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Equity-Linked-Savings-Schemes of Mutual Funds

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ABSTRACT

The objectives of this study are to compare equity-linked saving schemes with other traditional forms of tax saving schemes. To analyze the equity-linked saving scheme picked at random on the basis of risk and return. To understand the level of awareness regarding the mutual funds among the Indian salaried class and the various factors that influence investors to invest in equity linked saving schemes. The methodology conducted for this study is by using Sharpe ratio, standard deviation, beta, multivariate statistical tool was used to cluster the funds into groups based on various parameters and analyzed. The secondary data were collected by visiting various websites of the asset management companies, articles available on the web, investment magazines and facts sheets of the asset management companies.

All funds had a step declined in the year 2012 and 2014 because of financial crisis and melt down stock market. The sharps index is at maximum for HSBC Tax Saver Equity with .023 Some Equity Linked Savings Schemes have shown better returns than their respective benchmark index. The beta of Birla Sun Life Tax Relief 96, Principal Personal Tax Saver Kotak Tax Saver, ING Tax Saving Fund suggest that they are highly sensitive be relative to the market as a whole. The beta of SBI Magnum Tax Gain, HDFC Tax Saver, ICICI Prudential Tax Plan, HDFC Long Term Advantage, Birla Sunlife Tax Plan, Franklin India Tax Shield, DSP BlackRock Tax Saver, TATA Tax Savings Fund, HSBC Tax Saver Equity, BNP Paribas Tax Advantage Plan, Religare Tax Plan Gain suggest that they are less sensitive be relative to the market as a whole. The fund chosen by the investor should match the risk appetite of the investor. It is suggested that the equity linked saving scheme should be seriously considered by investors because of the dual advantage of tax saving and high return. Investing in HSBC Tax Saver Equity is the best option in all 15 schemes

Keywords: ***NAV- Net Annual Value, Scheme Return, AMC- Asset Management Company, Risk and Return***

INTRODUCTION

Investment is the employment of fund with the aim of achieving additional income or growth in value. The essential quality of an investment is that it involves _waiting‘for reward. It involves the commitment of resources which have been saved or put away from current consumption in the hope that since benefit will accrue in future.

Investment is the allocation of monetary resources to assets that are expected to yield some gain or positive return over a given period of time. These assets range from safe investment to risky investments. Investment in this form is called as _financial Investments‘.

Why should one invest?

- One needs to invest to:
- Earn return on your idle resources.

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- Generate a specified sum of money for a specific goal in life.
- Make a provision for an uncertain future.

One of the important reasons why one needs to invest wisely is to meet the cost of inflation. Inflation is the rate at which the cost of living increases. The cost of living is simply what it costs to buy the goods and services you need to live. Inflation causes money to lose value because it will not buy the same amount of gods or services in the future as it does now or did in the past.

The aim of investments should be to provide a return above the inflation rate to ensure that the investment does not decrease in value.

FACTORS INFLUENCING INVESTMENT

- Increasing rate of taxation.
- High interest rate.
- High rate of inflation.

TYPES OF INVESTMENTS

- Short term investment
- Long term investment

India by 2032 will become the third largest economy in the world, as reported by Goldman Sachs in their wealth report. India‘s domestic savings as a percentage of its GDP is 28%, one of the forms of investment avenues like gold, fixed deposits, insurance, mutual funds and capital markets. Investments in equities have shown better results and have potential grow in the long run which can be an ideal approach to adjust inflation and provide an opportunity for capital appreciation, provided the investors are high on risk. The majority of Indian investors considerably have a low risk appetite, on an average. The only option left for the investors in the mutual fund industry which has dual advantage of investing in equity and getting goods return with optimum risk.

The Indian mutual fund market is in the process of evolving and the statistics on various parameters like number of customers, types of products, types of channels, and geographical locations along with the projection till 2005.

Equity linked Savings schemes are equity funds floated by mutual funds. They offer a 20 per cent tax rebate on investments upto Rs 10,000 in a given financial year.

There is a three year lock-in on investments and there is no assurance on returns. The ELSS funds have to invest more than 80 per cent of their money in equity and related instruments. Returns form ELSS funds tend to fluctuate widely, in line with the performance of the stock markets. Young people should definitely invest in the ELSS funds as they have the ability to take on higher risk. Ideally one should invest in them when the markets are down. These funds are now open all the year round.

Therefore, investors can time their investment. The other way of investing in these funds could be a systematic investment, which essentially means investing a small sum regularly (monthly or quarterly).

It is one of the popular and good investments available under section 80c. Most people not utilizing the power of mutual funds as the tax savings instrument. If you are comparing with all the other tax saving instruments, ELSS is the one offers you high return. There is risk associated with this investment. One think you have to keep in mind, if you are taking the risk, return will be higher. In our life, every where there is some kind of risk exists.

An equity-linked saving scheme (ELSS) is a great investment option that offers the twin benefits of tax saving and capital gains. Earlier, investors had to spread their investments across different instruments such as PPF, ELSS, NSC and infrastructure bonds. But now, it‘s possible to invest the entire limit of Rs 100,000 available under Sec 80C in ELSS. According to the new Income Tax Act, Sec 80C investments in ELSS are allowed as deduction from the total income, up to maximum Rs100, 000 in a financial year.

STATEMENT OF THE PROBLEM

India by 2032 will become the third largest economy in the world, as reported by Goldman Sachs in their wealth report. India‘s domestic saving as a percentage of its GDP is 28%, one of the highest in the world. A significant proportion of this saving is in the form of investment avenues like gold, fixed deposits, insurance, mutual funds and capital markets. Investments in equities have shown better results and have the potential to grow in the long run which can be an ideal approach to adjust inflation and provide an opportunity for capital appreciation, provide the investors are high on risk. The study is undertaken to know the performance of ELSS.

SCOPE OF THE STUDY

For the Purpose of this study the following different ELSS Mutual Fund Schemes for five years are considered:

- SBI Magnum Tax Gain
- Birla Sun Life Tax Relief 96
- HDFC Tax Saver
- ICICI Prudential Tax Plan
- HDFC Long Term Advantage

OBJECTIVES OF THE STUDY

- To compare equity-linked saving schemes with other traditional forms of tax saving schemes.
- To understand the quarterly return for 5 year of the schemes.
- To analyze the equity-linked saving scheme picked at random on the basis of risk and return.

HYPOTHESIS

H0: There is no relationship between the scheme return and index return H1: there is relationship between the scheme return and index return

OPERATIONAL DEFINITION OF CONCEPTS

Net Asset Value or NAV

NAV is the total asset value (net of expenses) per unit of the fund and is calculated by the Asset Management Company (AMC) at the end of every business day. Net asset value on a particular date reflects the realizable value that the investor will get for each unit that he his holding if the scheme is liquidated on that date.

Net asset Value of an investment company is the company‘s total assets minus its total liabilities. For Example, if an investment company has securities and other assets worth $100 million and has liabilities of $10 million, the investment company‘s NAV will be $90 million one day, $100 million the next, and $80 million.

For Calculating NAV in Years

NAV Closing Value – NAV Opening Value

$$= \frac{\text{NAV Closing Value} - \text{NAV Opening Value}}{\text{NAV Opening Value}} * 100$$

MARKET RETURN

The return on the market as a whole is known as market return. Market return is derived for analysis is from BSE SENSEX index.

METHODOLOGY

Risk is measured using the parameters like Sharpe ratio, standard deviation, beta, multivariate statistical tool was used to cluster the funds into groups based on various parameters and analyzed.

The secondary data were collected by visiting various websites of the asset management companies, articles available on the web, investment magazines and facts sheets of the asset management companies.

METHOD OF ANALYSIS

- Standard Deviation
- Beta
- Sharpe measure

SOURCES OF DATA COLLECTION

Secondary Data: The various secondary data which will be used in this work includes

- Internet
- News Papers
- Journals
- Books related to investments etc

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LIMITATIONS OF THE STUDY

The comparison of the fund was mainly dependent on the information collected from secondary data i.e., fact sheets of various funds and from websites like value research online. There could be possibility of error in the secondary data.

The results are generalized to all the Equity-linked saving scheme though the comparison was done for few schemes.

History of the Indian Mutual Fund Industry

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank the. The history of mutual funds in India can be broadly divided into four distinct phases

First Phase – 1964-87

Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Rs.6, 700 crores of assets under management.

Second Phase – 1987-1993 (Entry of Public Sector Funds)

1987 marked the entry of non- UTI, public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first non- UTI Mutual Fund established in June 1987 followed by Can bank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92). LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990.

At the end of 1993, the mutual fund industry had assets under management of Rs.47,004 crores.

Third Phase – 1993-2003 (Entry of Private Sector Funds)

With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996.

The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,21,805 crores. The Unit Trust of India with Rs.44,541 crores of assets under management was way ahead of other mutual funds.

GROWTH IN ASSETS UNDER MANAGEMENT

FIGURE 3.1-Growth In Assets Under Management

ANALYSIS

This chapter deals with analysis and interpretation of fund and market return in relationship with ELSS.

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SBI MAGNUM TAX GAIN

Table 4.1-SBI Magnum Tax Gain Quarterly Return

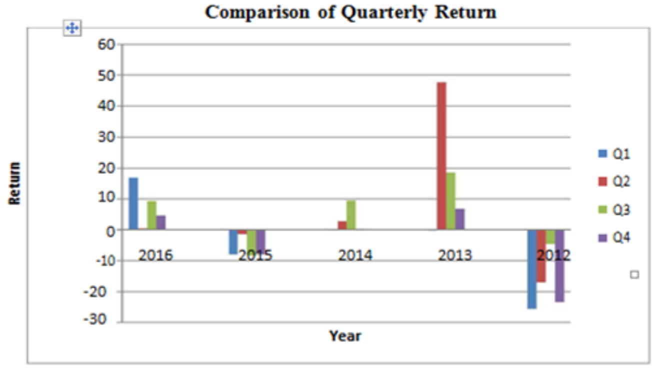
Year	Q1	Q2	Q3	Q4	Average
2016	16.86	0.39	9.37	4.65	7.8175
2015	-7.97	-1.35	-8.37	-8.05	-6.435
2014	0.05	2.89	9.55	0.18	3.1675
2013	-0.26	47.69	18.58	6.72	18.1825
2012	-25.62	-17.06	-4.58	-23.33	-17.6475

Source: Secondary data

Inference

From the table4.1, the four quarters of year 2012, there is a negative return due to the financial crisis. The average return is -17.6475 which a loss is for the investor. For the year 2013, there was a recovery from the financial crisis which made the return to jump back to positive figures for the Q2, Q3 and Q4 with an average return of 18.1825. In the year 2014 all quarter had positive return with average return of 3.1675. In 2015 return fell back to negative in all quarter with an average return of -6.435. In 2016 return back to positive return for all quarter with an average return of 7.817

Comparison of Quarterly Return



FINDINGS

- All funds had a step declined in the year 2012 and 2014 because of financial crisis and melt down stock market.
- The analysis of Mutual funds schemes based on NAV returns for a period of 5 years ranked.
- Some Equity Linked Savings Schemes have shown better returns than their respective benchmark index.
- The beta of Birla Sun Life Tax Relief 96, Principal Personal Tax Saver Kotak Tax Saver, ING Tax Saving Fund suggest that they are highly sensitive be relative to the market as a whole.
- The beta of SBI Magnum Tax Gain, HDFC Tax Saver, ICICI Prudential Tax Plan, HDFC Long Term Advantage, Birla Sunlife Tax Plan, Franklin India Tax Shield, DSP BlackRock Tax Saver, TATA Tax Savings Fund, HSBC Tax Saver Equity, BNP Paribas Tax Advantage Plan, Religare Tax Plan Gain suggest that they are less sensitive be relative to the market as a whole.
- The performance measures of all Equity Linked Savings Schemes are not that satisfactory on an average, but some are having fairly good return.
- SBI MAGNUM TAX GAIN the four quarters of year 2012, there is a negative return due to the financial crisis. The average return is -17.6475 which a loss is for the investor. For the year 2013, there was a recovery from the financial crisis which made the return to jump back to positive figures for the Q2, Q3 and Q4 with an average return of 18.1825. In the year 2014 all quarter had positive return with average return of 3.1675. In 2015 return fell back to negative in all quarter with an average return of -6.435. In 2016 return back to positive return for all quarter with an average return of 7.817.

CONCLUSION

Saving money is not enough. Each of us also need to invest the savings intelligently in order to have enough money available for funding the higher education of one's children, for buying a house, or for one's own golden years.

The study will guide the new investor who wants to invest in mutual fund schemes by providing knowledge about how to measure the risk and return of particular scrip or mutual fund schemes of different companies.

The biggest advantage of the Mutual Funds is the diversified investment and transparency in the operation of the Asset management Company.

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The study is about understanding and comparing the various tax saving instruments in the market with focus on the equity linked saving schemes. The performance of various funds is evaluated using various parameters of risk and return and comparing their performance with its benchmark S&P BSE SENSEX.

It is just not the past performance or returns, but qualitative criteria like reputation and performance of fund house, credentials and expertise of the fund manager and the other funds managed.

Finally, the fund chosen by the investor should match the risk appetite of the investor. It is suggested that the equity linked saving scheme should be seriously considered by investors because of the dual advantage of tax saving and high return.

SUGGESTIONS

- For the scheme, SBI MAGNUM TAX GAIN, beta is less volatile. Hence it is suggested that the companies should not reallocate their funds according to the market performance.
- For the scheme, BIRLA SUNLIFE TAX PLAN RELIEF 96, the beta of the scheme shows that it's more sensitive to the index. Hence it is suggested that the companies can reallocate their funds according to the market performance.
- For the scheme, HDFC TAXSAVER**,** the beta of the scheme shows that it's less sensitive to the index. Hence it is suggested that the companies should not reallocate their funds according to the market performance.
- The beta of ICICI PRUDENTIAL TAX PLAN is high and it is more volatile. Hence it is suggested that the companies can reallocate their funds according to the market performance.
- The beta of HDFC LONG TERM ADVANTAGE is low and it is less volatile. Hence it is suggested that the companies should not reallocate their funds according to the market performance.

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