

# A Comparative Analysis of the Financial Performance of Selected Flexi Cap Mutual Funds

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**Abstract:** *The Indian mutual fund industry has seen significant growth, with Flexi Cap funds becoming highly popular due to their unconstrained investment mandates that allow fund managers to dynamically shift allocations across market capitalizations. This research conducts a comprehensive comparative analysis of three leading Flexi Cap schemes—the HDFC Flexi Cap Fund, Kotak Flexi Cap Fund, and Parag Parikh Flexi Cap Fund—against the broad market NIFTY 500 benchmark. Covering a specific three-year study period from January 1, 2023, to December 31, 2025, the research evaluates the financial performance, risk profiles, and managerial efficiency of these funds. The empirical findings reveal that all three actively managed funds successfully outperformed the benchmark's Compound Annual Growth Rate (CAGR). The Parag Parikh Flexi Cap Fund emerged as the absolute leader, generating the highest return while undertaking the lowest total risk. The study concludes with recommendations, suggesting the Parag Parikh fund for its exceptional downside protection and issuing a cautionary stance on the Kotak fund due to its high market correlation.*

**Keywords:** The Indian mutual fund industry has seen significant growth, with Flexi Cap funds becoming highly popular due to their unconstrained investment mandates that allow fund managers to dynamically shift allocations across market capitalizations.

## I. INTRODUCTION

### 1.1 Background of the Study

Mutual Funds have emerged as a pivotal investment vehicle for retail and institutional investors in the Indian financial landscape. Among the various categories defined by SEBI, Flexi Cap funds are open-ended equity schemes that have the flexibility to invest across large-cap, mid-cap, and small-cap stocks without any restricted limit. This dynamic nature allows fund managers to shift their portfolio allocation based on market conditions, thereby balancing risk and optimizing returns.

### 1.2 Need for the Study

The sudden regulatory changes by SEBI in 2020 birthed the new Flexi Cap category to protect investors and retain unconstrained investment strategies. Understanding how different fund management strategies impact investor returns in volatile market conditions is essential. An evaluation is necessary to see if active managers genuinely utilize their flexible mandates or merely hug the benchmark indices.

### 1.3 Objectives of the Study

- To compare the returns generated by HDFC, Kotak, and Parag Parikh Flexi Cap Funds over the selected 3-year period (Jan 2023 – Dec 2025).
- To analyze the risk associated with each fund using statistical tools such as Beta and Standard Deviation.
- To evaluate the performance of these funds against the benchmark index (NIFTY 500) to understand their relative market standing.
- To provide data-driven recommendations to investors regarding the suitability of these funds based on their risk-return profile.



## **II. RESEARCH METHODOLOGY**

### **2.1 Research Design**

For this study, a Descriptive Research Design has been adopted. This design is the most appropriate as the project aims to describe and analyze the past financial performance of specific mutual funds over a fixed period without influencing the variables.

### **2.2 Source of Data**

- Primary Data: Not applicable for this secondary data study.
- Secondary Data: Historical Net Asset Value (NAV) data was sourced from AMFI and Moneycontrol.com. Further data was retrieved from AMC factsheets and NIFTY 500 index data from the NSE website.

### **2.3 Sample Size and Population**

- Population: All Flexi Cap Mutual Fund schemes listed in India.
- Sample Size: A focus on a sample size of 03 (Three) mutual fund schemes.
- Sampling Technique: Purposive Sampling was used to select these funds based on their high Asset Under Management (AUM) and popularity among retail investors.

### **2.4 Tools for Data Collection and Analysis**

- Statistical tools used include Mean (Average Return), Standard Deviation (Risk), and Beta (Volatility).
- Advanced risk-adjusted metrics include the Sharpe Ratio and the Sortino Ratio.
- Microsoft Excel was utilized for data tabulation, formula calculations, and generating charts.

### **2.5 Limitations of the Study**

- The study is restricted to a 3-year timeframe (Jan 2023 to Dec 2025), meaning long-term trends beyond this period are not covered.
- Only three funds were analyzed; thus, the findings may not perfectly represent the entire Flexi Cap category.

## **III. LITERATURE REVIEW & MARKET TRENDS**

### **3.1 Introduction to the Literature**

A literature review serves as a critical evaluation of existing research, helping to establish a theoretical framework and identify gaps in previous studies. Extensive literature has been reviewed to understand the foundational theories and empirical studies surrounding the performance of HDFC, Kotak, and Parag Parikh mutual funds.

### **3.2 The Pre-Flexi Cap Era and Regulatory Evolution**

Understanding the modern Flexi Cap category requires examining the legacy "Multi-Cap" funds. Kumar and Mishra (2019) evaluated the operational dynamics of these funds before SEBI's regulatory interventions, seeking to ascertain whether fund managers genuinely utilized their flexible mandates to explore mid and small-cap opportunities or merely hugged large-cap indices to minimize volatility. Their empirical analysis of 25 prominent multi-cap funds over a five-year cycle revealed a massive structural bias, with over 75% of assets deployed exclusively in large-cap stocks, effectively rendering them disguised large-cap funds.

Addressing the subsequent regulatory shift, Desai and Patel (2021) provided a critical analysis of the structural market impact of SEBI's November 2020 circular, which mandated that existing Multi-Cap funds must deploy 25% of their capital into small-cap stocks. Their event-study analysis concluded that the rapid creation of the alternative Flexi Cap category successfully averted a severe liquidity crisis and an artificial asset bubble in the fundamentally narrow Indian small-cap market.



### **3.3 Market Volatility, Downside Risk, and Diversification**

The downside protection capabilities of Indian equity mutual funds were severely tested during the early 2020 global pandemic crash, a subject investigated by Agrawal and Singh (2020). Utilizing high-frequency daily NAV tracking across 40 diversified equity funds, their findings indicated that the vast majority of active managers failed to meaningfully cushion the blow compared to passive benchmark indices. However, funds adhering strictly to a "Value" investing philosophy suffered steeper initial drawdowns but exhibited far more robust recoveries in the subsequent quarters.

To combat such localized volatility, Joshi and Nair (2023) evaluated the structural benefits of incorporating overseas equities into domestic Indian mutual fund portfolios. Their empirical evidence strongly concluded that exposure to developed market equities, particularly US technology mega-caps, significantly lowered the overall portfolio Beta and provided a crucial hedge against localized Indian market corrections. This finding is fundamentally vital for analyzing the unique architecture of funds like the Parag Parikh Flexi Cap Fund.

### **3.4 Investment Styles and AUM Size Constraints**

As the market recovered post-pandemic, Sharma and Gupta (2021) contrasted the performance trajectories of "Growth" versus "Value" investing philosophies. Their findings revealed a distinct bifurcation: Growth-oriented funds significantly outperformed in the early, liquidity-driven phase of the recovery, while Value-oriented funds demonstrated superior risk-adjusted returns in later stages as inflation concerns emerged.

Furthermore, Bansal and Kumar (2023) investigated the "size constraint" theory, seeking to determine whether massive Assets Under Management (AUM) mechanically restrict a fund manager's ability to generate Jensen's Alpha. Through cross-sectional regression analysis of 30 large equity funds, they confirmed that immense size acts as a structural anchor. Large funds face severe liquidity constraints that force them to adopt portfolio weights closely mimicking broad market indices, thereby eroding their active management premium—a highly relevant insight for multi-lakh-crore scale funds like HDFC and Kotak.

### **3.5 Performance Benchmarking and Cost Implications**

Early quantitative assessments of the Flexi Cap category by Venkatraman (2022) indicated a promising start, with funds incorporating global equity exposure demonstrating superior early outperformance and lower systematic risk. However, Chawla and Mehta (2024) provided a highly contemporary benchmark evaluation against the passive NIFTY 500 index, revealing a polarizing reality: only roughly 40% of active Flexi Cap managers consistently beat the broad market index on a risk-adjusted basis. This heavily questioned the overarching value proposition of active management in an efficient market.

Adding to the evaluation of active management, Reddy and Iyer (2022) argued that consistency of rolling returns is a statistically significant predictor of future capital protection and wealth generation, far superior to point-to-point CAGR. Similarly, Kapoor and Sen (2024) shifted the focus to the net realization of wealth for retail investors, mathematically demonstrating that marginal differences in the Total Expense Ratio (TER) between "Direct" and "Regular" plans can drastically erode up to 15% to 20% of total compounded wealth over a decade.

### **3.6 Managerial Behavior in Bull Markets**

Providing the most recent analysis, Trivedi (2025) assessed the efficacy of sectoral rotation strategies utilized by Flexi Cap managers during the peak market valuations observed in late 2024 and early 2025. The findings indicated that even elite managers struggled consistently to time sectoral shifts effectively at peak valuations, often resorting to a broad defensive retreat by heavily increasing cash holdings and large-cap allocations to artificially suppress portfolio Beta.



### **3.7 Research Gap**

While numerous studies have been conducted on the Indian Mutual Fund industry, most existing literature focuses on the period prior to 2022 or analyzes broad categories rather than specific comparisons of top-tier Flexi Cap funds. Furthermore, there is limited research covering the specific post-pandemic recovery and stabilization period of 2023-2025. This research aims to fill this gap by conducting a focused, comparative analysis of the three largest and most distinct Flexi Cap competitors—HDFC (Value/Blended), Kotak (Growth), and Parag Parikh (Value/International)—to provide updated, highly relevant insights for current investors.

## **IV. DATA ANALYSIS & INTERPRETATION**

### **4.1 Returns Analysis (CAGR)**

The broader Indian equity market, represented by the NIFTY 500 index, delivered a robust CAGR of 15.61%. All three selected Flexi Cap funds successfully outperformed the benchmark. The Parag Parikh Flexi Cap Fund emerged as the absolute leader in return generation, delivering an exceptional CAGR of 21.62%. The HDFC Flexi Cap Fund followed closely with a CAGR of 21.15%. Conversely, the Kotak Flexi Cap Fund generated a CAGR of 17.35%, significantly lagging behind its direct peers.

### **4.2 Risk Analysis (Standard Deviation and Beta)**

While the NIFTY 500 exhibited an annualized volatility of 12.83%, Parag Parikh recorded the lowest standard deviation at just 9.44%. HDFC displayed strong downside protection with a standard deviation of 10.60%. Kotak recorded a volatility of 12.85%, which is almost identical to the NIFTY 500. In terms of market sensitivity, Parag Parikh displays an extremely defensive posture with a Beta of 0.6297, while Kotak operates essentially as a market proxy with a Beta of 0.9773.

### **4.3 Advanced Risk-Adjusted Performance**

The Parag Parikh Flexi Cap Fund completely dominated with an exceptional Sharpe Ratio of 1.5548 against the benchmark's 0.6751. HDFC displayed a highly commendable Sharpe Ratio of 1.3403. For Downside Deviation, Parag Parikh achieved a monumental Sortino Ratio of 2.6245, proving extraordinary skill in capturing upside rallies while heavily restricting downside portfolio crashes. Kotak recorded a Sharpe Ratio of 0.8092, indicating that investors were not adequately compensated for the high volatility they endured.

### **4.4 Correlation and Hypothesis Testing**

A Pearson Correlation analysis demonstrated that Kotak is effectively an "index hugger" with a correlation of 0.9755 to the benchmark. Parag Parikh has the lowest correlation at 0.8560, offering genuine diversification. Paired T-Tests verified that HDFC's outperformance was statistically significant (P-value = 0.0315), confirming genuine managerial skill. Kotak's minor outperformance yielded a P-value of 0.2936, meaning it is statistically indistinguishable from zero.

## **V. CONCLUSION**

This comparative analysis conclusively demonstrates that while the Flexi Cap category as a whole is lucrative, the individual performance, risk profiles, and managerial efficiencies within the category exhibit extreme divergence. The study unequivocally concludes that the Parag Parikh Flexi Cap Fund and the HDFC Flexi Cap Fund represent the gold standard of active fund management during the 2023–2025 market cycle. Both funds delivered spectacular risk-adjusted returns, proving that their fund managers possess genuine skill in downside protection.

Conversely, the study concludes that massive Asset Under Management (AUM) size without a highly differentiated strategy can lead to "index hugging," as observed with the Kotak Flexi Cap Fund. It failed to justify the active management premium when compared to the superior risk-adjusted performance of its immediate peers.



## **VI. SUGGESTIONS AND FUTURE SCOPE**

### **6.1 Suggestions**

- **Core Portfolio:** The Parag Parikh Flexi Cap Fund is highly recommended as a core portfolio holding for conservative to moderate-risk investors. Its low Beta provides a phenomenal structural hedge, making it ideal for long-term Systematic Investment Plans.
- **Value Investing:** The HDFC Flexi Cap Fund is recommended for investors with a moderate to moderately-high risk appetite. Investors should commit to a strict minimum holding period of 5 to 7 years to allow the fund manager's value-unlocking thesis to fully materialize.
- **Cautionary Stance:** Investors holding the Kotak Flexi Cap Fund are strongly advised to evaluate its Total Expense Ratio and consider transitioning capital into a low-cost, passive NIFTY 500 Index Fund to improve net wealth realization.
- **General Strategy:** Retail investors should strictly utilize digital platforms to invest in "Direct" growth plans to avoid wealth erosion caused by distribution expenses. Investors must also evaluate the Sharpe Ratio and Sortino Ratio rather than making the psychological error of chasing 1-year absolute returns.

### **6.2 Scope for Future Research**

- A longitudinal study covering an extended 10-year horizon is needed to properly evaluate long-term managerial consistency across a complete economic cycle.
- Further research should involve sophisticated factor analysis to isolate pure managerial skill from heavy macroeconomic stimulus.
- A cross-sectional study focused on the "size constraint" theory utilizing a control group of micro-cap funds is required for comprehensive comparison.

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