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Comparative Study on Axis Long Term Equity (G) and HDFC Tax Saver Equity (G)

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Abstract

Mutual funds give people the sense that they are investing with the big boys & that its safe entering the stock market. -Ron Chernow

The need or want for money is diverse for different people. To satisfy such diverse needs, it calls for a diverse investment option, as the traditional investment options like fixed deposits, recurring deposits post office savings etc. fail to satisfy variety of investment options. To solve such a problem, a need for modern investment option was required, and as a solution came Mutual Funds. In this paper; we will focus on the comparison of two such mutual funds schemes: Axis Long Term Equity (G) and HDFC Tax Saver Equity (G).

Introduction

People usually invest their money in the safe investment alternatives and further continue to search for new safer avenues. Amongst the commonly available alternatives in the market, mutual funds are as one of the most flourishing investment options. In the process of financial planning, an investor has to understand different investment avenues available while planning financial portfolio. A mutual fund is a trust that pools the savings of a number of investors who share common financial goal.

Literature Review

Sapar & Narayan(2003) evaluates the performance of 269 open ended schemes of mutual funds in a bear market using relative performance index, risk-return analysis, Treynor's ratio, Sharp's ratio, Sharp's measure, Jensen's measure, and Fama's. The results obtained advocate that most of the mutual fund schemes in the sample outperformed the investor's expectations by giving excess return over expected return based on premium for systematic risk and total risk.

Sathya Swaroop Debasish (2009) studied the performance of 23 schemes offered by six private sector mutual funds and three public sectors of mutual funds based on risk-return relationship models and measure it over the time period of 13 years (April 1996 to March 2009). The analysis has been made on the basis of mean return, beta risk, co-efficient of determination, Sharpe ratio, Treynor ratio and Jensen Alpha. The overall analysis concludes Franklin Templeton and UTI being the best performers and Birla SunLife, HDFC and LIC mutual funds showing below-average performance when measured against the risk-return relationship models.

Dhume and Ramesh (2011) conducted a study to analyze the performance of the sector funds. The sectors considered were Banking, FMCG, Infrastructure and Technology. The study used different approaches of performance measures. Findings of study revealed that all the sector funds have outperformed the market except infrastructure funds.

Deepak Agarwal (2011), Mutual fund contributes to globalization of financial markets and is one among the main sources for capital formation in emerging economies. He analyzed the pricing mechanism of Indian Mutual Fund Industry, data at both the fund-manager and fund-investor levels. There has been incredible growth in the mutual fund industry in India, attracting large investments from domestic and foreign investors. Tremendous increase in number of AMCs providing ample of opportunity to the investors in the form of safety, hedging, arbitrage, limited risk with better returns than any other long-term securities has resulted in attracting more investors towards mutual fund investments.

R. Anitha, et. al., (2011), in their study evaluated the performance of public-sector and private sector mutual funds for the period from 2005 to 2007. Selected funds were analyzed using Statistical tools like Mean, Standard Deviation and Co-efficient of Variation. The performance of all funds has shown volatility during the period of study making it difficult to earmark one particular fund which could outperform the other consistently.

Kalpesh P Prajapati and Mahesh K Patel (2012) evaluated the performance of Indian mutual funds using relative performance index, risk-return analysis, Treynor's ratio, Sharp's ratio, Sharp's measure, Jensen's measure, and Fama's measure. The data used is daily closing NAVs from 1st January 2007 to 31st December, 2011 and concluded that most of the mutual funds have given positive return during the period of study.

Evensky (1997) mainly focused on information flow towards investors and selection and evaluation of fund managers. He suggested three core ‘P’s namely Philosophy, Process, and People. He quoted that the fund manager should not change stripes as market cycles come and go. If the fund manager does, then the effort expended in the selection process will be worthless and Asset management is critically important to the development of adequate resources for both short term and long term goals.

Axis Long Term Equity (G)

Investment Objective

An Open-ended Equity-Linked Savings Scheme with a 3 year lock in. Eligible investors in the Scheme (who are ‘Assesses’ as per the ELSS Rules) are entitled to deductions of the amount invested in Units of the Scheme under Section 80C of the Income Tax Act, 1961 to such extent and subject to such conditions as may be notified from time to time.

Generate income and long-term capital appreciation from a diversified portfolio of predominantly equity and equity-related securities. However, there can be no assurance that the investment objective of the Scheme will be achieved.

HDFC Tax Saver Fund (G)

The investment objective of the Scheme is to achieve long term growth of capital.

Investment Policies

Consistent with the investment objective of the scheme, the AMC aims to identify securities which offer superior levels of yield at low levels of risk. The investment team of the AMC will carry out an internal credit analysis of all securities included in the investment universe. The Scheme may also use various derivative and hedging products from time to time, as would be available and permitted by SEBI, in an attempt to protect the value of the portfolio and enhance Unit holders’ interest. The Investment Manager may therefore enter into forward contracts, future contracts or buy or sell options in an effort to maintain risks at acceptable levels. The Scheme may also invest in suitable investment avenues in overseas financial markets for the purpose of diversification, commensurate with the Scheme objectives and subject to necessary stipulations by SEBI / RBI. Towards this, the Mutual Fund may also appoint overseas investment advisors and other service providers, as and when permissible under the regulations.

Basis	Axis Long Term Equity (G)	HDFC Tax Saver Equity (G)
Fund House	Axis Mutual Fund	HDFC Mutual Fund
Launch Date	December 29, 2009	March 31, 1996

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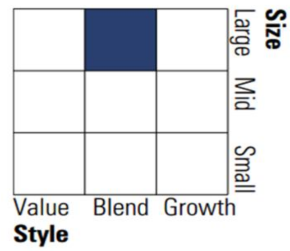
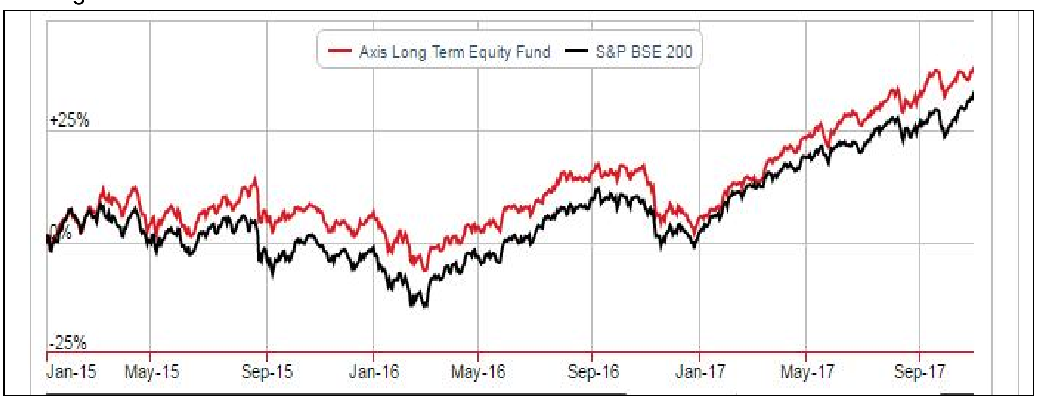
Risk Grade	Low	High
Return Grade	Above average	Average
Type	Open ended	Open Ended
Investment style		

Methodology

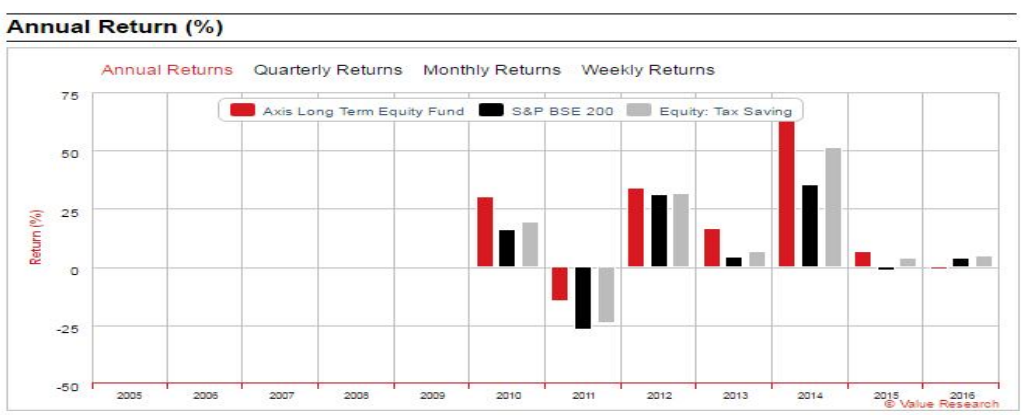
This study aims at comparing two ELSS, namely, Axis Long Term Equity (G) & HDFC Tax Saver Equity (G). For the purpose of analysis data in the form of graph is used, that shows returns for time span of 3 years, from January 2015 – November 2017. The graphs are as follows:

Axis Long Term Equity Fund (G)

Trailing Return



Graph 1.1 showing trailing returns of axis LTEF from January 2015 to November 2017.
Source : Axis MF



Graph 1.2 shows the comparison of axis LTEF with S&P BSE 200 and collective ELSS schemes
Source : Axis MF

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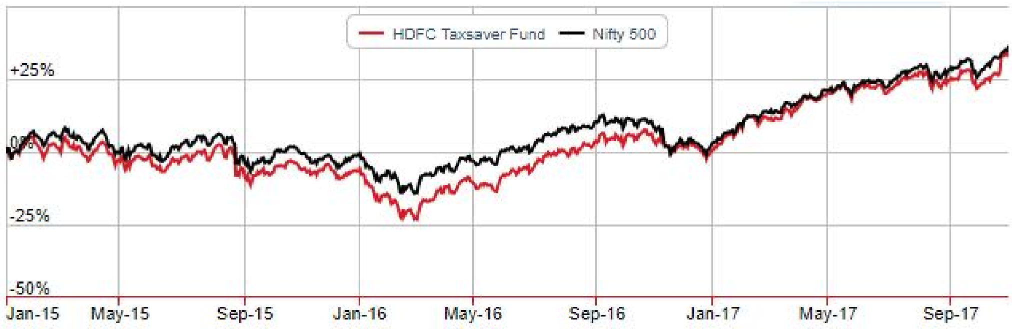
Graphs 1.1 &1.2 indicates that Axis LTEF has outperformed BSE,i.e., the selected MF scheme has managed to give higher returns to its investors for the period of 3 yrs. & when the market took a dip near September 2015 & March 2016 & stock market showed negative returns, selected fund gave fairly positive returns to its investors. Even if the performance of BSE200 has been declining or negative, Axis LTEF earned higher returns.

HDFC Tax Saver (G)

Trailing Return



Graph 2.1 showing trailing returns of HDFC tax saver fund from January 2015 to November 2017. Source: Value Research

Graph 2.2 shows the comparison of HDFC tax saver fund with Nifty 500 and collective ELSS schemes Source : Value Research

Graphs 2.1 & 2.2 indicate that HDFC Tax Saver could not perform as per the trends of Nifty 500 but, showed a low performance as compared to the stock index. However it managed to give moderate returns to its investors over the period of time. Comparison between the selected Equity Funds

Graph 3 shows the comparison between the performance of HDFC tax saver & Axis Long Term Fund Source: Money control .com

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We can see in the graph, that Axis Long Term Equity Fund (G) has shown much better performance in terms of returns as compared to HDFC Equity Fund (G), the reason for that is, that Axis LTEF invests in both large & mid cap funds, whereas HDFC EF invests only in large cap funds.

Conclusion

The investors are advised to select investment scheme on the basis of investment style. We can conclude from this study, that the launch or the time for which the scheme exists in the market does not guarantee good returns. HDFC tax saver was launched in March 1996; still it could not maintain its growth as per the index or in comparison to Axis Long Term Equity Fund. However, Axis LTEF was launched in December 2009, & yet outperforms the performance of the index & maintains steady returns for its investors. All this was possible only because Axis fund facilitates investments in both Large & Mid cap firms, instead of relying solely on large cap funds, as is the case with HDFC fund.Thus, it is advisable for the funds investors to split their investments in large, mid & small cap funds in order to get a steady return, in spite of investing the entire amount in the large cap funds.

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