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

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Abstract: Mutual funds are created by pooling investor savings in several securities with varied risk-return relationships. Open ended mutual funds of the sort called equity linked saving schemes give investors tax benefits under section 80 C of the Income Tax Act of 1961.Through the use of several methods, such as beta, Sharpe, and Jensen ratios, this research attempts to analyse the performance of ELSS Growth funds. In order for investors to achieve their investing goals, it also recommends appropriate ELSS plans to them. 10 ELSS growth funds are examined for the study, which is conducted over a 5-year period.

Key words: Mutual funds, ELSS, Income Tax Act, UTI, Investors, Risk, Return

Introduction

A mutual fund is a type of financial vehicle that combines shareholder funds to invest in securities such as stocks, bonds, money market instruments, and other assets. Professional money managers run mutual funds, allocating the assets and attempting to generate capital gains or income for the fund's investors. The portfolio of a mutual fund is set up and kept up to date in accordance with the specified investment goals in the prospectus. Mutual funds give small or individual investors access to professionally managed portfolios of stocks, bonds, and other securities. As a result, each shareholder shares proportionately in the fund's profits or losses. Mutual funds invest in a huge variety of securities, and performance is typically gauged by changes in the fund's total market capitalization, which are derived from the performance of its underlying investments combined.

History of mutual funds in India

On the initiative of the Indian government and reserve bank, Unit Trust of India (UTI) was established in 1963, marking the beginning of the mutual fund industry in India. Four distinct phases can be used to broadly categorize the development of mutual funds in India.

Phase-1 From 1964 to 1987

In 1963, a parliamentary act created Unit Trust of India (UTI). It was established by the Reserve Bank of India and operated under its regulatory and managerial supervision. The Industrial Development Bank of India (IDBI) replaced the RBI as the regulatory and administrative authority over UTI in 1978 after it was delinked from the RBI. Unit Scheme 1964 was UTI's inaugural initiative. UTI managed assets worth Rs. 6,700 crores by the end of 1988.

Phase- 2 From 1987-1993

Non-UTI, public sector mutual funds launched by public sector banks, Life Insurance Corporation of India (LIC), and General Insurance Corporation of India (GIC) entered the market in 1987. In June 1987, SBI Mutual Fund became the first non-UTI Mutual Fund. It was followed by Can bank Mutual Fund in December 1987, Punjab National Bank Mutual Fund in August 1989, Indian Bank Mutual Fund in November 1989, Bank of India in June 1990, and Bank of Baroda Mutual Fund in October 1992. While GIC had launched its mutual fund in December 1990, LIC had established its mutual fund in June 1989. The mutual fund sector had assets under management totalling Rs. 47,004 crores at the end of 1993.

Phase-3 From 1993-2003

The Indian mutual fund industry experienced a new era in 1993 with the entry of private sector funds and the establishment of the first Mutual Fund Regulations. The first private sector mutual fund, Kothari Pioneer, was registered in 1993 and merged with Franklin Templeton. The SEBI (Mutual Fund) Regulations 1996 replaced the 1993 regulations, governing the sector. The number of mutual fund houses in India increased, with 33 mutual funds with a combined asset value of Rs. 1,21,805 crores as of January 2003. The Unit Trust of India was the largest mutual fund with assets under management of Rs. 44,541 crores.

Phase-4 From February 2023

The Unit Trust of India (UTI) was restructured in 2003, dividing it into two organizations: the Specified Undertaking and the UTI Mutual Fund. The former had assets under management of Rs. 29,835 crores, similar to US 64 schemes and assured return schemes. The Specialized Undertaking is exempt from Mutual Fund Regulations, while the UTI Mutual Fund, sponsored by SBI, PNB, BOB, and LIC, operates in accordance with the regulations. The mutual fund industry has experienced consolidation and growth since the bifurcation of the former UTI, which had over Rs. 76,000 crores under management in March 2000.

Equity Linked Savings Scheme (ELSS)

High-yield mutual funds include ELSS funds. In contrast to conventional mutual funds, the risks associated with market volatility are higher with ELSS. The three-year lock-in term of the equity-linked savings plan makes it a favourite among investors. Additionally, it offers better returns than PPF and NSC investments. They also qualify for tax deductions. In accordance with Section 80C of the Indian Income Tax Act, ELSS provides tax benefits.

Options for investing in ELSS funds

A) Growth option

Growth option revenue is not dispersed to unit holders and the investor does not get any dividends while holding the fund. Any revenue or profit generated by the fund raises its NAV, and vice versa. Any time the investor sells his or her holdings, a long-term capital gain or loss will be realized.

B) Dividend option

In this option, the fund pays dividends to investors from income received by the fund. The fund announces the distribution date, however if the fund experiences a loss, no dividends will be paid out. Investors are not required to pay taxes on any dividends they receive.

C) Dividend reinvestment option

The investor has the opportunity to reinvest dividends into the same plan under this option. When the markets are doing well and are expected to continue doing so, this alternative is preferable.

Review of Literature

Arul Prasad.P, Vijayakumar.L (2017) analysed the effect of several demographic factors on investors' attitudes toward mutual funds was examined. In addition, it concentrated on the advantages that investors receive from mutual funds. Respondents from a range of demographic profiles were polled for this study. According to the report, most investors have no interest in investing in mutual funds.

B. Kishori and N. Bhagyasree (2016) examined the success of transition economy open-ended, growth-oriented equity plans. 14 out of 30 mutual fund schemes beat the benchmark return, according to the analysis. The outcomes also demonstrated that a lack of variety had caused some of the schemes to perform poorly. All of the schemes in the analysis had positive Sharpe ratios, which demonstrated that the funds were yielding returns higher than the risk-free rate.

Mohanasundari1 .M Vetrivel S.C & Lavanya R.E. (2016) The analysis of risk and return in Indian equity linked savings plans shows past performance doesn't predict future outcomes. Some schemes have positive risk-return relationships, while most have successful initial results. Key factors influencing purchasing decisions include liquidity, rate of return, tax advantages, high return, price, capital appreciation, and market share.

Krishna Kumar Kadambat, Raghavendra T. S., and B. M. Singh (2015) The study analysed ELSS Funds' investment performance over 13 years, comparing it with 12 top Diversified Equity Funds and seven benchmark indices. Results showed ELSS funds underperformed and exhibited varying performance over time.

Ajay Mittal and Dr. V. K. Agarwal (2015) assessed the growth rates of the public and private sectors' ELSS (tax-saving mutual funds) and the Indian mutual fund industry. The ELSS growth rate was higher in the early years, but after the 2008 financial crisis, it turned negative for a while, and growth rate consistency was lost.

Research Methodology

A systematic or step-by-step process is known as research methodology, and it is used to carry out the research process. To accomplish research goals, a variety of research methods, including qualitative and quantitative techniques, are used. It can also be described as a strategy for solving a research issue.

Objectives

1. To evaluate the effectiveness of different mutual fund schemes.
2. To recommend an appropriate ELSS plan to the investors.

Statement of the Problem

The goal of the study is to evaluate the market performance of a few select ELSS mutual funds and recommend an appropriate mutual fund strategy that will aid the participants in attaining their investment goals.

Scope of the Study

- Investors who intend to invest in ELSS funds will find this study useful.
- This study will provide insight into the procedures/approaches employed to evaluate the performance of mutual funds.
- The relationships between numerous parameters, such as pricing, returns, AUM, and others that influence customer decision-making will also be better understood as a result of this study.

Limitations of the Study

- As this analysis will concentrate on 10 Growth schemes under ELSS, the sample size is constrained.
- The five-year time frame under investigation is from 2017 to 2022.

Research Design

A research design is a strategy for solving research problems, divided into exploratory and conclusive groups. Exploratory research examines various aspects of the problem but doesn't provide concrete solutions. Conclusive research uses quantitative techniques for data collection and analysis, allowing researchers to make informed decisions.

Data Collection

- **Primary data**

Primary data is first-hand knowledge or data that is gathered by techniques including interviews, surveys, comments, and discussions, among others.

- **Secondary data**

This study's foundation is secondary data, which was gathered from sources including factsheets, reports, and the websites of particular AMCs and the National Stock Exchange. In addition to these sources, books, magazines, and journals were also taken into consideration for the study.

Sample Size

For this study the sample size is 10 ELSS growth funds such as DSP Tax Saver Fund, Mirae Asset Tax Saver Fund, Invesco India Tax Plan, Quant Tax Plan, ICICI Prudential Long Term Equity Fund (Tax Saving), Franklin India Tax shield Fund, Quantum Tax Saving Fund, HSBC ELSS Fund, Bandhan Tax Advantage (ELSS) Fund, and Baroda BNP Paribas ELSS Fund

Sampling Tools

Mutual fund performance is measured using metrics including average returns, standard deviation, beta, Sharpe ratio, Jensen ratio, and Treynor ratio.

Statistical Tool Used

Data analysis was done with Microsoft Excel.

Data Analysis & Interpretation

- Performance analysis of ELSS growth funds

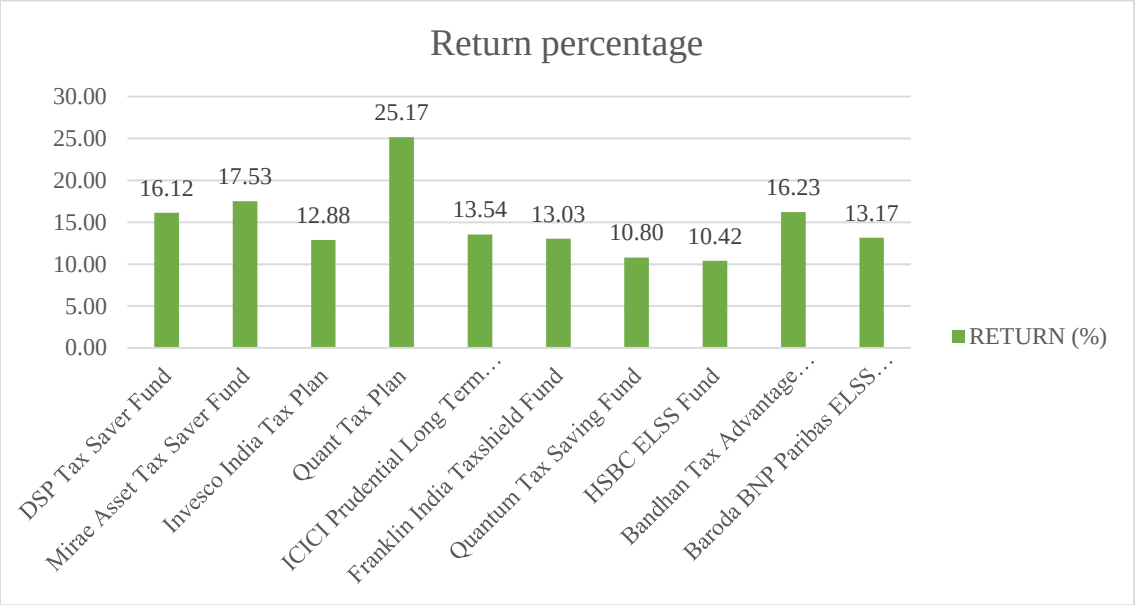

Figure 1: Return in ELSS Growth Category

From the above graph, it is clear that the top three funds in terms of returns are the Bandhan Tax Advantage (ELSS) Fund with a 16.23% return, Mirae Asset Tax Saving Fund with a 17.53% return, and Quant Tax Plan with a greatest return of 25.17%. The last of the 10 funds selected, the HSBC ELSS Fund, had a return of 10.42%.

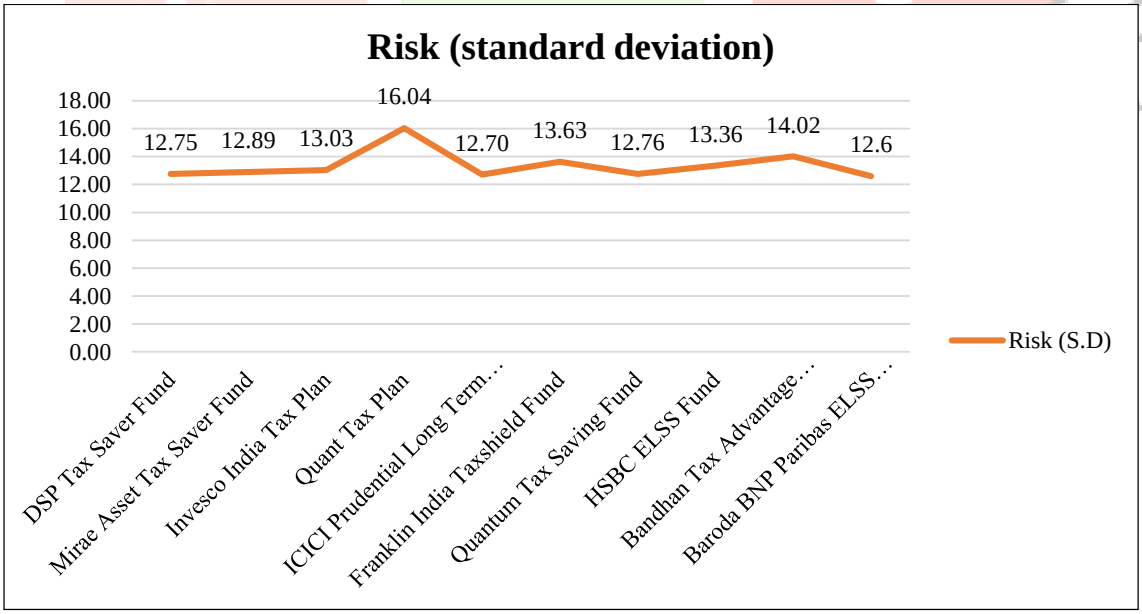

Figure 2: Risk in ELSS Growth Category

From the above chart, with a risk score of 16.04, the Quant Tax Plan has the highest risk, followed by the Bandhan Tax Advantage (ELSS) fund with a risk score of 14.02 and the Franklin India Tax shield Fund with a risk score of 13.63.

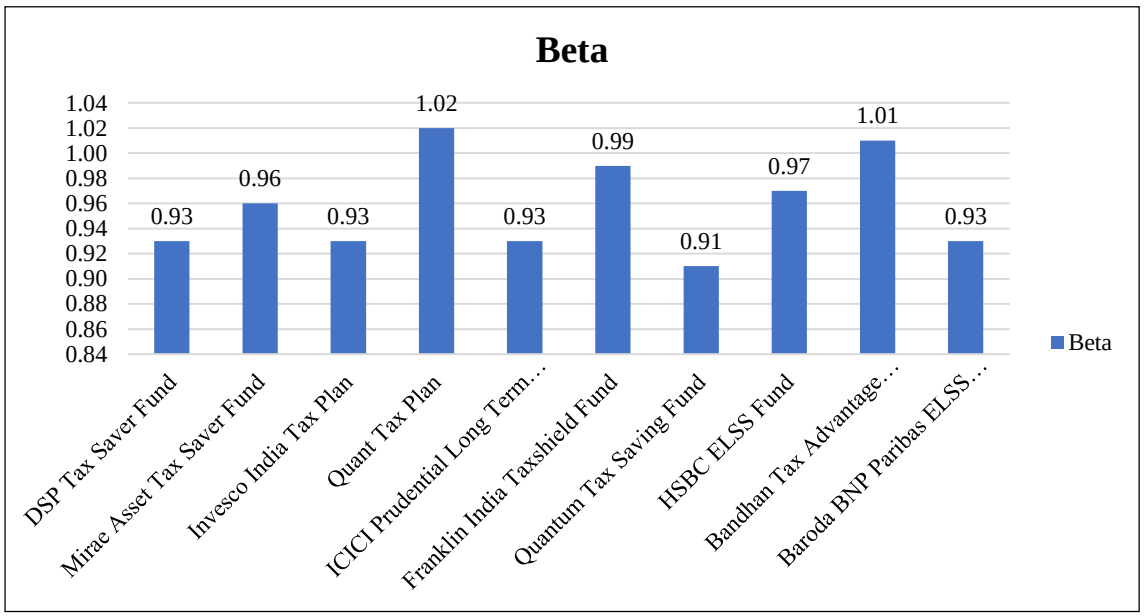

Figure 3: Beta in ELSS Growth Category

Quant Tax Plan fund has the highest beta i.e., 1.02 followed by Bandhan Tax Advantage (ELSS) fund having beta of 1.01. Beta more than one signifies that funds are volatile than benchmark index which means from the selected ELSS funds two of them are highly volatile and remaining are low volatile compared to benchmark.

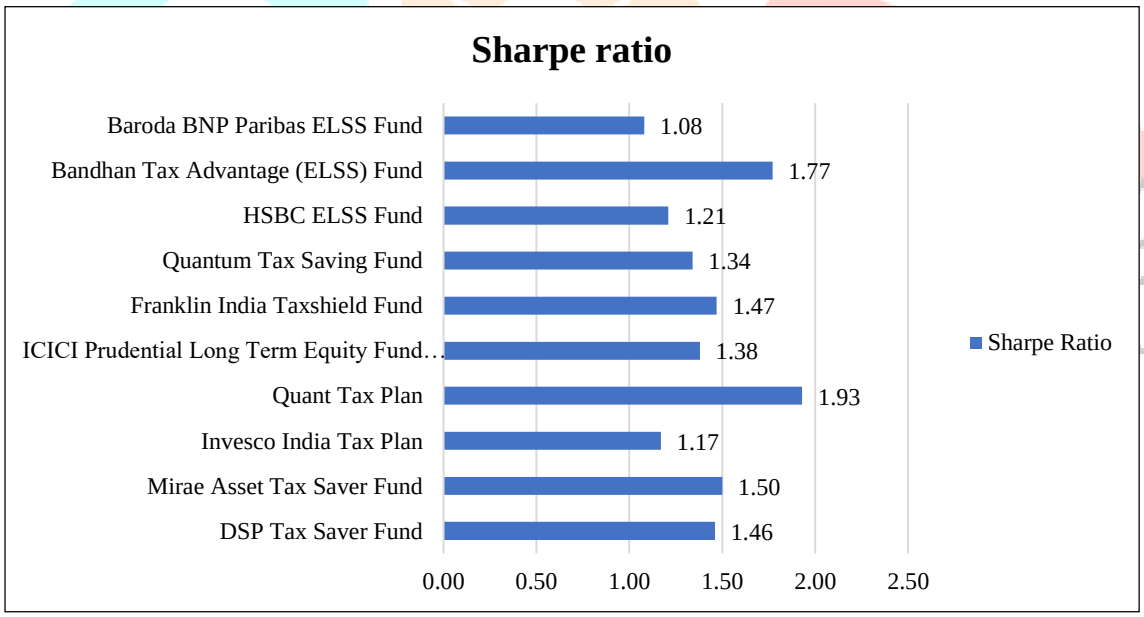

Figure 4: Sharpe ratio in ELSS Growth Category

The preceding figure shows that the Quant Tax Plan has the greatest Sharpe ratio (1.93), followed by the Bandhan Tax Advantage (ELSS) fund (1.77), the Franklin India Tax shield fund (1.47). If an investor bases their decision on the Sharpe ratio, Quant Tax Plan is showing greater returns. The higher the Sharpe ratio, the better the fund performance.

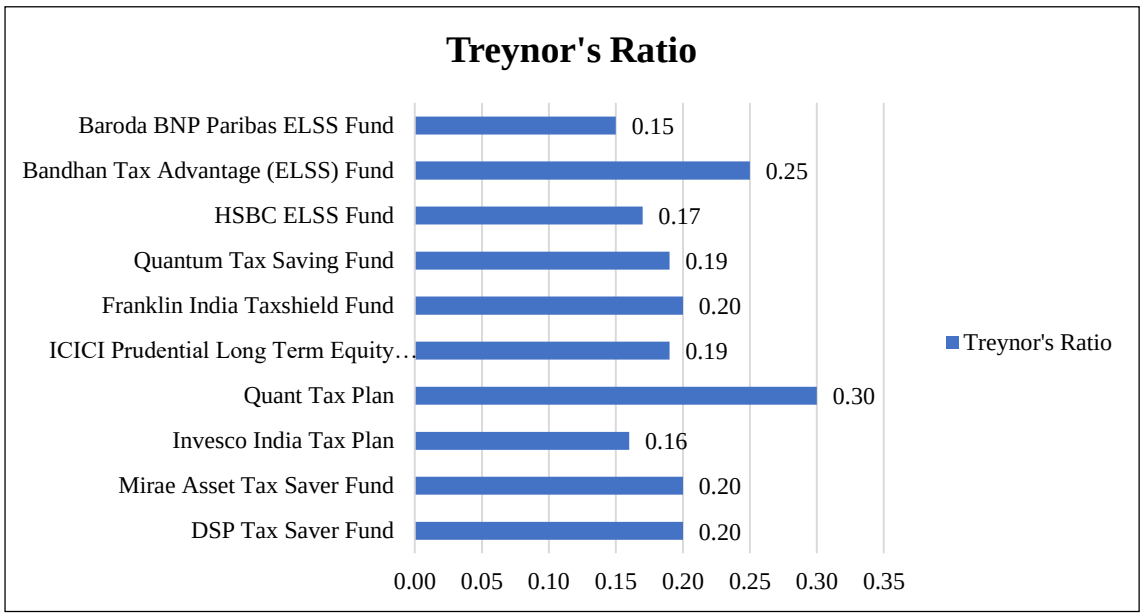

Figure 5: Treynor's ratio in ELSS Growth Category

It is evident from the preceding graph that the Treynor ratio for Quant Tax Plan is 0.30, followed by Bandhan Tax Advantage (ELSS) fund (0.25), Franklin India Tax shield fund (0.20), Miare Asset Tax Saver Fund (0.20), and DSP Tax Saver Fund (0.20). The Treynor ratio, often referred to as the reward-to-volatility ratio, is the additional return that a mutual fund generates above and above the risk-free rate of return.

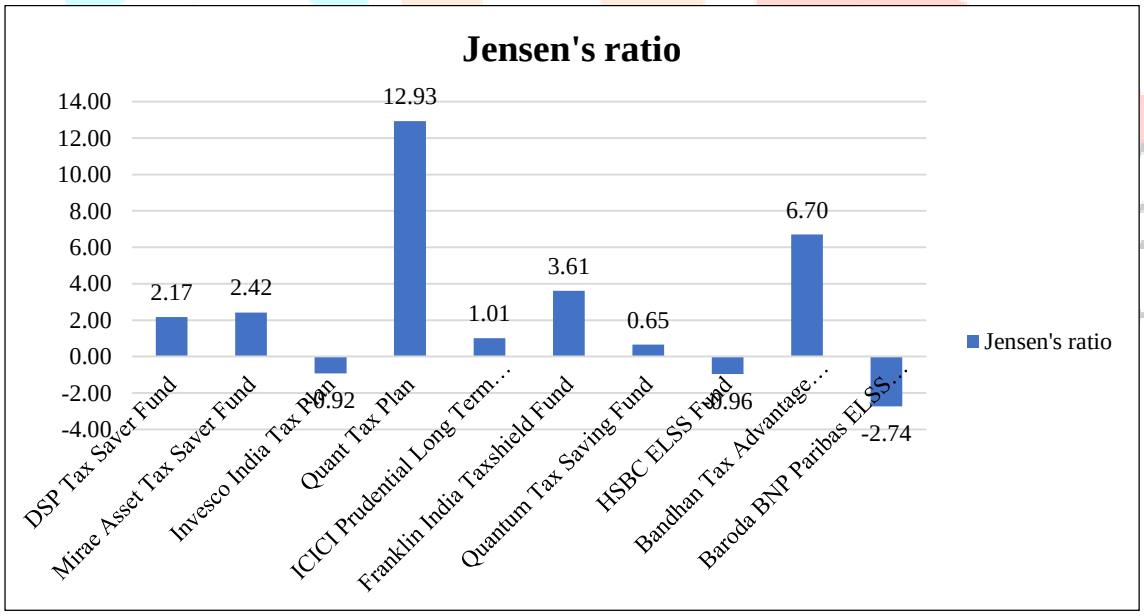

Figure 6: Jensen's ratio in ELSS Growth Category

According to the aforementioned data, Bandhan Tax Advantage (ELSS) fund has a Jensen ratio of 6.70, while Quant Tax Plan has the highest Jensen ratio at 12.93. The HSBC ELSS Fund, Invesco India Tax Plan, and Baroda BNP Paribas ELSS Fund all have negative Jensen ratios of -2.74, -0.96, and -0.92, respectively. A higher Jensen alpha indicates that the fund has done better than its benchmark index. Accordingly, a low performance would be indicated by a negative Jensen alpha. Three of the 10 ELSS funds that were chosen have negative Jensen alpha.

Findings

1. Quant Tax Plan had the highest return of 25.17% among ELSS growth funds, followed by Bandhan Tax Advantage (ELSS) Fund with a return of 16.23% and Mirae Asset Tax Saving Fund with a return of 17.53%.
2. HSBC ELSS Fund is at the bottom of the list, earning a return of 10.42%, out of the 10 funds selected for the study.
3. Quant Tax Plan has the highest risk or standard deviation of 16.04 followed by the Bandhan Tax Advantage (ELSS) fund (14.02), and Franklin India Tax shield Fund (13.63).
4. Quant Tax Plan fund has the highest beta i.e., 1.02 followed by Bandhan Tax Advantage (ELSS) fund having beta of 1.01.
5. Quant Tax Plan has the highest Sharpe ratio (1.93), followed by the Bandhan Tax Advantage (ELSS) fund (1.77), later by Franklin India Tax shield fund (1.47).
6. Quant Tax Plan has a higher Treynor ratio of 0.30, followed by Bandhan Tax Advantage (ELSS) fund (0.25), Franklin India Tax shield fund, Miare Asset Tax Saver Fund, and DSP Tax Saver Fund (0.20), in that order.
7. Bandhan Tax Advantage (ELSS) fund has a Jensen ratio of 6.70, while Quant Tax Plan has the highest Jensen ratio at 12.93.
8. HSBC ELSS Fund, Invesco India Tax Plan, and Baroda BNP Paribas ELSS Fund all have negative Jensen ratios of -2.74, -0.96, and -0.92, respectively.

Suggestions

1. Investors should invest in funds like Quant Tax Plan, Bandhan Tax Advantage (ELSS) fund an Mirae Asset Tax Saving Fund as they are giving higher return.
2. Investors should consider the expense ratio before making a mutual fund investment because it provides information on the costs levied by the mutual fund companies.
3. Positive Jensen alpha indicates that a fund has outperformed its benchmark index. Due to the fact that ELSS-growth funds have high Jensen alpha, investors can benefit from them.
4. Investors should stay away from investing in funds with a negative Jensen alpha, such as a few funds in the ELSS-dividend category, as doing so will result in losses.
5. As a high Treynor's ratio indicates excess returns generated over government bonds, investors should pay attention to these funds.

Conclusion

Mutual funds are now recognized as a top investing option. Particularly ELSS funds are in high demand since they are appropriate for paid individuals who wish to preserve income tax under 80 cc but have a 3-year lock-in term. The analysis shows that ELSS-Growth funds are doing quite well and exceeding the benchmark index.

Furthermore, funds such as Quant Tax Plan, Bandhan Tax Advantage (ELSS) Fund, and Mirae Asset Tax Saving Fund have high returns and outperform government bonds.

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