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IMPACT OF COVID- 19 ON THE SELECT BLUE-CHIP FUNDS: A COMPARATIVE STUDY OF PRE AND POST-COVID PERIODS

SAHIL SHARMA[1] & DR. DINESH KUMAR[2]

1 Research Scholar, Himachal Pradesh University Business School, Summer Hill, Shimla
2 Professor, Himachal Pradesh University Business School, Summer Hill, Shimla

ABSTRACT

Mutual Funds are one of the most popular and easiest forms of investment options among different investment vehicles available to retail investors who want to invest their money in the stock market owing to the fact that mutual funds offer diversification and are offered with varying investment objectives providing the small investors, option to choose the scheme as per their investment need. Further, the blue-chip mutual funds are the ones that provide the investors with direct exposure to the top tier companies of the stock market offering stable returns. This study aims to find how these blue-chip funds have fared i.e. how the performance of these blue-chip funds differed in pre and post covid-19 periods. For this, the tools like month-on-month growth in AUM, CAGR, Standard Deviation, Beta and Sharpe Ratio have been put to use. The findings of the study suggest that the blue-chip funds have provided annual returns even better in post covid period than in the pre covid period. But simultaneously the volatility of returns has also increased to a great extent owing to the uncertainty across the market.

Keywords: Mutual Funds, Blue-chip, large-cap, pre covid, post covid, AUM, Sharpe, Beta.

INTRODUCTION

MUTUAL FUNDS

A mutual fund is a professionally-managed investment vehicle, wherein the money of the investors is collected into a pool that is invested in securities like stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers, who allocate the fund's assets across different asset classes and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives.

BLUE-CHIP MUTUAL FUNDS

As per SEBI Blue-chip Mutual Funds or the large-cap mutual funds are those equity mutual funds that invest at least 80% of their assets under management into large-cap companies, i.e. the top 100 companies according to the market capitalization. In simple words, Large Cap Equity Funds invest a large portion of their corpus in companies with large market capitalization and therefore offer stable and consistent returns.

Large Cap companies are generally very stable and dominate their industry. Large-cap stocks tend to hold up better in recessions, but they also tend to underperform small-cap stocks when the economy emerges from a recession. Large-cap tend to be less volatile than mid-cap and small-cap stocks and are therefore considered less risky. Hence, investment in blue-chip mutual funds is considered a safer option.

COVID-19 AND MUTUAL FUND INDUSTRY

COVID-19 has led to unprecedented damage to almost all the spheres of the economy such as production, consumption and accumulation. It has also affected all the segments of the financial sector of the country. Even the global institutions had estimated a steep decline of 4.5% for the Indian economy due to the pandemic. The impact of COVID-19 was also seen in the Mutual Fund industry as the AUM of the funds started to fall drastically due to panic selling amongst the investors. Also, the market performed poorly in the initial stages of covid due to fear of loss of the capital invested by the retail investors. But with time the conditions are turning back to normal with time.

REVIEW OF LITERATURE

Mr Sangisetti Manoj, Mr Bondu Avinash in their paper titled “Performance Evaluation of Mutual Funds Before And During The Outbreak Of Covid-19 Pandemic In India. (A Case Study Of Selected Companies)” have undertaken the performance analysis of the growth-oriented equity diversified schemes for 5 months prior to the outbreak of Covid-19 and 5 months during Covid-19 on the basis of return and risk evaluation. The analysis was achieved by assessing various financial tests like Average Return, Sharpe Ratio, Treynor Ratio, Standard Deviation and Beta.

Muhammad Salil Maheen in his paper titled “Impact of COVID-19 on the performance of emerging market mutual funds: evidence from India.” attempted to examine the widely believed beating capacity of actively managed funds during the market downturn. And it was concluded from the study that the actively managed Indian mutual fund co-moves with the market and does not possess the ability to beat the market.

Lusiana Desy Ariswati, Rusdiah Iskandar, and Musdalifah Azis in the paper titled “Performance Analysis of Mutual Funds Based on Market Timing Ability and Stock Selection Skill during COVID-19 Pandemic in Indonesia” have studied the impact of market timing ability and stock selection skills on the performance of stock mutual funds during the Covid-19 pandemic in Indonesia.

Dr Rao, DN., Dr Seema Bushra and Krity Gulati Mehta in the paper titled "Emerging Challenges and Strategic Implications for Indian Mutual Fund Industry in Post Covid -19 Regime" analysed the Indian economy and mutual fund investments in India during the Covid pandemic period and also suggested strategic plan for putting the Indian mutual fund industry on a growth path in post-pandemic period for the remaining quarters of the financial year 2021.

RESEARCH GAP

After the literature review, it was noticed that different studies have been conducted in relation to the response of mutual funds to the covid 19 pandemic, but no study has yet been conducted to compare the performance of large-cap mutual funds, in pre and post covid times.

RESEARCH METHODOLOGY

PROBLEM STATEMENT

The blue-chip of the large-cap funds are considered to be the safest options as far as investing one's money in the stock market is concerned, but the change in risk and returns of these funds after the emergence of the COVID-19 pandemic needs to be studied in order to find out how these funds have been performing lately.

SCOPE OF THE FUNDS

The study focuses on the top 5 large-cap funds with the highest CRISIL rank. The list of these funds is as follows:

- IDBI India Top 100 Equity Fund
- UTI Mastershare Unit Scheme
- Invesco India Largecap Fund
- LIC MF Large Cap Fund
- Canara Robeco Bluechip Equity Fund

OBJECTIVES OF THE STUDY

- To analyze the performance of the selected mutual funds in pre and post covid periods.
- To analyze the Month-on-Month growth of the AUM of the funds.

- To compare the performance in the two periods.
- To determine the change in the relationship of funds with their benchmark.

PERIOD OF THE STUDY

The study has been divided into two distinct periods i.e. Pre Covid (Jan 2018 – Dec 2019) and Post Covid (Jan 2020 – Dec 2021).

METHODOLOGY

ASSET UNDER MANAGEMENT

Assets under management (AUM), also called funds under management, are the total market value of the securities that a financial institution (such as a bank, mutual fund, or hedge fund) owns or manages on behalf of its clients. In the case of mutual funds, AUM is the total amount collected under the scheme to further invest in different asset classes.

PERFORMANCE MEASUREMENT TOOLS

CAGR (Cumulative Annual Growth Rate): Compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each year of the investment's lifespan.

CAGR=[(Ending Value/Beginning Value)^1/n]-1

STANDARD DEVIATION

To calculate the Standard deviation of the funds, firstly the standard deviation of monthly returns of funds has been calculated and then the monthly standard deviation of the fund is annualized by multiplying it by the square root of 12 to annualize the monthly Standard Deviation.

$$\sigma = \{ \sum (x - \bar{x}) /N\}^{1/2}$$

BETA

The systematic risk of a security is measured by a statistical measure called Beta. The input data required for the calculation of beta are the historical data of returns of the individual scheme as well as the average returns of the concerned category. Beta is calculated from the historical data of returns by the following formula:

$$\beta = COVm, f / VARm$$

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SHARPE RATIO

The Sharpe ratio uses standard deviation to measure a fund's risk-adjusted returns. This measure quantifies a fund's return in excess of our proxy for a risk-free, guaranteed investment relative to its standard deviation.

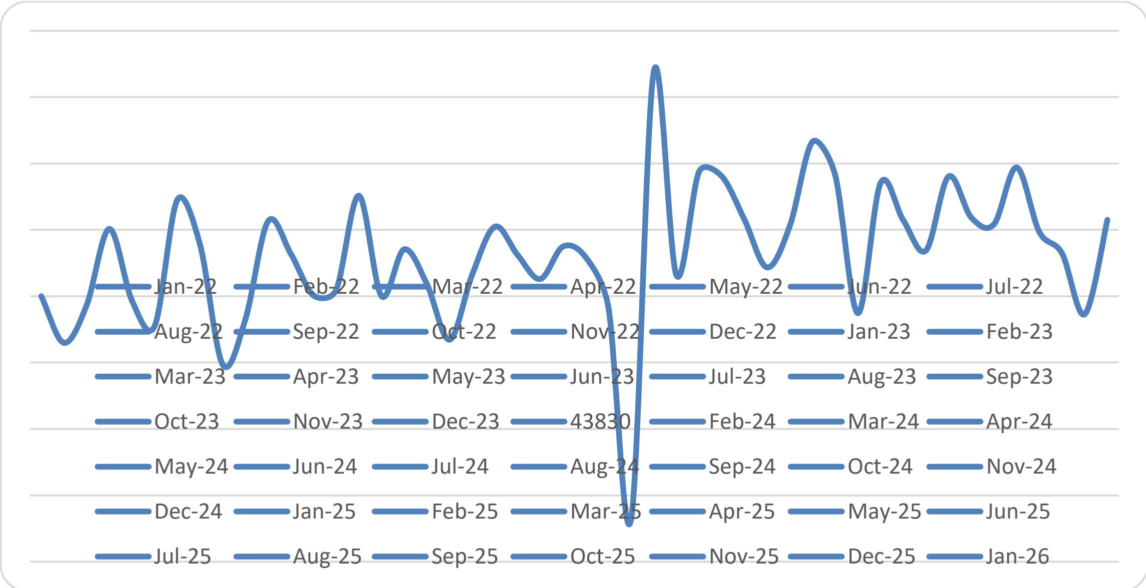
$$\text{Sharpe Ratio} = (Rp\text{-}Rf)/\ \boldsymbol{\sigma}p$$

SOURCES OF DATA COLLECTED

The secondary data has been used for the study which has been collected from official websites of RBI, AMFI, NIFTY, respective AMC websites and other financial websites like moneycontrol, advisorkhoj etc.

DATA ANALYSIS AND INTERPRETATION

AVERAGE ASSET UNDER MANAGEMENT



Source: As calculated by the author

INTERPRETATION

The above graph represents the average Month-on-Month growth of the selected funds from Jan 2018 to Dec 2021. From the graph, it can be inferred that prior to COVID-19 the Month-on-Month growth in AUM of the selected funds ranged between -5% to 8% per month. Further, during the first wave of COVID-19, the monthly growth rate fell down to as low as -17% in March 20202. But, the AUM of the funds grew by 17% in the succeeding month of April 2020. Also, it can be said that the growth rate of AUM has remained positive after that. This signifies that the investors have become more risk-averse after the dip in the market in march 2020,

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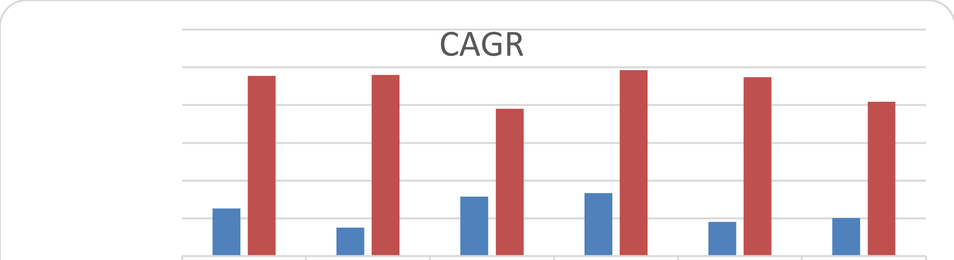
due to which the investors have started to invest at a higher rate in Blue-Chip funds as these are considered to have stable returns than other equity categories.

CAGR



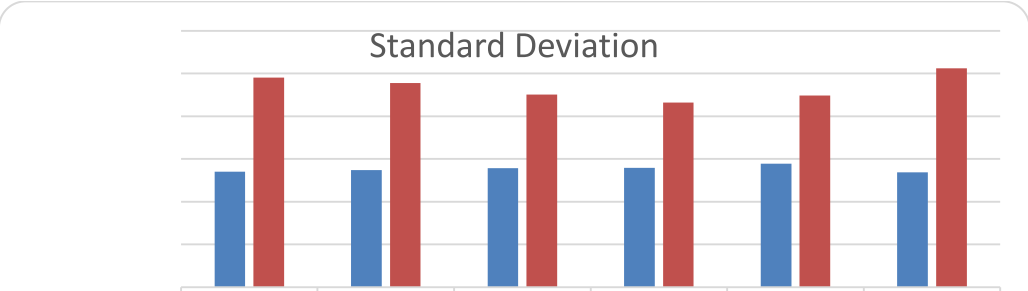
	INVESCO	UTI	LIC	CANARA	IDBI	Nifty
Pre Covid	6%	4%	8%	8%	5%	5%
Post Covid	24%	24%	19%	25%	24%	20%

Source: As calculated by the author

INTERPRETATION

Graph above shows the Cumulative Annual Growth Rate of the selected funds in two time periods vis-à-vis Pre covid (Jan 2018- Dec 2019) and Post covid (Jan 2020-Dec 2021). It can be inferred from the graph that the funds have performed better in the post covid period as compared to the pre covid period. The best performing fund in pre covid times was CANARA and LIC with 8% annual returns while in the post covid periods CANARA has the highest CAGR of 25%.

STANDARD DEVIATION



	INVESCO	UTI	LIC	CANARA	IDBI	Nifty
Pre Covid	13.51%	13.71%	13.93%	13.97%	14.46%	13.44%
Post Covid	24.53%	23.89%	22.52%	21.61%	22.42%	25.59%

Source: As calculated by the author

INTERPRETATION

Standard Deviation depicts the total risk of the fund. From the above graph, it can be interpreted that the risk in the selected mutual funds has gone up significantly. While

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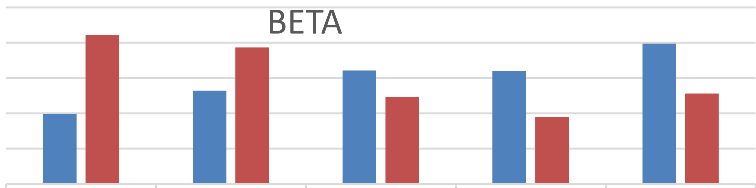
in the pre-covid periods all the funds have an almost equal standard deviation of around 14%, but in the post covid times, the INVESCO has the highest standard deviation of 24.53% While CANARA has the lowest among the lot. It can also be interpreted that in post covid period NIFTY has highest standard deviation, hence the funds have performed better than the benchmark.

BETA



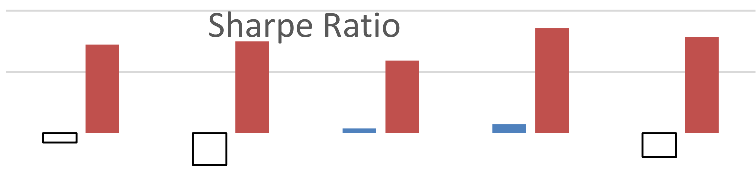
	INVESCO	UTI	LIC	CANARA	IDBI
Pre Covid	0.948864513	0.982019331	1.010522347	1.009786119	1.048807692
Post Covid	1.060870383	1.043421798	0.973499305	0.944279198	0.977935116

Source: As calculated by the author

INTERPRETATION

BETA of the fund signifies the volatility of that fund in comparison to similar funds in the market. Graph 4 shows that in the pre covid times INVESCO was the least volatile with BETA value of 0.948 and IDBI (1.04) has the highest BETA. In post covid periods, however, INVESCO was the fund with the highest BETA and CANARA has the lowest BETA.

SHARPE RATIO



	INVESCO	UTI	LIC	CANARA	IDBI
Pre Covid	-0.074	-0.257	0.041	0.074	-0.193
Post Covid	0.722	0.748	0.593	0.856	0.784

Source: As calculated by the author

INTERPRETATION

Sharpe Ratio represents the risk-reward relationship of the fund. In other words, Sharpe Ratio represents the reward per unit of the risk taken in a fund. From the above graph, we can infer that in pre covid times only LIC and CANARA had positive Sharpe. While in post covid times Sharpe ratio has risen for all the selected funds. Particularly the Sharpe ratio of CANARA is highest at 0.85 meaning that it has given the highest return per unit the risk taken.

FINDINGS & CONCLUSION

The study has revealed that after the COVID-19 outbreak the M-o-M growth in AAUM of the funds has gone below zero on two instances only which shows that the trust of the investors in the blue-chip category of mutual funds has increased post covid as the markets have become highly volatile and the investors have become more risk-averse. Also, it is evident from the study that the blue-chip funds have generated positive returns in a very consistent manner. Further, the annual returns of the selected funds have significantly risen in post covid periods as the average CAGR of the funds has risen from 6% P.A. to 23% P.A.

But a fund should never be analyzed on the basis of the returns in isolation. One also need to look at other risk parameters as well. The Standard Deviation of the annual returns of the funds has also significantly increased after the emergence of the pandemic. This means that the funds have become more volatile in nature. On the BETA frontier, the performance of the funds is inconsistent as in some cases like INVESCO and UTI, the BETA has risen while in rest of the cases, the BETA value has fallen significantly. Also, the Sharpe ratio i.e., returns to volatility ratio of the funds has shown that the return per unit risk of all the funds has risen drastically. This means that funds have performed very well in post covid recovery and have yielded very good returns for the investors who have stayed invested or have started to invest in post covid times.

With the help of all these findings, it can be concluded that the funds selected for the study were performing well before the emergence of COVID-19. The pandemic had affected the performance and investment levels in these funds to a great extent for a brief period of time but as the markets recovered, these funds also recovered on similar lines and with time these funds continue to perform very well in terms of risk and return parameters. And this is a matter of great benefit for the risk-averse investors in the market.

LIMITATIONS OF THE STUDY

- The universe of the large-cap funds operational in India is very large but only 5 of the top-performing funds have been selected for the study.
- The study completely depends on the secondary data which was collected from the annual reports, websites, and newspapers of SEBI, NIFTY, AMCs, and sites

of mutual fund schemes. Therefore, the study incorporates all the limitations that are inherent in the published data.

- The funds have been analysed taking into consideration the performance of NIFTY50 only as the benchmark and the rest of the indices have been ignored.
- The study relies on the quantitative tools only to analyse the mutual fund performance and the qualitative factors that may affect the performance of mutual funds have not been taken into the consideration.

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