An Empirical Study of Performance Evaluation of Selected ELSS Mutual Funds

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Abstract: ***Mutual fund is tool of investment, which offers investors the opportunity to pool their money with other investor in an investment that's managed by professional investment managers. Mutual fund invest in stocks, bonds or other securities to each fund's objective. Equity linked saving schemes, is dedicated mutual fund scheme that allows investor to save tax. ELSS falls under section 80 C, one can claim up to ₹ 1, 50,000/- from his/her investment as a deduction his/her gross total income. It also provides an opportunity for long term capital appreciation. In this paper study the performance of ELSS mutual funds of 10 tax saving schemes through various tools like Beta, Sharpe ratio, Jensen ratio. It suggest suitable time to invest for the investor.***

Keywords: Mutual funds, Equity linked saving schemes, Risk and return, Income Tax act.

1. Introduction

The objective of tax paying investor is to invest their money in a chance that not only tax exemption, but also get maximum amount of return in the investment and liquidity. There so many investment options are available for the investment in tax saving schemes in Income tax act 1961 like NSC's, PPF, ELSS, Bank deposits, Life insurance premium and provident funds. In this all investment schemes mutual fund investment options are avail the tax exemption option for the investor to invest in Equity link saving scheme.

Equity link saving scheme (ELSS) is a mutual fund that invests in stocks, therefore making it "equity linked". In order to encourage the investor in equity, the government of India in the year 1992 introduce the Equity linked saving scheme mutual funds. Investment in this scheme qualify the for tax benefit. Mutual fund is of course of a financial instrument that pools together money from different investors and invests in equity or debt securities. An ELSS schemes is among the financial instrument that allow investor to save tax under section 80 C. remember that a fund should be specifically classified as ELSS by the fund house. All equity schemes are not automatically tax deductible. Each investment investor make in an ELSS is locked for 3 years. That is investor will not be able to sell that investment for the 3 years. While investor can invest any amount in ELSS, he can only claim up to ₹ 1, 50,000/- for his tax purpose.

ELSS return in the stock market it's depend on how the stock it hold in its portfolio moves. Return are both a factor of the general market trend as well as the fund's own ability to pick winning stocks. Generally, ELSS funds do not have investment restrictions on the market capitalisations of stock and they invest where they find opportunities. An ELSS fund is thus like a diversified equity fund, investing across large caps, mid-caps and small caps. The market conditions and the funds manager's conditions and the fund manager's views.ELSS has no guarantees return cannot predict guarantee returns. Returns depend on the stock market and it is not possible to predict by exactly how much the market will move. Markets can also be volatile in the short term, correcting in one phase and rising in another. While analysts also do have predictions on stock prices and market index movement, they are subject to change and are in no way certain.

2. 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 b using performance index, risk return 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 generated excess returns over expected returns and further concluded that the funds were not adequately diversified and were not managed optimally.

Dr. A.N. Paunikar (2014) study on Equity linked saving schemes as tax saving investment for salaried class. This study will focus on various schemes of ELSS (Equity Linked Saving Schemes) this study is limited to equity linked saving schemes as applicable to saving of income tax. The geographical limitation is various salaried income group people in Nagpur District. It may be observed that salaried class responded are more towards good return on investment with tax benefits 101 responses for other parameter are comparatively less.

J Lilly & Dr. D. Anusuya (2014) made a study on performance evaluation of selected mutual fund schemes. In this study performance of 49 open ended tax saving ELSS schemes were examined for the period between April 2008 to March 2013. Out of the 49 scheme for the study LIC Nomura MF growth and dividend schemes has the highest return.

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.

Archana Goel & Laveena (2015) made a comparative study on performance analysis of debt & equity schemes at HDFC with reference to Birla sun life ICICI mutual fund schemes by taking their daily return and to know the category of funds where the investor would like to invest in 15 schemes had been included in the research. The study was conducted form 1st Jan 2009 to 31st Dec, 2013 and it was found that out of the entire scheme HDFC infrastructure fund, short term plan and long term gilt fund are proficient.

Garg & Gupta, (2016) an Equity linked saving scheme for tax saving is an innovative financial instrument which provide us with a tax saving under section 80 C and also provide capital appreciation in the form of mutual fund investment. Risk-averse investor may complain about the volatility factor in equity-linked instrument but the same is taken care of by the mandatory 3 years lock in period.

B. Kishori, N. Bhagyasree(2016) in their study investigated the performance of open-ended, growth-oriented equity schemes of transition economy. The study revealed that 14 out of 30 mutual fund schemes had outperformed the benchmark return. The results also showed that some of the schemes had underperformed due to diversification problem. In the study, the Sharpe ratio was positive for all schemes which showed that funds were providing returns greater than risk free rate.

Aashish Jain (2017) analysed Performance Evaluation of Tax saving Mutual funds, the study is an attempt to analyses the performance of a few selected private sector growth scheme on the basis of their NAV's and returns recorded for the period of three years starting from 1st April 2014 up to 31st march 2017. Reliance tax saver fund giving highest return and DSP-BR tax saver fund less risky.

Arul Prasad.P, Vijayakumar.L (2017)analysed the impact of different demographic variables on the attitude of investors towards mutual funds. Apart from this, it also focused on the benefits delivered by mutual funds to investors. In this study respondents of different demographic profiles were surveyed. The study revealed that the majority of investors don't have interest towards mutual fund investments.

Richa Pathak (2018) Performance Evaluation of ELSS mutual funds with special reference to growth funds, 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. From the study it is clear that ELSS –Growth funds are outperforming benchmark index and doing quite well. Moreover there are funds like Axis long term equity funds, IDFC Tax advantage, Franklin Templeton tax saver which have giving good average returns and also giving excess return compared to government bonds.

Research Methodology

The present study is based on secondary data which has been collected through data source money control and AMFI report and its website. The ELSS scheme were selected based on its availability of data through the study period that is convenience sampling.

Objectives of the study

1) To Evaluate the performance of selected Tax saving ELSS schemes by applying Sharpe measure, Treynor's measure and Jensen's measure.
2) To suggest a suitable ELSS scheme for the investor.
3) To examine the concept of Tax saving ELSS with other Tax saving Investments.

Limitation of the study

1) The sample size is limited as this study will focus on 10 ELSS.
2) The time period under study is for the period of 5 years i.e., 2014-2015 to 2018- 2019.

Hypothesis

H0- There is no significance difference between in the return of ELSS scheme and other U/S 80 C investments.
H1 – There is significance difference between in the return of ELSS scheme and other U/S 80 C investments.
H0 – There is significance difference in performance of ELSS funds.
H1- There is no significance difference in performance of ELSS funds.

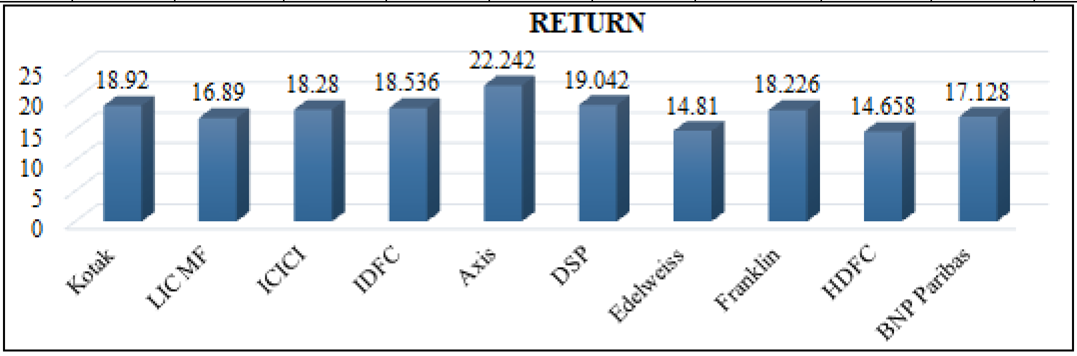
Data Analysis

Table 1: List of ELSS scheme

Sl no	Schemes
1	Kotak Tax Saver Scheme – Growth
2	LIC MF Tax Plan 1997 – Growth
3	ICICI Prudential Long Term Equity Fund (Tax Saving) - Growth
4	IDFC Tax Advantage (ELSS) Fund - Regular Plan - Growth
5	Axis Long Term Equity Fund(Tax saving) - Growth
6	DSP Tax Saver Fund - Regular Plan - Growth
7	Edelweiss Long Term Equity Fund (Tax Savings) - Growth
8	Franklin India Tax shield Fund – Growth
9	HDFC Tax Saver Fund – Growth
10	BNP Paribas Long Term Equity Fund (Tax saving) - Growth

Table 2: Average return of selected scheme

Year	Kotak	LIC MF	ICICI	IDFC	Axis	DSP	Edelweiss	Franklin	HDFC	BNP Paribas
2014-2015	56.7	49.05	51.78	41.84	65.87	51.91	40.41	56.70	52.04	52.73
2015-2016	1.23	-3.81	5.08	6.99	6.17	4.09	6.47	3.78	-1.45	6.84
2015-2016	6.77	2.64	4.91	-0.30	-1.23	10.33	-1.89	4.14	-0.70	-7.12
2016-2017	33.2	37.28	27.64	53.35	37.13	35.95	37.74	28.94	34.57	42.34
2017-2018	-3.3	-0.71	1.99	-9.20	3.27	-7.07	-8.68	-2.43	-11.17	-9.15
Average returns	18.92%	16.89 %	18.28%	18.53%	22.24%	19.04%	14.81%	18.22%	14.65%	17.12%



As per the table-2 showing that top 3 funds on the basis of return are **Aixs Long term Equity fund** giving highest return of 22.24% followed by **DSP tax saver fund** of 19.04%, **Kotak tax saver scheme** of 18.92% out of these 10 fund HDFC tax saver fund is giving lowest return of 14.65%.

Table 3: Standard deviation of selected scheme

Schemes	Standard Deviation
Kotak Tax Saver Scheme - Growth	12.99
LIC MF Tax Plan 1997 - Growth	13.58
ICICI Prudential Long Term Equity Fund (Tax Saving) - Growth	11.77
IDFC Tax Advantage (ELSS) Fund - Regular Plan - Growth	14.04
Axis Long Term Equity Fund - Growth	13.52
DSP Tax Saver Fund - Regular Plan - Growth	14.24
Edelweiss Long Term Equity Fund (Tax Savings) - Growth	13.21
Franklin India Tax shield Fund - Growth	11.27
HDFC Tax Saver Fund - Growth	13.28
BNP Paribas Long Term Equity Fund - Growth	13.41

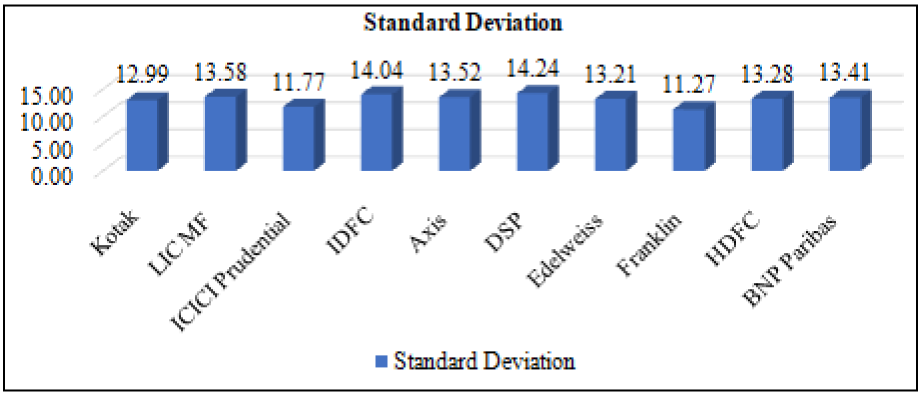


Table 3 gives the standard deviation of the selected ELSS mutual fund schemes which measure of total risk. Higher the value of the standard deviation higher the risk being carried out by the particular scheme. Form the above comparison **DSP tax saver fund scheme** has maximum risk of 14.24% whereas **Franklin India tax shied fund scheme** has minimal value of standard deviation.

Table 4: Beta of selected scheme

Schemes	Beta
Kotak Tax Saver Scheme - Growth	0.95
LIC MF Tax Plan 1997 - Growth	0.89
ICICI Prudential Long Term Equity Fund (Tax Saving) - Growth	0.82
IDFC Tax Advantage (ELSS) Fund - Regular Plan - Growth	1.02
Axis Long Term Equity Fund - Growth	0.97
DSP Tax Saver Fund - Regular Plan - Growth	1.04
Edelweiss Long Term Equity Fund (Tax Savings) - Growth	0.96
Franklin India Tax shield Fund - Growth	0.83
HDFC Tax Saver Fund - Growth	0.93
BNP Paribas Long Term Equity Fund - Growth	0.97

Table 4 shows the beta value of selected mutual fund 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 than nifty benchmark in this study shows that **ICICI prudential long term equity fund** has the lowest beta value.

Table 5: Sharpe's value

Schemes	Sharpe Ratio
Kotak Tax Saver Scheme - Growth	0.66
LIC MF Tax Plan 1997 - Growth	0.52
ICICI Prudential Long Term Equity Fund (Tax Saving) - Growth	0.57
IDFC Tax Advantage (ELSS) Fund - Regular Plan - Growth	0.62
Axis Long Term Equity Fund - Growth	0.60
DSP Tax Saver Fund - Regular Plan - Growth	0.61
Edelweiss Long Term Equity Fund (Tax Savings) - Growth	0.35
Franklin India Tax shield Fund - Growth	0.41
HDFC Tax Saver Fund - Growth	0.56
BNP Paribas Long Term Equity Fund - Growth	0.27

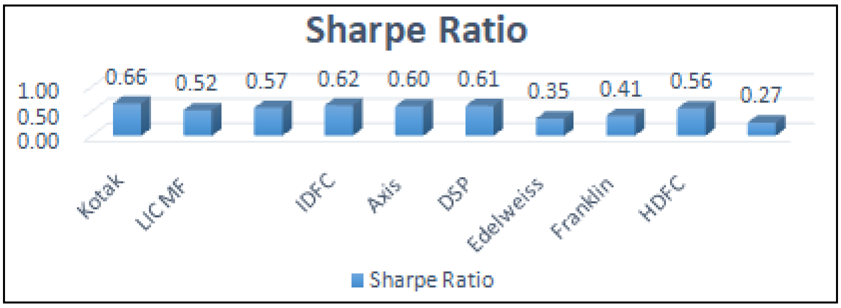


Table 5 show the Sharpe's value. It is a measure of reward to volatility ratio. It is commonly used to measure the performance of an investment by adjusting for its risk. The higher the ratio, the greater the investment return relative to the amount of risk taken, and thus, the better the investment. The result shows **Kotak Tax Saver Scheme –** 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.

Table 6: Treynor's value

Schemes	Treynor's Ratio
Kotak Tax Saver Scheme - Growth	0.09
LIC MF Tax Plan 1997 - Growth	0.08
ICICI Prudential Long Term Equity Fund (Tax Saving) - Growth	0.08
IDFC Tax Advantage (ELSS) Fund - Regular Plan - Growth	0.09
Axis Long Term Equity Fund - Growth	0.08
DSP Tax Saver Fund - Regular Plan - Growth	0.08
Edelweiss Long Term Equity Fund (Tax Savings) - Growth	0.05
Franklin India Tax shield Fund - Growth	0.06
HDFC Tax Saver Fund - Growth	0.08
BNP Paribas Long Term Equity Fund - Growth	0.04

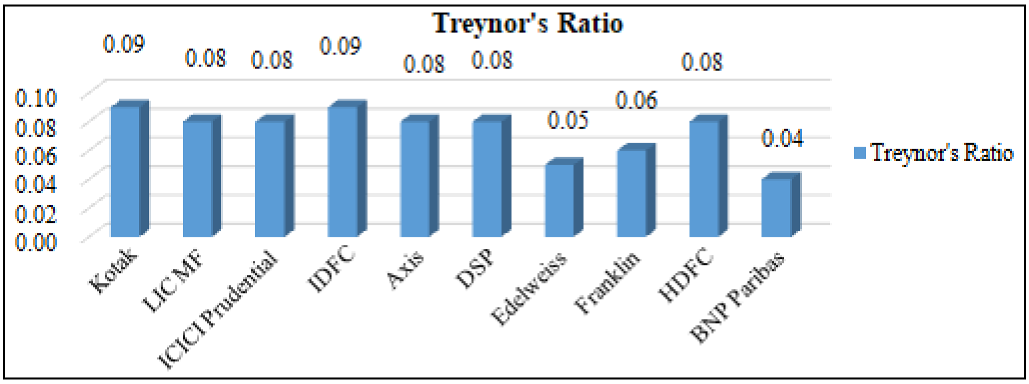


Table 6 shows the Treynor's value The Treynor ratio, also known as the reward-to-volatility ratio, is a performance metric for determining how much excess return was generated for each unit of risk taken on by a portfolio. Excess return in this sense refers to the return earned above the return that could have been earned in a risk-free investment. The result shows that **Kotak Tax Saver Scheme – Growth and IDFC Tax Advantage (ELSS) Fund** - Regular Plan – Growth both are performing same level 0.09 highest when compare to other mutual funds.

Table 7: Jensen value

Schemes	Jensen value
Kotak Tax Saver Scheme - Growth	1.43
LIC MF Tax Plan 1997 - Growth	-0.73
ICICI Prudential Long Term Equity Fund (Tax Saving) - Growth	0.59
IDFC Tax Advantage (ELSS) Fund - Regular Plan - Growth	0.91
Axis Long Term Equity Fund - Growth	0.65
DSP Tax Saver Fund - Regular Plan - Growth	0.85
Edelweiss Long Term Equity Fund (Tax Savings) - Growth	-2.55
Franklin India Tax shield Fund - Growth	-1.51
HDFC Tax Saver Fund - Growth	0.47
BNP Paribas Long Term Equity Fund - Growth	-3.80

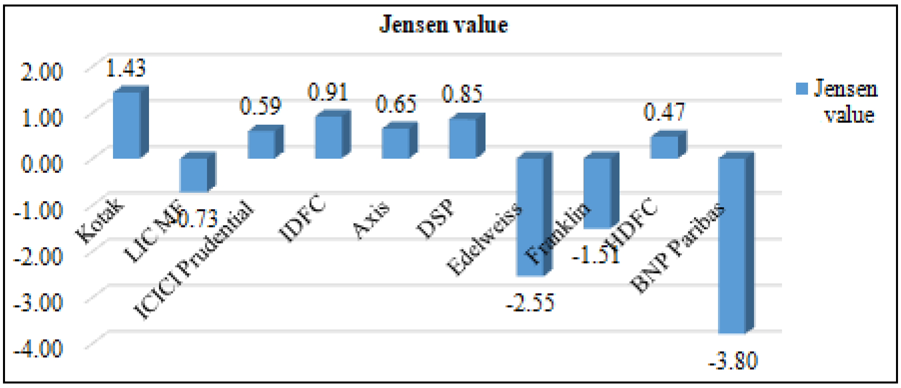


Table 7 shows Jensen's ratio. Jensen's Alpha, also known as the Jensen's Performance Index, is a measure of the excess returns earned by the portfolio compared to returns suggested by the CAPM model. If, however, the security earns even more than the risk-adjusted returns, it will have a positive Alpha. Negative alpha indicates that the portfolio has not earned its required return. The result shows that **Kotak Tax Saver Scheme – Growth has 1.43% and BNP Paribas -3.80%.**

Table 8: Comparison of major investment products available under section 80C of income tax act

Parameter	PPF	NSC	5 Years Bank Fixed Deposit scheme	5 years post Time deposits	ELSS
Returns	8% compounded annually	8% compounded annually but payable at maturity	6% p.a. - 8% p.a.	7.8% p.a.	Linked to Equity market return
Tenure	15 years	5 years	5 years	5 years	3 years
Minimum investment	₹ 500	₹ 100	₹ 100	₹ 200	₹ 500
Maximum investment	₹ 1,50,000/-	No limit*	No limit*	No limit*	No limit*
Amount eligible for deduction under section 80 C	₹ 1,50,000/-	₹ 1,50,000/-	₹ 1,50,000/-	₹ 1,50,000/-	₹ 1,50,000/-
Taxation of returns	Exempted	Taxable	Taxable	Taxable	Exempted
Safety/ Rating	Safe	Safe	Safe	Safe	Moderated risk
Tax status on maturity	Fully exempted	Taxable	Taxable	Taxable	Fully exempted

*There is no upper limit on investments. However, investment of only up to ₹ 1, 50,000 per year are allowed to be claimed as deduction under section 80C of the IT Act.

Table 8 it can be derived that, Equity Linked Saving Schemes has the shortest lock in period among other available investment options. Although Equity Linked Saving Schemes are quite risky as compared to other investment options due to its direct relation with share markets but still the past returns history are remarkable. Considering all pros and cons it is evident that ELSS is the best investment option from returns point of view and available benefits under Income Tax Act 1961.

3. Conclusions on Hypothesis

1) **The return of ELSS and other investment under section 80 C.**
   The alternative hypothesis is accepted, because in other investment scheme the investor is accomplishment maximum of 8% where as in ELSS the investor is accomplishment 14% - 22% of returns.
2) **The performance of different ELSS.**
   The Null hypothesis is accepted, because there is enormous difference in performance of 10 selected ELSS mutual fund, whereas highest average of return induce by the Axis long term equity fund and overall performance wise Kotak tax saver scheme is performing well in the study period from 2014-2019.

4. Suggestion

1) The return wise the ELSS mutual fund Axis long term Equity fund generating the highest return when compare to all other selected ELSS funds with a moderated risk form past 5 years, so investor will go with Axis long term Equity fund for investment as per market return.
2) The risk wise the ELSS mutual fund Franklin tax saving fund is less risky when compare to all other selected ELSS where the return wise it generated good return in the past 5 years.
3) By evaluating the selected ELSS mutual fund scheme by the Sharpe ratio, Jensen ratio and Treynor's ratiocame to know that performance wise Kotak tax saver scheme is well performing from past 5 years followed by DSP Tax Saver Fund and IDFC Tax Advantage (ELSS) Fund.
4) The investors while investing for the purpose of avoiding tax, in ELSS he has to plan to invest from the commencement of the financial year to get good return with tax bracket, if he invest in ELSSat the ending he will get tax advantage but return wise will not be fruitful.
5) The investor is to evaluate the sectoral wise investment made by the companies before investing in any ELSS schemes to get the goal returns.

5. Conclusion

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. It offers higher return than traditional avenues like NSC, PPF, Fixed deposit and it has moderate lock-in period of three years and the moderate risk showing during the study period from 201-2019, though ELSS schemes have been safe and investors have rarely lost their money. Investors in 20% or 30% tax bracket should invest in ELSS, in order to maximum their post-tax return. Young and middle age investors too can opt for ELSS, since they usually have high risk tolerance and a sufficiently long time horizon to ride out the volatilities associated with equity investment.