IJFANS INTERNATIONAL JOURNAL OF FOOD AND NUTRITIONAL SCIENCES

ISSN PRINT 2319 1775 Online 2320 7876
Research paper Volume 11, Iss 7, 2022

PERFORMANCE EVALUATION OF EQUITY-LINKED SAVINGS SCHEMES OF MUTUAL FUNDS: AN EMPIRICAL STUDY

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ABSTRACT:

This paper evaluates the performance of the top ten Equity Linked Saving Schemes (ELSS) offered by various mutual funds in India, using metrics such as Beta, Sharpe ratio, and Treynor ratio. ELSS is a tax-advantaged investment under Section 80C of the Income Tax Act of 1961, allowing investors to benefit from potential tax rebates and savings. The analysis shows that most of the ELSS schemes have consistently outperformed based on Treynor's Ratio and Sharpe Ratio, reflecting their ability to generate favourable returns considering the associated risk. The paper aims to suggest suitable ELSS schemes for investors to help them achieve their investment objectives, providing valuable insights for making informed investment decisions.

Keywords: ELSS Mutual Funds, Beta, The Sharpe Ratio, Treynor's Performance *Index.*

Introduction

Saving refers to the act of setting aside a portion of one's income after expenses, which can be deposited in banks or invested in financial and physical assets to generate returns. Stock investing offers higher returns, but it carries risks due to market knowledge and sentiment. Mutual funds have emerged as a less risky option to invest savings in stocks, with expert fund managers managing investors' funds. Profits from mutual funds are distributed to unitholders based on their unit holdings. The Indian mutual fund industry provides professional management and diversification, with each scheme having specific investment objectives. Tax planning is important, and Section 80C of the Income Tax Act allows taxpayers to save taxes by investing in tax-advantaged options like equity-linked savings schemes (ELSS). ELSS funds invest in equity and aim for attractive returns across sectors, with a three-year lock-in period.

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Growth of Mutual funds in India

The mutual fund industry in India has witnessed significant milestones and remarkable growth since its inception. It began in 1963 with the formation of UTI, followed by the entry of public-sector mutual funds in 1987 and private-sector funds in 1993. The industry faced challenges during the global financial crisis in 2009 but rebounded with the implementation of regulatory measures by SEBI in 2012. The industry's assets under management (AUM) crossed ₹10 trillion in May 2014, ₹20 trillion in August 2017, and ₹30 trillion in November 2020. The overall size of the Indian MF Industry has increased five-fold from ₹8.68 trillion in May 2013 to ₹43.20 trillion in May 2023. Investor folios have more than doubled in five years, from 7.34 crore in May 2018 to 14.74 crore in May 2023. The industry's growth can be attributed to SEBI's regulatory measures and the efforts of mutual fund distributors to expand the retail base. Additionally, systematic investment plans (SIPs) have gained popularity, with over 6.53 crore SIP accounts as of May 2023. These milestones reflect the resilience and success of the Indian mutual fund industry.

Review of Literature

The mutual fund (MF) industry plays a significant role in the Indian Financial System, and numerous studies have been conducted both in India and abroad to explore various aspects of MF. These studies encompass descriptive and empirical analyses, focusing on the overall MF industry or specific aspects within it. By reviewing these studies, researchers have identified problem areas and gaps in the existing research, providing valuable insights for further investigation. This comprehensive review aids in recognizing the challenges and opportunities associated with MF, guiding future research endeavours.

Pratap and Gautam (2020)[1] this study focused on the selection of an optimal Equity Linked Saving Scheme (ELSS) in India that offers both tax relief and attractive returns while minimizing risk. The research evaluated the performance of five prominent mutual fund companies based on their assets under management. By employing statistical tools such as standard deviation, Beta, Sharpe ratio, Treynor ratio, and Jensen alpha, the authors assessed the risk-return profile of the schemes. The findings revealed that Birla Sunlife tax relief fund

[1] Pratap, S., & Gautam, K. (2020). Performance Evaluation of Equity Linked Savings Schemes (ELSS) of Indian Mutual Funds. BHU, Varanasi. UGC Care Journal.

ISSN PRINT 2319 1775 Online 2320 7876

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96 emerged as the top performing ELSS among the chosen mutual funds, demonstrating its superior performance in the sample.

Keswani, Gangwani, and Dhingra (2020)[2] in this study aimed to identify the factors influencing mutual fund performance and their impact on investor satisfaction in India. The authors collected data through a self-structured questionnaire and assessed reliability using the Cronbach alpha test before conducting factor analysis and multiple regression analysis. The data was obtained from individual investors across India who invest in mutual funds. Through factor analysis, four key factors were identified: return, flexibility, security, and level of satisfaction. The multiple regression analysis revealed that return, flexibility, and security significantly influenced the level of investor satisfaction. This implies that higher returns, greater flexibility, and lower risk can attract more investors. Therefore, mutual fund companies can consider these factors when designing new schemes to maximize investor satisfaction.

Reddy and Sreeram (2020)[3] In their study, discussed the ability of mutual funds to diversify portfolios and cater to the risk aversion of investors. They specifically focused on Equity Linked Saving Schemes (ELSS) in India, which are mutual fund schemes allowing investments in equity securities offered by companies, banks, and the government. ELSS schemes provide tax benefits and have shown long-term wealth generation potential. The performance of the top five private sector banks was evaluated over a 5-year period from April 1, 2014, to March 31, 2019. Various tools such as average return, Standard Deviation (SD), Coefficient of Variation (CV), beta, Sharpe ratio, Treynor's ratio, and Jensen's alpha were employed for the analysis. The findings of the study revealed that all selected ELSS (Direct-Growth) schemes outperformed the market index in terms of average returns but also exhibited higher levels of risk.

[2] Keswani, S., Gangwani, K., & Dhingra, V. (2020). Impact of performance measures of mutual fund on investors' satisfaction level in India-An empirical analysis.

[3] Reddy, K. V. R., & Sreeram, A. (2020). A Study on Investment Performance of Private Sector Banks Mutual Fund Schemes (With Special Reference to Equity Linked Saving Schemes (ELSS). International Journal of Modern Agriculture, 9(4), 285-295.

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Verma (2018)[4], In the study focus on Equity Linked Savings Schemes (ELSS) as open Equity Mutual Funds that provide investors with not only tax-saving benefits but also opportunities for wealth creation. The performance and growth patterns of ELSS schemes offered by selected banks were analyzed using various key indicators such as Return, Beta (β) value (a measure of risk), Standard Deviation, Sharpe's Ratio, Risk Adjusted CAGR, Expense Ratio, among others. The findings of the study highlighted that ELSS mutual funds have emerged as a popular investment choice due to their ability to deliver superior returns compared to other tax-saving options.

Chahal (2018)[5], In the study discussed on the misperception between Equity Linked Savings Schemes (ELSS) and Unit Linked Insurance Plans (ULIP) has been observed, as both involve investments in equity markets and serve as tax-saving instruments. However, it is important to note that ELSS and ULIPs are distinct products with different purposes. ULIPs combine life insurance and investment features offered by life insurance companies, while ELSS is an equity fund. The research paper primarily focuses on selecting the best scheme among the top mutual fund companies operating in India based on factors such as asset under management. The study concludes that ELSS is more attractive to rational investors due to its reasonable charges, higher transparency, lock-in period, tax benefits, pure investment nature, and ease of redeeming, making it investor-friendly.

Srivastava's study (2017)[6], the primary focus lies on the efforts of successive governments to enhance the level of savings and investments in the economy. The government of India remains consistently concerned with promoting capital formation among the general public, which involves making necessary adjustments to tax laws and encouraging financial inclusion. While there are various investment options available in the market, the study highlights the significance of Equity Linked Saving Schemes (ELSS) compared to other fixed income investment choices, particularly in the context of the Income Tax Act of 1961. The paper emphasizes the benefits of ELSS in terms of providing investors with both favorable returns and tax-saving opportunities.

[4] Verma, J. H. (2018). Hybrid Mutual Fund Schemes: A Study of the Performance of selected Equity Linked Savings Scheme.

[5] Chahal, P. S. A Comparative Evaluation of Tax Saving ELSS And ULIP Schemes. Das, B., Mohanty, S., & Shil, N. C. (2008). Mutual fund vs. life insurance: Behavioral analysis of retail investors. International journal of business and management, 3(10), 89-103.

[6] Srivastava, S. (2017). Equity Linked Saving Schemes (ELSS) Vis-A-Vis Fixed Income Schemes under the Income Tax Act 1961. Journal of Business & Financial Affairs, 6(01), 1-6

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Kadambat et al. (2015)[7], Equity Mutual Funds play a significant role in mobilizing risk capital from small investors. To foster an investment culture, the Government of India introduced Equity Linked Savings Scheme (ELSS) mutual funds in 1992, which offer tax benefits subject to specific regulatory provisions. These regulatory provisions differentiate ELSS funds from Diversified Equity Funds and potentially increase the investment risk associated with ELSS funds compared to regular Diversified Equity Funds. This raises the question of whether the historical analysis of ELSS Funds' performance reflects a higher level of investment risk. Additionally, the study aims to determine whether ELSS funds deliver a higher risk-adjusted return compared to Diversified Equity Funds and Benchmark Indexes. To address these inquiries, the paper analyzes the investment performance of ELSS Funds over a 13-year period from 2000-01 to 2012-13 and compares it with 12 top Diversified Equity Funds and 7 Benchmark indices.

Sharma's study (2015)[8], Equity Linked Savings Scheme (ELSS) is defined as a type of mutual fund that invests in equity and equity-linked products, offering tax rebates to investors based on specific requirements of the Indian Income Tax Act, 1961. ELSS schemes share growth opportunities and risks similar to other equity-oriented schemes. Being open-ended, investors can enter or exit the scheme at any time. The study aims to explore investors' perception of ELSS mutual funds, with a specific focus on their satisfaction level regarding grievance redressal, after-sales services, and redemption time. The study also incorporates the concept of behavioral finance, which explains investors' psychology in financial market investments. Secondary data from various research paper portals, such as Ebsco, Proquest, and Google, were collected, including 50 research papers primarily published between 2009 and 2014. The review of these papers reveals that most attempts in the Indian context have focused on describing mutual fund performance based on risk and return, indicating a knowledge gap regarding investor perception, customer satisfaction, and demographic variables related to ELSS mutual funds. Therefore, the study develops a model to examine the impact of these variables on ELSS mutual funds.

Scope of the study

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[7] Kadambat, K. K., Raghavendra, T. S., & Singh, B. M. (2015). Investment Performance of Equity Linked Savings Schemes (ELSS) Of Indian Mutual Funds. International Journal of Recent Scientific Research, 6(5), 4076-4083.

[8] Sharma, S. (2015). ELSS mutual funds in India: Investor perception and satisfaction. International Journal of Finance and Accounting, 4(2), 131-139.

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This study evaluates the performance of Mutual Funds' Top 10 Equity Linked Saving Schemes (ELSS). The AUM of the Indian mutual fund sector has more than doubled to Rs. 38,88,571 crores as of January 31, 2022. The stunning performance figures of a mutual fund ensure that a company's liquidity and profitability are preserved. However, adequate tax preparation and settlement are necessary for all taxpayers. Mutual funds' Equity Linked Saving Schemes (ELSS) offer investors a tax credit of Rs. 1,50,000 every fiscal year. A typical equity plan will invest at least 65% of its assets in equities and equity-related financial products. On the other hand, ELSS funds often devote 80% of their assets to equities, making them a more aggressive choice. The S&P BSE 200 Index is used as a benchmark for ELSS funds.

Need for and Importance of the Study

In recent years, mutual funds have shown to be a great investment alternative. Investors in India can now choose from various investment opportunities (including mutual funds). Investors should base their investments on an essential examination of asset management organizations, such as the economic scenario, industry/sector, investment purpose of the fund, etc. Investors have difficulty deciding which funds to invest in based on risk and return. As a result, the findings of this study will help investors choose asset management firms depending on the performance of their funds. It advises investors on investing their money to get higher returns while incurring fewer risks. Retail investors prefer to invest in mutual funds. Equity Linked Saving Plans (ELSS) are among the numerous schemes that allow them to earn fair returns while reducing their taxable income by Rs. 1,50,000 every fiscal year. As a result, ELSS is one of the most promising funds for investors to consider. Investors now prefer mutual funds to fixed deposits as the capital markets have developed. As a result, to make informed investing selections, investors must learn about mutual funds. A research gap must be filled, particularly about ELSS funds.

Objectives of the study

The mutual fund industry is one of the most important aspects of India's capital and financial markets; this research aims to investigate and evaluate the performance standards of the top ten equity-linked savings schemes. The research project under consideration is a sincere effort to explore some compelling objectives, such as

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- To investigate the performance of Mutual Funds' top diversified Equity Linked Saving Schemes (ELSS).
- To evaluate the performance of the top diversified Equity Linked Saving Schemes offered by Mutual Funds (ELSS).

Research Questions

Based on the study, a review of the literature, and a research gap, the following research questions were proposed during the study:

• How well-organized are mutual funds' Equity Linked Savings Schemes (ELSS) in India, and what factors affect their overall performance?

• Is it possible for ELSS mutual funds in India to generate attractive long-term returns?

• Have equity-linked savings schemes (ELSS) offered by mutual funds performed well in India in recent years?

• How can recent data be used to improve the performance of equity-linked savings schemes (ELSS) offered by mutual funds?

Research methodology

The study collects preliminary information on mutual fund Equity Linked Saving Schemes (ELSS) using a variety of performance and descriptive research methods. Monitoring and evaluating performance parameters is required. Standard Deviation, Coefficient of Determination, Sharpe Ratio, Treynor's Performance Index, Asset Allocation, and Portfolio Aggregates are used to evaluate each ELSS's performance in two ways: first, based on average return, top companies in the scheme's portfolio, and sector allocation; and second, based on Standard Deviation, Coefficient of Determination, Sharpe Ratio, Treynor's Performance Index, Asset Allocation, and Portfolio Aggregate.

The following is a list of the various analysis tools that were used:

1.Data Sample

The study examines data from 1 April 2016 to 31 March 2021, five years. The research includes a variety of sources. the top 10 open-ended tax-saving Equity Linked Saving Schemes (ELSS), which include:

1. Canara Robeco Equity TaxSaver Reg Gr
2. Mirae Asset Tax Saver Dir Gr

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3. BOI AXA Tax Advantage Fund - ECO Plan-Growth
4. DSP Tax Saver Fund – Growth
5. Axis Long Term Equity Fund – Growth
6. Nippon India Tax Saver Fund – Growth
7. Tata India Tax Saving Fund – Growth
8. UTI Long Term Equity Fund (Tax Saving) – Growth
9. ICICI Prudential Long Term Equity Fund (Tax Saving) – Growth
10. SBI Long Term Equity Fund – Growth

2) Data Source

The study drew information from various websites, including AMFI, AMCs, morningstar.com, moneycontrol.com, economictimes.com, and others. The BSE 200 TRI Sensex has been used as a benchmark for assessing the performance of various schemes over a relatively long period of series data. Furthermore, the Government of India 10Y Bond has been chosen as a proxy for risk-free return rates. In addition, the study considered several research papers from journals such as the NMIMS Journal of Economics and Public Policy, the IOSR Journal of Economics and Finance, and the International Journal of Scientific and Research Publications.

3) Statistical Tools

Various techniques and statistical methods were used to examine the performance of open-ended tax-saving ELSS schemes, as described below:

i. Average Returns

The average return is calculated by taking the mean of the yearly returns. The ELSS scheme's Net Asset Values (NAVs) are used to calculate yearly returns. Increasing NAVs indicate that the mutual fund is growing.

ii.Standard deviation

The standard deviation of a fund's performance measures the range of its performance, i.e. the absolute dispersion. Venture capitalists depict standard deviation as the volatility of previous mutual fund returns. It demonstrates how far the fund's returns can deviate from historical mean returns. A scheme with a high standard deviation (SD)

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has a wide range of performance, indicating a higher potential for volatility. Investors primarily use standard deviation to predict the range of returns that a mutual fund will offer, thus predicting the mistake of subscribing to mutual funds that are overly aggressive. When calculating the standard deviation of a multi-asset portfolio, an investor must consider both the standard deviation and the correlation of each fund.

$$\sigma = \sqrt{\frac{1}{N}\sum_{i=1}^{N}(x_i - \mu)^2}$$

Where, $\sigma = Standard\ Deviation$
$x_i = Each\ data\ value$
$\mu = Mean\ value\ of\ data$
$N = Sample\ size$

Hypotheses:

• Ho: There is no significant difference between the performances of ELSS funds.

• H_1: There is a significant difference between the performances of ELSS funds.

iii Sharpe ratio

The Sharpe ratio, devised by Nobel laureate William F. Sharpe, is used to help investors understand the return on investment to its risk. The ratio represents the average return earned above the risk-free rate per volatility or absolute risk unit. Volatility is a measure of an asset's or portfolio's price fluctuations.

$$S_p = \frac{R_p - R_f}{\sigma_p}$$

where, $S_p = Sharpe\ Ratio\ for\ mutual\ fund$
$R_p = Average\ return\ of\ portfolio$
$R_f = Average\ risk\ rate\ return$
$\sigma_p = Standard\ deviation\ of\ excess\ return$

iv. Treynor ratio

Treynor's ratio is a measure of risk-adjusted return for an investment portfolio. It compares the excess return over the risk-free rate to the portfolio beta, which reflects the market risk. A higher Treynor's ratio means a better performance per unit of market risk.

$$T_p = \frac{R_p - R_f}{\beta_p}$$

where, $T_p = Treynor's\ Performance\ index$
$R_p = Average\ return\ of\ portfolio$
$R_f = Average\ risk\ rate\ return$
$\beta_p = sensitivity\ of\ fund\ return$

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Risk free rate:

The 10-year bond issued by the Indian government is used as the risk-free rate in this calculation. To evaluate different mutual fund portfolios,

Empirical study & interpretation

TABLE 1.1Returns of ELSS funds and Benchmark

Year	Canara Robeco Equity TaxSaver Reg Gr	Mirae Asset Tax Saver Dir Gr	BOI AXA Tax Advantage Fund - ECO Plan – Growth	DSP Tax Saver Fund - Growth	Axis Long Term Equity Fund – Growth	Nippon India Tax Saver Fund - Growth	Tata India Tax Saving Fund – Growth	UTI Long Term Equity Fund (Tax Saving) - Growth	ICICI Prudential Long Term Equity Fund (Tax Saving) - Growth	SBI Long Term Equity Fund – Growth	BSE 200
2017	18.839	41.344	23.832	31.84	19.253	28.799	27.425	23.566	27.084	21.598	33.261
2018	14.034	18.627	31.08	9.309	18.312	5.504	14.662	9.435	8.12	8.175	-0.538
2019	12.513	13.029	-9.183	7.57	6.856	-3.431	6.667	5.171	8.555	5.447	9.127
2020	-19.744	-23.634	-11.564	-26.055	-15.383	-37.54	-26.612	-25.121	-30.083	-30.177	16.313
2021	81.169	96.464	80.802	85.092	65.049	79.8	74.982	81.074	82.902	80.461	27.592

Table 1.1 shows the comparison of returns among ELSS mutual funds in the past five years. Mirae Asset Tax Saver Dir Gr was the best performer in three out of five years, followed by Tata India Tax Saving Fund - Growth and UTI Long Term Equity Fund (Tax Saving) - Growth. All ELSS funds performed better than the benchmark index in each year, indicating their high return potential. These results suggest that ELSS funds are attractive investment options for investors who seek tax benefits and capital appreciation.

TABLE -1.2 Descriptive Statistics

	Range	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	**Statistic**	**Statistic**	**Statistic**	**Statistic**	**Statistic**	**Std. Error**	**Statistic**	**Std. Error**
Canara Robeco Equity TaxSaver Reg Gr	100.913	-19.744	81.169	21.36222	36.75933	1.203	0.913	2.72	2
Mirae Asset Tax Saver Dir Gr	120.097	-23.634	96.464	29.16601	44.26211	0.74	0.913	1.244	2
BOI AXA Tax Advantage Fund - ECO Plan – Growth	92.366	-11.564	80.802	22.99352	37.54148	0.938	0.913	0.603	2
DSP Tax Saver Fund – Growth	111.147	-26.055	85.092	21.55123	41.09418	0.872	0.913	1.428	2
Axis Long Term Equity Fund – Growth	80.432	-15.383	65.049	18.81735	29.37082	0.939	0.913	2.006	2
Nippon India Tax	117.34	-37.54	79.8	14.62651	43.52894	0.662	0.913	0.914	2

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	Range	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Saver Fund – Growth									
Tata India Tax Saving Fund – Growth	101.594	-26.612	74.982	19.42476	36.93049	0.598	0.913	1.442	2
UTI Long Term Equity Fund (Tax Saving) – Growth	106.195	-25.121	81.074	18.82489	39.06172	1.07	0.913	2.088	2
ICICI Prudential Long Term Equity Fund (Tax Saving) – Growth	112.986	-30.083	82.902	19.31563	41.18563	0.801	0.913	1.703	2
SBI Long Term Equity Fund – Growth	110.639	-30.177	80.461	17.10068	40.26624	0.935	0.913	2.051	2
BSE 200 INDEX (Benchmark)	**33.799**	**-0.538**	**33.261**	**17.1509**	**13.66131**	**-0.12**	**0.913**	**-1.494**	**2**

As shown in **table 1.2,** the highest return among the tax saver funds is achieved by Mirae Asset Tax Saver Dir Gr (29.16601), followed by BOI AXA Tax Advantage Fund - ECO Plan-Growth (22.99352) and DSP Tax Saver Fund – Growth (21.55123). Nippon India Tax Saver Fund – Growth has a lower return than the benchmark index. Mirae Asset Tax Saver Dir Gr and ICICI Prudential Long Term Equity Fund (Tax Saving) – Growth has a higher deviation than the other funds, indicating more volatility in their performance.

Table 1.3 Sharpe and Treynor performance index

	Mean (Average return)	Standard deviation	Beta	`Sharpe Ratio	Rank	Treynor ratio	Rank
Canara Robeco Equity TaxSaver Reg Gr	21.36222	36.759328	1.097	0.396150332	4	13.27458523	3
Mirae Asset Tax Saver Dir Gr	29.16601	44.262108	1.686	0.505308288	1	13.26572361	4
BOI AXA Tax Advantage Fund - ECO Plan - Growth	22.99352	37.541479	1.020	0.431350081	2	15.88221275	1
DSP Tax Saver Fund - Growth	21.55123	41.094182	1.604	0.358961519	5	9.196527431	6
Axis Long Term Equity Fund - Growth	18.81735	29.370817	0.835	0.409159541	3	14.39203593	2
Nippon India Tax Saver Fund - Growth	14.62651	43.52894	1.686	0.179800151	10	4.642058126	10
Tata India Tax Saving Fund - Growth	19.42476	36.930489	1.251	0.341851959	6	10.09173461	5
UTI Long Term Equity Fund (Tax Saving) – Growth	18.82489	39.061722	1.391	0.307843315	7	8.644780733	7
ICICI Prudential Long Term Equity Fund (Tax Saving) - Growth	19.31563	41.185634	1.493	0.303883388	8	8.382873409	8
SBI Long Term Equity Fund - Growth	17.10068	40.266243	1.373	0.255814281	9	7.502316096	9

*Risk-free rate is assumed 6.8 % P.A

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Table 1.3 shows the maximum risk and the minimum standard deviation of two funds: Mirae Asset Tax Saver Dir Gr and Axis long-term equity fund -Growth. According to the rule, a larger Sharpe's performance index indicates a better fund performance. The table reveals that Mirae Asset Tax saver (0.505) and BOI AXA Tax advantage fund (0.43) have the highest Sharpe's performance indexes among the funds. BOI AXA Tax Advantage fund (15.882) and Axis long-term equity fund -Growth (14.392) have also performed well compared with other funds, as shown by their high Treynor's ratios. A positive Treynor's ratio suggests that the investment has added value relative to its market risk. A negative ratio suggests that the investment has performed worse than a risk-free instrument.

Conclusion

ELSS mutual funds are one of the best investment options for investors who want to save tax and earn high returns. The analysis of the past five years' performance of various ELSS funds shows that Mirae Asset Tax Saver Dir Gr is the most consistent and profitable fund, followed by Tata India Tax Saving Fund - Growth and UTI Long Term Equity Fund (Tax Saving) - Growth. These funds have outperformed the benchmark index in every year, demonstrating their superior performance. The risk-return analysis also reveals that Mirae Asset Tax Saver Dir Gr and BOI AXA Tax Advantage Fund - ECO Plan-Growth have the highest Sharpe's and Treynor's ratios, indicating that they have generated more returns per unit of risk than other funds. Therefore, investors can consider these funds as suitable choices for their portfolio.

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