

Equity Linked Saving Schemes (ELSS): A Rewarding Investment Option Under Section 80C for a Common Man

Narendra Singh

Research Scholar --- JJT University, Rajasthan

Abstract: In the growth of Indian economy and capital market Indian mutual fund industry is playing an important role. Investment in the equity-linked savings schemes (ELSS) is quite popular among small investors for taking tax incentives under section 80C. This study is carried out to fulfil the objectives of understanding risk return profile of these schemes of various mutual funds. The study aims to examine the relative performance of tax saving schemes of top ten Mutual funds over a period of last 3 years. The statistical tools like CAGR, standard deviation, beta and the risk adjusted performance measures suggested by Treynor and Sharpe are employed. The study reveals that the return given by equity linked saving schemes by some mutual funds are far better than return generated by other investment options available under section 80C.

KEYWORDS: Equity Linked Savings Scheme (ELSS), Sharpe Index, Treynor Index, CAGR, Beta, Standard Deviation.

I. Introduction

Mutual funds have been growing as one of the important channel of mobilising small amount of savings from a large number of individuals. After collection this amount is invested in different type of assets which have different level of risks and thereby creating a diversified portfolio. Over the years Mutual Funds have played a very important role in the development of capital market and thereby in the progress of Indian economy as a whole.

The equity schemes of mutual funds are a good source of investments where investor accumulates funds giving market related returns but with minimum risk due to diversified nature of portfolio.

In order to encourage small investors for generating market related returns on the savings which they compulsorily do in order to save tax by using provisions of section 80C of Income Tax Act, in the year 1992 the Government of India introduced the Equity Linked Savings Scheme (ELSS). Under section 80C of Income Tax Act, an individual can claim deduction from taxable income to the extent of Rs 1,50,000, on account of following:-

- a) Life Insurance premium paid,
- b) Deposit in provident fund / superannuation fund
- c) Investment in fixed deposit / Bonds
- d) Investment in NSC
- e) Tuition fee of 2 children
- f) Repayment of Housing loan (principal component)
- g) Stamp duty / registration fee / other expenses for purchase / construction of residential house
- h) Investment in mutual fund eligible for section 80C (ELSS)
- i) Other investment / payment eligible for section 80C.

While analysing the investment option available to an individual, it has been found that investment in ELSS of mutual funds is one of the best option for individuals, who do not have market knowledge but with the help of professionally managed portfolio by fund managers can generate handsome returns. However investor has to compulsorily remain in the scheme for minimum period of 3 years. Further as per the regulatory requirement minimum 80% of the funds collected have to be invested in equities as compared to other equity oriented schemes where minimum investment in equities is 65%. For this study the performance of Equity linked saving schemes of top 10 mutual funds in terms of AUM as per AMFI report dated 31/12/2018 was analysed.

II. Literature Review

Sharpe W (1966) carried out research on measurement and prediction of mutual fund performance. He concluded that performance can be evaluated in terms of a measure which considers average return as well as risk. While measuring the performance of various mutual funds with this measure difference is observed for different funds. This difference may be due to the difference in expense ratios, level of diversification and lack of proper research before investing in companies.

Boudreaux Denis, et al (2007) did an empirical analysis of performance of International Mutual Funds. They observed that more and more investors are being attracted towards international funds with expectation of getting higher returns. They concluded that nine out of ten international mutual funds outperformed the US market. Further they also observed that some funds based on emerging market portfolio, Latin America portfolio etc. generated return more than 10 percent as compared to returns generated by US Mutual Funds.

Bawa S Kaur and S Brar (2011) carried out study on performance evaluation of growth schemes of mutual funds, they concluded that performance of private sector mutual funds is better as compared to public sector mutual funds. Due to better performance private sector Mutual funds are able to mobilise more funds from investors.

Rekha U and Rajender K (2014) appraised the performance of Hybrid growth funds. They used risk adjusted evaluation method like Sortino Ratio, Sharpe ratio and Treynor ratio. They concluded that there is a mismatch in the returns generated by Equity oriented hybrid funds and Debt oriented hybrid funds. During the study period the returns generated by hybrid funds were average.

Kadamdt K K et al (2015) carried out research on performance of ELSS of Indian Mutual funds. They concluded that ELSS was introduced with the purpose of encouraging retail investors, however on the popularity point of view these schemes have not been found being very popular tax saving instrument. One of the reason may be the inconsistency in performance of ELSS overtime.

Kumar Jitendra and Adhikary Anandita (2015) carried out an analysis of tax saving schemes of various mutual funds. They concluded that tax saving schemes of private sector mutual funds outperformed the market. However the performance of tax saving schemes of public sector mutual funds was not satisfactory. They also concluded that no linear relationship exists between return generated by funds and market return.

Suvarna Akshatha and Ishwara P (2015) carried out analysis of equity diversified funds. They concluded that due to enormous growth mutual fund industry has emerged as an important financial intermediary. In the efficiency of resource allocation and financial system stability this industry is playing a very vital role. They concluded that majority of the schemes outperformed the benchmark and fund managers are having good stock selection skills.

Nandhini R and Rathnamani V (2017) appraised the performance of equity large cap and mid cap funds. They concluded that Indian focussed mutual funds have been offering investors opportunities for long term capital gains. Indian equities have outperformed other asset classes in India and those available globally over long term period. Therefore investors who seek diversification globally should invest in mutual funds having Indian equities in the portfolio.

Kalyan N and Gautami (2018) did a study on risk & Return analysis of some Mutual Fund Schemes. During the study contra fund of 5 mutual funds were studied. They concluded that mutual fund returns generally depend on the market performance. Mutual fund is the only route through which investors can expect good returns due to investment in professionally managed portfolio of securities.

Thakur Shailesh S (2019) carried out a comparative analysis of performance of various mutual fund schemes in respect of Post retirement needs. On comparing the performance of 4 schemes which are specifically designed for retirement benefit. It was observed that over the period of last one year the schemes have given negative returns as compared to benchmark returns. However while comparing the other periods the performance of these schemes was better.

III. Statement of the Research Problem

In order to save tax investors have been investing in different avenues as per options available under section 80C. After the introduction of ELSS option, some of the investors have earned returns from ELSS which were far from their expectations. Lot of investors are yet to reap the benefits of this option. Every investor intends to invest their hard earned money in securities which give maximum return with least risk and also give tax benefits. The well-chosen ELSS serves all the three purposes. Hence this study is undertaken by comparing the performance of tax saving schemes of top ten mutual funds as per AUM.

IV. Objectives of the study

The main objectives of the study are:

1. To understand the risk return profile of tax saving schemes under ELSS of top ten mutual funds.
2. To examine the relative performance among tax saving schemes by applying risk adjusted fund performance measure using Sharpe Index and Treynor Index models.

V. Research Methodology

The study makes a performance evaluation of Tax saving Schemes of top ten Mutual Funds over a period of 3 years (as on December 2018). The required data has been collected from the official web sites of the mutual funds and AMFI. Risk free rate has been taken as 6.73% (FIMMDA- MIBOR).

VI. Tools for the Analysis

The following statistical tools and parameters have been used to measure the various types of risks of the selected mutual fund schemes:

Standard Deviation (σ) and Beta (β).

For the performance evaluation of the schemes following ratios have been used in this study:

Sharpe Index and Treynor Index.

On the basis of the following formulae performance evaluation has been done

Sharpe Index

Sharpe Index is used to calculate excess return over risk free return generated per unit of total risk. Risk is calculated with the help of statistical parameter standard deviation. The formula used to calculate the Sharpe Index:

Sharpe Index = [(Return from the Fund - Risk-free Rate of Return) / Total Risk of Fund] or,

Sharpe Index = [(Rp-Rf)/ σ].

Treynor Index

Treynor Index is used to calculate excess return over risk free return generated per unit of systematic risk. The systematic risk is calculated with the help of Beta. The formula used to calculate the Treynor Index:

Treynor Index = [(Return from the Fund - Risk-free Rate of Return) / Beta] or,

Treynor Index = [(Rp-Rf)/ β]

VII. Limitations of the study

One major limitation of the study is that the present research work has been done by selecting tax saving schemes of only top ten Mutual Funds. However, there are other tax saving schemes offered by various Mutual Funds which have not been considered for the study.

VIII. Results and Discussion

The data regarding Tax saving schemes of top ten mutual funds in terms of AUM as per AMFI report of December 2018 have been collected. On analysing the data the comparative performance is given in Table 1.

Table 1 – The performance of Tax saving schemes over the last 3 years

Sr. No.	Name of AMC	Scheme Name	3Year CAGR (%)	Std. Dev (σ) %	Beta (β)
1	HDFC MF	HDFC TaxSaver	9.92	4.832	1.016
2	ICICI Pru MF	IP - Long Term Equity Fund (Tax Saving)	9.58	13.71	0.84
3	SBI MF	SBI Magnum Tax Gain	7.57	15.14	0.95
4	A Birla Sunlife MF	AB Sunlife Tax Relief96	12.2	14.97	0.94
5	Reliance MF	Reliance Tax Saver Fund	6.48	5.39	1.14
6	UTI MF	UTI Long Term Equity Fund	8.74	12.73	0.96
7	Kotak MF	Kotak Tax Saver	11.4	15.36	0.98
8	Franklin T MF	Franklin India Tax shield	9.44	3.79	0.81
9	Axis M F	Axis Long term Equity Fund	11.89	14.42	0.93
10	DSP M Fund	DSP Tax Saver Fund	11.88	16.47	1.05

From the table above it is observed that out of 10 mutual funds, 8 mutual funds have given more than 8% compounded annual growth rate. Seven mutual funds have given more than 9% compounded annual growth rate. 4 mutual funds have given more than 11% compounded annual growth rate. The maximum compounded annual growth rate was 12.2%.

If we compare these returns generated by tax saving schemes of mutual funds with other avenues available to common investors for availing benefits under section 80C, it is observed that some of the mutual fund schemes are performing very well.

On comparing the performance of mutual funds among themselves, it is observed that the performance of AB Sunlife Tax Relief96 launched by Aditya Birla Sunlife Mutual Fund was the best with CAGR being 12.2%. This was followed by Axis Long term Equity Fund launched by Axis Mutual Fund with CAGR of 11.89% and DSP Tax Saver Fund launched by DSP M Fund as 11.88%. One more scheme Kotak Tax Saver launched by Kotak Mutual Fund also gave compounded annual growth rate more than 11% i.e. 11.4%.

The three schemes HDFC TaxSaver launched by HDFC Mutual Fund, IP - Long Term Equity Fund (Tax Saving) launched ICICI Pru Mutual Fund and Franklin India Tax shield launched by Franklin Templeton Mutual Fund gave compounded annual growth rate more than 9%. Their CAGR being 9.92%, 9.58% and 9.44% respectively.

On the down side we observe that compounded annual growth rate of Reliance Tax Saver Fund launched by Reliance Mutual Fund was the least as 6.48%. Above it was SBI Magnum Tax Gain launched by SBI MF and UTI Long Term Equity Fund launched by UTI Mutual Fund with compounded annual growth rate being 7.57% and 8.74% respectively.

On comparing these schemes with the perspective of risk taken to generate the return. It is observed that DSP Tax Saver Fund launched by DSP M Fund has been most risky with standard deviation being 16.47%, followed by Kotak Tax Saver launched by Kotak Mutual Fund with standard deviation being 15.36% and SBI Magnum Tax Gain launched by SBI MF with standard deviation being 15.14%.

Four other schemes whose standard deviation was more than 10% were AB Sunlife Tax Relief96 launched by Aditya Birla Sunlife Mutual Fund, Axis Long term Equity Fund launched by Axis Mutual Fund, IP-Long Term Equity Fund launched by ICICI Pru Mutual Fund and UTI Long Term Equity Fund launched by UTI Mutual Fund. Their standard deviation being 14.97%, 14.42%, 13.71% and 12.73% respectively.

Risk point of view the best performer with least risk was Franklin India Tax shield launched by Franklin Templeton Mutual Fund with standard deviation being 3.79%. Below it was HDFC TaxSaver launched by HDFC Mutual Fund and Reliance Tax Saver Fund launched by Reliance Mutual Fund with standard deviation being 4.832% and 5.39% respectively.

From systematic risk (Beta) point of view three schemes have been high beta schemes viz. Reliance Tax Saver Fund launched by Reliance Mutual Fund, DSP Tax Saver Fund launched by DSP M Fund and HDFC TaxSaver launched by HDFC Mutual Fund with their beta being 1.14, 1.05 and 1.016 respectively. All other schemes had beta less than 1.

The tax savings schemes of all these 10 mutual funds have also been compared on the basis of risk adjusted returns. For this two measures Sharpe ratio and Treynor ratio have been used. The values of these two measures along with ranking of respective schemes are given in the following table:-

Sr. No.	Name of AMC	Scheme Name	Sharpe Ratio		Treynor Ratio	
			Value	Rank	Value	Rank
1	HDFC MF	HDFC TaxSaver	0.053	IX	0.0025	IX
2	ICICI Pru MF	IP - Long Term Equity Fund (Tax Saving)	0.25	V	0.0408	V
3	SBI MF	SBI Magnum Tax Gain	0.113	VIII	0.0180	VII
4	A Birla Sunlife MF	AB Sunlife Tax Relief'96	0.37	I	0.0589	I
5	Reliance MF	Reliance Tax Saver Fund	0.02	X	0.0009	X
6	UTI MF	UTI Long Term Equity Fund	0.16	VII	0.0212	VI
7	Kotak MF	Kotak Tax Saver	0.34	III	0.0533	III
8	Franklin T MF	Franklin India Taxshield	0.21	VI	0.0098	VIII
9	Axis M F	Axis Long term Equity Fund	0.36	II	0.0558	II
10	DSP M Fund	DSP Tax Saver Fund	0.31	IV	0.0486	IV

It is observed from the data given above that as per Sharpe ratio, the AB Sunlife Tax Relief'96 launched by Aditya Birla Sunlife Mutual Fund is at number 1, followed by Axis Long term Equity Fund launched by Axis Mutual Fund, Kotak Tax Saver launched by Kotak Mutual Fund and DSP Tax Saver Fund launched by DSP M Fund at number 2, 3 and 4 respectively.

IP-Long Term Equity Fund launched by ICICI Pru Mutual Fund, Franklin India Tax shield launched by Franklin Templeton Mutual Fund, UTI Long Term Equity Fund launched by UTI Mutual Fund and SBI Magnum Tax Gain launched by SBI MF are at number 5, 6, 7 and 8 respectively.

HDFC TaxSaver launched by HDFC Mutual Fund and Reliance Tax Saver Fund launched by Reliance Mutual Fund are at number 9 and 10 respectively.

On the basis of Treynor ratio, the ranking of first 5 mutual funds and last two mutual funds are the same as that on the basis of Sharpe ratio. There is change in 6, 7 and 8 number. Here UTI Long Term Equity Fund launched by UTI Mutual Fund, SBI Magnum Tax Gain launched by SBI MF and Franklin India Tax shield launched by Franklin Templeton Mutual Fund are at number 6,7 and 8 respectively.

IX. Conclusion

The present study has examined the performance of ten tax saving mutual fund schemes during the last three years period. The present study has compared the schemes of top ten mutual funds in terms of AUM. Two tables give the summary of performance of these schemes. The present study provides some insights on Equity Linked Saving Schemes of top ten mutual funds, so as to upkeep the common investors in taking the prudent decisions while investing their money for taking tax benefit as per section 80C. If investors do some analysis before taking investment decisions, they will be able to generate handsome returns as compared to limited return given by other investment options available under section 80C.

References

1. Bawa SK and Brar S (2011), Performance evaluation of growth schemes of Mutual Funds in India – A Public Private comparison, International Journal of Multidisciplinary Research, Vol.1, issue 7 November 2011 (page number 74 – 89).
2. Boudreaux and Uma Rao SP (2007), Empirical Analysis of International Mutual Fund Performance, International Business & Economic Research Journal May 2007, Vol 6 number 5, page 19-22.
3. Kadambat K K , et al (2015), Investment Performance of Equity Linked Saving Schemes (ELSS) of Indian Mutual Funds, International Journal of Recent Scientific Research, Vol 6 Issue 5 , pp 4076 - 4083
4. Kalyan Nalla Bala and Gautami S (2018), A study on risk and return analysis of the selected mutual fund schemes in India. International Journal of Research in social sciences. Vol 8 issue 5 (pp 212 – 212).
5. Kumar Jitendra and Adhikary A (2015), Comparative Analysis of Performance of Tax Saving Mutual Funds : A Case Study of Selected Asset Management Companies, International Journal of Multidisciplinary Approach and Studies, Vol 02 No.1,(pp 61 – 72)
6. Nandhini R and Rathnamani V (2017), A Study on the Performace of Equity Mutual Funds (With special reference to equity large cap and mid cap mutual funds), IOSR Journal of Business and Management (IOSR-JBM)Vol 19 Issue 2 Feb 2017(pp 67 – 72)
7. Rekha U and Rajender K (2014), Portfolio Performance Evaluation of Mutual Funds in India – A Study of Hybrid Growth Funds, Global Journal of Management and Business Research – C Finance, vol 14 issue 4 Year 2014.
8. Sharpe W (1966), Mutual Fund Performance, The Journal of Business, Vol 39, No.1 (Jan 1966) pp 119 – 138.
9. Suvarna A and Ishwara P (2015), Mutual Fund Performance- an empirical investigation of selected equity diversified schemes in India, International Journal of Research in Commerce, Economics and Management, Vol 5 Issue 1 (pp 30-36).
10. Thakur S S (2019), A Comparative Analysis of Financial Performance of Selected Mutual Funds Schemes Dedicated to Post Retirement Needs, UNNAYAN- International Bulletin of Management and Economics Volume X, January 2019 (pp 253 – 263)
11. Websites of respective Mutual Funds and AMFI

