

An Empirical Analysis of Value Based Mutual Funds in India

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Abstract—Value funds are suitable for investors seeking long-term capital appreciation and investment in equity-related instruments targeting a value investment strategy across the market capitalisation spectrum. The fund invests in companies where markets underappreciate their growth runway & also in companies that may experience challenges due to cyclicity. Value funds are suitable for investors looking to build their core equity portfolio for long-term wealth creation. Investment in Value based mutual funds has helped in garnering the surplus funds from investors in a significant way. This study evaluates the performance of value based mutual fund schemes in India, focusing on their NAV returns, AUM and risk-adjusted returns like Sharpe and Sortino ratios. The findings of the study infer that value-based investing not only leads to the accomplishment of financial goals of investors but also provides them superior returns than the traditional route to investing.

Index Terms—Value funds, NAV returns and Sharpe ratio

I. INTRODUCTION

Value Fund is a type of Mutual Fund that makes use of a value investing strategy, focusing on stocks that appear underpriced as compared to their true values. Investors who are looking for long-term growth prefer this investment strategy. In this blog, we will explore what Value Funds are, their unique characteristics and the advantages they offer to investors. Value Funds are open-ended equity schemes that invest in stocks, which are undervalued in the market. The concept of value investing lies in identifying stocks that are being traded at prices lower than their intrinsic or book values. The belief is that these stocks, while currently undervalued due to various market factors have strong fundamentals and thus the potential to offer substantial returns in the long run. Some of the most successful investors in the world including Warren Buffet use

value investing as a strategy. It involves picking stocks that are being traded at less than their intrinsic values which are often overlooked by the market. The idea is to invest in these stocks and hold them over a period until their market prices align with their perceived true values. Value Funds are generally more suitable for long-term investment horizons. They require time to realize the potential of undervalued stocks which may not align with short-term investment goals. Value Funds focus on stocks that are undervalued and have potential for appreciation while Growth Funds target stocks with high growth potential irrespective of their current market valuation. The primary risk of investing in Value Funds is the market risk associated with equity investing. Additionally, there is the risk that the fund's assessment of a stock's intrinsic value may not align with the market trends. Value Funds appeal to investors who are looking at sustainable growth with a relatively conservative approach. These funds, are offered by mutual fund institutions that can facilitate value addition to their investment portfolios.

A value fund is that fund that adopts value investment strategy and has invested at least 65% of its net assets in equities and equity-related securities. Warren Buffett has been one of the prominent value investors, falling in the footsteps of Benjamin Graham. He once said, “price is what you pay; value is what you get.” This quote acknowledges that price and value may not be the same, even in an open market. There may be several companies listed on stock exchanges which are fundamentally stronger but are quoting at much lower than their intrinsic valuations.

The stocks may be underpriced due to prevailing market conditions or some stock-specific short-term concerns. Such deeply discounted valuations also provide a favourable risk-reward trade-off to the

investors with a fair margin of safety and a reasonable cushion for stock appreciation. When one aims to pick stocks that are trading at deeply discounted valuations against the company fundamentals, it is referred to as value investing.

II. FEATURES OF A VALUE MUTUAL FUND

Value funds predominantly rely on core value investing strategy to generate returns for the investors. However, the value stocks may take a reasonably long period to bounce back to their intrinsic valuations. While the value funds may take the responsibility of finding the right stocks and investing at the right value, the investors must also be prepared to stay invested for a reasonable period to fetch the real value of such stocks through value funds. As such, value funds are generally suitable for investors with long term investment horizons. A value fund is that fund that adopts value investment strategy and has invested at least 65% of its net assets in equities and equity-related securities. Warren Buffett has been one of the prominent value investors, falling in the footsteps of Benjamin Graham. He once said, “price is what you pay; value is what you get.” This quote acknowledges that price and value may not be the same, even in an open market. There may be several companies listed on stock exchanges which are fundamentally stronger but are quoting at much lower than their intrinsic valuations.

The stocks may be underpriced due to prevailing market conditions or some stock-specific short-term concerns. Such deeply discounted valuations also provide a favourable risk-reward trade-off to the investors with a fair margin of safety and a reasonable cushion for stock appreciation. When one aims to pick stocks that are trading at deeply discounted valuations against the company fundamentals, it is referred to as value investing. When investing in equity markets, investors may adopt various investment strategies to pick the stocks. Such investment strategies may be broadly classified into growth investing, value investing, and contrarian investing. While growth investing chases high-growth shares often quoting at a premium, value investing aims for highly discounted valuations for stock picking. Contrarian investing refers to investing against the market direction based on deep conviction into the specific stocks/

companies. For retail investors, it may be challenging to cherry-pick stocks quoting at less than their intrinsic valuations, for it requires in-depth research and fundamental analysis of the company.

VALUE FUNDS VS. GROWTH FUNDS

Feature	Value Fund	Growth Fund
Investment Strategy	Invests in undervalued stocks	Invests in high-growth potential stocks
Risk	Lower	Higher
Return Potential	Moderate but stable over long term	High but volatile
Suitable For	Conservative, long-term investors	Aggressive investors

BENEFITS OF VALUE FUNDS

Value Funds provide exposure to a diversified portfolio, mainly investing in growth-oriented mutual fund schemes. Since these funds focus on undervalued stocks, they are often less vulnerable to market volatility. By investing in stocks below their intrinsic values, Value Funds offer the potential for high returns in the long run. Value investing offers a margin of safety as investors purchase stocks at prices lower than their actual values, which can lead to substantial profit margins. Most value stocks are those of mature companies that distribute regular dividends. So aside from capital appreciation, you also have the benefit of getting dividend returns. That is particularly helpful for conservative investors or retirees who need constant income without having to disinvest.

INVESTMENT STRATEGY OF VALUE FUNDS

Investing in a value mutual fund is simple but requires a long-term mindset.

- First, identify your financial goals, like retirement or wealth building and how much risk you’re comfortable with.
- Next, choose a fund with a strong track record and experienced fund managers.
- You can invest a lump sum or start a SIP or Systematic Investment Plan, to invest monthly. SIPs help reduce the impact of market ups and downs.
- Make sure to stay invested for a few years, as value funds may take time to deliver results.
- Regularly review your investment but avoid reacting to short-term market changes.

Value Funds often invest in stocks that are undervalued by the market. The fund managers of these schemes conduct thorough research to identify stocks with strong fundamentals such as revenue, profitability and growth potential. The aim is to invest in these stocks and reap benefits when their true values are recognised in the market.

INVESTING IN VALUE FUNDS

Value mutual funds invest in stocks that are currently undervalued due to market inefficiencies or temporary setbacks. Fund managers study these stocks carefully and select ones they believe have strong future potential. Over time, as the market realises the true worth of these companies, their stock prices rise, benefiting investors. These funds often come with higher dividend yields and are considered less risky, as they focus on well-established businesses. The fund managers aim to minimise downside risk while holding these stocks until they grow in value, helping investors earn steady, long-term returns through both price appreciation and dividends. Value Funds are particularly suitable for investors with an understanding of macroeconomic trends, willing to take calculated risks for higher returns, long-term investors seeking steady growth rather than quick gains, and investors who are comfortable with short-term market fluctuations. Investors can choose to invest in Value Funds either through the offline mode by visiting fund houses, brokers or online with the help of Mutual Fund aggregator websites or Asset Management Companies (AMCs). ICICI Bank offers convenience and accessibility along with tools such as Mutual Fund Calculators to compare and evaluate different Value Fund schemes.

TAXATION RULES OF VALUE MUTUAL FUNDS

Value mutual funds are taxed based on their equity allocation. Since value funds invest at least 65% of its net assets in equities and equity-related instruments, they are classified as equity-oriented funds for taxation purposes. For investments sold within 12 months, short-term capital gains (STCG) are taxed at 20%. Dividends received from the fund are added to your total income and taxed as per your income tax slab. The longer you stay invested, the more tax-efficient your returns may be, especially under the long-term capital gains regime. When one redeems a value fund, the difference between the redemption value and the

invested amount is taxed as capital gains. If the holding period of the units so redeemed by the investors is less than 12 months, the gains are taxed as Short-Term Capital Gains (STCG) at 15% (plus applicable cess and surcharge). For the holding period of 12 months or more, the gains are taxed as Long-Term Capital Gains (LTCG) at a rate of 10% (plus applicable cess and surcharge). Further, an aggregate exemption of Rs. 1 lakh per year is also available in respect of LTCG from equity shares and equity-oriented mutual funds in aggregate. Investors may aim to capitalize on the significant gaps between the stock prices and their intrinsic valuations through value funds.

III. OBJECTIVES OF THE STUDY

- To study the growth of assets managed under Value fund schemes
- To study the growth and market share of Value fund schemes
- To analyse the returns of Value fund schemes.

IV. ANALYSIS OF THE STUDY

(A) VALUE FUNDS AND ASSETS UNDER MANAGEMENT:

Scheme Name	AuM (Cr)
Aditya Birla Sun Life Value Fund	6,410.90
Axis Value Fund	1,372.33
Bandhan Value Fund	10,462.68
Baroda BNP Paribas Value Fund	1,169.44
Canara Robeco Value Fund	1,336.34
DSP Value Fund - Direct Plan	1,325.77
Groww Value Fund	67.89
HDFC Value Fund	7,651.59
HSBC Value Fund	14,752.64
ICICI Prudential Value Fund	61,271.76
ITI Value Fund	353.72
JM Value Fund	957.01
LIC MF Value Fund	199.33
Mahindra Manulife Value Fund	660.46
Nippon India Value Fund	9,153.07
Quant Value Fund	1,697.83
Quantum Value Fund	1,207.75
Tata Value Fund	9,060.58
Templeton India Value Fund	2,326.48
Union Value Fund	370.70
UTI Value Fund	10,150.97

SOURCE: Computed data

It is inferred from the above table that ICICI Prudential Value Fund contributed Rs 61,271.76 Crores as the maximum amount of funding towards Value funds

followed by HSBC Value Fund, Bandhan Value Fund, UTI Value Fund, Nippon India Value Fund, Tata Value Fund, and HDFC Value Fund

(B) VALUE FUNDS AND NAV ANNUAL RETURNS:

Scheme Name	1Y	2Y	3Y	5Y	10Y
Aditya Birla Sun Life Value Fund - Direct Plan - Growth	5%	9%	21%	19%	14%
Axis Value Fund - Direct Plan - Growth	8%	16%	24%	-	-
Bandhan Value Fund - Direct Plan - Growth	7%	10%	18%	22%	17%
Baroda BNP Paribas Value Fund - Direct Plan - Growth	5%	7%	-	-	-
Canara Robeco Value Fund - Direct Plan - Growth	7%	10%	19%	-	-
DSP Value Fund - Direct Plan - Growth	15%	16%	21%	18%	-
Groww Value Fund - Direct Plan - Growth	12%	10%	18%	16%	13%
HDFC Value Fund - Direct Plan - Growth	12%	14%	20%	19%	16%
HSBC Value Fund - Direct Plan - Growth	12%	15%	24%	22%	18%
ICICI Prudential Value Fund - Direct Plan - Growth	14%	15%	21%	22%	17%
ITI Value Fund - Direct Plan - Growth	8%	10%	21%	-	-
JM Value Fund - (Direct) - Growth	-1%	6%	21%	20%	18%
LIC MF Value Fund - Direct Plan - Growth	-4%	8%	15%	15%	-
Mahindra Manulife Value Fund - Direct Plan - Growth	-	-	-	-	-
Nippon India Value Fund - Direct Plan - Growth	8%	13%	23%	21%	17%
Quant Value Fund - Direct Plan - Growth	2%	10%	20%	-	-
Quantum Value Fund - Direct Plan - Growth	6%	12%	18%	16%	14%
Tata Value Fund - Direct Plan - Growth	9%	12%	21%	19%	17%
Templeton India Value Fund - Direct - Growth	9%	10%	19%	21%	16%
Union Value Fund - Direct Plan - Growth	10%	11%	19%	18%	-
UTI Value Fund - Direct Plan - Growth	10%	15%	19%	17%	16%

SOURCE: Computed data

It is inferred from the above table that over a ten-year period the NAV returns in terms of Value fund investment is maximum with HSBC value fund and JM Value fund. On a five-year NAV return basis Bandhan value fund, HSBC value fund and ICICI

Prudential value fund have shown higher performance in terms of returns. Axis value fund and HSBC value fund have indicated higher NAV returns during the three-year period.

(C) VALUE FUNDS AND PORTFOLIO HOLDINGS:

Scheme Name	Turnover ratio	% Equity Holding	No of stocks in portfolio	% Cash Holding
Aditya Birla Sun Life Value Fund	-	97%	72	3%
Axis Value Fund	41%	97%	97	3%
Bandhan Value Fund	68%	91%	62	9%
Baroda BNP Paribas Value Fund	-	93%	55	5%
Canara Robeco Value Fund	-	96%	56	4%
DSP Value Fund	-	69%	52	8%
Groww Value Fund	-	83%	49	17%
HDFC Value Fund	28%	100%	74	1%
HSBC Value Fund	30%	99%	79	1%

ICICI Prudential Value Fund	47%	94%	65	4%
ITI Value Fund	-	99%	72	1%
JM Value Fund	113%	99%	53	1%
LIC MF Value Fund	155%	95%	61	5%
Mahindra Manulife Value Fund	-	97%	66	3%
Nippon India Value Fund	40%	97%	75	3%
Quant Value Fund	-	87%	25	0%
Quantum Value Fund	1337%	94%	30	6%
Tata Value Fund	42%	94%	35	6%
Templeton India Value Fund	28%	94%	47	3%
Union Value Fund	67%	98%	63	2%
UTI Value Fund	18%	99%	62	0%

SOURCE: Computed data

It is found from the above table that LIC MF Value Fund has a higher turnover ratio indicating higher transaction costs. Majority of the value funds are invested in Equity holdings. Axis Value fund has

invested a large number of equity stocks in its portfolio. A large number of value funds have restricted to invest their holdings in cash.

(D) VALUE FUNDS AND RISK-ADJUSTED RETURNS:

Scheme Name	Standard Deviation	Beta	Sharpe Ratio	Jenson Alpha Ratio	Treynor's Ratio
Aditya Birla Sun Life Value Fund	13.85	1.15	1.07	2.61	0.13
Axis Value Fund	11.37	0.95	1.55	7.49	0.18
Bandhan Value Fund	10.36	0.89	1.22	3.49	0.14
Baroda BNP Paribas Value Fund	12.61	1.10	0.82	-1.27	0.09
Canara Robeco Value Fund	10.91	0.94	1.15	2.88	0.13
Groww Value Fund	10.94	0.91	1.07	2.03	0.13
HDFC Value Fund	10.73	0.93	1.26	3.75	0.15
HSBC Value Fund	12.88	1.08	1.34	5.92	0.16
ICICI Prudential Value Fund -	8.84	0.75	1.67	6.93	0.20
ITI Value Fund	13.68	1.14	1.05	2.41	0.13
JM Value Fund	13.54	1.10	1.14	4.18	0.14
LIC MF Value Fund	13.52	1.08	0.71	-1.77	0.09
Nippon India Value Fund	12.22	1.05	1.30	4.78	0.15
Quant Value Fund	15.44	1.19	0.97	2.31	0.13
Quantum Value Fund	9.64	0.81	1.18	3.02	0.14
Tata Value Fund	12.54	1.04	1.16	3.50	0.14
Templeton India Value Fund	10.63	0.90	1.21	3.38	0.14
Union Value Fund	11.52	0.98	1.14	2.96	0.13
UTI Value Fund	10.51	0.90	1.22	3.32	0.14

SOURCE: Computed data

It is inferred from the above table that the Value fund performance based on Standard deviation is maximum with Quant value fund indicating higher volatility performance followed by Aditya Birla Sun Life Value

Fund, ITI Value Fund and JM Value Fund. A higher Beta Ratio means higher volatility to the overall market index. It is inferred from the above assessment of Value funds indicates Quant value fund with a

higher Beta ratio. A fund with a higher Sharpe ratio provides more return for the same amount of risk compared to a fund with a lower ratio. It is inferred from the above table indicating DSP value funds with a higher Sharpe ratio. Jensen Alpha measures excess returns indicating a fund manager's skill in adding value beyond market movements. It is found that Axis Value Fund has generated the highest Jensen alpha ratio as compared to other value funds. A Treynor's ratio measures a portfolio's returns in excess of the risk-free rate relative to its systematic risk. It is found from the above assessment that ICICI Prudential Value Fund has contributed a higher Treynor's ratio among the value funds.

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V. CONCLUSION

It is found that the share of different value funds in AUM of the Mutual Fund industry stands highest with ICICI Prudential Value Fund. In terms of the NAV returns HSBC Value Fund has shown significant performance as compared to other value funds over a ten-year period assessment. Value fund performance based on Sharpe ratio is maximum with DSP Value Fund indicating good performance. Higher Shape ratio signifies that the fund is capable of generating high returns to investors.

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