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A COMPARATIVE STUDY OF HDFC ELSS TAX SAVER FUND AND KOTAK ELSS TAX SAVER FUND

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ABSTRACT

A mutual fund is a type of trust that pools money from investors who share a common investing objective. It makes investments with the funds in a variety of instruments, including debt, bonds, and stocks. An open-ended equity diversified fund known as an Equity-Linked Savings Schemes (ELSS) offers investors a tax benefit under section 80 C of the Income Tax Act of 1961. Though it might be difficult for investors to select the right ELSS funds given the abundance of options available, there are always a variety of investment options available to investors, allowing them to save money in various ways and earn substantial returns. Investing in the ELSS program is one option for this saving objective. This research paper aims to investigate the ELSS Tax Saving Mutual Funds offered by AMCs of two prominent private banks, Kotak Mahindra Bank and HDFC Bank, as well as factors that ought to be taken into account when making an investment. Additionally, the performance of the chosen ELSS mutual funds is disclosed by the current study. Various financial instruments are employed to facilitate the analysis. The goal of the study was to evaluate the performance of two chosen ELSS tax savings plans and determine which is a better choice for investors out of the two. Several financial metrics that are often employed in decision-making are also utilized to examine the risk associated with these tax-saving mutual funds.

KEYWORDS – ELSS, Mutual Fund, NAV, Annualized Return, Standard Deviation, Beta, Bank, Portfolio.

INTRODUCTION

Mutual funds are kind of collection of several investor's capital. Financial experts handle these funds. The money raised will be used to buy various combinations of securities. The investing option is offered for both the short and long terms. Open-ended programs offer a relatively simple and flexible investing method. The money raised will be spread over a number of securities in order to reduce the overall risk of the transaction. In India, there are many more asset management firms available for expert financial management. They'll bill you for fund administration costs. The mutual fund business in India is always changing and provides diversification and expert management. The allocation and investment of assets are determined by the investment aim of each plan.

The goal of this research article is to evaluate the risk-adjusted performance of a few Indian equity-linked savings plans. An attempt has been made to contrast the two ELSS's performances.

EQUITY LINKED SAVING SCHEME (ELSS)

The acronym for Equity Linked Savings Scheme is ELSS. The bulk of the money in this equity-oriented mutual fund scheme are invested in stocks and equity-related items. ELSS, or "tax-saving mutual funds," is the colloquial term for a particular class of mutual funds that are eligible for a tax deduction under section 80C of the IT Act, 1961. The capital gains head will apply to the returns produced by these programs. One equity-oriented fund, ELSS, has a mandatory lock-in term of three years. Since the majority of the funds in this plan are invested in stocks, the performance of the stock market directly affects the potential returns for investors. Investors are eligible for a tax deduction on their investments up to Rs. 1.5 lakh. These funds have a 3 - year statutory lock-in period, which is believed to be the shortest of all other accessible tax-saving investing options. This is one of the most popular investment options.

Options while making an investment in an ELSS:

a) **Growth option –** Unit holders do not get any of the fund's income when they choose the growth option. Investors do not get a dividend; rather, the fund's revenue and profits are reflected in the NAV, which rises. The investor will experience a long-term capital gain or loss each time he sells his possessions in the given mutual fund.

b) **Income Distribution Cum Capital Withdrawal (IDCW) option –** In this scenario, investors get dividend payments from the fund as a means of distribution of its income. The fund announces the distribution date; in the event that the fund's income is negative, no dividend will be paid out. Investors are not required to pay taxes on any dividends they receive.

For this research paper, growth options of both the ELSS have been considered.

LITERATURE REVIEW -

In 2020, Vibhav Pratap, Vibha Singh, and Ashish Kr. Gautam looked at the top five mutual fund companies in India. In order to choose the best plan among these organizations, they used a number of statistical methods, including Jensen alpha, Treynor ratio, beta, standard deviation, and Sharpe ratio. The authors can assess the risks and profits offered by these schemes with the aid of these statistical characteristics. Based on this metric, the best-performing mutual fund in the chosen ELSS was Birla Sunlife tax relief fund 96.

Examining the 10 chosen ELSS mutual funds, Gajera A. (2020) found that there are differences in return and return between lump sum and SIP investments. Compared to the return on SIP investment, the return on lump sum investment fluctuated more. After examining ten particular ELSS mutual funds, it concludes that lump sum investments are a better option than systematic investments where risk and return are the most important factors.

A performance evaluation of the top 5 ELSS schemes across various mutual funds in India was conducted by Panigrahi et al. (2020). For analysis, a number of statistical methods like the Treynor ratio, Jensen ratio, beta, Sharpe ratio, average return, and coefficient of determination (R2) were employed. additionally recommended appropriate ELSS plans to assist investors in reaching their financial objectives. The analysis comes to the conclusion that most funds beat the market as measured by the Treynor and Sharpe indices, and that consistent and outstanding performance has been attained.

In 2020, Rakesh R. and Magdalene Peter conducted an analysis of tax-saving mutual fund performance, with a particular focus on the potential of ICICI Prudential Life Insurance Co. Ltd. Researchers stated that investing in ELSS funds can result in savings of up to Rs. 100,000. Templeton India Tax Shield Fund has yielded the highest percentage of returns since its launch, followed by ICICI Tax Plan Funds and Reliance Tax Saver. The study concludes that investors can benefit greatly from tax-saving funds.

In 2019, Narayana K.C. concentrated on several investment choice programs that offer tax savings. This article outlined available investing possibilities for mutual funds. Even still, the report indicated that mutual funds were the second most popular type of investments. A lot of investors lack comprehensive knowledge regarding investing in mutual funds. This study concluded that investors should take a closer look at the mutual fund investment choice and recommended that corporations lower the initial investment amount. Amir Rahman and Khalid Ashraf Chisti (2018) assessed the performance of the top ten tax-saving mutual fund plans available in India. Annual returns were used to assess performance, and a variety of statistical methods, including average return, beta, Sharpe ratio, Treynor ratio, and Jensen alpha, were used to compare it to the NIFTY50 benchmark index. The study found that, save from a few schemes, all ELSS funds exceed the market index in terms of average return and are riskier than the benchmark; all funds, with the exception of Aditya Birla Sunlife Tax Relief 96, performed more steadily. Furthermore, the axis fund was the most reliable scheme available; similarly, all the funds have a good association with the market. The choice and behavior of investors in ELSS mutual funds with regard to tax-saving investing options was determined by Vijaya Kittu Manda and colleagues (2018). This study discovered a number of interesting things, including the fact that most ELSS schemes had a high rate of expense ratio, that many investors preferred to have just one ELSS investment in their portfolio, and that ELSS is more popular than other tax-saving products. This study came to the conclusion that investors should be informed about various investing options, particularly ELSS plans. The researchers also recommended that the government raise the 80C limit in order to promote long-term savings. Jitendra Kumar and Ajeya Jha (2017) assessed how demographic characteristics affected people's opinions and preferences on investments. Several states in Eastern India were the sites of the research. Based on primary data, the researchers discovered that an investor's selection for investments and perception of tax-saving mutual fund options are influenced by demographic factors. Seema Sharma(2015) identified the behavior of investors when they made ELSS investments, assessed the factors that influence those decisions, as well as the degree of perception and satisfaction that can impact those decisions. She also developed a model to define customer satisfaction as the foundation for investment behavior. According to this study, investor behavior with regard to ELSS funds is influenced by grievance redressed, after-sales services, and operational transparency. As such, mutual fund providers should exercise caution while addressing these variables.

RESEARCH METHODOLOGY

The objectives of this study are -

i) To analyze and compare the performance of Kotak ELSS and HDFC ELSS schemes in India.
ii) To use performance metrics such as the Treynor and Sharpe ratios to correlate the returns of selected equity-linked savings plans in India.

Sources of data - study is based on secondary data which is collected from the different sources like historical NAV has been taken from www.amfiindia.com.

Scope of study - study includes of 2 equity-linked saving schemes launched by different Asset Management Companies (AMC) namely Kotak Mutual Fund and HDFC. The period of this research study is from 16th July, 2021 to 15th July, 2024.

Parameters for analysis – following parameters have been used

i) Annualized Returns
ii) Standard Deviation
iii) Beta
iv) Jensen's Alpha
v) Sharpe ratio
vi) Treynor ratio

COMPARISON OF KOTAK ELSS TAX SAVER FUND AND HDFC ELSS FUND – Two selected ELSS have been compared on the basis of following points -

OVERVIEW OF KOTAK ELSS TAX SAVER FUND - With a diverse portfolio of stocks and equity-related assets, Kotak ELSS Tax Saver seeks to achieve long-term capital appreciation while allowing investors to take advantage of periodic income tax rebates. Thus, the plan provides both tax savings and growth. Despite being open ended, the program has a three-year lock-in. Generally speaking, the portfolio is diversified across market capitalization categories and industries.

OVERVIEW OF HDFC ELSS TAX SAVER FUND - a tax-benefitted, open-ended equity-linked savings plan with a three-year statutory lock-in. The plan provides wealth creation in addition to tax savings. Under section 80C of the Income Tax Act of 1961, investments made up to Rs. 1.5 lakh in Equity-Linked Savings Schemes are eligible for a deduction from gross taxable income, subject to a three-year lock-in period. The fund allocates 80–100% of its portfolio to securities linked to equities. The objective of the equity strategy is to generate long-term capital appreciation through a moderately diversified portfolio comprising large and mid-cap companies that are expected to outperform the industry in terms of growth, possess unique competitive advantages, and exhibit superior financial strength.

ASSETS UNDER MANAGEMENT, NAV & SOME BASIC FACTS OF -

1) **KOTAK ELSS TAX SAVER FUND –**

Inception Date	Minimum SIP Amount	Benchmark	NAV (Growth Option) as on 14 July 2024	AUM
01/01/2013	500	NIFTY 500 Total Returns Index	Rs 118.368	Rs 6100.96 (in Cr)

2) **HDFC ELSS TAX SAVER FUND –**

Inception Date	Minimum SIP Amount	Benchmark	NAV (Growth Option) as on 14 July 2024	AUM
31/03/1996	500	NIFTY 500 Total Returns Index	Rs 1330.334	Rs15,674.35(in Cr)

Interpretation – HDFC ELSS was launched approximately 7 years earlier than Kotak ELSS and expectedly has a larger AUM under its management. NAV of HDFC ELSS is more than Kotak ELSS.

TOP 10 HOLDINGS OF –

1) **KOTAK ELSS TAX SAVER FUND –**

HDFC Bank Ltd.	7.18%
RELIANCE INDUSTRIES LTD.	4.62%
ICICI Bank Ltd.	4.13%
State Bank Of India	3.76%
Axis Bank Ltd.	3.73%
Larsen And Toubro Ltd	3.42%
National Thermal Power Corporation Limited	3.10%

Infosys Ltd.	3.08%
Bosch Ltd.	2.91%
Linde India Ltd.	2.72%

2) HDFC ELSS TAX SAVER FUND –

ICICI Bank Ltd.	9.77 %
HDFC Bank Ltd.	9.47 %
Axis Bank Ltd.	6.14 %
Hindustan Aeronautics Limited	5.71 %
Cipla Ltd.	5.56 %
State Bank of India	5.38 %
Bharti Airtel Ltd.	4.88 %
SBI Life Insurance Company Ltd.	4.61 %
HCL Technologies Ltd.	4.25 %
Apollo Hospitals Enterprise Ltd.	3.64 %

Interpretation – Both the funds invest in banking shares so not much of a difference here.

RISK RATIOS - Ratios calculated on daily returns for last 3 years

	KOTAK ELSS TAX SAVER FUND	HDFC ELSS TAX SAVER FUND
Standard Deviation	14.14	12.77
Beta	0.96	0.85
Sharpe Ratio	0.95	1.37
Treynor's Ratio	0.14	0.21
Jensen's Alpha	1.61	6.96

Interpretation – Standard deviation of Kotak fund is more than HDFC fund and the same is also illustrated in the beta of Kotak fund being higher than HDFC fund. So HDFC fund has lesser volatility. HDFC ELSS fund scores more than Kotak ELSS as far as Sharpe , Treynor and Jensen’s Alpha ratios are concerned.

ANNUALIZED RETURNS – for last 3 years are shown in the table below -

	KOTAK ELSS TAX SAVER FUND	HDFC ELSS TAX SAVER FUND
1 Year	42.34%	47.96%
2 Year	32.36%	35.66%
3 Year	21.76%	27.02%

Interpretation - HDFC ELSS fund gives more annualized returns for the last 3 years.

CONCLUSION

The present study has compared the equity-linked saving schemes offered by the HDFC and Kotak Mutual Funds. The summary of the results is presented in different tables. HDFC ELSS Fund is a better fund to invest in on all the possible accounts that have been taken for this comparative study.

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