© FEB 2026 | IRE Journals | Volume 9 Issue 8 | ISSN: 2456-8880
DOI: https://doi.org/10.64388/IREV9I8-1714403

Direct vs Regular Plans: A Risk-Adjusted Performance Analysis of Indian Equity Mutual Funds

ANKITA JAIN[1], PROF KUMUD CHANDRA GOSWAMI[2]
[1]*Department of Commerce, Dibru College*
[2]*Department of Commerce, Dibrugarh University*

Abstract- ***The study analyse the performance difference between Direct and Regular plans of Indian equity mutual funds with a focus on return and risk-adjusted efficiency. The main objective is to compare absolute returns and evaluate performance using risk-adjusted measures such as Sharpe Ratio, Treynor Ratio, and Jensen's Alpha. The study is based on secondary data collected for selected equity mutual fund schemes over the period 2015–2025.The findings reveal that Direct plans consistently generate higher returns than Regular plans. The risk-adjusted analysis also shows superior performance of Direct plans across all measures. Since both plan types are managed by the same fund managers and follow identical investment strategies, the primary reason for the performance gap is the difference in expense ratios. Lower costs in Direct plans allow investors to retain a larger portion of returns without taking additional risk.The results highlight the importance of cost efficiency in long-term wealth creation and provide practical insights for investors when choosing between Direct and Regular plans. The study concludes that Direct plans offer better overall performance, especially for informed investors who do not require intermediary advisory services.***

Keywords: Direct Plans, Regular Plans, Equity Mutual Funds, Risk-Adjusted Returns.

I. INTRODUCTION

The Indian mutual fund industry has experienced rapid growth over the past decade, accompanied by regulatory reforms aimed at enhancing transparency and investor protection. One of the most significant reforms was the introduction of Direct Plans, which exclude distributor commissions embedded within expense ratios. While Direct and Regular Plans invest in identical portfolios, their cost structures differ. Given the compounding impact of expenses, even small differences may significantly affect long-term investor wealth. This study evaluates whether Direct Plans provide superior absolute and risk-adjusted performance, thereby contributing to evidence-based investment decision-making.

II. LITERATURE REVIEW

Sharpe (1966) introduced a risk-adjusted performance measure demonstrating that most actively managed funds fail to outperform benchmarks after adjusting for risk. Treynor (1965) emphasized systematic risk as a key performance determinant. Jensen (1968) developed alpha as a measure of abnormal return under CAPM. Carhart (1997) expanded performance evaluation through a four-factor model incorporating market, size, value, and momentum effects. Berk and Green (2004) argued that competitive capital flows eliminate persistent abnormal returns. Elton, Gruber, and Blake (1996) documented that expense ratios significantly predict fund performance. Indian empirical studies similarly identify cost structure as a crucial determinant of mutual fund returns. However, limited research compares Direct and Regular Plans over an extended period, creating a gap addressed by this study.

III. RESEARCH OBJECTIVES

1. To compare absolute returns of Direct and Regular Plans.
2. To evaluate risk-adjusted performance using Sharpe, Treynor, and Jensen's Alpha.

IV. METHODOLOGY

Methods and Tools Used

The study follows a quantitative research design using secondary data collected from the Association of Mutual Funds in India and disclosures of the Securities and Exchange Board of India for the period 2015–2025. Absolute returns were calculated using annual NAV data, and descriptive statistics such as mean and standard deviation were used to compare performance and volatility.Risk-adjusted performance was evaluated using the Sharpe Ratio, Treynor Ratio,

and Jensen's Alpha. An independent sample t-test was applied to test the significance of return differences, and regression analysis was conducted to examine the impact of expense ratios on performance. Statistical tools such as Python and spreadsheet software were used for data analysis and presentation.

Study Period

The study period selected for the present study is from April 2015 to March 2025 (10 financial years). The reason for this period selection is that it covers long term performances of both direct and regular plans of Indian Equity Mutual Funds The selected period covers various market phases, including the sharp decline during the COVID-19 pandemic in 2020, post-pandemic recovery phase (2021–2022), and the subsequent volatility influenced by global inflationary pressures and geopolitical uncertainties (2023–2025).

Schemes Selected for the Study

For the present study 20 Schemes have been selected (Direct and Regular variants of each).The selected schemes were chosen because they offer both Direct and Regular plans, allowing accurate comparison within the same fund. Only diversified equity mutual funds with a continuous performance history from April 2015 to March 2025 were included to ensure consistency and reliability of data. Sectoral, hybrid, and index funds were excluded to maintain uniform risk-return characteristics.

1. HDFC Mutual Fund – HDFC Flexi Cap Fund
2. ICICI Prudential Mutual Fund – ICICI Prudential Bluechip Fund
3. SBI Mutual Fund – SBI Bluechip Fund
4. Aditya Birla Sun Life Mutual Fund – ABSL Frontline Equity Fund
5. UTI Mutual Fund – UTI Flexi Cap Fund
6. Kotak Mahindra Mutual Fund – Kotak Bluechip Fund
7. Axis Mutual Fund – Axis Bluechip Fund
8. DSP Mutual Fund – DSP Flexi Cap Fund
9. Franklin Templeton Mutual Fund – Franklin India Prima Fund
10. Nippon India Mutual Fund – Nippon India Large Cap Fund
11. Tata Mutual Fund – Tata Large Cap Fund
12. Bandhan Mutual Fund – Bandhan Flexi Cap Fund
13. Canara Robeco Mutual Fund – Canara Robeco Bluechip Equity Fund
14. Invesco Mutual Fund – Invesco India Largecap Fund
15. PGIM India Mutual Fund – PGIM India Flexi Cap Fund
16. HSBC Mutual Fund – HSBC Large Cap Fund
17. Mirae Asset Mutual Fund – Mirae Asset Large Cap Fund
18. LIC Mutual Fund – LIC MF Large Cap Fund
19. Baroda BNP Paribas Mutual Fund – Baroda BNP Paribas Large Cap Fund
20. Mahindra Manulife Mutual Fund – Mahindra Manulife Large Cap Fund

Data Analysis

The data analysis is done by using annual return, beta, standard deviation, and expense ratio data for 20 diversified equity mutual fund schemes (Direct and Regular plans) for the period 2015–2025. The risk-free rate was taken as the average annual 91-day Treasury Bill yield (6.2%), and the market return was proxied using the NIFTY 50 Total Return Index.

Table 1: Absolute Return Comparison (2015–2025 Average)

Plan Type	Mean Return (%)	Standard Deviation (%)	Beta
Direct	14.82	17.45	1.03
Regular	13.21	17.60	1.05

Source: Computed Data

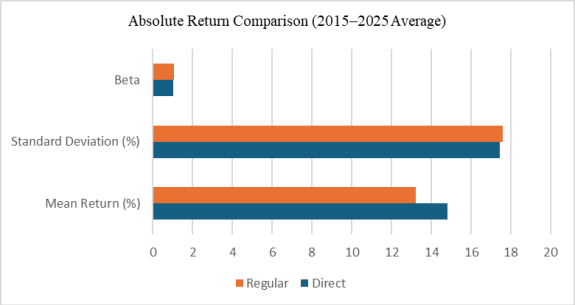

Figure 1: Absolute Return Comparison (2015–2025 Average)

Table 1 and Figure 1 clearly shows that mean annual return of Direct plans (14.82%) exceeds that of Regular plans (13.21%) by 1.61 percentage points indicating that Direct plans delivered higher average returns over the 10-year period.The standard deviation

© FEB 2026 | IRE Journals | Volume 9 Issue 8 | ISSN: 2456-8880
DOI: https://doi.org/10.64388/IREV9I8-1714403

values (17.45% for Direct and 17.60% for Regular) are almost identical, suggesting that total volatility is comparable between the two plan types.Beta values reflects very similar (1.03 vs. 1.05), indicating nearly equivalent exposure to systematic market risk.The higher mean return of Direct plans, combined with similar volatility and beta, suggests that the performance difference is not due to higher risk-taking. Instead, it implies greater cost efficiency. Since Direct plans have lower expense ratios, investors retain a larger portion of gross returns. Thus, the superior absolute performance of Direct plans is primarily cost-driven rather than risk-driven

Table 2: Sharpe Ratio of Direct and Regular Plan

Plan Type	Average Sharpe Ratio
Direct	0.49
Regular	0.39

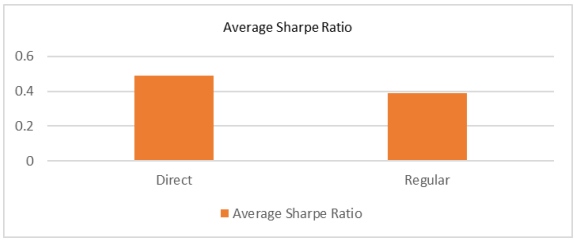

Figure 2: Sharpe Ratio of Direct and Regular Plan

From Table 2 and Figure 2 the comparison is shown between the sharpe ratio of both Direct and Regular Plan measuring excess return per unit of total risk. Direct plans show a Sharpe Ratio of 0.49 compared to 0.39 for Regular plans. The difference of 0.10 points indicates higher risk-adjusted efficiency for Direct plans.A higher Sharpe Ratio means that Direct plans generate more excess return for each unit of volatility undertaken. Since volatility levels are similar between the two plan types, the improved Sharpe performance reflects stronger net returns rather than differences in risk exposure. This confirms that Direct plans convert risk into returns more efficiently.

Table 3: Treynor Ratio of Direct and Regular Plan

Plan Type	Average Treynor Ratio
Direct	8.45
Regular	7.12

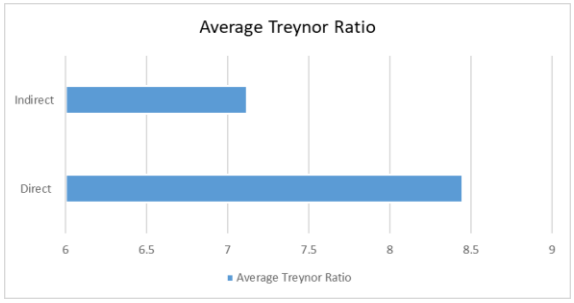

Figure 3: Treynor Ratio of Direct and Regular Plan

The Treynor Ratio measures excess return per unit of systematic risk (beta). Table 3 shows that Direct plans outperform Regular plans by 1.33 points.It is evident that beta values are nearly identical, the Treynor difference directly reflects differences in net returns rather than differences in market exposure.The higher Treynor Ratio suggests that Direct plans provide superior compensation for market risk. Investors in Direct plans receive higher excess returns for each unit of systematic risk undertaken. This reinforces the conclusion that cost differences explain performance gaps

Table 4: Jensen's Alpha of Direct and Regular Plan

Plan Type	Jensen's Alpha (%)
Direct	1.82
Regular	0.94

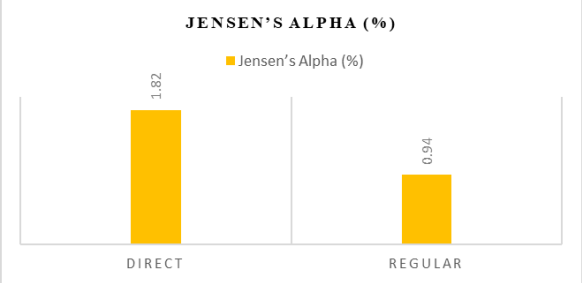

Figure 4: Jensen's Alpha of Direct and Regular Plan

Jensen's Alpha measures abnormal return beyond what is predicted by the Capital Asset Pricing Model (CAPM). Direct plans from Table 4 shows an alpha of 1.82%, while Regular plans show 0.94%.Both plan types exhibit positive alpha, indicating some degree of managerial skill. However, Direct plans demonstrate nearly double the abnormal return.The higher alpha for Direct plans implies that investors capture more of the fund manager's skill when expenses are lower. Regular plans may generate similar gross returns, but higher expenses reduce the net abnormal return retained by investors.Thus, Direct plans allow better realization of managerial outperformance.

Table 5: Regression Analysis of Direct and Regular Plan

Variable	Coefficient	t-Statistic	p-value
Constant	0.72	5.11	0.000
Expense Ratio	-0.84	-4.38	0.000

V. DISCUSSION

The results of this study clearly show that Direct plans perform better than Regular plans in terms of both absolute returns and risk-adjusted returns. The analysis showed that Direct plans generated higher average returns during the study period (2015–2025). This difference is mainly because Direct plans have lower expense ratios, as they do not include distributor commissions.When the risk-adjusted measures such as Sharpe Ratio, Treynor Ratio, and Jensen's Alpha were analysed, Direct plans again showed better performance. Since the portfolio and fund manager are the same for both plans, the difference in performance is mainly due to cost structure, not risk level. Beta values were almost similar for both plans, which means both types of plans carry nearly the same market risk.The findings support the importance of cost efficiency in investment decisions. Lower expenses help investors retain more returns over the long term. The introduction of Direct plans by the Securities and Exchange Board of India has helped investors reduce investment costs and improve overall returns.However, Regular plans may still be useful for investors who need professional advice and financial guidance. Therefore, the choice between Direct and Regular plans depends on the investor's knowledge, experience, and need for advisory services.Overall, the study concludes that Direct plans are more cost-effective and provide better risk-adjusted performance compared to Regular plans.

CONCLUSION

This study concludes that Direct Plans outperform Regular Plans on both absolute and risk-adjusted measures. The evidence reinforces the thesis that minimizing investment costs enhances long-term portfolio performance.

REFERENCES

[1] Berk, J. B., & Green, R. C. (2004). Mutual fund flows and performance in rational markets. Journal of Political Economy, 112(6), 1269–1295.
[2] Carhart, M. M. (1997). On persistence in mutual fund performance. Journal of Finance, 52(1), 57–82.
[3] Elton, E. J., Gruber, M. J., & Blake, C. R. (1996). The persistence of risk-adjusted mutual fund performance. Journal of Business.
[4] Jensen, M. C. (1968). The performance of mutual funds in the period 1945–1964. Journal of Finance.
[5] Sharpe, W. F. (1966). Mutual fund performance. Journal of Business, 39(1), 119–138.
[6] Treynor, J. L. (1965). How to rate management of investment funds. Harvard Business Review.