

SELECTION OF INDIAN MUTUAL FUND SCHEMES BASED UPON VALUATION OF A PORTFOLIO WITH RESPECT TO ITS MAJOR STOCK HOLDINGS

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Abstract

The Indian mutual fund industry has undergone a remarkable transformation in the post-pandemic period, with Assets Under Management (AUM) rising from nearly ₹28 lakh crore in January 2020 to around ₹81 lakh crore by November 2025. Despite this extraordinary growth, retail investors continue to face a persistent challenge in selecting mutual fund schemes capable of generating sustainable long-term wealth. Traditional selection approaches based primarily on past returns, star ratings, or prevailing market trends have often proved inadequate, leading many investors to underperform benchmark indices and make emotionally driven investment decisions.

This study emerged from a simple yet significant observation: when an investor invests in a mutual fund, the investment ultimately represents ownership in the underlying portfolio of companies. Therefore, the valuation of that portfolio, reflected through the Price-to-Earnings (PE) ratio of its major stock holdings, should play an important role in fund selection. However, despite its practical relevance, portfolio valuation has remained largely neglected in conventional mutual fund evaluation frameworks. Against this background, the present research seeks to examine whether portfolio valuation can serve as a meaningful and reliable criterion for distinguishing superior mutual fund schemes from inferior ones.

The study adopts a quantitative, ex-post facto, and longitudinal research design covering the period from 2021 to 2025. A purposive sample of twenty actively managed equity mutual fund schemes comprising ten large cap and ten mid cap funds was selected on the basis of the highest Assets Under Management as of 1st December 2020. The analysis moves progressively from basic return evaluation to advanced risk-adjusted performance measures, including the Sharpe Ratio, Treynor Ratio, Jensen's Alpha, and Fama's Net Selectivity Measure. Further, the schemes were categorised annually into low, moderate, and high valuation groups based on the PE ranks of their top ten stock holdings, and the comparative performance of these valuation categories was examined over the five-year period.

The findings present a compelling and nuanced understanding of the relationship between portfolio valuation and mutual fund performance. In the large cap segment, a clear and consistent trend was observed: funds belonging to the low PE category generated the highest annualised returns as well as the strongest risk-adjusted performance across all four performance measures. These funds outperformed both moderate and high PE categories in almost every year of the study. During the difficult market conditions of 2022, low PE large

cap funds remained the only category to produce positive and relatively stable returns of 5.69%, whereas high PE funds recorded a negative return of -0.32%. Over the entire five-year period, low PE large cap funds delivered an average annual return of 18.61%, compared to 15.10% for high PE funds. These findings indicate that valuation discipline, particularly investment in reasonably valued or undervalued companies, contributes significantly to superior performance in the relatively mature and efficient large cap segment.

In the mid cap category, however, the relationship between valuation and performance followed a different pattern. The moderate PE category emerged as the best-performing group, generating the highest average annual return of 28.09% over the study period, compared to 22.94% for low PE funds and 22.67% for high PE funds. Similarly, the Sharpe Ratio for moderate PE mid cap funds stood at 1.60, substantially exceeding both low and high PE categories. This inverted-V relationship suggests that, within the mid cap segment, neither extremely low-valued portfolios nor excessively expensive portfolios produced optimal outcomes. Instead, funds maintaining balanced and moderate valuations avoiding both value traps and overvalued growth stocks offered the most favourable risk-return combination.

One of the most consistent findings across both segments was the persistent underperformance of high PE funds. Schemes maintaining highly expensive portfolios, characterised by elevated PE ratios among their major holdings, consistently generated weaker returns and poorer risk-adjusted performance. Funds such as Axis Mutual Fund's large cap and mid cap schemes, which carried some of the highest portfolio PE ratios within their respective categories, repeatedly ranked among the weakest performers across Sharpe Ratio, Treynor Ratio, Jensen's Alpha, and Fama's Net Selectivity rankings. This finding challenges the "growth at any price" philosophy and highlights the continuing importance of valuation discipline, even during bullish market conditions.

For retail investors, the study offers a practical and empirically grounded framework for mutual fund selection. The findings do not suggest that valuation alone guarantees superior performance, as managerial skill remains equally important. Rather, the results indicate that portfolio valuation should function as an important screening criterion when selecting mutual fund schemes, particularly when combined with measures of stock-selection ability such as Jensen's Alpha and Fama's Net Selectivity. The study suggests that a value-oriented strategy is more suitable for large cap investing, whereas a balanced and moderate valuation approach appears more effective within the mid cap segment.

The research contributes to the existing body of literature in three important ways. First, it extends the evaluation of Indian mutual funds beyond traditional risk-adjusted performance measures by incorporating portfolio valuation as a distinct and meaningful selection criterion. Second, it provides comparative evidence between large cap and mid cap schemes, demonstrating that the optimal valuation range differs across market capitalisation segments. Third, it offers retail investors a transparent, systematic, and empirically validated framework for mutual fund selection, thereby addressing persistent issues such as information asymmetry, return chasing, and emotionally driven investment behaviour in the Indian mutual fund market.

1. Introduction to Research Topic

The Indian mutual fund industry has witnessed a remarkable transformation over the past decade, evolving from a modest savings channel into a dynamic engine of household wealth creation. From 2014 to 2025, assets under management (AUM) grew from approximately ₹12 lakh crore to over ₹80 lakh crore, driven by rising retail participation, the widespread adoption of Systematic Investment Plans (SIPs), and increasing financial awareness across both metropolitan and smaller cities. The post-COVID period, in particular, marked a structural shift: monthly SIP inflows crossed ₹32,000 crore, and the number of investor folios exceeded 26 crores. Yet, despite this impressive growth, retail investors continue to face a persistent and troubling challenge how to select a mutual fund scheme that will deliver sustainable, long-term wealth rather than ephemeral, short-lived gains.

Traditional fund selection methods have largely relied on historical returns, star ratings, or momentum-based strategies. Investors chase last year's best performer, only to find that today's topper often becomes tomorrow's laggard. Financial advisors and online platforms routinely present past returns as the primary decision criterion, while deeper dimensions of fund quality such as the valuation discipline of the underlying portfolio remain largely overlooked. This is not a trivial oversight. A mutual fund's net asset value (NAV) ultimately reflects the market value of the stocks it holds. Therefore, the price-to-earnings (PE) ratio of those holdings a fundamental measure of whether a portfolio is expensive, reasonable, or cheap ought to influence future performance. Surprisingly, academic research and investor practice have paid limited attention to this valuation dimension in the context of fund selection.

The present study addresses this gap. It asks a straightforward yet powerful question: can the valuation of a mutual fund's major stock holdings, measured by the portfolio PE ratio, serve as a meaningful criterion for distinguishing superior schemes from inferior ones? To answer this, the study evaluates the absolute and risk-adjusted returns of twenty actively managed equity mutual funds ten large cap and ten mid-caps over a five-year period from 2021 to 2025. Using a quantitative, ex-post, longitudinal research design, the analysis applies a comprehensive suite of performance metrics: Sharpe ratio, Treynor ratio, Jensen's alpha, and Fama's net selectivity. Funds are then categorised annually into low, moderate, and high valuation groups based on the PE ranks of their top ten holdings, and the performance of these groups is compared across market cycles.

For investors, the study provides a simple, evidence-based framework for selecting funds one that moves beyond the illusion of past performance and toward valuation discipline and managerial skill. For the industry, it offers a reminder that consistency, transparency, and sensible valuation practices are not merely academic ideals but direct drivers of long-term investor wealth. By integrating portfolio valuation into the fund selection process, this research aspires to contribute to a more informed, confident, and successful community of mutual fund investors in India.

2. Research Problem

The Indian mutual fund industry has witnessed remarkable growth, offering investors a wide array of schemes across asset classes. However, retail investors face persistent and significant challenges that undermine their ability to achieve optimal returns. One of the primary difficulties lies in scheme selection. Despite the availability of quantitative data such as historical returns, volatility, and fund ratings, investors struggle to select the most suitable mutual fund scheme due to the proliferation of funds within the same category with divergent performance trajectories, and because past performance is often misleading. Investors lack a reliable framework to evaluate which fund's risk-adjusted returns are likely to persist. Compounding this is the uncertainty regarding profit booking and loss realisation. Investors face acute difficulty in determining the appropriate timing to book profits or exit a loss-making position, as market cycles are unpredictable and behavioural biases such as loss aversion and recency bias lead to suboptimal decisions such as selling at market bottoms or holding onto underperformers for too long. No standardised guidance exists for when a particular scheme has reached its fair value or when a loss should be accepted as irreversible.

Further ambiguity surrounds switching decisions. Investors are uncertain about when and why to switch from one scheme to another, even across different asset classes such as equity to debt. Switching involves complex trade-offs including exit loads, tax implications, transaction costs, and the risk of missing future recoveries. Funds that have underperformed for a period may subsequently outperform, while consistent past winners may suddenly reverse. The lack of empirical decision rules leads to either excessive churning or inertia. Adding to these difficulties are the recent regulatory changes in the mutual fund industry. Scheme re-categorisation by SEBI has altered fund mandates and the comparability of historical data. The removal of Dividend Distribution Tax (DDT) has shifted the tax burden to investors,

changing post-tax return calculations. The introduction of stamp duty on mutual fund purchases has increased transaction costs, and changes in total expense ratio (TER) regulations affect net returns. Investors have not fully assimilated these changes into their decision-making processes, and there is a lack of updated frameworks that incorporate these regulatory shifts into fund selection, performance comparison, and switching strategies.

The consequence of these difficulties is that retail investors often achieve suboptimal outcomes – lower realised returns, higher tax liabilities, unnecessary transaction costs, and psychological distress – frequently underperforming the very benchmarks that passive alternatives would have delivered at lower cost. While existing literature addresses mutual fund performance evaluation using metrics such as Sharpe ratio, Treynor ratio, Jensen's alpha, and Fama decomposition, few studies provide an integrated, practical decision-making framework that simultaneously addresses selection, timing, switching, and regulatory adaptation, particularly in the Indian context following recent regulatory changes. Therefore, this study seeks to develop and validate a systematic, empirically grounded framework to assist retail investors in making informed choices across these dimensions.

3. Research Gap

The extensive literature on mutual fund performance evaluation from foundational studies by Jensen (1968), Sharpe (1966), and Treynor (1965) to contemporary Indian works by Jaiswal (2025), Sehgal and Jhanwar (2017), and Kumar and Singh (2024) have overwhelmingly concentrated on risk-adjusted return metrics such as the Sharpe ratio, Treynor ratio, Jensen's alpha, and Fama's net selectivity. While these studies have significantly advanced the understanding of fund manager skill and performance persistence, they have largely overlooked the valuation of the underlying portfolio as a direct criterion for fund selection. The price-to-earnings (PE) ratio of a fund's major stock holdings a fundamental measure of whether a portfolio is expensive, reasonable, or cheap has rarely been integrated into performance evaluation frameworks. Moreover, existing research has not systematically compared how the relationship between portfolio valuation and subsequent performance differs across large cap and mid cap segments, nor has it examined the consistency of fund rankings across multiple risk-adjusted measures over full market cycles.

Consequently, a clear gap exists in the Indian context: there is no empirically validated, practical framework that combines portfolio valuation (low, moderate, or high PE) with

traditional risk-adjusted metrics to help retail investors select mutual fund schemes. Furthermore, while performance persistence studies have focused on returns-based predictability, the concept of ranking volatility extreme year-to-year fluctuations in fund performance has received limited attention. The five-year period from 2021 to 2025, which captured post-pandemic rallies, a sharp correction, recovery, consolidation, and volatile conditions, offers an ideal setting to test whether valuation-based selection works consistently across different market phases. The present study directly addresses these gaps by introducing PE-based categorisation of fund portfolios, analysing segment-specific optimal valuation ranges, and ranking funds on consistency across Sharpe, Treynor, Jensen, and Fama measures, thereby providing a comprehensive and actionable framework for mutual fund selection.

4. Objectives of the study

1. To measure the absolute and risk-adjusted returns of selected large cap and mid cap mutual funds over the five-year period 2021–2025.
2. To evaluate fund manager skill through Jensen's Alpha as a measure of excess return generated over and above the expected return predicted by the Capital Asset Pricing Model (CAPM).
3. To evaluate fund manager skill through Fama's Net Selectivity as a measure of stock selection ability after removing the effects of market risk and portfolio diversification.
4. To compare the performance of selected large cap and mid cap mutual funds against their respective benchmarks (Nifty 100 and Nifty Midcap) and to rank the schemes based on risk-adjusted performance measures, including Sharpe ratio, Treynor ratio, Jensen's alpha, and Fama's net selectivity.
5. To study the impact of portfolio valuation (measured by price-to-earnings ratio) on the risk-adjusted returns of selected mutual funds.

5. Scope of the study

The scope of this study is confined to the evaluation of 20 actively managed equity mutual funds in India, comprising 10 large cap funds and 10 mid cap funds, over a five-year period from 2021 to 2025. The study exclusively uses secondary quantitative data, including quarterly

and annualised returns, volatility measures, beta coefficients, and risk-adjusted performance metrics such as the Sharpe ratio, Treynor ratio, Jensen's alpha, and Fama decomposition (net selectivity and diversification component). The performance of each fund is compared against its respective benchmark—the Nifty 100 for large cap funds and the Nifty Midcap for mid cap funds.

6. Research Methodology

6.1 Research Design

The study adopted a quantitative, ex-post, longitudinal research design. This design was selected for three primary reasons. First, the ex-post nature of the design allows the study to evaluate historical, already-realized returns, making it a retrospective analysis suitable for performance evaluation. Second, the longitudinal framework, with a five-year time horizon from 2021 to 2025, captures multiple market cycles including post-pandemic rallies in 2021 and 2023, corrections in 2022, consolidation in 2024, and volatile periods in 2025. Third, the comparative structure of the design enables cross-sectional comparison across funds and against benchmarks. The research approach adopted is descriptive-analytical, with inferential statistical measures applied to describe risk-return characteristics.

6.2 Sources of Data

The study exclusively uses secondary quantitative data. The primary source of data is the Association of Mutual Funds in India (AMFI) website, from which historical quarterly returns, net asset values (NAVs), and benchmark index returns were collected. Additional data on risk-free rates was obtained from publicly available sources such as government treasury bill rates. The data spans the five-year period from 2021 to 2025, covering quarterly and annualised performance metrics for the selected 20 mutual fund schemes.

6.3 Sampling unit

The sampling units for this study are the individual mutual fund schemes selected from the large cap and mid cap categories. Specifically, the sample comprises 20 schemes - 10 large cap funds and 10 mid cap funds - chosen based on the highest Assets Under Management (AUM) as of 1st December 2020.

Large Cap Funds (10):

- ICICI Prudential Large Cap

- SBI Large Cap
- Nippon India Large Cap
- Mirae Asset Large Cap
- HDFC Large Cap
- Axis Large Cap
- Aditya Birla Sun Life Large Cap
- Canara Robeco Large Cap
- UTI Large Cap
- Kotak Large Cap

Mid Cap Funds (10):

- HDFC Mid Cap
- Kotak Midcap
- Nippon India Growth Mid Cap
- Motilal Oswal Midcap
- Axis Midcap
- SBI Midcap
- DSP Midcap
- Mirae Asset Midcap
- Edelweiss Mid Cap
- Sundaram Mid Cap

7. Data Analysis method/tools

The analytical framework of this study consists of a structured, multi-step process designed to evaluate the performance of selected large cap and mid cap mutual funds. The framework progresses from basic return computation to advanced risk-adjusted performance metrics, and finally to valuation-based performance categorisation. Each step is detailed below.

7.1 Quarterly and Annualised Returns

The study commenced with the collection of quarterly return data for each of the 20 mutual fund schemes (10 large cap and 10 mid cap) and their respective benchmarks (Nifty 100 and Nifty Midcap) for the period 2021 to 2025. Quarterly returns were directly obtained from fund fact sheets and AMFI sources. Annualised returns were then computed using the geometric mean method to accurately reflect compounded growth over the year. This method involves multiplying the quarterly returns as decimal factors, subtracting one, and expressing the result as a percentage, thereby providing a true picture of annual performance.

7.2 Volatility (Standard Deviation)

Volatility, representing the total risk of a fund, was computed as the annualised standard deviation of daily returns. For each scheme, daily net asset value (NAV) returns were first calculated. The daily standard deviation was then multiplied by the square root of 252 (the approximate number of trading days in a year) to obtain the annualised volatility. This measure captures both systematic and unsystematic risk and serves as the denominator in the Sharpe ratio.

7.3 Beta (Systematic Risk)

Beta measures a fund's sensitivity to benchmark movements. It is calculated as the covariance between the fund's returns and the benchmark returns, divided by the variance of the benchmark returns. A beta of one indicates that the fund moves in line with the market; a beta greater than one suggests the fund amplifies market movements (aggressive); and a beta less than one indicates the fund dampens market movements (defensive). Beta is used in the Treynor ratio and in Jensen's alpha.

7.4 Sharpe Ratio

The Sharpe ratio measures excess return per unit of total risk. It is calculated by subtracting the risk-free rate from the portfolio return and then dividing the result by the portfolio's standard deviation. A higher Sharpe ratio indicates better risk-adjusted performance, while a negative ratio suggests that the fund underperformed the risk-free rate. This metric allows comparison across funds with different volatility levels.

7.5 Treynor Ratio

The Treynor ratio evaluates excess return per unit of systematic risk (beta). It is computed by subtracting the risk-free rate from the portfolio return and dividing the result by the portfolio's beta. Unlike the Sharpe ratio, which uses total risk, the Treynor ratio isolates market risk, making it particularly useful for comparing funds within the same category where diversification is assumed to have eliminated unsystematic risk.

7.6 Jensen's Alpha (Jensen's Measure)

Jensen's alpha measures the excess return generated by a fund beyond what the Capital Asset Pricing Model (CAPM) would predict for its level of systematic risk. It is calculated by subtracting from the fund's actual return the expected return derived from adding the risk-free rate to the product of the fund's beta and the market risk premium. A positive alpha indicates that the fund manager added value through stock selection or market timing; a zero alpha means the fund performed exactly as expected for its risk level; and a negative alpha signals underperformance given the systematic risk taken.

7.7 Fama Decomposition (Net Selectivity)

Fama's model decomposes a fund's total return into three components: the risk-free return, the risk premium (systematic return), and net selectivity. Net selectivity measures the value added purely through stock selection, after removing the effects of the risk-free rate, market risk, and diversification. A positive net selectivity indicates that the manager's stock picks added value, while a negative value means that stock selection detracted from performance. The diversification component, which captures the benefit of holding a well-diversified portfolio, is reported separately.

7.8 P/E Ratio-Based Categorisation and Performance Analysis

To examine whether portfolio valuation influences fund performance, the price-to-earnings (PE) ratios of the top ten holdings for each fund were collected for the years 2020 through 2025 (using the prior year's PE as a predictor). For each year, funds were classified into three valuation groups based on their PE ranking within their peer set (large cap or mid cap). Funds with the lowest PE ratios (ranks eight to ten) were categorised as low PE (cheapest); those with mid-range PE ratios (ranks four to seven) as moderate PE; and those with the highest PE ratios

(ranks one to three) as high PE (most expensive). The subsequent performance of these three valuation categories was then compared using the risk-adjusted metrics described above.

8. Major Findings & Achievements

8.1 Objective 1: To measure the absolute and risk-adjusted returns of selected large cap and mid cap mutual funds over the five-year period 2021–2025.

Large Cap Funds: Large cap funds generally moved in line with the Nifty 100 benchmark, though with considerable variation across schemes. Nippon India Large Cap (33.58% and 31.72%) and HDFC Large Cap (30.00%) were the top performers during the bullish years of 2021 and 2023. In the difficult year of 2022, only Nippon India Large Cap (10.31%) and HDFC Large Cap (10.26%) generated double-digit returns. On risk-adjusted measures, ICICI Prudential Large Cap demonstrated the greatest consistency, never falling below the third rank in Sharpe ratio across the five years, while Axis Large Cap occupied the lowest rank in four out of five years.

Mid Cap Funds: Mid cap funds exhibited substantially higher volatility and wider performance dispersion. During strong market phases, they delivered exceptional returns. Motilal Oswal Midcap achieved 59.33% in 2021 and 59.61% in 2024 but suffered severe drawdowns during corrections, with the same fund losing -11.57% in 2025. On Sharpe ratio, Motilal Oswal Midcap ranked first in 2021 (3.29) and 2024 (3.11) but fell to the last position in 2025 (-0.98). HDFC Mid Cap emerged as the most stable mid cap performer across both return and risk-adjusted measures.

8.2 Objective 2: To evaluate fund manager skill through Jensen's Alpha as a measure of excess return generated over and above the expected return predicted by the Capital Asset Pricing Model (CAPM).

Large Cap Funds: Nippon India Large Cap recorded the highest alphas in 2021 (6.89%), 2022 (7.70%) and 2023 (12.97%). ICICI Prudential Large Cap displayed remarkable consistency, maintaining top-three rankings every year and rising to first rank in 2025. Axis Large Cap persistently generated negative alpha, recording -8.58% in 2022. In 2025, when the risk-free rate rose to 5.80%, only three large cap funds managed positive alpha, with ICICI Prudential Large Cap leading at 1.74%.

Mid Cap Funds: Mid cap funds showed far greater variation in alpha. Motilal Oswal Midcap achieved an extraordinary alpha of 40.74% in 2024 but plunged to -17.46% in 2025 the largest

negative alpha observed in the entire study. HDFC Mid Cap was the only mid cap scheme to maintain positive and relatively stable alpha across most years. Overall, the magnitude of alpha was much higher in mid-caps during bullish phases, but negative alpha was also more severe, and only HDFC Mid Cap demonstrated consistency comparable to top large cap funds.

8.3 Objective 3: To evaluate fund manager skill through Fama's Net Selectivity as a measure of stock selection ability after removing the effects of market risk and portfolio diversification.

Large Cap Funds: ICICI Prudential Large Cap maintained a top-three net selectivity rank from 2021 to 2024 and rose to first rank in 2025, confirming a disciplined and repeatable stock-selection process. Nippon India Large Cap secured first rank in 2022 (7.70%) and 2023 (12.97%) but declined to seventh rank in 2025. Axis Large Cap occupied the lowest rank in four out of five years, indicating that its persistent underperformance was driven by poor stock selection rather than market factors alone.

Mid Cap Funds: Mid cap funds exhibited much wider dispersion in net selectivity. Motilal Oswal Midcap recorded 12.64% in 2021 and an exceptional 38.60% in 2024, but fell to -7.47% in 2025. A notable finding emerged in 2023: the same fund delivered a strong absolute return of 42.52% despite negative net selectivity (-3.00%), because the return was driven by diversification benefits (8.71%) rather than genuine stock-picking skill. HDFC Mid Cap and Edelweiss Mid Cap (which showed steady improvement over time) were the most consistent mid cap funds on net selectivity.

8.4 Objective 4: To compare the performance of selected large cap and mid cap mutual funds against their respective benchmarks and to rank the schemes based on risk-adjusted performance measures, including Sharpe ratio, Treynor ratio, Jensen's alpha, and Fama's net selectivity.

Large Cap Funds: Across all four risk-adjusted measures, ICICI Prudential Large Cap was the only large cap fund that never fell below the third rank in any year, establishing it as the most reliable scheme. Kotak Large Cap showed stable mid-level consistency, while Axis Large Cap occupied the bottom rank in most years. Nippon India Large Cap and HDFC Large Cap performed strongly in early years but showed considerable ranking volatility later.

Mid Cap Funds: HDFC Mid Cap emerged as the most consistent mid cap scheme, ranking first or second in multiple years across different market phases. Edelweiss Mid Cap displayed

a gradual and impressive upward trajectory, reaching second and third positions by 2024–2025. In contrast, Motilal Oswal Midcap exhibited extreme ranking volatility first in 2021 and 2024, last in 2025, illustrating the high strategy-related risk in aggressive mid cap investing. Axis Midcap and DSP Midcap remained among the weakest performers throughout.

8.5 Objective 5: To study the impact of portfolio valuation (measured by price-to-earnings ratio) on the risk-adjusted returns of selected mutual funds.

Large Cap Funds: Large cap funds were grouped into low, moderate, and high PE categories. Over the five-year average, low PE funds (average PE 24.68) generated the highest annual return (18.61%), the best Sharpe ratio (1.05), and the highest Jensen's alpha (4.95). High PE funds (average PE 36.24) delivered the lowest returns (15.10%) and weakest risk-adjusted performance. In the difficult year of 2022, low PE funds remained positive (5.69%) while high PE funds turned negative (-0.32%). This confirms that a value-oriented strategy works best for large cap investors.

Mid Cap Funds: The relationship between valuation and performance followed a different pattern. Moderate PE mid cap funds (average PE 36.37) performed best, generating a five-year average return of 28.09% and a Sharpe ratio of 1.60. Low PE mid cap funds (average PE 29.64) returned 22.94%, and high PE funds (average PE 43.85) returned 22.67%. Across both categories, persistently high PE funds delivered the weakest absolute and risk-adjusted returns. The study concludes that for mid cap investors, a balanced, moderate valuation approach is superior, avoiding both deep value traps and excessively priced growth stocks.

9. Major Contribution of the study

The present study contributes to the existing literature on mutual fund performance evaluation by introducing portfolio valuation, measured through the Price-to-Earnings (PE) ratio of major stock holdings, as an important criterion for mutual fund scheme selection in the Indian context. While earlier studies have largely concentrated on traditional performance indicators such as returns, Sharpe Ratio, Treynor Ratio, and Jensen's Alpha, the present research extends the discussion by integrating valuation-based analysis with risk-adjusted performance measures. This provides a more comprehensive framework for evaluating mutual fund performance.

A significant contribution of the study lies in its comparative examination of large cap and mid cap mutual fund schemes. The findings reveal that the relationship between portfolio valuation and performance differs across market capitalisation segments. In the large cap category, lower valuation portfolios consistently generated superior returns and stronger risk-adjusted performance, whereas in the mid cap category, schemes with moderate valuation profiles produced the most favourable results. This segment-specific evidence offers a more nuanced understanding of mutual fund valuation dynamics and highlights that the optimal valuation range is not uniform across fund categories.

The study also contributes methodologically by combining traditional performance evaluation techniques with portfolio valuation classification. By categorising schemes into low, moderate, and high PE groups and analysing their annual performance over a five-year period, the research develops a practical and systematic framework that can be used by investors, researchers, and financial professionals for scheme evaluation and comparison.

Another important contribution of the study is its practical relevance for retail investors. The findings challenge the conventional tendency of investors to rely excessively on past returns and short-term performance rankings. Instead, the study demonstrates the importance of valuation discipline, consistency of managerial skill, and risk-adjusted performance in mutual fund selection. The research therefore provides investors with a more rational and evidence-based approach to long-term investment decision-making.

The study further contributes to the mutual fund industry and policy discussion by highlighting the need for greater transparency in portfolio valuation disclosure and consistency-based performance reporting. The findings may assist Asset Management Companies, financial advisors, and regulators in designing more investor-friendly evaluation and disclosure practices.

Finally, the research contributes to future academic inquiry by opening new avenues for valuation-based mutual fund research in India. The study creates scope for further investigation across different fund categories, alternative valuation measures, and longer market cycles, thereby establishing a foundation for future empirical work in this area.

10. Conclusion

The central theme of this research is that portfolio valuation—measured through the price-to-earnings (PE) ratio of a fund’s major stock holdings—can serve as a practical criterion for distinguishing superior from inferior mutual funds. The study integrates valuation discipline into the fund selection framework to address the persistent difficulties faced by retail investors in scheme selection, profit booking, switching decisions, and adapting to regulatory changes.

A quantitative, ex-post, longitudinal research design was adopted for the five-year period 2021–2025. A purposive sample of twenty actively managed equity mutual funds (ten large cap and ten mid cap) was selected based on the highest Assets Under Management as of 1st December 2020. The analytical framework progressed from basic return computation to advanced risk-adjusted metrics including Sharpe ratio, Treynor ratio, Jensen’s alpha, and Fama’s net selectivity. Funds were annually categorised into low, moderate, and high PE valuation groups, and their performance was compared across the five-year period.

The major findings are as follows. For large cap funds, the low PE category consistently delivered the highest annualised returns and the best risk-adjusted performance across all measures. For mid cap funds, the moderate PE category emerged as the superior performer. Across both categories, persistently high PE funds delivered the weakest absolute and risk-adjusted returns. These findings validate the core proposition: portfolio valuation, when combined with measures of stock-selection skill, meaningfully enhances mutual fund selection. For large cap investors, a value-oriented (low PE) strategy is superior; for mid cap investors, a balanced, moderate valuation strategy offers the most favourable risk-return profile. The study thus provides an empirically grounded, practical framework for scheme selection in the Indian mutual fund industry.

11. Paper Publication

1. Gohil, K. R., & Vasavada, J. K. (2023). *An empirical analysis of the Risk-adjusted performance of Nippon India and Kotak Mahindra Mutual Fund*. *MSW Management: Multidisciplinary, Scientific Work and Management Journal*, 33(2), 836–841.
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