RESEARCH REPORT · EQUITY MUTUAL FUNDS

May 2026

India's Top

Mutual Funds 2026

Comprehensive Analysis — Large-Cap, Mid-Cap & Small-Cap Categories

A Visiting Professor's Guide to Selection Framework & Top Fund Analysis

Executive Summary

This comprehensive analysis evaluates India's mutual fund landscape across three distinct

equity categories — large-cap, mid-cap, and small-cap — using a rigorous **7-**

dimension framework to identify funds with the highest probability of sustained outperformance.

Our research reveals a clear hierarchy of risk-adjusted returns and alpha generation:

LARGE-CAP

14%

5Y category average. Stable, ideal for capital preservation with moderate growth.

MID-CAP

21.1%

5Y category average. Sweet spot — 700 bps premium over large-caps.

SMALL-CAP

23%

5Y category average. Highest compounding potential. 7–10 year commitment needed.

7

The 7-Dimension Selection Framework

1. Consistent Alpha over Category Average

Funds beating category benchmarks across 1Y, 3Y, 5Y demonstrate repeatable, skill-based processes.

2. Risk-Adjusted Returns (Sharpe & Sortino)

Target: Sharpe >0.70 (large-cap), >1.0 (mid/small-cap). High returns with controlled volatility signal sustainability.

3. Downside Capture Ratio

Funds limiting losses in falling markets recover faster, enabling superior long-term compounding.

4. Fund Manager Tenure & Stability

Longer tenure reduces style drift. Prefer 5+ years (large-cap), 7+ years (small-cap).

5. AUM (Assets Under Management)

Optimal ranges: ₹1K–50K Cr (large-cap), ₹3K–15K Cr (mid-cap), ₹5K–20K Cr (small-cap).

6. Expense Ratio Efficiency

20–30 bps savings compounds to 3–5% wealth advantage over 20 years. Critical dimension.

7. Beta vs. Return Quality

Low-beta funds (0.8–1.0) with high returns prove genuine stock-picking ability, not market riding.

Why This Framework?

Only top-decile funds (5% of category) consistently beat benchmarks. Rigorous 7-dimension evaluation identifies these rare performers.

L

Large-Cap Mutual Funds

Conservative

✓ **Consistent Alpha:** Top 3 funds beat category averages across 3Y and 5Y periods

✓ **Expense Discipline:** All funds maintain competitive expense ratios (0.52–0.84%)

✓ **Optimal AUM:** ₹2K–50K Cr sweet spot — agility with stability

✓ **Downside Protection:** Superior beta metrics confirm better capital preservation

Rank	Fund Name	5Y Return	Expense Ratio
★1	**Nippon India Large Cap**	16.7%	0.70%
2	ICICI Prudential Large Cap	14.3%	0.80%
3	SBI Large Cap Fund	13.23%	0.84%
4	DSP Large Cap Fund	12.3%	0.80%
5	Canara Robeco Large Cap	11.12%	0.52%

★ Top Pick: Nippon India Large Cap Fund — Direct Plan

Leading 5Y returns (**16.7%**) with the lowest expense ratio (**0.70%**) among top performers. Beta of **0.97** indicates genuine stock-picking ability, not market-driven returns. Optimal AUM (₹51,690 Cr) balances scale with agility. Consistent 3Y alpha (**15.6% vs ~13.5% category avg**) demonstrates repeatable process.

M

Mid-Cap Mutual Funds

Growth Sweet Spot

✓**Superior Alpha:** Top 3 funds beat 21.1% category avg by 100–150 bps annually

✓**Risk-Adjusted Excellence:** All funds maintain Sharpe ratios >1.0

✓**Cost Competitiveness:** 0.42–0.74% vs category average 0.85%

✓**Downside Resilience:** Drawdowns limited to −6% to −8% vs category −12% to −15%

Rank	Fund Name	5Y Return	Expense Ratio
★1	**Invesco India Mid Cap**	21.87%	0.60%
2	Nippon India Growth Mid Cap	22.48%	0.80%
3	Edelweiss Mid Cap Fund	21.8%	0.42%
4	HDFC Mid Cap Opportunities	21.17%	0.74%
5	HSBC Midcap Fund	20.4%	0.60%

★ Top Pick: Invesco India Mid Cap Fund — Direct Plan

Outstanding 5Y returns (**21.87%**, +68 bps above category avg) demonstrate sustainable edge. Strong 3Y (**26.87%**) confirms recent outperformance is not a fluke. Thematic focus (financial services, healthcare) provides concentrated conviction. Optimal AUM (**₹11,767 Cr**) ensures no capacity constraints.

S

Small-Cap Mutual Funds

High Risk · High Reward

⚠ **CRITICAL:** Small-caps trade at 30–50% discount to large-cap multiples despite 25–35% annual EPS

growth rates. This mismatch creates wealth compounding: **₹10 Lakh at 25% CAGR becomes ₹1+**

Crore in 20 years (vs ₹97.5 Lakh at 14% large-cap CAGR). However, 40% drawdowns are equally

possible. **7–10 year minimum commitment required. SIP discipline is non-negotiable.**

✓**Superior Returns:** 22–24% 5Y returns vs 14% (large-cap) and 21% (mid-cap)

✓**High Volatility:** 33% annual volatility demands 7–10 year horizons and monthly SIP

✓**Cost Critical:** 0.42–0.75% ER compounds to 8–12% long-term wealth advantage

✓**Manager Skill Paramount:** Alpha +4% to +8% annually separates 20% from 40% returns

Rank	Fund Name	5Y Return	Expense Ratio
★1	**Bandhan Small Cap Fund**	23.49%	0.42%
2	Quant Small Cap Fund	27.92%	0.60%
3	Invesco India Small Cap	24.13%	0.65%
4	Nippon India Small Cap	22.2%	0.75%

Rank	Fund Name	5Y Return	Expense Ratio
5	Bank of India Small Cap	21.02%	0.70%

★ Top Pick: Bandhan Small Cap Fund — Direct Plan

Extraordinary 3Y returns (**31.05%**, +700 bps above category avg) demonstrate superior stock-picking. Excellent 5Y (**23.49%**) proves sustainability. **Lowest expense ratio (0.42%)** captures 50+ bps alpha annually. Optimal AUM (₹5K–8K Cr) enables conviction positions without liquidity issues.

P

Portfolio Allocation Framework

Conservative

Large-Cap **70%**

Mid-Cap **20%**

Small-Cap **10%**

Moderate

Large-Cap **50%**

Mid-Cap **35%**

Small-Cap **15%**

Growth

Large-Cap **30%**

Mid-Cap **40%**

Small-Cap **30%**

1

Cost Discipline Compounds: A 20–30 bps expense ratio advantage translates to 3–5% wealth gain over 20 years. Choose funds in the bottom quartile for expense ratios.

2

Alpha is Repeatable but Rare: Only top-decile funds (5% of category) consistently beat benchmarks. Use rigorous 7-dimension evaluation to find them.

3

Risk Management Matters Most: Superior Sharpe ratios, downside capture ratios, and manager tenure predict long-term success better than 1-year returns.

4

Time Horizon Determines Category: Large-caps for 3–5 years, mid-caps for 5–7 years, small-caps for 7–10 years minimum.

5

SIP Discipline Beats Lump-Sum: Monthly systematic investment plans smooth volatility and reduce behavioral bias, especially for volatile mid/small-cap categories.

DISCLAIMER: This analysis is for educational purposes only and does not constitute investment advice. Past performance is not indicative of future results. All equity investments carry risk of capital loss. Investors should consult a qualified financial advisor before making investment decisions. Data as of May 2026.