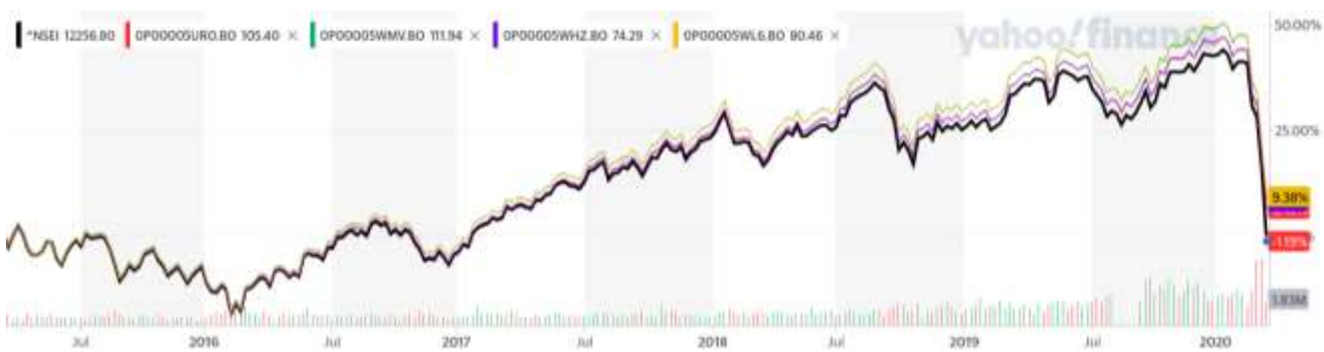
3.2. FINDINGS:

We plot the 4 index funds mentioned above 4 index funds i.e SBI Nifty Index Fund Regular G, HDFC Index Nifty 50, Tata Index Fund-Plan A (Nifty), UTI Nifty Index Fund Regular P and the benchmark Index i.e Nifty index of NSE(National Institute of Stock Exchange). Here we can see that all the funds reap returns equal to that of the benchmark index and also do deviate from the benchmark index with respect to returns. The UTI Nifty Index Fund Regular P has the highest deviation of all when compared to the benchmark Index i.e Nifty index of NSE(National Institute of Stock Exchange). UTI Nifty Index Fund Regular P and Tata Index Fund-Plan A (Nifty) have less deviation when compared with each other. When we analyse the recent years i.e 2018-2020 we can observe that the UTI Nifty Index Fund Regular P and Tata Index Fund-Plan A (Nifty) are outperforming the benchmark.

Coronavirus pandemic has shaved off nearly a third of the global market cap. The spread of virus has triggered panic across the world. This affected the benchmark index and it nearly closed at negative 2%(Date: 18-03-2020) whereas the other Index funds closed at positive 9-8% (Date: 18-03-2020) when considered a 5 year timeline. All of the findings are depicted below in the following graphs Graph 1, Graph 2, Graph 3.

Table 2

S.No.	Name of the Index fund	Symbol	Line Color
1.	SBI Nifty Index Fund Regular G	0P00005URO.BO	**RED**
2.	HDFC Index Nifty 50	0P00005WMV.BO	**GREEN**
3.	Tata Index Fund-Plan A (Nifty)	0P00005WHZ.BO	**BLUE**
4.	UTI Nifty Index Fund Regular P	0P00005WL6.BO	**YELLOW**
5.	Nifty 50	^NSEI	**BLACK**



Graph 1. Timeline 5 years, Interval 1 week, Percentage.

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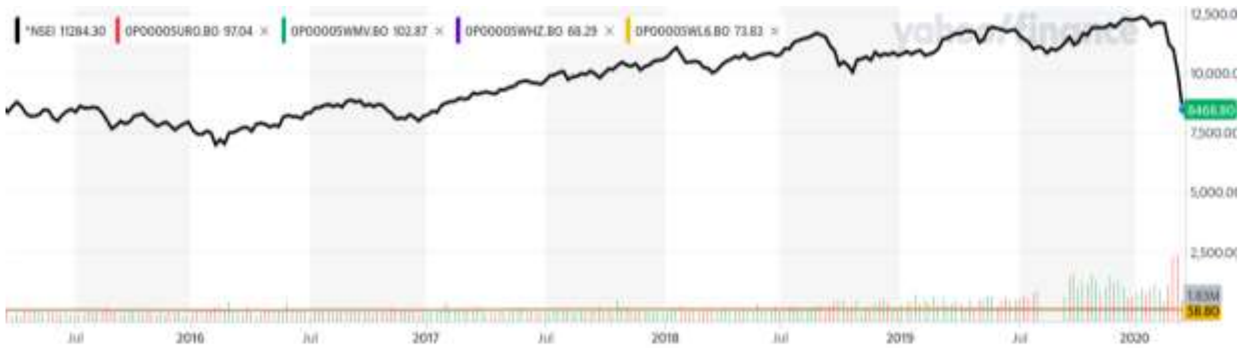
Received on : 10/03/2020 Accepted on : 21/03/2020 Publication Date: 31/03/2020

Graph 2. Timeline 5 years, Interval 1 week, Logarithmic



Graph 3. Timeline 5 years, Interval 1 week, Linear

4. RESULT:

Yes Passively managed Mutual funds reap returns equal to that of the benchmark index and also do deviate from the benchmark index with respect to returns. The deviation is evident from the graphs above.

5. CONCLUSION:

Passively managed Mutual funds reap deviate from the benchmark index with respect to returns. The deviation is evident from the graphs above. The spread of virus has triggered panic across the world. This affected the benchmark index and it nearly closed at negative 2% (Date: 18-03-2020) whereas the other Index funds closed at positive 9-8% (Date: 18-03-2020) when considered a 5 year timeline. After they all fell down to negative double digits(22-03-2020) as the Novel cases rose expotentially even when the state-ordered 21-day lockdown, The lockdown has paralysed virtually all commerce in the country and has put millions of people out of work, leaving many struggling with basic requirements like food and medicines. All of the findings are depicted above in the following graphs Graph 1, Graph 2, Graph 3.

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