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Financial Performance Evaluation of Debt Mutual Fund Schemes in India

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Abstract

The entry of mutual funds is a major event of this era. Debt mutual funds a vast amount of household savings and has emerged as an important institutional investor in the capital market, but compared to other developed countries, index of debt funds still in its nascent stage in India. Still, people parked their savings through traditional investment methods. The focus of this factors related to study to explore financial performance of Mutual Funds programs to extend investments in the MF. Mutual fund is an investment avenue in which money are invested by the investor into varied investment portfolios. The investment MFs are subject to market risk that most investors avoid investing in them due to risks associated with it. The arising innovative world is investing in mutual funds as it has gained popularity over the years. It is an ideal investment option for the investors who look for high returns with less risk. There are various mutual funds schemes that the investors choose those schemes that are best suitable as per their risk profile. As this study paper gives an overview of types of debt mutual funds, how there are new limits on debt mutual funds, what is the need of the study, and how debt mutual fund are taxed.

Keywords: *Mutual Fund Schemes (MFs), Financial Performance evaluation, Mutual Fund Schemes (MFs), Net Asset Value (NAV), liquid fund, market portfolio*

Introduction

Debt funds are mutual funds that generate income by investing in fixed income securities, i.e., in bonds or deposits of various kinds. That means they analyse and lend money to earn interest on it. The interest they earn indicates the basis for the returns they generate for investors. Debt Funds are a kind of Mutual Funds that generate returns by analysing and lending your money to the government and companies. The lending duration and the kind of borrower, determine the risk level of a Debt Fund. The credit quality of a security represents a risk in the payment of returns guaranteed by the issuer of the debt security. A high credit rating means the company is to be eligible to pay or make interest rate on its debt and repay on the very on time.

Debt mutual fund also called as Income fund and Bond fund. Debt funds in India generally invest in fixed-income securities. It includes, but it is not limited to, corporate bonds, treasury bills, bonds and commercial paper. Debt funds could be analysed for an investment horizon ranging from one day to three years. Debt funds offer good post tax returns compared to FDs if we stay invested for at least 3 years. Liquid debt funds are a great option to invest and stay our emergency funds we can earn such a good return compared to savings bank account without taking too much risk. Before investing in programs of this category, it is essential that individuals are conversant of their individual features.

New Limits on Debt mutual funds

The Securities and Exchange Board of India (SEBI) has made it mandatory for newly launched active mutual funds not exceed 10% of their net exchange value (NAV), due to this decision of SEBI, NAV in debt instruments, issued by a single issuer, comprising money market securities and non-money market securities rated investment grade by a credit rating agency (CRA). In addition, According to SEBI, exposure to government securities is achieved through acquiring government money market instruments like TREPS on Government Securities (G-Sec). Instead of investing in a savings account, investors with low risk appetites who are focused on accumulating an emergency fund or have immediate goals, such as paying for their children's school fees and one-time expenses, can do so in liquid funds, which have the potential to produce higher returns while maintaining reasonable liquidity.

Investors with low a risk capacity and short term (day to week) can choose overnights funds. Investors with a slightly higher risk tolerance can consider investing in ultra short and low duration funds. Note that, short term funds typically do well in a rising interest rate scenario to interest rate changes for short term goals and low risk holder.

Review of Literature

Singh B K (2019) in the article “A study on investor attitude towards mutual funds as an investment option' from the International Journal of Research in Management reiterated the need to spread awareness about Mutual Funds among the common masses. People must be made aware of the distinctive benefits of investing in mutual funds. The monitoring inverters believed that the advantages offered by mutual funds, such as the potential for returns and liquidity, were the most alluring from the perspective of investors. They also valued its flexibility, transparency, and affordability.

Divya K. (2018) in the article "A Comparative study on evaluation of Selected Mutual Funds in India” from International Journal of Marketing and Technology suggested that investment managers whose performance is below the benchmark index should reassess its investment strategy and assets allocation. To get better results, investment plans should be modified in reaction to market upswings and downswings. To improve the effectiveness and allure of mutual funds, the regulator should create universal rules for factors that will benefit asset management companies.

Sivakumar et al. (2020) evaluated the performance of mutual fund players in India based on their resource mobilization over the last decade. The study found that gamers are broadly classified into public and private participants The study found that each participant has made a major contribution to the development of the mutual fund sector in India.

Objectives of the Study:

1. To analyse the factors affecting the performance of debt mutual funds

2. To study and understand the performance of various debt fund schemes

The following are the primary goals of evaluating the mutual funds' performance:

1) Consistent income: Unlike more conventional investment vehicles like fixed deposits or savings accounts, debt mutual funds generally obtain their income from fixed income deposits. Accounts.

2) Safer investment options: For cautious investors who like to err on the side of caution when making investments, debt mutual funds are the best option.

3) Tax efficiency: Whether the maturity date happens within the same year, a later year, or not earlier, your interest income from fixed deposits is taxed annually based on the pay grade for which you are eligible.

Risk and Return parameters-

1. Standard divagation value shows the picture of how unpredictable or unstable returns on the finances have been in the once 3 times. Lower SD value signifies further predictable or estimable performance.

2. Beta value shows the picture of how unpredictable or unstable performance of the finances has been compared to analogous order of finances in the request. Lower Beta value indicate that the performance of the fund is more predictable or estimable compared to analogous finances in the request.

3. Sharpe rate indicates the quantum of threat that was taken to induce the attained returns. Advanced the Sharpe rate means that the fund has been able to induce and give better returns for the threat taken. It's calculated by abating the threat-free return from the returns of the fund and also dividing it by the return's standard divagation.

4. Treynor's rate shows the picture of how important excess or over the top return was generated or gained for each individual unit of threat taken. Advanced the Treynor's rate means that the fund has been able to give and induce better returns for the threat taken. It's calculated by abating the threat-free return from the returns of the fund and also dividing it by the return's beta.

5. Jensen's Alpha shows the picture of how important fund generated fresh or redundant returns as compared to its standard.

Data collection

The analysis of 10 liquid debt mutual funds is based on secondary data that has been gathered from a variety of sources, including annual reports that have been issued by the sponsoring organisations, online bulletins, journals, books, magazines, brochures, and online material. The information on the aforementioned scams was gathered from the moneycontrol.com website.

Methodology

The analysis of 10 liquid debt mutual funds is based on secondary data that has been gathered from a variety of sources, including annual reports that have been issued by the sponsoring organisations, online bulletins, journals, books, magazines, brochures, and online material. The information on the aforementioned scams was gathered from the moneycontrol.com website.

The goal of the current study was to examine how the market responded to the performance of the chosen debt funds throughout the course of the five-year investigation. The market has been analysed on the basis of risk and return in order for us to reach our goals.

Table:1 Returns for liquid debt mutual funds

Year	**2018**	**2019**	**2020**	**2021**	**2022**	**Avg**
Fund Name	**Returns in Percentage**					
Quantum Liquid Fund - Direct Plan	6.56	6.06	3.65	3.18	4.66	4.82
Motilal Oswal Liquid Fund - Direct Plan	0.16	5.60	3.49	3.7	4.57	3.50
Canara Robeco Liquid Fund - Direct Plan	7.39	6.35	3.68	3.24	4.87	5.11
Parag Parikh Liquid Fund - Direct Plan	4.15	6.90	3.71	3.19	4.62	4.54
IDFC Cash Fund - Direct Plan	7.39	6.35	4.07	3.27	4.88	5.19
SBI Liquid Fund - Direct Plan	7.39	6.54	4.24	3.34	4.84	5.27
HSBC Liquid Fund - Direct Plan	7.48	6.71	4.09	3.32	4.92	5.30
Bank of India Liquid Fund - Direct Plan	7.51	6.44	4.17	3.32	4.96	5.28
Mirae Asset Cash Management Fund - Direct Plan	7.43	6.60	4.27	3.38	4.92	5.32
Franklin India Liquid Fund - Super Institutional	7.51	6.89	4.39	3.32	4.89	5.4

Source: www.moneycontrol.com

Table 1 shows the return earned by different liquid debt funds offered by different mutual fund companies during the study period (2018-2022). The average return of 10 funds 4.97% which is more or less similar to the Quantum liquid debt mutual fund.

Table 2: List of debt mutual fund in India

Fund Name	Category	Risk	1 year Returns	Fund Size (In Cr)
Bank of India short term Income Fund	Debt	Moderate	28.%	₹77
Baroda BNP Paribas Credit Risk Fund	Debt	Moderately High	5.6%	₹2,246
ICICI Prudential All Seasons Bond Fund	Debt	Moderate	5.8%	₹6,264
ICICI prudential gilt Fund	Debt	Low to Moderate	5.5%	₹2,601
UTI Bond Fund	Debt	Moderate	10.8%	₹2,52
UTI Treasury Advantage Fund	Debt	Low to Moderate	4.7%	₹3,009
HDFC Dynamic Debt Fund	Debt	Moderate	3.5%	₹526
SBI Magnum Gilt Fund	Debt	Moderate	5.3%	₹3,968
Axis Corporate Debt Fund	Debt	Low to Moderate	4.6%	₹2,990
Nippon India Ultra Short Duration Fund	Debt	Moderate	5.4%	₹4,714
Nippon India Corporate Bond Fund	Debt	Moderate	4.9%	₹1,582
ICICI Prudential Banking & PSU Debt Fund	Debt	Low to Moderate	5.2%	₹7,162
IDFC Banking & PSU Debt Fund	Debt	Low to Moderate	4.0%	₹14,408
Aditya Birla Sun Life Lo floating Rate Direct fund	Debt	Low to Moderate	5.1%	₹13,015
UTI Short term Income Fund	Debt	Low to Moderate	4.6%	₹2,246

Source: ***https://groww.in/mutual-funds/category/best-debt-mutual-funds***

Discussion

Short-term capital gains tax: If debt fund units are sold within three years of their acquisition date, the proceeds are taxed at the investor's standard rate. For investors in the highest tax bracket, it will therefore be 31.20% (30% + 4% cess).

Long Term Short-term capital gains tax: If you sell debt fund units within three years of the purchase date, the proceeds are taxed at your basic marginal rate. This benefit is available for each year the individual remains invested in the debt MF.

Different types of mutual funds have different levels of volatility or potential prices and those with higher chances of losing value are also funds that can give you greater returns over time. So, the risk has two sides: it causes the value of your investments to fluctuate, but that's exactly why you can expect to earn higher yields.

There is usually a clear difference between debt and equity with a risk aspect. Debts bank deposits, government guaranteed deposits bonds etc. Even mutual funds in India that invest in debt securities because it has less risk.

The fact is, everyone knows that debt is less risky than stocks. But for the purpose of financial or investment planning, it is more useful to think of debt and equity in a different way.

The main difference between debt and equity is that their risk-return curve varies in very different ways in a different time, span. Debt yields are easily predictable and usually stable over a period of time. Normally the debt yield curve led by the interest rate curve. While return on capital is not easily predictable. Risk refers to volatility, bullish and bearish activity in markets and individual problems that occur constantly for a certain period of time. There are various factors such as changes in interest rates, inflation or in general economic conditions. This uncertainty, variability and potential for loss are factors that investors must have worry.

We all concern about the possibility that the stocks we invest, it will drop significantly. But it has very high volatility that extract higher long-term returns from such investments than from debt securities or fixed-income securities deposit. It is rightly said that problem is the mother of invention. Here in the Investment Decision the investor expects safety of debt investments and return on equity.

Conclusion

From the research above, it can be seen that if we use our indicator, liquid debt mutual funds perform better than the benchmark indicators. The average return of the schemes is higher than the market index's historical data. Debt funds are the kind of funds that have solutions for all kinds of situations and can handle a wide range of investing objectives. In this study, we examined the features of various forms of debt funds, and that’s why Debt funds are a safer investments option to plan for short term goals. Debt funds have a stable cashflow and offer the benefit of liquidity and tax efficiency over traditional investment options like fixed deposit

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