



## RESEARCH ARTICLE

### PERFORMANCE EVALUATION OF TAX SAVINGS MUTUAL FUNDS

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#### ARTICLE INFO

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#### ABSTRACT

Equity Mutual Funds are one of the important means of pooling risk capital from small investors. In order to encourage such investment culture, the Govt. of India in the year 1992 introduced the Equity Linked Savings Scheme (ELSS) mutual funds. Investments into the scheme qualify for tax benefit. The tax benefit comes with certain regulatory provisions. These regulatory provisions make the ELSS funds distinct from Diversified Equity Funds. Tax Saving Mutual Fund is one of the financial instruments in capital market, here the study is based upon the ELSS of public sector and private sector Mutual Funds, 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. A mutual fund is a financial intermediary that pools the savings of small investors for collective investment in a diversified portfolio of securities. Indian mutual fund industry is playing a significant role in the development of capital market and in the growth of Indian economy. 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. Thus, this study is carried out to fulfill the objectives of the investors.

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#### INTRODUCTION

Planning tax is an integral part of financial year. Section 80C of the income tax act allows us to claim deductions from taxable income by investing in certain investments. One of the most popular Section 80C investments is in tax savings mutual funds or equity linked savings schemes. This is an equity diversified fund & investors enjoy both benefits of capital appreciation, as well as tax benefits. An ELSS is a diversified equity mutual fund which has a majority of the corpus invested in equities. Since, it is an equity fund, returns from ELSS fund reflect returns from the equity markets. This type of mutual funds has lock-in period of 3 years from the date of investments. This means if you start a Systematic Investment Plan is an ELSS, then each of your investments will be locked in for 3 years from the respective investment date. Investors can exit ELSS after 3 years by selling it. Similar, to other equity funds, ELSS funds have both dividend & growth options. Investors get a lump sum after 3 years in growth schemes. On the other hand, in dividend schemes, investors get a regular dividend income, whenever dividend is declared by the fund, even during the lock-in period. For the tax purpose, returns from an ELSS schemes are tax free. We can claim upto Rs. 1,50,000 as deduction from the gross total income in a financial year under section 80C of the Income Tax Act.

Compared to traditional tax savings instruments like Public Provident Fund (PPF), National Saving Certificate (NSC) & bank deposits, the lock-in period of ELSS is much lower. Also ELSS is an investment in equity markets & investing in this for a long term can give you better returns compared to other asset classes over the long term.

#### Review of Literature

Ravinderan and Narayan (2003) in his study made an attempt to evaluate the performance of Indian mutual funds in a bear market. The study was conducted for the period September 1998 - April 2002 on a sample of 269 open ended schemes by using performance index, riskreturn analysis, Treynor's ratio, Sharp's ratio, Jensen's measure and FAMA's measure. The study observed that most of the sample mutual fund schemes couldn't generate excess returns over expected returns and further concluded that the funds were not adequately diversified and were not managed optimally. Rao and Warlu (1998) conducted a study for working out the market timing abilities of UTI fund managers. The study defines market timing as an appropriate time when assets are shifted from one risk class to another for superior portfolio performance. The study uses Treynor - Mazuy and Henriksson - Merton measures for the purpose. It was concluded that fund managers of listed schemes of UTI are less concerned about forecasting the market and making the necessary adjustments in the portfolio they manage. Tapan K Panda & Nalini Prana

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Tripathy (2000) conducted a study with reference to customer orientation involvement in designing mutual funds products. Putting emphasis over the involvement of small investors, they are providing cheque facility on money market mutual funds to make them more exciting and quilt funds for the risk averse. The research study was based upon a survey of 350 respondents through a questionnaire covering different groups of investors. The data obtained were analyzed through factor analysis and principal component analysis. Namita Srivastava (2014) analysed empirically the performance indicators of Equity linked saving schemes in India. The factors affecting the performance of ELSS funds are also evaluated. It is concluded in the study that during the period of study, sample ELSS funds provided better return as compared to returns provided by risk free securities. But in terms of average return the ELSS funds are unable to outperform the benchmark portfolio.

**Objective**

To evaluate the performance of top ELSS funds against the benchmark of NIFTY.

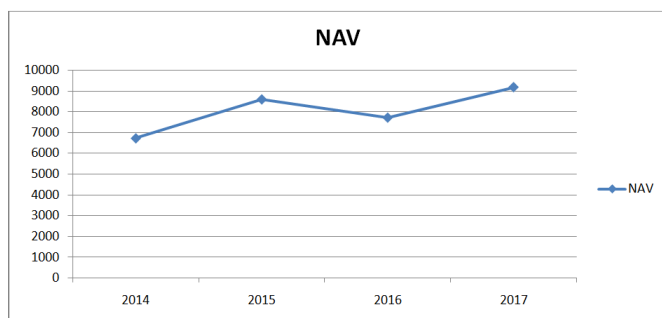
**Hypothesis**

- H<sub>1</sub>- there is significance difference between in the performance of ELSS funds.
- H<sub>0</sub>- there is no significance difference between in the performance of ELSS funds.

**Data**

**Table 1. Nifty-benchmark average return**

Year	NAV	Returns
2014	6721.07	
2015	8586.25	28%
2016	7713.05	-10%
2017	9173.75	19%
	AVERAGE RETURNS	12%

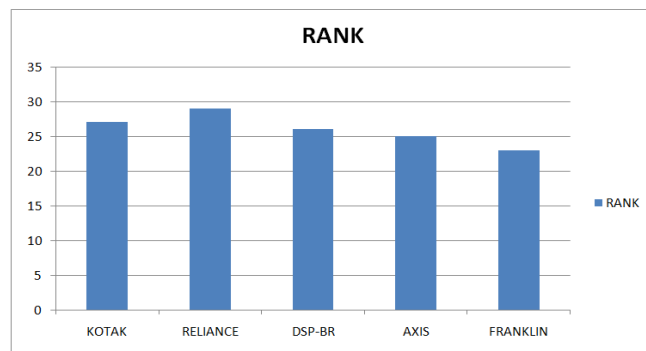


**Table 2. List of top ELSS schemes**

S.No.	Schemes
1	Kotak tax-saver (g)
2	Reliance tax saver (g)
3	Dsp br tax saver fund (g)
4	Axis long term equity fund (g)
5	Franklin india tax shield (g)

**Table 3. Average return of selected schemes**

Year	Kotak	Reliance	Dsp-br	Axis	Franklin
2014	19.987	28.42	21.441	19.034	277.374
2015	31.725	48.93	32.531	31.435	431.357
2016	28.834	42.97	31.427	29.157	411.121
2017	37.482	54.87	40.974	34.527	490.213
Average returns	27%	29%	26%	25%	23%



As per table-3, we came to know that **Reliance tax saver (G)** given highest average in 3 years & lowest average return given by **Franklin India Tax shield (G)**.

**Table 4. Standard deviation of selected schemes**

Schemes	Standard deviation( $\sigma$ )
Kotak tax saver(g)	8%
Reliance tax saver(g)	12%
Dsp-br tax fund(g)	5%
Axis long term equity fund(g)	9%
Franklin india tax shield(g)	6%

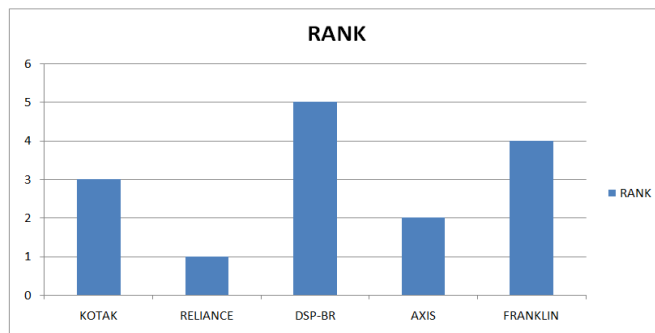


Table 4 gives the standard deviation of the selected mutual fund schemes which is a measure of total risk. Higher is the value of standard deviation higher is the risk being carried out by the particular mutual fund scheme. The results show that the **DSP-BR Tax fund (G)** scheme has the minimum value of standard deviation. So it can be concluded that it is the least risky scheme of mutual fund against the benchmark-nifty.

**Table 5. Beta of selected schemes**

Schemes	BETA
Kotak tax saver (g)	1.676
Reliance tax saver (g)	2.011
Dsp-br tax fund (g)	1.402
Axis long term equity fund (g)	1.652
Franklin india tax shield (g)	1.396

Table-5 shows the beta value of selected mutual fund schemes. Beta is a measure of systematic risk. It can be seen that mutual fund schemes have beta value more than 1 implying that they are more risky than benchmark-nifty portfolio and lowest beta value is given by **DSP-BR Tax Fund(G)**.

**Table 6. Coefficient of variation of selected schemes**

Schemes	Coefficient of variation
Kotak tax saver (g)	0.29
Reliance tax saver (g)	0.41
Dsp-br tax fund (g)	0.20
Axis long term equity fund (g)	0.35
Franklin india tax shield (g)	0.26

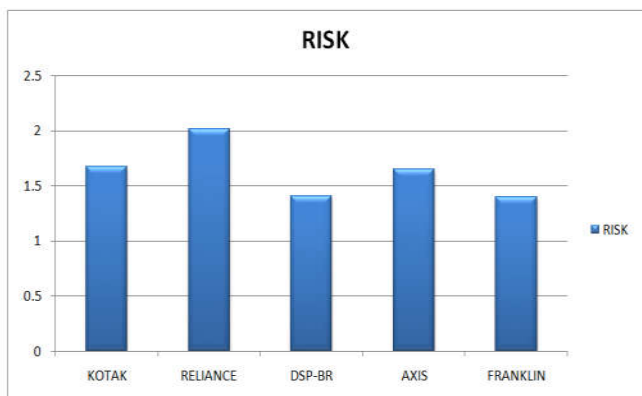


Table 8. Treynor’s value

Schemes	Sharpe’s value
Kotak tax saver (g)	0.115
Reliance tax saver (g)	0.109
Dsp-br tax fund (g)	0.136
Axis long term equity fund (g)	0.111
Franklin india tax shield (g)	0.116

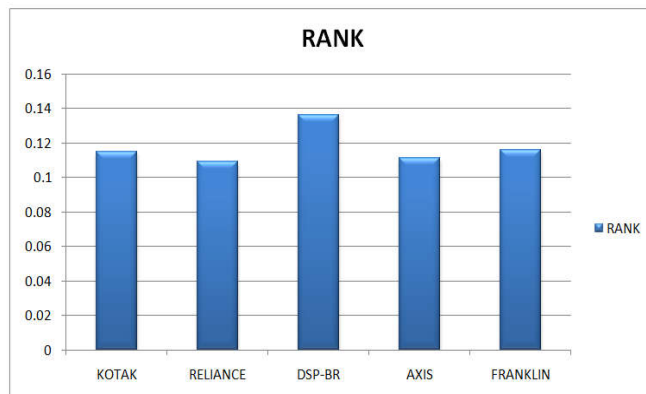
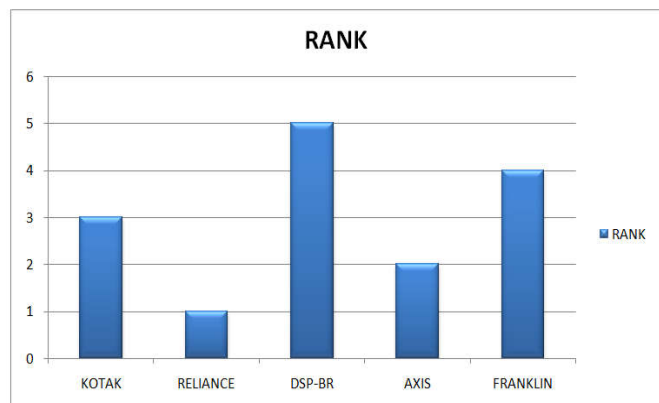


Table-6 shows that Coefficient of variation is greater is said to be more variable or less consistent, whereas it is less is said to be less variable or more consistent. Hence, in above table the least value of coefficient of variation is **DSP-BR Tax fund(G)** which means it is more consistent than other given schemes.

Table-8 shows the Sharpe’s value. It is a measure of reward to volatility ratio. It gives the excess return over risk free return with respect to the total risk of a portfolio. The results shows that **DSP-BR Tax fund(G)** 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.

Table 7. Sharpe’s value

Schemes	Sharpe’s value
Kotak tax saver (g)	2.51
Reliance tax saver (g)	1.86
Dsp-br tax fund (g)	3.62
Axis long term equity fund (g)	2.04
Franklin india tax shield (g)	2.62

Table 9. Jensen’s value

Schemes	Sharpe’s value
Kotak tax saver (g)	0.11
Reliance tax saver (g)	0.12
Dsp-br tax fund (g)	0.12
Axis long term equity fund (g)	0.10
Franklin india tax shield (g)	0.09

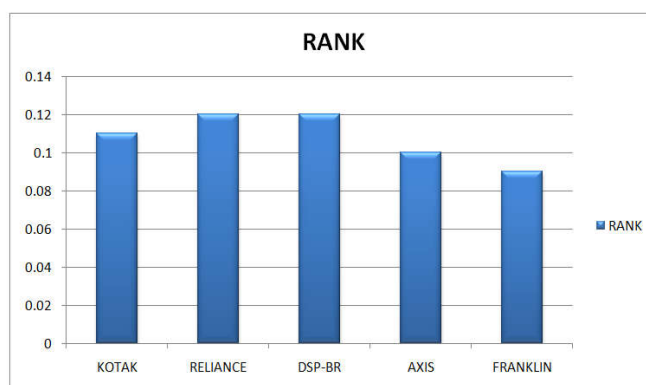
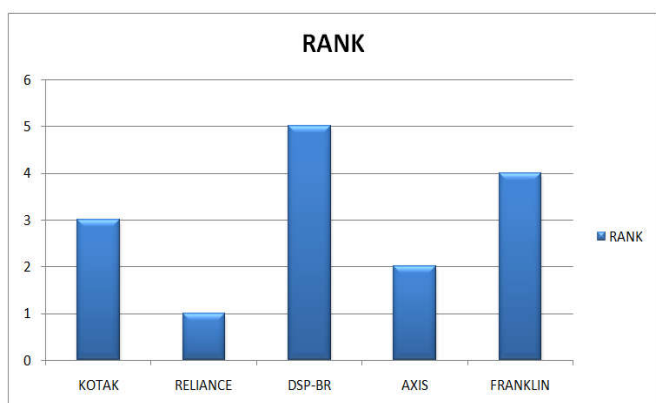


Table-7 shows the Sharpe’s value. It is a measure of reward to volatility ratio. It gives the excess return over risk free return with respect to the total risk of a portfolio. The results shows that **DSP-BR Tax fund(G)** is the best among all as it is having the highest positive value implying that it has given the excess return over risk free return.

Table 8 shows the Jensen’s value. Higher value of the Jensen measure means better performance of the mutual fund scheme. The results shows that **Reliance Tax Saver Fund (G) & DSP-BR Tax Fund(G)** 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.

**Summary and Conclusion**

The present study is an attempt to analyze the performance of a few selected private sector Growth schemes on the basis of their NAVs and returns recorded for the period of three years

starting from 1<sup>st</sup> April 2014 up to 31<sup>st</sup> March 2017. The evidences have clearly revealed the following:

- The highest average return given by Reliance Tax saver fund (G).
- DSP-BR Tax saver fund (G) is less risky from amongst selected schemes.
- DSP-BR Tax saver fund (G) gave excess return with respect to total portfolio.
- Over all we can say, DSP-BR Tax saver fund (G) is best tax saving mutual fund scheme from amongst selected schemes.

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