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A study performance analysis of Indian mutual funds with special reference to equity linked saving schemes

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Abstract
A Mutual Fund is a company that pools money from a group of investors and invests the money in different types of securities such as stocks, bonds, debt, etc. Mutual fund is one of the fastest growing sectors in India and it plays a significant role in the Indian capital market. Equity linked saving scheme is an open ended equity diversified fund, which provides tax benefit to investors under section 80 C of the Income Tax Act, 1961. Rs.1.5 lakh "income" gets tax benefit of up to Rs.45,000 at 30% tax without considering surcharge. However, with a large number of ELSS funds available, investors face a challenge of selecting suitable ELSS funds to suit their needs. This research paper is an attempt to evaluate the performance of the top five ELSS schemes of different mutual funds in India using various tools like Beta, Sharpe ratio, Jensen ratio, etc. It also suggests suitable ELSS schemes for investors so that they can achieve their investment objectives. The analysis reveals that majority of funds have outperformed under Treynor's Ratio and Sharpe Ratio, giving constant and appreciable results during the course.

Keywords: ELSS mutual funds, average return, coefficient of determination (r2), standard deviation, beta, the Sharpe ratio, Treynor's performance index

Introduction

Mutual funds provide a mechanism to invest in the stock market without knowing the complexities of stock market. It provides the best option to the investors who have no knowledge of the stock market. It is just the connecting bridge that allows a group of investors to pool their money together with a predetermined investment objective. Over the past decade, mutual funds have increasingly become the investor's vehicle of choice for long- term investment. Investment is very important to park the surplus funds of an individual for the purpose of earning additional income or capital appreciation. The investor has to consider various factors while making an investment decision these are as follows: risk associated with the investment, tax benefits, liquidity, and marketability etc. A mutual fund is a pool of money collected from many small investors which is professionally managed by the portfolio managers. They are responsible for investing the gathered money into specific securities. They invest their money on the behalf of investors, for this they charge only nominal fees. When you invest in a mutual fund, you are buying units or portions of the mutual fund and thus on investing becomes a shareholder or unit holder of the fund. Mutual funds provide more return with less risk. The main advantage of mutual fund is that it diversifies the risk because the pooled money is invested in diversified portfolio.

Equity linked saving schemes

ELSS mutual fund is nothing but a diversified equity mutual fund scheme with a lock-in period of 3 years and tax saving benefits under section 80C. You can invest in ELSS either in lump sum or through systematic investment plan (SIP) mode. In our view, SIP is a better mode of investment for ELSS mutual funds because it can help you remain disciplined in your tax planning. Often we see investors making 80C investments at the last minute to save taxes; While they are able to achieve their tax saving objective, they lose out on returns. SIP in ELSS mutual funds ensures that you invest throughout the year and benefit from remaining invested longer.

Research methodology

Objectives of the study

1. To measure the risk and return analysis of mutual funds during the period from January 1 2018 to 31 December 2018.
2. To compare Equity Linked Saving Schemes with NSE Nifty 100 during the period from 1 January 2018 to 31 December 2018.
3. To help the common investor to decide where and when to invest to avail maximum tax benefits.

Secondary data

For the analysis of data the mutual funds NAVs was required for that the data was collected through the secondary source i.e., various selected Mutual fund websites. For the theoretical frame work we are searched various books, publications, research articles and websites. The benchmark NAVs were also collected from the NSE Nifty websites of the benchmark indices.

Tools for the analysis

For the analysis of collected data various tools were used by the researcher i.e., Return, Standard deviation, Co-Variance, Beta, Variance, Sharpe and Treynor. Tools used for the study the present research study the growth of Mutual Fund industry in India, the researcher has used percentages and Compound Annual Growth Rate. In Te present study the return analysis of selected Mutual Fund schemes the researcher has used Average Return, Standard Deviation, Beta Variance, Co- variance, Sharpe Ratio, Treynor Ratio, Jensen Ratio, and Fama measures. The data collected through the questionnaire from primary source were processed by employing appropriate statistical tools like Mean, Median, Weighted Average Scores, Chi-square test etc., The performance of various schemes was analyzed by using the following related terms.

Data anlaysis

Table 1: Performance Analysis of Franklin Templeton Tax saver Scheme

2018	Rp	Rm	Sdp	Sdm	Cov	Var	Beta	Sharpe	Treynor
Jan-Mar	4.669	-1.069	2.446	4.918	7.092	24.194	0.293	4.645	4.669
Apr-Jun	-1.391	1.543	3.469	3.158	-6.394	9.979	-0.640	-1.407	-1.391
Jul-Sep	-0.385	1.039	5.977	6.755	-25.437	45.632	-0.557	-0.394	-0.385
Oct-Dec	-0.032	-0.245	3.419	4.933	-10.739	24.34	-0.441	-0.048	-0.032

The above table reveals that the performance analysis at Franklin tax saver fund during the period from Jan 2018 to Dec 2018, Comparing with the Benchmark of Nifty 100 the Franklin has received higher Return in the months of (Apr-Jun) (1.543) and this was followed by (July – Sep) (1.039) most of the times the Bench mark was showing good performance than the selected scheme. Beta indicates the un-systematic risk of the fund 1stQuarter has high volatile than the Benchmark i.e, (0.293) and remaining Quarters the schemes was less volatile than the Benchmark. The Sharpe index shows that the performance of Franklin tax saver. Here the highest Sharpe ratio indicates that the positive performance of the scheme. As per Treynor ratio the highest Treynor ratio indicates the positive performance of fund.

Table 2: Performance Analysis of HDFC Tax saver Scheme

2018	Rp	Rm	Sdp	Sdm	Cov	Var	Beta	Sharpe	Treynor
Jan-Mar	6.338	-1.069	7.37	4.918	-16.854	24.194	-0.696	6.330	6.338
Apr-Jun	-0.075	1.543	1.636	3.158	-0.907	9.979	-0.090	-0.109	-0.075
Jul-Sep	-1.348	1.039	6.014	6.755	-26.899	45.632	-0.589	-1.357	-1.348
Oct-Dec	0.843	-0.245	2.552	4.933	-6.493	24.34	-0.266	0.820	0.843

The table shows that the performance analysis at HDFC tax saver fund during the period from Jan 2018 to Dec 2018, here we are taken Quarterly Returns of the tax saver funds. The highest return of the HDFC tax saver fund in first three months i.e, (6.338) (Jan – Mar) and this was followed by the next Quarter i.e, (Oct – Dec) 0.843 and next two Quarter we have negative Return -0.075 (Apr- Jun),-1.348 (July – Sep).The standard deviation of the selected schemes and Benchmarks, in the first Quarter, the Benchmark having the highest risk i.e, (6.755) and the scheme is (6.014) and this was followed by the next Quarter (Oct- Dec) the Benchmark with (4.933) and the portfolio(2.552) is (Jan - Mar) the Benchmark (4.918) and the portfolio (7.37). The Sharpe index shows that the performance of HDFC tax saver. Here the highest Sharpe ratio indicates that the positive performance of the scheme. Here the highest values of the selected portfolio is (Jan- Mar) (6.330), (Oct – Dec) (0.820) and remaining Quarters the fund showing negative performance. As per Treynor ratio the highest Treynor ratio indicates the positive performance of fund.

Table 3: Performance Analysis of HSBC Tax saver Scheme

2018	Rp	Rm	Sdp	Sdm	Cov	Var	Beta	Sharpe	Treynor
Jan-Mar	5.736	-1.069	2.798	4.918	-24.724	24.194	-1.021	5.715	5.736
Apr-Jun	0.302	1.543	4.591	3.158	-9.45	9.979	-0.946	0.289	0.302
Jul-Sep	0.267	1.039	7.836	6.755	-35.291	45.632	-0.773	0.259	0.267
Oct-Dec	-0.585	-0.245	3.246	4.933	-10.631	24.34	-0.436	-0.602	-0.585

The above table shows that the performance analysis at HSBC tax saver fund during the period from Jan 2018 to Dec 2018, here we are taken Quarterly Returns of the tax saver funds. The highest return of the HSBC tax saver fund in first three months i.e (Jan – Mar) (5.736) and this was followed by the next Quarter i.e, (Apr-Jun) (0.302), (July – Sep) (0.267) and next one Quarter we have negative Return (Oct – Dec) (-0.585). Comparing with the Benchmark of Nifty 100 the HSBC has received higher Return in the months of (Apr-Jun) (1.543) and this was followed by (July – Sep) (1.039) most of the times the Bench mark was showing good performance than the selected scheme.

Table 4: Performance Analysis of Kotak Tax saver Scheme

2018	Rp	Rm	Sdp	Sdm	Cov	Var	Beta	Sharpe	Treynor
Jan-Mar	2.941	-1.069	2.371	4.918	-7.756	24.194	-0.320	2.917	2.941
Apr-Jun	-0.1	1.543	3.485	3.158	-7.05	9.979	-0.706	-0.116	-0.1
Jul-Sep	-0.171	1.039	8.147	6.755	-36.621	45.632	-0.802	-0.177	-0.171
Oct-Dec	0.055	-0.245	4.039	4.933	-12.431	24.34	-0.510	0.040	0.055

Table 4 shows that the performance analysis at Kotak tax saver fund during the period from Jan 2018 to Dec 2018, here we are taken Quarterly Returns of the tax saver funds. The standard deviation of the selected schemes and Benchmarks, in the first Quarter, the Benchmark having the highest risk i.e, (6.755) and the scheme is (8.147) and this was followed by the next Quarter (Oct-Dec) the Benchmark with (4.933) and the portfolio (4.039) is (Jan - Mar) the Benchmark (4.918) and the portfolio (2.371). The Sharpe index shows that the performance of Kotak tax saver. Here the highest Sharpe ratio indicates that the positive performance of the scheme. As per Treynor ratio the highest Treynor ratio indicates the positive performance of fund. Here the 1st Quarter and 4th Quarter shows good performance than the Benchmark and remaining year the fund shows poor performance.

Table 5: Performance Analysis of Reliance Tax saver Scheme

2018	Rp	Rm	Sdp	Sdm	Cov	Var	Beta	Sharpe	Treynor
Jan-Mar	5.55	-1.069	4.048	4.918	-11.077	24.194	-0.457	5.535	5.55
Apr-Jun	2.196	1.543	5.856	3.158	-12.165	9.979	-1.219	2.186	2.196
Jul-Sep	0.382	1.039	8.752	6.755	-38.914	45.632	-0.852	0.375	0.382
Oct-Dec	-0.2	-0.245	3.123	4.933	-9.233	24.34	-0.379	-0.218	-0.2

The table shows that the performance analysis at Reliance tax saver fund during the period from Jan 2018 to Dec 2018, here we are taken Quarterly Returns of the tax saver funds. The standard deviation of the selected schemes and Benchmarks, in the first Quarter, the Benchmark having the highest risk i.e, (6.755) and the scheme is (8.752) and this was followed by the next Quarter(Oct-Dec) the Benchmark with (4.933) and the portfolio(3.123) is (Jan - Mar) the Benchmark (4.918) and the portfolio (4.048). Beta indicates the un- systematic risk of the fund was showing negative performance. During the year 2017 the fund was not performing very well than the benchmark. The Sharpe index shows that the performance of Reliance tax saver. Here the highest Sharpe ratio indicates that the positive performance of the scheme. As per Treynor ratio the highest treynor ratio indicates the positive performance of fund.

Conclusion

Mutual fund is booming sector in present days and it has lot of scope to generate income and provide returns to the investor. The present study was aimed to know the performance of selected equity linked saving schemes of India. The result that indicates that majority of schemes which have made high percentage of investment in equity has generated higher returns. The analysis also shows that schemes of HDFC Mutual Fund have performed better and have large funds to manage. The result shows that majority of selected schemes are superior to the relevant benchmark portfolio. Schemes of HDFC and Franklin Mutual Fund have performed much better. Investors can invest in a mutual fund that matches their investment objective and analyze the fund based on various criteria such as risk prevailing in the market, variations on the return and deviations occur in the returns etc.

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