

PERFORMANCE ANALYSIS OF SELECTED TAX SAVING MUTUAL FUND SCHEMES IN INDIA

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Abstract : Indian mutual fund market has witnessed the immense growth in the recent period and providing more diverse portfolios to investors to place their savings in securities to get relatively higher return and less tax burdens. With the fact of 3 years of lock-in period and deduction under tax laws for tax saving mutual funds, the present study attempts to analyze the performance of selected tax saving mutual fund schemes in India over a period of more than 10 years ranging from March 2010- October 2020. The study is primarily based on the secondary data. To evaluate the performance of selected schemes, various risk, return, and risk-adjusted tools like, average return, beta, standard deviation, Sharpe ratio and Treynor ratio have been used in the study. To compare the performance of selected schemes with market index, Nifty 500 has been chosen as a benchmark. The overall results of the study have shown that all the selected schemes have yielded positive risk-adjusted return and majority of the schemes have outperformed the benchmark index over the period of study. The study recommends Axis Long Term Equity, BNP Paribas Long Term Equity Fund, Invesco India Tax Plan and Canara Robeco Equity Tax Saver Fund as the top performing tax saving schemes available for investment as well as tax planning to the investors.

I. INTRODUCTION

In Post-liberalization period, Indian mutual fund market is growing rapidly as the investors are indulging more in the financial markets. Every rational investor wants capital appreciation and ready to take risk to get the higher returns. However, the equity market is subject to risk fluctuations that can yield better returns. Mutual fund is diversified way to deploy the savings of household sectors in different sectors of economy to spread the risk. Investing in equity through mutual funds is a great way to play safe in the capital market for small investors. Tax saving mutual fund schemes (ELSS) are the equity mutual funds encouraged by the Indian government to boost the investment of savings and to promote the equity market. To promote the participation of small investors in capital market, many Asset Management Companies (AMCs) are launching the schemes according to investor's preferences. Indian government is also providing the ways and means to tax payers to get relaxation by investing in various avenues. ELSS is a tax saving mutual fund having 3 year lock-in period and also eligible for tax deduction under Section 80C of in Income Tax Act 1961. Though there are so many other instruments available in market for tax deduction purpose like National Saving Certificates (NSC), Public Provident Fund (PPF), Life Insurance, and Post office deposits etc. however there is constraint of either longer lock-in period or lower yielding rates. No doubt risk factor in equity is higher than the other avenues but ELSS schemes have quite shorter lock-in period and better rate of return. Among other avenues of investment, for this dual benefit of tax saving mutual funds, present study attempts to analyze the performance of selected tax saving mutual fund schemes in India.

I.1 LITERATURE REVIEW

Several authors have conducted studies related to analysis of tax saving mutual funds using various techniques. An attempt has been made to review the earlier studies to identify the gaps and future research insights. Tripathy (2004) analyzed the performance of 31 tax planning schemes in India over the period 1994-1995 to 2001-2002. The results of the study indicated that fund managers are not successful in reaping returns in excess of market. Bhuvanewari (2014) carried out the study with the objective of finding out the various parameters that govern the investors' perception towards tax saving mutual funds. The study found that liquidity, rate of return and market share are the major parameters affecting investors' perception. Das

(2014) performed an empirical study on selected equity linked saving schemes in India on the basis secondary data for the period from September 2004 to September 2014 by using various risk-adjusted measures. The Study found the satisfactory performance of all the selected schemes in comparison to benchmark. Srivastava (2014) evaluated the performance of 9 equity linked saving schemes in India for the period from 1993 to 2012. The study suggested that factors like role of efficient management and diversification are important for yielding better return from the selected schemes. Kumar and Adhikary (2015) performed comparative analysis of performance of selected tax saving mutual fund schemes. In the study, it was observed that private sector has performed well in mutual fund industry as compared to public sector mutual fund schemes. Chisti and Rahman (2018) tried to evaluate the performance of top 10 tax saving mutual fund schemes operating in India for a period of 10 years which ranges from 1-04-07 to 31-03-17. The study concluded that the selected ELSS schemes outperformed the market index in terms of average returns except few schemes.

I.2 OBJECTIVES OF THE STUDY

On the basis of review of existing studies, the study aims to achieve the following objectives:

- To analyze the performance of selected tax saving mutual fund schemes on the basis of risk and return measures;
- To compare the performance of selected tax saving mutual fund schemes with the performance of benchmark index.

I.3 DATABASE & METHODOLOGY

The present study is based on secondary data. In the study 25 growth oriented tax saving mutual fund schemes have been selected to analyze the performance of tax saving mutual fund schemes over the period of more than 10 years from April 2010- October 2020 for the evaluation. The necessary data and NAV have been collected from the website of association of mutual funds in India and RBI website. Month end NAV of selected mutual fund schemes is used to analyze the performance of the selected schemes. To compare the results of various return and risk techniques, Nifty 500 is opted as the benchmark index. To surrogate the Risk free rate of return, yield of 91-days treasury bills is used. In order to analyze the performance of selected schemes, average return as a return measure, Beta as a risk measure and Sharpe ratio as a risk-adjusted return measure have been used in the study.

II. PERFORMANCE ANALYSIS OF SELECTED TAX SAVING MUTUAL SCHEMS

Table 1 depicts the performance of selected schemes on the basis of return measure namely, average return. All the selected schemes have positive average return and outperformed the benchmark index except one schemes that is Principal Personal Tax Saver Fund. Axis Long Term Equity Fund has the highest average return among all the schemes whereas Principal Personal Tax Saver Fund is underperforming the benchmark and ranked at lowest position.

Table 1
Performance of Selected Schemes on the basis of Average Return

S.No.	Mutual Fund Scheme	Average Scheme Return	Average Market Return	Performance	Rank
1.	Aditya Birla Sun Life Tax Plan	1.001	0.767	Outperformed	7
2.	Axis Long Term Equity Fund	1.292	0.767	Outperformed	1
3.	BNP Paribas Long Term Equity Fund	1.036	0.767	Outperformed	4
4.	BOI AXA Tax Advantage Fund	0.924	0.767	Outperformed	12
5.	Canara Robeco Equity Tax Saver Fund	1.023	0.767	Outperformed	6
6.	DSP Tax Saver Fund	1.044	0.767	Outperformed	3
7.	Edelweiss Long Term Equity Fund	0.885	0.767	Outperformed	18

8.	Franklin India Taxshield Fund	0.924	0.767	Outperformed	11
9.	HDFC Tax saver Fund	0.777	0.767	Outperformed	24
10.	HSBC Tax Saver Equity Fund	0.904	0.767	Outperformed	16
11.	ICICI Prudential Long Term Equity Fund	0.963	0.767	Outperformed	9
12.	IDFC Tax Advantage (ELSS) Fund	1.024	0.767	Outperformed	5
13.	Invesco India Tax Plan	1.093	0.767	Outperformed	2
14.	JM Tax Gain Fund	0.895	0.767	Outperformed	17
15.	Kotak Tax Saver Regular Plan	0.923	0.767	Outperformed	13
16.	LIC MF Tax Plan	0.835	0.767	Outperformed	21
17.	L&T Tax Advantage Fund	0.955	0.767	Outperformed	10
18.	Nippon India Tax Saver (ELSS) Fund	0.909	0.767	Outperformed	15
19.	Principal Personal Tax Saver Fund	0.727	0.767	Underperformed	25
20.	Principal Tax Savings Fund	0.963	0.767	Outperformed	8
21.	Quant Tax Plan	0.913	0.767	Outperformed	14
22.	SBI Long Term Equity Fund	0.839	0.767	Outperformed	20
23.	Sundaram Diversified Equity Fund	0.803	0.767	Outperformed	23
24.	Taurus Tax Shield Fund - Regular Plan	0.862	0.767	Outperformed	19
25.	UTI Long Term Equity Fund	0.822	0.767	Outperformed	22

(Source: Computed from data available on the website of AMFI.) www.amfiindia.com/net-asset-value/nav-history

Table 2 shows the performance of selected schemes on the basis of risk measure namely, Beta. Schemes with high Beta value have the highest ranks that represents the high risk. Nippon India Tax Saver (ELSS) Fund, JM Tax Gain Fund, Quant Tax Plan, Principal Tax Savings Fund and IDFC Tax Advantage (ELSS) Fund have the high Beta value, more than market Beta that is 1. The analysis indicates that Axis Long Term Equity Fund is least risky scheme whereas Nippon India Tax Saver (ELSS) Fund is the most risky scheme.

Table 2
Performance of Selected Schemes on the basis of BETA

S.No.	Mutual Fund Scheme	Beta of Scheme	Beta of Market	Rank
1.	Aditya Birla Sun Life Tax Plan	0.866	1	22
2.	Axis Long Term Equity Fund	0.837	1	25
3.	BNP Paribas Long Term Equity Fund	0.866	1	23
4.	BOI AXA Tax Advantage Fund	0.927	1	13
5.	Canara Robeco Equity Tax Saver Fund	0.870	1	21
6.	DSP Tax Saver Fund	0.977	1	8
7.	Edelweiss Long Term Equity Fund	0.885	1	20
8.	Franklin India Taxshield Fund	0.892	1	19
9.	HDFC Tax saver Fund	0.912	1	17
10.	HSBC Tax Saver Equity Fund	0.999	1	6

11.	ICICI Prudential Long Term Equity Fund	0.935	1	12
12.	IDFC Tax Advantage (ELSS) Fund	1.019	1	5
13.	Invesco India Tax Plan	0.912	1	17
14.	JM Tax Gain Fund	1.032	1	2
15.	Kotak Tax Saver Regular Plan	0.982	1	7
16.	LIC MF Tax Plan	0.925	1	14
17.	L&T Tax Advantage Fund	0.938	1	10
18.	Nippon India Tax Saver (ELSS) Fund	1.139	1	1
19.	Principal Personal Tax Saver Fund	0.975	1	9
20.	Principal Tax Savings Fund	1.022	1	4
21.	Quant Tax Plan	1.023	1	3
22.	SBI Long Term Equity Fund	0.936	1	11
23.	Sundaram Diversified Equity Fund	0.864	1	24
24.	Taurus Tax Shield Fund	0.922	1	16
25.	UTI Long Term Equity Fund	0.923	1	15

(Source: Computed from data available on the website of AMFI.) www.amfiindia.com/net-asset-value/nav-history

Table 3 represents the performance of selected schemes and market index on the basis risk-adjusted measure namely, Sharpe ratio. All the selected schemes have positive Sharpe ratio. Axis Long Term Equity Fund have the highest risk-adjusted return and ranked at 1st position and Principal Personal Tax Saver Fund is on the lowest rank in performance as it is yielding less risk-adjusted return than the benchmark index. The results of this analysis is consistent with the findings obtained on the basis of Average return.

Table 3
Performance of Selected Schemes on the basis of Sharpe ratio

S.No.	Mutual Fund Scheme	Sharpe of Scheme	Sharpe of Market	Performance	Rank
1.	Aditya Birla Sun Life Tax Plan	0.146	0.097	Outperformed	5
2.	Axis Long Term Equity Fund	0.224	0.097	Outperformed	1
3.	BNP Paribas Long Term Equity Fund	0.164	0.097	Outperformed	3
4.	BOI AXA Tax Advantage Fund - Regular Plan	0.129	0.097	Outperformed	13
5.	Canara Robeco Equity Tax Saver Fund	0.162	0.097	Outperformed	4
6.	DSP Tax Saver Fund	0.146	0.097	Outperformed	5
7.	Edelweiss Long Term Equity Fund	0.130	0.097	Outperformed	11
8.	Franklin India Taxshield Fund	0.138	0.097	Outperformed	9
9.	HDFC Tax saver Fund	0.097	0.097	Outperformed	24
10.	HSBC Tax Saver Equity Fund	0.120	0.097	Outperformed	16
11.	ICICI Prudential Long Term Equity Fund	0.139	0.097	Outperformed	8
12.	IDFC Tax Advantage (ELSS) Fund	0.138	0.097	Outperformed	10

13.	Invesco India Tax Plan	0.170	0.097	Outperformed	2
14.	JM Tax Gain Fund	0.113	0.097	Outperformed	20
15.	Kotak Tax Saver Regular Plan	0.127	0.097	Outperformed	14
16.	LIC MF Tax Plan	0.115	0.097	Outperformed	18
17.	L&T Tax Advantage Fund	0.139	0.097	Outperformed	7
18.	Nippon India Tax Saver (ELSS) Fund	0.102	0.097	Outperformed	22
19.	Principal Personal Tax Saver Fund	0.091	0.097	Underperformed	25
20.	Principal Tax Savings Fund	0.129	0.097	Outperformed	12
21.	Quant Tax Plan	0.111	0.097	Outperformed	21
22.	SBI Long Term Equity Fund	0.116	0.097	Outperformed	17
23.	Sundaram Diversified Equity Fund	0.101	0.097	Outperformed	23
24.	Taurus Tax Shield Fund - Regular Plan	0.122	0.097	Outperformed	15
25.	UTI Long Term Equity Fund	0.115	0.097	Outperformed	19

(Source: Computed from data available on the website of AMFI.) www.amfiindia.com/net-asset-value/nav-history

III. CONCLUSION

This paper presents the analysis of 25 growth oriented tax saving mutual funds on the basis of risk and return measures. In the all three parameters, majority of the schemes have performed well over benchmark index. The results of the study indicates Axis Long Term Equity Fund has emerged as the best performing fund on the basis of all the three parameters namely, average return, beta and Sharpe ratio. On the contrary, Nippon India Tax Saver (ELSS) Fund and Principal Personal Tax Saver Fund are the worst performers among all the selected schemes as they are highly risky and yielding less return. The present study concludes that tax saving mutual fund schemes are better avenues to get better returns along with tax relaxation under Income Tax Laws. The study finally concludes that equity linked saving schemes are available not just for the tax purpose but can also be used by the investors for their retirement planning.

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