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ELSS MUTUAL FUNDS IN INDIA: AN ANALYSIS

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ABSTRACT

Financial system in India comprises mainly Financial Market, Financial Institution, Financial Service, and Financial Instrument. They accelerate the development in the Indian economy. Mutual funds work as Financial Institution and it helps to grow the economy in India. Investors who want to save tax under the section 80C of the income Tax Act, 1961 may invest their savings in different tax savings instruments. Equity Linked Savings Scheme (ELSS) is one of the tax savings instruments of tax payers. These funds provide handsome returns on the investment in the long run. Under this background, selected ELSS mutual funds are taken to study the performance of return of this mutual fund and ability in portfolio investment of fund manager. Against the backdrop, the present study is analysed using Sharpe Ratio, Treynor Ratio, Information Ratio, Standard deviation, Alpha and Beta.

***KEYWORDS**: Alpha, Beta, ELSS, Information Ratio, Sharpe Ratio & Treynor Ratio.*

Introduction

Financial system in India is very important factors to develop the Indian economy. They play important role to boost the growth of Indian economy. Mutual funds work as Financial Institutions to help development of economic growth. Investors may save tax under 80C through investing in different tax savings instruments. Equity Linked Savings Schemes (ELSS) mutual fund is one of the very important tax savings instruments in Indian financial markets. Under this background, ELSS mutual funds are taken to study the performance of return of mutual funds and ability in portfolio investment of fund managers.

Review of Literature

Books articles and library resources have been studied here:

(Bhole, 2004) in his book, 'Financial Institution and Markets' explained types of mutual funds, NAV valuation, size and structure of mutual funds, UTI funds, regulatory framework. (Sarkhel & Salim, 2017) in their book discussed a brief note of mutual funds, UTI and its function with mutual funds. (Saha, 2013) in his book, 'Indian Financial System and Markets' explained basic concepts of mutual funds, regulatory framework, and various mutual funds history of mutual funds. (Saha, 2015) in his book, 'Capital markets & Securities Laws' discussed overview of mutual fund industry, risk factors associated with mutual funds, types of mutual funds, Indian mutual funds industry, regulatory framework of mutual funds. (Panda & Panda, 2012) in their article explained return on mutual funds was more and mutual fund investment was more risky than investment in insurance investments and investors were more conscious to get information for their investments in insurance. (Ayaluru, 2016) in the article 'Performance Analysis of Mutual Funds: Selected Reliance Mutual fund Schemes' analysed risk return analysis of selected reliance mutual funds in Indian mutual fund industry. (Agrawal & Jain, 2016) in their research paper 'Investor's Performance towards Mutual Fund in Comparison to Investment Avenues' studied investor's preference to invest in mutual funds and bases of different investment avenues. (Singh, 2012) in his journal 'A Study on Investors' Attitude towards Mutual Funds as An Investment Option' explained impact of various demographic factors to select of funds for investment in mutual funds.

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This topic is selected because of insufficient literature on the right ELSS mutual fund for the investment in Indian financial market.

Objectives of Study

The main objectives of this paper are given below:

- To assess the performance of ELSS mutual funds;
- To select the right ELSS fund for investment.

Research & Methodology

Nature of Research	Exploratory in nature
Nature of Data	Secondary in nature
Source of Data	• Books • Journal Articles • Websites
India Treasury Bill 91 Day	6.23 % on March 16, 2018
Sample Size (Eight ELSS funds are selected on the basis of performance in the financial market using judgmental sampling method)	• Aditya Birla Sun Life Tax Relief 96 - Direct Plan Growth (ABSL_TAX_DPG) • HDFC Long Term Advantage Fund - Direct Plan Growth (HDFC_TAX_DPG) • SBI Magnum Tax Gain Scheme - Direct Plan Growth (SBI_TAX_DPG) • Sundaram Diversified Equity - Direct Plan Growth (SUNDARAM_TAX-DPG) • ICICI Prudential Long Term Equity Fund (Tax Saving) - Direct Plan Growth (ICICI_TAX_DPG) • BOI AXA Tax Advantage Fund - Direct Plan Growth (BOI_TAX_DPG) • L&T Tax Advantage Fund - Direct Plan Growth (L&T_TAX_DPG) • DSP Black Rock Tax Saver Fund - Direct Plan Growth (DSP_TAX_DPG)
Period of Study	2012-2013 to 2016-2017
Objectives	**Statistical Tools**
To analyze the performance of eight ELSS mutual funds	• Sharpe Ratio (SR) • Treynor Ratio (TR) • Information Ratio (IR) • Standard deviation (SD) • Alpha • Beta

Limitations

This study has some limitations. These are shown here:

- This study considers data available in online;
- This study is restricted to eight ELSS mutual funds;
- Selected tools are used to study this paper.

Analysis and Findings

Under this division, portfolio return is measured (5 Years Return and 3 Years Return) to find the mutual funds earning ability in the financial markets. These are shown in Table-I:

Table 1: Portfolio Return in %

Name of Fund	5 Years Return	3 Years Return	Bench Mark Return (S & P, BSE 200)
ABSL_TAX_DPG	23.60	12.50	14.40
HDFC_TAX_DPG	18.60	11.70	12.10
SBI_TAX_DPG	17.50	6.50	13.30
SUNDARAM_TAX-DPG	17.40	10.60	14.40
ICICI_TAX_DPG	20.10	9.30	15.20
BOI_TAX_DPG	21.40	13.20	12.40
L&T_TAX_DPG	20.40	13.60	14.40
DSP_TAX_DPG	21.20	12.00	15.20

Source: Secondary data collected using www.moneycontrol.com

Findings

Table-1 shows that ABSL_TAX_DPG, ICICI_TAX_DPG, BOI_TAX_DPG, L&T_TAX_DPG and DSP_TAX_DPG earn five years return more than 20% but HDFC_TAX_DPG, SBI_TAX_DPG and SUNDARAM_TAX-DPG earns less than 20% during study period. During three years return, only four mutual funds, ABSL_TAX_DPG, HDFC_TAX_DPG, SUNDARAM_TAX-DPG, BOI_TAX_DPG, L&T_TAX_DPG and DSP_TAX_DPG produce more than 10%**.** In this section, Sharpe Ratio (SR), Treynor Ratio (TR) and Information Ratio (IR) are measured on the basis of five years result of selected funds. These are analysed as follows:

Treynor Ratio

It is a measurement of the returns earned in excess of what could have been earned on a riskless investment. Higher and positive the Treynor Ratio is meant the better portfolio. Treynor Ratio is measured as shown below:

$$\text{Treynor Ratio (TR)} = \frac{R_i - R_f}{B}$$

Where,

R_i is the return on investment;

R_f is the risk free rate of return;

B is the beta of portfolio (Treasury Bills);

Beta is a measure of the sensitivity of a fund to its index;

It shows the relation between the fund returns and that of its index.

Sharpe Ratio

In this model, performance of a fund is evaluated on the basis of the Sharpe Ratio, which is a ratio of returns generated by the fund over and above risk free rate of return and the total risk associated with it. While a high and positive Sharpe Ratio shows a superior risk-adjusted performance of a fund; a low and negative Sharpe Ratio is an indication of unfavourable performance.

Sharpe Ratio is calculated in following way:

$$\text{Sharpe Ratio (SR)} = \frac{\text{Portfolio Return – Risk−Free Rate}}{\text{Standard Deviation}}$$

Where,

Portfolio Return is Annual Return[1];

Risk-Free Rate is Return on 90 days Treasury Bills.

Information Ratio

This ratio is a measure of the risk-adjusted return of a financial security. The information ratio is often used to gauge the skill of managers of mutual funds etc. A high ratio means a manager may have ability to provide higher returns to the investors. Information ratio is measured in the following way:

$$\text{Information Ratio (IR)} = \frac{\text{Alpha}}{\text{Standard Deviation}}$$

Where,

Alpha can be seen as a measure of a fund manager’s performance.

Standard deviation measures the dispersion of data from its mean. Standard deviation involves both the upward as well as the downward volatility

Table 2: Comparative Statement

Name of Fund	TR	IR	Alpha	Beta	SD	SR
ABSL_TAX_DPG	18.68	7.83	7.28	0.93	14.06	1.30
HDFC_TAX_DPG	12.37	2.95	2.95	1.00	14.50	1.02
SBI_TAX_DPG	11.38	2.09	2.07	0.99	14.16	0.98
SUNDARAM_TAX-DPG	06.98	0.81	1.30	1.60	15.46	0.90
ICICI_TAX_DPG	15.08	4.52	4.16	0.92	14.12	1.07
BOI_TAX_DPG	16.31	6.19	5.76	0.93	13.89	1.20
L&T_TAX_DPG	14.76	4.80	4.61	0.96	13.78	1.16
DSP_TAX_DPG	14.53	4.40	4.53	1.03	14.87	1.13

Source: Secondary data collected using www.morningstar.in

1 Ibid.

Findings

In the Comparative Study of Table-2, ABSL_TAX_DPG and BOI_TAX_DPG are the best performing taxes savings funds, Whereas SUNDARAM_TAX-DPG, SBI_TAX_DPG and HDFC_TAX_DPG are the lower performing tax savings funds.

Conclusion

In this study, ICICI_TAX_DPG, L&T_TAX_DPG and DSP_TAX_DPG are not performing well as compared to ABSL_TAX_DPG and BOI_TAX_DPG during the study period. Portfolio return of SUNDARAM_TAX-DPG, SBI_TAX_DPG and HDFC_TAX_DPG are comparatively lesser as compared to ABSL_TAX_DPG and BOI_TAX_DPG during this period. Fund manager's ability of ABSL_TAX_DPG and BOI_TAX_DPG are satisfactory for portfolio investment in the financial market.

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