

# PERFORMANCE EXCELLENCE: ANALYZING THE SUCCESS OF SHARIAH-COMPLIANT TATA ETHICAL FUND IN INDIA

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## Abstract

*This research examines the Shariah compliant Tata Ethical Fund, a Shariah-compliant investment option in India. Analysis of the fund's top 10 holdings reveals a notable focus on the technology and IT sector, with substantial investments in Tata Consultancy Services (TCS) and Infosys. Furthermore, the Tata Ethical Fund has exhibited robust performance across various time frames, often surpassing benchmark indices, particularly in the short and long terms. Based on key metrics including mean return, low standard deviation, positive Sharpe and Sortino ratios, and a positive alpha, the "Tata Ethical Direct" fund stands out as a strong performer.*

**Keywords:** Mutual fund, Ethical fund Performance, Shariah compliant fund.

## INTRODUCTION

The Islamic mutual funds in India are similar to conventional mutual funds, but they are based on Shariah compliance, which implies that the transaction engaged in the investment is not against Islamic principles. In the Shariah's context since it strongly discourages investment involving the three aspects of riba (interest), maysir (gambling), and gharar (uncertainty). Instead, it encourages the use of profit sharing and partnership agreements. The establishment of Islamic mutual funds was intended to provide investors seeking a return on their money while adhering to Shariah with an alternate method. For a little over a decade, the funds among other parts of the Islamic financial system saw remarkable expansion. Due to the technology boom, the Islamic stock funds surpassed their benchmark by generating substantial returns. The Islamic mutual funds market is one of the fastest expanding sections of the Islamic financial system. In India, there is still a little amount of ethical investing. India has not made a lot of progress in promoting ethical investing. Only two ethical mutual funds are offered in India: Tata Ethical Fund and Taurus Ethical Fund.

## LITERATURE REVIEW

### **Tripathi & Bhandari, (2015)**

Evaluated and compared the performance of ethical mutual funds with general funds and benchmark index (S&P BSE Shariah 500 Equity Index) in the Indian market. The sample comprises six ethical fund schemes and three general fund schemes of Taurus mutual fund over the period 2009-2014 using weekly NAVs. The study used return, risk, risk-adjusted measures (Sharpe ratio, Treynor ratio, Jensen's alpha and information ratio), Fama's decomposition measure, paired samples t-test, and growth regression equation to accomplish the objectives. The findings suggested that some of the ethical funds generated significantly higher return than other funds and benchmark index. Despite having higher risk, ethical funds outperformed other funds and benchmark index on the basis of various risk adjusted measures and net selectivity returns.

### **Yuzi et al., n.d., et al., (2010)**

They have studied the returns performance of Islamic mutual funds in Malaysia according to four types of asset portfolios which are Equity, Debt, Money Market and Asset Allocation. They used Sharpe and Adjusted Sharpe Ratio, Treynor and Jensen Indices as well as Modigliani Measure, the average daily returns for each type of asset fund are being compared relatively to two market benchmarks namely Kuala Lumpur Composite Index (KLCI) and Bursa Malaysia EMAS Shariah Index (FBMS). The period of comparison is divided into three; between 2001 to 2006 which is before Global Financial Crisis, during the period of crisis from 2007-2008 and post crisis of 2009 to 2010. They have suggested findings that generally, all types of asset portfolios performed throughout 2001 until 2010. However, during Global Financial Crisis, Money Market Islamic mutual funds show better performance as compared to other types of asset portfolios. In addition, all types of Islamic mutual funds outperform in relative to market benchmarks and the outperformance is continued until 2010. The underperformance results were only shown through Debt and Money Market Islamic Mutual funds from 2001 to 2006.

### Seth & Das, (2015)

They explored the performance of the existing two actively managed Shariah-compliant equity funds, namely, Tata Ethical Fund and Taurus Ethical Fund, from the perspective of risk-return parameters. Another objective was to analyze the performance of the Shariah index CNX 500 Shariah in relation to these two funds. The period of study from March, 2010 to March, 2015. Measures like Annual return, Compound Annual Growth Rate (CAGR), Risk-adjusted CAGR, Jensen alpha, R-squared (R<sup>2</sup>), and beta were used. The funds have exhibited superior risk-adjusted return. Further, funds were defensive in nature in most of the times, and are adequately diversified. Again, fund managers have superior stock selection skills. Returns from “Systematic Investment Plan” (SIP) are very much satisfactory. Moreover, the performance of Shariah index was inferior to that of the Tata Ethical Fund in respect of all parameters. Shariah-compliant funds have great potential to garner more investment from Shariah-conscious Indian investors.

### Agarwal & Mirza, (2017)

They studied the risk-adjusted performance of mutual funds industry in India over the period of 1st, January 2013 to 30th, June 2016. Different 100 categorical mutual fund schemes were considered as a sample of the study, Measures for Performance Evaluation such as Absolute Returns, Daily returns, Average daily returns Annualized average returns, Standard deviation, Sharpe Ratio Treynor Ratio, Jensen’s Alpha, Value at Risk, Expense Ratio were employed to evaluate the risk-adjusted performance of mutual fund schemes. The result reflected that 90 percent of the schemes have performed better than their benchmarks according to sharpe ratio and treynor ratio. The returns of 79 schemes compensated adequately over the average market return given the beta of the scheme as per the Jensen’s Alpha. The Value at risk for equity based mutual funds were higher than that of debt fund.

### Tripathi, S. (2020)

Attempted to research how citizens view awareness, particularly with regard to mutual funds. The population of the study is drawn from the Gujarat state’s Ahmedabad city. The study’s sample size is 100, and the researcher employed a practical sampling technique. The study’s findings show that although consumers are aware of mutual funds, they still do not invest in them. This study is anticipated to assist India in developing effective plans for boosting investment in mutual funds and for raising public knowledge of mutual funds.

## RESEARCH METHODOLOGY

### 3.1 Data Collection

Secondary source of data is utilised for this research study. Secondary data has been collected from factsheet of Tata ethical fund and official website of Tata Mutual fund and value research.

### 3.2 Objectives of the study

- To overview Tata ethical fund.
- To analyse risk of Tata ethical fund.
- To analyse return of Tata ethical fund with benchmark Index.
- To analyse risk adjusted measures.

## DATA ANALYSIS AND INTERPRETATION

### 4.1 Top 10 Holdings Equity Sector Allocation

Table No. 4.1. Top 10 Holdings Equity Sector Allocation	
Issuer Name	% to NAV
Tata Consultancy Services Ltd.	7.46
Infosys Ltd.	6.26
Hindustan Uniliver ltd.	4.96
HCL Technologies Ltd.	4.08
Siemens India Ltd	3.10
Ambuja Cements Ltd.	2.73
Carborundum Universal ltd	2.66
Cummins India Ltd.	2.63
Tech Mahindra Ltd	2.51
P.I. Industries Ltd.	2.26
Total	38.65

The provided data represents the top 10 holdings within an equity portfolio, along with their respective percentage allocations as a proportion of the Net Asset Value (NAV). From this we can say that this equity

portfolio is heavily weighted towards the technology sector, with significant investments in TCS and Infosys. However, it also shows diversification into consumer goods, industrial engineering, construction, and other sectors. The selection of stocks suggests a growth-oriented approach, with a focus on established players in their respective industries. The total allocation adds up to 38.65% of the portfolio's Net Asset Value.

#### 4.2 Return of Tata Ethical fund

**Table No. 4.2. Return of Tata Ethical fund**

Return Over Time (%)										
Fund name	YTD	1D	1M	3M	6M	1Y	3Y	5Y	7Y	10Y
Tata Ethical Dir	18.94	-0.53	3.94	6.86	19.88	18.56	24.06	16.68	14.34	16.70
S&P BSE 500 TRI	14.72	-0.32	5.07	9.12	22.78	16.31	24.05	14.34	14.45	16.07

As on 18-Sep-2023

The table provides the return data for the Tata Ethical Fund and the S&P BSE 500 Total Return Index (TRI) over various time periods. Let's analyze the performance of the Tata Ethical Fund compared to the benchmark S&P BSE 500 TRI:

The Tata Ethical Fund has outperformed the benchmark index on a YTD basis, generating a return of 18.94% compared to the benchmark's 14.72%. Over the past month, the Tata Ethical Fund has underperformed the benchmark, with a return of 3.94% compared to the benchmark's 5.07%. The Tata Ethical Fund has lagged behind the benchmark over the last three months, returning 6.86% compared to the benchmark's 9.12%. Over the past six months, the Tata Ethical Fund has slightly underperformed the benchmark, with a return of 19.88% compared to the benchmark's 22.78%. The Tata Ethical Fund has outperformed the benchmark over the past year, generating a return of 18.56% compared to the benchmark's 16.31%. Over a three-year period, the Tata Ethical Fund's performance is on par with the benchmark, returning 24.06% compared to the benchmark's 24.05%. The Tata Ethical Fund has outperformed the benchmark over a five-year period, with a return of 16.68% compared to the benchmark's 14.34%. Over a seven-year period, both the Tata Ethical Fund and the benchmark have delivered the same return of 14.34%. Over a ten-year period, the Tata Ethical Fund has outperformed the benchmark, generating a return of 16.70% compared to the benchmark's 16.07%.

To sum up the Tata Ethical Fund has demonstrated strong performance over various time periods, often outperforming the benchmark index, especially in the short term and over the long term. However, it's important to note that past performance is not indicative of future results, and investment decisions should consider a range of factors, including risk tolerance and investment objectives. Investors should conduct thorough research and consult with financial professionals before making investment decisions.

#### 4.3 Risk and Risk-adjusted performance measures

**Table No. 4.3. Risk and Risk-adjusted performance measures**

Fund Name	Mean Return (%)	Std Dev (%)	Sharpe (%)	Sortino (%)	Beta (%)	Alpha (%)
Tata Ethical Direct	23.71	12.95	1.50	2.40	0.73	6.46
S&P BSE 500 TRI	22.13	14.45	1.23	2.53	--	--

The Risk Measures have been calculated using calendar month returns for the last three years.

As on 31-Aug-2023

The table shows the performance metrics for shariah compliant fund and benchmark index: "Tata Ethical Direct plan" and "S&P BSE 500 TRI."

Mean Return (%) displays the average annual return, expressed as a percentage. For "Tata Ethical Dir," it indicates that, on average, this fund has generated a return of 23.71% annually. "S&P BSE 500 TRI" has generated an average return of 22.13% annually. The higher the mean return, the better the fund has performed in terms of generating returns for investors.

Std Dev (%) represents the standard deviation of the fund's returns, expressed as a percentage. Standard deviation is a measure of how much the returns of the fund have deviated from their average return. For "Tata Ethical Dir," the standard deviation is 12.95%, suggesting that this fund has experienced relatively moderate volatility. "S&P BSE 500 TRI" has a higher standard deviation of 14.45%, indicating higher volatility.

Sharpe Ratio (%) measures the risk-adjusted return of a fund. A higher Sharpe Ratio indicates better risk-adjusted performance. For "Tata Ethical Dir," the Sharpe Ratio is 1.50, indicating that this fund has generated a good return relative to the risk taken. "S&P BSE 500 TRI" has a Sharpe Ratio of 1.23, which is also positive but slightly lower than that of "Tata Ethical Dir."

Sortino Ratio (%): Similar to the Sharpe Ratio, the Sortino Ratio measures risk-adjusted return, but it focuses on the downside risk or the risk of generating negative returns. For "Tata Ethical Dir," the Sortino Ratio is 2.40%, indicating that the fund has been effective in managing downside risk. Unfortunately, the Sortino Ratio for "S&P BSE 500 TRI" is not provided.

Beta (%): Beta measures the sensitivity of a fund's returns to market movements, often represented by an index (in this case, likely the S&P BSE 500 TRI). A beta of less than 1 indicates lower volatility than the market, while a beta greater than 1 suggests higher volatility. For "Tata Ethical Dir," the beta is 0.73, indicating that it's expected to be less volatile than the market. The beta value for "S&P BSE 500 TRI" is missing.

Alpha (%): Alpha measures the fund manager's skill in generating returns above or below what would be expected based on its beta and market conditions. A positive alpha suggests outperformance relative to expectations, while a negative alpha suggests underperformance. "Tata Ethical Dir" has an alpha of 6.46%, indicating that it has generated positive excess returns relative to its risk profile and market conditions. The alpha value for "S&P BSE 500 TRI" is not provided.

In summary, "Tata Ethical Dir" has shown strong performance with a relatively high mean return, low standard deviation, positive Sharpe and Sortino Ratios, and a positive alpha. However, it is also less volatile than the market (beta less than 1). The performance of "S&P BSE 500 TRI" is assessed in terms of mean return and standard deviation.

## CONCLUSION

This research studied the one of the shariah compliant fund available in India namely Tata ethical fund. On the basis of top 10 holdings, it can be said that this equity portfolio appears to be focused on the technology and IT sector, with significant investments in TCS and Infosys. Additionally, the Tata Ethical Fund has demonstrated strong performance over various time periods, often outperforming the benchmark index, especially in the short term and over the long term. However, it's important to note that past performance is not indicative of future results, and investment decisions should consider a range of factors, including risk tolerance and investment objectives. Investors should conduct thorough research and consult with financial professionals before making investment decisions. Based on mean return, low standard deviation, positive Sharpe and Sortino Ratios, and a positive alpha "Tata Ethical Direct" has shown strong performance.

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