I J C R M
International Journal of Contemporary Research In Multidisciplinary

Research Article

Decoding Mutual Fund Growth: The Crisil Rating Effect and Emerging Investor Pattern

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DOI: https://doi.org/10.5281/zenodo.18413916

Abstract

Objectives of the Study: This study aims to comparatively analyse midcap and flexicap mutual funds in India by examining (i) the shift in investor preference between the two categories, (ii) the relationship between fund returns and selected risk-adjusted performance measures, and (iii) the influence of CRISIL ratings on the growth of Assets Under Management (AUM).

Methodology: The study is based on secondary data obtained from the Association of Mutual Funds in India (AMFI) and CRISIL. A sample of 12 midcap and 25 flexicap mutual funds was selected. Risk-adjusted performance indicators—including standard deviation, beta, Sharpe ratio, Treynor ratio, and Jensen's Alpha—were computed using five-year return data. Pearson's correlation analysis was applied to examine relationships between returns and risk measures, while simple linear regression was used to assess the impact of CRISIL ratings on AUM growth. Data analysis was conducted using Jamovi software.

Research Findings and Interpretation: The results indicate a clear shift in investor preference towards flexicap mutual funds, reflected in higher SIP inflows. Risk-adjusted measures show a strong positive association with fund returns, whereas volatility indicators exhibit weak or insignificant relationships. Regression results reveal that CRISIL ratings have a significant positive impact on AUM growth. **Conclusion:** Flexicap mutual funds have emerged as a preferred investment option due to flexibility and superior risk-adjusted performance, while CRISIL ratings play a decisive role in influencing investor behaviour and fund growth.

Manuscript Information

- **ISSN No:** 2583-7397
- **Received:** 13-11-2025
- **Accepted:** 22-12-2025
- **Published:** 29-01-2026
- **IJCRM:**5(1); 2026: 339-344

- **Plagiarism Checked:** Yes
- **Peer Review Process:** Yes

How to Cite this Article

Paul R. Decoding Mutual Fund Growth: The Crisil Rating Effect and Emerging Investor Pattern. Int J Contemp Res Multidiscip. 2026;5(1):339-344.

Access this Article Online

www.multiarticlesjournal.com

KEYWORDS: Mutual Funds, midcap, flexicap, CRISIL, Investment.

1. INTRODUCTION

In the present world, we must create wealth by looking into alternative investment options rather than just keeping our money in various bank time deposits. There are many other ways to invest, including bonds, the share market, ETFs, mutual funds, index funds, and cryptocurrencies. Although bonds provide fixed yields, they are the only low-risk choice available. Since mutual funds are run by reputable firms and highly qualified fund managers, their risk is relatively smaller than that of other investment options. Mutual funds are essentially classified into two basic categories: open-ended funds, which offer indefinite deposits as well as withdrawals, and closed-end mutual funds, which come with a maturity date. According to AMFI data, open-ended funds fall into several subcategories, including schemes that are income-oriented (liquid, overnight, etc.), focused on growth and equity (largecap, midcap, smallcap, etc.), hybrid (balanced, multi-asset, dynamic asset allocation, etc.), solution-oriented (retirement, children's fund, etc.), and other (index funds, ETF, etc.). There are fewer alternatives available in closed-ended funds, such as growth/equity-oriented schemes (ELSS and other equity schemes, etc.) and income/debt-oriented schemes (fixed-term plans, capital protection funds, etc.). The founding of United Trust of India in 1963 marked the beginning of the Indian mutual fund industry. Except for bonds and mutual funds, all other investing options carry a significant level of risk. The compound annual growth rate (CAGR) for the mutual fund industry was 16.4% before 2020. The industry's assets under management (AUM) surpassed Rs 10 trillion in 2014 and Rs 20 trillion in 2017. But since 2020, the mutual fund industry has grown significantly, with a CAGR of around 33.63 per cent. The mutual fund industry's AUM in India has increased from 114 lakh crore in FY 2020–21 to 195 lakh crore in FY 2023–24, according to the statistics. In the years between FY 2020–21 and FY 2023–24, the AUM grew by almost 70%. Between 2024 and 2025, SIP contributions rose 31% annually, while the AUM of the Indian mutual fund sector climbed 23% from Rs. 53.4 trillion in the previous fiscal year to Rs. 69.5 trillion in FY 2025. Over the past five years, starting in March 2020, an average of 24.03 lakh folios have been added per month (AMFI). Each of the many kinds of mutual funds has its own special characteristics. These include tax-saving, multicap, flexicap, multi-asset, smallcap, midcap, and largecap funds, as well as numerous sector or theme funds. The majority of investors favor largecap, mid-cap, and small-cap mutual funds, but because of market volatility, multicap, multi-asset, and flex-cap mutual funds have become more popular. Being an open-ended equity fund, flexicap funds give the fund manager the ability to invest in any market category, including small-cap, mid-cap, and large-cap companies. Nonetheless, according to SEBI regulations, these funds must devote at least 25% of their total assets to each type of stock, with the remaining portion being left up to the fund manager's discretion. Additionally, SEBI claims that midcap funds concentrate on midcap businesses' shares and equity-related securities. Companies classified as midcap are those with market capitalisations between 101 and 250. The mutual fund is positively impacted by a credit rating agency. These days, people are well aware of the ratings that various rating organisations provide to mutual funds. Numerous rating agencies, including CRISIL, ICRA, CRAs, Morning Star, and others, operate in this field in India. Only the CRISIL rating for mutual funds is used in this report. The CRISIL rating for mutual funds depends on several factors, including the quality of assets, portfolio concentration analysis, mean return and volatility, industry risk score, superior return score, and liquidity analysis.

2. REVIEW OF LITERATURE ON MUTUAL FUNDS

Investing in the stock market is not suitable for everyone; it needs extensive study and patience to get returns, since it entails significant risk. Mutual funds serve as an alternate means to accrue income from the stock market; they entail lower risk relative to direct stock investments, resulting in diminished returns compared to the stock market. There is very little research that has been done on mutual funds.

Numerous studies have been conducted to assess mutual fund performance in various categories. Sharpe (1966) discovered that straightforward metrics like average return and risk may be utilised to assess the effectiveness of a mutual fund. Additionally, Jensen (1967) created a risk-adjusted metric that aids in estimating the contribution of a manager's predictive skills to the effectiveness of a mutual fund. The efficiency of several mutual funds offered by HDFC Asset Management Company was shown in research conducted by Dhandyayuthapan and Pratheep (2018). Jensen's Alpha, the Treynor ratio, the Sharpe ratio, and other pertinent metrics were measured to assess this performance. Kumar (2021) looks at the correlation between the dimensions of assets under management and mutual fund performance. These two factors do not appear to be correlated, according to the data. The goal of Anand (2023) is to provide investors with a thorough grasp of mutual fund potential. According to the survey, which relies on original data, the majority of interviewees knew very little or nothing about mutual funds. Using information from 144 mutual funds between April 2014 and March 2018, Singh (2018) investigated money flow and fund performance. The findings indicate a favourable correlation between fund performance and fund flow. Making use of daily earnings from mutual fund returns with quarterly assessment, Bollen and Busse (2004), an attempt to determine the variables of market timing and popular stock selection models. According to the results, greater performance is a transient phenomenon that only becomes apparent when funds undergo several annual assessments. Murray (2019) looks into how Morningstar ratings might be utilised to predict mutual fund performance. According to statistics, mutual funds with higher ratings perform noticeably better than those with lower ratings. Overall, the research shows that mutual funds are an important investing vehicle, but a combination of behavioural and logical characteristics, management effectiveness, and legal frameworks affects their performance and allure. Since there hasn't been any study done on flexicap mutual funds, this

research report will assist investors in understanding the significance of making these investments.

3. OBJECTIVES OF THE RESEARCH

Our current research is the comparative analysis of midcap and flexicap mutual funds. So, I have a few objectives, which I tried to present in this research:

1. To examine how investors' preferences are shifting from midcap funds to flexicap funds.
2. To present the correlation between different factors (such as S.D., beta, Sharpe Ratio, Treynor Ratio, & Jensen's Alpha) and returns generated by the funds.
3. To examine how the growth of Asset Under Management (AUM) depends on the rating given by the CRISIL rating agency.

HYPOTHESIS

H0: Rating of CRISIL doesn't have any significant influence on the growth of AUM.

4. RESEARCH METHODOLOGY

Secondary data gathered from the Association of Mutual Funds in India's official website served as the foundation for the study. To demonstrate the relationship between the boost in mutual funds' assets under management (AUM) and CRISIL's rating, we additionally collected information on mutual fund rankings from the organisation's official website. AMFI provided the information on midcap and flexicap mutual funds. The market capitalisation and ranking that CRISIL provides are used to choose mutual funds. The market capitalisation was 2500 crore, and the lowest CRISIL rank taken into consideration here is 2. 12 midcap and 25 flexicap mutual funds have been used for testing the hypothesis. The author calculated the mutual fund return and several metrics, including the Treynor ratio, standard deviation, beta, Sharpe ratio, and Jensen's alpha. To demonstrate that the increase of AUM is dependent on the CRISIL rating rather than the return produced by the mutual fund firms, basic linear regression has been applied. To illustrate the link between several variables, this paper has also employed Pearson's correlation coefficient. The data have been analysed by the software Jamovi, version 2.6.26.

Growth Of the Mutual Fund Industry in India

After COVID-19, the mutual fund industry has witnessed rapid growth at a CAGR of 33 per cent. But the number of people investing in mutual funds in India is still very low, which is around 8 per cent of the total population. In the last 2 years, 100 per cent of investment has gone into open-ended schemes, specifically into the growth-oriented schemes, hybrid schemes, and other schemes. The table below shows the growth of the mutual fund industry in India over the last two financial years. The data presented here shows that funds in the debt schemes witnessed a tremendous annual growth of 699 per cent, from -23097 crore to 138379 crore. Equity-oriented schemes or growth schemes have experienced an annual growth of 126.6 per cent, followed by other schemes, like index funds, ETFs, where growth was 131 per cent, and solution-oriented schemes, where annual growth was 44 per cent. The only area where growth was negative is hybrid schemes, -17.9 per cent. But in the case of closed-ended schemes, there has been an outflow of funds. In the last financial year, there was a reduction in the outflow of funds. In the debt schemes, the outflow of funds reduced from -11002 crore to -2142 crore, a yearly growth of 80.5 per cent. Growth schemes experienced a growth of 86.2 per cent.

Table. 1: Growth of Open and Closed-Ended Schemes during FY 2023-24 and 2024-25.

Fund Category	Scheme Name	2023–24 (crores)	2024–25 (crores)	Annual Growth Rate
Open Ended	Debt Schemes	-23097	138379	699.1
Open Ended	Growth Schemes	184089	417052	126.6
Open Ended	Hybrid Schemes	144952	119031	-17.9
Open Ended	Solution-Oriented Schemes	2282	3292	44.3
Open Ended	Other Schemes	60686	140319	131.2
Closed Ended	Debt Schemes	-11002	-2142	80.5
Closed Ended	Growth Schemes	-2727	-376	86.2

Source: AMFI report

5. PRELIMINARY RESULT AND DISCUSSION

Comparison between Two Categories of Funds

Table 2 discusses how midcap and flexi cap mutual funds have gained importance among investors in recent years. The table below illustrates the growth of the monthly SIP of mid and flexicap funds over the last three years. The average monthly SIP in midcap funds has risen from Rs 1683 crore in FY 2022-23 to Rs 3450 crore in FY 2024-25, followed by flexicap funds, where the monthly average SIP growth increased from Rs 1413 crore to Rs 4131 crore.

Table 2: Monthly Average of SIP and Growth of SIP among midcap & flexicap Funds in the previous 3 years

Name / Year	FY 2022–23	FY 2023–24	FY 2024–25	Growth
Flexicap Fund (Avg.)	1413	1292	4131	192.36
Midcap Fund (Avg.)	1683	1852	3450	104.99

Source: AMFI Report

In terms of growth, the highest increase in the average monthly SIP over the last three years has been observed in the flexicap fund, with a growth rate of 192.36 per cent, followed by the midcap fund at 105 per cent. The data clearly shows that investors' preferences have shifted from midcap funds to flexicap funds. Notably, the average monthly SIP of flexicap funds has surged by almost 220 per cent in the last financial year. The primary reason for this growth is that investors are

recognising that during times of market volatility, flexicap funds offer the flexibility to mitigate risk by reallocating capital toward lower-risk companies or specifically, blue-chip companies. In the last financial year, starting from September 2024, Foreign Institutional Investors withdrew their investments from the Indian stock market, causing the market to decline. Table 2 is represented graphically in the above image. Both midcap and flexicap funds have grown at substantially faster rates than midcap funds, as seen in Figure 1. Since flexible mutual funds provide investors with flexibility, their growth has increased significantly, from 1292 crore in FY 2023-24 to 4131 crore in FY 2024-25.

Measurement of Risk Associated with Mutual Funds

Certain mutual fund classes are riskier than others; therefore, standard deviation, beta, Treynor ratio, Sharpe ratio, and Jensen's Alpha are used to quantify the risk. The standard deviation calculates how much the mutual fund's performance deviates from the average annualised return. When comparing a mutual fund to its benchmark index, beta quantifies how volatile it is. A fund's return per unit of risk assumed is measured by the Sharpe ratio. Any mutual fund that has a A Sharpe ratio higher than the benchmark index is producing a higher return for each unit of risk assumed. However, the The Treynor Ratio compares the systematic risk of a mutual fund to the returns it provides above the risk-free rate. More returns in relation to market risk are indicated by a larger Treynor ratio, and vice versa. Jensen's alpha calculates the performance of a mutual fund in relation to its risk-based expectations. When a fund's alpha value exceeds that of the benchmark, it indicates that, considering its risk, it has produced a stronger return than anticipated. In this study, the flexicap and midcap Mutual funds' values for each of these parameters have been computed for the last three years. To demonstrate how the return of the mutual fund is connected with each of these factors, the 5-year returns of 15 midcap funds and 22 flexicap funds have been taken into consideration. Table 3 attempts to illustrate the relationship between several factors and the most recent 5-year return of the midcap funds of various corporations. In this case, JA stands for Jensen's Alpha, SR for Sharpe Ratio, TR for Treynor Ratio, and 5YRT for 5-year return. Three variables—the Treynor ratio, Jensen's Alpha, and the Sharpe ratio—have a positive association with the 5-year return, according to the above table. However, the only variable that exhibits a negative or nearly nonexistent association with the five-year returns is beta. The five-year return and SD have a correlation value of 0.473, which indicates that there is a positive relationship between the two variables, but no significant influence.

Table 3: Correlation Coefficient among Different Variables in Midcap Mutual Funds

V	5YRT	SD	BETA	SR	TR	JR
5YRT	1	-	-	-	-	-
SD	0.473	1	-	-	-	-
BETA	-0.065	0.675**	1	-	-	-
SR	0.594*	0.637*	0.275	1	-	-
TR	0.674**	0.671**	0.151	0.966***	1	-
JA	0.575*	0.422	0.135	0.699**	0.721**	1

Note: * $p < .05$, ** $p < .01$, *** $p < .001$.

For the flexicap mutual funds, Table 4 displays the similar association between the same factors. For each of the seven variables, data has been computed for 22 mutual funds. Compared to Table 3, Table 4 provides us with a different outcome. All of the factors linked to risk-adjusted returns, such as Treynor, Jensen's value, and Sharpe, exhibit a positive association with the last five years' returns. The association between the previous five years' returns and the volatility measuring variables, beta and SD, is either very low or nonexistent, in contrast to midcap funds.

Table 4: Correlation Coefficient among Different Variables in Flexicap Mutual Funds:

V	5YRT	SD	BETA	SR	TR	JA
5YRT	1	–	–	–	–	–
SD	0.221	1	–	–	–	–
BETA	0.124	0.917***	1	–	–	–
SR	0.623**	0.116	0.156	1	–	–
TR	0.635**	0.124	0.064	0.986***	1	–
JA	0.666***	0.123	0.004	0.897***	0.923***	1

Note: * $p < .05$, ** $p < .01$, *** $p < .001$.

Growth of AUM and CRISIL rating

The influence of the rating agency on the mutual fund's AUM growth is shown in this section. A mutual fund's creditworthiness and degree of credit risk are the basis for CRISIL's rating. Both lowering and raising the mutual fund's A credit rating have an impact on its overall success and expansion. CRAs, ICRA, CARE, Morning Star, and CRISIL are among the several credit rating agencies operating in the Indian capital market. Only the CRISIL rating is used in this study. Any mutual fund can receive a rating of five stars or as low as one star from CRISIL. I've chosen a mutual fund that has a maximum rating of five and a minimum rating of two. In light

of this, 37 mutual funds have been taken into consideration for the study.

H0: Rating of CRISIL doesn't have any significant influence on the growth of AUM.

The annual growth of AUM (Y) and rating of CRISIL (x) have been taken to test the above hypothesis. The simple linear regression model has been applied.

$Y = a + bX + U.$

Y= Growth of AUM of the mutual fund.

X= Rating of CRISIL.

U= Error term or random disturbances.

a and b parameters.

Table 5: Result of the Linear Regression.

Predictor	Estimate	SE	t-value	p-value	Standardized Estimate
Intercept	-21.6	6.43	-3.36	0.002	–
CRISIL	10.7	1.77	6.05	< .001	0.715

Dependent Variable: Growth of AUM.

Table 5 presents the result of linear regression where the dependent variable is Growth of AUM (GRAUM) and the independent variable is CRISIL rating. The result shows that there is a significant relationship between the dependent variable, growth of AUM, and the rating given by CRISIL on the mutual fund ($p < 0.001$). The values R2 and adjusted R2, in this regression model, are 0.822 and 0.782. The value of R2 explains 82 percent variation in the growth of AUM. The growth of the AUM of a mutual fund is positively related to the CRISIL rating.

6. CONCLUSIONS

The findings of the recent study highlight an intriguing trend in the investment landscape: flexicap mutual funds are witnessing a surge in popularity among investors, complementing the well-established categories of mid, small, and large-cap mutual funds. According to the statistical analysis, a noteworthy correlation emerges between the 5-year return and the volatility measurement—specifically, standard deviation (SD)—for both flexicap and midcap mutual funds. Interestingly, when it comes to metrics for gauging risk, such as the Treynor ratio, Sharpe ratio, and Jensen's Alpha, there exists a positive relationship with both categories of funds. This insight underscores the robust performance dynamics that these funds are showcasing in today's market. Moreover, regression analysis reveals another compelling aspect: the growth of Assets Under Management (AUM) for these mutual funds appears to be significantly influenced by ratings provided by the esteemed credit rating agency, CRISIL. In essence, this suggests that investors place considerable weight on the evaluations issued by various credit rating organisations when deciding to invest in mutual funds. This trend not only illustrates changing investor behaviour but also underscores the importance of credible ratings in shaping investment decisions in a landscape that continues to evolve.

In summary, as the mutual fund ecosystem expands, flexicap funds are carving out their niche, indicating a shift in investor sentiment towards more diverse options.

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