

## **A comparative analysis study of Franklin (I) smaller companies (G) & DSP BR Micro cap RP (G) Equity based mutual funds.**

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**Summary:** *The case study is based on “A comparative analysis study of Franklin (I) smaller companies (G) & DSP BR Micro cap RP (G) Equity based mutual funds”. Now a day the Mutual fund is very famous in India as options in investment. While choosing any schemes the investors should to see the fund’s investment objectives & policies, risks & different cost structure. Interestingly the case highlights that when two different schemes drawn for two different open-ended diversified equity funds each of which features to provide a long term capital appreciation, different cost structure & funds investment objectives & policies for investors. The issues raise fundamentals on high risk involved in both the schemes which are suitable for investors, compatible with high risk high return equation & appetites higher the risk in given volatile market. The case also highlights on different issues comparisons based viz. Return on investments, bench marks returns with actual returns, standard deviation, Beta, Alpha etc. Risk- adjusted return measures Sharpe ratio used for evaluation of mutual fund performance & excess return generated over the risk free return. The selected funds for case that nature of investment primarily in small & midcap stocks over the short term wealth an ideal investment horizon of 3-5 years. The case based on comparative analysis which is best practice for mutual fund agents & investors. It will be useful not only the students of financial area & banking also other field of students who are tomorrows investors.*

### **I. Introduction:**

A mutual fund is an investment vehicle for investors who pool their savings for investing in diversified portfolio of securities with the aim of attractive yield and appreciation in value. Any prospective investor of their surplus money can invest in Mutual Funds. These investors buy units of a particular Mutual Fund scheme that has a defined investment objective and strategy.

The money thus collected is then invested by the fund manager in different types of securities. These could range from shares to debentures to money market instruments, depending upon the scheme’s stated objectives. The income earned through these investments and the capital appreciation realized by the scheme is shared by its unit in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. That does not mean investments are risk free. This is because the money that is pooled is not invested only in debt securities which are less risky, but also in stock markets which involve high risk.

In a few years mutual fund has emerged as a tool for ensuring one’s financial well being.

Mutual Funds have not only contributed to the country’s growth story but have also helped families tap into the success of Indian Industry. With the emphasis on increase in domestic savings and improvement in deployment of investment through markets, the need and scope for mutual fund operations has increased tremendously. Thus the involvement in mutual funds in the transformation of Indian economy has made it urgent to view their services not only as a financial intermediary but also as a pacesetter as they are playing a significant role in spreading equity culture.

In India, the mutual fund industry started with the setting up of Unit Trust of India in 1964. Public Sector Banks and financial institutions began to establish mutual funds in 1987. The private sector and foreign institutions were allowed to set up mutual funds in 1993. Today there are around 40 mutual funds and over 300 schemes with total assets of approximately Rs. 97000 crores.

#### **1.1 Structure of Indian Mutual Funds**

The mutual fund is managed by the board of trustees or Trustee Company, and the sponsor executes the trust deeds in favor of trustees. The mutual fund raises money through the sale of units under one or more schemes for investment in securities in accordance with the SEBI guidelines. The trustees must see to it that the schemes floated and managed by the AMC are in accordance with the trust deeds and SEBI guidelines. It is also the responsibility to control the capital property of the mutual fund’s schemes.

### **1.3 Operational definition**

According to SEBI (Mutual Funds) (Amendment) Regulation, 2008 "Mutual fund means a fund established in the form of a trust to raise monies through the sale of units to public or a section of the public under one or more schemes for investing in securities including money market instruments or gold or gold related investments or real assets"

## **II. Scope and significance of the study**

In India there are a lot of mutual fund schemes really providing good returns available for investment. However, investing in mutual fund is a little difficult process for a common man. They select those mutual fund that heavily advertise and sell aggressively without paying attention to their performance. This study is aiming at analyzing the performance of mutual fund scheme and selecting the best one by considering the aspects of risk and return. This case study covers the 2 selected equity based mutual funds i.e. DSP BR Micro cap (G) & Franklin India Smaller Co (G) schemes.

### **2.1 Information about selected equity based mutual funds:**

#### **2.1.1 DSP BlackRock Mutual Fund**

DSP BlackRock Investment Managers is one of the premier asset management companies in India. It is a joint venture between the DSP Group and BlackRock. The DSP Group, headed by Mr. Hemendra Kothari, is one of the oldest financial services firms in India. It has a track record of over 145 years and was one of the founding members of the Bombay Stock Exchange.

BlackRock is the largest listed asset management company in the world. It is a premier provider of investment solutions through a variety of product structures, including individual and institutional separate accounts, Mutual fund and other pooled investment vehicles, and the industry-leading iShares® ETFs to investors around the world. Black Rock is a truly global firm that combines the benefits of worldwide reach with local service and relationships. It has a deep presence in every major capital market in the world, which results in greater insights into increasingly interconnected financial markets. Managing assets for investors in North and South America, Europe, Asia, Australia, the Middle East and Africa, the firm today employs more than 9,300 talented professionals and maintains offices in 26 countries around the world. Black Rock's investor base includes corporate, public, union and industry pension plans; governments; insurance companies; third-party mutual funds; endowments; foundations; charities; corporations; official institutions; sovereign wealth funds; banks; financial professionals; and individuals worldwide

#### **The Asset Management Company**

DSP Black Rock Investment Managers Pvt. Ltd. is the investment manager to DSP Black Rock mutual fund. The philosophy of DSP Black Rock Investment Managers Pvt. Ltd. has been grounded in the belief that experienced investment professionals, using a disciplined process and sophisticated analytical tools, can consistently add value to client portfolios.

DSP Black Rock Investment Managers Pvt. Ltd. takes a three dimensional approach to the management of the organization, incorporating functional, product and regional elements in support of clients' goals. The functional dimension looks at the company's operations by specific task, such as account management or operations. The product dimension brings together the cross-disciplinary expertise critical to managing client assets in each class. Finally, the regional aspect of the company's model recognizes the unique, geography-specific needs of clients as well as the importance of local regulatory issues.

#### **DSP BR Micro Cap RP (G) Scheme:**

This Open Ended Diversified Equity Growth Scheme is suitable for investors who are seeking

- Long-term capital growth
- Investment in equity and equity-related securities in micro cap companies (beyond top 300 companies by market capitalization).

#### **Key Features:**

Objective is to generate long term capital appreciation from a portfolio constituted primarily of companies not part of the top 300 companies by market capitalization.

-Focus towards businesses with scalability

-Micro-caps are generally varied, uncorrelated to broader markets not sectors specific

- Significant Opportunity for re-rating

Strong multi-skilled team with deep resources

- Stock-picking, macro skills & risk management support
- Proven track record in Equity sector and stock selection
- Investment Philosophy
- Fundamental research identifies anomalies in inefficient markets
- Stock selection aims to deliver superior long term performance

### **2.1.2 Franklin Templeton Mutual Fund**

Franklin Templeton's association with India dates back to more than a decade as an investor. As part of the group's major thrust on investing in markets around the world, the India office was set up in 1996 as Templeton Asset Management India Pvt. Limited. It flagged off the mutual fund business with the launch of Templeton India Growth Fund in September 1996, and since then the business has grown at a steady pace. In July 2002, Franklin Templeton India acquired Pioneer ITI, another leading fund house in India to create an organization with rich investment experience over market cycles, one of the most comprehensive product portfolios, footprint across the country and an in-house shareholder servicing function. The huge synergies that existed in the two organizations have helped the business grow at a rapid pace, catapulting the company to among the top two fund houses in India.

Sponsor: Templeton International Inc.

Trustee: Franklin Templeton Trustee Services Pvt. Ltd.

Investment Manager: Franklin Templeton Asset Management (India) Pvt. Ltd. Statutory Details: Franklin Templeton Mutual Fund, trusts set up under the provisions of Indian Trusts Act 1882, and registered with SEBI vide Registration No. MF/026/96/8.

Summary of Schemes

No of schemes : 215

Corpus under management :Rs. 56523.3129 crs. (As on 30-Sep-2014)

Balanced (8) | Equity (48) | Fixed Maturity Plans (6) | Floating Rate Income Funds (13) | Fund of Funds (28) | Gilt Funds (14) | Global Funds (16) | Income Funds (24) | Liquid Funds (16) | Monthly Income Plans (8) | Short Term Income Funds (22) | Ultra Short Term Funds (12) |

#### **Franklin (I) Smaller Co. (G) Scheme:**

This product is suitable for investors who are seeking.

- Long term capital Appreciation.
- A fund that invests primarily in small & midcap companies.
- High risk

#### **Key Features:**

An open ended diversified equity fund that seeks to provide long term capital appreciation by investing in stocks companies mid & small cap segment.

The fund has defined smaller (mid & small cap) companies as the ones which have market capitalization below that of 100<sup>th</sup> stock in the S & P CNX 500 Index.

The fund focuses on identifying a high growth companies operating in small cap space that are likely to transform into tomorrow's market leaders resulting in substantial capital appreciation over time.

The fund is suitable for investors who are comfortable with high risk high reward equation and are willing to invest for long term to benefit from the full investment cycle.

FISCF is more suitable for investors with relatively higher risk appetites, given the volatile market.

Nature of small & Midcap stocks over the short term with an ideal investment horizon of 3-5 years.

The scheme aims to provide long-term capital appreciation by investing in mid and small cap companies. Normally, it would invest at least 75 percent of its assets in smaller companies

### **III. Objectives of the study:**

The following are the main objectives of "A comparative analysis study of Franklin (I) smaller companies (G) & DSP BR Micro cap RP (G) Equity based mutual funds".

1. To compare equity based mutual fund schemes of Franklin (I) smaller companies (G) & DSP BR Micro cap RP (G).
2. To measure and evaluate the performance of selected equity based mutual funds in terms of Return.
3. To know the potential risk involved in equity based mutual fund schemes.
4. To find out the best mutual fund schemes in terms of risk and return.

#### IV. Methodology

##### 4.1 Data collection:

This study is based on secondary data. It covers the information related to the selected schemes of DSP BR Micro cap RP (G) & Franklin India Smaller Co. (G) Equity based Mutual Funds. Data is collected from website of [www.vlueresearchonline.com](http://www.vlueresearchonline.com), Handbook of SEBI, Indian Securities market etc.

##### 4.2 Data analysis:

The Net Asset Value, Total Returns, benchmark, Assets value and Expense Ratios schemes of DSP BR Micro cap & Franklin (I) Smaller Co. equity based Mutual Fund are analyzed. For measuring the risk various statistical tools like standard deviation, Sharpe, Beta, Alpha etc. are used.

##### 4.3 Limitations of the study

Secondary data is used for this study. Sector wise classification of mutual fund analysis is not possible. As the scope of this study is limited to the selected schemes, the investors cannot fully depend on its results.

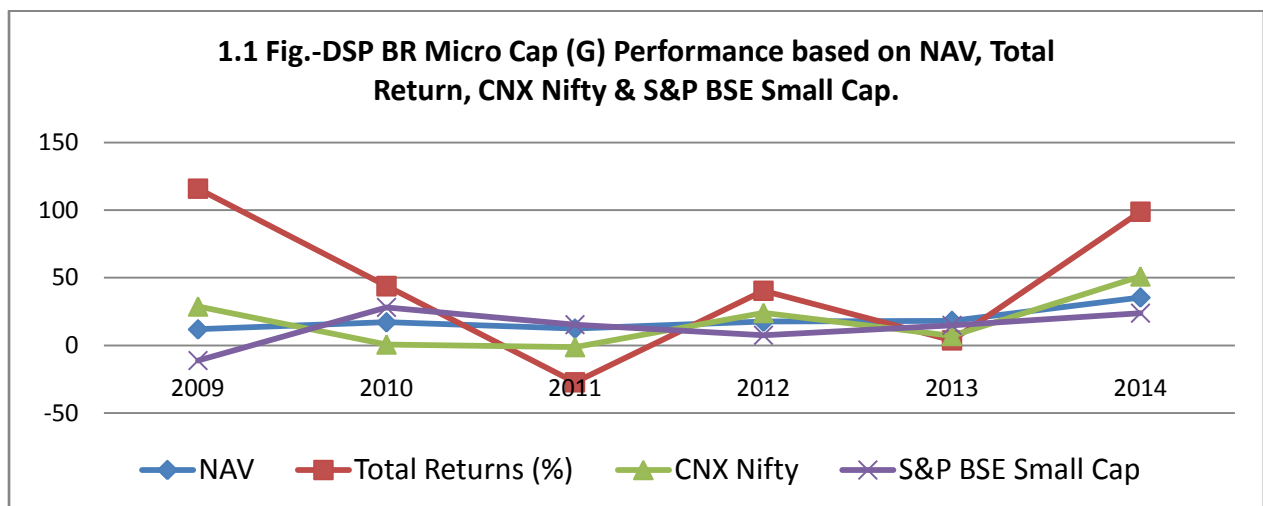
##### DSP BR Micro Cap RP (G) Scheme:

The scheme is selected for study to find out performance which is based on NAV (Rs), Total Return (%) & Benchmark Return. The period covered under study from 2009 to 2014. This study also compares the actual returns with benchmark returns.

**1.1 Table: Performance of DSP BR Micro Cap RP (G) Based on NAV & Return.**

Year	2009	2010	2011	2012	2013	2014
NAV (Rs)	11.91	17.13	12.48	17.52	18.18	35.43
Total Return (%)	115.82	43.86	-27.16	40.47	3.75	98.86
CNX Nifty	28.79	0.64	-1.29	24	6.96	51.09
S&P BSE Small Cap	-11.1	28.15	15.45	7.5	14.98	23.99
Net Assets (Rs. Crores)	256.9	454.9	436.9	436.7	344.65	915.41
Expense Ratio	2.27	2.31	2.26	2.28	2.79	

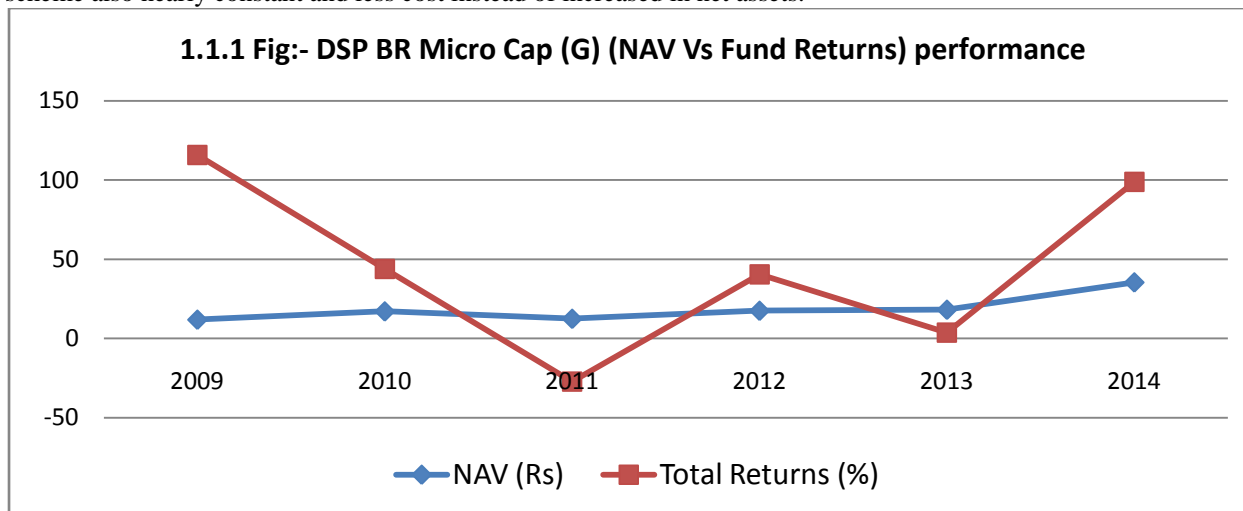
Source: [www.valueresearchonline.com](http://www.valueresearchonline.com)



Source: Primary

As per Table no. 1.1 & Fig. no. 1.1 shows that the performance of the scheme based on returns, NAV & Benchmark Returns. In 2009 & 2014 it has highest total return i.e. 115.82% & 98.86% respectively. The total returns over benchmark returns are more in 2009 to 2014, except in 2011 is less return. It shows that the every year average NAV changes from 2009 to 2014 which are positive changes from Rs. 11.91 to 35.43 per unit, except in 2011 is negative change. From above analysis clear that if positive changes in NAV it seems that there are increases in total returns. As per table also clear that comparatively total returns are more than benchmark

returns. Net asset value of the scheme has continuously increased from 2009 to 2014. The expense ratio of the scheme also nearly constant and less cost instead of increased in net assets.



Source: Primary

As per Fig. 1.1.1 it shows that comparative analysis between NAV (Rs) & Total return (%) for the periods 2009 to 2014. The NAV proportional changes positively it seems that the performance of the scheme positively changes in total returns. In 2011 the NAV proportional change negatively which affects on the performance of scheme negatively change in total return.

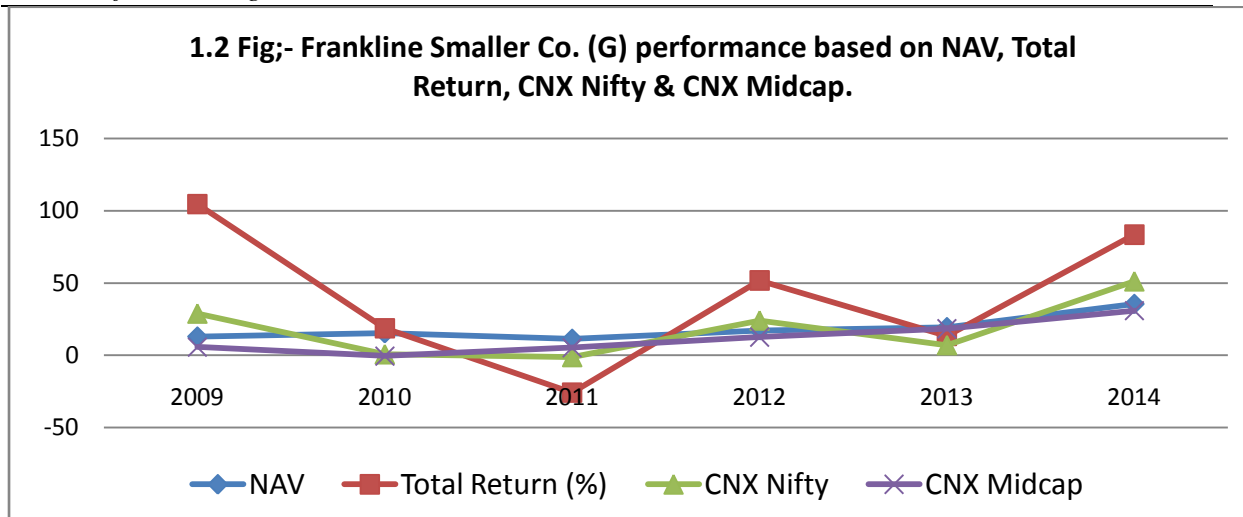
**Franklin (I) Smaller Co. (G) Scheme:**

The scheme is selected for study to find out performance which is based on NAV(Rs), Total Return (%) & Benchmark Return. The period covered under study from 2009 to 2014. This study also compares the actual returns with benchmark returns.

**1.2 Table:-Performance of Franklin (I) Smaller Co. (G) based on NAV & Return**

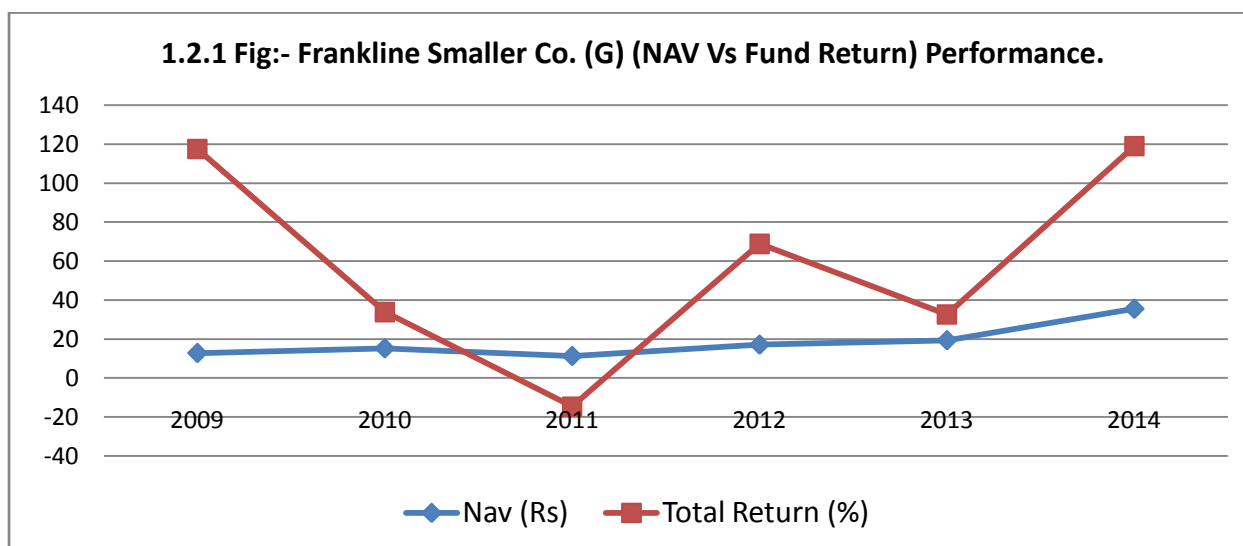
Year	2009	2010	2011	2012	2013	2014
NAV (Rs)	12.8	15.18	11.25	17.07	19.32	35.44
Total Return (%)	104.55	18.59	-25.91	51.7	13.22	83.4
CNX Nifty	28.79	0.64	-1.29	24	6.96	51.09
CNX Midcap	5.58	-0.57	5.09	12.54	18.32	30.71
Net Assets (Rs. Crores)	705.85	687.01	351.8	334.97	321.06	704.54
Expense Ratio	2.22	2.19	2.1	2.32	2.69	

Source: [www.valueresearchonline.com](http://www.valueresearchonline.com)



Source: Primary

As per Table no. 1.2 & Fig. no. 1.2 shows that the performance of the scheme based on returns, NAV & Benchmark Returns. In 2009 & 2014 it has highest total return i.e. 104.55% & 83.4 % respectively. The total returns over benchmark returns are more in 2009 to 2014, except in 2011 is less return. It shows that the every year average NAV changes from 2009 to 2014 which are positive changes from Rs. 12.8 to 35.44 per Unit, except in 2011 is negative change. From above analysis clear that if positive changes in NAV it seems that there are increases in total returns. As per table also clear that comparatively total returns are more than benchmark returns. Net asset value of the scheme has continuously increased from 2009 to 2014. The expense ratio of the scheme also nearly constant and less cost instead of increased in net assets.



Source: Primary

As per Fig. 1.2.1 it shows that comparative analysis between NAV (Rs) & Total return (%) for the periods 2009 to 2014. The NAV proportional changes positively it seems that the performance of the scheme positively changes in total returns. In 2011 the NAV proportional change negatively which affects on the performance of scheme negatively change in total return.

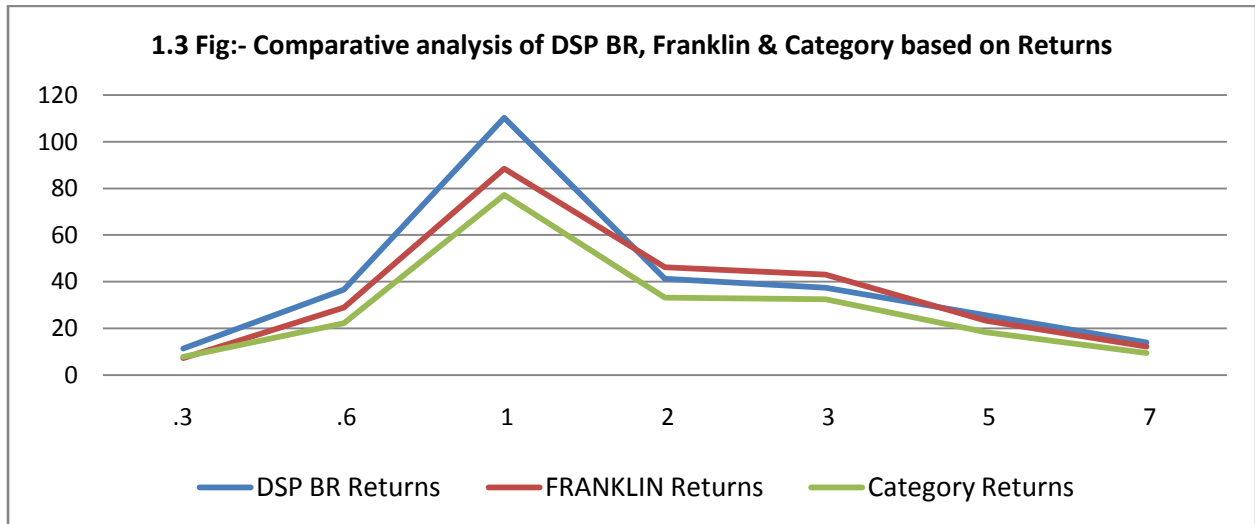
**Comparative study of schemes performance:**

In this study researcher compare two schemes to find out the performance based on returns. Here for study taken record of periods from past 7years to latest 3- months>Returns less than 1 year are absolute and over 1 year is annualized.

**1.3 Table:- Comparative analysis of Performance based on Returns.**

Periods	3- Months	6- Months	1 Year	2 Year	3 Year	5 Year	7 Year
DSP Small Cap Return	11.36	36.62	110.29	41.25	37.4	25.62	14.03
Franklin Smaller Return	7.21	28.85	88.48	46.22	42.99	23.22	12.16
Category Return	7.7	22.19	77.26	33.19	32.5	18.29	9.38

Source:-[www.valueresearchonline.com](http://www.valueresearchonline.com)



**Source: Primary**

As per Table no. 1.3 & Fig. 1.3 it shows comparison of both the schemes actual returns with the category return. As per comparison it is clear that the performances of both the schemes are more returns than category returns. The performance of DSP BR Micro cap (G) returns (%) in 5<sup>th</sup> year, 7<sup>th</sup> year & less than 1 year are more and less in 3<sup>rd</sup> & 4<sup>th</sup> years than Franklin (I) Smaller Co. (G) returns.

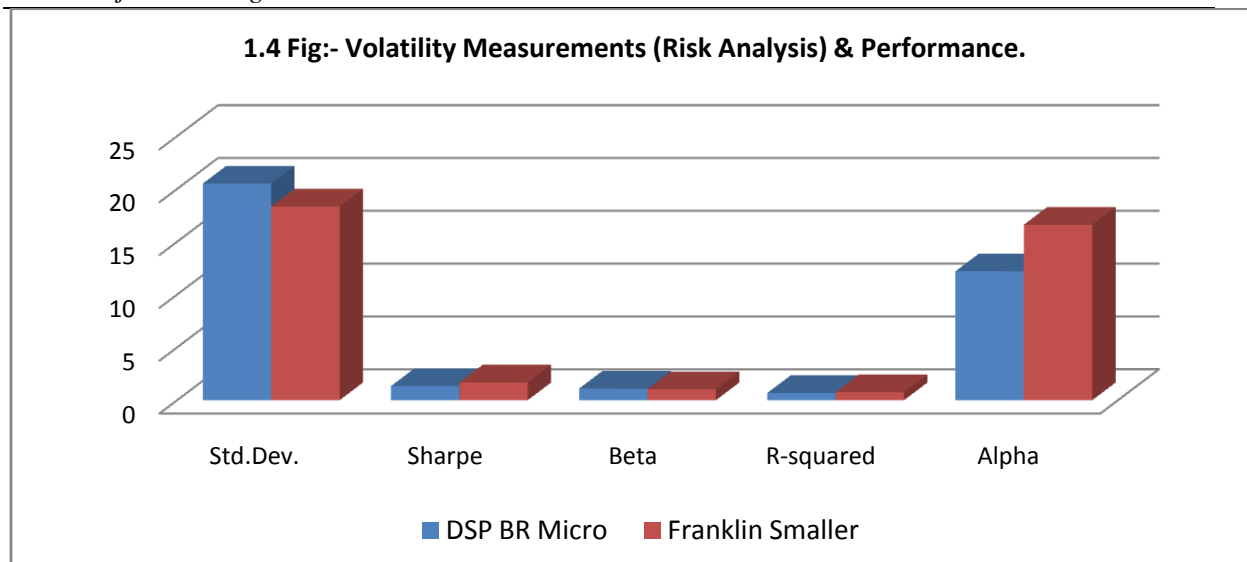
**Comparative Risk analysis & performance measurements:**

For comparisons of Risk analysis & performance of both the schemes here found volatility Measurements like, Standard Deviation, Sharpe Ratio, Beta, R- Squared & Alpha. All the information has taken from website. The data are collected for both the schemes for the period from inception of schemes.

**1.4 Table:- Comparative risk analysis & Performance Measurements.**

Volatility Measurements	Std. Dev.	Sharpe	Beta	R- Squared	Alpha
DSP BR Micro Cap (G)	20.51	1.33	1.1	0.68	12.2
Franklin Smaller CO. (G)	18.33	1.68	1.04	0.76	16.61

Source:-[www.valueresearchonline.com](http://www.valueresearchonline.com)



**Source: Primary**

As per Table no. 1.4 & Fig. no. 1.4 the risk analysis & performance of both the schemes are measured on the following basis.

1. The standard deviation of DSP BR Micro cap (G) & Franklin (I) Smaller Co. (G) are 20.51 & 18.33 respectively. It measures the amount of variation or dispersion from the average. If compare both schemes the DSP BR is more variations and volatile in nature than Franklin.
2. Sharpe Ratio: - measures the excess return generated over and above the risk free return. As per table Sharpe ratio of DSP BR & Franklin are 1.33 & 1.68 respectively. It means that the both the schemes ratio are above 1 so both the schemes are generated over & above the risk free returns. The higher the Sharpe ratio, the better the funds historical risk-adjusted performance.
3. Beta an investment is measure of the risk arising from exposure to general market. The market portfolio of all investible assets has a beta of 1. The betas of DSP BR & Franklin are 1.1 & 1.04 respectively. So the betas of both the schemes are more than 1, which are more volatile than the market.
4. R- Squared:-how close the data are to be fitted regression line. It is also known as the coefficient of determination for multiple regressions. As per table DSP BR & Franklin r- squared are 0.68% and 0.78 respectively. It indicates that the schemes lot of variability of the response data around its mean.
5. Alpha is a measurement of an investments performance compared to a benchmark. A positive alpha means the fund has outperformed its benchmark index by 1 %. As per table alphas of DSP BR & Franklin are 12.2% & 16.61% respectively. It means that both the schemes have positive alphas, so both the schemes has outperformed than its benchmark.

**V. Findings:**

- Study found that both the schemes clear that if positive changes in NAV it seems that there are increases in total returns and also clear that comparatively total returns are more than benchmark returns. Net asset value of the schemes has continuously increased from 2009 to 2014. The expense ratio of the scheme also nearly constant and less cost instead of increased in net assets.
- As per comparison it clear that the performances of both the schemes are more returns than category returns. The performance of DSP BR Micro cap (G) returns (%) in 5<sup>th</sup> year, 7<sup>th</sup> year & less than 1 year are more and less in 3<sup>rd</sup> & 4<sup>th</sup> years than Franklin (I) Smaller Co. (G) returns. Franklin is performing well in terms of risk and return than DSP BR but in context of high risk and returns DSP BR has managing efficiency than Franklin.
- Study found that alphas of DSP BR & Franklin are 12.2% & 16.61% respectively. It means that both the schemes have positive alphas, so both the schemes has outperformed than its benchmark. The betas of DSP BR & Franklin are 1.1 & 1.04 respectively. So the betas of both the schemes are more than 1, which are more volatile than the market.



- In this study found that both the schemes ratios are above 1 so both the schemes are generated over & above the risk free returns. The higher the Sharpe ratio, the better the funds historical risk-adjusted performance. Compared both schemes the DSP BR is more variations and volatile in nature than Franklin.
- Investor can invest their money into higher returns schemes like DSP-BR micro cap fund (G) & Franklin India Smaller Co. (G) small & midcap equity based mutual fund where risk is slightly high. The investors those who can afford high risk investment may have the result of equity sector fund & small & midcap fund which have high potential return on mutual funds.

## **VI. Conclusion:**

The small-cap stocks in India is vast, there are very few equity schemes like Franklin India Smaller Companies, DSP BR Micro cap etc., which takes challenge to sifting through this space for good long-term performance. Both the schemes has significant out-performance of its category and benchmark over the last five years, and having ability to moderate portfolio risk despite investing in the riskiest segment of the equity market. For investors looking for a quality portfolio of small to mid-cap stocks, both the schemes are a good performer.

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