

# A STUDY ON PERFORMANCE EVALUATION OF ELSS MUTUAL FUNDS WITH SPECIAL REFERENCE TO GROWTH FUNDS

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**Abstract:** Mutual fund is form by pooling saving of investors in different securities having varying risk return relationship. Equity linked saving scheme is a type of open ended mutual fund which provide tax benefit to investors under section 80 C of Income Tax Act 1961. This paper tries to investigate performance of ELSS Growth funds through various tools like Beta, Sharpe ratio, Jensen ratio etc. It also suggest suitable ELSS schemes to the investors so that they are able to realize their investment objectives. The time period undertaken for the study is 5 years and 10 ELSS growth funds are analyzed for the study.

Keywords: Mutual Fund, Income Tax Act, ELSS, Investors, Risk, Return.

## 1. INTRODUCTION

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciations realized are shared by its unit holders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the retail investors as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

### 1.1 Growth of Mutual Funds

The assets under management (AUM) of the mutual fund (MF) industry saw an exceptional growth of 42 per cent at Rs. 17.5 lakh crore in fiscal 2017 from Rs. 12.3 lakh crore a year ago. The quarterly average assets under management also registered a quarter-on-quarter growth of 8 per cent in the March quarter, rating agency ICRA said quoting data collated by the Association of Mutual Funds in India.

Net inflows in liquid, income and equity (including equity linked savings schemes or ELSS) categories saw fresh investment of Rs. 1.2 lakh crore, Rs. 96,000 crore and Rs. 70,000 crore respectively, ICRA said.

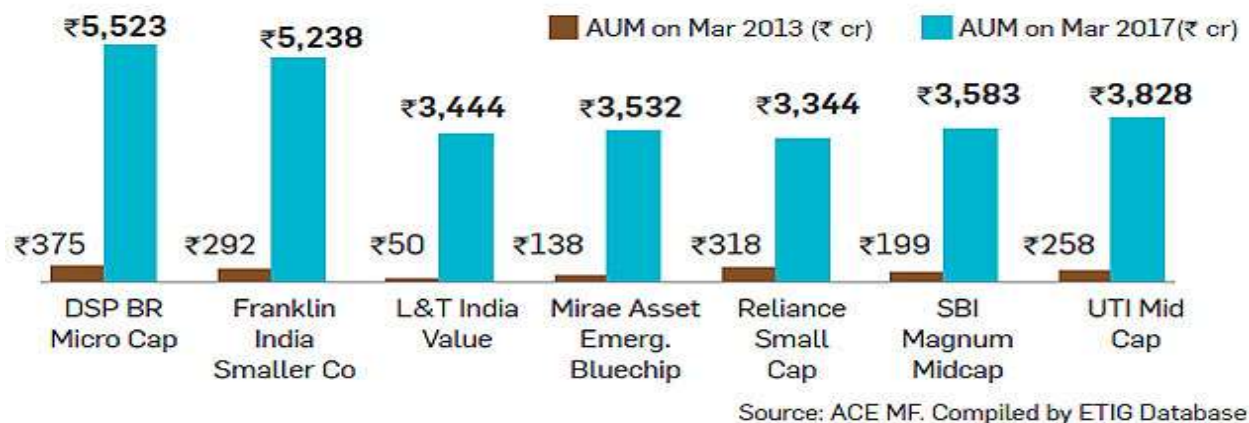


Figure 1: Asset under Management of Mutual Funds

Top 5 AMC's in India	AUM (US\$ billion)
ICICI Prudential Asset Management Co. Ltd.	26.87
HDFC Asset Management Co. Ltd.	26.85
Reliance Capital Asset Management Ltd.	24.20
Birla Sun Life Asset Management Co. Ltd.	20.85
SBI Funds Management Private Limited	16.31
UTI Asset Management Company Ltd	16.24

Figure 2: Top five AUM in India.

- From the table we can see that AUM of top 5 MNC in India .Among that list the first one is ICICI Prudential with AUM OF 26.87 billion U.S Dollar. Followed by HDFC Asset Management having AUM of 26.85 billion U.S Dollar. Next in the list is Reliance Capital Asset Management having AUM of 22.20 billion U.S Dollar. Birla Sun Life Asset Management as AUM of 20.85 billion U.S Dollar. Last two are SBI Funds Management Private Limited with AUM of 16.31 billion U.S Dollar and UTI Asset Management company ltd. with AUM of 16.24 billion U.S Dollar.

## 1.2 EQUITY LINKED SAVING SCHEME

ELSS is a type of mutual fund. It invests a majority of its corpus in equity and equity related products. An investment in ELSS comes with a lock in period and has tax benefits attached to it. It is suitable for investors having a high risk profile as returns in ELSS fluctuate depending upon the equity market and there are no fixed returns. ELSS schemes are open ended, that is, investors can subscribe to the fund at any day. NAV or the price of the fund is declared on every business day. It has a lock in period of 3 years unlike other kinds of mutual funds.

- Options while making an investment in an ELSS**
  - Growth option** – In growth option income earned by the fund is not distributed to unit holders, Investor do not earn any dividend during the time it holds the fund. Any income/profit earned by the fund increases the NAV of the fund and vice versa. Whenever the investor sells its holdings he will realize long term capital gain/loss.
  - Dividend option** – In this option the fund distributes income earned by the fund to the investors as dividends. The date of distribution is declared by the fund, however if the fund has negative income it will not distribute any dividend. Any dividend received by the investor is not liable for tax in the hands of investors.
  - Dividend reinvestments option** – If the investors choose this option the dividends declared by the fund are reinvested.

## 2.REVIEW OF LITERATURE

**Arul Prasad.P, Vijayakumar.L (2017)** analyzed the impact of different demographic variables on the attitude of investors towards mutual funds. Apart from this, it also focused on the benefits delivered by mutual funds to investors. In this study respondents of different demographic profiles were surveyed. The study revealed that the majority of investors don't have interest towards mutual fund investments.

**B. Kishori, N. Bhagyasree(2016)** in their study investigated the performance of open-ended, growth-oriented equity schemes of transition economy. The study revealed that 14 out of 30 mutual fund schemes had outperformed the benchmark return. The results also showed that some of the schemes had underperformed due to diversification problem. In the study, the Sharpe ratio was positive for all schemes which showed that funds were providing returns greater than risk free rate.

**Mohanasundari .M Vetrivel S.C & Lavanya R.E.(2016)** in their study of risk and return analysis in selected equity linked savings scheme in India It is found out that the past performance of the funds does not reflect in future. There are certain schemes that outperform than the benchmark index with positive risk return relation. Most of the schemes performed well in the initial period. The major parameters namely, liquidity, rate of return, tax benefits, high return, price, capital appreciation and market share plays a vital role in investors buying decision. They also found that ELSS funds which have over more than 20 years of its existence are still not been very popular with the retail investors as a tax saving investment option.

**Krishna Kumar Kadambat, Raghavendra T S and B M Singh (2015)** analyzed the investment performance of the population of ELSS Funds for a period of 13 years and compared its performance with 12 top Diversified Equity Funds and 7 Benchmark

Indexes. ELSS funds, underperformed both against sample Diversified Equity Funds and Benchmark Indexes on a risk adjusted basis. The study also showed that there is inconsistency in performance of ELSS funds over time.

**Renu Jatana, Mehjabeen Barodawala(2015)** examined the expectation of investors in financial markets using five factors. Out of these monetary returns emerged to be the most important factor that affects the choice of the investors in selecting mutual fund scheme in the country. Regulation attributes emerged to be the second important factor being followed by Customer Support falls at third place. Lastly promotional measures and market risk emerged to be the fourth and fifth important factor which affects the choice of the investors.

**Jitendra Kumar & Anindita Adhikary(2015)** attempted to examine the performance of tax saving schemes of five Asset Management Companies (AMCs) for a period of ten years from 2004-05 to 2013-14. The study revealed that private sector tax saving mutual fund schemes have outperformed as compared to its market return and the performances of public sector tax saving mutual fund schemes were not satisfactory. They also observed fund return and market return share a non linear relationship between each other.

**Archana Goel, Laveena(2015)** made a comparative study on performance analysis of debt & equity schemes at HDFC with reference to Birla sun life & ICICI mutual fund schemes by taking their daily returns & to know the category of funds where the investor would like to invest in. 15 schemes had been included in the research. The study was conducted from 1st Jan 2009 to 31st Dec, 2013 and it was found that out of the entire schemes HDFC infrastructure fund, short term plan & long term gilt fund are proficient. Birla Sun life Tax saving fund & Index fund were also found excellent than HDFC & ICICI.

**Ajay Mittal and Dr. V. K. Agarwal (2015)** evaluated the growth rate in ELSS (tax saving mutual funds) of Public and Private Sector and Indian Mutual Fund Industry. The growth rate in ELSS was more in starting years but with depression of 2008 the growth rate becomes negative for some years and then there was no consistency in growth rate.

**Mahajan Akhil, Sharma Arun (2015)** attempted to identify the best ELSS scheme for investment. For this NAV of schemes were collected for selected fund houses for the of period Jan2010- Dec2014. Various statistical tools i.e. Sharpe ratio, Treynor ratio and Jensen Alpha were used to analyse the risk adjusted return. It was seen that out of all the selected schemes, Franklin India Tax Shield ranked first as per Sharpe ratio and Treynor Ratio.

### 3. RESEARCH METHODOLOGY

Research Methodology is a systematic or step by step procedure to carry out the research process. Varieties of research methods like qualitative and quantitative techniques are used to achieve research objectives. It can also be defined as the way to find out solution to a research problem.

#### OBJECTIVES

1. To analyze the performance of various mutual funds schemes.
2. To suggest a suitable ELSS scheme for the investors.

#### STATEMENT OF THE PROBLEM

The purpose of the study is to analyze the performance of select ELSS mutual fund available in the market and to suggest a suitable mutual fund scheme which helps them in achieving their investment objectives.

#### SCOPE OF THE STUDY

- This study will be helpful to those investors who are planning to invest in ELSS funds.
- This study will give an insight to the techniques/methods which are used to judge the performance of mutual funds.
- This study will also be helpful in understanding correlations between various factors like price, returns, AUM etc. which effect consumer decision making process.

#### LIMITATIONS OF THE STUDY

- The sample size is limited as this study will focus on 10 Growth schemes under ELSS.
- The time period under study is for the period of 5 years i.e. from July 2012 to July 2017.

#### RESEARCH DESIGN

Research design can be defined as plan or strategy which helps us to find answers to our research problems. It can be divided into two groups exploratory and conclusive. Exploratory research tends to explore various aspects of research problem but doesn't promise to provide definite answers to research problem.

Conclusive research aims to provide findings which help a researcher in effective decision making. It uses quantitative techniques of data collection and analysis so that it is easy to summarize and present a research problem.

**DATA COLLECTION**

- **Primary data**

Primary data is the first hand data/information which is collected through methods like interview, survey, feedback, discussion etc.

- **Secondary data**

This study is based on secondary data collected through secondary data sources like factsheets, reports, and websites of selected AMC's and National stock exchange. Apart from these sources like journals, books and magazines were also considered for the study.

**SAMPLE SIZE –**

For this study total sample size is 10 ELSS Growth funds of different companies like DSP Blackrock, Axis Long Term Equity fund, ICICI Prudential Long term equity fund, HSBC Tax saver equity fund, IDFC Tax Advantage Fund, Edelweiss, Franklin India Tax shield, Birla Sun life Mutual Fund, BNP Paribas.

**SAMPLING TOOLS –**

For performance evaluation of mutual funds parameters like average returns, standard deviation, beta, sharpe ratio, Jensen ratio, Treynor ratio are used for study.

**STATISTICAL TOOLS USED-**

Microsoft Excel was used for the analysis of the data.

**4.DATA ANALYSIS & INTERPRETATION**

- Analysis of the performance of the funds: ELSS GROWTH CATEGORY

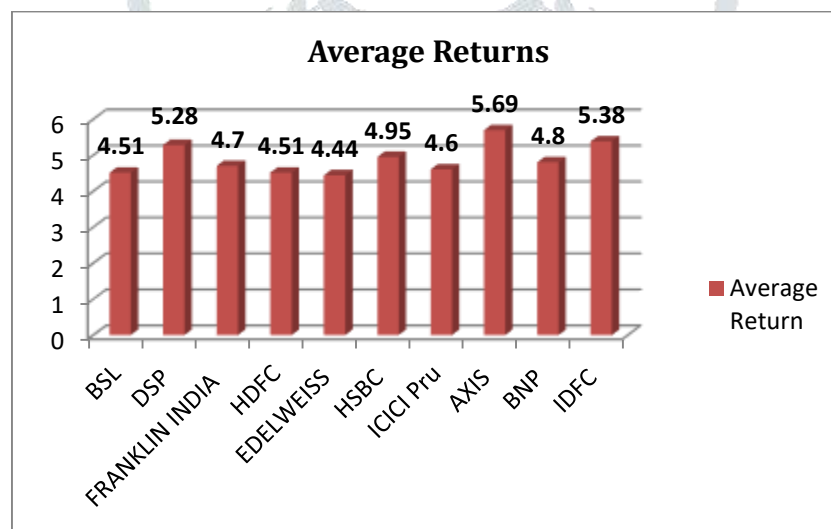


Figure 3: Average Return in ELSS Growth Category

From the above chart it is seen that top three fund on the basis of return are Axis Long Term Equity fund giving the highest return of 5.69% followed by IDFC Tax Advantage Fund giving return of 5.38% ,DSP Blackrock Tax saver fund of 5.28%. Out of these 10 funds chosen Edelweiss is at end of the list giving return of 4.44%

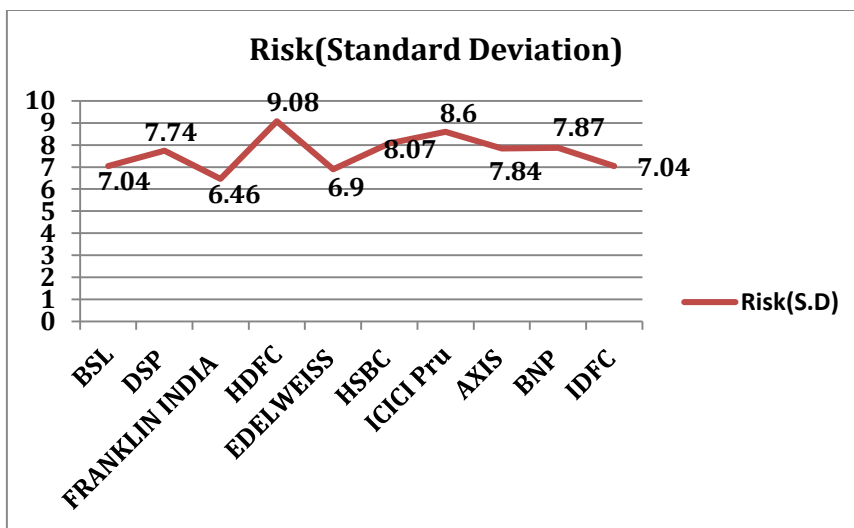


Figure 4: Risk in ELSS Growth Category

From the above chart it can be seen that HDFC Tax saver fund has highest risk (9.08) followed by ICICI Prudential Long term equity fund(8.6) and HSBC Tax saver equity fund(8.04)

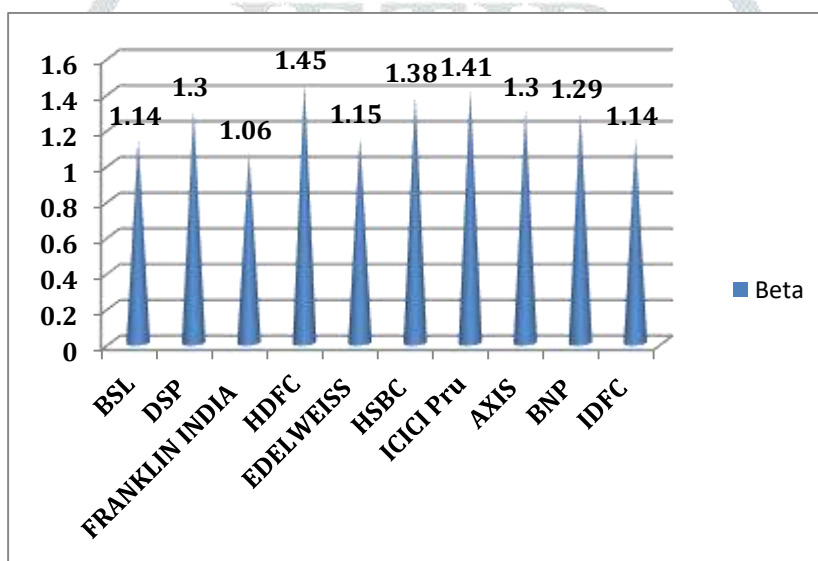


Figure 5: Beta (β) in ELSS Growth Category

HDFC Tax saver fund has highest beta i.e.1.45 followed by ICICI Pru Long Term Equity Fund having beta of 1.41 and HSBC Tax saver equity fund with beta value of 1.38. Beta more than one(1) signifies that funds are volatile than benchmark index which means all the funds selected for study in ELSS Growth category are highly volatile compared to benchmark index.

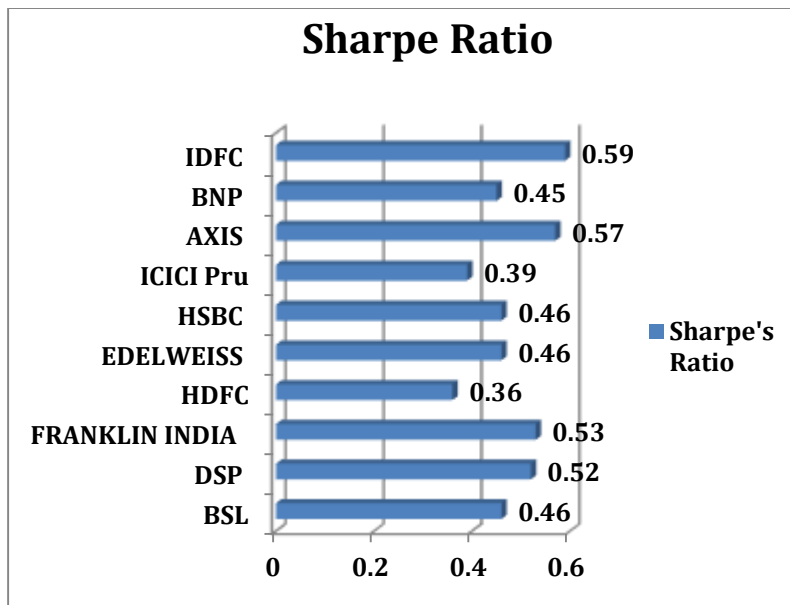


Figure 6: Sharpe Ratio in ELSS Growth Category

From the chart we can see that IDFC Tax advantage fund has highest Sharpe ratio of 0.59 followed by Axis Bank Long term equity fund having Sharpe ratio of 0.57 later by Franklin India Tax shield with Sharpe of 0.53. More the sharpe ratio better the fund hence we can say that if investor goes by sharpe ratio IDFC tax advantage fund is giving superior returns.

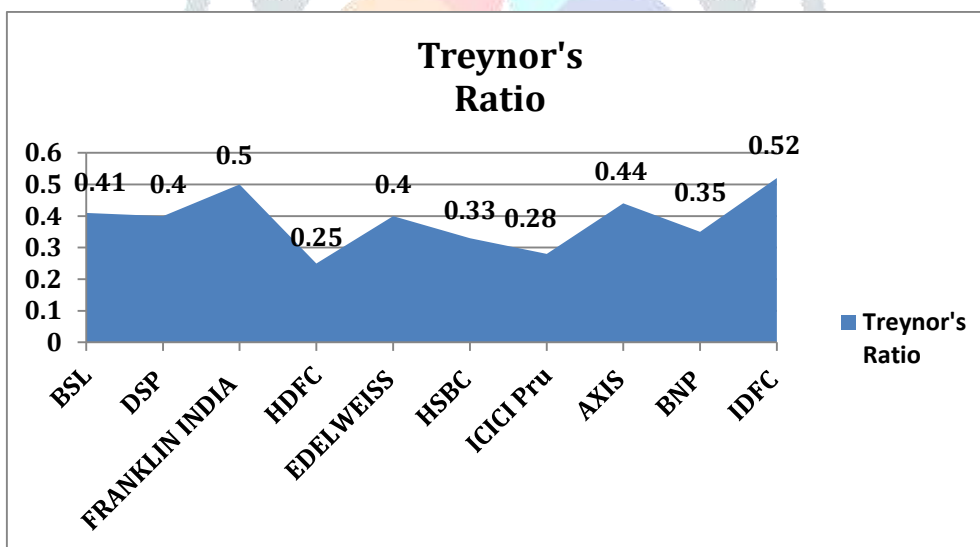


Figure 7: Trenyor Ratio in ELSS Growth Category

From the above graph is clear that IDFC Tax advantage fund is having highest Trenyor Ratio of 0.52 followed by DSP Blackrock (0.50) and Axis Long term equity fund (0.44). *Trenyor ratio is also known as reward-to-volatility ratio, It is the extra return generated by a mutual fund over and above the risk free rate of return.*

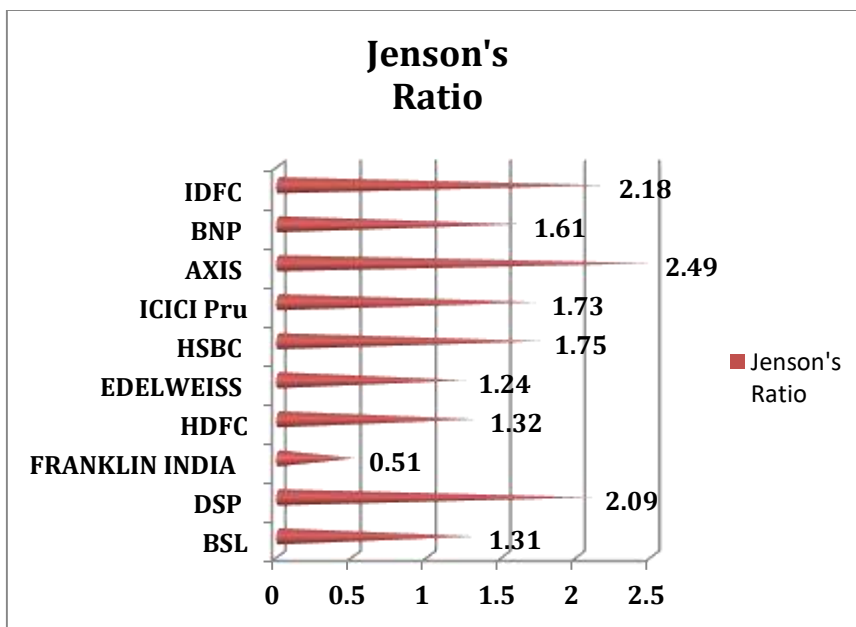


Figure 8: Jenson Ratio in ELSS Growth Category

From the above chart it is clear that Axis bank long term equity fund has highest Jenson Ratio of 2.49 followed by IDFC Tax advantage fund (2.18) and DSP Blackrock (2.09). It is seen that Franklin India Tax shield has lowest Jenson ratio of 0.51. A positive Jenson alpha means the fund has outperformed its benchmark index. Correspondingly, a negative Jenson alpha would indicate an underperformance. Hence all the funds under study have performed well as compared to benchmark index as they have positive Jenson alpha.

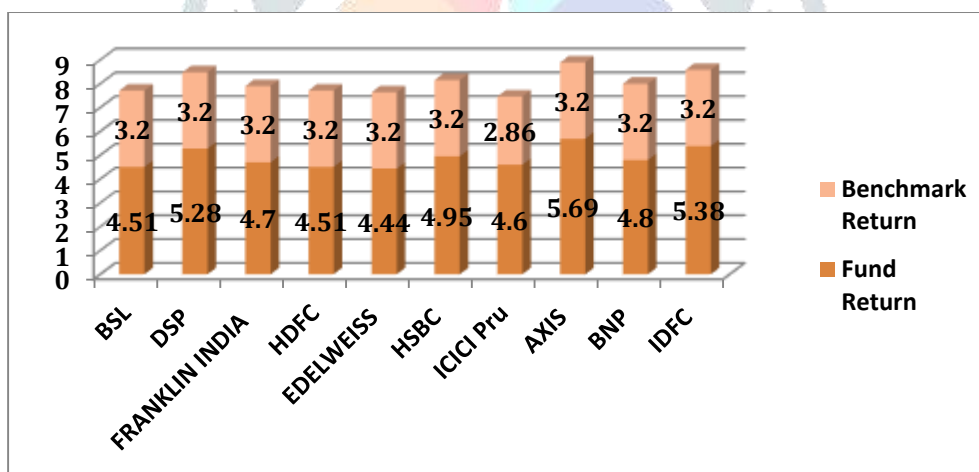


Figure 9: Comparison between fund return & benchmark return (ELSS-Growth Fund)

Above chart shows comparative analysis between returns given by select ELSS funds in growth category and returns given by benchmark index. It is clear that among all Axis Long Term Equity fund has superior returns i.e. 5.69% as compared to benchmark index (3.2%) followed by IDFC Tax Advantage Fund(5.38%)& in third place is DSP Blackrock having returns of 5.28% as compared to benchmark index.

### 5.FINDINGS

#### Findings related to performance of mutual fund in ELSS Growth category

1. Among ELSS Growth fund average return given by top three funds are Axis Long Term Equity fund giving the highest return of 5.69% followed by IDFC Tax Advantage Fund giving return of 5.38% ,DSP Blackrock Tax saver fund of 5.28%.
2. Out of 10 funds chosen for the study Edelweiss ELSS Fund-Growth is at end of the list giving average return of 4.44%.
3. HDFC Tax saver fund has highest risk/standard deviation(9.08) followed by ICICI Prudential Long term equity fund(8.6) and HSBC Tax saver equity fund(8.04)

4. HDFC Tax saver fund has highest beta i.e. **1.45** followed by ICICI Pru Long Term Equity Fund having beta of **1.41** and HSBC Tax saver equity fund with beta value of **1.38**.
5. IDFC Tax advantage fund has highest Sharpe ratio of 0.59 followed by Axis Bank Long term equity fund having Sharpe ratio of 0.57 later by Franklin India Tax shield with Sharpe of 0.53.
6. IDFC Tax advantage fund is having highest Treynor Ratio of 0.52 followed by DSP Blackrock (0.50) and Axis Long term equity fund (0.44).
7. Axis bank long term equity fund has highest Jensen Ratio of 2.49 followed by IDFC Tax advantage fund (2.18) and DSP Blackrock (2.09)
8. Franklin India Tax shield has lowest Jensen ratio of 0.51.
9. In case of ELSS Growth funds among all Axis Long Term Equity fund has superior returns i.e. 5.69% as compared to benchmark index (3.2%) followed by IDFC Tax Advantage Fund(5.38%)& in third place is DSP Blackrock having returns of 5.28% as compared to benchmark index.
10. Average returns from all the ELSS Growth funds undertaken in this research have outperformed benchmark index as the average return by benchmark is 3.2% whereas returns from growth funds are more than 4.5%.

## 5. SUGGESTIONS

1. Investors should invest in funds like Axis Long Term Equity fund, IDFC Tax Advantage Fund, DSP Blackrock Tax saver fund as they are giving very high return.
2. Before investing into mutual fund investor should look into expense ratio, as it tell us about the fees charged by mutual fund houses.
3. Axis Long Term Equity fund merged as an ideal fund as it has less expense ratio i.e.1.97 moreover the average return given by this fund in good in growth category. So investor should definitely invest in this scheme.
4. The funds which have positive Jensen alpha are those which have outperformed benchmark index. So investors can gain on ELSS –Growth funds as they are high Jensen alpha funds. Investors can avoid investing in funds having negative Jensen alpha as in case of few funds in ELSS-Dividend category as it will lead to losses.
5. Investors can focus on funds with high treynor's ratio as it indicates excess returns generated over government bonds.
6. Risk averse investors should avoid funds which are risky as well as with high beta and invest in funds like Axis Long term equity fund, IDFC Tax advantage fund as well as Franklin India tax shield.

## 7. CONCLUSION

Mutual funds have emerged as an excellent avenue for investment. Especially ELSS funds are in huge demand as it is suitable for salaried people who want to save income tax under 80 cc but they have lock in period of 3 years. From the study it is clear that ELSS –Growth funds are outperforming benchmark index and doing quite well. Moreover there are funds like Axis long term equity funds, IDFC Tax advantage, Franklin Templeton tax saver which have giving good average returns and also giving excess return compared to government bonds.

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