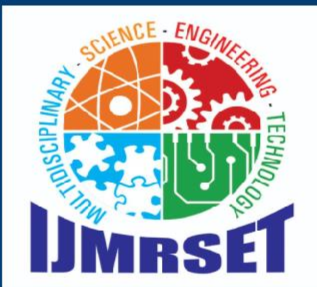

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Comparitive Analysis between Mutual Funds and Exchange Traded Funds in Indian Stock Market

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ABSTRACT: This research is into the comparative analysis of Nifty Mutual Funds and Exchange-Traded Funds (ETFs) within the Indian stock market context. The study scrutinizes various aspects including Compound Annual Growth Returns (CAGR) -investment returns, and assets under management (AUM) for selected Nifty Mutual Funds and ETFs offered by different fund companies for period of five years. Notably, ETFs such as SBI Nifty 50 ETF and UTI Nifty 50 ETF demonstrate remarkable returns, with 1-year CAGRs nearing 30% and consistently positive returns over five years. On the other hand, Nifty Mutual Funds from various providers also showcase steady growth, slightly lower than their ETF counterparts.
The study provides valuable insights for investors seeking exposure to the Nifty index, offering a refined understanding of performance metrics and investment dynamics. Furthermore, it underscores the impact of global crises, such as the COVID-19 pandemic and geopolitical tensions, on market returns over the observed period. In conclusion, this research contributes to the existing literature by offering a comprehensive analysis of Nifty Mutual Funds and ETFs, guiding investors in making informed decisions within the dynamic landscape of the Indian stock market.

KEYWORDS: Nifty mutual funds, Nifty ETF's, Compounded Annual Growth Rate(CAGR), Financial returns and Asset under management.

I. INTRODUCTION

The Indian financial market offers numerous investment choices for both regular and institutional investors, with mutual funds and exchange-traded funds (ETFs) standing out as popular investment vehicles. This research paper does a thorough comparative analysis of mutual funds and ETFs, examining their differences, performance, and recent trends in the Indian financial context.
Mutual funds and ETFs, while sharing the fundamental principle of pooling investors' funds to invest in diversified assets, exhibit distinct characteristics that appeal to different investor preferences. Mutual funds, traditionally transacted at the end of the trading day based on net asset value (NAV), offer a wide array of investment strategies, catering to varying risk appetites and financial goals. In contrast, ETFs, traded on stock exchanges throughout the trading day, boast lower expenses and increased trading flexibility, particularly appealing to cost-conscious investors and those seeking intraday trading opportunities.
Analysing international and domestic market outlooks provides valuable insights into the growth trajectories of mutual funds and ETFs. Globally, both investment vehicles are witnessing substantial growth, with the mutual fund market expected to reach $101.2 trillion by 2027 and the ETF market projected to expand at a CAGR of 23.2% between 2022 and 2031. In India, mutual funds have experienced exponential growth, with assets under management (AUM) forecasted to soar from USD 0.66 trillion in 2024 to USD 1.51 trillion by 2029, driven by factors such as rising digitalization, increasing disposable income, and expanding retail participation, particularly from smaller cities.
Through an in-depth examination of these trends, growth projections, and market dynamics, this research aims to provide valuable insights into the evolving landscape of mutual funds and ETFs in the Indian financial market, aiding investors, policymakers, and industry stakeholders in making informed decisions and navigating the ever-changing investment landscape.

II. RESEARCH OBJECTIVES

1. Collection of primary data through questionnaire to examine level of knowledge among individuals in India regarding mutual funds and exchange-traded funds (ETFs), with a focus on their understanding with these investment vehicles.

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2. To conduct a comparative evaluation of the performance, returns, liquidity, and transparency of mutual funds and ETFs available in the Indian market, aiming to provide insights into their relative advantages and disadvantages for investors.

III. RESEARCH METHODOLOGY

This study utilizes primary data collection and secondary research to conduct a comprehensive comparative analysis between mutual funds and exchange-traded funds (ETFs) in India. Sample size is 75 which is collected from primary data collection. Secondary data is gathered from diverse sources, including selected mutual fund websites and ETFs, financial databases, and regulatory bodies such as the Securities and Exchange Board of India (SEBI). The research objectives are addressed through the collection and analysis of relevant data, including performance metrics, market trends, investor preferences, and any other pertinent factors influencing the dynamics of mutual funds and ETFs in the Indian financial market. This approach enables a thorough examination of the similarities, differences, strengths, and weaknesses of mutual funds and ETFs, facilitating valuable insights into their respective roles, performance, and suitability for investors in India.

IV. LITERATURE REVIEW

Sharma (2021) conducted a comparative analysis of the performance evaluation of chosen debt, equity, and hybrid mutual fund schemes to investigate the risk and return components of these funds. The study was followed by a descriptive research approach, with 15 organizations selected for each category of loan, equity, and hybrid schemes. The study's findings revealed that investors who are willing to bear risk should consider investing in equities and hybrid mutual fund portfolios, as these schemes have exhibited resilience in highly volatile markets.

Singh (2020) evaluated the effectiveness of mutual fund schemes using financial ratios from the Sharpe and Treynor models. The study aimed to evaluate the effectiveness of mutual fund strategies during volatile market situations. The study aimed to evaluate the financial benefits of mutual fund schemes in fluctuating conditions. The study suggests investing in top-performing mutual fund firms based on financial metrics including Standard Deviation, ranking, average return, and Sharpe ratios.

Tiwari and Patel's (2020) empirical study add to the continuing discussion over investment vehicles in the Indian financial system by thoroughly examining Exchange Traded Funds (ETFs) and Mutual Funds (MFs). With the goal of objectively evaluating risk-adjusted returns and investment efficiency, the study addresses the important topic of whether investment path offers better possibilities for Indian investors. The study's findings imply that ETFs outperform mutual funds in terms of risk-adjusted performance and tracking mistakes, making them a more appealing option for investors seeking optimal returns with minimal risk exposure

Patel and Patel (2019) conducted a comparative study that contributes to our understanding of investment vehicles in India by focusing on Mutual Funds (MFs) and Exchange-Traded Funds (ETFs). The goal of their study is to compare the risk-adjusted returns and investment efficiency of these two popular options. Their findings indicate major benefits of ETFs over mutual funds, such as lower expense ratios, more liquidity, and greater tracking accuracy. These variables, taken together, show that ETFs could provide superior risk-adjusted returns for Indian investors

Jain and Pandey (2019) undertook an in-depth analysis of the risk-return profiles and market performance of mutual funds and exchange-traded funds (ETFs) in India. Their goal was to provide information on the comparative merits and disadvantages of these investment vehicles. Following their investigation, the authors concluded that ETFs had numerous significant benefits over mutual funds in the Indian market. Notably, ETFs had reduced expense ratios, indicating cost effectiveness for investors. Furthermore, ETFs were shown to have superior liquidity, giving investors more flexibility when purchasing and selling shares These results highlight the growing importance of ETFs as viable alternatives to traditional mutual funds.

V. FRAMING OF HYPOTHESIS

H0: There is no significant difference in one-year CAGR and five years CAGR of Mutual fundsand ETF together.
H1: There is significant difference in one-year CAGR and five years CAGR of Mutual fundsand ETF together.

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To check this hypothesis, t test for CAGR of selected mutual funds and ETF for one-year and five years returns are analyzed.

Table 1: T test: Two-Sample Assuming Equal Variances

Particulars	**CAGR for 1 year (in %)**	**CAGR for 5 years (in %)**
Mean	28.314	15.58
Variance	0.90363	1.44895
Observations	5	5
Pooled Variance	1.17629	
Hypothesized Mean Difference	0	
Degree of freedom	8	
t Stat	18.56426022	
P(T<=t) one-tail	3.65495E-08	
t Critical one-tail	1.859548038	
P(T<=t) two-tail	7.30991E-08	
t Critical two-tail	2.306004135	

Interpretation:

The provided data includes compounded annual growth rates (CAGR) for one and five years. The average CAGR for one year is 28.314%, compared to 15.58% for five years, indicating a potentially large short-term growth trend. The variance for both periods indicate a reasonably low range of data points around the mean, with the one-year period having slightly less variability. The estimated t-statistic of 18.564 indicates a significant difference in the means ofthe two CAGR periods, with a low possibility of this difference occurring by chance alone (p-value < 0.0001).

Thus, there is compelling evidence to reject the null hypothesis of no difference in CAGR between the one-year and five-year periods. The above table shows that 1year returns (April 2023 – March 2024) are far higher as compared to 5 years returns (April 2019 – March 2024).The reason for this can be explained by the drastic fall in stock prices during 2020 because of COVID.

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VI. FINDINGS

Summary Table:
CAGR and difference in return of selected Mutual funds and ETF for 1 year and 5 years are presented below:

Name of the instrument	Year of inception	NAV as on 31.32024	Asset under Management (in cr.)	Return in 1 year (in %)	Difference in return (in %)	Return in 5 years (in %)	Difference in return (in %)
Nippon Nifty Mutual fund	28-09-2010	38.14	₹ 1,378.68	27.6	0.77	15.37	1.16
Nippon Nifty ETF	28-12- 2001	251.74	₹ 21,580.07	28.37		16.53	
SBI Nifty Mutual fund	01-01-2013	207.62	₹ 6,494.00	27.71	2.22	15.71	-0.61
SBI Nifty ETF	22-07-2015	237.98	₹173832	29.93		15.1	
TATA Nifty Mutual fund	25-2-2003	151.19	₹ 626.48	27.96	0.26	16.25	0.32
TATA Nifty ETF	31-12-18	239.65	₹ 611.43	28.22		16.57	
UTI Nifty Mutual fund	13-11-2002	156.05	₹ 2,93,686.00	29.6	0.43	14.84	0.28
UTI Nifty ETF	30-6- 2007	244.7	₹ 48,452.18	30.03		15.12	
Bandhan Nifty Mutual fund	30-04- 2010	49.66	₹ 1,165.00	27.63	0.69	16.07	0.29
Bandhan Nifty ETF	07-10-2016	243.32	₹ 22.27	28.32		16.36	

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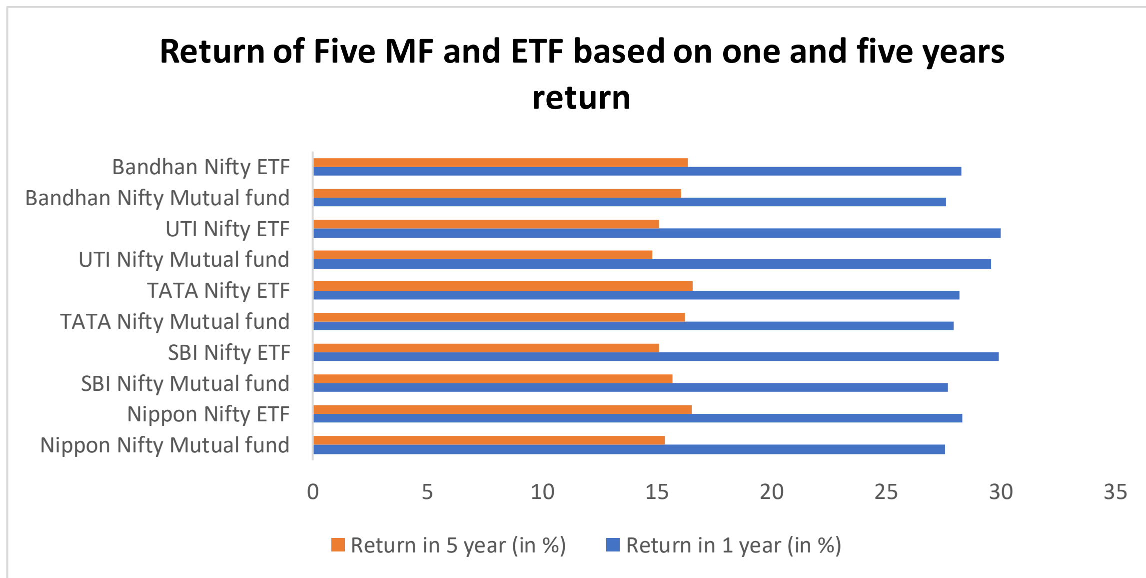

Source: https://www.amfiindia.com/

Interpretation:

The table compares Nifty mutual funds and ETFs offered by various fund companies. It covers essential information such as the instrument's name, year of commencement, NAV as of March 31, 2024, asset under management (AUM) in crore rupees, and returns across various time periods. Nippon Nifty Mutual Fund, SBI Nifty Mutual Fund, TATA Nifty Mutual Fund, UTI Nifty Mutual Fund, and Bandhan Nifty Mutual Fund have all produced steady returns over the last year, ranging from 27.6% to 29.6%. The ETF counterparts of these mutual funds also perform well, with returns ranging from 28.37% to 30.03%.

SBI Nifty ETF had the best return of 29.93% over the last year, closely followed by UTI Nifty ETF at 30.03%. However, the NAVs of SBI Nifty ETF and UTI Nifty ETF are significantly higher than the other funds, reflecting a larger asset base. Over a five-year period, all products have produced positive returns ranging from 14.84% to 16.57%, with ETFs generally beating mutual funds. There are significant return disparities between mutual funds and ETFs, with ETFs typically outperforming mutual funds significantly.

The 5-year return is lower than the 1-year return due to global crises such as COVID-19 and the Russia-Ukraine war. Last year, the Indian stock market performed strongly, yielding better returns for investors. Overall, the table shows the performance and growth of several Nifty mutual funds and ETFs, providing investors with a picture of their financial returns across various time periods.

VII. CONCLUSION

In conclusion, after conducting a comparative analysis between ETFs and mutual funds in the Indian stock market, it is clear that both investment options have their own distinct advantages and disadvantages. Firstly, ETFs offer greater liquidity compared to mutual funds. This is because ETFs are traded on stock exchanges throughout the day, while mutual funds are only priced once a day after the market closes.

As a result, investors can buy or sell ETF units at any time during trading hours, allowing them to react swiftly to market changes. Mutual funds, on the other hand, need a holding period before selling, which limits investors' liquidity. Additionally, ETFs often have lower expense ratios than mutual funds. This is because ETFs are passively managed and typically track a single index, such as the Nifty 50 or the BSE Sensex. ETFs' low expense ratios make them an appealing choice, particularly for long-term investors looking to reduce costs while increasing profits. Mutual funds, on the other hand, typically have higher expense ratios due to active management, which includes research and portfolio management.

Mutual funds are actively managed by professional fund managers who aim to outperform the benchmark indexes. This active management can lead to potentially higher returns, although it also comes with higher management fees. Furthermore, mutual funds provide the option for systematic investment plans (SIPs) and systematic withdrawal plans (SWPs), allowing investors to invest or withdraw a fixed amount at regular intervals. This feature promotes disciplined investing and provides convenience to investors who prefer a systematic approach to wealth creation or regular income generation.

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ETFs are more suitable for active traders and those seeking greater liquidity and lower expense ratios. On the other hand, mutual funds are better suited for investors who seek professional management, diversification, and the convenience of SIPs and SWPs. Ultimately, the choice between these two investment options should be based on individual preferences, investment goals, and risk tolerance.

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