PERFORMANCE EVALUATION OF ELSS MUTUAL FUND SCHEMES: WITH SPECIAL REFERENCE TO SELECTED SCHEMES

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ABSTRACT

A Mutual Fund pools the money of people with certain investment goals. The money invested in various securities depending on the objectives of the mutual fund scheme and the profits (or loss) are shared among investors' in proportion to their investment. Mutual fund is one of the fastest growing sectors in India and it plays significant role in the Indian capital market. ELSS funds are equity funds that invest a major portion of their corpus into equity or equity-related instruments. ELSS funds are also called tax saving schemes since they offer tax exemption of up to Rs. 150,000 from annual taxable income under Section 80C of the Income Tax Act. The objective of the study is to know the performance evaluation of ELSS tax saving scheme. Both primary and secondary data was used for the study. Primary data was collected through a structured questionnaire and secondary data was collected from books, journals and web sites. For analysis, Average Return, Standard Deviation, Beta, Sharpe Measure, Treynor Measures were used. The study concluded that the Mutual funds have emerged as an excellent avenue for investment. Especially ELSS funds are in huge demand as it is suitable for salaried people who want to save income tax under 80 cc but they have lock in period of 3 years.

Keywords: ***ELSS, Equity, Investment, Market, Schemes.***

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INTRODUCTION

ELSS funds are equity funds that place a significant percentage of their corpus in equity or products with an equity component. Since ELSS funds offer a tax exemption of up to Rs. 150,000 from your annual taxable income under Section 80C of the Income Tax Act, they are also known as tax saving plans. An ELSS fund is an equity-oriented strategy with a three-year lock-in period, as the name would imply. Many individuals have used ELSS programs recently to take advantage of tax benefits. Investors have exemption on their investment up to a maximum of Rs. 150,000 if they invest in ELSS schemes. Additionally, at the conclusion of the three-year period, the revenue they earn through this program will be taken into account.

ELSS Fund investment option

Growth option: When an investor for the growth option, we will not get benefits in the form of dividends. As an investor, he will get the gains only at the time of redemption. This helps in the appreciation of the total NAV and thus, the profits multiply. There's one thing to keep in mind – the returns are subject to market risk.

Dividend option: Under this option, an investor gets benefits from time to time in the form of dividends. However, these dividends are taxable as per tax slab. Plus, dividends over Rs 5,000 are subject to a TDS (tax deducted at source) of 10%.

Dividend reinvestment option: This is an option under which an investor reinvests the dividends received to add to the NAV. This works well, particularly when the market is witnessing an upswing and is likely to continue the same way.

Advantages of ELSS Mutual Funds

Shortest lock-in

ELSS has the shortest lock-in period of three years. Tax-saving fixed deposits have a five-year lock-in, while the PPF has a 15-year maturity. All in all, ELSS offers more liquidity as compared to traditional tax-saving instruments.

Higher returns

Investing in ELSS funds can offer significantly higher returns in the long run than most other tax-saving investment options. ELSS funds serve a dual purpose: tax saving along with wealth creation. ELSS funds, on average, have generated 15% returns in the long term. If investors get 15% returns from ELSS investments, a monthly investment of Rs. 12,500 for 20 years will help to accumulate Rs. 1.89 Crores in the corpus. We calculated the ELSS category's seven-, 10- and 15-year average rolling returns on a daily basis.

Better Post-Tax Returns

If the total capital gain in the financial year of withdrawal exceeds Rs 1 lakh, the long-term capital gains (LTCG) from ELSS mutual funds will be taxed at only 10%. If the total profit in a financial year is less than Rs. 1 lakh, an investor not to pay any long-term capital gains tax.

Convenient

Investing in ELSS mutual funds is a great way to save taxes, even if an investor do not have a lump sum amount to invest. With systematic investment plans (SIPs), an investor invests a fixed sum each month on a predetermined date in the ELSS mutual fund scheme of an investor choice. This encourages the habit of saving and provides a sense of discipline without requiring a large investment at the end of the fiscal year.

REVIEW OF LITERATURE

Swati M. Gurav (2021) discussed on performance analysis of the equity-linked savings scheme (ELSS). The objectives of the study are to analyse the performance of equity-linked saving schemes in India. Daily NAV of the selected schemes has been used to calculate the returns from the fund schemes. This study provides some awareness on mutual fund performance so as to help the common investors in taking the rational investment decisions for allocating their resources in the correct mutual fund schemes.

Ayub Ahamed K S and Mahajabeen (2019), an empirical investigation into the performance evaluation of selected ELSS mutual funds. The objectives of the study are i) To Evaluate the performance of selected Tax saving ELSS schemes by applying Sharpe measure, Treynor's measure and Jensen's measure ii) To suggest a suitable ELSS scheme for the investor. iii) To examine the concept of Tax saving ELSS with other Tax saving Investments. The study concluded that the ELSS funds are a good option for the long term investor. ELSS funds mainly focus on the equity market, where as equity market is best instrument to get good return for the long term wise ELSS also in short term it helps to save tax for the investor.

Richa Pathak (2018) has studied on performance evaluation of ELSS mutual funds on growth funds. The objectives of the study are to evaluate the effectiveness of different mutual fund strategies and to recommend an appropriate ELSS plan to the investors. The study suggested that Investors can focus on funds with high trenyor's ratio as it indicates excess returns generated over government bonds. The study concluded that Mutual funds have emerged as an excellent avenue for investment. Especially ELSS funds are in huge demand as it is suitable for salaried people who want to save income tax under 80 cc but they have lock in period of 3 years.

Aashish Jain (2017), has explained on performance evaluation of tax savings mutual funds. The main purpose of the study is to compare the ELSS scheme of public sector and private sector and analyse the market timing abilities of fund managers of ELSS. The overall objective of the study is to evaluate the performance of top ELSS funds against the benchmark of NIFTY. The study concluded that Mutual fund investment is quite popular among small investors for seeking tax incentives Tax-saving mutual fund schemes or the equity linked savings schemes (ELSS) offers tax deduction benefits to investors.

N. Bhagyasree B. Kishori (2016), studied on performance evaluation of mutual funds schemes in India. The objectives of the study are i) To evaluate the performance of selected open ended schemes on mutual funds in India ii) To measure the risk- return relationship and market volatility of the selected mutual funds iii) To examine the performance of selected schemes by using portfolio performance evaluation model namely Sharpe, Treynore and Jensen. To examine the mutual fund schemes performance, 30 schemes were selected at random basis.

OBJECTIVES OF THE STUDY

The overall objective of the study is to know the performance evaluation of ELSS tax saving scheme in Karnataka.

RESEARCH METHODOLOGY

Sources of data:

The study is based on secondary data which is collected from the different sources like factsheets of different asset management companies and the historical NAV has been taken from www.amfiindia.com.

Scope of study:

The study includes of 5 equity-linked saving schemes launched by different Asset Management Companies (AMC). The period of this research study is from Jan 1st, 2020 to December 1st, 2023.

Parameters for analysis

1) Average Returns

2) Standard Deviation
3) Beta
4) Sharpe ratio
5) Treynor ratio
6) Jension's Alpha

DATA ANALYSIS AND INTERPRETATION

Table No. 1: Average return of selected scheme

Schemes	AUM (cr)	1st year	2nd year	3rd year	5th year	Average Return
Axis Long Term Equity Fund - Growth	31135.83	13%	13%	14%	36%	19%
SBI Long Term Equity Fund - Regular Plan - Growth	15773.93	22%	32%	42%	78%	43.5%
HDFC ELSS Tax saver - Growth	11271.61	18%	28%	40%	71%	39.25%
Kotak ELSS Tax Saver Fund - Growth	4122.24	13%	20%	29%	62%	31%
LIC MF ELSS Tax Saver - Growth	925.52	14%	18%	24%	48%	26%

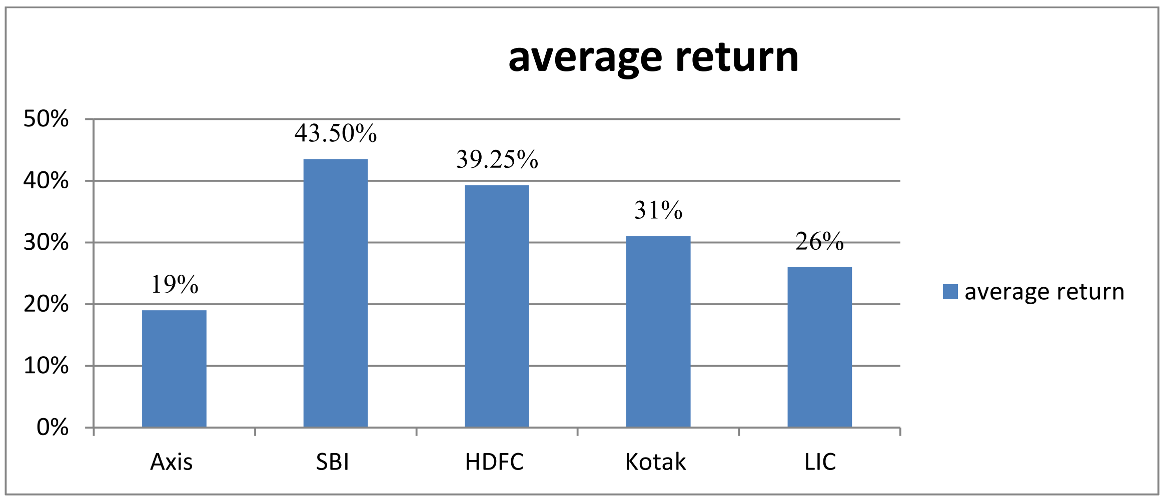

Table No. 1. Represents the average return of selected schemes. SBI long term equity fund - regular plan – growth giving highest return of 43.5% followed by HDFC ELSS Tax saver of 39.25%, Kotak ELSS Tax Saver Fund of 31%, LIC MF ELSS Tax Saver 26% and Axis Long Term Equity Fund 19%.

Table No. 2: Beta of selected scheme

Schemes	Beta
Axis Long Term Equity Fund - Growth	0.95
SBI Long Term Equity Fund - Regular Plan - Growth	0.93
HDFC ELSS Tax saver - Growth	0.89
Kotak ELSS Tax Saver Fund - Growth	0.92
LIC MF ELSS Tax Saver - Growth	0.90

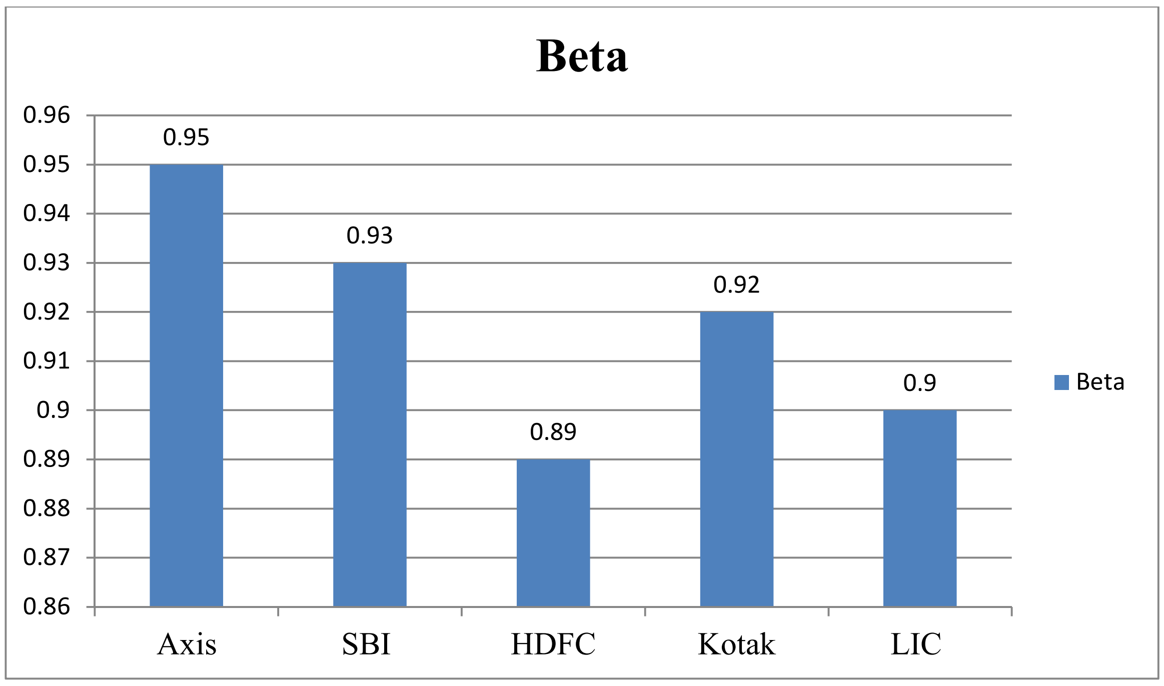

Table No. 2: shows the beta value of selected mutual fund tax saving schemes. Beta measure of systematic risk. It can be seen mutual fund scheme have beta value more than 1 implying that they are more risky. The above table shows that **HDFC ELSS Tax saver - Growth** has the lowest beta value.

Table No. 3: Standard deviation of selected scheme

Schemes	Standard Deviation
Axis Long Term Equity Fund - Growth	**15.16**
SBI Long Term Equity Fund - Regular Plan - Growth	**14.02**
HDFC ELSS Tax saver - Growth	**13.43**
Kotak ELSS Tax Saver Fund - Growth	**13.89**
LIC MF ELSS Tax Saver - Growth	**13.61**

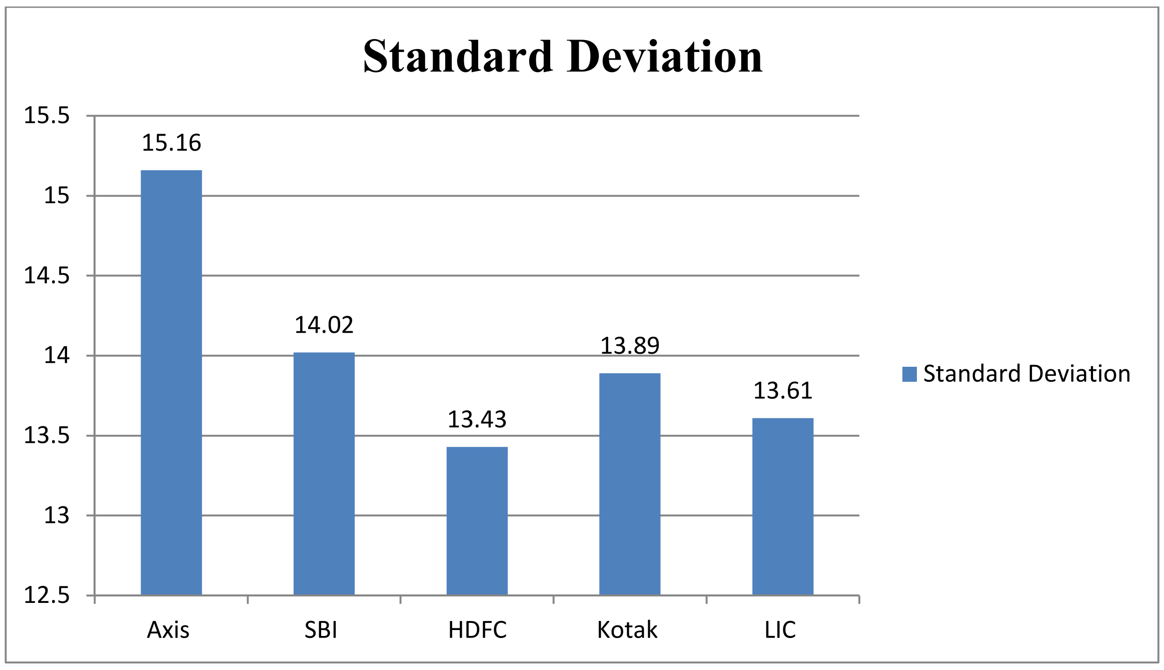

Table No. 3: gives the standard deviation of the selected ELSS mutual fund schemes which measure of total risk. Higher the value of the standard deviation higher the risk being carried out by the particular scheme. Form the above comparison Axis Long Term Equity Fund has maximum risk of 15.16% whereas HDFC ELSS Tax saver has minimal value of standard deviation.

Table No. 4: Sharpe Ratio, Jension's Alpha and Treynor's Ratio of selected schemes

Schemes	Sharpe Ratio	Jension's Alpha	Treynor's Ratio
Axis Long Term Equity Fund - Growth	1.04	1.50	0.16
SBI Long Term Equity Fund - Regular Plan - Growth	1.22	4.09	0.19
HDFC ELSS Tax saver - Growth	1.33	5.35	0.20
Kotak ELSS Tax Saver Fund - Growth	1.04	1.50	0.16
LIC MF ELSS Tax Saver - Growth	0.81	-1.56	0.12

Table 4: Show the Sharpe Ratio, Jension's Alpha and Treynor's Ratio of selected schemes.

Sharpe's Ratio: It is a measure of reward to volatility ratio. It is commonly used to measure the performance of an investment by adjusting for its risk. The higher the ratio, the greater the investment return relative to the amount of risk taken, and thus, the better the investment. The result shows **HDFC ELSS Tax saver - Growth** is the best among all as it is having the highest positive value implying that it has given the excess return over risk free return.

Jension's Alpha Ratio: It is also known as the Jensen's Performance Index, is a measure of the excess returns earned by the portfolio compared to returns suggested by the CAPM model. If, however, the security earns even more than the risk-adjusted returns, it will have a positive Alpha. Negative alpha indicates that the portfolio has not earned its required return. The result shows that **HDFC ELSS Tax saver** - **Growth** has **5.35%** and **LIC MF ELSS Tax Saver - Growth -1.56%.**

Treynor Ratio: It is also known as the reward-to-volatility ratio, is a performance metric for determining how much excess return was generated for each unit of risk taken on by a portfolio. Excess return in this sense refers to the return earned above the return that could have been earned in a risk-free investment. The result shows that **HDFC ELSS Tax saver - Growth** is **0.20** highest when compare to other mutual funds.

FINDINGS

- SBI long term equity fund - regular plan – growth giving highest return of 43.5%
- HDFC ELSS Tax saver - Growth fund has the lowest beta value.
- Axis Long Term Equity Fund has maximum risk of 15.16% whereas HDFC ELSS Tax saver has minimal value of standard deviation.
- HDFC ELSS Tax saver – Growth gives highest Sharpe's Ratio.
- The highest Jension's Alpha Ratio given by HDFC ELSS Tax saver – Growth (5.35%) and LIC MF ELSS Tax Saver - Growth gives lowest Jension's Alpha Ratio (-1.56%)

SUGGESTIONS

- The best way to save taxes is investing in ELSS.
- It is better to invest regularly through an SIP or STP in a tax saving mutual fund to maximise returns.
- An investor must invest for at last 5 years.
- Investor should be careful about the risk, lock in period, return.

CONCLUSION

The study concluded that the ELSS is the best way to save taxes. A mutual fund is a versatile investment choice that can help investors gain profit and build wealth by tapping into the opportunities presented by the markets. It offers plans for every investor to meet short term and long term goals. ELSS mutual funds are the only class of funds that are covered under 80C of the income tax act 1961. By investing in an ELSS, an investor entitled to claim a tax rebate up to Rs. 150000a year. ELSS is an excellent tax saving instruments for people who fall in the higher income tax brackets.

The study is conducted based on five selected mutual fund schemes. In the ultimate analysis, it may be concluded that all the schemes have performed well in the high volatile market movement expect SBI Long Term Equity Fund - Regular Plan – Growth, HDFC ELSS Tax saver – Growth, Kotak ELSS Tax Saver Fund – Growth, LIC MF ELSS Tax Saver – Growth. Therefore, investors need to consider statistical parameters like Jenson's alpha, beta, standard deviation, Sharpe Ratios, Treynor Ratio, while investing in mutual funds apart from considering NAV and Total Return to ensure consistent performance of mutual fund schemes.

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