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ELSS "A Niche Fund"

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Abstract
Today in our country many kinds of mutual fund schemes are available to the investors. Equity Linked Savings Scheme (ELSS) offers a simple way to get tax benefits and at the same time gets an opportunity to gain from the potential of Indian equity markets. ELSS funds are one of the best avenues to save under section 80C. This is because along with tax deduction, the investor also gets the potential upside of investing in the equity markets. Also, no tax is levied on the long term capital gains from these funds .Moreover, compared to other tax saving options, ELSS has the shortest lock in period of three years.

Keywords
ELSS, Equity Fund, Tax Saver

I. ELSS
An Equity Linked Savings Scheme is a type of diversified, an open ended equity mutual fund. It qualifies for tax exemptions under sec 80C of the Income Tax Act 1961. It also offers the twin-advantage of capital appreciation and tax benefits. It comes with a lock in period of three years.

II. Scope of the Study
Among various Avenues of Investment in capital market, mutual funds are prominent investment options for Investor across the globe. There are different types of mutual funds available in the market. A mutual fund with certain terms and conditions like lock in period and Income tax benefits is known as ELSS. There are various tax saving investment options where an individual can save tax u/s 80 C of income tax act, but all such investment options come with only fixed return, but they won't allow the investment options to grow. In this situation ELSS fund will provide both tax saving and also have a growth in investment. ELSS schemes invest 65% in equity related investments that are notified to avail tax benefits.

A. Salient Features of ELSS
1. ELSS mutual fund is one of the best tax saving options under sec 80C. ELSS mutual fund scheme is the only pure investment options under 80C through which investors can take exposure to equity market.
2. ELSS tax saving mutual funds come with a lock in period of 3 years, the lowest among all tax saving options that are available under Sec 80C. For example PPF's (Lock in period is 15 years), National saving certificate is 5 years …. Etc.
3. ELSS mutual fund provide an SIP plan with a minimum investment of Rs. 500.
4. There is no upper limit for investment in ELSS, but the maximum tax benefits is limited to Rs. 1 lakhs under sec 80C.
5. Since ELSS, mutual funds invest in equity related investments these schemes would help to grow investors money when the stock market grows over a period of time

B. Criteria to choose a Best ELSS Funds

1. AUM
Asset under management is the amount the fund is managing. Higher AUM implies that the fund has many investors and has a good reputation

2. Past Performance
If the fund is performing well in the past it is expected that the fund will be performing well in the future. Generally investors look at the past 3 years, 5 years and 10 years return of the fund.

3. Sharpe Ratio
Sharpe ratio is used to calculate risk factors of the fund's portfolio. Sharpe ratio of the fund should be near 1.

C. Risk involved in ELSS Mutual Fund

1. Market Risk
The market risk carries the most weightage in a tax saving mutual fund. The ELSS mutual fund primarily invests in share market. The market condition changes with the economic condition of the country and the world. The government policies play important role in the movement of the share market. Due to these unpredictable factors the movement of the share market is also unpredictable. The ELSS fund is affected by this market trend

2. Liquidity Risk
An investor cannot redeem the investment easily in the falling market as there are no buyers in the market. This risk of getting trapped in a mutual fund investment is called the liquidity risk.

3. Credit Risk
This is concerned with default risk made by the company. Due to the strict Regulation, this risk may not arise. A mutual fund rarely defaults as its put its money both in the shares or bonds. However a bond, issuing company may default. Hence there is a credit risk on the mutual funds schemes which invest in corporate risk. Since ELSS Invests in share market, there is a very little credit risk.

D. Risk Measurement in ELSS

1. Alpha
The Alpha measures the difference between a funds actual returns and its expected performance. A positive alpha means, the fund has given greater return than the risk taken. While negative, alpha tells that the fund has taken more risk, but has only less return.

2. Beta
Beta is a measure of the volatility in comparison to the Bench mark index. The bench mark index has the beta of 1.0. if a fund has beta of more than 1, it is considered risky. It a fund has beta value below it is considered as less risky fund. Beta value of 1.2 mean that the fund is 20% more volatile that the bench mark index beta value of 0.85 means the fund has 15% less volatile than the bench mark index.

3. Standard Deviation

The standard deviation explains the deviation of the fund from its mean return. A higher standard deviation will have a zig zag return graph; while a smooth graph would have a low standard deviation.

4. Sharpe Ratio

The Sharpe ratio measures the risk adjusted performance. But the Sharpe ratio also takes return. The greater the Sharpe ratio, the better the risk adjusted performance of the fund.

III. Analysis and Interpretation

This section deals with a analysis and interpretation of data for the six selected ELSS funds to assess the performance of funds Assets Under Management and returns have also been taken into account for analysis. The statistical parameters such as alpha, beta, standard deviation and Sharpe ratio have also been employed.

Table 1 : Asset Under Management (in crores)

S. No.	Fund Name	AUM (Rs in crores)
1	Axis Long Term Equity (G)	4162
2	Birla Sun Life Tax Relief (G)	1980
3	BNP Paraibas Long Term Equity (G)	348
4	Franklin India Tax Shield (G)	1616
5	IDFC Tax Advantage (G)	306
6	SBI Magnum Tax Gain	5212

Source: secondary data

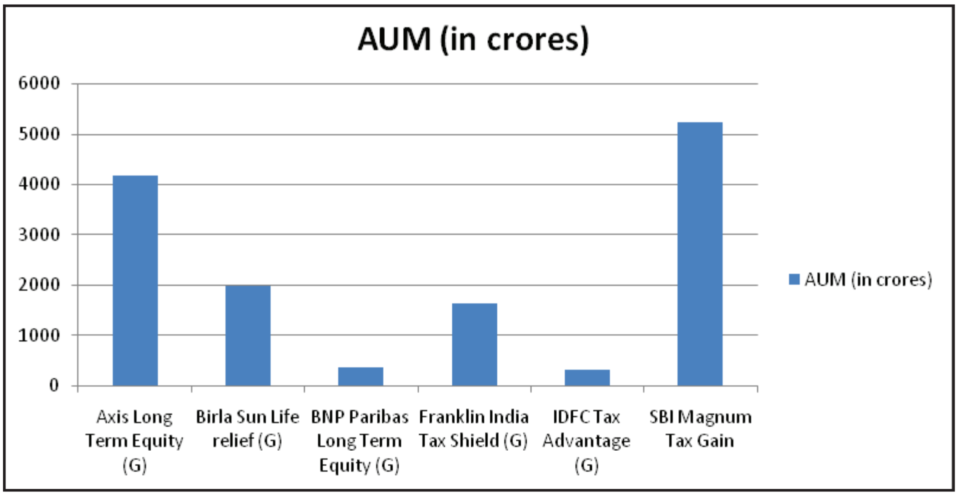

CHART 1: Asset Under Management (in crores)

The above table and chart shows about Asset Under Management of selected six ELSS fund. Out of this six ELSS fund , SBI Mangum Tax Gain (G) fund holds 5212 crore of rupees as AUM; Axis Long Term Equity (G) fund holds a AUM of 4162 crores, Birla Sun Life Tax Relief (G) fund holds a AUM of 1980 crore. The Higher AUM values show that SBI and AXIS ELSS funds have more number of investors.

Table 2: Return for ELSS Fund (in %)

S. No.	ELSS Fund Name	1 year 2011 in (%)	2 year 2012 in (%)	3 year 2013 in (%)	4 year 2015 in (%)	Total Return in (%)
1	Axis Long Term Equity (G)	42.4	42.3	37.5	23.4	145.6
2	Birla Sun Life Tax Relief (G)	40.3	36.6	32.2	15	124.1
3	BNP Paraibas Long Term Equity (G)	35.3	35.3	30.2	18.9	119.7
4	Franklin India Tax Shield (G)	37.6	33.8	29.3	18.7	119.4
5	IDFC Tax Advantage (G)	37.5	35.7	32	18	123.2
6	SBI Magnum Tax Gain	29.8	32.2	28	15.	105.3
Return Calculation as on 1st June 2015						

Source: secondary data

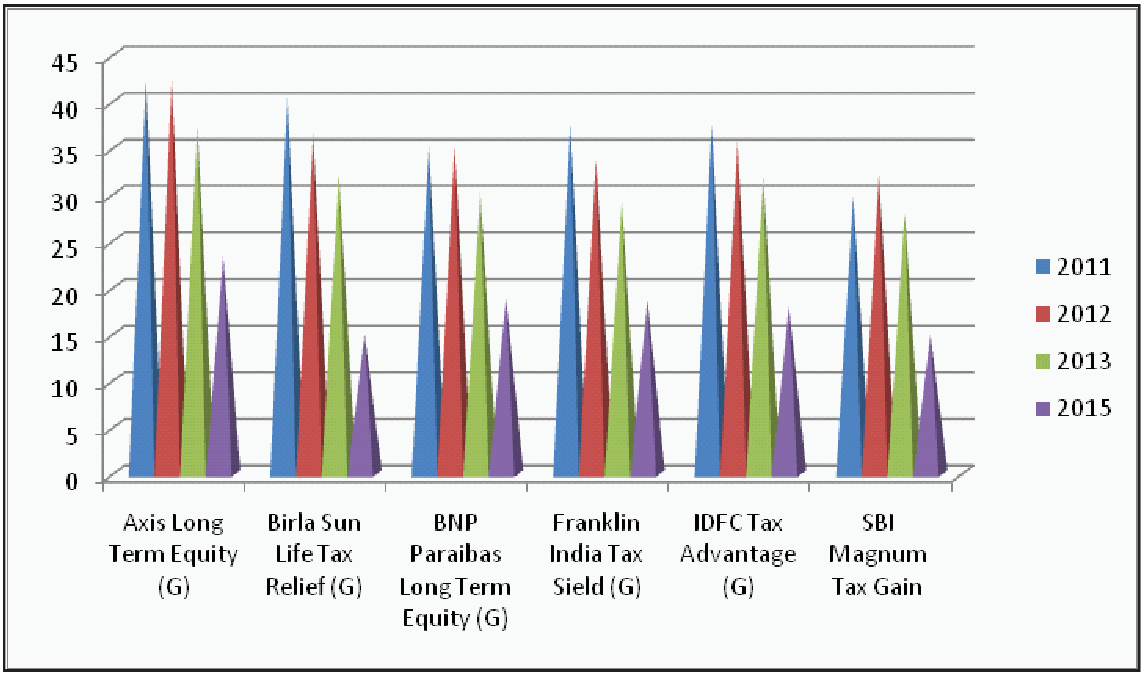

CHART 2: Return for ELSS Fund (in %)

From the above table and chart (2) it may be observed that the rate of return from Axis Long Term Equity(G) fund is the highest (145.6%), followed by Birla Sun Life Tax Relief (G) whose return is 124.1%, IDFC Tax Advantage (G) whose return is 123.2%, BNP Paraibas Long Term Equity (G) is 119.7%, Franklin India Tax Shield (G) whose return is 119.4% and SBI Magnum Tax Gain (G) whose return is 105.3%. Thus rate of return from Axis Long Term Equity fund is the highest.

Table 3 : Risk Management Ratio for ELSS Funds

S. No.	ELSS Fund Name	Sharpe Ratio	Beta	Alpha	S.D
1	Axis Long Term equity (G)	1.92	0.86	15.25	13.44
2	Birla Sun life Tax Relief (G)	1.53	0.92	10.81	14.44
3	BNP Paribas Long Term Equity (G)	1.43	0.91	9.38	14.34
4	Franklin India Tax (G)	1.49	0.87	8.97	13.77
5	IDFC Tax Advantage (S)	1.60	0.85	11.58	13.73
6	SBI Magnum Tax Gain (G)	1.34	0.94	7.25	13.99

Table 3 : Reveals the Risk measurement Ratio of ELSS Funds

Sharpe Ratio : Higher Sharpe ratio indicates better rate of return
Beta Value : Below 1.0 risk level is low and above 1.0 risk level is more
Alpha Value : Positive alpha value reveals that the funds have performed well.
Negative alpha value reveals that the funds has not performed Well
Standard Deviation : Low standard deviation value implies that fund has low volatility towards market.

From the above table it may be understood that the performance of Axis Long Term Equity (G) is the best fund in terms of its performance (15.25), rate of return(1.92), low risk value of(0.86) and with a low deviation of (13.44). Hence overall Axis Long Term Equity (G) fund is the best fund.

IV. Conclusion

The present study has taken six ELSS funds and have analyzed its return for 5years with various risk measurements Ratios to find out which fund is best and how for the risks are associated with those funds. The Risk of an equity linked saving scheme is equally important as the return. But some time people tend to focus on the return of equity linked saving scheme, but nowadays investors decide on ELSS fund by simply looking at the rate; which is based on performance. hence it is very essential for an investor to select a best ELSS fund by assessing the Risks associated with that fund while choosing the fund.

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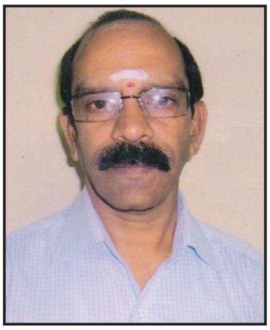

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