

PERFORMANCE OF MIDCAP FUNDS-PRIVATE VS PUBLIC SECTOR BANKS -A COMPARATIVE STUDY

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***Abstract:** PSU banks may have the larger market share in bank deposits but private banks are attracting more urban new generation customers. Younger people have experienced the service and systems in the private sector and are preferring them over PSU banks. While the nationalized banks are being shunned by investors, the new generation private banks have been hitting new highs on the back of new initiatives, which include digital technology. This paper attempts to compare the performance of PSU banks and Private Banks in the Midcap funds Investment sector.*

***Key words:** midcap ,PSU,private banks,public sec banks.*

INTRODUCTION

The 19 nationalized banks in India account for almost half of the total bank deposits in the country as against private banks, which together have an 18.7% share. However, the surge in bad loans among public sector banks (PSBs) and the technology gap they have vis-a-vis their private peers has resulted in these lenders losing investor interest. As a result, the Rs 2.39 crore combined market capitalization of the nationalized banks is less than the Rs 2.64 lakh crore market capitalization of HDFC Bank - the most valuable private lender. A bad situation in the financial sector in India! Its banking sector which is supposed to be the engine for rapid economic growth of the country is itself sick with mounting bad debts on the one hand and with dwindling market capitalization on the other. For over forty years the governments in power and their administrative machinery the finance ministry which had been simply backseat driving and concerning itself more and deeply with petty issues like pay fixation for bank clerks neglected this sector. The result is that the vital public sector banking is in the repair yard and peoples' moneys in the bank are up in the thin air. The saddest part is that those accountable and responsible for this are simply silent and prospering.

MIDCAP FUNDS

Multiple options, Contradictory advice and a deadline that's approaching fast. Many taxpayers find themselves in this situation at the beginning of the year,

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when they have to make tax-saving investments. Most common investments under Section 80C on five basic parameters: returns, safety, flexibility, liquidity and taxability. Every investment has its pros and cons.

Many mid- and small-cap stocks took a hit after the Budget speech, thanks to the volatility in the broader market. But over the weekend, brokerages have identified some stocks that could benefit gradually from the announcements.

IDFC Premier Equity Fund Manager Kenneth Andrade One of the relatively safer mid-cap schemes to invest in, IDFC Premier Equity's key criteria to pick stocks is the company's business model and its embedded growth opportunity that relatively de-risks its portfolio. Investors in top mid-cap mutual fund schemes have raked in big money in the past year as the sharp rally in smaller shares helped this category outperform others. Investments in mid- and small-cap schemes have almost doubled in a year, overshadowing the performance of equity diversified and sectoral funds.

While the mid- and small-cap category clearly outshone the large-cap funds, the debt funds too had a spectacular run in 2014. The year saw a bull run in equities 30% in the sensex return in 2014, making it the highest in the past five years. Mid- and small-cap indices fared better than Sensex. 54.7% S&P BSE Mid-Cap 69.2% S&P BSE Small-Cap 91.3% active diversified equity funds have beaten their benchmarks.

After the rally last year, valuations in mid-caps stocks have narrowed considerably to their large-cap peers. Historically, the average valuation difference has been 18-20%. The price to earnings ratio of CNX Mid-cap index has moved up to 19.7 against 13.4 a year ago, while the Nifty's PE ratio has moved up from 15.6 to 20.4 on trailing earnings basis. There are signals that the economy is on its path to revival. With interest rates down and lower inflation, growth is likely to pick up soon. As access to capital is easier, mid-cap companies will outperform large-cap companies as they have easy access to capital. Investors and market experts worried over the tepid performance of the Nifty and the Sensex need only to look at the broader market where the picture appears to be considerably brighter.

The mid-cap indices on both the BSE and the NSE have been hitting new all-time highs for the past three days while the Nifty smallcap index is at a seven-year high. Historical data suggests that the midcap and the small-cap indices underperformed the benchmark indices in bearish times and outperform in the bull runs.

Total Returns

	Total Return %	+/- S&P 500 TR USD	+/- Russell Mid Cap Growth TR USD	% Rank
Year-to-date	6.38	5.43	1.00	29
1-Month	0.00	1.58	-0.28	82
3-Month	6.38	5.43	1.00	29
6-Month	13.60	7.67	2.07	16
1-Year	18.04	5.31	2.48	3
3-Year (Annualized)	19.27	3.15	1.86	4
5-Year (Annualized)	18.56	4.09	2.12	3
10-Year (Annualized)	11.54	3.53	1.36	7

The investment seeks long-term growth of capital. The fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with medium market capitalizations at the time of each purchase. It invests in equity securities with value and/or growth characteristics and constructs an investment portfolio that has a “blend” of equity securities with these characteristics. Investing in value equity securities is an investment strategy that emphasizes buying equity securities that appear to be undervalued. The fund has returned 18.04 percent over the past year, 19.27 percent over the past three years, 18.56 percent over the past five years, and 11.54 percent over the past decade.

PUBLIC SECTOR BANKS AND PRIVATE SECTOR BANKS PERFORMANCE

The nationalized banks exclude market leader, SBI which has a market cap of Rs 2.43 lakh crore. But even if the market capitalization of the 19 nationalized banks and the SBI were to be added together, it would still be less than the combined market capitalization of HDFC Bank and ICICI Bank as per Friday’s closing prices. Incidentally, SBI is the only public sector lender with a market cap of over Rs 1 lakh crore. The next public sector bank is Bank of Baroda, which is a distant second in the public sector with a market capitalization of Rs 46,985 crore.

While the nationalized banks are being shunned by investors, the new generation private banks have been hitting new highs on the back of new initiatives, which include digital technology. Besides HDFC Bank and ICICI Bank, two other private lenders have crossed the Rs 1 lakh crore mark. Kotak Mahindra Bank, which has been rallying after its recent inorganic initiatives – acquisition of ING Vysya and a deal to pick up stake in MCX – was worth Rs 1.02 lakh crore on Friday.

What the valuations mean is that the markets are discounting the market share of public sector banks in loans, their real estate assets worth thousands of crore

and their customer base which accounts for almost the entire working class population of the country. Analysts say the main

Reason for despondency in PSU bank stocks is their disproportionate share in bad loans.

The following figure shows the present share of Midcaps among Private sector:

<i>Private Sector</i>	<i>M-cap(Rs in cr)</i>
HDFC BANK	2,64,689
ICICI BANK	2,20,099
AXIS BANK	1,41,666
KOTAK MAHINDRA BANK	1,02,643
INDUSHINDU BANK	46,369
SBI & other PSU BANKS	2,43,000

Here is what research firm Emkay Global Financial Services said about Bank of Baroda - a better performing public sector bank. "We expect the weak asset quality to persist. While capitalization is better than peers, weak return ratios coupled with higher Base III requirement will pose a challenge in the medium term unless there is sharp recovery. Also, capital infusion by the government, if below book value, would contain ROE improvement." A fund manager with one of the largest mutual funds said, "PSU banks may have the larger market share in bank deposits but private banks are attracting more urban new generation customers. Younger people have experienced the service and systems in the private sector and prefer them over PSU banks."

CONCLUSION

It is evident from the above discussion that PSU fund Managers are not so interested in attracting the investors because of less effective fund management. While compare with the private sector banks' fund management, PSU banks fund management is less effective. The main reason for this may be contributed to the appointment of Junior Level Fund Managers recruitment from top Business Schools directly by the Private banks. They attract the best brains from top IIMs and IITs. While in case of PSU banks the appointments are through Banking Service Commission Examinations so far. PSU banks in future must try to attract more investors by way of effective fund management.

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