

**Comperative Study Of Perfomance Of Exchange Traded Fund (Etf) In India  
With Its Risk & Return****Dr Sachin Napate**

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*Dr. D.Y. Patil B-School***Abstract**

Exchange-Traded Funds (ETFs) is one of the quickest developing investment in financial market. The units of an ETF are recorded in stock exchange and the NAV fluctuates according to market developments, There are 82 trade exchanged plans drifted and exchanged on Indian Stock markets. These assets give liquid access virtually to every financial market and allow large and small investors to build their portfolios. However, their maintenance expenses are essentially lower than mutual funds. This paper is the study about the performance of top 5 ETF in India of last 3years in terms of risk and return individually. It details how ETFs work, their unique investment, trading features & their regulatory structure.

**Keywords :** ETF, Financial Market, Risk, Return, NAV**1.Introduction**

An exchange-traded fund (ETF) is an investment fund that traded on stock exchanges, similar to stocks. An ETF holds assets such as bonds, stocks, or commodities and generally functions with an arbitrage mechanism designed to keep it trading close to its net asset value, although deviations can occasionally occur. Most ETFs track on an index, such as a stock index or bond index NIFTY. ETFs may be attractive for investors as investments because of their low costs as compare to mutual fund, tax efficiency, and stock-like features.

ETF distributors only buy or sell ETF's directly from to all authorized participants, which are large broker-dealers with whom they have entered into agreements with then only in creation units, which are large numbers of tens of thousands of ETF shares, usually exchanged within the baskets of the underlying securities. Authorized participants may wish to invest in the ETF shares for the long term, but they usually act as market makers on the open market, using their ability to exchange creation units with their underlying securities to provide liquidity of the ETF shares and help to make sure that its intraday market price is approximately the net asset value (NAV) of the underlying assets. Other investors, such as individuals with the help of a retail broker perfume their trades of ETF shares on this secondary market.

An ETF is a combination of the valuation feature of a unit investment trust or mutual fund, which can be bought or sold at the end of each trading day for its net asset value, with the tradability feature of a closed-end fund, which trades throughout the trading day at prices that may be more or less than its net asset value which is totally depending on the market performance. Closed-end funds are not considered to be ETFs, even though they are funds and are traded on an exchange. ETFs have been available since 1993 in the US and since 1999 in Europe. ETFs is traditionally have been index funds, but in 2008 the U.S. Securities Exchange Commissions began to authorize the creation of actively managed ETF's.

ETF's helps in both cost management as well as in tax efficiency. In United States more than US\$2 trillion were invested in ETFs, in the time period of since they were introduced in 1993 and 2015. By the end of 2015, ETFs has offered 1,800 different products, covering almost every conceivable market sector, niche and trading strategy. For which keeping the tract of performance of ETF in India, this research paper will give a glimpse idea about the investment, individual performance, its market share, return of investment with the level of risk involved to help the investors to build an idea about ETF before investing.

## 2.Scope Of The Study

The main focus of the study is to examine the performance and growth of exchange traded funds in India in the investment business. To help and pick the best performing organizations for shared store for better return, securities and speculation to produce higher benefits. And furthermore to dissect the best performing organization to the least performing organizations for the financial specialists advance speculation. The aimed objective of this research paper is to compare and evaluate the performance of ETF of India based on risk and return.

## 3.Objective

1. To give a brief idea about the benefits from investing in ETF.
2. To give an idea of the types of ETF available.
3. To analyse risk and return of financial instrument.
4. To evaluate the volatility of the ETF as financial instrument.
5. To compare and judge the performance of the given traded materials.

## 4.Problem definition

1. Data collection: Secondary data, eg BSE,NSE, Money control
2. Size of the data: 5 ETF ,3yrs data
3. Population: Population is a collection of items of interest in research. The population represents a group that you wish to generate your research paper.

## 5.Nature of collection of data

1. The data required for the study relates information pertaining to the EPS, P/E, NAV of Exchange Traded Fund
2. Secondary data were obtained from published reports and websites
3. Data will be collected from various fact sheets
4. Top ETF in terms of holding / AUM

## 6.Methodology

- Earnings per share (EPS) = 
$$\frac{\text{Net Profit}}{\text{Number of equity share}}$$
- Net asset value (NAV) = 
$$\frac{\text{Value of assets} - \text{Value of Liquidities}}{\text{Total no of share outstanding}}$$
- Price to earnings ratio (P/E) = 
$$\frac{\text{Share price}}{\text{Earnings per share}}$$
- Risk = 
$$\frac{\text{Average Return}}{\text{Standard Deviation}}$$

## 7.Exchange traded fund 5 (ETF)

1. ICICI Prudential Banking and Financing Services Fund
2. UTI Sensex ETF
3. Canara Robeco Gold ETF
4. Nippon ETF Bank BeEs
5. SBI - Gold ETF

## 8.Literature Review

*Jonne M. Hill and Barbara Mueller (2001)* made a research on ETFs and they concluded that Tracking errors and returns based on fund NAV relative to the index reflect characteristics of the product structure

*Manuel Ammann, Stephan Kessler and Jurg Tobler(2006)* stated that for investors, it is important to know what trading strategies an asset manager pursues to generate excess returns. They used tracking

error variance (TEV) as a measure of activity and introduced two decompositions of TEV for identifying different investment strategies

*Benchmark Funds Asset Management Company(2008)* research department did research in early 2008 on the topic of “Myth of Eternal Alpha” It has often been argued that individual active fund managers are consistently able to exploit anomalies and aberrations that may exist in the market and while considering out performance/ under performance one should look at longer periods.

*Prashanta Athma and K. Raj Kumar (2011)* – made a study on “ETF vis-a-vis Index Funds”: It’s covering the period of five years from 2005 to 2009 for the purpose of evaluating performance of select ETFs and Index Funds in India. The parameters for evaluating the performance are NAV, Risk, Return, Expenses Ratio, Tracking Error, Reward to Variability and Differential Return is used for data analysis

## 9.Challenges

1. **Identify Crisis** – There are different ETF structure including the traditional & non-traditional leveraged and inverse 1940. Together many investors has lost its interest in ETF.
2. **Revenue Crunch** – The broking firms are looking forward despite of diminishing pricing power to get to gather revenue from the ETF sponsors that has being lost due to decline in the investment in the mutual fund.
3. **Distribution Dilemma** – As compare to mutual fund ETF is still under growing process in terms of defined amount of existing contribution of inflow or asset.
4. **Tracking Error** – Index ETF investment is same as the companies that are part of Index, nut the return is not same, there will be a difference either way.
5. In ETF there are 2 price, investor should look for the spread between the price of share while buying (ask) and the price of the share while selling (bid).

## 10.Opportunities

1. There is a continuous growth in the ETF market, by which it can be determined there are more investors interested in ETF that may lead to good return in future.
2. As there are more investors are coming in ETF to invest and hold their investment, therefore according to the respondents 75% of their view is the market will sustain in current growth rate.
3. The fee that is charged is lower as compare to mutual fund which is attractive for the investors to invest.
4. ETF is as similar to mutual fund investment, which is mostly familiar to the investors of the procedure to the investment.
5. Good return in the investment of ETF as in all the investments available in the financial market in terms of risk and return.

## 11.Data analysis

### 11.1

2017

ETF	NAV	
	Latest Value	Absolute Return
ICICI Prudential Banking and Financial Services Fund	8763.00	-12.37%
UTI Sensex ETF	11133.10	11.33%
Canara Robeco Gold ETF	12873.70	28.74%
Nippon ETF Bank BeES	9519.20	-4.81%
SBI - ETF Gold	15379.30	53.79%

**11.2**

2018

ETF	NAV	
	Latest Value	Absolute Return
ICICI Prudential Banking and Financial Services Fund	7621.20	-23.79%
UTI Sensex ETF	9405.90	-5.94%
Canara Robeco Gold ETF	11939.20	19.39%
Nippon ETF Bank BeES	8097.40	-19.03%
SBI - ETF Gold	14851.20	48.51%

**11.3**

2019

ETF	NAV	
	Latest Value	Absolute Return
ICICI Prudential Banking and Financial Services Fund	6755.90	-32.44%
UTI Sensex ETF	8139.90	-18.80%
Canara Robeco Gold ETF	12044.20	20.71%
Nippon ETF Bank BeES	6700.90	-32.99%
SBI - ETF Gold	14804.60	48.51%

**11.4**

Average return

ETF	NAV	
	Average Latest Value	Average Absolute Return
ICICI Prudential Banking and Financial Services Fund	7713.37	-22.86%
UTI Sensex ETF	9559.64	-4.47%
Canara Robeco Gold ETF	12285.47	22.94%
Nippon ETF Bank BeES	8105.84	-18.94%
SBI - ETF Gold	15011.70	50.27%

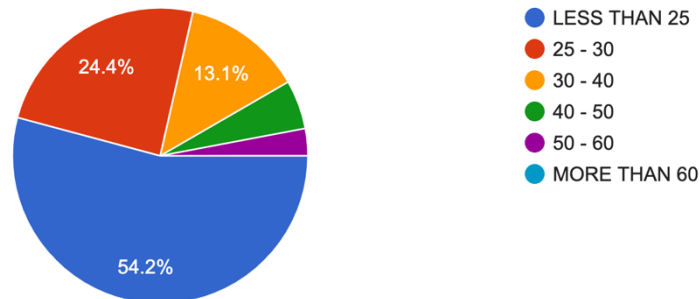
**11.5**

Rank of ETF for return

RANK	NAME OF ETF	RETURN
1	SBI - ETF Gold	50.27%
2	Canara Robeco Gold ETF	22.94%
3	UTI Sensex ETF	-4.47%
4	Nippon ETF Bank BeES	-18.94%
5	ICICI Prudential Banking and Financial Services Fund	-22.86%

## AGE

168 responses

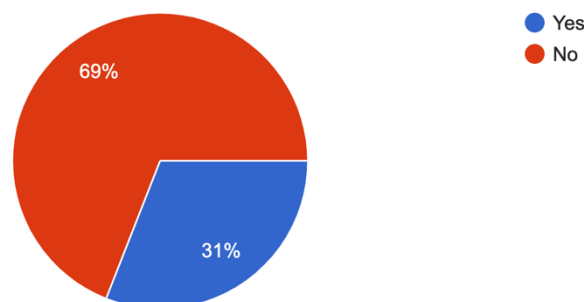


Age	Percentage of people	No of response
Less than 25	54.2%	91
25 – 30	24.4%	41
30 – 40	13.1%	22
40 – 50	5.3%	9
50 – 60	3.0%	5
More than 60	0%	0
Total	100%	168

**Inference :** In the survey that was conducted most of the people were of age group less than 25, by which we can find out the awareness regarding ETF in the young investors, which will be more helpful for the paper to study the preference of the investors and its approach.

## ARE YOU A INVESTOR IN ETF ?

168 responses



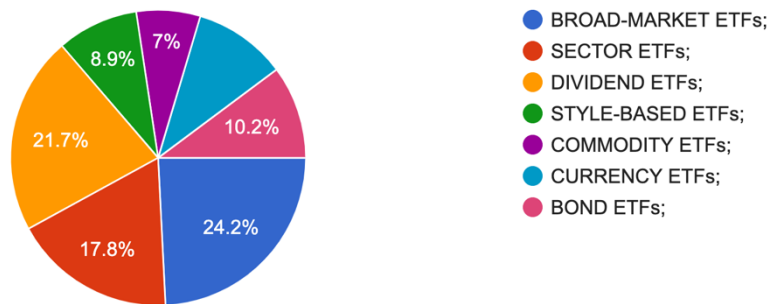
Investor in ETF	Percentage of people	No of response
Yes	31.0%	52
No	69.0%	116
Total	100%	166



**Inference :** As we can find out from the pie chart and the data that most of the investors doesn't park their money in ETF so we have 52 people who invest in ETF that is 31.0% form the collected data, that clearly tells us that most of the investors are not aware or have less knowledge about ETF, as to solve this problem and create a bigger market for the investor there should be more focus to generate more awareness and explanation about ETF through brokers and other medium.

**WHICH OF THE FOLLOWING TYPES OF ETF DO YOU PREFER TO INVEST ?**

157 responses

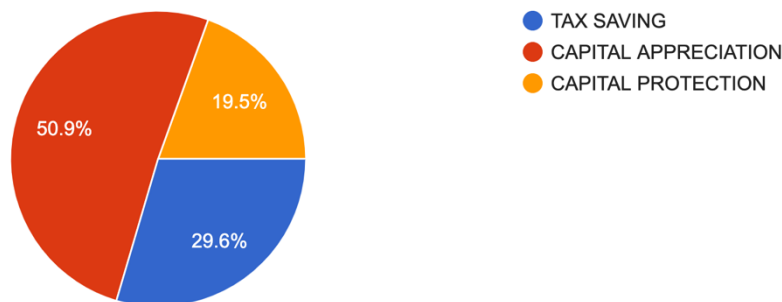


Investor's preference	Percentage of people	No of response
Broad-market ETF	24.2%	38
Sector ETF	17.8%	28
Dividend ETF	21.7%	34
Style-based ETF	8.9%	14
Commodity ETF	7.0%	11
Currency ETF	10.0%	16
Bond ETF	10.2%	16
Total	100%	157

**Inference :** This shows the different preferred investment sector for different investors choice ,knowledge, and convenience for investing in the market. Which is of different type's as follows 24.2% invests in Broad-market ETF, 17.8% invests in Sector ETF, 21.7% % invests in Dividend ETF, 8.9% invests in Style-based ETF, 7.0% invests in Commodity ETF, 10.0% invests in Currency ETF & 10.2% invests in Bond ETF. By looking at the figures we can assume the preference of the mass population in the investment prospective and attitude towards different types of funds.

**WHAT IS YOUR OBJECTIVE OF INVESTING IN THE ETF?**

159 responses

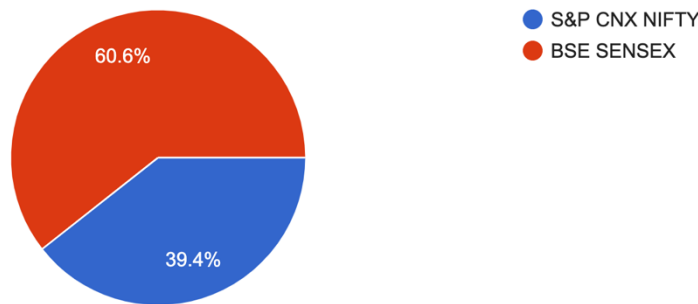


Objective of investing	Percentage of people	No of response
Tax saving	29.6%	47
Capital appreciation	50.9%	81
Capital protection	19.5%	31
Total	100%	159

**Inference :** The attitude of the investors for making investments in the market is mostly for capital appreciations as per the survey conducted which says 50.9% of the response says to earn they invest in the market, where as 29.6% of the investor does investment for tax saving purpose & 19.5% of the investors does investment to park their money in the market their purpose is not to earn or anything else.

WHILE MAKING INVESTMENTS IN INDEX FUNDS/ ETFs WHICH BENCHMARK INDEX DO YOU PREFER YOUR FUND REPLICATE?

132 responses

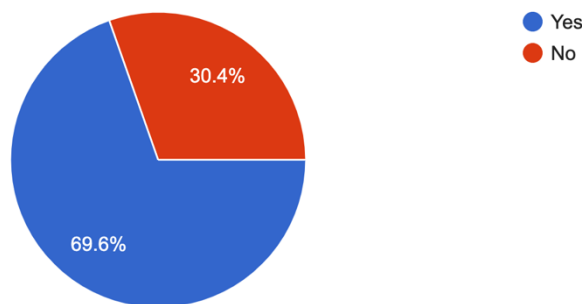


Benchmark	Percentage of people	No of response
S&P CNX Nifty	39.4%	52
BSE Sensex	60.6%	80
Total	100%	132

**Inference :** From the survey that was conducted on the investors approach towards its benchmark where we could see that the most preferred benchmark is BSE SENSEX with 60.6% of the respondent and others in S&P nifty.

HAVE YOU HEARD OF GOLD ETF/GOLD FUNDS?

158 responses

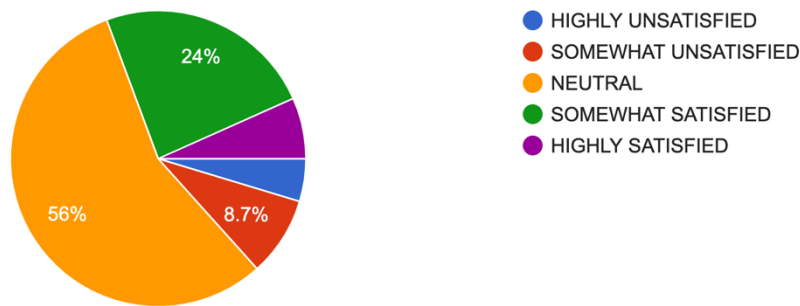


Heard of gold ETF/Fund	Percentage of people	No of response
Yes	69.6%	110
No	30.4	48
Total	100%	158

**Inference :** To look forward for the awareness regarding the gold fund as the market people are more looking forward for physical gold than in the form of funds in the stock market, by which it is seen that 69.6% of the respondent knows about gold fund and other 30.4% of the people doesn't know anything about gold fund.

ARE YOU SATISFIED FROM THE RETURNS ACHIEVED FROM YOUR INVESTMENT IN ETFs in PREVIOUS YEARS?

150 responses



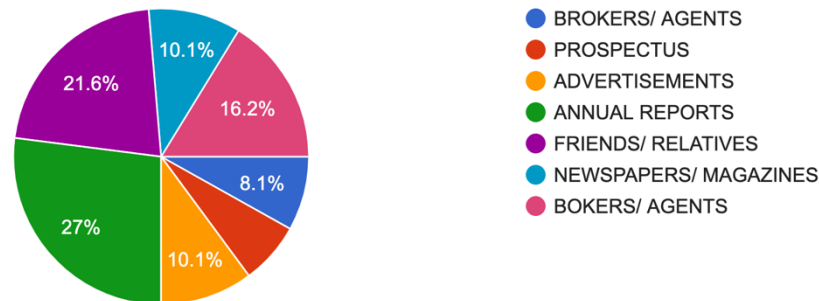
Level of satisfaction	Percentage of people	No of response
Highly satisfied	4.7%	7
Somewhat unsatisfied	8.7%	13
Neutral	56%	84
Somewhat satisfied	24%	36
Highly satisfied	6.7%	10
Total	100%	150

**Inference :** To retain the investors in the market the investors should have interest should have a satisfaction in terms of the return from the market, therefore as we can see from the data that most of the investors are having neutral response 56% to the satisfaction of the return achieved ,only 4.7% are highly satisfied and 8.7% somewhere satisfied.



THE FOLLOWING DIFFERENT SOURCES OF INFORMATION FOR INVESTMENT INTO ETFs / INDEX FUNDS WHICH YOU FIND USEFUL IN DECISION MAKING ?

148 responses



Sources of information	Percentage of people	No of response
Broker/Agent	8.1%	12
Prospectus	6.8%	10
Advertisements	10.1%	15
Annual reports	27%	40
Friends/Relatives	21.6%	32
Newspaper/Magazines	10.1%	15
Others (brokers/agents)	16.2%	24
Total	100%	148

**Inference :** Most of the contribution for the awareness for the ETF to the investors in the market are provided by the annual report that is published in the websites, whereas even brokers/agents also has created the awareness for the investment in ETF as 8.1% & 16.2% others(brokers/agents) “as the respondent commented”, and also friends/relatives also help the investors to come in the market.

### 12.Finding

1. The analysis is done on 5 ETF, which is performing and sustain in the Indian market since many years.
2. In my analysis the data chosen is of 2017-2019, so the better way to analyse the fund, is to compare the risk and return of the exchange traded fund to see the risk involved for the return encored.
3. But most of the time it is not worth to take high risk for the return generate, therefore these historical data will help to understand the pattern of the functioning of ETF, to choose the better option for investment and generate profits with minimal risk of loss.
4. For the study of the people approach towards ETF, there were 164 primary data collected through a google form, of which 69.3% of the people invested in ETF.
5. The objectives of the investors were mainly for capital appreciation, and were more focus on BSE Sensex.
6. Most of the investors had a neutral approach towards the return which they were generating, and the information about this investment were mostly received from the annual report & friends/relatives

### 13.Conclusion

In the expert of financial market in India the structural policies of liberalization and liberty to trade in the market. The exchange traded fund in India is doing very well as it provides less risk to

return but not as less as bank fixed deposit and mutual funds, by seeing at the past history of the ETF in India, there is a growth in the market and investors are likely to invest in ETF as it has become more ease to excess of investing and withdrawal. Thanks to the technology that has made the market as ease to reach and get any data of information regarding the funds in a click of button, everything is transparent and the investor can select its own scheme with its preferred stocks and index. But due to high population in India and people tends park their money more to bank deposit and mutual funds rather than investing in exchange traded fund market has not grown too big as in compare to other countries like USA, but there is a huge scope for its growth in India, as there is a sustainability in the growth. The industry need to upgrade its skills, technology, potential, network awareness of exchange traded fund(ETF) where by developing these the industry should grow more bigger and can contribute much more to the country's economy. And also the investors should develop their knowledge and skills in investing in ETF, to conduct a better investment and generate more profit for its own and more the number of investments the more the economy grows, which is good for the international market. In the sturdy the exchange traded fund investment was based on the readily available secondary data that I have collected from the website, I have collected three years data of five different ETF of 2017-2019 and also conducted a survey of primary data collection for the perspective of the investors towards ETF through a google form. Where I have collected the nav, return, average return. By which the analysis is done to calculate risk and return.

#### 14.Limitations

1. In the project all the calculation are done under a single assumption that there won't be any risk under the normal market condition.
2. This contradicts with the reality fact under market condition there will be some amount of risk (Tends to not even in case of the most risk averse mediums like FD's).
3. This contradiction will in turn result in difference when compared or inputted with the data of different sites.
4. Because of shortage of time I could not do justice to the research paper, but there is more scope to study further.

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