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**A comparative study of financial performance of HDFC AMC and Kotak Mahindra AMC.**

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### Abstracts:

In current time financial markets' analysis has become tough task for the investors. Middle class investor always prefers to reduce risk than earn return at higher rate. At the same time, always expect to get more return than bank fixed deposit. Financial Market is becoming more extensive with wide ranging financial products trying innovation in designing mutual fund schemes. This present study is focused on evaluation of profitability of Mutual Fund Assets Management Companies by using accounting ratios and t-Test as a statistical tool. The analysis depicts that HDFC AMC has higher profitability than Kotak Mahindra AMC. KMAMC incurred losses during 2014-15 which lead to reduce average profitability.

**Keywords:** Investments, Capital Market, Assets Management Companies, Mutual Fund.

### 1.Introduction.

It is rightly said that investment is the sacrifice of certain present value for some uncertain future rewards. Jones defined an Investment as commitment of funds to one or more assets that will be held over some future time period.

In last few decades, investor has various investment avenues are available like stock, bond, mutual fund, real estate, derivatives, non-marketable financial assets like bank deposits, post office deposits, national pension schemes, provident fund, etc.

Mutual Fund is one of the important options that offer investor to balance risk and return.

A mutual fund is a common pool of money into which investors with common investment objectives place their money that are to be invested, with the predefined objectives of the mutual fund schemes. Asset Management Company (AMC) offer various schemes with different objectives.

### 2.Literature Review.

- **Jack Treynor (1965)** has developed a methodology of performance evaluation of a mutual fund that is referred as “reward to volatility measure.” Which is defined as “average excess return on the portfolio.” This is concept was continued by Sharp who stated that variability measure is average excess return on the portfolio divided by the standard deviation of the portfolio.

- **Sharpe (1966)** has conducted a study on performance evaluation during 1944-63 and found 11 funds performed superior out of 34 funds.



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• **Michael Jensen (1967)** had done an empirical study of mutual funds during 1954-1964 for 115 mutual funds. The conclusion of the study was very clear that these funds are not able to predict security prices well enough to outperform. Concluded that these funds were to provide base for holding policy.

• **D. Jain and R. Jain (2003)** have prepared a paper identify the relationship between Assets Under Management mobilized by mutual funds co and GDP growth of the India. Intention of the study the get idea about role of mutual fund in financial system as a key Resource mobiliser.

• **S. Palani and P. Chilar Mohamed (2013)** have done study of public and private sector Mutual Fund in India. The study was mainly to find out the contribution of mutual fund industry in capital market of India.

### 3.Objectives.

- 1) To evaluate Profitability of HDFC AMC.
- 2) To evaluate Profitability of Kotak Mahindra AMC
- 3) To compare Profitability of HDFC AMC and Kotak Mahindra AMC

### 4.Hypothesis.

Hypothesis is a special proposition formulated to be tested in a certain given situation as a part of the research.

#### Null Hypothesis:

H<sub>0</sub>: There is no significant difference in Average Profit After Tax Ratio of HDFC AMC and Kotak Mahindra AMC during selected period.

H<sub>0</sub>: There is no significant difference in Average Return on Equity Share Capital of HDFC AMC and Kotak Mahindra AMC during selected period.

H<sub>0</sub>: There is no significant difference in Average Earning Per Share of HDFC AMC and Kotak Mahindra AMC during selected period.

### 5.Research Design.

#### 5.1 Sampling Design

##### 5.1.1 Universe of the study:

All mutual fund companies in the world is a universe of the study. As the researcher is an Indian hence universe of the study is kept limited to Mutual Fund Companies in India.



There are 42 Mutual Fund Assets Management Companies are there in India, as on 31<sup>st</sup> March,2018.

**Table 1 List of Mutual Fund AMCs, Average AUM, Market Share and Rank**

Sr. No.	Name of Mutual Fund	Average AUM (Crore)	Market Share	Cumulative Share	Rank
1	ICICI Prudential Mutual Fund	3,05,739	13.30%	13.30%	1
2	<b>HDFC Mutual Fund</b>	<b>3,00,549</b>	<b>13.00%</b>	<b>26.30%</b>	<b>2</b>
3	Aditya Birla Sun Life Mutual Fund	2,47,529	10.70%	37.00%	3
4	Reliance Mutual Fund	2,44,904	10.60%	47.70%	4
5	SBI Mutual Fund	2,17,649	9.40%	57.10%	5
6	UTI Mutual Fund	1,54,939	6.70%	63.80%	6
7	<b>Kotak Mahindra Mutual Fund</b>	<b>1,24,691</b>	<b>5.40%</b>	<b>69.20%</b>	<b>7</b>
8	Franklin Templeton Mutual Fund	1,03,152	4.50%	73.70%	8
9	DSP Mutual Fund	86,326	3.70%	77.50%	9
10	Axis Mutual Fund	77,325	3.40%	80.80%	10
11	IDFC Mutual Fund	69,919	3.00%	83.80%	11
12	L&T Mutual Fund	65,932	2.90%	86.70%	12
13	Tata Mutual Fund	46,977	2.00%	88.70%	13
14	Sundaram Mutual Fund	34,306	1.50%	90.20%	14
15	Invesco Mutual Fund	26,203	1.10%	91.40%	15
16	DHFL Pramerica Mutual Fund	23,595	1.00%	92.40%	16
17	LIC Mutual Fund	20,118	0.90%	93.30%	17
18	Motilal Oswal Mutual Fund	17,735	0.80%	94.00%	18
19	JM Financial Mutual Fund	16,365	0.70%	94.70%	19
20	Mirae Asset Mutual Fund	15,756	0.70%	95.40%	20
21	Baroda Pioneer Mutual Fund	13,022	0.60%	96.00%	21
22	Canara Robeco Mutual Fund	12,496	0.50%	96.50%	22
23	Edelweiss Mutual Fund	12,100	0.50%	97.10%	23



24	IDBI Mutual Fund	10,760	0.50%	97.50%	24
25	India bulls Mutual Fund	10,714	0.50%	98.00%	25
26	HSBC Mutual Fund	10,261	0.40%	98.40%	26
27	BNP Paribas Mutual Fund	8,159	0.40%	98.80%	27
28	PRINCIPAL Mutual Fund	7,196	0.30%	99.10%	28
29	BOI AXA Mutual Fund	5,802	0.30%	99.30%	29
30	Union Mutual Fund	4,305	0.20%	99.50%	30
31	Mahindra Mutual Fund	3,368	0.10%	99.70%	31
32	Essel Mutual Fund	1,540	0.10%	99.70%	32
33	IL&FS Mutual Fund (IDF)	1,274	0.10%	99.80%	33
34	Quantum Mutual Fund	1,203	0.10%	99.90%	34
35	PPFAS Mutual Fund	1,010	0.00%	99.90%	35
36	IIFL Mutual Fund	793	0.00%	99.90%	36
37	IIFCL Mutual Fund (IDF)	650	0.00%	100.00%	37
38	Taurus Mutual Fund	509	0.00%	100.00%	38
39	Escorts Mutual Fund	231	0.00%	100.00%	39
40	Sahara Mutual Fund	64	0.00%	100.00%	40
41	Shriram Mutual Fund	43	0.00%	100.00%	41
42	SREI Mutual Fund(IDF)	0	0.00%	100.00%	42

**5.1.2 Sampling Unit.**

The following Mutual Fund Companies have been selected by the researcher for the present study. The selection is based on top 10 rank based on AUM and having history of at least 5 years. Here, the researcher has selected the companies based on convenient sampling method.

List of Sample Mutual Fund Companies.

- (1) HDFC Asset Management Company Ltd. (HDFC Mutual Fund)
- (2) Kotak Mahindra Assets Management /company (Kotak Mahindra Mutual Fund)

**5.1.3 Profile of selected Mutual Fund AMCs.**

This part consists of the profile of selected mutual fund Assts Management Companies in India.

**(i) HDFC Assets Management Company Limited. (HDFC Mutual fund)**

HDFC is one of the India’s largest and most profitable Mutual Fund Company. HDFC started its operation



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in 1999. It was approved to act as an Assets Management Company in 2000. Milind Barve is the Managing Director of HDFC Mutual Fund. The Company was set a joint venture between Housing Development Finance Corporation (HDFC) and Standard Life Investment Limited. Currently, 26.1% of the company is owned by the public. HDFC AMC is the Investment manages to the schemes of HDFC Mutual Fund. It has over 9.3 Million active accounts. The company have dominant position in Equity Investment with the highest market share in activity managed equity-oriented funds. It has presence in 200 cities and 223 branches. The company has launched around 782 schemes of varied natured Mutual Fund is at the 2<sup>nd</sup> position by the size of Assets Under Management.

### (ii) Kotak Mahindra Asset Management Company Ltd. (KMMF-Kotak Mahindra Mutual Fund)

KMMF started its operations in 1998 with its asset manager Kotak Mahindra Asset Management Company Limited (KAAMC), wholly owned subsidiary of Kotak Mahindra Bank. It has over 10 lakhs investors & more than 387 schemes of various types. It offers schemes catering to investors with varying risk- return profiles and was the first fund house in India to launch gilt scheme investing only in government securities. The Company is at 7<sup>th</sup> position by the size of Assets Under Management.

### 5.2 Period of the study

The period of the study was 5 years i.e. 2013-14 to 2017-18.

### 5.3 Data Collection.

The collection of data is based on secondary data. Secondary Information has been collected from Annual Returns of the respective Assets Management Companies from their websites of respective companies, money control, fund bazar, grow etc. In addition, various journals, magazines, articles, books, published and unpublished documents have also been considered in the research work.

### 5.4 Method of Analysis

For the analysis of financial matters, Ratio analysis is the most widely used tool. The ratio analysis gives an idea about the trends of various financial matters. It is useful to compare the financial data of various years. It is also useful to compare the financial condition of one unit with that of the other. In this research work, the researcher has calculated various accounting ratios to establish relationship between different variables. To test the hypothesis of the study, T-Test is applied, as there is a comparison between two Companies only and sample size is also small, i.e. less than 30.





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• **List of the Ratios**

**i) Profit After Tax**

$$\frac{\text{Net Profit After Tax}}{\text{Revenue Income}} \times 100$$

**ii) Return on Equity Share Capital**

$$\frac{\text{Net Profit After Tax}}{\text{Equity Share Capital}} \times 100$$

**iii) Earning per share**

$$\frac{\text{Net Profit After Tax}}{\text{No. of shares}}$$

**5.5 Limitations.**

- a) The study is undertaken to analyse Financial Statements which have their own limitations.
- b) The researcher has selected two Mutual Fund Companies where as there are 42 Mutual fund Companies in India which turns to be a limitation.
- c) The study is purely based on secondary data which are taken from official websites of Mutual Fund companies for the present study. Annual reports and various published reports and such other findings depend entirely on the accuracy of such data.
- d) The present study is based on Ratio Analysis and it has its own limitations which apply to this study also.
- e) There is proper care taken to overcome the limitations of the statistical tools used in the study but limitations of the tools used applies to the study also.
- f) The findings, conclusion and suggestions are human interpretation of the data used which can be biased. Still the said things are being checked and studied by the guide and peers so the chances of biasness can be reduced.



6. Data Analysis.

(1) Profit After Tax

Table 2: Table showing PAT Ratio of the selected AMC's.

Year	HDFC (%)	KOTAK (%)
2014	41.67	20.47
2015	40.64	-29.56
2016	33.13	24.88
2017	37.18	13.36
2018	41.01	16.18
Average	<b>38.72</b>	<b>9.06</b>

Chart 1. A chart showing Net Profit After Tax Ratio of the selected AMC's.



An analysis of Table 1 reveals that average Profit After Tax Ratio (%) of HDFC AMC was 38.72%. In three years, Profit After Tax Ratio was higher than average during study duration. The highest PAT was 41.67% in 2013-14 while lowest was 33.16% in 2015-16.

Average Profit After Tax Ratio (%) of Kotak Mahindra AMC was just 9.06%. In all years, except 2014-15, PAT (%) is higher than average rate. The highest PAT was 24.88% in 2015-16 while lowest was (29.56%) in 2014-15.





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There is very big difference is found in average PAT (%) of both companies. In Kotak Mahindra AMC, PAT ratio was lower but due to negative result in 2014-15 lead to reduce average considerably. In all the five years of the study, HDFC AMC has earned higher PAT ratio as compared to Kotak Mahindra AMC.

Financial year 2014-15 was an eventful year for Mutual Fund Industry, which saw healthy growth in Assists Under Management. The year witnessed an AUM increase of 31%.

In 2015, Equity AUMs in the Industry Jumped by 79% as compared to last Financial Year. Kotak AMC reported loss in 2015. However Directors of the KMAMC have given clarification that AMC had market share of 5% of the net equity inflows during the years. The co. also has done exceedingly well in equity arbitrage category and have seen a market share of around 19% of AAUM. During the same the same period, the overall AAUM of the Co. increased by 8%.

This increased share in the market, resulted jump in brokerage and other distribution and mutual fund expenses. The business promotion, distribution and mutual fund exp increased by 37 crores as compared to the previous year, in addition, a drop in the realisation from the debt and increase in higher outflow on communication on equities lead to loss during the financial year.

Table 3: Calculation of T-Test.

t-Test: Two-Sample Assuming Equal Variances

	HDFC	KMAMC
Mean	38.72444	9.064719
Variance	12.81793	485.2756
Observations	5	5
Pooled Variance	249.0468	
Hypothesized Mean Difference	0	
df	8	
t Stat	2.971643	
P(T<=t) one-tail	0.008913	
t Critical one-tail	1.859548	
P(T<=t) two-tail	0.017826	
t Critical two-tail	2.306004	

The above table shows calculation of t-Test. Hypothesis for this purpose is given below:



H0: There is no significant difference in Average Profit After Tax Ratio of HDFC AMC and Kotak Mahindra AMC during selected period.

**Interpretation:**

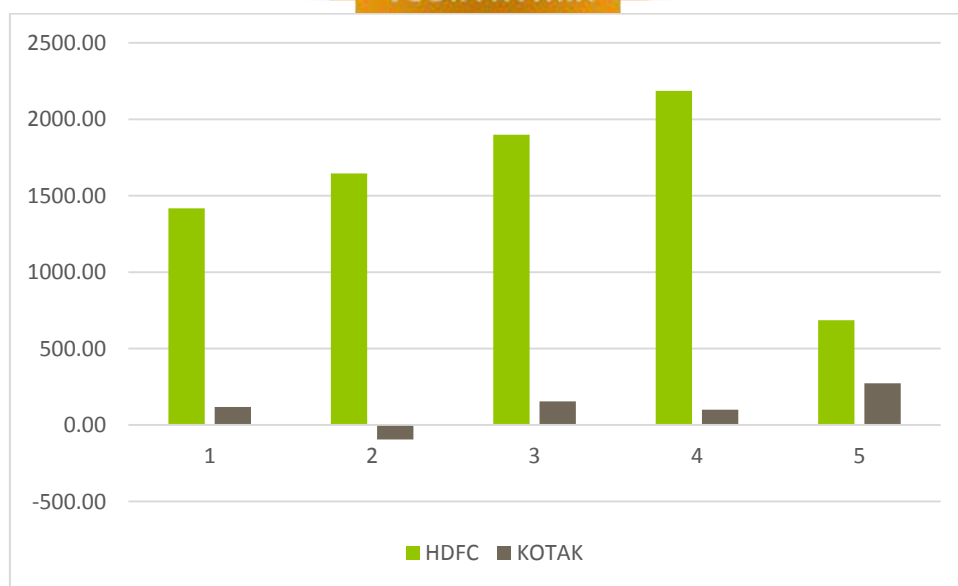
Calculated value of T Statistic is 2.9716 and the Critical Value of T-Statistic is 2.3060. As T calculated is greater than Critical value of T, H0 stands rejected. It means, there is significant difference in Average Profit After Tax Ratio of HDFC AMC and Kotak Mahindra AMC.

**(2) Return on Equity Share Capital (R on ESC)**

**Table 4: Table Shows Return on Equity Share Capital of the Selected AMCs.**

Year	HDFC	KOTAK
2014	1417.47	117.99
2015	1646.20	-94.46
2016	1899.36	154.91
2017	2186.13	99.82
2018	685.43	272.52
Average	<b>1566.92</b>	<b>110.15</b>

**Chart 2. A chart showing Return on Equity Share Capital of the selected AMCs.**



An analysis of table 2 reveals that Return on Equity Share Capital of HDFC AMC was 1566.92%. In three



years, Profit After Tax Ratio was higher than average during study duration. The highest Return on ESC was 2186.13% in 2016-17 while lowest was 685.43% in 2017-18. In the last of the study Company has issued bonus share which lead to reduce rate of return on equity share capital.

Average Return on Equity Share Capital of Kotak Mahindra AMC was just 110.15. In three years, return was more than average return. The highest return on equity share capital was 272.52% in 207-18 while lowest was (94.46%) in 2014-15.

As there was huge loss in 2004-15 of Kotak Mahindra AMC which lead to reduce the average. In all five years of the study, but obvious, HDFC earned higher return on equity share capital as compared to KMAMC.

**Table 5: Calculation of T-Test.**

*t-Test: Two-Sample Assuming Equal*

*Variances*

	<i>HDFC</i>	<i>KOTAK</i>
<i>Mean</i>	1566.9193	110.15275
<i>Variance</i>	324897.65	17600.417
<i>Observations</i>	5	5
<i>Pooled Variance</i>	171249.03	
<i>Hypothesized Mean Difference</i>	0	
<i>df</i>	8	
<i>t Stat</i>	5.5660346	
<i>P(T&lt;=t) one-tail</i>	0.0002655	
<i>t Critical one-tail</i>	1.859548	
<i>P(T&lt;=t) two-tail</i>	0.0005309	
<i>t Critical two-tail</i>	2.3060041	

The above table shows calculation of t-Test. Hypothesis for this purpose is given below:

H<sub>0</sub>: There is no significant difference in Average Return on Equity Share Capital of HDFC AMC and Kotak Mahindra AMC during selected period.



**Interpretation:**

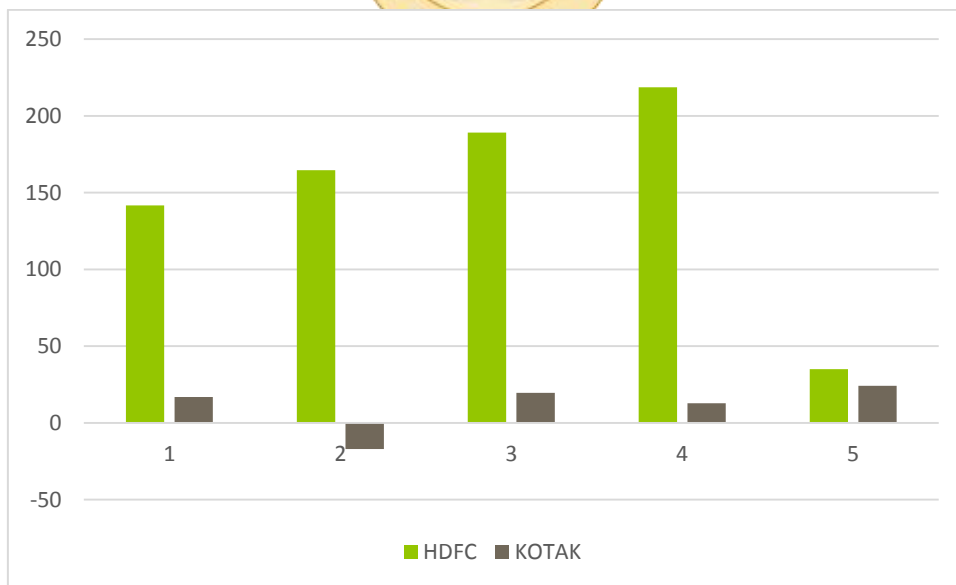
Calculated value of T Statistic is 5.5660 and the Critical Value of T-Statistic is 2.3060. As T calculated is greater than Critical value of T, H0 stands rejected. It means, there is significant difference in Return on Equity Share Capital of HDFC AMC and Kotak Mahindra AMC.

**(3) Earning Per Share (EPS)**

**Table 6: Table showing EPS of Selected AMCs**

Year	HDFC	KOTAK
2014	141.69	16.86
2015	164.61	-17
2016	189.11	19.62
2017	218.65	12.83
2018	35.02	24.16
Average	149.816	11.294

**Chart 3. A chart showing Earning Per Share of the selected AMCs.**



An analysis of table 5 reveals that average Earning Per share of HDFC AMC was 149.816. In three years, EPS was higher than average during study duration. The highest EPS was 218.65 in 2016-17 while lowest was 35.02 in 2017-18. In the last year, the company has issued bonus shares and face value was reduced in



this year which increased number of shares significantly which lead to reduce EPS.

Average EPS of Kotak Mahindra AMC was just 11.294. In all years, except 2014-15, EPS was higher than average rate. The highest EPS was 24.16 in 2017-18 while lowest was (17). in 2014-15.

**Table 7: Calculation of T-Test**

**t-Test: Two-Sample Assuming Equal Variances**

	HDFC	KOTAK
Mean	149.816	11.294
Variance	4936.2885	267.1866
Observations	5	5
Pooled Variance	2601.7375	
Hypothesized Mean Difference	0	
df	8	
t Stat	4.2939503	
P(T<=t) one-tail	0.0013186	
t Critical one-tail	1.859548	
P(T<=t) two-tail	0.0026372	
t Critical two-tail	2.3060041	

The above table shows calculation of t-Test. Hypothesis for this purpose is given below:

H<sub>0</sub>: There is no significant difference in Average Earning Per Share of HDFC AMC and Kotak Mahindra AMC during selected period.

**Interpretation:**

Calculated value of T Statistic is 4.2939 and the Critical Value of T-Statistic is 2.3060. As T calculated is greater than Critical value of T, H<sub>0</sub> stands rejected. It means, there is significant difference in Earning Per Share of HDFC AMC and Kotak Mahindra AMC.

**7.Conclusion.**

The study has compared HDFC AMC and Kotak Mahindra AMC. The main objective of the study was to compare average profitability of the AMCs. Summary of result is presented in different tables and charts.



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The study provides some insights in profitability from shareholder's point of view so as to assist the common investor in taking rational investment decision.

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